Enablence Technologies Inc.

ENABLENCE TECHNOLOGIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A")

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2019

DATED: February 27, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the financial condition of Enablence Technologies Inc. ("Enablence" or the "Company") at December 31, 2019 compared to June 30, 2019 and results of operations for the three and six months ended December 31, 2019 compared to the three and six months ended December 31, 2018.

This MD&A should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes for the three and six months ended December 31, 2019 as well as our audited consolidated financial statements and accompanying notes for the year ended June 30, 2019. References made herein to "Enablence", the "Company", "we" and "our" mean Enablence, its subsidiaries, collectively, unless the context indicates otherwise. All amounts (including numbers of common shares, options and warrants) included in the MD&A are in thousands, except per share amounts or as otherwise indicated. All financial amounts are in US$, unless stated otherwise. Other continuous disclosure filings for the Company are available on www.sedar.com

While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, several 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 continued existence is dependent upon its ability to secure additional financing and to attain profitable operations. Management is active in addressing these issues although there is no assurance that they will be successful. If the going concern assumption were not appropriate for these financial statements, adjustments might be necessary in the carrying values of assets and liabilities and the balance sheet classifications. The current situation and the plans to resolve it are contained in the Outlook section of this MD&A.

The effective date of this MD&A is February 27, 2020.

FORWARD-LOOKING STATEMENTS

This MD&A includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements, including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect management's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Company does not undertake or accept any obligation to release publicly any updates or revisions to any forward-looking statements to reflect any change in the Company's expectations, except as prescribed by applicable securities laws.

Key assumptions made in preparing the forward-looking statements contained in this MD&A include, but are not limited to, the following:

- The Company will be able to raise sufficient financing to meet its financial obligations as they come due, and will be able to renegotiate the current liability with EDC as well as certain financial obligations as they come due.
- Enablence will develop and deliver new products on time in order to satisfy the requirements of current and future customers and contribute to near-term profitability.
- The Company will continue to successfully reduce product costs to improve the Company's gross margin and/or avoid any margin erosion associated with competitive pricing pressure.

- Enablence will be able to attract and retain key people
- The Company will be able to raise financing to allow the Company fully implement its business plan

SUBSEQUENT EVENTS

Subsequent to December 31, 2019, the Company received $404 in unsecured short term bridge loans with interest accruing at a rate of 10% of which $154 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. Since October 28, 2019, the Company has made payments on the loan amounting to $365. The forbearance provides the Company until January 28, 2020 to rectify the default subject to meeting certain ongoing terms and conditions. The Company is still in discussions with EDC regarding the loan and an additional extension.

OVERVIEW

ENABLENCE'S BUSINESS

Enablence designs, manufactures, and sells optical components and subsystems for all three segments of optical networks - access, metro, and long-haul markets - to a global customer base. It utilizes its patented technologies, including planar lightwave circuit ("PLC") intellectual property, know-how and trade secrets in the production of photonic components. The Company's product lines address access - connecting homes and businesses to the network; metro - communication rings within cities of different sizes; and long-haul - linking cities, countries and continents. The Company offers leading expertise in transmission, switching & routing, wavelengths management, and signal performance management for networks ranging from 1.25 to 100 gigabits per second. The Company's current product line includes multiple wavelength channel transmission and receiving optical subassembly (TOSA/ROSA), and wavelength management products.

Enablence's PLC optical chip technology enables the integration of sub-components (such as waveguides, photodetectors, lasers, and trans-impedance amplifiers) onto one silicon-based platform, which forms a hybrid photonic integrated circuit ("PIC") chip. The Company's core technology is portable to many markets that require filtering technology to separate and multiplex various optical signals. The chip-based integration capabilities of the Enablence platform technology make it a solution for an array of applications including telecommunications, cloud data centers, sensor systems, biomedical and aerospace applications.

RESULTS OF OPERATIONS

<u>Summary of Unaudited Quarterly Results</u>

The following table sets forth unaudited summary results of operations for the past eight quarters. The information for the fiscal period ended March 31, 2018 and subsequent quarters has been taken from our unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the year ended June 30, 2019.

All normal recurring adjustments necessary for a fair presentation of information presented, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the above-noted consolidated financial statements.

	31-Mar 2018	30-Jun 2018	30-Sep 2018	31-Dec 2018	31-Mar 2019	30-Jun 2019	30-Sep 2019	31-Dec 2019
Revenue	$ 174	$ 58	$ 148	$ 90	$ 503	$ 683	$ 281	$ 233
Gross Margin	(460)	(1,155)	(557)	(656)	(1,027)	(269)	(428)	(448)
GM %	(264.4%)	(1991.4%)	(376.4%)	(728.9%)	(204.2%)	(39.4%)	(152.3%)	(192.3%)
Expenses								
Research & development	739	695	697	678	598	581	535	511
Sales & marketing	76	71	70	73	39	39	32	40
General & administration	513	554	479	441	616	1,079	549	603
Stock-based compensation	13	3	4	3	9	5	4	4
Expenses	1,341	1,323	1,250	1,195	1,262	1,704	1,120	1,158
Operating loss	(1,801)	(2,478)	(1,807)	(1,851)	(2,289)	(1,973)	(1,548)	(1,606)
Finance and other expense	(407)	(551)	(448)	(484)	(503)	(586)	(654)	(717)
Gain on sale of property, plant and equip.	-	62	-	-	-	158	-	-
Foreign exchange (loss) gain	(57)	(110)	94	(297)	110	96	(54)	140
Net loss	(2,265)	(3,077)	(2,161)	(2,632)	(2,682)	(2,305)	(2,256)	(2,183)
Weighted average shares outstanding	621,928	621,928	627,386	641,927	641,927	641,927	641,927	641,927
Basic and diluted income (loss) per share	($0.00)	($0.00)	($0.00)	($0.00)	($0.00)	($0.00)	($0.00)	($0.00)
Adjusted EBITDA[(1)]	(1,576)	(2,354)	(1,708)	(1,761)	(2,206)	(1,917)	(1,508)	(1,562)

(1) Adjusted EBITDA does not have a standardized meaning according to IFRS and is defined and reconciled to net income (loss) below.

NON-GAAP FINANCIAL MEASURES

Management reports and analyzes its financial results and performance using a range of financial measures. Some of these measures, such as revenues, net income and cash flow from operating activities, are defined by IFRS. Other measures are not defined by IFRS.

One key non-IFRS measure used by management is “Adjusted EBITDA”. The Company discloses Adjusted EBITDA as a supplemental non-GAAP financial performance measure because the Company believes it is a useful metric by which to compare the performance of our business from period to period. The Company understands that measures similar to Adjusted EBITDA are broadly used by analysts, rating agencies and investors in assessing our performance. Accordingly, we believe that the presentation of Adjusted EBITDA provides useful information to investors.

Adjusted EBITDA comprises: net income (loss) excluding the following: finance income and expense, income tax recovery and expense, depreciation, amortization, losses on write-off or sale of equipment, foreign exchange gains and losses in earnings, and stock-based compensation expense. Therefore, it may not be comparable to similar measurements presented by other companies. The reconciliation of Adjusted EBITDA with the IFRS measure of net income (loss) is as follows:

	31-Mar 2018	30-Jun 2018	30-Sep 2018	31-Dec 2018	31-Mar 2019	30-Jun 2019	30-Sep 2019	31-Dec 2019
Net loss for the period	(2,265)	(3,077)	(2,161)	(2,632)	(2,682)	(2,305)	(2,256)	(2,183)
Add (deduct):								
Net interest and other expense	407	551	448	484	503	586	654	717
Amortization	212	121	95	87	74	51	36	40
Gain on sale of equipment	-	(62)	-	-	-	(158)	-	-
Foreign exchange (gain) loss	57	110	(94)	297	(110)	(96)	54	(140)
Stock-based compensation expense	13	3	4	3	9	5	4	4
"Adjusted EBITDA"	(1,576)	(2,354)	(1,708)	(1,761)	(2,206)	(1,917)	(1,508)	(1,562)

SUMMARY OF RESULTS FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2019 COMPARED TO THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2018

The following table sets forth a summary of key earnings information from our consolidated financial statements for the three and six months ended December 31, 2019 and 2018.

	Three months ended December 31, 2019	Three months ended December 31, 2018	Increase (decrease)	Six months ended December 31, 2019	Six months ended December 31, 2018	Increase (decrease)	
Revenues	**$ 233**	$ 90	$ 143	**$ 514**	$ 238	$ 276	*116%*
Cost of revenues	**681**	746	(65)	**1,390**	1,451	(61)	*(4%)*
Gross margin	**(448)**	(656)	208	**(876)**	(1,213)	337	*(38%)*
	(192%)	*(729%)*		*(170%)*	*(510%)*		
Operating expenses:							
Research and development	**511**	678	(167)	**1,046**	1,375	(329)	*(24%)*
Sales and marketing	**40**	73	(33)	**72**	143	(71)	*(50%)*
General and administrative	**603**	441	162	**1,152**	920	232	*25%*
Stock based compensation	**4**	3	1	**8**	7	1	*14%*
Total operating expenses	**1,158**	1,195	(37)	**2,278**	2,445	(167)	*(7%)*
Loss from operations	**(1,606)**	(1,851)	245	**(3,154)**	(3,658)	504	*(14%)*
Other income (expenses):							
Finance and other income (expense)	**14**	(50)	64	**32**	(50)	82	
Finance expense	**(731)**	(434)	(297)	**(1,403)**	(882)	(521)	*37%*
Foreign exchange gain (loss)	**140**	(297)	437	**86**	(203)	289	
Net loss	**(2,183)**	(2,632)	449	**(4,439)**	(4,793)	354	*(8%)*
Other comprehensive income (net of tax):			-			-	
Foreign currency translation gain (loss)	**(525)**	954	(1,479)	**(256)**	637	(893)	*349%*
Comprehensive loss	**$ (2,708)**	$ (1,678)	$ (1,030)	**$ (4,695)**	$ (4,156)	$ (539)	*11%*

Enablence converts foreign currency-denominated transactions related to the statement of comprehensive loss at the average exchange rates for the periods. As such, changes in the exchange rate between the United States dollar and the Canadian dollar can have an impact on the reported results for each fiscal period as well as changes in the exchange rate between the Chinese renminbi (RMB). The average exchange rate for six months ended December 31, 2019 in terms of the Canadian dollar equivalent of US$1 was CAD $1.3203 (2018 – CAD $1.3142) and in terms of the Chinese RMB equivalent of US$1 was RMB $0.1422 (2018 – RMB $0.1458)

REVENUE

Revenue for the three months ended December 31, 2019 was $233 as compared to $90 for the same period of the prior year, and revenue for the six months ended December 31, 2019 was $514 as compared to $238 for the same period of the prior year. The increase primarily related to an increase in NRE revenue earned in the current year. The Company continues to pursue new customers and the qualification of products with them.

During the three and six months ended December 31, 2019, respectively, three customers accounted for 75% and 79% of the Company’s total revenue.

The geographic split of revenue (based on ship-to location of the customer) is as follows:

	Three months ended		**Six months ended**	
	December 31, 2019	December 31, 2018	**December 31, 2019**	December 31, 2018
	$	$	**$**	$
Americas	**38**	86	**166**	144
Asia Pacific	**195**	4	**319**	94
Europe, Middle East, Africa	**-**	-	**29**	-
	233	90	**514**	238

GROSS MARGIN

The Company's cost of revenues is comprised of a number of elements, some of which vary directly with the level of revenues, such as material costs and the cost of products manufactured by third parties, and some of which do not vary significantly with the level of revenues, including many overhead costs such as compensation of operations staff, amortization and facilities costs.

Gross margin for the three months ended December 31, 2019 was ($448) as compared to ($656) for the same period of the prior year. Gross margin for the six months ended December 31, 2019 was ($876) as compared to ($1,213) for the same period of the prior year. The improvement is mainly due to the increase in revenues in the current year's period.

OPERATING EXPENSES

R&D expense for the three months ended December 31, 2019 was $511 as compared to $678 for the same period of the prior year, a decrease of $167. R&D expense for the six months ended December 31, 2019 was $1,046 as compared to $1,375 for the same period of the prior year, a decrease of $329. The decrease is primarily due to the reduction in certain material and supply purchases in the Suzhou and Fremont offices.

Sales & Marketing expense for the three months ended December 31, 2019 was $40 as compared to $73 for the same period of the prior year, and for the six months ended December 31, 2019 was $72 as compared to $143 for the same period of the prior year.

General & Administration expense for the three months ended December 31, 2019 was $603 as compared to $441 for the same period of the prior year, and for the six months ended December 31, 2019 was $1,152 compared to $920 for the same period of the prior year. The increase in the current year's period as compared to the prior year's same period was due to an increase in salary costs as well as an increase in the expected credit loss on accounts receivable, partially offset by a decrease in consulting expenses.

Stock-based compensation expense for the nine months ended March 31, 2019 was $8 as compared to $7 for the same period of the prior year.

FINANCE AND OTHER INCOME

Enablence invests cash and cash equivalents in short-term investments with financial institutions. Interest income is a function of prevailing interest rates and the amount of funds invested.

FINANCE EXPENSE

The Company's interest expense is a function of the balance of debt, and applicable interest rates, and the average foreign exchange rate between the underlying currency of the debt security and the U.S. dollar.

Interest and finance expense for the three months ended December 31, 2019 was $731 as compared to $434 for the same period of the prior year. Interest and finance expense for the six months ended December 31, 2019 was $1,403 as compared to $882 for the same period of the prior year. The increase primarily relates to a combination of the interest on the convertible debentures, notes payable as well as EDC loans as compared to the prior year's same period.

Notes payable were as follows at December 31, 2019:

	December 31 2019	June 30, 2019
	$	$
Short-term Loans (a)	**14,260**	10,077
Loan from Export Development Canada (b)	**4,530**	4,420
Loan from Irixi (c)	**316**	260
	19,106	14,757
Less current portion	**18,790**	14,497
Long-term portion	**316**	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, 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 December 31, 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. During the six months ended December 31, 2019 the Company obtained $3,708 of unsecured short term loans of which $231 was from a director of the Company and $320 was from a related party. As at December 31, 2019, a total amount of $13,255 (2018 - $10,077) remains owing on these loans which includes $880 (June 30, 2019 - $441) of accrued interest and $125 (June 30, 2019 - $125) of accrued fees.

(b) 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 prime rate plus 10% resulting in a rate of 13.95% at December 31, 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 payments on the loan amounting to $279 during the six months ended December 31, 2019 (See Subsequent Events). As at December 31, 2019 the amount recorded as owing to EDC, inclusive of accrued interest and late fees is $4,530 (June 30, 2019 - $4,420) (See Subsequent Events).

(c) On May 31, 2019, Enablence and Irixi, a related party, signed an Asset Transfer Agreement which resulted in Enablence Suzhou selling the majority of its assets and liabilities to Irixi including $94 of fixed assets, $173 of leasehold improvements, $47k of inventory as well as the transfer of all of the employee contracts, less Enablence Suzhou costs of $60 owed by Irixi to Enablence. As part of this agreement, Enablence's Fremont operations also sold certain fixed assets to Irixi amounting to $86. Under the Asset Transfer Agreement, Enablence and Irixi agreed that the consideration due to Enablence from Irixi from this transaction would be offset against certain debts owing to Irixi by Enablence of $720. The net remaining amount due to Irixi of $260 has been treated as a long term Note Payable with annual interest accruing at 7.5%, with the interest and principal amount payable on May 31, 2022. As at December 31, 2019 the amount owing on the Note Payable, inclusive of interest, is $316.

FOREIGN EXCHANGE GAIN (LOSS)

Foreign exchange gains and losses include realized and unrealized gains and losses on foreign exchange, including those that arise as a result of converting assets and liabilities denominated in currencies other than the functional currency of the entity into the functional currency of the entity at the balance sheet date and realized gains or losses arising from the settlement of these balances during the period.

During the three and six months ended December 31, 2019 the Company recorded a foreign exchange gain of $140 and a loss of $297 respectively, as compared to a gain of $86 and a loss of $203 respectively for the same periods of the prior year.

INCOME TAXES

There were no income taxes payable or recoverable during the current or prior year six months ended December 31, 2019.

NET LOSS

The net loss from operations for the three months ended December 31, 2019 was $2,183 as compared to a net loss of $2,632 for the same period of the prior year. The net loss from operations for the six months ended December 31, 2019 was $4,439 as compared to a net loss of $4,793 for the same period of the prior year.

FOREIGN CURRENCY TRANSLATION GAIN

During the three and six months ended December 31, 2019 the Company recorded a foreign exchange translation loss of $525 and a gain of $954, respectively, as compared to a loss of $256 and a gain of $637, respectively, for the same periods of the prior year. This was as a result of conversion of the Company's operations that are being transacted in non-US$ currencies (Canadian dollar and Chinese Renminbi), being converted to the Company's reporting currency, which is US$.

LOSS PER COMMON SHARE

The table below presents the basic and diluted loss per common share for each of the comparative fiscal periods.

	Three months ended December 31,		**Six months ended December 31,**	
	2019	2018	**2019**	2018
Basic and diluted loss per common share	$(0.00)	$(0.00)	$(0.01)	$(0.01)
Weighted Average Number of Common Shares	641,927	641,927	641,927	638,667

Due to the net loss from operations, options and convertible debentures are anti-dilutive.

OUTLOOK

During fiscal 2019 and fiscal 2020 to date, the Company continued the development of its core competency in PLC optical chip design and fabrication, targeting high-growth markets – namely data centers and fifth generation ("5G") wireless networks. Both of these markets are experiencing high-growth rates in equipment sales and the related PLC chips and other components and modules required for their construction and ongoing operation.

Data center construction continues to grow globally to support a number of cloud-based services, including computing, storage, databases, and Internet of Things, among many others. 5G networks are in the early stages of deployment in major markets around the globe, including the United States, Korea, China, and Europe, with increasing construction, deployment, and consumer usage in 2020 and beyond.

Enablence has developed a series of compact PLC optical chips - multiplexers and demultiplexers - to be used in multi-channel high-speed optical transceivers for our target markets. In the past two years, we have worked closely with our customers and contract manufacturers to ensure our products meet their design and process specifications. After completing rigorous product qualifications with a number of US-based customers, the Company plans to start higher-volume commercial production and expects production volumes to increase over the next twelve months. The Company believes that the above-mentioned products represent a potential sizeable revenue growth opportunity for the Company, for at least the next 3 years.

Our goal over the next four quarters is to fully utilize our Fremont fabrication facility with production orders of PLC optical chips, as our customers increase their order size from pilot runs to larger-volume runs to match their own increasing production volumes of transceivers.

Our challenges include system-level qualification at the end customer, process level qualification at the contract manufacturers, and scaling our internal production. We have passed a number of customer qualifications and we are confident that we can continue to pass additional customer qualifications as we expand our sales to existing and new customers.

In the normal course, Enablence also examines other strategic opportunities in markets other than data center and 5G wireless markets. For example, the Company combines its world-class optics knowledge to provide R&D contracts for customers in areas such as Light Detection And Ranging (LiDAR) for commercial fleets and automotive applications, and will continue to examine additional market opportunities.

LIQUIDITY

The Company's objectives when managing its liquidity and capital structure are to generate sufficient cash to fund the Company's operating, debt service and organic growth requirements.

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. At December 31, 2019, there are 641,927 common shares and no preferred shares outstanding.

The Company has sustained significant losses since its inception, and expects to continue to incur losses in its next few quarters. The Company's ability to reach profitability is dependent on successful introduction of new products, improved margins, revenue growth and additional financing. There can be no assurance that Enablence will gain adequate market acceptance for its new products or be able to generate sufficient gross margins to reach profitability.

Enablence has not generated positive cash flow from operations since its inception, and has relied on cash from the issuance of shares and debt to fund its operations. The table below sets out the cash and cash equivalents, and working capital at December 31, 2019 and June 30, 2019.

	December 31, 2019	**June 30, 2019**
Cash and Cash Equivalents	**$381**	$45
Restricted cash	**4**	4
	385	49
Working capital (deficiency)	**(28,211)**	(23,490)

The working capital deficiency from operations at December 31, 2019 was $28,211 as compared to a working capital deficiency of $23,490 at June 30, 2019. This reduction in the working capital during the six months ended December 31, 2019 as compared to the prior year's same period was mainly due to the cash used in operations as well as the increase in notes payable financing outstanding at the end of the current year.

The chart below highlights the Company's cash flows during the three and six months ended December 31, 2019 and 2018.

	Three months ended December 31,		**Six months ended December 31,**	
	2019	2018	**2019**	2018
Cash used in Operating activities	**(1,479)**	(1,595)	**(2,904)**	(3,148)
Investing activities				
Purchase of property, plant and equipment	**(104)**	(29)	**(167)**	(96)
Proceeds on disposal of equipment	**-**	-	**-**	2
	(104)	(29)	**(167)**	(94)
Financing activities				
Advances from (repayments on) short term loans	**1,701**	1,404	**3,429**	2,278
Net proceeds from issuance of shares	**-**	-	**-**	755
	1,701	1,404	**3,429**	3,033
Effect of foreign currency translation	**(90)**	189	**(22)**	248
Net change in cash and cash equivalents	**28**	(31)	**336**	39

At December 31, 2019, the Company had cash available of $381 (not including $4 of restricted cash). The Company consumed $2,904 in operating activities for the six months ended December 31, 2019 compared to $3,148 for the same period of the prior year.

Short Term Loan Financing

During the six months ended December 31, 2019 the Company obtained 10% interest bearing unsecured short term loans in the amounts of $3,708 of which $231 was from a director of the Company and $320 was from a related party. As at December 31, 2019 a total amount of $13,255 remains owing on these loans which includes $880 of accrued interest and $125 of accrued fees.

Convertible Debenture Financing

On June 30, 2017 the Company issued a total of $5,780 ($7,500 CAD) of unsecured convertible debentures (the "Debentures") of which $4,624 of the Debentures were issued through a private placement for cash, and $1,156 were issued as a result of a debt settlement agreement with a related party creditor to settle outstanding short term loans received by the Company during the year ended June 30, 2017. The Debentures bear interest at a rate of 10% per annum, are payable quarterly commencing on September 30, 2017, and are convertible, at the option of their holder, into common shares of the Company (the "Shares") at a price of $0.08 CAD per Share. The Debentures 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 six months ended December 31, 2019, the Company recorded accretion of $497 to interest expense (2018 - $453) and $58 of amortization of the debt financing costs (2018 - $47). Of the $1,552 (2018 - $825) interest accrued since June 30, 2017, $77 (2018 - $29) has been paid and the unpaid balance of $1,475 (2018 - $796) is overdue and included in accrued interest. As at December 31, 2019, the total convertible debenture liability inclusive of interest is $7,025 (June 30, 2019 - $6,379).

Equity Financing

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 resulting in the issuance of 20,000 common shares.

CAPITAL RESOURCES

Enablence finances its operations through the issuance of common shares and debt. The Company may also receive cash proceeds on the issue of additional common shares on the exercise of options and warrants depending in part on the market price for its shares.

The Company periodically evaluates the opportunity to raise additional funds through either the public or private placement of equity capital to strengthen its financial position and to provide sufficient cash reserves to protect itself from the effects of the volatile economic conditions that are difficult to predict.

See the Liquidity and Subsequent Events sections above for details on financings completed during the six months ended December 31, 2019 and for loans obtained subsequent to the year end. Continued debt and equity funding will help to position Enablence to address expected increases in demand for its PLC chips and to focus on its customer needs and future growth opportunities.

Enablence is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There are 641,927 common shares issued and outstanding as of February 27, 2020 and no preferred shares issued and outstanding. The common shares of Enablence trade on the TSX Venture Exchange under the symbol “ENA” or “ENA.V”.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

The table below presents the Company’s contractual obligations from operations.

As at December 31, 2019	2020	2021	2022+	Total
	$	$	$	$
Accounts payable and accrued liabilities	3,974	-	-	3,974
Notes payable	18,790	-	316	19,106
Convertible debentures	7,025	-		7,025
Total	29,789	-	316	30,105

The Company is required to comply with certain obligations with respect to the loan payable to Export Development Canada which is secured against the assets of the Company (see Finance Expense section above and the references to notes payable).

The Company is exposed to currency risk as certain transactions are denominated in Canadian dollars. Management is evaluating foreign exchange risk management strategies, however, the Company has not entered into forward, swap or option contracts to manage its exposures to fluctuations in foreign exchange rates.

Enablence has not entered into any other material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, or derivative instrument obligations, or with respect to any obligations under a variable interest entity arrangement.

TRANSACTIONS WITH RELATED PARTIES

At December 31, 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 December 31, 2019, 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 December 31, 2019, Irixi Holding Ltd. ("Irixi"), owned 39,408 common shares of the Company. Irixi 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 Irixi Ltd. (“Suzhou Irixi”) is a company controlled by Irixi.

On May 31, 2019, Enablence and Irixi signed an Asset Transfer Agreement which resulted in Enablence Suzhou selling the majority of its assets and liabilities to Irixi including $94 of fixed assets, $173 of leasehold improvements, $47 of inventory as well as the transfer of all of the employee contracts, less Enablence Suzhou costs of $60 owed by Irixi to Enablence. As part of this agreement, Enablence’s Fremont operations also sold certain fixed assets to Irixi amounting to $86. Under the Asset Transfer Agreement, Enablence and Irixi agreed that the consideration due to Enablence from Irixi from this transaction would be offset against certain debts owing to Irixi by Enablence of $720. The net remaining amount due has been treated as a long term Note

Payable with annual interest accruing 7.5%, with the interest and principal amount payable on May 31, 2022. As at December 31, 2019, the amount owing on the Note Payable, inclusive of accrued interest, is $316.

During the six months ended December 31, 2019, Irixi purchased $Nil (December 31, 2018 – $Nil, fiscal year end June 30, 2019 – $138) of products from ENA. At December 31, 2019, $39 is outstanding A/R.

During the fiscal year ended June 30, 2018, Irixi paid $463 to a contract manufacturer for the delivery of finished goods to a customer of which $463 is owing to Irixi at December 31, 2019.

At December 31, 2019 an amount of $612 (June 30, 2019 – $612) is included in accounts payable and accrued liabilities relating to consulting services provided by Irixi. Of this amount, $Nil was incurred and recorded to consulting fee expense during the six months ended December 31, 2019 (December 31, 2018 - $60) relating to services provided through Irixi by Todd Zhang, the previous CFO of the Company.

During the fiscal year ended June 30, 2017 USA Irixi provided other consulting services and materials to Enablence. As a result, at December 31, 2019 the Company has an amount of $19k owing to USA Irixi (June 30, 2019 - $19).

As of December 31, 2019, under the 2017 R&D Services Agreement with Suzhou Irixi Ltd. and Irixi Photonics Inc., the Company has an amount owing of $325 (June 30, 2019 - $325).

During the six months ended December 31, 2019, the Company received $231 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 periods ended:

Six months ended December 31, 2019

- The Company received $320 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. During the six months ended December 31, 2019 the Company did not enter into any material transactions with related parties outside of those noted elsewhere in the MD&A.

RISKS AND UNCERTAINTIES

The Company's financial position remains challenged in a dynamic, rapidly changing environment that involves risks and uncertainties. As a result, management expectations may not be realized. The Company continues to be dependent on additional debt and equity financing until revenues and gross margins increase to the point that operations are profitable. Because there is no certainty that additional funding will be secured in the immediate future, an investment in Enablence is speculative.

Any investor should also consider carefully these risks and the risks and uncertainties that are detailed in our Annual MD&A filed October 28, 2019 and available at www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES

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 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 financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgement. The allowance the Company records, if any, is the sum of these probability weighted outcomes.

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

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

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

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

CHANGES IN ACCOUNTING POLICIES

New or amended IFRS standards effective July 1, 2018

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

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

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

On July 1, 2018, the Company adopted the new guidance for the recognition of revenue from contracts with customers. This guidance was applied using a modified retrospective ("cumulative catch-up") approach under which there were no significant changes that had a material effect on the consolidated statement of financial position as at July 1, 2018 and there was no single adjustment to the opening balance of retained earnings. Accordingly, the Company is not required to present a third statement of financial position as at that date. 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).

Financial instruments

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 IFSR 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:

Financial Instrument	Classification under IFRS 9	Classification under IAS 39
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 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.

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 plans to adopt the new standard on the required effective date and expects that the adoption of this standard will have no material impact on its consolidated financial statements.

FINANCIAL AND OTHER INSTRUMENTS

Enablence's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, convertible debentures and notes payable. Unless otherwise noted, it is the opinion of Enablence's management that Enablence is not exposed to significant interest, currency or credit risk arising from these financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

ADDITIONAL INFORMATION

Additional information related to the Company can be found on SEDAR at: www.sedar.com.