



**ENABLENCE TECHNOLOGIES INC.
Consolidated Financial Statements**

For the years ended June 30, 2023 and 2022
(in thousands of United States dollars and shares)

To the Shareholders of Enablence Technologies Inc.:

Opinion

We have audited the consolidated financial statements of Enablence Technologies Inc. (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2023 and June 30, 2022, and the consolidated statements of comprehensive income (loss), shareholders' deficiency and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2023 and June 30, 2022, and its financial performance and its 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 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 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(i) in the consolidated financial statements, which indicates that the Company had incurred a net loss and negative cash flows from operations during the year ended June 30, 2023 and, as of that date, the Company had a working capital deficiency and an accumulated deficit. As stated in Note 2(i), these events or conditions, along with other matters as set forth in Note 2(i), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Renegotiation of Note Payable and Issuance of Warrants

Key Audit Matter Description

The Company renegotiated notes payable and issued warrants on June 27, 2023, that was complex in nature and was required to be separated into liability and equity components. The calculation of the fair value of the notes payable and warrants requires management to use an appropriate valuation model and incorporates estimates and assumptions. Audit procedures performed to evaluate the reasonableness of the estimates and assumptions used required a high degree of auditor judgment and an increased extent of audit effort, including the involvement of valuations specialists. Accordingly, we considered the renegotiation of debt and issuance of warrants as a key audit matter.

Refer to Note 2 – Basis of presentation – use of estimates and judgments and Note 11 – Notes payable

Audit Response

We responded to this matter by performing procedures in relation to renegotiation of notes payable and issuance of warrants. Our audit work in relation to this included, but was not restricted to, the following:

- Obtained and reviewed the amended notes payable agreement entered into by the Company.
- Obtained management's assessment of accounting for the amended notes payable and bonus warrants issued, assessed for reasonability against our own independent assessment and determination of an appropriate market rate of interest used to discount the debt portion and validated the method and assumptions related to the fair value calculation of the bonus warrants are reasonable.
- Obtained management's working paper for the notes payable and bonus warrants, agreed details to the agreement and performed recalculations.
- Engaged internal valuations specialists to assess the discount rate used for the fair value of the debt on initial recognition.

Valuation of Convertible Debentures

Key Audit Matter Description

The Company issued convertible debentures for proceeds of US\$8,308,157 on June 27, 2023 that was complex in nature and was required to be separated into liability and equity components. The calculation of the fair value of the convertible debt requires management to use an appropriate valuation model and incorporates estimates and assumptions. Audit procedures performed to evaluate the reasonableness of the estimates and assumptions used required a high degree of auditor judgment and an increased extent of audit effort, including the involvement of valuations specialists. Accordingly, we considered the valuation of the convertible debt as a key audit matter.

Refer to Note 2 – Basis of presentation – use of estimates and judgments and Note 12 – Convertible debt.

Audit Response

We responded to this matter by performing procedures in relation to the issuance of the convertible debt. Our audit work in relation to this included, but was not restricted to, the following:

- Obtained and reviewed the convertible debt agreement entered into by the Company.

- Obtained management's assessment of accounting for the convertible debt issued, assessed for reasonability against our own independent assessment and determination of an appropriate market rate of interest used to discount the debt portion.
- Obtained management's working paper for the convertible debt, agreed details to the agreement and performed recalculations.
- Engaged internal valuations specialists to assess the discount rate used for the determination of the liability value on initial recognition.

Other Information

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

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 consolidated financial statements, including the disclosures, and whether the 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 group 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Ottawa, Ontario

October 31, 2023

MNP LLP

Chartered Professional Accountants

Licensed Public Accountants

Enablence Technologies Inc.

Consolidated statements of financial position

(in thousands of United States dollars)

		As at June 30, 2023	As at June 30, 2022
		\$	\$
Assets			
Current assets			
Cash and cash equivalents	4	4,223	191
Accounts and other receivables	5	485	436
Inventories	6	351	262
Prepaid expenses and deposits		330	276
		5,389	1,165
Property, plant and equipment	7	581	269
		5,970	1,434
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	8	6,040	4,990
Notes payable	11	469	486
Contract liabilities	9	265	257
		6,774	5,733
Notes payable	11, 23	7,943	5,493
Convertible Debentures	12	4,166	-
		18,883	11,226
Shareholders' deficiency			
Share capital	14	121,759	121,759
Contributed surplus	14	20,562	15,590
Warrants	14, 23	1,286	908
Accumulated other comprehensive income	14	90	(44)
Deficit		(156,610)	(148,005)
		(12,913)	(9,792)
		5,970	1,434

Basis of presentation - going concern (Note 2 (j))
Commitments (Note 18)

Approved by the Board:

"Louis De Jong"

Director

"Derek H. Bumey"

Director

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

Enablence Technologies Inc.

Consolidated statements of comprehensive income (loss)

For the years ended June 30

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

		2023	2022
		\$	\$
	Note		
Revenues	9,21	1,961	1,978
Cost of revenues	15	3,297	2,403
Loss on inventory impairment	6	37	38
Gross margin		(1,373)	(463)
Operating expenses			
Research and development	15	1,822	1,362
Sales and marketing	15	501	262
General and administration	15	2,999	2,332
Stock-based compensation	14, 15	1,147	1,365
		6,469	5,321
Loss before other income (expenses)		(7,842)	(5,784)
Other income (expense)			
Gain on recapitalization	10	-	16,506
Gain on modification of debt	11	-	2,741
Gain on disposal of property, plant, and equipment	7	-	55
Gain on forgiveness of debt	8	-	321
Finance/other income	11	19	-
Finance expense	11	-	(95)
Interest expense	11, 12	(1,759)	(1,960)
Foreign exchange gain (loss)		(8)	(295)
Income (loss) before taxes		(9,590)	11,489
Income tax recovery (expense)	13	985	204
Net income (loss)		(8,605)	11,693
Other comprehensive income (loss), net of tax			
Foreign currency translation gain (loss)		134	1,316
Comprehensive income (loss)		(8,471)	13,009
Net income (loss) per share - basic		(\$0.47)	\$0.91
Net income (loss) per share - diluted		(\$0.45)	\$0.87
Weighted average number of outstanding shares - basic		18,590	12,793
Weighted average number of outstanding shares - diluted		19,391	13,451

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

Enablence Technologies Inc.

Consolidated statements of changes in shareholders' deficiency

For the years ended June 30

(in thousands of United States dollars and shares)

	Note	Number of shares	Share capital (Note 14)	Contributed surplus	Shares to be issued	Share Purchase Warrants	Accumulated other comprehensive income (loss)	Deficit	Deficiency
			\$	\$	\$	\$	\$	\$	\$
Balance at July 1, 2021		5,349	106,105	12,558	2,655	-	(1,360)	(159,697)	(39,739)
Stock-based compensation	14	-	-	1,365	-	-	-	-	1,365
Commissions and advisory fees		-	-	-	-	-	-	-	-
December 6, 2021 recapitalization	10, 14	11,376	13,342	-	-	908	-	-	14,250
Share issuance costs		-	-	-	-	-	-	-	-
December 21, 2021 private placement		694	992	-	-	-	-	-	992
Commissions and advisory fees	10, 14	1,170	1,320	1,335	(2,655)	-	-	-	0
Net income (loss)		-	-	-	-	-	-	11,693	11,693
Settlement of RSUs	14	-	-	(233)	-	-	-	-	(233)
Equity element of advances of Notes payable	11	-	-	768	-	-	-	-	768
Deferred tax liability relating to equity element	11, 13	-	-	(204)	-	-	-	-	(204)
Foreign currency translation gain		-	-	-	-	-	1,316	-	1,316
Balance at June 30, 2022		18,590	121,759	15,590	0	908	(44)	(148,005)	(9,792)
Balance at July 1, 2022		18,590	121,759	15,590	-	908	(44)	(148,005)	(9,792)
Stock-based compensation	14	-	-	1,147	-	-	-	-	1,147
Net income (loss)		-	-	-	-	-	-	(8,605)	(8,605)
Equity element of advances of Notes payable	11	-	-	2,931	-	-	-	-	2,931
Equity element of repayment of related party loan	11	-	-	(1,033)	-	-	-	-	(1,033)
Equity element of advances of Convertible Debentures	12	-	-	3,684	-	-	-	-	3,684
Warrants issued with notes payable	11	-	-	(366)	-	366	-	-	-
Transaction costs related to debt issuance		-	-	(406)	-	-	-	-	(406)
Deferred tax liability relating to equity element	13	-	-	(985)	-	-	-	-	(985)
Foreign currency translation gain (loss)		-	-	-	-	12	134	-	146
Balance at June 30, 2023		18,590	121,759	20,562	-	1,286	90	(156,610)	(12,913)

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

Enablence Technologies Inc.

Consolidated statements of cash flows

For the years ended June 30

(in thousands of United States dollars)

		2023	2022
		\$	\$
Cash provided by (used in):	Note		
Operating activities			
Net income (loss)		(8,605)	11,693
Adjusted for the following non-cash items:			
Depreciation	7	198	140
Provision for impairment of inventory	6	37	38
Stock-based compensation	14	1,147	1,365
Accrued interest on short- and long-term notes payable	11	886	1,530
Accretion (net of financing costs) and interest accrual on convertible debenture	11,12	873	430
Unrealized foreign exchange loss (gain)		8	295
Gain on sale of property, plant and equipment	7	-	(55)
Gain on debt modification and forgiveness	8	-	(2,741)
Gain on recapitalization	10	-	(16,506)
Gain on forgiveness of debt	8	-	(321)
Income tax recovery	13	(985)	(204)
		(6,441)	(4,336)
Changes in non-cash working capital	17	849	(716)
Cash used in operating activities		(5,592)	(5,052)
Investing activities			
Purchase of property, plant and equipment		(515)	(111)
Proceeds on disposal of property, plant and equipment		-	55
Cash provided by (used in) investing activities		(515)	(56)
Financing activities			
Advances from short-term notes payable	11, 23	-	1,904
Advances from long-term notes payable	11, 23	6,264	2,175
Advances from Convertible Debentures	12	8,218	-
Repayments of long-term notes payable	11, 23	(3,287)	-
Net proceeds from issuance of shares	14	-	992
Debt financing costs		(168)	-
Cash provided by financing activities		11,027	5,071
Effect of foreign currency translation on cash and cash equivalents		(888)	34
Increase in cash and cash equivalents		4,032	(3)
Cash and cash equivalents, beginning of year		191	194
Cash and cash equivalents, end of year		4,223	191
Supplemental cash flow information			
Interest paid - included in operating activities		-	-

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

Enablence Technologies Inc.

Notes to the consolidated financial statements

June 30, 2023 and 2022

(in thousands of U.S. dollars and shares)

1. Description of Business

Enablence Technologies Inc. (the “Company” or “Enablence”) 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, primarily in the form of planar lightwave circuits (“PLC”) on silicon-based chips. Enablence products serve a global customer base, primarily focused on data centres and advanced vision end markets in which Enablence works with customers that have emerging market uses for its technology, including medical devices, automotive LiDAR and virtual and augmented reality headsets. In select strategic circumstances, the Company also uses its proprietary, non-captive fabrication plant in Fremont, California to manufacture chips designed by third party customers.

2. Basis of Presentation

(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, 2023, the Company had cash and cash equivalents of \$4,223 (2022: \$191), negative working capital of \$1,385 (2022: \$4,568) and had used cash of \$5,592 (2022: \$5,052) in its operating activities for the year ended June 30, 2023. The Company achieved a comprehensive loss of \$8,471 for the year ended June 30, 2023 (2022: comprehensive income of \$13,009) and as of that date had an accumulated deficit of \$156,610 (2022: \$148,005).

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 flows and the ability to execute its business plan, including funding operating losses, continuing financial support from related parties, and securing 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 statement of financial position classifications would result. These adjustments could be material.

(ii) *Statement of compliance*

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”).

(iii) *Basis of measurement*

These consolidated financial statements have been prepared on a historical cost basis.

(iv) *Classification of expenses*

The expenses within the consolidated statements of comprehensive loss are presented by function. Refer to Note 16 for details of expenses by nature.

Enablence Technologies Inc.

Notes to the consolidated financial statements

June 30, 2023 and 2022

(in thousands of U.S. dollars and shares)

(v) *Approval of consolidated financial statements*

The consolidated financial statements were authorized for issuance by the Board of Directors on October 31, 2023.

(vi) *Presentation currency*

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

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

(vii) *Use of estimates and judgements*

The Company's consolidated financial statements are prepared in accordance with IFRS recognition and measurement principles that often require management to make judgements, 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 judgement. The Company's ECL model relies on forward looking information and economic inputs, such as default rates, industry growth rate, customers etc. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgement. The allowance the Company records, if any, is the sum of these probability weighted outcomes. In select circumstances, if the Company believes a specific customer has a potential outcome that is outside of the probability weighted outcomes, it may take a specific provision for that customer and exclude it from the overall provision matrix.

Useful lives of depreciable assets

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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, restricted and performance share units ("RSUs") and deferred share units ("DSUs") granted, and the time of exercise of those share options and settlement of RSUs and DSUs. The model used by the Company is the Black-Scholes valuation model.

Warrants

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

Fair value measurement

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

Judgements

Recognition of deferred income tax assets

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

Accounting for Loan from related parties

Management assesses the likelihood that the terms received on loans from related parties could be replicated in open market, arms-length transactions. If it believes

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the terms, including the interest rate, offered by the related party are below market, it adjusts the stated fair market value of the loan by discounting the expected cash flows of the loan at what it believes represents a fair market rate. Any difference between the face value of the amount owed and the fair market value are booked to equity as contributed surplus.

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 judgement based on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

Impairment

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, including non-current assets, that may not be recoverable.

(viii) Impact of COVID-19

The Company continues to actively monitor the impact of the COVID-19 pandemic, including the impact on economic activity and financial reporting. Throughout the pandemic, the Company had taken measures to safeguard the health of employees while continuing to operate safely and responsibly. The adverse conditions associated with the pandemic are in the past and the current situation faces a negligible threat to the Company.

3. Significant Accounting Policies

Basis of consolidation

The consolidated financial statements include the accounts of Enablence Technologies Inc. and its subsidiaries. The chart below summarizes the entities included in the consolidated financial statements as at June 30, 2023 and 2022:

Name of Entity	Place of Incorporation	Percentage Ownership	Functional Currency
Enablence Technologies Inc.	Canada		CAD
Enablence FTTx USA Inc.	Delaware, USA	100	USD
Enablence USA Components Inc.	Delaware, USA	100	USD
Enablence Canada Inc.	Canada	100	CAD
Enablence (HK) Ltd.	Hong Kong	100	HKD
Suzhou Enablence Photonic Technologies Co., Ltd.*	China	100	CNY

* Enablence (HK) Limited is the parent company to Suzhou Enablence Photonic Technologies Co., Ltd.

(i) Wholly owned subsidiaries

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and

Enablence Technologies Inc.

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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 can use its power to affect its returns. The Company reassesses whether 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

The Company generates revenue from three sources, Products, Non-Recurring Engineering ("NRE") and Fab Services.

Products revenue represents revenue generated from the production and sale of Enablence-designed chips and the production of third-party chips using the Company's in-house fabrication plant. NRE revenue is comprised of non-recurring engineering orders where the Company delivers new chip designs and sample products to customers that are in the research and development stage of their product life cycle. Fab services revenue are generated from services provided by the entity, e.g. wafer deposition, dicing, chip polishing and testing.

Revenue for all sources is recognized in a manner that depicts the transfer of promised goods and 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 Company's Product, NRE and Fab Services revenue has only one performance obligation which is the transfer of the goods or services to the customer. In the case of Products, the goods are finished wafers and/or chips and in the case of NRE revenue the goods include design drawings, photo masks and/or sample chips. A Fab Services contract is fulfilled by providing services indicated in the agreement with the customer. The revenue is not recorded for that performance obligation until that obligation within the contract has been met. Revenue is recognized at the point in time that the goods are shipped to the customer as per the Company's standard contract terms, except for sales to a select group of China-based customers where revenue is recognized when the customer has tested the goods and notified the Company that it has accepted the transfer of goods to their inventory. If funds have been received by the Company in advance of

Enablence Technologies Inc.

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completing the performance obligation, the Company recognizes these funds as contract liabilities.

Revenue is measured based on the terms of the contract with the customer, which identify specific prices for the goods. The Company does not make any provisions for variable consideration in its revenue as the Company offers only basic assurance warranties on its products and its contracts do not allow for general returns or refunds on goods purchased. Warranty expenses and refund or returns, if any, are recorded by the Company in the period in which they are incurred.

Inventories

Inventories are recorded at the lower of cost or net realizable value. Cost is calculated based on the weighted average method. Net realizable value is the estimated selling price that the Company believes it can achieve for the inventory in the ordinary course of business, less any applicable selling expenses. Write-downs are taken for excess and obsolete inventory and for a reduction in the carrying value of inventory to reflect realizable value based on current cost, production, and sales estimates. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Income taxes

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

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

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

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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 shown below:

<u>Asset Class</u>	<u>Depreciation Term</u>
Machinery and equipment	3 – 10 years
Lab equipment and tooling	3 – 5 years
Photomasks	3 years
Office furniture and equipment	3 – 5 years
Leasehold improvements	Lease term

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.

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.

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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 to calculate its present value. Significant judgement is made in establishing these assumptions.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provision of the respective instrument.

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

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

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

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.

The Company has assessed the classification and measurement of its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Other receivables (excl. due from government agencies)	Amortized cost

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Accounts payable and accrued liabilities	Amortized cost
Notes payable (short-term)	Amortized cost
Convertible Debentures	Amortized cost

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 net loss. Income arising in the form of interest, dividends, or similar, is recognized through net 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 comprehensive income when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

Impairment

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

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

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

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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.

Stock-based compensation

The Company's equity compensation plan allows for the issuance of stock options, RSUs and DSUs. 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. When RSUs or DSUs are settled through issuance of common shares, the amount previously recorded in contributed surplus is credited to share capital. The Company's equity compensation plan does not feature cash settlement for stock options exercised, although the Company, at its discretion, may settle RSUs and DSUs in either cash or common shares of the Company.

Warrants

The Company accounts for share purchase warrants using the fair value method of accounting. When share purchase warrants are issued, the fair value of those warrants is determined indirectly by reference to the fair value of the equity instruments to which those warrants relate. This fair value is measured at the issue date. The value attributed to share purchase warrants is separately credited to equity. When share purchase warrants are exercised, any consideration paid by warrant holders is credited to share capital in addition to the amount previously recorded in equity as share purchase warrants.

Research and development costs

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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 the Company 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 income/(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 income/(loss) in deficiency.

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.

On November 17, 2021, the Company consolidated its issued and outstanding common shares on a 120:1 basis (Note 14).

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 has only one operating segment, which is the fabrication of planar lightwave circuit optical chips.

Recent Accounting Pronouncements and Future Changes in Accounting Policies

During the twelve-month period ended June 30, 2023, the Company adopted the following new standards or policies:

Future Accounting Policies

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Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

In January 2020, the IASB issued amendments to IAS 1 – *Presentation of Financial Statements*. The amendments clarify the classification of liabilities as current or non-current based on the contractual arrangements in place at the reporting date. The amendments clarify that the classification of liabilities as current or noncurrent is based solely on a company's right to defer settlement at the reporting date provided that it is unconditional and has substance. The amendments also clarify that the transfer of a company's own equity instruments is regarded as settlement of a liability, unless it results from the exercise of a conversion option meeting the definition of an equity instrument. The amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The Company determined that there will be no material effect on the Company's consolidated financial statements as a result of adopting this amendment.

Amendments to IAS 16 – Property, Plant and Equipment – Proceeds before intended use

In May 2020, the IASB issued amendments to IAS 16 – Property, Plant and Equipment. The amendments prohibit the deduction, from the cost of an item of property, plant or equipment, of any proceeds received from selling items produced while bringing the asset to the location and condition necessary for it to operate. Instead, such proceeds, and the costs associated with producing the items, will be recognized in the consolidated statements of comprehensive profit and loss. The amendments are effective for annual periods beginning on or after January 1, 2023, with early adoption permitted. The Company determined that there will be no material effect on the Company's consolidated financial statements as a result of adopting this amendment.

IAS 1 Presentation of Financial Statements (October 2022 Amendments)

In October 2022, the International Accounting Standards Board (IASB) issued amendments to IAS 1 which were incorporated into Part I of the CPA Canada Handbook – Accounting in December 2022. The amendments require an entity to disclose, in specified circumstances, information in the notes that enables financial statement users to understand the risk that non-current liabilities with covenants could become repayable within 12 months after the reporting period. As part of the amendments, a provision was added to clarify that only covenants that an entity must comply with on or before the reporting date would affect a liability's classification as current or non-current, even if compliance with the covenant is only assessed after the entity's reporting date. Covenants which an entity must comply with after the reporting date would not affect classification of a liability as current or non-current at the reporting date. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The Company has not yet determined the impact the amendments will have on its consolidated financial statements.

IFRS 16 Leases (September 2022 Amendments)

In September 2022, the International Accounting Standards Board (IASB) issued amendments to IFRS 16 Leases to add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 Revenue from

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Contracts with Customers to be accounted for as a sale. The amendments were incorporated into Part I of the CPA Canada Handbook in December 2022.

The amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The IASB has not prescribed a particular method for measuring the lease liability. A seller-lessee must apply the amendments retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier adoption permitted. The Company does not own its facilities and therefore won't be affected by this change in policy.

IFRS 7 Financial Instruments: Disclosures and IAS 7 Statement of Cash Flows (Amendments)

In May 2023, the International Accounting Standards Board (IASB) issued disclosure-only amendments to IFRS 7 Financial Instruments: Disclosures and IAS 7 Statement of Cash Flows. The amendments require entities to disclose sufficient information necessary for users of financial statements to understand the effects of supplier finance arrangements on an entity's liabilities and cash flows, as well as on its liquidity risk and risk management. The amendments are effective for annual periods beginning on or after January 1, 2024, with earlier adoption permitted. The Company has not yet determined the impact of the amendments will have on its consolidated financial statements.

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (New) and IFRS S2 Climate-related Disclosures (New)

In June 2023, the ISSB issued a new IFRS Sustainability Disclosure Standard setting out the general requirements for an entity to disclose material information about significant sustainability-related risks and opportunities to which it is exposed. The ISSB also issued a new IFRS Sustainability Disclosure Standard that sets out requirements for identifying, measuring, and disclosing climate-related risks and opportunities as part of an entity's general purpose financial reporting.

For Canadian entities, there is currently no mandatory requirement to comply with the ISSB Standards. Canadian authorities including the CSSB and the Canadian Securities Administrators ("CSA") will decide on application in Canada. The Company has not yet determined the impact of the amendments on its consolidated financial statements.

4. Cash and Cash Equivalents

The cash and cash equivalents balance includes restricted cash. Restricted cash represents cash that has been provided as security against guarantees or is otherwise not currently available for use.

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	June 30, 2023	June 30, 2022
	\$	\$
Cash	4,219	187
Restricted Cash	4	4
	<u>4,223</u>	<u>191</u>

5. Accounts and Other Receivables

Trade and other receivables consist of the following:

	June 30, 2023	June 30, 2022
	\$	\$
Trade	334	291
Allowance for expected credit loss	(45)	(29)
	<u>289</u>	<u>262</u>
Other	196	174
	<u>485</u>	<u>436</u>

Included in other receivables is an amount of \$79 (June 30, 2022 - \$84) related to investment tax credits receivable and \$116 (June 30, 2022 - \$75) of amounts due from government agencies.

The age of trade accounts receivable is summarized as follows:

	June 30, 2023	June 30, 2022
	\$	\$
Current or under 60 days	261	291
Past due 61 to 90 days	45	-
Past due more than 90 days	28	-
	<u>334</u>	<u>291</u>

Note 19 includes disclosures relating to the credit risk exposures and analysis relating to the allowance for expected credit losses. Both the current and prior year impairment provisions apply the IFRS 9 expected loss model.

6. Inventories

	June 30, 2023	June 30, 2022
	\$	\$
Raw materials	31	42
Work-in-progress	134	228
Finished goods	186	-
Allowance for obsolescence	-	(8)
	<u>351</u>	<u>262</u>

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During the year ended June 30, 2023, management performed a review of inventory for obsolescence. As a result of management's review of inventory for obsolescence, \$37 (June 30, 2022 - \$38) of obsolete and impaired inventory was provided for through cost of sales. A continuity of the provision is presented below:

	June 30, 2023	June 30, 2022
	\$	\$
Opening balance	8	72
Write-off of unrealizable inventory	(45)	(102)
Additional impairment provision recorded	37	38
Closing balance	-	8

The amount of inventory recognized as cost of revenues for the year ended June 30, 2023 was \$1,042 (2022 - \$662).

7. Property, Plant and Equipment

	Machinery and equipment	Lab equipment and tooling	Photomasks	Office furniture and equipment	Leaseholds	Total
	\$	\$	\$	\$	\$	\$
Cost						
As at June 30, 2022	11,699	2,254	1,145	429	765	16,292
Additions	490	18	-	12	-	520
Dispositions	(14)	-	-	-	-	(14)
As at June 30, 2023	12,175	2,272	1,145	441	765	16,797
Accumulated depreciation						
As at June 30, 2022	11,430	2,254	1,145	429	765	16,023
Depreciation	189	4	-	5	-	198
Dispositions	(4)	-	-	-	-	(4)
As at June 30, 2023	11,615	2,258	1,145	434	765	16,217
Carrying value						
As at June 30, 2023	560	14	-	7	-	581

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	Machinery and equipment	Lab equipment and tooling	Photomasks	Office furniture and equipment	Leaseholds	Total
	\$	\$	\$	\$	\$	\$
Cost						
As at June 30, 2021	11,589	2,797	1,145	428	765	16,724
Additions	110	-	-	1	-	111
Dispositions	-	(543)	-	-	-	(543)
As at June 30, 2022	11,699	2,254	1,145	429	765	16,292
Accumulated depreciation						
As at June 30, 2021	11,297	2,792	1,145	427	765	16,426
Depreciation	133	5	-	2	-	140
Dispositions	-	(543)	-	-	-	(543)
As at June 30, 2022	11,430	2,254	1,145	429	765	16,023
Carrying value						
As at June 30, 2022	269	-	-	-	-	269

Depreciation expense for the year ended June 30, 2023 of \$198 (June 30, 2022 - \$140) was allocated in the consolidated statements of comprehensive income (loss) as follows: \$190 (June 30, 2022 - \$130) in cost of revenues; \$4 (June 30, 2022 - \$4) in general and administration; and \$4 (June 30, 2022 - \$6) in research and development.

During the year ended June 30, 2023, the Company disposed of manufacturing equipment which resulted in a loss of \$10 (June 30, 2022 - \$Nil). In 2022, the Company disposed of lab equipment and tooling for total proceeds of \$55 and recognized a gain of \$55.

8. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities is a royalty amount payable of \$290 (June 30, 2022 - \$297) relating to royalty-bearing government funding received for approved research and development projects, of which \$Nil (2022 - \$Nil) was paid during the year. The repayment of this amount 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.

During the year ended June 30, 2022 the Company obtained forgiveness on certain accounts payable and accrued liabilities due to third parties totaling \$321. This amount was recorded as gain on forgiveness of debt in the consolidated statements of comprehensive income (loss) for the year ended June 30, 2022. For the year ended June 30, 2023 there was \$27 in forgivable amounts.

On December 6, 2021, the Company completed its Recapitalization plan under which certain creditors of the Company received common shares and share purchase warrants of the Company in full satisfaction of amounts owing to them by the Company (Note 10). Under the Recapitalization plan, the Company issued, in aggregate, 449 shares and 10 share purchase warrants for total consideration of \$533. The \$555 difference between the carrying value of the accounts payable and accrued liabilities at the closing date of \$1,088 included as part of the Recapitalization plan and the value of shares and warrants being

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issued at that time was recognized as a gain to the Company and was included in gain on recapitalization.

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 upon delivery of set items within the service contracts.

	June 30, 2023	June 30, 2022
	\$	\$
Balance, beginning of year	257	222
New contract additions in year	472	112
Revenue recognized in year - from opening balance	(80)	(39)
Revenue recognized in year - from current year additions	(384)	(38)
Balance, end of year	265	257

10. Recapitalization

On December 6, 2021, the Company completed its previously disclosed Recapitalization under which certain of the Company's debts were fully satisfied in exchange for common shares and share purchase warrants of the Company. All common share figures and share prices below are disclosed on a post-consolidation basis of 120:1.

(a) Notes payable, convertible debentures, and trade liabilities

Holders of the Company's notes payable, convertible debentures, and certain trade liabilities agreed to settle their debts in exchange for common shares of the Company on the basis of either (i) an exchange of 100% of the debt owed for common shares of the Company at a deemed price of C\$3.00 per share, being the closing price of the common shares on the TSXV as of August 20, 2021, or (ii) an exchange of 100% of the debt owed, at a discount of 20% to such amount owed, in exchange for units of the Company at a deemed price of C\$3.00 per unit, with each unit containing one common share and 1/5 of a share purchase warrant (the "Debt Settlement Offer"). Each full share purchase warrant will allow the holder of such warrant to purchase one common share of the Company for up to three years following closing of the Recapitalization at a price of C\$3.60 per share.

(b) Shares to be issued

Under the Recapitalization plan, the Company issued common shares in exchange for satisfaction of the amount owing by the Company related to finance and advisory fees, under terms as described in (a), above. See Note 15 for additional information regarding shares to be issued.

(c) Common share consolidation

As part of the Recapitalization, the Company consolidated its issued and outstanding common shares on the basis of one post-consolidation common share for every 120

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pre-consolidation common shares. See note 15 for additional information on the share consolidation.

(d) Transaction costs

The Company incurred transaction costs totaling \$1,282 in connection with the Recapitalization plan. Of that amount, \$500 (net of \$31 in foreign exchange loss) was payable in cash to third parties and \$782 related to advisory fees paid to a related party and settled by issuing common shares of the Company (Note 23). These transaction costs have been netted against the gain on recapitalization.

Under the terms of the Recapitalization plan, the total number of shares and share purchase warrants issued to debt holders were as follows:

	Face value of liability settled for shares	Number of common shares issued	Number of warrants issued
	\$	\$	\$
Notes Payable (Note 11)	21,948	7,918	997
Convertible debt (Note 12)	9,003	3,009	571
Accounts payable and accrued liabilities (Note 8)	1,088	449	10
	32,039	11,376	1,578
Shares to be issued (Note 14)	2,655	1,170	-
	34,694	12,546	1,578

The price of the Company's common shares on August 20, 2021, the date that the Recapitalization agreement was legally agreed to by all parties, was C\$3.00 per share. The Recapitalization was completed on December 6, 2021 when the price of the Company's common shares was C\$1.50 per share. The decrease in the price of the Company's common shares was accounted for as a gain on settlement of debt.

The composition of the gain on settlement of debt as reported in the statements of comprehensive income (loss) (as Gain on Recapitalization) and changes in shareholders' deficiency for the year ending June 30, 2022 is as follows:

	Value of shares issued	Value of share purchase warrants issued	Gain on exchange - included in comprehensive income	Gain on exchange - included in contributed surplus
	\$	\$	\$	\$
Notes Payable (Note 11)	9,287	573	12,088	
Convertible debt (Note 12)	3,528	329	5,146	
Accounts payable and accrued liabilities (Note 8)	527	6	555	
Transaction and associated costs (Note 11)			(1,282)	
	13,342	908	16,506	
Shares to be issued (Note 14)	1,320	-	-	1,335
	14,662	908	16,506	1,335

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11. Notes Payable

	June 30, 2023	June 30, 2022
	\$	\$
Short-term RBC loans (a)	91	93
Loan from Vortex (b)	7,943	5,493
Loan from Irix (c)	378	393
	8,412	5,979
Less current portion	469	486
Long-term portion	7,943	5,493

- a) In April 2020, the Company received \$29 from the Royal Bank of Canada (“RBC”) as an interest-free loan to cover operating costs. In August 2020, the Company received another RBC loan in the amount of \$31, and in January 2021 the Company received an aggregate of \$32 in additional RBC loans. As at June 30, 2023, the RBC loan balance is \$91 (June 30, 2022 - \$93). The loans bear no interest prior to December 31, 2023 and no principal payments are due prior to December 31, 2023. Principal repayments can be voluntarily made at any time without fee or penalties. Balances not paid by December 31, 2023 will be converted to a 3-year term loan at 5% annual interest rate, with interest paid monthly beginning January 1, 2024. The balance of the loan, must be paid in full no later than December 31, 2026.
- b) During the year ended June 30, 2022, the Company obtained 10% interest bearing unsecured short-term loans in the amounts of \$1,905 for which \$1,905 was from related parties (Note 23). These short-term loans were repayable on demand. Of these unsecured short-term loans, \$465 were included as part of the amended and restated secured loan agreement with Vortex ENA LP (“Vortex LP”) which was completed on December 31, 2022 (See below). The remaining short-term loans were exchanged for common shares of the Company as part of the Recapitalization (Note 10).

During the year ended June 30, 2022, the Company accrued net commissions included in finance expense of \$6 on these loans.

As at June 30, 2022, a total amount of \$Nil remains owing on these loans which includes \$Nil of accrued interest and \$Nil of accrued fees. During the year ended June 30, 2022, \$668 of interest was accrued.

On August 20, 2021 the Company announced the Recapitalization to improve the financial liquidity of the Company and raise cash needed to support future business operations. The Recapitalization was completed on December 6, 2022 (Note 10). As part of the Recapitalization, all the holders of short-term loans, except for the \$465 advanced by Vortex LP as noted above, agreed as at August 20, 2021 to settle their debts under the terms of the Recapitalization plan. The holders of the short-term loan, in aggregate, received 7,918 common shares and warrants to purchase 997 common shares of the Company for aggregate consideration of \$9,860 based on the

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Company's closing share price on December 6, 2021. The difference between the carrying value of the loans as at the closing date of \$21,948 and the value of shares being issued at that time of \$12,088 was recognized as a gain to the Company and was included in gain on recapitalization for the current period.

On August 20, 2021, the Company received notification that a debt previously held by EDC was sold to Vortex ENA LP (a related party). The Company entered into a fifth amendment to the loan agreement with Vortex LP on September 3, 2021, which resulted in the following changes: interest rate was lowered to a fixed rate of 7.5% per annum on a go-forward basis; interest can be accrued for the first 24 monthly payment periods after the amendment date, with interest payable in cash thereafter; no required payments of principal during the life of the loan and; an extended maturity date of September 3, 2025, with the Company having one option to extend the maturity date for an additional six months (collectively, the "Secured Loan Amendments"). In addition, all prior events of default were temporarily waived by Vortex LP, provided that the Company was able to complete the Recapitalization by December 31, 2021. If the Company failed to complete the Recapitalization by that date, then all amounts would have been immediately due.

As these Secured Loan Amendments meet the criteria for a significant modification of the loan under the terms of IFRS 9 – Financial Instruments, the Company recognized a gain in the year ended June 30, 2022 relating to the extinguishment of the fair market value of the loan in its consolidated financial statements. The Company utilized an estimated fair market interest rate of 20% per annum in computing the fair value of the loan as of the September 3, 2021 amendment date, as management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation. As a result of the modification, the Company recognized a gain on modification of debt of \$2,181 for the year ended June 30, 2022. Following the amendment date, interest will be accreted to the loan balance based on the 20% per annum fair market interest rate.

During the year ended June 30, 2022, the Company made principal payments on the loan in the amount of \$Nil (2022 - \$Nil), accrued interest of \$446 recorded accretion to interest expense of \$289, and incurred fees relating to the loan of which are included in finance expense.

On December 31, 2021, the Company and Vortex LP amended the secured loan agreement by way of a full amended and restated secured loan agreement. Under the terms of the amended and restated agreement, the \$532 previously advanced by Vortex LP during the period ending December 31, 2021 outside of the short-term promissory notes and the \$465 advanced under the terms of the short-term promissory notes, were included in the secured loan. In addition, the loan maturity was extended to December 31, 2025 (from September 3, 2025) and the interest free period was extended to December 31, 2023 (from September 3, 2023). The Company has determined under IFRS 9 *Financial Instruments*, that this amendment and restatement of the secured loan with Vortex meets the test for substantial modification. The Company utilized an estimated fair market interest rate of 21.5% per annum in computing the fair value of the amounts advanced prior to the December 31, 2021 amendment date, as management believes that this more closely approximates the

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interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation. As a result of the modification, the Company recognized gains on modification of debt of \$149 relating to the balance of the loan as at December 31, 2021 and \$411 on the \$997 previously advanced by Vortex for the year ended June 30, 2022. The adjusted carrying amount will be amortized over the remaining term of the secured loan using the effective interest rate of 21.5% per annum.

During the year ended June 30, 2023, Vortex advanced to the Company an additional \$6,333 (2022 - \$1,636) under the terms of the amended and restated loan agreement. The Company utilized a range of estimated fair market interest rates of 26.3 to 30.1% (2022 – 24.7% to 27.6%) per annum in computing the fair value of the advances, excluding two bridge loans advanced on June 12, 2023 and June 19, 2023. Management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation.

Of the \$6,333 advanced by Vortex LP under the terms of the amended and restated loan agreement, the net present value of future contractual cash flows (discounted using a fair value interest rate) of \$3,679 (June 2022 - \$868) has been recorded as notes payable and the portion of advances relating to below-market interest rates of \$2,654 (June 2022 - \$768) is recorded in equity as contributed surplus. Ahead of the June 27 funding event, there were two bridge loans totaling \$302 that had been advanced on June 12, 2023 and June 19, 2023. The loans were advanced to assist with working capital until the new debt financing was closed on June 27, 2023. The bridge financing debt was discounted at a rate of 7.5%. This rate approximates the market rate given they were paid back immediately upon the closing of the Pinnacle debt agreement on June 27, 2023 - ref to note 12.

On June 27, 2023, the Company and Vortex LP amended the secured loan agreement by way of a full second amended and restated loan agreement. Under the terms of the second amended and restated agreement, the \$8,323 previously advanced by Vortex LP during the period December 31, 2021 to June 27, 2023, the \$6,297 original principal amount of the EDC purchase order working facility and accrued and unpaid interest outstanding as at June 27, 2023, and the total loan facilities of \$1,077 which includes the original principal amounts of the non-revolving term loans and accrued and unpaid interest as at June 27, 2023, were included in the secured loan for a consolidated total of \$15,697.

In addition, the loan maturity was extended to June 30, 2026 (from December 31, 2025) and interest accrues and is payable monthly in arrears at a rate of 7.5% following the date of the initial advance. As additional consideration for entering into the second amendment and restated loan agreement, the Company is required to pay an amendment structuring fee in the amount of \$755, of which \$151 were immediately paid upon the initial advance of the Pinnacle proceeds (Note 12), \$264 payable concurrent with the repayment of the working capital facility and the remainder upon the maturity date. The Company was required to immediately pay \$3,323 against the outstanding principal amount of the working capital facility. The portion of debt for prepayment is \$2,284 and the portion repaid that relates to the below-market interest

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rates is \$1,039 was recorded as contributed surplus in the previous year. The outstanding legal fees and expenses paid have been proportionally allocated to the relative liability and equity component of the convertible debentures issued (Note 12) and the amendment and restated loan agreement.

The Company was also required to pay an outstanding payable in the amount of \$223.

The Company also issued 575 common share purchase warrants to Vortex LP as additional consideration. Each warrant is exercisable at CAD\$2.00 to acquire one common share of the Company for a period of three years from the date of issuance. The warrants were separately valued using Black-Scholes calculator with risk free interest rate of 3.77%, volatility of 76.2%, was valued at \$365, and recorded in warrants.

As at June 30, 2023, the discounted carrying value of the balance owing on the Vortex LP term facility is \$7,943 (2022 - \$5,493), inclusive of interest of \$8 (2022 - \$446), accretion of \$8 (2022 - 289), and fees of \$44 (2022 - \$289). The face value of the senior secured loan payable to Vortex was \$12,905 as at June 30, 2023 (2022 - \$8,664), inclusive of interest and fees.

The Company utilized an estimated fair market interest rate of 27.6% per annum in computing the fair value at the amendment date of the outstanding debt, as management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation. Of the \$13,048 face value, \$8,078 was allocated as notes payable, \$366 to warrants based on the fair value determined above and the residual of \$4,604 was allocated to contributed surplus. The adjusted carrying amount will be amortized over the remaining term of the secured loan using the effective interest rate of 22.8% per annum. In addition, legal fees of \$71 were equally allocated, with \$44 going to notes payable and \$27 being allocated to contributed surplus.

- c) On May 31, 2019, Enablence and Irix Holdings Ltd. ("Irix") signed an Asset Transfer Agreement ("ATA") which resulted Enablence selling certain assets and liabilities to Irix including \$180 of fixed assets, \$173 of leasehold improvements, \$47 of inventory as well as the transfer of certain employee contracts, less costs of \$60 owed by Irix to Enablence. Under the ATA, Enablence and Irix agreed that the consideration due to Enablence from Irix would be offset against certain debts owing to Irix by Enablence of \$720. The net remaining amount due to Irix of \$260 is treated as a note payable with annual interest accruing at 7.5%, with the interest and principal amount due on May 31, 2023. During the year ended June 30, 2023, a total of \$23 (2022 - \$22) of interest has been accrued and the amount owing on the note payable is \$378 (2022 - \$393). The Company did not repay the note on its due date of June 30, 2023 and continues to accrue interest at 7.5%. The note payable is classified as a current liability in the consolidated statements of financial position.

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12. Convertible Debentures

On June 27, 2023, the Company issued a total of \$8,308 (C\$11,000) of unsecured convertible debentures (the "Debentures"), all of which was issued through a private placement for cash. The Debentures bear interest at a rate of 7.5% per annum, and interest is payable commencing on April 1, 2024, and thereafter, payable semi-annually. They are convertible, at the option of their holder, into common shares of the Company at a price of C\$2.00 per common share. The Debentures have an initial maturity date of June 30, 2027. If there is a Change of Control at any time during the term of this Debenture, the Holder will have the right to require the Company to redeem this Debenture at a price equal to 105% of the principal amount of this Debenture then outstanding, plus all accrued and unpaid interest. The fair value of the \$4,624 of the debt portion was determined based on a market interest rate of 27.6% and the residual of \$3,683 was allocated to contributed surplus. The total debt issuance costs of \$842 was allocated to debt for \$468 and \$373 to contributed surplus.

During the year ended June 30, 2023, the Company recorded accretion of \$5 to interest expense (2022 - \$259) and accrued \$5 of arrears interest (2022 - \$130). As at June 30, 2023, the total convertible debenture liability is \$4,166 (June 30, 2022 - \$Nil), including accrued and unpaid interest.

On December 6, 2021 all holders of the previously issued convertible debentures, issued June 30, 2017, agreed to settle their debts, including accrued and unpaid interest as part of the Recapitalization (Note 10). The convertible debenture holders agreed to receive, in aggregate, 3,009 common shares and 571 warrants to purchase common shares representing total consideration of \$3,857, based on the Company's closing share price on December 6, 2021. The difference between the carrying value of the convertible debentures at the closing date of \$9,003 and the value of shares being issued at that time of \$5,146 was recognized as a gain to the Company and was included in gain on recapitalization in the year ended June 30, 2022. Of the \$3,212 interest accrued since June 30, 2017, \$81 had been paid and the unpaid balance of \$3,131 was included in accrued interest. The unpaid accrued interest outstanding was settled as part of the Recapitalization.

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13. Income Taxes and Investment Tax Credits

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

	2023	2022
	\$	\$
Expected tax rate	26.50%	26.50%
Expected tax benefit from loss	2,541	3,045
Increase (decrease) in taxes from		
Permanent differences	880	(3,936)
Benefit of loss carryforwards and other temporary differences not recognized	(6,268)	(8,031)
Expired losses	7,251	9,194
Rate change related to opening temporary differences	-	-
Rate differential on tax jurisdictions	(64)	(42)
Other	245	(434)
	(985)	(204)

In assessing the realizability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred 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, 2023, deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributable to the following:

	2023	2022
	\$	\$
Tax losses (i)	253,832	274,315
Tax losses (ii)	35,525	43,394
Unused credits (iii)	3,512	3,499
Deductible temporary differences	16,367	36,708

(i) Related to tax losses that are non-capital in nature. Canadian entity losses commence to expire in 2028 whereas the US subsidiary losses commence to expire in 2024.

(ii) Related to tax losses that are capital in nature. These losses originate in Canada and may only be used against capital gains. 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 2029.

Of the \$253,832 tax losses available for carry-forward at June 30, 2023, \$260,680 are U.S. net operating losses. These losses may be subject to annual limitations under § 382 of the Internal Revenue Code of the United States.

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14. Share Capital

Authorized capital stock consists of:

Unlimited number of preferred shares; NIL preferred shares outstanding

Unlimited number of common shares with no par value; 18,590 (2022 – 18,590 common shares issued and outstanding)

Share consolidation

On November 17, 2021, the Company consolidated the number of issued and outstanding common shares on the basis of one post-consolidation common share for every 120 pre-consolidation common shares. No fractional post-consolidation common shares were issued, and no cash was paid in lieu of post-consolidation common shares. In the case of fractional common shares resulting from the consolidation, such fractions of a share were rounded down to the nearest whole common share.

All common share information in the consolidated financial statements and comparatives, including stock options, RSUs, DSUs, and warrants, have been adjusted to reflect the 120:1 effect of consolidation, without a corresponding change in dollar amounts. Earnings per share has been adjusted to reflect the impact of the share consolidation.

Recapitalization transaction

On December 6, 2021, the Company completed its previously disclosed Recapitalization under which certain of the Company's debts were fully satisfied in exchange for common shares and share purchase warrants of the Company. The number of common shares issued, and the value of the common shares based on the C\$1.50 closing price of the common shares on the TSXV as of December 6, 2021, issued in accordance with the Recapitalization transaction are as follows:

	Number of common shares issued	Value of shares issued
<i>Liability settled:</i>		\$
Notes payable (Note 11)	7,918	9,287
Convertible debt (Note 12)	3,009	3,528
Accounts payable and accrued liabilities (Note 8)	449	527
	<hr/> 11,376	<hr/> 13,342
Shares to be issued	1,170	1,320
	<hr/> 12,546	<hr/> 14,662

Private Placement of common shares

On December 21, 2021, the Company completed a private placement of common shares, issuing 694 common shares at a price of CAD\$1.80 for aggregate proceeds of \$992. The

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Company incurred no underwriter or advisory fees in connection with this private placement.

Equity incentive plan

Effective as of October 26, 2021, the shareholders of the Company approved a new omnibus equity incentive plan that authorizes the Board to make awards of up to 2,750 common share equivalents, subject to a maximum limit of 20% of the common shares of the Company outstanding at that time. The Board may award (i) stock options; (ii) restricted and performance share units (RSUs and PSUs); and (iii) deferred share units (DSUs) to directors, officers, employees, and consultants.

At June 30, 2023, the available common share equivalents pool was 18,589 (June 30, 2022 – 837). At June 30, 2023 outstanding options totaled 1,738 (June 30, 2022 – 842), outstanding RSUs totaled 709 (June 30, 2022 – 459), and outstanding DSUs totaled 884 (June 30, 2022 – 612).

Stock options:

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 three equal annual portions starting one year after the date of grant. Options granted to directors vest over a two-year period. Options expire on either the third or tenth anniversary of the grant. After termination of employment, unvested options are forfeited immediately and vested options expire 90 days after termination, unless otherwise agreed to by the Board of Directors. The Board administers the stock option plan.

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

Options	2023		2022	
	Number of Options	Weighted Avg. Exercise Price (C\$)	Number of Options	Weighted Avg. Exercise Price (C\$)
Outstanding, beginning of year	842	\$ 3.27	76	\$ 19.56
Granted	911	\$ 1.80	769	\$ 1.80
Forfeited	-	-	-	-
Expired	(15)	\$ -	(3)	\$ 10.80
Outstanding, end of year	1,738	\$1.82	842	\$ 3.27
Exercisable, end of year	1,292	\$1.83	173	\$ 8.94

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The following table summarizes the options outstanding and exercisable:

Year ended June 30, 2023				Year ended June 30, 2022			
Exercise Price (C\$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Exercise Price (C\$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable
\$ 0.92	100	8.9	100	\$ 0.92	100	2.9	100
\$ 1.00	711	9.1	711	\$ 1.80	669	9.4	-
\$ 1.50	200	9.1	200	\$ 7.80	3	4.5	3
\$ 1.80	669	8.4	223	\$ 10.80	22	0.0	22
\$ 7.80	3	3.5	3	\$ 18.00	33	0.0	33
\$ 10.80	22	0.0	22	\$ 39.60	15	0.7	15
\$ 18.00	33	0.0	33				
\$ 39.60	-	0.0	-				
\$ 1.82	1,738	8.8	1,292	\$ 3.27	842	8.0	173

The fair value of options granted is determined using the Black-Scholes option pricing model using the following assumptions:

	2023	2022
Weighted average exercise price	C\$1.06	C\$ 1.68
Risk-free interest rate	3.09% to 3.43%	1.44% to 3.16%
Expected dividend yield	0%	0%
Expected stock price volatility	100.36%	85.50%
Weighted average expected forfeiture rate	15%	15%
Weighted average expected life	5	5.4 years
Share price on the various grant dates	C\$1.00 - \$1.50	C\$0.92 - \$1.60

The underlying expected volatility was determined by reference to historical data of the Company's shares over the expected life of the options.

Stock-based compensation related to options grants is recorded as an increase to contributed surplus and is transferred to share capital when the underlying options are exercised.

Restricted share units (RSUs) and Deferred share units (DSUs):

During the year ending June 30, 2023, the Company issued RSUs and DSUs to certain employees and directors under the terms of its Equity Incentive Plan.

Subject to certain vesting and other conditions and provisions, each RSU awarded entitles the recipient to receive, on settlement, a cash payout equal to the market value of a common share, or, at the discretion of the Board, one common share of the Company or any combination of cash and shares as the Board in its sole discretion may determine. The Board reserves the right to change such form of payment at any time until payment is actually made. For the portion of RSUs settled in shares, the Company may elect to settle all or a portion of that settlement either in shares issued from treasury or in shares purchased in the open market.

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RSUs are valued at the date of grant and vest, at the discretion of the Board, over periods ranging from immediate vesting up to three years. The amount of expense relating to RSUs is credited to contributed surplus in the period in which it is incurred. Vested RSUs shall be redeemed on a date, as determined by the Company in its sole discretion, provided that is not later than either (i) the date of termination of the RSU holder's employment by the Company; or, the expiry date of the RSUs granted.

Each DSU awarded entitles the recipient to receive, on settlement, a cash payout equal to the market value of a common share, or, at the discretion of the Board, one common share of the Company or any combination of cash and shares as the Board in its sole discretion may determine. The Board reserves the right to change such form of payment at any time until payment is actually made. For the portion of DSUs settled in shares, the Company may elect to settle all or a portion of that settlement either in shares issued from treasury or in shares purchased in the open market. DSUs vest at the discretion of the Board.

Vested DSUs shall be redeemed and settled as soon as reasonably practicable following the recipient's termination date, but in any event not later than December 15th following the first (1st) calendar year commencing immediately after the recipient's date of termination.

A summary of the Company's RSUs and DSUs and changes during the periods is presented on the next page.

	2023		2022	
	Number of RSUs	Number of DSUs	Number of RSUs	Number of DSUs
Outstanding, beginning of year	459	612	-	-
Granted	250	272	681	612
Forefeited	-	-	-	-
Expired	-	-	(222)	-
Outstanding, end of year	709	884	459	612
Expiry:				
December 31, 2024	209		209	
March 21, 2025	250		250	
February 14, 2025	250			
	709	n/a	459	n/a

Of the 250 RSUs granted (June 2022 – 681), all 250 (June 2202 – 333) vested immediately (June 2022 – 348 vested in equal amounts over a three-year period). The 222 RSUs that expired during year ended June 30, 2022 related to a former employee and were settled as a short-term note payable in the amount of \$233 due December 31, 2023 and is included in accounts payable.

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Total stock-based compensation expense during the year ended June 30, 2023 relating to current and prior year grants was \$1,147 (2022 - \$1,365) of which \$651 relates to stock options (2022– \$231), \$268 relates to RSU grants (2022 – \$419), and \$229 (2022 – \$715), relates to grants of DSUs. For the year ended June 30, 2023, of the total stock-based compensation expense \$919 (2022 – \$650) was attributable to general and administrative personnel and \$229 (2022 – \$715) relates to members of the Company’s Board.

As at June 30, 2023, \$1,147 of stock-based compensation expense related to stock options, RSUs, and DSUs is included in contributed surplus (2022 – \$1,365).

Warrants

As part of the Recapitalization, the Company issued 1,578 share purchase warrants. Each full share purchase warrant allows the holder of such warrant to purchase one common share of the Company at a price of C\$3.60 per common share and expires on December 6, 2024.

On June 27, 2023, the Company issued 575 share purchase warrants as part of the Second Loan Amended with Vortex LP (Note 11) . Each full share purchase warrant allows the holder of such warrant to purchase one common share of the Company at a price of C\$2.00 per common share and expires on June 27, 2026. The value attached to the share purchase warrants issued during the year ended June 30, 2023 of \$366 (2022 - \$81) was determined using the Black-Scholes pricing model.

A summary of the Company’s warrants and changes during the periods is presented below:

	2023		2022	
	Number of warrants	Value \$	Number of warrants	Value \$
Balance July 1	1,578	908	-	-
Warrants issued during year	575	366	1,578	908
Warrants exercised during year	-	-	-	-
Warrants expired during year	-	-	-	-
Balance June 30	2,153	1,274	1,578	908

Shares to be Issued

The Company entered into an engagement letter on July 26, 2017 with Paradigm Capital Holdings Inc. (“Paradigm”), an entity deemed to be a related party as a result of the Recapitalization (Notes 10 and 24), for exclusive financial and capital markets advisory services. The agreement was subsequently amended on September 10, 2020. Under the terms of the agreement, the Company can satisfy the amounts owed (exclusive of tax) to Paradigm through the issuance of common shares of the Company, upon approval of the TSX Venture Exchange.

As part of the Recapitalization plan, the Company issued 1,170 common shares for aggregate consideration of \$1,320 based on the Company’s closing share price on December 6, 2021 in exchange for \$2,655 of the total amount owing of \$2,812 (Note 10).

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The difference between the carrying value of the amount owing as at the closing date and the value of shares being issued at that time of \$1,335, net of tax, was recognized in contributed surplus during the current quarter.

The amount owing to Paradigm and shown in Shares to be issued was satisfied in full under the terms of the Recapitalization (Note 10).

As at June 30, 2022 the total dollar value of the shares to be issued related to the above fees is \$Nil. The amount of taxes payable in cash related to past financial and advisory services of \$157 (June 30, 2022 - \$158) are shown in accounts payable and accrued liabilities.

15. Expenses by Nature

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

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	Twelve months ended June 30	
	2023	2022
<u>Cost of revenues</u>		
Materials/components	1,004	622
Labour	1,354	990
Allocation of overhead	747	661
Depreciation - COGS	192	130
Total	3,296	2,403
<u>Research & Development</u>		
Staff compensation	1,676	1,383
Contractors	(48)	(98)
Materials/supplies	155	43
Depreciation	4	6
Rent/Utilities	34	28
Total	1,822	1,362
<u>Sales & Marketing</u>		
Staff compensation	351	223
Travel	8	7
Trade shows	8	-
Materials/supplies/other	130	28
Rent/Utilities	4	4
Total	501	262
<u>General & Administrative</u>		
Staff compensation	1,257	890
Rent/Utilities	1,068	988
Taxes (Property tax/Use tax)	52	80
Insurance	98	115
HR management fee	25	21
Phone & Internet	32	27
Travel	73	45
Professional fees	954	672
Bad Debt expense	15	(74)
Other	205	256
Depreciation	4	4
G&A Allocation (Rent/utilities)	(785)	(692)
Total	2,999	2,332

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16. Loss Per Share

During the year ending June 30, 2023, the Company issued RSUs and DSUs to certain employees and directors under the terms of its Equity Incentive Plan (Note 14). At the discretion of the Board, RSUs and DSUs may be redeemed and settled, all or in portion, in shares issued from treasury. As of June 30, 2023, 1,593 potentially dilutive shares from the redemption and settlement of RSUs and DSUs (2022 – 1,293) have been included in the calculation of net income/(loss) per share – diluted.

The potential effect of the exercise of stock options, warrants and convertible debentures are antidilutive as all stock options and convertible debenture conversion rights are out-of-the money based on the Company's last reported share price; therefore, as of the end of the year, 2,304 potentially dilutive shares from the exercise of stock options, warrants and convertible debentures have not been included in the calculation of net loss per share (diluted).

17. Supplemental Disclosures of Cash Flow Information

Net change in non-cash operating working capital items:

	June 30, 2023	June 30, 2022
	\$	\$
Net inflow (outflow) of cash:		
Accounts receivable and other receivables	(49)	(9)
Inventories	(89)	39
Prepaid expenses and deposits	(54)	(105)
Accounts payable and accrued liabilities	1,050	(676)
Notes payable - current portion	(17)	35
Contract Liabilities	8	-
	849	(716)

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18. Commitments

The Company leases office and manufacturing space and certain equipment under operating leases. Rental expenses under these leases for the year ended June 30, 2023 were \$150 (2022 - \$150).

The Company's office and research and development facilities in Ottawa, Ontario, Canada are subject to a lease that was to expire September 30, 2023. On June 28, 2023 the lease was modified and the expiration date was extended to September 30, 2024.

The Company's office and manufacturing facilities in Fremont, California, U.S.A. are currently operating under a month-to-month lease after the most recent lease expired in October 2018.

The amounts owed under leases and rental expenses are detailed below:

	\$
Less than one year	135
Between one and five years	34
More than five years	-
	<hr/> 169

In addition, the Company has a commitment to pay an amount relating to a royalty-bearing government grant received for approved research and development projects, of which \$Nil was paid during the year (2022 - \$Nil). The balance of \$27 (2022 - \$27) is included in the Company's accounts payable. The Company has an obligation to make additional royalty payments based on sales of the products related to these grants (Note 8); however, all products related to the grants have been discontinued or abandoned.

19. Financial Instruments

Carrying values and fair values

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

	June 30, 2023	June 30, 2022
	\$	\$
Assets - based on amortized cost	4,526	468
Liabilities - based on amortized cost	18,618	10,969

Notes:

Assets includes cash and cash equivalents and accounts and other receivables, excluding amounts due from government agencies and investment tax credits.

Liabilities – based on amortized cost includes accounts payable and accrued liabilities, current portion of notes payable, convertible debentures, and long-term notes payable.

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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 convertible debentures and the RBC Loans are equal to their carrying values, as all of these amounts are either current liabilities and repayable on demand or carry a fixed interest rate. The Vortex LP loan is equal to its carrying value, as it carries a fixed interest rate.

Financial Risk Management

The Company has exposure to counterparty credit risk, foreign currency, liquidity risk and market risk associated with its financial assets and liabilities.

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 \$4,526 (June 30, 2022 - \$468). The Company maintains its cash balances in operating accounts 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 over and above the 30-day standard credit terms. The expected loss rates are based on the payment profiles of sale over a period of 36 months before June 30, 2023. 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 to mitigate any possible credit losses. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. The carrying amount of trade accounts receivables are reduced using an expected credit loss and the amount of the loss is recognized in the consolidated statement of net loss in general and administrative expenses. Trade receivables are written off (i.e., de-recognized) when there is no reasonable expectation of recovery. Failing to engage with the Company on payment or alternative payment arrangements, among other things, are considered indicators of no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off reduce general and administrative expenses in the consolidated statements of comprehensive income (loss).

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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, after expected credit loss (Note 5).

As at June 30, 2023, three customers accounted for more than 10% of the trade receivable, totaling \$275, (June 30, 2022 – three customers, \$230), which is approximately 82% (June 30, 2022 – 88%) of the trade receivable total. The Company has taken an expected credit loss of \$38 (June 30, 2022 - \$23) against these over 10% customers.

In aggregate, as of June 30, 2023, it was determined that an expected credit loss of \$45 (June 30, 2022 - \$29) was required:

As at June 30, 2023	Current	More than 30 days	More than 60 days	More than 90 days	Total
	\$	\$	\$	\$	\$
Expected Credit Loss Rate	10.0%	10.0%	10.0%	50.0%	
Gross Carrying Amount	188	73	45	28	334
Lifetime Expected Credit Loss	19	7	5	14	45
Specific Impairment Allowance - Customer A	-	-	-	-	-
Total Expected Credit Loss	19	7	5	14	45

As at June 30, 2022	Current	More than 30 days	More than 60 days	More than 90 days	Total
	\$	\$	\$	\$	\$
Expected Credit Loss Rate	10.0%	10.0%	10.0%	50.0%	
Gross Carrying Amount	291	-	-	-	291
Lifetime Expected Credit Loss	29	-	-	-	29
Specific Impairment Allowance - Customer A	-	-	-	-	-
Total Expected Credit Loss	29	-	-	-	29

The closing balance of trade receivables loss allowance as at June 30, 2023 reconciles with the trade receivables loss allowance as at June 30, 2022 as follows:

	\$
Loss Allowance June 30, 2022	29
Plus: Increased (decreased) allowance on trade receivables	16
Less: Write-offs of trade receivables	-
Loss Allowance June 30, 2023	45

Interest rate risk

The Company manages interest rate risk by negotiating fixed rate interest rates on loans when possible. As at June 30, 2023 the Company is not exposed to interest rate risk as all debt obligations have fixed interest rates. An increase in the interest rate of 1% would have resulted in no increase in interest expense during the year ended June 30, 2023, (2022 - \$Nil). Prior to the loan amendment dated September 3, 2022, the Vortex LP loan interest was based on a variable interest rate and was subject to interest rate risk. The

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Company does not use derivative instruments to reduce its exposure to interest rate risk as the risk is considered manageable.

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. The Company reports its financial results in U.S. dollars. Most of the Company's revenues are transacted in U.S. dollars and Chinese Renminbi, 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 C\$ against the US\$ and a 10% strengthening of the Chinese Renminbi ("RMB") against the US\$ would have affected net income (losses) from operations and the other comprehensive gain ("OCI") by the total amounts shown below. A weakening of the Canadian dollar and the Chinese Renminbi against the US\$ would have the opposite effect.

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

Twelve Months Ended June 30, 2023		Twelve Months Ended June 30, 2022	
Net income (loss)	OCI	Net income (loss)	OCI
(329)	29	1,470	(195)

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

Twelve Months Ended June 30, 2023		Twelve Months Ended June 30, 2022	
Net income (loss)	OCI	Net income (loss)	OCI
(54)	2	(71)	-

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.

The Company operated under a temporary waiver of defaults from Vortex LP until the Company entered into an amended and restated secured loan agreement with Vortex LP on December 31, 2021, at which date the previous defaults were permanently waived (Note 12(b)).

In addition, the Company had been in breach of its agreement with the convertible debt holders as the loans were past their maturity date of December 31, 2020. The convertible debt holders exchanged their debts for common shares in the Company as part of the Recapitalization (Note 12).

At June 30, 2023 and June 30, 2022, the Company has financial liabilities which are due as follows:

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	Current		Non-Current		Total
	within 6 months	6 to 12 months	1 to 5 years	5+ years	
As at June 30, 2023					
	\$	\$	\$		\$
Accounts payable and accrued liabilities	6,040	-	-	-	6,040
Notes payable	469	-	12,905	-	13,374
Convertible debentures	-	-	11,000	-	11,000
Total	6,509	-	23,905	-	30,414

	Current		Non-Current		Total
	within 6 months	6 to 12 months	1 to 5 years	5+ years	
As at June 30, 2022					
	\$	\$	\$		\$
Accounts payable and accrued liabilities	4,990	-	-	-	4,990
Notes payable	486	-	5,493	-	5,979
Convertible debentures	-	-	-	-	-
Total	5,476	-	5,493	-	10,969

20. 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 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. There are no changes to the Company's approach to management of its capital for the current year as compared to the prior year.

21. Segmented Information

The Company operates in one segment, Optical Components.

Property, plant and equipment assets are analyzed geographically as follows:

	June 30, 2023	June 30, 2022
	\$	\$
United States	399	269
China	162	-
Canada	20	-
	581	269

Revenue is analyzed geographically as follows:

	June 30, 2023	June 30, 2022
	\$	\$
Americas	452	1,220
Europe, Middle East, Africa	-	-
Asia Pacific	1,509	758
	1,961	1,978

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During the year ended June 30, 2023, seven customers accounted for 82% of the Company's total revenue (2022– three; 88%).

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 services for clients, as well as Fab Services.

	June 30, 2023	June 30, 2022
	\$	\$
Product	1,214	1,027
NRE	466	273
Fab Service	281	678
	1,961	1,978

22. 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 Executive, Chief Financial, and Chief Technology Officers of the Company and members ("Directors") of the Company's Board of Directors (the "Board"). The Company's compensation program is administered by the Board 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 considering business achievement, fulfillment of individual objectives and overall job performance. Directors, executive officers and employees are entitled to participate in the Company's stock option plans.

The following summarizes key management personnel and Directors' compensation for the years ended June 30, 2023 and 2022:

	June 30, 2023	June 30, 2022
	\$	\$
Salaries and other compensation	802	478
Stock-based compensation	553	1,239
	1,355	1,717

23. Related Party Transactions

Vortex Entities

Vortex ENA LP ("Vortex LP") is a related party as a result of its general partner being controlled by an affiliate of Paradigm Capital Inc., a company for which a Director of Enablence sits on the advisory board. In addition, a Shareholder of the Company is a minority investor in Vortex ENA LP. As at June 30, 2023 the following group of joint actors ("Vortex Entities") holding common shares of the Company are collectively deemed to be control persons as they own over 20% of the common shares of the Company:

- Vortex ENA LP ("Vortex"), which owns 1,270 shares
- Paradigm Capital Inc. ("PCI"), which owns 1,170 shares

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- Paradigm Capital Partners Limited (“PCPL”), which owns 94 shares
- A director of PCI and PCPL owns 1,938 shares and 332 share purchase warrants

The following transactions took place between Enablence and the Vortex Entities in the years ended June 30, 2022

- Vortex LP advanced \$1,905 under short-term notes payable to the Company. Vortex LP also acquired \$1,491 in short-term notes payable of the Company from existing holders in exchange for units of Vortex LP, including a portion acquired from a Director of the Company. On December 6, 2021, Vortex LP exchanged short-term notes payable totaling \$3,542 for 1,270 common shares under the terms of the Recapitalization plan. On December 31, 2021, Vortex LP transferred \$465 of the amounts it had advanced under short-term notes payable during the six months ending December 31, 2021 to the secured loan (Note 12(b)). Interest on short-term notes payable held by Vortex LP for the year ended June 30, 2022 totaled \$101.
- During the year ended June 30, 2022, Vortex LP made additional unsecured advances to the Company of \$532 outside of the terms of the short-term notes payable described in Note 12(b); such amounts had no fixed repayment terms and carried no interest rate. These amounts were transferred to the secured loan agreement on December 31, 2021, as described below.
- During the period ending June 30, 2022, Vortex LP acquired the secured loan previously held by EDC and entered into a secured loan agreement with the Company on September 3, 2021 (Note 12(b)). On December 31, 2021, the Company and Vortex LP amended the secured loan agreement by way of a full amended and restated secured loan agreement. Under the terms of the amended and restated agreement, \$532 previously advanced by Vortex LP during the period ending December 31, 2021 outside of the short-term notes payable and \$465 advanced under the terms of the short-term notes payable, were included in the secured loan. In addition, the loan maturity was extended to December 31, 2025 (from September 3, 2025) and the interest free period was extended to December 31, 2023 (from September 3, 2023). During the year ended June 30, 2023, Vortex advanced to the Company \$1,643 under the terms of the amended and restated loan agreement. Of the \$2,633 in total amounts advanced by Vortex LP during the year ended June 30, 2023, \$1,454 has been included in notes payable, \$768 has been included in contributed surplus, and \$411 is recorded as a gain on debt modification.
- During the year ended June 30, 2022, the Company accrued interest of \$446 and recorded accretion of \$289 relating to the Vortex loan. As at June 30, 2022, the discounted carrying value of the balance owing on the Vortex LP term facility is \$5,493 and the face value owing is \$8,664, inclusive of interest and fees (Note 12(b)).
- PCI earned commissions and advisory fees relating to financing transactions of \$Nil during the year ended June 30, 2022. PCI was owed \$2,655 relating to past commissions that were expected to be paid in common shares of the Company, subject to TSXV approval. On December 6, 2021, the Company settled the amounts owing, exclusive of taxes, in exchange for 1,170 common shares of the Company as part of the Recapitalization (Notes 10 and 14). As at June 30, 2023, \$158 (2022 - \$157) for taxes related to the commissions and advisory fees are recorded in the Company's accounts payable and accrued liabilities.

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- On December 6, 2021, a director of PCI exchanged \$3,205 owed to him under shortterm notes payable for 1,059 common shares and 212 share purchase warrants under the terms of the Recapitalization plan. Interest of \$108 was incurred on these shortterm notes payable in the year ended June 30, 2022. Prior to completion of the Recapitalization plan, \$970 of notes were transferred to Vortex LP during the six months ended December 31, 2021, as referenced above. As at June 30, 2022, the amount due to this Director under the short-term notes payable was \$Nil
- On December 6, 2021, a Director of PCI exchanged \$1,821 owed to him by the Company under the convertible debentures for 603 common shares and 121 share purchase warrants under the terms of the Recapitalization plan. Interest of \$78 was incurred on these convertible debentures in the year ended June 30, 2022. The amount due to the Director of PCI as at June 30, 2022 was \$Nil.

The following transactions took place between Enablence and the Vortex Entities in the years ended June 30, 2023:

During the year ended June 30, 2023, Vortex advanced to the Company an additional \$6,333 (2022 - \$1,636) under the terms of the amended and restated loan agreement. The Company utilized a range of estimated fair market interest rates of 26.3 to 30.1% (2022 – 24.7% to 27.6%) per annum in computing the fair value of the advances, excluding two bridge loans advanced on June 12, 2023 and June 19, 2023. Management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation.

Ahead of the June 27, 2023 funding event, there were two bridge loans totaling \$302 that had been advanced on June 12, 2023 and June 19, 2023. The loans were advanced to assist with working capital until the new debt financing was closed on June 27, 2023. The bridge financing debt was discounted at a rate of 7.5%. This rate approximates the market rate given they were paid back immediately upon the closing of the Pinnacle debt agreement on June 27, 2023 - ref to note 12.

On June 27, 2023, the Company and Vortex LP amended the secured loan agreement by way of a full second amended and restated loan agreement. Under the terms of the second amended and restated agreement, the \$8,323 previously advanced by Vortex LP during the period December 31, 2021 to June 27, 2023, the \$6,297 original principal amount of the EDC purchase order working facility and accrued and unpaid interest outstanding as at June 27, 2023, and the total loan facilities of \$1,077 which includes the original principal amounts of the non-revolving term loans and accrued and unpaid interest as at June 27, 2023, were included in the secured loan for a consolidated total of \$15,697.

In addition, the loan maturity was extended to June 30, 2026 (from December 31, 2025) and interest accrues and is payable monthly in arrears at a rate of 7.5% following the date of the initial advance. As additional consideration for entering into the second amendment and restated loan agreement, the Company is required to pay an amendment structuring fee in the amount of \$755, of which \$151 were immediately paid upon the initial advance of the Pinnacle proceeds (Note 12), \$264 payable concurrent with the repayment of the working capital facility and the remainder upon the maturity date. The Company was required to immediately pay \$3,323 against the

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outstanding principal amount of the working capital facility. The portion of debt for prepayment is \$2,284 and the portion repaid that relates to the below-market interest rates is \$1,039 was recorded as contributed surplus. The Company was also required to pay an outstanding payable in the amount of \$223.

The Company also issued 575 common share purchase warrants to Vortex LP as additional consideration. Each warrant is exercisable at CAD\$2.00 to acquire one common share of the Company for a period of three years from the date of issuance. The warrants were separately valued using Black-Scholes calculator with risk free interest rate of 3.77%, volatility of 76.2%, was valued at \$365, and recorded in warrants.

As at June 30, 2023, the discounted carrying value of the balance owing on the Vortex LP term facility is \$7,943 (2022 - \$5,493), inclusive of interest of \$8 (2022 - \$446), accretion of \$8 (2022 - \$289), and fees of \$44 (2022 - \$289). The face value of the senior secured loan payable to Vortex was \$12,905 as at June 30, 2023 (2022 - \$8,664), inclusive of interest and fees.

The Company utilized an estimated fair market interest rate of 27.6% per annum in computing the fair value at the amendment date of the outstanding debt, as management believes that this more closely approximates the interest rate that would be charged by an arms-length third party lender for similar secured debt in an open market situation. Of the \$13,048 face value, \$8,078 was allocated as notes payable, \$366 to warrants based on the fair value determined above and the residual of \$4,604 was allocated to contributed surplus. The adjusted carrying amount will be amortized over the remaining term of the secured loan using the effective interest rate of 22.8% per annum. In addition, legal fees of \$71 were equally allocated, with \$44 going to notes payable and \$27 being allocated to contributed surplus.

Private Investor

As a result of the Recapitalization on December 6, 2021, a private investor and his affiliates ("the Investor") became control persons as they own over 20% of the common shares of the Company. As at June 30, 2023 and June 30, 2022, the Investor owns 5,915 common shares and 1,114 share purchase warrants.

The following transactions took place between the Company and the Investor in the year ended June 30, 2022.

- Under the terms of the Recapitalization plan, the Investor exchanged \$9,986 owed to him by the Company under short-term notes payable in exchange for 3,322 common shares and 664 share purchase warrants. Interest of \$248 was accrued on the notes payable due to the Investor in the year ended June 30, 2022. As at June 30, 2022 and June 30, 2023, no amounts were owed.
- Under the terms of the Recapitalization plan, the Investor exchanged \$6,802 of the Company's convertible debentures held by him in exchange for 2,250 common shares and 450 share purchase warrants. Interest of \$290 was accrued on the convertible debentures due to the Investor in the year ended June 30, 2022. As at June 30, 2022 and June 30, 2023, no amounts were owed.

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- Under the terms of the Recapitalization plan, the Investor exchanged \$23 in accounts payable owed to him by the Company for 10 common shares of the Company. As of June 30, 2023, the amount due to the Investor as accounts payable and accrued liabilities was \$Nil (June 30, 2022 - \$Nil).
- During the period ended June 30, 2022, the Investor provided consulting and advisory services to the Company in connection with the Recapitalization plan for fees of \$782, which was included as transaction and additional costs in gain on recapitalization (Note 10). The Company issued 333 common shares in full satisfaction of the fees.

Other Related Party Transactions

Interest totaling \$23 was accrued for the year ended June 30, 2022 on short-term notes payable previously provided by Directors and officers of the Company. Nothing was accrued in 2023. On December 6, 2022, the Company settled the full amounts of short-term notes payable owing to Directors and officers of \$638 in exchange for 263 common shares of the Company as part of the Recapitalization. The amount owed to Directors and officers under short-term notes payable as of June 30, 2023 and June 30, 2022 is \$Nil, including \$118 of notes that were transferred to Vortex LP, prior to the Recapitalization, in the six months ended December 31, 2022, as referenced above.

A Director of the Company held certain amounts of the convertible debentures owed by the Company that were settled as part of the Recapitalization. In the year ended June 30, 2022, the Company incurred interest expense of \$23 relating to the convertible debentures held by this Director. On December 6, 2022, the Company settled the full amount of \$379 in convertible debentures owing to the Director in exchange for 155 common shares of the Company as part of the Recapitalization. As of June 30, 2023 and June 30, 2022, the amount owed is \$Nil.

Under the terms of the Recapitalization plan, a Director of the Company exchanged \$39 in accounts payable owed to him by the Company for 17 common shares of the Company. As of June 30, 2023 and June 30, 2022, the amount due to the Director as accounts payable and accrued liabilities was \$Nil.