

Consolidated Financial Statements

# **Enablence Technologies Inc.**

For the three months ended September 30, 2019 and 2018  
(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, 2019 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 28, 2019

“Steve Wang”  
Steve Wang  
CEO

“Gerald Leahy”  
Gerald Leahy  
CFO

# Enablence Technologies Inc.

## Condensed Consolidated Statements of Financial Position

(in thousands of United States dollars)

	September 30, 2019	June 30, 2019
	\$	\$
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 4)	357	49
Accounts and other receivables (Note 5, 15, 18)	656	875
Inventories (Note 6)	358	397
Prepaid expenses and deposits	507	503
	<b>1,878</b>	1,824
Property, plant and equipment (Note 7)	377	350
	<b>2,255</b>	2,174
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 8 and 18)	4,144	4,240
Notes payable (Note 10 and 18)	16,446	14,497
Convertible debentures (Note 11)	6,596	6,379
Contract liabilities (Note 9)	171	198
	<b>27,357</b>	25,314
Notes payable (Note 10 and 18)	281	260
	<b>27,638</b>	25,574
Share capital (Note 12)	106,151	106,151
Contributed surplus (Note 12)	12,546	12,542
Accumulated other comprehensive income	989	720
Deficit	<b>(145,069)</b>	(142,813)
	<b>(25,383)</b>	(23,400)
	<b>2,255</b>	2,174

See accompanying notes to these unaudited condensed consolidated financial statements

Approved by the Board:

"Louis De Jong"

Director

"Derek Burney"

Director

# Enableness 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)

	2019	2018
	\$	\$
Revenues (Note 9)	281	148
Cost of revenues (Note 13)	709	705
Gross margin	(428)	(557)
Operating expenses		
Research and development (Note 13 and 18)	535	697
Sales and marketing (Note 13)	32	70
General and administration (Note 13)	549	479
Stock-based compensation (Note 12)	4	4
	1,120	1,250
Loss from operations	(1,548)	(1,807)
Other income (expense)		
Finance and other income	18	-
Finance expense (Note 10 and 11)	(672)	(448)
Foreign exchange gain (loss)	(54)	94
Net loss	(2,256)	(2,161)
Other comprehensive income (loss), net of tax		
Foreign currency translation gain (loss)	269	(317)
<b>Comprehensive loss</b>	<b>(1,987)</b>	<b>(2,478)</b>
Net loss per share, basic and diluted (Note 14)	<b>(\$0.00)</b>	(\$0.00)
Weighted average number of outstanding shares (Note 14)	641,927	635,624

See accompanying notes to these unaudited condensed consolidated financial statements

## Enablence 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 12) \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Deficit \$	Deficiency \$
<b>Balance at July 1, 2018</b>	621,927	105,393	12,521	950	(133,033)	(14,169)
Stock-based compensation (Note 12)	-	-	4	-	-	4
Issuance of common shares (Note 12)	20,000	758	-	-	-	758
Net loss	-	-	-	-	(2,161)	(2,161)
Foreign currency translation gain	-	-	-	(317)	-	(317)
<b>Balance at September 30, 2018</b>	<b>641,927</b>	<b>106,151</b>	<b>12,525</b>	<b>633</b>	<b>(135,194)</b>	<b>(15,885)</b>
<b>Balance at July 1, 2019</b>	641,927	106,151	12,542	720	(142,813)	(23,400)
Stock-based compensation (Note 12)	-	-	4	-	-	4
Net loss	-	-	-	-	(2,256)	(2,256)
Foreign currency translation gain	-	-	-	269	-	269
<b>Balance at September 30, 2019</b>	<b>641,927</b>	<b>106,151</b>	<b>12,546</b>	<b>989</b>	<b>(145,069)</b>	<b>(25,383)</b>

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)

	2019	2018
	\$	\$
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net loss	(2,256)	(2,161)
Adjusted for the following non-cash items:		
Depreciation	36	95
Stock-based compensation (Note 12)	4	3
Accrued interest on bridge and short term loans	368	127
Accretion on convertible debenture (net of financing costs)	292	258
	(1,556)	(1,678)
Changes in non-cash working capital (Note 19)	131	125
<b>Cash used in operating activities</b>	(1,425)	(1,553)
<b>Investing activities</b>		
Purchase of property, plant and equipment	(63)	(67)
Proceeds on disposal of property, plant and equipment	-	2
<b>Cash provided by (used in) investing activities</b>	(63)	(65)
<b>Financing activities</b>		
Advances from (repayments on) short-term loans	1,695	874
Net proceeds from issuance of shares	-	755
<b>Cash provided by financing activities</b>	1,695	1,629
Effect of foreign currency translation on cash and cash equivalents	101	59
Decrease in cash and cash equivalents	308	70
Cash and cash equivalents, beginning of period	49	107
Cash and cash equivalents, end of period	357	177
Supplementary information:		
Interest paid - included in operating activities	10	10

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, 2019 and 2018

(in thousands of United States dollars and shares)

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#### 1. Description of business

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

#### 2. Basis of preparation

(i) *Going concern*

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

At September 30, 2019, the Company had cash of \$357, negative working capital of \$25,479 and had used cash of \$1,425 in its operating activities for the three months ended September 30, 2019. The Company incurred a comprehensive loss of \$1,987 for the three months ended September 30, 2019 and as of that date had an accumulated deficit of \$145,069. The Company obtained debt financing during the three months ended September 30, 2019 as well as debt financing subsequent quarter end (Note 10, 18, 20). The Company has outstanding debt received in previous years from EDC and signed a forbearance agreement with EDC relating to scheduled principal and interest payments having not been made. The forbearance provides the Company until January 28, 2020 to rectify the default subject to meeting certain ongoing terms and conditions (see Note 10b and Subsequent events).

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, 2019. 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 13 for details of expenses by nature.

# Enableness Technologies Inc.

## Notes to the interim condensed consolidated financial statements

### For the three months ended September 30, 2019 and 2018

(in thousands of United States dollars and shares)

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(v) *Approval of consolidated financial statements*

The consolidated financial statements were authorized for issuance by the Board of Directors on November 28, 2019.

(vi) *Presentation currency*

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

While each of the Company's subsidiaries has its own functional currency, the functional currency of the parent company, 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

*Expected Credit loss ("ECL")*

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

*Useful lives of depreciable assets*

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

*Inventories*

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

*Stock-based compensation*

The estimation of stock-based compensation requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company

# Enableness Technologies Inc.

## Notes to the interim condensed consolidated financial statements

### For the three months ended September 30, 2019 and 2018

(in thousands of United States dollars and shares)

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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 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*

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

##### *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.

# Enablence Technologies Inc.

## Notes to the interim condensed consolidated financial statements

### For the three months ended September 30, 2019 and 2018

(in thousands of United States dollars and shares)

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#### 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, 2019.

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

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

##### i. Wholly-owned subsidiaries

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

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

##### ii. Transactions eliminated upon consolidation

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

##### Revenue recognition

##### IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

This standard replaced IAS 11 Construction Contracts and IAS 18 Revenue. IFRS 15 introduces a single comprehensive model for recognizing revenues from contracts with customers. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for transferring those goods and services, applying the following five steps:

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

# Enablence Technologies Inc.

## Notes to the interim condensed consolidated financial statements

### For the three months ended September 30, 2019 and 2018

(in thousands of United States dollars and shares)

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The standard also provides guidance relating to the treatment of contract acquisition and fulfillment costs.

The Company's accounting policy under IFRS 15 is as follows:

Revenue is recognized upon transfer of control of products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for the products or services. The Company's contracts are generally for products or non-recurring engineering services.

Non-recurring engineering services related to revenue contracts require judgment 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 (See Contract Liabilities).

#### Inventories

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

#### Income taxes

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

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

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

#### Investment tax credits

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

#### Property, plant and equipment

# Enablence Technologies Inc.

## Notes to the interim condensed consolidated financial statements

### For the three months ended September 30, 2019 and 2018

(in thousands of United States dollars and shares)

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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
Office furniture and equipment	3 to 5 years
Leasehold improvements	Useful life

Assets under development are not depreciated until available for use.

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

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

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

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

#### Financial instruments

# Enablence Technologies Inc.

## Notes to the interim condensed consolidated financial statements

### For the three months ended September 30, 2019 and 2018

(in thousands of United States dollars and shares)

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Effective July 1, 2018, the Company has adopted IFRS 9 Financial Instruments and applied it on a retrospective basis, replacing existing standards and interpretations, including IAS 39 Financing Instruments: Recognition and Measurement. The application of IFRS 9 has not resulted in any differences between the previous carrying amounts and the carrying amounts at the date of initial application of IFRS 9. The adoption of IFRS 9 resulted in changes in accounting policies which are described below.

#### *Classification*

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

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

The classification under IFRS 9 is based on the business model under which a financial asset is managed and on its contractual cash flow characteristics. Assets held for the collection of contractual cash flows and for which those cash flows correspond solely to principal repayments and interest payments are measured at amortized cost. Contracts with embedded derivatives where the host is a financial instrument in the scope of the standard will be assessed as a whole for classification.

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

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

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

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

Management has assessed the classification and measurement of our financial instruments under IFRS 9, with reference to the former classification under IAS 39, as follows:

<b>Financial Instrument</b>	<b>Classification under IFRS 9</b>	<b>Classification under IAS 39</b>
Cash and cash equivalents	Amortized cost	Loans and receivables
Accounts receivable	Amortized cost	Loans and receivables
Other receivables (excluding amounts due from government agencies)	Amortized cost	Loans and receivables
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities
Notes payable	Amortized cost	Other financial liabilities
Convertible debentures	Amortized cost	Other financial liabilities

#### *Measurement*

Initial recognition- A financial asset or financial liability is initially recorded at its fair value, which is typically the transaction price, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. In the event that fair value is determined to be different from the transaction price, and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique that uses only

# Enablence Technologies Inc.

## Notes to the interim condensed consolidated financial statements

### For the three months ended September 30, 2019 and 2018

(in thousands of United States dollars and shares)

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data from observable markets, then the difference between fair value and transaction price is recognized as a gain or loss at the time of initial recognition.

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

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

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

#### *Impairment*

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

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

#### *Derecognition*

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

#### *Previous financial instruments under IAS 39*

##### *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.

# Enablence Technologies Inc.

## Notes to the interim condensed consolidated financial statements

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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.

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

# Enablence Technologies Inc.

## Notes to the interim condensed consolidated financial statements

### For the three months ended September 30, 2019 and 2018

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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

A government grant is not recognized until there is reasonable assurance that the Company will comply with the conditions attached to the grant and the grant is received. Government grants are recognized in net loss on a systematic basis over the periods in which the Company recognizes expenses for which the grants are intended to compensate. The Company did not receive any grants nor recognized into net loss previously deferred grant receipts during the three months ended September 30, 2019 or the year ended June 30, 2019.

#### Stock-based compensation

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

#### Research and development costs

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

#### Foreign currency transactions

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

#### Foreign currency translation

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

#### Earnings per share

# Enablence Technologies Inc.

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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.

### 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 has adopted the new standard for the fiscal year commencing July 1, 2019 and the adoption of this standard does not have a material impact on its consolidated financial statements.

## 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, 2019	June 30, 2019
Cash	\$ 353	\$ 45
Restricted cash	4	4
	<b>357</b>	<b>49</b>

## 5. Accounts and other receivables

Trade and other receivables consist of the following:

	September 30, 2019	June 30, 2019
Trade	\$ 498	\$ 674
Allowance for expected credit loss	(46)	-
	<b>452</b>	<b>674</b>
Other	204	201
	<b>656</b>	<b>875</b>

# Enablence Technologies Inc.

## Notes to the interim condensed consolidated financial statements

### For the three months ended September 30, 2019 and 2018

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Included in other receivables is an amount of \$204 (June 30, 2019 - \$201) relating to investment tax credits and other amounts due from government agencies.

The age of trade accounts receivable at September 30, 2019 is summarized as follows:

	2019	2018
	\$	\$
Current or under 60 days	296	306
Past due 61 to 90 days	98	-
Past due more than 90 days	104	368
	498	674

Upon review Management has set up a provision in expected credit loss in the amount of \$46 (Note 15) relating to certain amounts past due.

#### 6. Inventories

	September 30, 2019	June 30, 2019
	\$	\$
Raw materials	225	257
Work-in-progress	80	74
Finished goods	87	100
Allowance for obsolescence	(34)	(34)
	358	397

During the three months ended September 30, 2019, management performed a review of inventory for obsolescence. As a result of management's review of inventory for obsolescence, \$Nil (year ended June 30, 2019 - \$700) of obsolete and impaired inventory was provided for through cost of sales. A continuity of the provision is presented below:

	September 30, 2019	June 30, 2019
	\$	\$
Opening balance	34	521
Write-off of unrealizable inventory	-	(1,187)
Additional impairment provision recorded	-	700
Closing balance	34	34

The amount of inventory recognized as cost of revenues for the three months ended September 30, 2019 was \$75 (September 30, 2018 - \$120).

#### 7. Property, plant and equipment

Depreciation expense for the three months ended September 30, 2019 of \$36 (September 30, 2018 - \$95) was allocated in the consolidated statements of comprehensive loss as follows: \$28 (September 30, 2018 - \$78) included within cost of revenues; \$1 (September 30, 2018 - \$2) included in general and administration; and \$7 (September 30, 2018 - \$15) included in research and development.

#### 8. Accounts payable and accrued liabilities

# Enablence Technologies Inc.

## Notes to the interim condensed consolidated financial statements

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Included in accounts payable and accrued liabilities is a royalty amount payable of \$305 (June 30, 2019 - \$331) relating to royalty-bearing government funding received for approved research and development projects, of which \$21 was paid during the year. The liability to repay this funding is calculated at 2.5% of the Company's actual qualifying revenues, up to a maximum value equivalent to the total related government funding received by the Company.

### 9. Contract liabilities

The following table provides information about contract liabilities from contracts with customers. Contract liabilities primarily relate to the advance consideration received from customers for non-recurring engineering services, for which revenue is recognized over time.

	Three months ended Sept 30, 2019	Twelve months ended June 30, 2019
Balance, beginning of year	\$ 198	\$ 380
New contract additions in year	-	96
Revenue recognized in year - from opening balance	(27)	(183)
Revenue recognized in year - from current year additions	-	(95)
Balance, end of year	171	198

### 10. Notes payable

	September 30 2019	June 30, 2019
Short-term Loans (a)	\$ 11,906	\$ 10,077
Loan from Export Development Canada (b)	4,540	4,420
Loan from Irix (c)	281	260
	16,727	14,757
Less current portion	16,446	14,497
Long-term portion	281	260

- (a) 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 18), obtained non-interest bearing unsecured short term loans in the amount of \$1,250, of which a fee of \$125 is payable on the May 2018 maturity, and obtained non-interest bearing secured loans of \$1,450. The security on the \$1,450 loan is on certain receivables of the Company amounting to \$74 at September 30, 2019 (June 30, 2019 - \$354), which is subordinated to the secured term loan facility with EDC. During the year ended June 30, 2019, the Company obtained 10% interest bearing unsecured short term loans in the amounts of \$5,307 of which \$1,588 was from related parties (Note 18). During the three months ended September 30, 2019 the Company obtained \$1,695 of unsecured short term loans. As at September 30, 2019, a total amount of \$11,906 (2018 - \$10,077) remains owing on these loans which includes \$756 (June 30, 2019 - \$441) of accrued interest and \$125 (June 30, 2019 - \$125) of accrued fees.
- (a) During 2016 the Company closed a secured term loan facility with Export Development Canada ("EDC") in the amount of approximately \$3.8 million USD. The loan facility was designed to finance up to 85% of specific 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 which has been fully drawn down. Interest is payable monthly at the rate of prime plus 10% resulting in

# Enableness Technologies Inc.

## Notes to the interim condensed consolidated financial statements

### For the three months ended September 30, 2019 and 2018

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a rate of 13.95% at September 30, 2019 (June 30, 2019 -13.95%). The loan facility is secured against all of the assets of the Company and is guaranteed by the Company's subsidiaries. On October 28, 2019 the Company signed a forbearance agreement with EDC relating to scheduled principal and interest payments having not been made. The forbearance provides the Company until January 28, 2020 to rectify the default subject to meeting certain ongoing terms and conditions. The Company made an interest back payment of \$191,000 in October 2019 as part of this agreement. As at September 30, 2019 the amount recorded as owing to EDC, inclusive of accrued interest and late fees is \$4,540 (June 30, 2019 - \$4,420).

- (b) On May 31, 2019, Enableness and Irix, a related party, signed an Asset Transfer Agreement which resulted in Enableness Suzhou selling the majority of its assets and liabilities to Irix including \$94 of fixed assets, \$173 of leasehold improvements, \$47k of inventory as well as the transfer of all of the employee contracts, less Enableness Suzhou costs of \$60 owed by Irix to Enableness. As part of this agreement, Enableness's Fremont operations also sold certain fixed assets to Irix amounting to \$86. Under the Asset Transfer Agreement, Enableness and Irix agreed that the consideration due to Enableness from Irix from this transaction would be offset against certain debts owing to Irix by Enableness of \$720. The net remaining amount due to Irix of \$260 has been treated as a long term Note Payable with annual interest accruing at 7.5%, with the interest and principal amount payable on May 31, 2022. As at September 30, 2019 the amount owing on the Note Payable is \$281.

#### 11. 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 18) to settle outstanding short term loans received by the Company during the year ended June 30, 2017 (Note 10(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 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, 2019, the Company recorded accretion of \$241 to interest expense (2018 - \$231) and \$28 of amortization of the debt financing costs (2018 - \$24). Of the \$1,407 (2018 - \$753) interest accrued since June 30, 2017, \$62 (2018 - \$31) has been paid and the unpaid balance of \$1,345 (2018 - \$722) is overdue and included in accrued interest. As at September 30, 2019, the total convertible debenture liability inclusive of interest is \$6,596 (June 30, 2019 - \$6,379).

#### 12. Share capital

Authorized capital stock consists of:

# Enablence Technologies Inc.

## Notes to the interim condensed consolidated financial statements

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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 (2019 – 641,927)

On July 30, 2018 the Company closed an equity financing at a price of \$0.05 CAD per share for net proceeds in the amount of \$758 which was after the issuance costs of \$10, resulting in the issuance of 20,000 common shares.

#### *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, 2019, the available option pool was 43,351 (June 30, 2019 – 43,351) and outstanding stock options totalled 20,842.

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, 2019 relating to prior year grants was \$4 (September 30, 2018 - \$4) of which \$4 (September 30, 2018 - \$2) was attributable to general and administrative personnel and \$Nil (September 30, 2018 - \$2) was attributable to research and development personnel.

# **Enablence Technologies Inc.**

Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2019 and 2018

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## **13. 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:

# Enablence Technologies Inc.

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For the three months ended September 30, 2019 and 2018

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	<u>Three months ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
<u>Cost of revenues</u>		
Materials/components	223	171
Labour	257	252
Inventory write downs/provision	-	(12)
Allocation of overhead	200	215
Depreciation - COGS	28	78
Total	<u>709</u>	<u>705</u>
<u>Research &amp; Development</u>		
Staff compensation	511	572
Travel	-	2
Contractors	(11)	(12)
Materials/supplies	14	104
Depreciation	6	16
Rent/Utilities	15	15
Total	<u>535</u>	<u>697</u>
<u>Sales &amp; Marketing</u>		
Staff compensation	18	40
Travel	8	19
Trade shows	0	5
Materials/supplies/other	4	5
Rent/Utilities	1	2
Total	<u>32</u>	<u>70</u>
<u>General &amp; Administrative</u>		
Staff compensation	274	181
Rent/Utilities	279	288
Taxes (Property tax/Use tax)	23	22
Insurance	34	27
HR management fee	12	19
Phone & Internet	11	9
Travel	3	11
Professional fees	54	121
Other	75	30
Depreciation	1	2
G&A Allocation (Rent/utilities)	(216)	(232)
Total	<u>549</u>	<u>479</u>

## 14. 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 and convertible debentures is anti-dilutive; therefore, 112,492 potentially dilutive shares at September 30, 2019 (June 30, 2019 – 112,492) have not been included in the calculation of diluted loss per common share for the three months ended September 30, 2019 and 2018.

## 15. Financial instruments

# Enablence Technologies Inc.

## Notes to the interim condensed consolidated financial statements

### For the three months ended September 30, 2019 and 2018

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#### *Carrying values and fair values*

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

	<b>September 30, 2019</b>	June 30, 2019
Assets – based on amortized cost (1)	\$ 809	\$ 723
Liabilities – based on amortized cost (2)	<b>27,467</b>	25,376

- (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 trade receivables. The Company's maximum credit risk is \$809 (June 30, 2019 - \$723). The Company primarily invests its excess cash in high quality financial instruments with large, high quality financial institutions.

#### *Accounts receivable*

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sale over a period of 36 months before June 30, 2019. The historical loss rates are adjusted to reflect current and forward-looking information based on factors affecting the ability of the customers to settle the receivables. The Company has identified the credit worthiness for current and future customers to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factors.

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

The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its trade receivables in order to mitigate any possible credit losses. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. The carrying amount of trade accounts receivables are reduced through the use of an expected credit loss and the amount of the loss is recognized in the consolidated statement of comprehensive earnings (loss) in general and administrative expenses. When a receivable balance is considered uncollectible, it is written off against the expected credit loss. Subsequent recoveries of amounts previously written off reduce general and administrative expenses in the consolidated statement of comprehensive income (loss).

A certain portion of the Company's sales were to a limited number of customers and consequently the Company is exposed to a concentration of credit risk. The Company defines concentration risk as customers whose outstanding receivable is 10% or greater than the total receivable balance (Note 5). As at September 30, 2019 three customers accounted for more than 10% of the trade receivable total (June

# Enablence Technologies Inc.

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### For the three months ended September 30, 2019 and 2018

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30, 2019 – three customers) amounting to \$283 (June 30, 2019 - \$525), which is approximately 62% (June 30, 2019 – 78%) of the trade receivable balance.

As of September 30, 2019, it was determined that an expected credit loss of \$46 was required. For details of the aging of the Company's trade receivables (Note 5).

#### *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, 2019 of \$10 (September 30, 2018 - \$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. 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

<b>Three months ended September 30, 2019</b>		Three months ended September 30, 2018	
<b>Net loss</b>	<b>OCI</b>	Net loss	OCI
<b>107</b>	<b>(31)</b>	64	26

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

<b>Three months ended September 30, 2019</b>		Three months ended September 30, 2018	
<b>Net loss</b>	<b>OCI</b>	Net loss	OCI
<b>(3)</b>	<b>1</b>	6	(1)

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company currently settles all of its financial obligations out of cash and cash equivalents. 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, 2019 and June 30, 2019, the Company has financial liabilities which are due on a fiscal year basis as follows:

# Enablence Technologies Inc.

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<b>As at September 30, 2019</b>	<b>2020</b>	<b>2021</b>	<b>2022+</b>	<b>Total</b>
	\$	\$	\$	\$
Accounts payable and accrued liabilities	4,144	-	-	4,144
Notes payable	16,446	-	281	16,727
Convertible debentures	6,596	-	-	6,596
<b>Total</b>	<b>27,186</b>	<b>-</b>	<b>281</b>	<b>27,467</b>

<b>As at June 30, 2019</b>	<b>2020</b>	<b>2021</b>	<b>2022+</b>	<b>Total</b>
	\$	\$	\$	\$
Accounts payable and accrued liabilities	4,240	-	-	4,240
Notes payable	14,497	-	260	14,757
Convertible debentures	6,379	-	-	6,379
<b>Total</b>	<b>25,116</b>	<b>-</b>	<b>260</b>	<b>25,376</b>

### 16. 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.

### 17. Segmented information

The Company operates in one segment, Optical Components.

Certain assets are analyzed geographically as follows:

	<b>September 30, 2019</b>	June 30, 2019
	<b>Property, plant and equipment</b>	Property, plant and equipment
	\$	\$
United States	<b>374</b>	346
Canada	<b>3</b>	4
China	-	-
	<b>377</b>	350

Revenue for the three months ended September 30, 2019 is analyzed geographically as follows:

# Enableness Technologies Inc.

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	2019	2018
	\$	\$
Americas	129	57
Europe, Middle East, Africa	28	-
Asia Pacific	124	91
	281	148

During the three months ended September 30, 2019, three customers accounted for 83% of the Company's total revenue and during the three months ended September 30, 2018, two customers accounted for 93% of the Company's total revenue.

The Company generates revenue principally from the sale of its components and subsystems products ("Product") to leading communications systems suppliers. The Company also generates revenue from Non-recurring engineering ("NRE") development services for clients. The table below provides the breakdown of these two types of revenues for the three months ended September 30, 2019

	2019	2018
	\$	\$
Product	103	148
NRE	178	-
	281	148

#### 18. Related party transactions

At September 30, 2019 the Company had an accounts receivable balance with ZTE, a related party, of \$74 (June 30, 2019 - \$366) which is included in accounts and other receivables.

As at September 30, 2019, China TriComm Ltd. ("TriComm") owned 30,000 Enableness 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, 2019, 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 previous CEO and CFO of the Company have ownership interests). Suzhou Irix Ltd. ("Suzhou Irix") is a company controlled by Irix.

On May 31, 2019, Enableness and Irix signed an Asset Transfer Agreement which resulted in Enableness Suzhou selling the majority of its assets and liabilities to Irix including \$94 of fixed assets, \$173 of leasehold improvements, \$47 of inventory as well as the transfer of all of the employee contracts, less Enableness Suzhou costs of \$60 owed by Irix to Enableness. As part of this agreement, Enableness's Fremont operations also sold certain fixed assets to Irix amounting to \$86. Under the Asset Transfer Agreement, Enableness and Irix agreed that the consideration due to Enableness from Irix from this transaction would be offset against certain debts owing to Irix by Enableness of \$720. The net remaining amount due to Irix of \$260 has been treated as a long term Note Payable with annual interest accruing at 7.5%, with the interest and principal amount payable on May 31, 2022. As at September 30, 2019, the amount owing on the Note Payable is \$281.

The following transactions took place between Enableness and Irix during the three months ended September 30, 2019 and the fiscal years ended June 30, 2019 and June 30, 2018, and any resulting amounts owing were included in the determination of the net debt owing as a result of the Asset Transfer Agreement on May 31, 2019:

# Enablence Technologies Inc.

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- During the three months ended December 31, 2018, Suzhou Irix provided short-term financing of \$97 to Enablence Suzhou.
- During the three months ended September 30, 2019, Suzhou Irix provided employee related services and utilities to the Company of \$Nil (September 30, 2018 – \$26).
- During the three months ended September 30, 2019, Suzhou Irix paid \$29 (September 30, 2018 – \$Nil) of rental costs on behalf of ENA. At September 30, 2019 \$36 is outstanding.
- During the fiscal year ended June 30, 2019, Suzhou Irix paid \$ 437k on behalf of ENA to a third party commercial manufactory as a prepayment of which \$437 is owing to Irix at September 30, 2019.
- 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, 2019.

At September 30, 2019 an amount of \$612 (June 30, 2019 – \$612) is included in accounts payable and accrued liabilities relating to consulting services provided by Irix. Of this amount, \$Nil was incurred and recorded to consulting fee expense during the three months ended September 30, 2019 (September 30, 2018 - \$30) relating to services provided through Irix by Todd Zhang, the previous CFO of the Company. At September 30, 2019 \$392 (June 30, 2019 - \$392) remains outstanding within accounts payable and accrued liabilities relating to these consulting services.

During the fiscal year ended June 30, 2017 USA Irix provided other consulting services and materials to Enablence. As a result, at September 30, 2019 the Company has an amount of \$19k owing to USA Irix (June 30, 2019 - \$19).

As of September 30, 2019, under the 2017 R&D Services Agreement with Suzhou Irix Ltd. and Irix Photonics Inc., the Company has an amount owing of \$325 (June 30, 2019 - \$325).

During the three months ended September 30, 2019, the Company received \$226 in the form of a short term bridge loan from a director of the Company.

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

#### Three months ended September 30, 2019

- The Company received \$253 in unsecured short term bridge loans from a controlling shareholder of Paradigm
- Year ended June 30, 2019
  - The Company received \$1,363 in unsecured short term bridge loans from a controlling shareholder of Paradigm (also see Subsequent Events)

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.

#### **19. Supplemental disclosures of cash flow information**

Net change in non-cash operating working capital items for the three months ended September 30 is presented in the table below:

# Enablence Technologies Inc.

## Notes to the interim condensed consolidated financial statements

For the three months ended September 30, 2019 and 2018

(in thousands of United States dollars and shares)

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	<b>2019</b>	2018
	<b>\$</b>	<b>\$</b>
Net inflow (outflow) of cash:		
Accounts receivable and other receivables	<b>219</b>	217
Inventories	<b>39</b>	(30)
Prepaid expenses and deposits	<b>(4)</b>	(465)
Accounts payable and accrued liabilities	<b>(96)</b>	369
Contract liabilities	<b>(27)</b>	34
	<b>131</b>	125

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### 20. Subsequent events

Subsequent to September 30, 2019, the Company received \$1,155 in unsecured short term bridge loans with interest accruing at a rate of 10% of which \$226 was provided by a director of the Company and \$60 was provided by a related party.

On October 28, 2019 the Company signed a forbearance agreement with EDC relating to scheduled principal and interest payments having not been made. The forbearance provides the Company until January 28, 2019 to rectify the default subject to meeting certain ongoing terms and conditions. The Company made an interest back payment of \$191,000 as part of this agreement (see Note 10 b)).