

Consolidated financial statements

Enablence Technologies Inc.

For the three and six months ended December 31 2017 and 2016
(in thousands of United States dollars and shares)

“Notice to Reader”

The accompanying unaudited condensed financial statements of Enablece Technologies Inc. for the three and six months ended December 31, 2017 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: February 28, 2018

“Evan Chen”
Evan Chen
CEO

“Tao Zhang”
Tao Zhang
CFO

Enablence Technologies Inc.

Condensed Consolidated Statements of Financial Position

(in thousands of United States dollars)

	December 31, 2017	June 30, 2017
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (Note 4)	122	5,086
Accounts and other receivables (Note 5 and 13)	1,807	1,158
Inventories (Note 6)	1,896	1,687
Prepaid expenses and deposits	616	346
	4,441	8,277
Property, plant and equipment (Note 7)	1,196	1,351
	5,637	9,628
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 8 and 13)	4,699	4,399
Current portion of notes payable (Note 9 and 15)	3,627	3,472
Deferred revenue	256	210
	8,582	8,081
Convertible debentures (Note 10)	5,022	4,387
Notes payable (Note 9)	1,632	1,578
	15,236	14,046
Shareholders' deficiency		
Share capital (Note 11)	105,393	105,393
Contributed surplus (Note 10 and 11)	12,505	12,439
Accumulated other comprehensive income	194	406
Deficit	(127,691)	(122,656)
	(9,599)	(4,418)
	5,637	9,628

See accompanying notes to these unaudited condensed consolidated financial statements

Approved by the Board:

"Louis De Jong"
Director

"Evan Chen"
Director

Enablence Technologies Inc.

Condensed Consolidated Statements of Comprehensive Loss

For the three and six months ended December 31

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

	2017	2016	2017	2016
	\$	\$	\$	\$
Revenues	1,230	925	3,156	1,473
Cost of revenues	1,879	1,062	3,699	1,785
Gross margin	(649)	(137)	(543)	(312)
Operating expenses				
Research and development (Note 15)	927	1,040	2,362	2,174
Sales and marketing	60	7	107	13
General and administration	588	558	1,155	1,093
Stock-based compensation (Note 11)	33	82	66	166
	1,608	1,687	3,690	3,446
Loss from operations	(2,257)	(1,824)	(4,233)	(3,758)
Other income (expense)				
Finance and other income	(54)	-	(55)	-
Finance expense (Note 9 and 10)	(358)	(127)	(715)	(221)
Foreign exchange gain (loss)	(37)	(14)	(32)	(15)
Net loss	(2,706)	(1,965)	(5,035)	(3,994)
Other comprehensive income, net of tax				
Foreign currency translation gain	(43)	120	212	135
Comprehensive loss	(2,749)	(1,845)	(4,823)	(3,859)
Net loss per share, basic and diluted (Note 12)	(\$0.00)	(\$0.01)	(\$0.01)	(\$0.01)
Weighted average number of outstanding shares	621,929	515,707	621,929	509,123

See accompanying notes to these unaudited condensed consolidated financial statements

Enableness Technologies Inc.

Condensed Consolidated Statements of Changes in Shareholders' Deficiency

For the six months ended December 31

(in thousands of United States dollars and shares)

	Number of shares	Share capital (Note 12)	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Deficiency
		\$	\$	\$	\$	\$
Balance at July 1, 2016	509,050	99,266	11,546	523	(114,025)	(2,690)
Stock-based compensation (Note 11)	-	-	-	-	-	-
Exercise of warrants	15,375	688	-	-	-	688
Fair value of warrants exercised	-	119	(119)	-	-	-
Issuance of shares	25,000	1,482	-	-	-	1,482
Share issuance costs	-	(23)	-	-	-	(23)
Net loss	-	-	-	-	(3,994)	(3,994)
Exchange differences on translating operations	-	-	-	135	-	135
Balance at December 31, 2016	549,425	101,532	11,593	658	(118,019)	(4,236)
Balance at July 1, 2017	621,929	105,393	12,439	406	(122,656)	(4,418)
Stock-based compensation (Note 11)	-	-	66	-	-	66
Net loss	-	-	-	-	(5,035)	(5,035)
Exchange differences on translating operations	-	-	-	(212)	-	(212)
Balance at December 31, 2017	621,929	105,393	12,505	194	(127,691)	(9,599)

See accompanying notes to these unaudited condensed consolidated financial statements

Enablence Technologies Inc.

Condensed Consolidated Statements of Cash Flows

For the three and six months ended December 31

(in thousands of United States dollars)

	2017	2016	2017	2016
	\$	\$	\$	\$
Cash provided by (used in):				
Operating activities				
Net loss	(2,706)	(1,965)	(5,035)	(3,994)
Adjusted for the following non-cash items:				
Depreciation	196	125	392	265
Stock-based compensation (Note 11)	33	82	66	166
Foreign exchange translation gain (loss)	78	-	164	-
Accretion on convertible debenture (net of financing costs)	233	-	471	-
	(2,166)	(1,758)	(3,942)	(3,563)
Changes in non-cash working capital (Note 16)	371	(1,323)	(782)	(1,572)
Cash used in operating activities	(1,795)	(3,081)	(4,724)	(5,135)
Investing activities				
Purchase of property, plant and equipment	(119)	(18)	(237)	(381)
Cash used in investing activities	(119)	(18)	(237)	(381)
Financing activities				
Advances from (repayments on) short-term loans	1,203	1,014	209	1,014
Advances from long-term loans	-	-	-	2,109
Net proceeds from issuance of shares	-	1,459	-	1,459
Proceeds from the exercise of warrants	-	682	-	688
Cash provided by financing activities	1,203	3,155	209	5,270
Effect of foreign currency translation on cash and cash equivalents	(212)	120	(212)	136
Increase (decrease) in cash and cash equivalents	(923)	176	(4,964)	(110)
Cash and cash equivalents, beginning of period	1,045	368	5,086	654
Cash and cash equivalents, end of period	122	544	122	544
Supplementary information:				
Interest paid - included in operating activities	121	79	314	196

See accompanying notes to these unaudited condensed consolidated financial statements

Enableness Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended December 31, 2017 and 2016

(in thousands of United States dollars and shares)

These unaudited condensed consolidated financial statements should be read in conjunction with Enableness Technologies Inc.'s annual audited financial statements approved by the Company's Board of Directors on October 27, 2017. "Enableness" and the "Company" mean either Enableness Technologies Inc. and its subsidiaries collectively or the entity Enableness Technologies Inc., as the context dictates. Amounts reported are in thousands of U.S. dollars, except where noted.

1. Description of business

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

2. Basis of preparation

(i) *Going concern*

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

At December 31, 2017, the Company had cash of \$122, negative working capital of \$4,141 and had used cash of \$4,724 in its operating activities for the six months ended December 31, 2017. The Company incurred a comprehensive loss of \$4,823 for the six months ended December 31, 2017 and as of that date had an accumulated deficit of \$127,691. During the six months ended December 31, 2017 the Company was economically dependent on a significant customer, which also is a related party (Notes 14 and 15).

These conditions indicate the existence of material uncertainties that cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon the ability to generate positive cash flow and the ability to execute its business plan, including funding operating losses, as well as possible future sources of financing. If the going concern assumption was not appropriate for these financial statements, significant adjustments to the carrying values of assets and liabilities, reported expenses and balance sheet classifications would result. These adjustments would be material.

(ii) *Statement of compliance*

These 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, 2017. 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 an historical cost basis. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

(iv) *Approval of consolidated financial statements*

The consolidated financial statements were authorized for issuance by the Board of Directors on February 28, 2018.

Enablence Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended December 31, 2017 and 2016

(in thousands of United States dollars and shares)

(v) *Presentation currency*

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

While each of the Company's subsidiaries has its own functional currency, the functional currency of the parent company, Enablence Technologies Inc., is the Canadian dollar. However, the majority of the revenues, cost of revenues and operating expenses from significant subsidiaries are denominated in US\$. Presenting these financial statements in US\$ allows investors to more easily compare the Company's results with most of its direct competitors. Refer to Note 3 for further details on foreign currency treatment.

(vi) *Use of estimates and judgments*

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

Estimates

Useful lives of depreciable assets

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

Share-based compensation

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

Fair value measurement

Management uses valuation techniques to determine the fair value of financial instruments. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Judgments

Recognition of deferred income tax assets

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

Enablence Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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(in thousands of United States dollars and shares)

Inventories

Inventories are initially recognized at cost, and subsequently at the lower of cost and net realizable value. Management estimates the net realizable values of inventories, considering the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market driven changes that may reduce future selling prices.

Going concern risk assessment

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

Impairment

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases. In assessing impairment, Management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Functional currency

An area of judgment that has a significant effect on the amounts recognized in these consolidated financial statements is the determination of functional currency. The determination of the Company and its subsidiaries' functional currency often requires significant judgment where the primary economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation methods used.

3. Significant accounting policies

Basis of consolidation

The consolidated financial statements include the accounts of Enablence Technologies Inc. and its subsidiaries. The chart below summarizes the entities included in the consolidated financial statements as at December 31, 2017.

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

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

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:

Enablence Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended December 31, 2017 and 2016

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IFRS 9 – Financial Instruments

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

IFRS 15 - Revenues

IFRS 15, issued in May 2014, specifies how and when entities recognize, measure, and disclose revenue. The standard supersedes all current standards dealing with revenue recognition, including IAS 11 Construction contracts, IAS 18 Revenue, IFRIC 13 Customer loyalty programs, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from customers, and SIC 31 Revenue - barter transactions involving advertising services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognized. Amendments to IFRS 15, issued in April 2016, clarify some requirements and provide additional transitional relief for when an entity first applies IFRS 15. IFRS 15, and the amendments, are effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of this standard on its consolidated financial statements. The Company expects to apply the standard for its consolidated financial statements dated June 30, 2019.

IFRS 16

IFRS 16, issued in January 2016, introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard will supersede IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of this standard on its consolidated financial statements. The Company expects to apply the standard for its consolidated financial statements dated June 30, 2020.

IFRS 2 Share-based payments

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

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

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

IFRIC 22 Foreign currency transactions and advance consideration

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

Enablence Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements

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(in thousands of United States dollars and shares)

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.

	December 31, 2017	June 30, 2017
	\$	\$
Cash	118	5,082
Restricted cash	4	4
	122	5,086

5. Accounts and other receivables

	December 31, 2017	June 30, 2017
	\$	\$
Trade	1,553	968
Other	254	190
	1,807	1,158

Included in other receivables is an amount of \$78 (June 30, 2017 - \$46) related to investment tax credits receivable and \$176 (June 30, 2017 - \$144) due from government tax agencies.

6. Inventories

	December 31, 2017	June 30, 2017
	\$	\$
Raw materials	549	373
Work-in-progress	166	242
Finished goods	1,231	1,072
Allowance for obsolescence	(50)	-
	1,896	1,687

7. Property, plant and equipment

Depreciation expense for the six months ended December 31, 2017 of \$392 (December 31, 2016 - \$265) was allocated in the consolidated statements of comprehensive loss as follows: \$335 (December 31, 2016 - \$207) included within cost of revenues; \$35 (December 31, 2016 - \$32) included in research and development; and \$22 (December 31, 2016 - \$26) included in general and administrative.

8. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities at December 31, 2017 is a royalty amount payable of \$367 (June 30, 2017 - \$355) relating to royalty-bearing government funding received for approved research and development projects. The liability to repay this funding is calculated at 2.5% of the Company's actual qualifying revenues, up to a maximum value equivalent to the total related government funding received by the Company.

Enablence Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended December 31, 2017 and 2016

(in thousands of United States dollars and shares)

9. Notes payable

	December 31, 2017	June 30, 2017
	\$	\$
Short-term Loans (a)	1,265	1,194
Loan from Export Development Canada (b)	3,994	3,856
	5,259	5,050
Less current portion	3,627	3,472
Long-term portion	1,632	1,578

- (a) During the fiscal year ended June 30, 2017, the Company obtained non-interest bearing, unsecured short-term loans in the amount of \$5,231 CAD from certain related and unrelated parties of which \$1,755 CAD of the loans were repaid during the year, \$385 was converted to equity (Note 11), \$1,156 was exchanged for a convertible debenture (Note 10), leaving an unpaid balance of \$1,194 (\$1,549 CAD) at June 30, 2017. The exchange of debt instruments represented a substantial modification to the terms of the existing financial liability. As a result it was accounted for as a modification. No gain or loss was recognized on the modification. On April 1, 2017, the terms of the loan were changed to start accruing interest at the rate of 10% per annum. The remaining balance of \$1,194 at June 30, 2017 was paid in July 2017 which included principal of \$1,138 and interest of \$56. During the six months ended December 31, 2017, the Company obtained 10% interest bearing unsecured short term loans from a related party in the amount of \$365 (Note 15) plus interest of \$7, and obtained non-interest bearing unsecured short term loans in the amount of \$1,215 inclusive of financing costs of \$36. As at December 31, 2017 the total amount of \$1,587 remains owing on these loans .
- (b) On March 3, 2016, the Company closed a secured term loan facility with Export Development Canada (“EDC”) of \$3 million CAD. In August 2016, the loan facility was increased to \$5 million CAD. The loan facility is designed to finance up to 85% of the value of purchase orders from a major telecommunications equipment provider, ZTE Corporation, a strategic investor in the Company. The loan facility is available in the form of a term loan for a period of 18 months from the date of the initial draw down which was in March 2016. Repayment of principal is to commence 18 months after the first draw on the loan. Principal then is to be repaid in 17 equal monthly instalments. Interest is payable monthly at the rate of prime plus 10% resulting in a rate of 13.2% at December 31, 2017 (June 30, 2017 -12.7%). The loan facility is secured against all of the assets of the Company and is guaranteed by the Company’s subsidiaries. On October 30, 2017, the Company received a principal repayment extension from EDC resulting in the first monthly principal repayment being deferred to commence in March 2018. At December 31, 2017 the principal amount drawn on the EDC term facility is \$3,964 plus interest accrued of \$30.

10. Convertible debentures

On June 30, 2017 the Company issued a total of \$5,780 (\$7,500 CAD) of unsecured convertible debentures (the “Debentures”) of which \$4,624 of the Debentures were issued through a private placement for cash, and \$1,156 were issued as a result of a debt settlement agreement with a related party creditor to settle outstanding short term loans received by the Company during the year (Note 9(a)). The Debentures bear interest at a rate of 10% per annum, are payable quarterly commencing on September 30, 2017, and are convertible, at the option of their holder, into common shares of the Company (the “Shares”) at a price of \$0.08 CAD per Share. The Debentures mature on June 30, 2020.

As the Debentures are convertible into common shares at the option of the holder, they have been accounted for into their component parts. Management 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

Enablence Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and six months ended December 31, 2017 and 2016

(in thousands of United States dollars and shares)

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, the Company recorded accretion of \$604 to interest expense and \$32 of amortization of the debt financing costs.

Of the \$299 quarterly interest due on September 30, 2017 and December 31, 2017, \$16 has been paid and the balance has been waived on a short term basis.

11. Share capital

Authorized capital stock consists of:

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

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

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

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

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

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

Warrants

Each warrant entitles the holder to purchase one common share of the Company. There are no warrants outstanding at December 31, 2017 (June 30, 2017 - \$Nil).

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 December 31, 2017, the available option pool was a total of 43,986 (June 30, 2017 – 43,062). The Board of Directors administers the stock option plan.

Options are granted with exercise prices equal to the fair market value of the common shares of the Company on the date of grant. Options generally vest in four equal annual portions starting one year after

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the date of grant. Options granted in February 2016 will vest in two equal portions starting one year after the date of grant. Options granted to directors vest over a two-year period. All options expire on the tenth anniversary of the grant. After termination of employment, unvested options are forfeited immediately and vested options expire 90 days subsequent to termination.

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

	December 31, 2017		June 30, 2017	
	Number of options	Weighted average exercise price (CAD\$)	Number of options	Weighted average exercise price (CAD\$)
Outstanding, beginning of year	19,130	0.24	17,840	0.24
Granted	-	-	2,800	0.07
Forfeited	(110)	0.10	(1,043)	0.10
Expired	(814)	2.87	(467)	2.87
Outstanding, end of year	18,206	0.16	19,130	0.16
Exercisable, end of year	12,059	0.19	12,873	0.19

The following table summarizes the options outstanding and exercisable:

For the six months ended December 31, 2017				For the fiscal year ended June 30, 2017			
Options Outstanding		Options Exercisable		Options Outstanding		Options Exercisable	
Exercise Price (Cdn \$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Exercise Price (Cdn \$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable
\$ 0.07	2,800	9	-	\$ 0.07	2,800	9.5	-
0.09	6,100	8.1	3,100	0.09	6,800	8.7	3,700
0.15	6,570	6.4	6,223	0.15	6,707	7.0	6,350
0.33	2,725	5.2	2,725	0.33	2,805	5.7	2,805
10.00	5	1.9	4	10.00	6	2.5	6
12.00	7	2.6	7	12.00	9	3.0	9
47.80	-	-	-	23.00	3	1.1	3
\$ 0.24	18,207	7.5	12,059	\$ 0.24	19,130	7.8	12,873

The fair value of options granted is determined using the Black-Scholes option pricing model. The underlying expected volatility was determined by reference to historical data of the Company's shares over the expected life of the options. There were no option grants issued during the six months ended December 31, 2017. The following weighted average assumptions were used for options granted in fiscal 2017 and 2016:

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

Stock-based compensation is recorded as an increase to contributed surplus and is transferred to share capital when the underlying options are exercised. Grant date fair value of options issued during the year ended June 30, 2017 was \$68. Total stock-based compensation expense during the six months ended December 31, 2017 was \$66 (December 31, 2016 - \$166).

12. Loss per share

As a result of the net losses in continuing operations in each of the reporting periods, the potential effect of the exercise of stock options, convertible debentures and warrants is anti-dilutive; therefore, 115,099 potentially dilutive shares at December 31, 2017 (December 31, 2016 – 20,098) and nil share warrants (December 31, 2016 – 75,749) have not been included in the calculation of diluted loss per common share for the six months ended December 31, 2017 and 2016.

13. Financial instruments

Carrying values and fair values

Financial instruments are classified into one of the following categories: fair-value through profit or loss (“FVTPL”), held-to-maturity, available-for-sale, loans and receivables and other financial liabilities. The table below summarizes the carrying values of the Company’s financial assets and financial liabilities

	December 31, 2017	June 30, 2017
Loans and Receivables (1)	\$ 1,675	\$ 6,055
Other financial liabilities (2)	14,980	13,836

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

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

The carrying values of cash and cash equivalents, accounts and other receivables and accounts payable and accrued liabilities approximate their fair values due to their relatively short periods to maturity. The fair value of the notes payable and convertible debentures approximate the carrying values as the risk profile of the Company has not changed significantly since those loans were negotiated and the borrowing terms and conditions continue to reflect current market conditions.

Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and accounts and other receivables but excludes investment tax credits and amounts due from government agencies. The Company’s maximum credit risk is \$1,675 (June 30, 2017 - \$6,055). The Company primarily invests its excess cash in high quality financial instruments with large, high quality financial institutions. The Company performs ongoing credit evaluations of new and existing customers’ financial condition and reviews the collectability of its trade receivables in order to mitigate any possible credit losses. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. At December 31, 2017 two customers accounted for \$1,307 or 84% of the

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trade accounts receivable balance (72% and 12% individually), and at June 30, 2017 two customers accounted for \$901 or 90% of the trade accounts receivable balance (81% and 9% individually).

The allowance for doubtful accounts is reviewed by management at each balance sheet reporting date. The Company updates its estimate of the allowance for doubtful accounts based on an examination of the aged accounts receivable listing, considering such factors as customer payment history and the current financial condition of the customers. Accounts receivable are written off once determined to be not collectible. At December 31, 2017, Management has determined that no provision for doubtful accounts is required.

The age of trade accounts receivable is summarized as follows:

	December 31, 2017	June 30, 2017
	\$	\$
Current or under 60 days	1,264	917
Past due 61 to 90 days	159	7
Past due more than 90 days	130	44
	1,553	968

Interest rate risk

The Company is exposed to interest rate risk on its notes payable. The Company manages interest rate risk by negotiating fixed rate interest rates on loans when possible. The Company does not use derivative instruments to reduce its exposure to interest rate risk as the risk is considered manageable. An increase in the interest rate of 1% would have resulted in an increase in interest expense of \$21 for the six months ended December 31, 2017.

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 US dollars. Most of the Company's revenues are transacted in U.S. currency, and the Company incurs expenses in Canadian dollars, Chinese Renminbi and U.S. dollars. To date, the Company has not used foreign currency forward contracts or other hedging strategies to manage its foreign currency exposure.

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

Six months ended December 31, 2017		Six months ended December 31, 2016	
Net loss	OCI	Net loss	OCI
(CAD\$)	(CAD\$)	(CAD\$)	(CAD\$)
191	105	357	(21)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company currently settles all of its financial obligations out of cash and cash equivalents. The ability to do so relies on the Company collecting its accounts 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 December 31, 2017, the Company has financial liabilities which are due on a fiscal year basis, as follows:

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	To Dec 31 2018	To Dec 31 2019	To Dec 31 2020+	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	4,699	-	-	4,699
Notes payable	4,105	1,774	-	5,880
Convertible debentures	881	598	6,277	7,756
Total	9,685	2,372	6,277	18,334

14. Segmented information

The Company operates in one segment, Optical Components. Certain assets are analyzed geographically as follows:

	December 31, 2017	June 30, 2017
	Property, plant and equipment	Property, plant and equipment
	\$	\$
United States	583	537
Canada	5	7
China	608	807
	1,196	1,351

Revenue is analyzed geographically as follows:

	Three months ended		Six months ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	\$	\$	\$	\$
Americas	193	-	203	96
Asia Pacific	1,034	770	2,514	1,155
Europe, Middle East, Africa	3	155	439	222
	1,230	925	3,156	1,473

During the six months ended December 31, 2017 one customer accounted for 79% of the Company's total revenue and during the six months ended December 31, 2016 one customer accounted for 66% 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.

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	Three months ended		Six months ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
	\$	\$	\$	\$
Product	1,121	925	3,010	1,473
NRE	109	-	146	-
	1,230	925	3,156	1,473

15. Related party transactions

On February 2, 2016, the Company closed a private placement with ZTE Corporation ("Strategic Investor") for 77,000 shares at a price of \$0.06 CAD per common share for proceeds of \$4,620 CAD. The Strategic Investor holds approximately 15.3% of the issued and outstanding shares of the Company at December 31, 2017 (June 30, 2017 - 15.3%). As part of the financing, (i) the Strategic Investor entered into a voting agreement with certain shareholders of the Company to vote in favour of one nominee of the Strategic Investor to the Board of Directors of the Company, (ii) the Strategic Investor will have a right of participation to maintain its percentage of shareholdings in the Company in future issuances of securities by the Company, and (iii) the Company has put in place a Product Roadmap Development Committee which will make recommendations to the Board of Directors on future product development (iv) an updated version of the Business Cooperation Agreement from December 2014 was signed by the Company and the Strategic Investor.

During the six months ended December 31, 2017, the Company had sales of \$2,487 to ZTE (December 31, 2016 - \$966). At December 31, 2017, the Company had an accounts receivable balance with ZTE of \$1,119 (June 30, 2017 - \$814).

As at December 31, 2017, China TriComm Ltd. ("TriComm") owned 30,000 Enablence common shares of the Company. TriComm is controlled by Zhiyin Gao, previously a director.

As at December 31, 2017, Irix Holding Ltd. ("Irix"), owned 39,408 Enablence common shares of the Company. Irix is a joint venture controlled by TriComm and Win Brand, which are companies controlled by a previous director. The CEO and CFO of the Company also have ownership interests in Irix and Winbrand. The following transactions took place between Irix and the Company during the six months ended December 31, 2017 and the fiscal year ended June 30, 2017 (also see Subsequent Events):

- During the fiscal year ended June 30, 2017, Suzhou Irix Ltd ("Suzhou Irix"), controlled by Irix, incurred certain start-up and production costs in the amount of \$61 on behalf of Suzhou Enablence Optoelectronic Technologies Co., LTD, which is reflected in accrued liabilities at December 31, 2017 (June 30, 2017 - \$61).
- During the fiscal year ended June 30, 2017 Enablence had made \$99 of sales to Suzhou Irix and made purchases of \$128 from Suzhou Irix the net amount of which was recorded to cost of revenues. During the six months ended December 31, 2017 Enablence incurred expenses owing to Suzhou Irix in the amount of \$590. As at December 31, 2017 the Company had the following amounts recorded relating to these transactions: an account receivable balance due from Suzhou Irix of \$4 (June 30, 2017 - \$44) and an accounts payable amount owing to Suzhou Irix of \$590 (June 30, 2017 - \$44).
- During the fiscal year ended June 30, 2017 Suzhou Irix provided other consulting services and materials to Enablence. As a result, at December 31 the Company has an amount of \$60 set up as an accrued liability owing to Suzhou Irix (June 30, 2017 - \$60).

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In January 2016 the Company entered into a one year R&D Services Agreement (the "Service Agreement") with Suzhou Irix Ltd. and Irix Photonics Inc. ("Irix Photonics"). Irix Photonics was created to carry out the operations of Irix and is a company controlled by the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of Enablence. Pursuant to the Service Agreement, for R&D services provided by Irix Photonics for the development of a new product and assistance in ramping up its volume production, Enablence is contracted to pay Irix Photonics \$150/month ("Service Fees") over the 2016 calendar year. In addition, if certain agreed upon volume production milestones are met during the twelve month period, Irix Photonics may be eligible for the payment of a success fee ("Success Fee"). The Success Fee amounts to \$2 million less any Service Fees previously paid. The Company retains ownership of all Intellectual Property associated with the products under the agreement. Pursuant to this agreement, the Company paid Irix Photonics a total of \$1,800 of which \$900 was paid during fiscal year 2016 and \$900 was paid in fiscal year 2017. The Company signed a new services agreement with Irix Photonics for the 2017 calendar year at a monthly fee of \$130, as well as a base royalty on certain future products at 3% of net sales and additionally a potential 17.5% bonus royalty on gross margin on such products if certain targets are met. As of December 31, 2017 the Company had paid Irix Photonics \$1,235 of monthly fees under this new contract and had \$325 recorded as an accrued liability.

In addition, at December 31, 2017, an amount of \$492 (June 30, 2017 - \$432) is included in accounts payable and accrued liabilities relating to consulting services provided by Irix. Of this amount, \$60 was incurred and recorded to consulting fee expense during the six months ended December 31, 2017 relating to services provided through Irix, by Todd Zhang, also the CFO of Enablence (December 31, 2016 - \$60). During the six months year ended December 31, 2017 \$Nil (Year ended June 30, 2017 - \$Nil) was paid relating to these consulting services.

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

- During the year ended June 30, 2017, a controlling shareholder of Paradigm provided short term loans to the Company of \$3,241 and converted a portion of the loans to equity, exchanged a portion into convertible debentures and then was repaid the remaining balance of \$1,194 in July 2017 (Notes 9 (a) and 10)
- Paradigm earned \$474 of commissions relating to the equity and debenture financing the Company closed during May and June 2017.
- During the six months ended December 31, 2017 the Company received \$290 in unsecured short term bridge loans from a controlling shareholder of Paradigm accruing interest at a rate of 10% amounting to \$6 (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.

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16. Supplemental disclosures of cash flow information

Net change in non-cash operating working capital items:

	Three months ended		Six months ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Net inflow (outflow) of cash:	\$	\$	\$	\$
Accounts and other receivables	\$ 774	\$ (881)	(649)	(816)
Inventories	(129)	(236)	(209)	(515)
Prepaid expenses and deposits	(217)	(160)	(270)	(216)
Accounts payable and accrued liabilities	(63)	(7)	300	(70)
Deferred revenue	6	(39)	46	45
	371	(1,323)	(782)	(1,572)

17. Subsequent events

Subsequent to the year end the Company received unsecured short term loans in the amount of \$1,208 of which \$230 was from related parties and bears interest at 10% (see Related Party section), \$478 was from non-related parties and bears interest at 10% and the balance of \$500 is non-interest bearing from a non-related party and includes a 2.5% financing fee.