

Amended and Restated Consolidated Financial Statements

Enablence Technologies Inc.

For the years ended June 30, 2019 and 2018
(in thousands of United States dollars and shares)

Notice to Reader

The Company is hereby filing these amended and restated audited consolidated financial statements for the years ended June 30, 2019 and June 30, 2018 in order to correct certain errors identified subsequent to the periods ended, in the presentation of accruals and shares to be issued for commissions related to the Company's continued issuance of promissory notes, an issuance of common stock and advisory fees. The Company is also correcting an error related to a historical long-term prepaid and related liability. Refer to Note 24.

In connection with the filing of these amended and restated audited consolidated financial statements for the years ended June 30, 2019 and June 30, 2018, and the adjustments noted above, the Company is also filing (i) amended and restated management discussion and analysis in compliance with the requirements of National Instrument 51-102 *Continuous Disclosure Obligations*, and (ii) CEO and CFO certifications in compliance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*.

The Company is inserting a table inadvertently omitted in Note 7.

Ottawa, Canada
October 1, 2020

Independent Auditor's Report

To the Shareholders of Enableness Technologies Inc.:

Opinion

We have audited the amended and restated consolidated financial statements of Enableness Technologies Inc. and its subsidiaries (the "Company"), which comprise the amended and restated consolidated statements of financial position as at June 30, 2019 and June 30, 2018, and the amended and restated consolidated statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and notes to the amended and restated consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying amended and restated consolidated financial statements present fairly, in all material respects, the amended and restated consolidated financial position of the Company as at June 30, 2019 and June 30, 2018, and its amended and restated consolidated financial performance and its amended and restated consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Amended and Restated Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the amended and restated consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the amended and restated consolidated financial statements, which indicates that the Company incurred a comprehensive loss of \$10,586,000 for the year ended June 30, 2019, and as of that date, had an accumulated deficit of \$143,967,000. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Emphasis of Matter— Restatement

We draw attention to Note 24 in the amended and restated consolidated financial statements, which describes that the consolidated financial statements for the years ended June 30, 2019 and June 30, 2018 have been restated from those on which we originally reported on October 28, 2019. Our opinion is not modified in respect of this matter.

Emphasis of Matter— Related Party Transactions

We draw attention to Note 21 in the amended and restated consolidated financial statements, which describes the significant sales, payables, commissions, advisory fees and loans with related parties. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the amended and restated consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the amended and restated consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the amended and restated consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Amended and Restated Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the amended and restated consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of amended and restated consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the amended and restated consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Amended and Restated Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the amended and restated consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these amended and restated consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the amended and restated consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the amended and restated consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the amended and restated consolidated financial statements, including the disclosures, and whether the amended and restated consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Shawn Mincoff.

Ottawa, Ontario

September 25, 2020

MNP LLP
Chartered Professional Accountants

Licensed Public Accountants

Enablence Technologies Inc.

Amended and restated consolidated statements of financial position
(in thousands of United States dollars)

	June 30, 2019 Restated - Note 24 \$	June 30, 2018 Restated - Note 24 \$
Assets		
Current assets		
Cash and cash equivalents (Note 4)	49	107
Accounts and other receivables (Note 5, 16, 21)	943	1,334
Inventories (Note 6)	397	1,473
Prepaid expenses and deposits	503	623
	1,892	3,537
Long-term prepaids (Note 21)	-	453
Property, plant and equipment (Note 7)	350	643
	2,242	4,633
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 8 and 21)	3,837	4,514
Notes payable (Note 10 and 21)	14,497	8,173
Convertible debentures (Note 11)	6,379	5,269
Contract liabilities (Note 9)	198	380
	24,911	18,336
Notes payable (Note 10 and 21)	260	-
	25,171	18,336
Shareholders' deficiency		
Share capital (Note 13)	106,105	105,393
Contributed surplus (Note 13)	12,542	12,521
Shares to be issued (Note 13)	1,680	1,053
Accumulated other comprehensive income	711	942
Deficit	(143,967)	(133,612)
	(22,929)	(13,703)
	2,242	4,633

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

Approved by the Board:

"Louis De Jong"

Director

"Derek Burney"

Director

Enableness Technologies Inc.

Amended and restated consolidated statements of comprehensive loss

years ended June 30

(in thousands of United States dollars and shares)

	2019	2018
	Restated - Note 24	Restated - Note 24
	\$	\$
Revenues (Note 9)	1,424	3,388
Cost of revenues (Note 14)	3,233	5,000
Loss on inventory impairment (Note 6)	700	546
Gross margin	(2,509)	(2,158)
Operating expenses		
Research and development (Note 14 and 21)	2,554	3,796
Sales and marketing (Note 14)	221	254
General and administration (Note 14)	2,877	2,550
Stock-based compensation (Note 13)	21	82
	5,673	6,682
Loss from operations	(8,182)	(8,840)
Other income (expense)		
Finance and other income	74	19
Finance expense (Note 10 and 11)	(2,409)	(1,998)
Foreign exchange gain (loss)	4	(199)
Gain on sale of property, plant and equipment	158	62
Net loss	(10,355)	(10,956)
Other comprehensive income (loss), net of tax		
Foreign currency translation gain (loss)	(231)	536
Comprehensive loss	(10,586)	(10,420)
Net loss per share, basic and diluted (Note 15)	(\$0.02)	(\$0.02)
Weighted average number of outstanding shares (Note 15)	640,284	621,928

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

Enableness Technologies Inc.

Amended and restated consolidated statements of changes in shareholders' deficiency
years ended June 30

(in thousands of United States dollars and shares)

	Number of shares	Share capital (Note 13) Restated - Note 24	Contributed surplus	Shares to be issued Restated - Note 24	Accumulated other comprehensive income (loss) Restated - Note 24	Deficit Restated - Note 24	Deficiency Restated - Note 24
		\$	\$		\$	\$	\$
Balance at June 30, 2017 (restated - Note 24)	621,927	105,393	12,439	473	406	(122,656)	(3,945)
Stock-based compensation (Note 13)	-	-	82	-	-	-	82
Commissions and advisory fees (Note 13, 21, 24)	-	-	-	580	-	-	580
Net loss	-	-	-	-	-	(10,956)	(10,956)
Foreign currency translation gain	-	-	-	-	536	-	536
Balance at June 30, 2018 (restated - Note 24)	621,927	105,393	12,521	1,053	942	(133,612)	(13,703)
Stock-based compensation (Note 13)	-	-	21	-	-	-	21
Commissions and advisory fees (Note 13, 21, 24)	-	-	-	627	-	-	627
Issuance of common shares (Note 13)	20,000	758	-	-	-	-	758
Share issuance costs	-	(46)	-	-	-	-	(46)
Net loss	-	-	-	-	-	(10,355)	(10,355)
Foreign currency translation gain	-	-	-	-	(231)	-	(231)
Balance at June 30, 2019 (restated - Note 24)	641,927	106,105	12,542	1,680	711	(143,967)	(22,929)

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

Enablence Technologies Inc.

Amended and restated consolidated statements of cash flows years ended June 30

(in thousands of United States dollars)

	2019	2018
	Restated - Note 24	Restated - Note 24
	\$	\$
Cash provided by (used in):		
Operating activities		
Net loss	(10,355)	(10,956)
Adjusted for the following non-cash items:		
Depreciation	307	726
Stock-based compensation (Note 13)	21	81
Commissions and advisory fees (Note 13, 21, 24)	581	580
Accrued interest on bridge and short term loans	976	183
Accretion on convertible debenture (net of financing costs)	1,015	981
Gain on sale of property, plant and equipment	(158)	(62)
	(7,613)	(8,467)
Changes in non-cash working capital (Note 22)	1,502	66
Cash used in operating activities	(6,111)	(8,401)
Investing activities		
Purchase of property, plant and equipment	(183)	(385)
Proceeds on disposal of property, plant and equipment	3	457
Cash provided by (used in) investing activities	(180)	72
Financing activities		
Advances from (repayments on) short-term loans	5,307	3,132
Net proceeds from issuance of shares	758	-
Cash provided by financing activities	6,065	3,132
Effect of foreign currency translation on cash and cash equivalents	168	218
Decrease in cash and cash equivalents	(58)	(4,979)
Cash and cash equivalents, beginning of year	107	5,086
Cash and cash equivalents, end of year	49	107
Supplementary information:		
Interest paid - included in operating activities	40	573

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

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

1. Description of business

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

2. Basis of preparation (restated – Note 24)

(i) *Going concern*

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

At June 30, 2019, the Company had cash of \$49, negative working capital of \$23,019 and had used cash of \$6,111 in its operating activities for the year ended June 30, 2019. The Company incurred a comprehensive loss of \$10,586 for the year ended June 30, 2019 and as of that date had an accumulated deficit of \$143,967. The Company obtained equity and debt financing during the year ended June 30, 2019 as well as debt financing subsequent to the year end (Note 10, 21, 23). A portion of the debt financing was from related parties. The Company has outstanding debt received in previous years from EDC (Note 10 b)). On May 11, 2020, the Company announced a fourth amending and waiver agreement with EDC to capitalize the total amount of outstanding advances and accrued interest, waiver of prior events of default, and the commencement of principal payments in the future based on certain future events. Previous equity and debt financing is not an indication of the Company’s ability to obtain the needed financing in the future.

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

(ii) *Statement of compliance*

These consolidated financial statements have been prepared in accordance with IFRS.

(iii) *Basis of measurement*

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

(iv) *Classification of expenses*

The expenses within the consolidated statements of comprehensive loss are presented by function. Refer to Note 14 for details of expenses by nature.

(v) *Approval of amended and restated consolidated financial statements*

The consolidated financial statements were authorized for issuance by the Board of Directors on September 24, 2020.

(vi) *Presentation currency*

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

Enableness Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

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

(vii) *Use of estimates and judgments*

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

Estimates

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

Useful lives of depreciable assets

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

Inventories

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

Stock-based compensation

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

Enableness Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Judgments

Recognition of deferred income tax assets

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

Going concern risk assessment

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

Impairment

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

Functional currency

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

3. Significant accounting policies

Basis of consolidation

The consolidated financial statements include the accounts of Enableness Technologies Inc. and its subsidiaries. The chart below summarizes the entities included in the consolidated financial statements as at June 30, 2019 and 2018.

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

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

i. Wholly-owned subsidiaries

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

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

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

ii. Transactions eliminated upon consolidation

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

Revenue recognition

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

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

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

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).

Inventories

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

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net earnings except for items recognized directly in equity or in other comprehensive income. Current tax

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

Investment tax credits

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

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the related asset. All assets are depreciated using the straight-line method. Depreciation is calculated based on the cost of an asset less its residual value and is recognized over the anticipated useful life of the asset as follows:

<u>Asset class</u>	<u>Depreciation term</u>
Machinery and equipment	3 to 10 years
Lab equipment and tooling	3 to 5 years
Photomasks	3 years
Office furniture and equipment	3 to 5 years
Leasehold improvements	Useful life

Assets under development are not depreciated until available for use.

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

Expenditures for repairs and maintenance are expensed as incurred.

Leases

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

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

Impairment of long-lived assets

The carrying values of all property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

An impairment loss is recorded when the recoverable amount of an asset or its CGU is less than its carrying amount. Impairment losses are evaluated for potential reversals when events or changes in circumstances warrant such consideration.

Where an impairment loss subsequently reverses, the carrying amount of the CGU is increased to the revised estimate of its recoverable amount, so long as the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the CGU in prior years.

The reversal of impairment requires management to re-assess several indicators that led to the impairment. It requires the valuation of the recoverable amount by estimating the future cash flows expected to arise from the CGU and the determination of a suitable discount rate in order to calculate its present value. Significant judgment is made in establishing these assumptions.

Financial instruments

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

Classification

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

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

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

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

1. Held within a business model whose objective is to hold assets to collect contractual cash flows; and

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

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.

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

Impairment

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

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

Derecognition

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

Previous financial instruments under IAS 39

Financial instruments

The Company's financial assets and liabilities comprise (a) loans and receivables, and (b) other financial liabilities.

Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

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

Other financial liabilities:

The Company initially recognizes debt liabilities on the date that they are originated. All other financial liabilities are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities are recognized initially at fair value minus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired.

Non-derivative financial assets:

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

A financial asset not carried at fair value through earnings is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

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

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

Convertible debentures

The convertible debentures are separated into their debt and equity components. The value of the debt component of the debentures is determined, at the time of issuance, by discounting the future interest obligations and the principal payment due at maturity, using a discount rate which represents the estimated borrowing rate available to the Company for similar debentures having no conversion rights. The remaining portion of the gross proceeds of the debentures issued is presented as an option to convert debentures in equity net of the tax implications, and the attributed amount remains over the term of the related convertible debentures. Convertible debenture issue costs are applied against the two components on a pro rata basis of the allocated proceeds of issue.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Government grants

A government grant is not recognized until there is reasonable assurance that the Company will comply with the conditions attached to the grant and the grant is received. Government grants are recognized in net loss on a systematic basis over the periods in which the Company recognizes expenses for which the grants are intended to compensate. The Company did not receive any grants nor recognized into net loss previously deferred grant receipts during the years ended June 30, 2019 and June 30, 2018.

Stock-based compensation

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

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

Research and development costs

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

Foreign currency transactions

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

Foreign currency translation

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

Earnings per share

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the earnings attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed similarly to basic earnings per share, except that the weighted average number of shares outstanding is increased to include additional shares for the effects of all dilutive potential common shares, which comprise convertible notes, warrants and shares options granted to employees and directors in accordance with the treasury stock method. The effects of anti-dilutive potential common shares are ignored in calculating diluted EPS.

Segmented reporting

Operating segments are reported in a manner consistent with the internal reporting used for the consolidated financial statements. The Company has determined that it only has one operating segment.

New and revised IFRS issued but not yet effective

The following is a list of standards and amendments that have been issued but are not yet effective and have not yet been adopted by the Company:

IFRS 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, as its rental agreements are month-to-month or for periods of not more than 12 months.

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(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.

	June 30, 2019	June 30, 2018
	\$	\$
Cash	45	103
Restricted cash	4	4
	49	107

5. Accounts and other receivables (restated – Note 24)

Trade and other receivables consist of the following:

	June 30, 2019	June 30, 2018
	\$	\$
Trade	674	1,115
Allowance for expected credit loss	-	-
	674	1,115
Other	269	219
	943	1,334

Included in other receivables is an amount of \$53 (June 30, 2018 - \$46) related to investment tax credits receivable and \$202 (June 30, 2018 - \$173) of amounts due from government agencies.

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

	2019	2018
	\$	\$
Current or under 60 days	306	53
Past due 61 to 90 days	-	-
Past due more than 90 days	368	1,062
	674	1,115

The accounts receivable amount that is past due more than 90 days primarily relates to one customer. Management believes no provision in expected credit loss is required relating to this outstanding receivable based on conversations with the customer as well as their payment history (Note 16).

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

6. Inventories

	June 30, 2019	June 30, 2018
	\$	\$
Raw materials	257	424
Work-in-progress	74	140
Finished goods	100	1,430
Allowance for obsolescence	(34)	(521)
	397	1,473

During the year ended June 30, 2019, management performed a review of inventory for obsolescence. As a result of management's review of inventory for obsolescence, \$700 (2018 - \$546) of obsolete and impaired inventory was provided for through cost of sales. A continuity of the provision is presented below:

	June 30, 2019	June 30, 2018
	\$	\$
Opening balance	521	-
Write-off of unrealizable inventory	(1,187)	(25)
Additional impairment provision recorded	700	546
Closing balance	34	521

The amount of inventory recognized as cost of revenues for the year ended June 30, 2019 was \$1,479 (2018 - \$2,821) inclusive of inventory impairment.

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

7. Property, plant and equipment

	Machinery and equipment	Lab equipment and tooling	Photomasks	Office furniture and equipment	Leaseholds	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
As at June 30, 2018	11,382	2,880	1,134	434	1,190	-	17,020
Additions	163	3	11	6	-	-	183
Transfers	-	-	-	-	-	-	-
Dispositions	(202)	(86)	-	(18)	(429)	-	(735)
Foreign exchange translation adjustment	(1)	-	-	-	4	-	3
As at June 30, 2019	11,342	2,797	1,145	422	765	-	16,471
Accumulated depreciation							
As at June 30, 2018	10,914	2,752	1,129	405	1,177	-	16,377
Depreciation	215	48	11	16	17	-	307
Dispositions	(87)	(37)	-	(10)	(429)	-	(563)
Foreign exchange translation adjustment	-	-	-	-	-	-	-
As at June 30, 2019	11,042	2,763	1,140	411	765	-	16,121
Carrying value							
As at June 30, 2019	300	34	5	11	-	-	350

	Machinery and equipment	Lab equipment and tooling	Photomasks	Office furniture and equipment	Leaseholds	Construction in progress	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
As at June 30, 2017	11,366	3,481	1,124	482	1,230	121	17,804
Additions	196	169	10	12	-	-	387
Transfers	121	-	-	-	-	(121)	-
Dispositions	(299)	(770)	-	(60)	(40)	-	(1,169)
Foreign exchange translation adjustment	(2)	-	-	-	-	-	(2)
As at June 30, 2018	11,382	2,880	1,134	434	1,190	-	17,020
Accumulated depreciation							
As at June 30, 2017	10,694	3,285	1,118	449	907	-	16,453
Depreciation	309	79	11	16	310	-	725
Dispositions	(77)	(612)	-	(60)	(40)	-	(789)
Foreign exchange translation adjustment	(12)	-	-	-	-	-	(12)
As at June 30, 2018	10,914	2,752	1,129	405	1,177	-	16,377
Carrying value							
As at June 30, 2018	468	128	5	29	13	-	643

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

Depreciation expense for the year ended June 30, 2019 of \$307 (June 30, 2018 - \$725) was allocated in the consolidated statements of comprehensive loss as follows: \$245 (June 30, 2018 - \$602) included within cost of revenues; \$5 (June 30, 2018 - \$31) included in general and administration; and \$58 (June 30, 2018 - \$92) included in research and development.

8. Accounts payable and accrued liabilities (restated – Note 24)

Included in accounts payable and accrued liabilities is a royalty amount payable of \$331 (June 30, 2018 - \$359) relating to royalty-bearing government funding received for approved research and development projects, of which \$31 was paid during the year. The liability to repay this funding is calculated at 2.5% of the Company's actual qualifying revenues, up to a maximum value equivalent to the total related government funding received by the Company.

Included in accounts payable and accrued liabilities is an amount of \$Nil (June 30, 2018 - \$453) due to a related party (see Note 21 and 24).

9. Contract liabilities

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

	2019	2018
	\$	\$
Balance, beginning of year	380	210
New contract additions in year	96	209
Revenue recognized in year - from opening balance	(183)	(39)
Revenue recognized in year - from current year additions	(95)	-
Balance, end of year	198	380

10. Notes payable (restated – Note 24)

	June 30 2019	June 30, 2018
	\$	\$
Short-term Loans (a)	10,077	4,369
Loan from Export Development Canada (b)	4,420	3,804
Loan from Irix (c)	260	-
	14,757	8,173
Less current portion	14,497	8,173
Long-term portion	260	-

- (a) During the year ended June 30, 2018, the Company obtained 10% interest bearing unsecured short term loans in the amount of \$1,497 of which \$558 was from a related party (Note 21), 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. These short-term loans are repayable on demand. The security on the \$1,450 loan is on certain receivables of the Company amounting to \$354 at June 30, 2019 (2018 - \$1,066), which is subordinated to the secured term loan facility with EDC. During the year ended June 30, 2018, the Company accrued commissions included in finance expense of \$251 on these loans (Note 13, 21 and 24), which commissions are reflected in shares to be issued.

During the year ended June 30, 2019, the Company obtained 10% interest bearing unsecured short term loans in the amounts of \$5,307 of which \$1,588 was from related parties (Note 21). These short-

Enableness Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

term loans are repayable on demand. As at June 30, 2019, a total amount of \$10,077 (2018 - \$4,369) remains owing on these loans which includes \$441 (2018 - \$47) of accrued interest and \$125 (2018 - \$125) of accrued fees. As at June 30, 2019, the total amount of \$10,077 also reflects the effect of currency changes of \$165. During the year ended June 30, 2019, the Company accrued commissions included in finance expense of \$315 on these loans (Note 13, 21 and 24), which commissions are reflected in shares to be issued.

- (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 which amounts to \$3.8 million USD. 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 13.95% at June 30, 2019 (June 30, 2018 -13.45%). The loan facility is secured against all of the assets of the Company and is guaranteed by the Company’s subsidiaries. On October 30, 2017, the Company received a principal repayment extension from EDC resulting in the first monthly principal repayment being deferred to commence in March 2018. On March 9, 2018 the Company received an additional principal repayment extension from EDC resulting in the first monthly principal repayment being deferred to commence in August 2018. In accordance with IFRS 9, *Financial Instruments: Recognition and Measurement*, the amendment was considered a modification of debt. At June 30, 2019 the principal amount drawn on the EDC term facility is \$4,420 inclusive of interest. Interest accrued during the year was \$615 (2018 - \$502). On October 3, 2018, the Company received a default notice from EDC as a result of scheduled principal and interest payments having not been made. The notice requires Enableness to make payment of the amount in arrears of \$549 (\$719 CAD) plus a per diem default fee until full payment of this amount has been made. On October 26, 2018, as a result of the default, EDC provided Enableness with a demand for repayment on the total value of the loan, inclusive of interest to date at that time of \$3,997. At the same time, EDC provided the Company with a forbearance on the loan, providing the Company three months to rectify the default subject to meeting certain ongoing terms and conditions. On October 28, 2019 the Company signed a forbearance agreement with EDC relating to scheduled principal and interest payments having not been made. The forbearance provides the Company until January 28, 2019 to rectify the default subject to meeting certain ongoing terms and conditions. The Company made an interest back payment of \$191,000 as part of this agreement.
- (c) On May 31, 2019, Enableness and Irix, a related party, signed an Asset Transfer Agreement which resulted in Enableness Suzhou selling the majority of its assets and liabilities to Irix including \$94 of fixed assets, \$173 of leasehold improvements, \$47k of inventory as well as the transfer of all of the employee contracts, less Enableness Suzhou costs of \$60 owed by Irix to Enableness. As part of this agreement, Enableness’s Fremont operations also sold certain fixed assets to Irix amounting to \$86. Under the Asset Transfer Agreement, Enableness and Irix agreed that the consideration due to Enableness from Irix from this transaction would be offset against certain debts owing to Irix by Enableness of \$720. The net remaining amount due to Irix of \$260 has been treated as a long term Note Payable with annual interest accruing at 7.5%, with the interest and principal amount payable on May 31, 2022. As at June 30, 2019, the amount owing on the Note Payable is \$260.

11. Convertible debentures

On June 30, 2017 the Company issued a total of \$5,780 (\$7,500 CAD) of unsecured convertible debentures (the “Debentures”) of which \$4,624 of the Debentures were issued through a private placement for cash, and \$1,156 were issued as a result of a debt settlement agreement with a related party creditor (Note 21) to settle outstanding short term loans received by the Company during the year ended June 30, 2017 (Note 10(a)). The Debentures bear interest at a rate of 10% per annum, are payable quarterly commencing on September 30, 2017, and are convertible, at the option of their holder,

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

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 year ended June 30, 2019, the Company recorded accretion of \$916 to interest expense (2018 - \$918) and \$99 of amortization of the debt financing costs (2018 - \$88). Of the \$1,247 (2018 - \$591) interest accrued since June 30, 2017, \$54 (2018 - \$23) has been paid and the unpaid balance of \$1,194 (2018 - \$568) is overdue and included in accrued interest. As at June 30, 2019, the total convertible debenture liability is \$6,379 (2018 - \$5,269).

12. Income taxes and investment tax credits (restated – Note 24)

Income tax expense varies from the amount that would be computed by applying the basic federal and provincial tax rates to net loss from continuing operations before income taxes, shown as follows:

	2019	2018
	\$	\$
Expected tax rate	26.50%	26.50%
Expected tax benefit from loss	(2,733)	(2,998)
Increase (decrease) in taxes from		
Permanent differences	17	23
Benefit of loss carryforwards and other temporary differences	2,348	(30,792)
Rate change related to opening temporary differences	-	33,774
Rate differential on tax jurisdictions	(129)	(635)
Other	497	628
	-	-

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those losses can be carried forward and temporary differences are deductible. The amount of the deferred tax assets considered realizable could change materially in the near term, based on future taxable income during the carry-forward period.

At June 30, 2019, deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributable to the following:

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

	2019	2018
	\$	\$
Tax losses ⁽ⁱ⁾	306,837	301,802
Tax losses ⁽ⁱⁱ⁾	21,919	21,785
Unused credits ⁽ⁱⁱⁱ⁾	3,045	2,905
Deductible temporary differences	29,734	25,435

(i) Related to tax losses that are non-capital in nature. Canadian entity losses commence to expire in 2026 whereas the US subsidiary losses commence to expire in 2020.

(ii) Related to tax losses that are capital in nature. There is no expiry on these losses.

(iii) Unused investment tax credits that can be used to offset future income taxes payable begin to expire in 2025.

Of the \$306,837 tax losses available for carry-forward at June 30, 2019, \$278,207 are U.S. net operating losses. These losses may be subject to annual limitations under section 382 of the Internal Revenue Code of the United States.

13. Share capital (restated – Note 24)

Authorized capital stock consists of:

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

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

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

Stock option plan

The Company has established a stock option plan available for directors, officers, employees and consultants, and has authorized a stock option pool equal to 10% of the outstanding common shares. At June 30, 2019, the available option pool was 43,351 (June 30, 2018 – 45,477) and outstanding stock options totalled 20,842.

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

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

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

	2019		2018	
	Number of options	Weighted average exercise price (CAD\$)	Number of options	Weighted average exercise price (CAD\$)
Outstanding, beginning of year	16,716	0.16	19,130	0.16
Granted	8,000	0.05	-	-
Forfeited	(411)	0.14	(610)	0.09
Expired	(3,463)	0.20	(1,804)	0.17
Outstanding, end of year	20,842	0.11	16,716	0.16
Exercisable, end of year	18,742	0.11	14,616	0.19

The following table summarizes the options outstanding and exercisable:

<u>For the fiscal year ended June 30, 2019</u>				<u>For the fiscal year ended June 30, 2018</u>			
Options Outstanding		Options Exercisable		Options Outstanding		Options Exercisable	
Exercise Price (CAD \$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Exercise Price (CAD \$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable
\$ 0.050	8,000	9.7	8,000	\$ -	-	-	-
0.065	2,800	7.5	700	0.065	2,800	8.5	700
0.09	3,900	6.7	3,900	0.09	4,700	7.7	4,700
0.15	4,240	5.0	4,240	0.15	6,490	6.0	6,490
0.33	1,895	3.7	1,895	0.33	2,715	4.7	2,715
10.00	3	0.5	3	10.00	5	1.5	5
12.00	4	1.2	4	12.00	6	2.2	6
\$ 0.11	20,842	7.3	18,742	\$ 0.16	16,716	6.7	14,616

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

	2019	2018
Risk-free interest rate	1.25%	1.01%
Expected life of options (years)	5	5
Expected annualized volatility	59%	148%
Expected dividend yield	n/a	n/a
Weighted average fair value of each option (CAD \$)	\$0.01	\$0.06

Stock-based compensation is recorded as an increase to contributed surplus and is transferred to share capital when the underlying options are exercised. A total of 8,000 stock options were granted during the

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

fiscal year ended June 30, 2019 at an exercise price of \$0.05 CAD with a grant date fair value of \$31 (2018 – \$Nil). Total stock-based compensation expense during the year relating to current and prior year grants was \$21 (2018 - \$82) of which \$13 (2018 - \$7) was attributable to general and administrative personnel and \$8 (2018 - \$75) was attributable to research and development personnel.

Shares to be Issued

In connection with an engagement letter dated July 26, 2017 with Paradigm Capital, a related party (Note 21 and 24), for exclusive financial and capital markets advisory services, the Company agreed to pay Paradigm Capital with common shares of the Company, upon approval of the TSX Venture Exchange. As of June 30, 2019, the total fees relating to commissions and advisory fees amounted to \$1,680 (2018- \$1,053). As of June 30, 2019, the total shares to be issued related to the above fees are \$1,680 (2018 - \$1,053), which issuance is based on future events. See note 21 and 24.

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

14. Expenses by Nature (restated – Note 24)

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

	<u>Years ended</u>	
	<u>June 30, 2019</u>	<u>June 30, 2018</u>
	<u>Restated - Note 24</u>	<u>Restated - Note 24</u>
<u>Cost of revenues</u>		
Materials/components	1,164	2,534
Labour	1,009	1,136
Inventory write downs/provision	700	546
Equipment and Freight	-	-
Allocation of overhead	815	728
Depreciation - COGS	245	602
Total	<u>3,933</u>	<u>5,546</u>
<u>Research & Development</u>		
Staff compensation	2,273	2,378
Travel	2	6
Contractors	(68)	764
Materials/supplies	231	502
Depreciation	58	92
Rent/Utilities	58	54
Total	<u>2,554</u>	<u>3,796</u>
<u>Sales & Marketing</u>		
Staff compensation	115	165
Travel	67	79
Trade shows	14	1
Materials/supplies/other	19	3
Rent/Utilities	6	6
Total	<u>221</u>	<u>254</u>
<u>General & Administrative</u>		
Staff compensation	907	902
Rent/Utilities	1,123	1,007
Taxes (Property tax/Use tax)	89	113
Insurance	104	111
HR management fee	76	73
Phone & Internet	40	37
Travel	67	58
Professional fees	753	860
Other	593	146
Depreciation	5	31
G&A Allocation (Rent/utilities)	(880)	(788)
Total	<u>2,877</u>	<u>2,550</u>

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

15. Loss per share

As a result of the net losses in continuing operations in each of the reporting periods, the potential effect of the exercise of stock options and convertible debentures; therefore, 112,492 potentially dilutive shares from the exercise of stock options and convertible debentures at June 30, 2019 (June 30, 2018 – 110,466) have not been included in the calculation of diluted loss per common share for the years ended June 30, 2019 and 2018.

16. Financial instruments (restated – Note 24)

Carrying values and fair values

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

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Assets – based on amortized cost (1)	\$ 737	\$ 1,222
Liabilities – based on amortized cost (2)	24,973	17,956

- (1) Includes cash and cash equivalents and accounts and other receivables (excluding amounts due from government agencies and Investment tax credits).
(2) Includes accounts payable and accrued liabilities, notes payable and convertible debentures

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

Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and trade receivables. The Company’s maximum credit risk is \$737 (June 30, 2018 - \$1,222). The Company primarily invests its excess cash in high quality financial instruments with large, high quality financial institutions.

Accounts receivable

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

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

The Company performs ongoing credit evaluations of new and existing customers’ financial condition and reviews the collectability of its trade receivables in order to mitigate any possible credit losses. The

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. The carrying amount of trade accounts receivables are reduced through the use of an expected credit loss and the amount of the loss is recognized in the consolidated statement of comprehensive loss in general and administrative expenses. When a receivable balance is considered uncollectible, it is written off against the expected credit loss. Subsequent recoveries of amounts previously written off reduce general and administrative expenses in the consolidated statement of comprehensive income (loss).

A certain portion of the Company's sales were to a limited number of customers and consequently the Company is exposed to a concentration of credit risk. The Company defines concentration risk as customers whose outstanding receivable is 10% or greater than the total receivable balance (Note 5). As at June 30, 2019 three customers accounted for more than 10% of the trade receivable total (June 30, 2018 – one customer) amounting to \$525 (June 30, 2018 - \$1,066), which is approximately 78% (June 30, 2018 – 96%) of the trade receivable balance.

As of June 30, 2019, it was determined that no expected credit loss was required. For details of the aging of the Company's trade receivables (Note 5).

Interest rate risk

The Company is exposed to interest rate risk on its notes payable and convertible debentures. The Company manages interest rate risk by negotiating fixed rate interest rates on loans when possible. The Company does not use derivative instruments to reduce its exposure to interest rate risk as the risk is considered manageable. An increase in the interest rate of 1% would have resulted in an increase in interest expense, during the year ended June 30, 2019 of \$40 (June 30, 2018 - \$39).

Foreign currency risk

The Company operates internationally with subsidiaries in the United States, China, Hong Kong and Canada and is, therefore, subject to foreign currency risk. Enablence reports its financial results in U.S. dollars. Most of the Company's revenues are transacted in U.S. currency, and the Company incurs expenses in Canadian dollars, Chinese Renminbi and U.S. dollars. To date, the Company has not used foreign currency forward contracts or other hedging strategies to manage its foreign currency exposure.

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

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

2019		2018	
Net loss	OCI	Net loss	OCI
441	(17)	428	(31)

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

2019		2018	
Net loss	OCI	Net loss	OCI
58	(2)	47	(3)

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.

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

At June 30, 2019 and June 30, 2018, the Company has financial liabilities which are due on a fiscal year basis as follows:

As at June 30, 2019	2020	2021	2022+	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	3,837	-	-	3,837
Notes payable	14,497	-	260	14,757
Convertible debentures	6,379	-	-	6,379
Total	24,713	-	260	24,973

As at June 30, 2018	2019	2020	2021+	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	4,514	-	-	4,514
Notes payable	8,173	-	-	8,173
Convertible debentures	5,269	-	-	5,269
Total	17,956	-	-	17,956

17. Capital management

The Company's objective is to maintain a strong capital base so as to maintain customer, supplier, investor, creditor, and market confidence and to sustain future development of the business through organic growth and selective acquisitions.

Management defines capital as the Company's total equity (deficiency) and debt. In order to maintain or strengthen its capital structure, the Company's management believes it could issue new shares or raise new debt. To date, no dividends have been paid to the Company's shareholders and none are planned. There are no changes to the Company's approach to management of its capital for the current year as compared to the prior year.

18. Segmented information

The Company operates in one segment, Optical Components.

Certain assets are analyzed geographically as follows:

	June 30, 2019	June 30, 2018
	Property, plant and equipment	Property, plant and equipment
	\$	\$
United States	346	508
Canada	4	5
China	-	130
	350	643

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

Revenue is analyzed geographically as follows:

	2019	2018
	\$	\$
Americas	719	349
Europe, Middle East, Africa	105	466
Asia Pacific	600	2,573
	1,424	3,388

During the year ended June 30, 2019, nine customers accounted for 80% of the Company's total revenue and during the year ended June 30, 2018, one customer accounted for 73% 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.

	2019	2018
	\$	\$
Product	1,003	3,111
NRE	421	277
	1,424	3,388

19. Commitments

The Company leases office space and certain equipment under operating leases. Rental expenses under these leases were \$640 (2018 - \$558). The Company also has a commitment to pay an amount relating to royalty-bearing government funding received for approved research and development projects, of which \$31 was paid during the year. The balance of \$65 is to be paid in the fiscal year ended June 30, 2018. The remaining contract payments and minimum lease payments due under the leases and the royalty obligation are as follows:

	\$
Less than one year	213
Between one and five years	38
More than five years	-
	251

During the year ended June 30, 2017, the Company incorporated Suzhou Enablence Optoelectronic Technologies Co., Ltd., in China, as a 100% owned subsidiary of Enablence (HK) Limited (see Note 3). Total authorized capital of Suzhou Enablence Optoelectronic Technologies Co., Ltd., is \$5,000, of which \$1,595 has been injected to date. There is no specific deadline within which the remainder of the capital injection must be made.

Enableness Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

20. Key management personnel and director compensation

Key management personnel are those individuals having authority and responsibility for planning, directing and controlling the activities of the Company and are defined as the Chief Officers of the Company and the Company's Board of Directors. The Company's compensation program is administered by the Board of Directors and specifically provides for total compensation for executive officers, which is a combination of base salary, performance-based incentives and benefit programs that reflect aggregated competitive pay in light of business achievement, fulfillment of individual objectives and overall job performance. Directors, executive officers and employees participate in the Company's stock option plans.

The following summarizes key management personnel and directors' compensation for the years ended June 30, 2019 and 2018:

	2019	2018
	\$	\$
Salaries and other compensation	553	560
Share-based compensation	13	-
	566	560

21. Related party transactions (restated – Note 24)

During the fiscal year ended June 30, 2019, the Company had sales of \$Nil to ZTE (June 30, 2018 - \$2,487). At June 30, 2019, the Company had an accounts receivable balance with ZTE of \$366 (June 30, 2018 - \$1,066) which is included in accounts and other receivables.

As at June 30, 2019, China TriComm Ltd. ("TriComm") owned 30,000 Enableness common shares of the Company. TriComm is controlled by Zhiyin Gao, a former director of the Company who resigned in September 2017. As at June 30, 2019, Irix Holding Ltd. ("Irix"), owned 39,408 common shares of the Company. Irix is a joint venture controlled by China TriComm Ltd. (a company controlled by a former director of the Company) and Win Brand (a company whereby the previous CEO and CFO of the Company have ownership interests). Suzhou Irix Ltd. ("Suzhou Irix") is a company controlled by Irix.

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

As at June 30, 2018, an amount owing to Irix was determined to be \$453 (Note 8 and 24), due to a contract jointly signed by Irix and Enableness and a contract manufacturer whereby Irix made payments on behalf of Enableness. At June 30, 2018, \$453 was accounted for as a long-term prepaid asset and an accrued liability to Irix. During the year ended June 30, 2019, the long-term prepaid asset was written

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

off as a general and administrative expense as the Company determined that it would not pursue this line of business in the future.

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

- During the three months ended December 31, 2018, Suzhou Irixix provided short-term financing of \$97 to Enablence Suzhou.
- During the fiscal year ended June 30, 2019, Suzhou Irixix provided employee related services and utilities to the Company of \$70 (June 30, 2018 – \$85) and at May 31, 2019 \$126 (June 30, 2018 - \$66) was outstanding.
- During the fiscal year ended June 30, 2019, Suzhou Irixix paid \$ 7 (June 30, 2018 – \$Nil) rental costs on behalf of ENA.
- During the fiscal year ended June 30, 2019, Suzhou Irixix paid \$ 437 (June 30, 2018 – \$Nil) on behalf of ENA to a third party commercial manufactory as a prepayment.
- During the fiscal year ended June 30, 2018, Irixix paid \$463 to a contract manufacturer for the delivery of finished goods to a customer of which \$463 is owing to Irixix at June 30, 2019.

At June 30, 2019 an amount of \$612 (June 30, 2018 – \$552) is included in accounts payable and accrued liabilities relating to consulting services provided by Irixix. Of this amount, \$60 was incurred and recorded to consulting fee expense during the fiscal year ended June 30, 2019 (June 30, 2018 - \$120) relating to services provided through Irixix by Todd Zhang, the previous CFO of the Company.

During the fiscal year ended June 30, 2017 USA Irixix provided other consulting services and materials to Enablence. As a result, at June 30, 2019 the Company has an amount of \$19 owing to USA Irixix (June 30, 2018 - \$17).

In January 2016 the Company entered into a one year R&D Services Agreement (the “Service Agreement”) with Suzhou Irixix Ltd. and Irixix Photonics Inc. (“Irixix Photonics”). Irixix Photonics was created to carry out the operations of Irixix and is a company controlled by the previous Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) of Enablence. Pursuant to the Service Agreement, for R&D services provided by Irixix Photonics for the development of a new product and assistance in ramping up its volume production, Enablence is contracted to pay Irixix 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, Irixix 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 Irixix 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 Irixix Photonics for the 2017 calendar year at a monthly fee of \$130, as well as a base royalty on certain future products at 3% of net sales and additionally a potential 17.5% bonus royalty on gross margin on such products if certain targets are met. As of June 30, 2019, under the 2017 contract, the Company has paid Irixix Photonics \$1,235 of monthly fees and has \$325 recorded as an accrued liability.

During the year ended June 30, 2019, the Company received \$225 in the form of a short term bridge loan from a director of the Company.

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

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

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 short-term loans are repayable on demand.
- The Company received strategic advisory services from Paradigm in the amount \$226, for which the Company will issue common shares as payment. The Company accounted for these expenses in professional fees
- The Company accrued commissions of \$315 in connection with the raising of unsecured bridge loans, for which the Company will issue common shares as payment. The Company accounted for these expenses in finance expenses
- The Company recorded a commission payable in common shares of \$46 in connection with the issuance of common stock. The Company accounted for this expense directly against its share capital.
- The Company accrued additional general & administrative expenses to reimburse Paradigm for expenses incurred of \$37, for which the Company will issue common shares as payment. The Company accounted for this expense in travel expenses.

Year ended June 30, 2018

- The Company received \$558 in unsecured short term bridge loans from a controlling shareholder of Paradigm accruing interest at a rate of 10% amounting to \$26. These short-term loans are repayable on demand.
- The Company received strategic advisory services from Paradigm in the amount \$293, for which the Company will issue common shares as payment. The Company accounted for these expenses in professional fees
- The Company accrued commissions of \$251 in connection with the raising of unsecured bridge loans, for which the Company will issue common shares as payment. The Company accounted for these expenses in finance expenses
- The Company accrued additional general & administrative expenses to reimburse Paradigm for expenses incurred of \$35, for which the Company will issue common shares as payment. The Company accounted for this expense in travel expenses.

As at June 30, 2019, the amount of shares to be issued to Paradigm is \$1,680 (2018 - \$1,053).

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.

22. Supplemental disclosures of cash flow information (restated – Note 24)

Net change in non-cash operating working capital items:

	2019	2018
	\$	\$
Net inflow (outflow) of cash:		
Accounts receivable and other receivables	391	(176)
Inventories	1,076	214
Prepaid expenses and deposits	573	(730)
Accounts payable and accrued liabilities	(356)	588
Contract liabilities	(182)	170
	1,502	66

Enableness Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

23. Subsequent events

The following events happened subsequent to June 30, 2019.

The Company received \$5,161 in unsecured short term bridge loans with interest accruing at a rate of 10% of which \$317 was provided by a director of the Company and \$433 was provided by a related party. These short-term loans are repayable on demand. The Company accrued commissions of \$316 in connection with the raising of these loans (including \$47 in connection with director and related party amounts), for which the Company will issue common shares as payment.

On May 11, 2020, the Company announced a fourth amending and waiver agreement with EDC to capitalize the total amount of outstanding advances and accrued interest, waiver of prior events of default, and the commencement of principal payments in the future based on certain future events.

On May 14, 2020, the Company announced a new loan facility in the amount of \$613 under the Paycheck Protection Program (PPP) administered by the U.S. Small Business Administration ("SBA"). The PPP is a loan program that originated from the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan has a term of two years, is unsecured and is guaranteed by the SBA. The loan carries an interest rate of 1% per annum, with payments of principal and interest deferred for six months. The Company can apply to have the loan forgiven if the loan proceeds are used to cover payroll costs (including benefits), rent and utilities.

On May 26, 2020, the Company announced Steve Wang left Enableness. Scott Larin, Chief Financial Officer, and Ashok Balakrishnan, co-founder and Vice-President, Engineering, assumed the roles of co-Chief Executive Officers of Enableness, subject to TSX Venture Exchange approval. Mr. Larin will also retain the role of Chief Financial Officer and Mr. Balakrishnan will also be promoted to Chief Technology Officer.

On June 11, 2020, the Company announced it was the subject of a cease trade order issued by the Ontario Securities Commission on June 9, 2020 as a result of the Company's failure to file its unaudited interim financial statements for the three and nine month periods ending March 31, 2020 ("Financials"), related management discussion and analysis ("MD&A"), and certification of the interim filings for the period ended March 31, 2020 ("Certification") by the June 1, 2020 deadline as prescribed by National Instrument 51-102 "Continuous Disclosure Obligations. The Company has experienced complications related to the COVID-19 pandemic, notably travel restrictions and various shelter in place restrictions at the Company's places of business and the places of business of customers and of suppliers. The Company had planned to avail themselves of the OSC exemptions enacted in accordance with temporary blanket relief announced in March 2020 by the Canadian Securities Administrators in response to widespread business disruptions caused by the ongoing COVID-19 pandemic, but failed to file the required press release in respect of such exemption prior to the June 1, 2020 deadline. The Company will issue a news release announcing the completion of such filings at such time and expects that the Cease Trade Order will be revoked shortly thereafter.

On June 30, 2020, the Company announced it had entered into an amending agreement with all of the holders of its 10% convertible debentures originally issued on June 30, 2017 by way of private placement, to extend the original maturity date of the Debentures from June 30, 2020 to December 31, 2020. Other than the extension of the maturity date of the Debentures, the other terms of the Debentures remain unchanged; provided that the Debentures may not be converted into common shares in the capital of the Company (the "**Shares**") during the pendency of the current cease trade order issued by the Ontario

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

Securities Commission on June 9, 2020 and the amendment remains subject to the approval of the TSX Venture Exchange.

On July 22, 2020, the Company announced that its Board of Directors, following the recommendation of its Audit Committee, was restating its previously issued audited annual financial statements for the year ended June 30, 2019 (the "Annual Financials") to reflect additional accruals for commissions related to the Company's continued issuance of promissory notes, an issuance of common stock and advisory fees. The Company also announced for the reason noted above, its intention to extend the delay of the filing of its unaudited interim financial statements for the three and nine month periods ending March 31, 2020 (the "Quarterly Financials"). The Company had previously delayed the filing of its Quarterly Financials due to experiencing complications related to the COVID-19 pandemic, notably travel restrictions and various shelter in place restrictions at the Company's places of business and the places of business of customers and of suppliers, however these complications are no longer the reason for the delay of the Quarterly Financials.

The spread of the COVID-19 virus during the first quarter of calendar 2020 has caused an economic downturn on a global scale, as well as significant volatility in the financial markets. In March 2020, the World Health Organization declared the spread of the COVID-19 virus a pandemic. Our operations have been negatively impacted by the pandemic and are likely to continue to be impacted. The extent and duration of this impact is uncertain and will depend on factors including the extent to which our customers' businesses are impacted by the pandemic. The impact of the COVID-19 pandemic continues to unfold. The extent of the pandemic's effect on our operational and financial performance will depend in large part on future developments, which cannot be predicted with confidence at this time. Future developments include the duration, scope and severity of the pandemic, the actions taken to contain or mitigate its impact, the impact on governmental programs and budgets, the development of treatments or vaccines, and the resumption of widespread economic activity.

24. Restated Information

Subsequent to the periods ending June 30, 2018 and June 30, 2019, the Company determined that, in connection with continued issuances of short-term unsecured bridge loans, ongoing advisory services and an issuance of common stock, that additional non-cash accruals payable in shares to be issued to a related party should be reflected in its consolidated financial statements (see Note 10, 13 and 21). Commissions payable related to on-demand bridge loans and fees payable related to advisory services, as well as related expense reimbursements have been expensed in the period incurred, with a commensurate increase to shares to be issued. (see note 10). Commissions payable related to the issuance of common stock have been offset directly against share capital, with a commensurate increase to shares to be issued (see note 13). Any commissions payable accrued in periods prior to the year ending June 30, 2018 have been transferred from accrued liabilities to shares to be issued, consistent with the treatment noted above (see note 13). The Company is also correcting an error related to a historical long-term prepaid asset and related liability with a related party. (see Note 21).

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

The adjustments in these amended and restated audited consolidated financial statements for the year ended June 30, 2019 are detailed as follows. There is no effect on basic or diluted net loss per share.

	As previously reported	Adjustments	As restated
	\$	\$	\$
Statement of financial position			
Accounts and other receivables	875	68	943
Total current assets	1,824	68	1,892
Total assets	2,174	68	2,242
Accounts payable and accrued liabilities	4,240	(403)	3,837
Total current liabilities	25,314	(403)	24,911
Total liabilities	25,574	(403)	25,171
Share capital	106,151	(46)	106,105
Shares to be issued	-	1,680	1,680
Accumulated other comprehensive income	720	(9)	711
Deficit	(142,813)	(1,154)	(143,967)
Total shareholders' deficiency	(23,400)	471	(22,929)
Total liabilities and shareholders' deficiency	2,174	68	2,242
Statement of comprehensive loss			
Operating expenses - General and administration	2,615	263	2,877
Loss from operations	(7,920)	(263)	(8,182)
Finance expense	(2,095)	(315)	(2,409)
Net loss	(9,780)	(575)	(10,355)
Foreign currency translation loss	(230)	(1)	(231)
Comprehensive loss	(10,010)	(576)	(10,586)
Statement of changes in shareholders' deficiency			
Share capital	106,151	(46)	106,105
Shares to be Issued	-	1,680	1,680
Accumulated other comprehensive income (loss)	720	(9)	711
Deficit	(142,813)	(1,154)	(143,967)
Deficiency	(23,400)	471	(22,929)
Statement of cash flows			
Net loss	(9,780)	(575)	(10,355)
Commissions and advisory fees (non-cash items)	-	581	581
Change in non-cash working capital	1,507	(5)	1,502
Cash used in operating activities	(6,112)	1	(6,111)
Effect of foreign currency translation on cash and cash equivalents	169	(1)	168

Enablence Technologies Inc.

Notes to the amended and restated consolidated financial statements

June 30, 2019 and 2018

(in thousands of United States dollars and shares)

The adjustments in these amended and restated audited consolidated financial statements for the year ended June 30, 2018 are detailed as follows. There is no effect on basic or diluted net loss per share.

	As previously reported	Adjustments	As restated
	\$	\$	\$
Statement of financial position			
Accounts and other receivables	1,296	38	1,334
Total current assets	3,499	38	3,537
Long-term prepaids	-	453	453
Total assets	4,142	491	4,633
Accounts payable and accrued liabilities	4,489	25	4,514
Total current liabilities	18,311	25	18,336
Total liabilities	18,311	25	18,336
Share capital	105,393	-	105,393
Shares to be Issued	-	1,053	1,053
Accumulated other comprehensive income	950	(8)	942
Deficit	(133,033)	(579)	(133,612)
Total shareholders' deficiency	(14,169)	466	(13,703)
Total liabilities and shareholders' deficiency	4,142	491	4,633
Statement of comprehensive loss			
Operating expenses - General and administration	2,222	328	2,550
Loss from operations	(8,512)	(328)	(8,840)
Finance expense	(1,747)	(251)	(1,998)
Net loss	(10,377)	(579)	(10,956)
Foreign currency translation gain	544	(8)	536
Comprehensive loss	(9,833)	(587)	(10,420)
Statement of changes in shareholders' deficiency			
Shares to be Issued	-	1,053	1,053
Accumulated other comprehensive income	950	(8)	942
Deficit	(133,033)	(579)	(133,612)
Deficiency	(14,169)	466	(13,703)
Statement of cash flows			
Net loss	(10,377)	(579)	(10,956)
Commissions and advisory fees (non-cash items)	-	580	580
Change in non-cash working capital	98	(32)	66
Cash used in operating activities	(8,370)	(31)	(8,401)
Effect of foreign currency translation on cash and cash equivalents	187	31	218