



Enablence
Technologies Inc.

ENABLENCE TECHNOLOGIES INC.

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

FOR THE YEAR ENDED June 30, 2024

DATED: October 28, 2024

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

The following is a discussion and analysis of the financial condition of Enableness Technologies Inc. (“Enableness” or the “Company”) as at June 30, 2024 compared to June 30, 2023 and the results of operations for the year ended June 30, 2024 compared to the year ended June 30, 2023 (collectively, the “MD&A”).

This MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes for the years ended June 30, 2024 and June 30, 2024. References made herein to “Enableness”, the “Company”, “we” and “our” mean Enableness, its subsidiaries, collectively, unless the context indicates otherwise. All amounts (including numbers of common shares, options and warrants) included in the MD&A are in thousands, except per share amounts or as otherwise indicated. All financial amounts are in thousands of U.S. dollars (“US\$” or “USD”), unless stated otherwise. Other continuous disclosure filings for the Company are available on www.sedar.com

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

The effective date of this MD&A is October 28, 2024.

FORWARD-LOOKING STATEMENTS

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

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

- The Company will be able to raise sufficient financing to meet its financial obligations as they come due and to allow it to execute fully on its business plan.
- Enableness will develop and deliver new products on time in order to satisfy the requirements of current and future customers and contribute to near-term profitability.
- The Company will continue to successfully reduce product costs to improve the Company’s gross margin and/or avoid any margin erosion associated with competitive pricing pressure.
- Enableness will be able to attract and retain key people.

- Enablence will continue to maintain an ongoing tenancy for its fabrication facility in Fremont, California, which is now supported by a 3-year lease.
- The Company will be able to raise additional new capital in the future to allow the Company to expand its manufacturing capacity as required.
- The Company will be able to maintain production volumes that are sufficient to meet sales demand and expectations of customers.

SELECTED FISCAL YEAR INFORMATION

Statement of Operations Data	Year ended June 30	
	2024	2023
Revenue	\$1,601	\$1,961
Gross margin	(2,329)	(1,373)
Operating expenses	7,291	6,469
Loss before other income (expenses)	(9,620)	(7,842)
Net loss	(14,108)	(8,605)
Basic loss per share	(\$0.75)	(\$0.47)
Diluted loss per share	(\$0.75)	(\$0.47)

Balance Sheet Data	Year ended June 30	
	2024	2023
Total assets	\$4,131	\$5,970
Total non-current financial liabilities	\$22,074	\$12,109
Total liabilities	\$30,307	\$18,883
Cash dividends declared per share	Nil	Nil

OVERVIEW

ENABLENCE'S BUSINESS

Enablence Technologies Inc. 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). Enablence 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 today on data centre infrastructure end markets (“Datacoms”). Enablence also works with customers that have emerging market uses for its technology, including medical devices, automotive LiDAR and virtual and augmented reality headsets, which the Company refers to as Advanced Vision. 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.

Enablence has spent over 15 years perfecting design and manufacturing processes for photonics chips with a focus on product lines that address access – connecting homes and businesses to the network. The Company’s mission is to enable world class optical networking and advanced vision solutions through industry leading design, development, and manufacturing of PLC chips.

RESULTS OF OPERATIONS

Summary of Fourth Quarter Results

The Company reported revenues of \$624 for the quarter ended June 30, 2024 as compared to \$493 for the quarter ended June 30, 2023, an increase of \$131, or 26%. The increase is due to higher non-standard product sales (\$467) as well as non-recurring engineering (“NRE”) services of (\$150).

The Company also reported a higher net loss of \$4,884 for the quarter ended June 30, 2024 as compared to a net loss of \$1,950 for the quarter ended June 30, 2023, an increase of \$2,934, or 150%. The gain is attributed in large part to an increase in finance and interest expenses \$1,699, as well as higher operating expenses, which increased from \$1,507 to \$2,641. As the company sees greater demand for its product, investments were made in production capacity. The Company received cumulative loans over the year, totaling \$6,611. R&D increased by \$422 or 81.5% as technical resources were hired to accelerate advanced in chip design. As the Company focuses its investments in LiDAR and AI, R&D investments are outpacing revenue growth for the near term but are expected to deliver returns over FY25. The Company hired 13 resources in production, software development and sales over the year.

The Company incurred a foreign exchange loss of \$18 for the quarter ended June 30, 2024 compared to a foreign exchange gain of \$33 for the comparable quarter in 2023.

Summary of Unaudited Quarterly Results

The following table sets forth unaudited summary results of operations for the past eight quarters. The information for the fiscal period ended December 31, 2021 and subsequent quarters has been taken from our unaudited consolidated financial statements that, in management’s opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the year ended June 30, 2024. All normal recurring adjustments necessary for a fair presentation of information presented, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the above-noted consolidated financial statements.

	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun
	2021	2022	2022	2022	2022	2023	2023	2023	2023	2024	2024
Revenue	\$ 422	\$ 442	\$ 539	\$ 554	\$ 422	\$ 492	\$ 493	\$ 225	\$ 340	\$ 412	\$ 624
Gross Margin	(139)	(79)	(134)	(380)	(338)	(318)	(337)	(670)	(534)	(610)	(515)
GM %	(32.9%)	(17.9%)	(24.9%)	(68.6%)	(80.1%)	(64.6%)	(68.4%)	(297.8%)	(157.1%)	(148.1%)	(82.6%)
Expenses											
Research & development	337	396	314	356	428	520	518	654	602	571	940
Sales & marketing	68	65	72	97	148	122	134	169	179	173	217
General & administration	323	509	698	784	628	694	893	941	780	706	1,496
Stock-based compensation	903	40	422	258	218	709	(38)	47	129	9	(12)
Expenses	1,631	1,010	1,506	1,495	1,422	2,045	1,507	1,811	1,690	1,459	2,641
Operating loss	(1,770)	(1,089)	(1,640)	(1,875)	(1,760)	(2,363)	(1,844)	(2,481)	(2,224)	(2,069)	(3,156)
Gain on recapitalization	17,332	-	(826)	-	-	-	-	-	-	-	-
Gain on modification of debt	-	149	411	-	-	-	-	-	-	-	-
Gain on forgiveness of debt	-	7	-	-	-	-	-	-	-	-	-
Finance expense	(6)	-	-	-	-	-	-	-	(30)	-	(281)
Interest expense	(668)	(194)	(310)	(319)	(386)	(459)	(595)	(12)	(1,570)	(867)	(1,418)
Gain on sale of property, plant and equip.	-	-	55	-	-	-	-	-	-	-	4
Other Income/Loss	-	-	-	-	-	-	19	6	12	-	(15)
Foreign exchange (loss) gain	43	13	(27)	(87)	51	(5)	33	20	8	(18)	(18)
Income taxes	-	-	204	158	179	211	437	-	-	-	-
Net income (loss)	14,931	(1,114)	(2,133)	(2,123)	(1,916)	(2,616)	(1,950)	(2,466)	(3,804)	(2,954)	(4,884)

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

NON-GAAP FINANCIAL MEASURES

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

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

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

	31-Dec 2022	31-Mar 2022	30-Jun 2022	30-Sep 2022	31-Dec 2022	31-Mar 2023	30-Jun 2023	30-Sep 2023	31-Dec 2023	31-Mar 2024	30-Jun 2024
Net income (loss) for the period	14,931	(1,114)	(2,133)	(2,123)	(1,916)	(2,616)	(1,950)	(2,466)	(3,804)	(2,954)	(4,884)
Add (deduct):											
(Income) loss from discontinued operations											
Gain on recapitalization	(17,332)	-	826	-	-	-	-	-	-	-	-
Gain on modification of debt	-	(149)	(411)	-	-	-	-	-	-	-	-
Gain on forgiveness of debt	-	(7)	-	-	-	-	-	-	-	-	-
Finance expense	6	-	-	-	-	-	-	-	30	-	281
Net interest and other expense	668	194	310	319	386	459	595	12	1,570	867	1,418
Amortization	35	35	35	44	49	52	53	53	54	51	537
Gain on sale of equipment	-	-	(55)	-	-	-	-	-	-	-	(4)
Foreign exchange (gain) loss	(43)	(13)	27	87	(51)	5	(33)	(20)	(8)	18	18
Stock-based compensation expense	903	40	422	258	218	709	(38)	47	129	9	(12)
Income tax (recovery) expense	-	-	(204)	(158)	(179)	(211)	(437)	-	-	-	-
"Adjusted EBITDA"	(832)	(1,014)	(1,183)	(1,573)	(1,492)	(1,600)	(1,808)	(2,375)	(2,029)	(2,009)	(2,646)

SUMMARY OF RESULTS FOR THE YEAR ENDED JUNE 30, 2024 COMPARED TO THE YEAR ENDED JUNE 30, 2023

The following table sets forth a summary of key earnings information from our consolidated financial statements for the year ended June 30, 2024 and 2023.

	<u>2024</u>	<u>2023</u>		
Revenues	\$ 1,601	\$ 1,961	\$ (361)	(18%)
Cost of revenues	3,930	3,297	633	19%
Loss on inventory impairment	-	37	(37)	<i>nmf</i>
<u>Gross margin</u>	<u>(2,329)</u>	<u>(1,373)</u>	<u>(956)</u>	<u>(70%)</u>
<i>Gross margin as % of revenue</i>	<i>(146%)</i>	<i>(70%)</i>		<i>(108%)</i>
Operating expenses:				
Research and development	2,767	1,822	945	52%
Sales and marketing	738	501	237	47%
General and administrative	3,923	2,999	924	31%
Stock based compensation	173	1,147	(974)	(85%)
<u>Total operating expenses</u>	<u>7,601</u>	<u>6,469</u>	<u>1,132</u>	<u>17%</u>
Loss from operations	(9,930)	(7,842)	(2,088)	27%
Other income (expenses):				
Finance expense	(311)	-	(311)	311
Finance/other income	7	19	(12)	12
Interest expense	(3,867)	(1,759)	(2,108)	(120%)
Foreign exchange gain (loss)	(8)	(8)	0	(4%)
Loss before taxes	(14,108)	(9,590)	(4,518)	(47%)
Income taxes	-	985	- 985	
Net loss	(14,108)	(8,605)	(5,503)	39%
Other comprehensive income (net of tax):				
Foreign currency translation gain (loss)	503	134	369	(275%)
<u>Comprehensive loss</u>	<u>\$ (13,605)</u>	<u>\$ (8,471)</u>	<u>\$ (5,134)</u>	<u>(61%)</u>

Enableness converts foreign currency-denominated transactions related to the statement of comprehensive loss at the average exchange rates for the periods. As such, changes in the exchange rate between the United States dollar and the Canadian dollar can have an impact on the reported results for each fiscal period as well as changes in the exchange rate between the Chinese renminbi (RMB). The average exchange rate for year ended June 30, 2024 in terms of the Canadian dollar equivalent of US\$1 was CAD \$1.3551 (2023 – CAD \$1.3398) and in terms of the Chinese RMB equivalent of US\$1 was RMB \$7.225 (2023 – RMB \$6.9527)

REVENUE

Revenue for the year ended June 30, 2024 was \$1,601 as compared to \$1,961 for the prior year, a decrease of \$360, or 18%. This year saw an increase in NRE revenue to \$578, up from \$466, as customers sought out new products in AI, LiDAR, and Medical Imaging. A temporary shift in revenue to NRE is a precursor to future production revenue through the manufacturing of the completed designs.

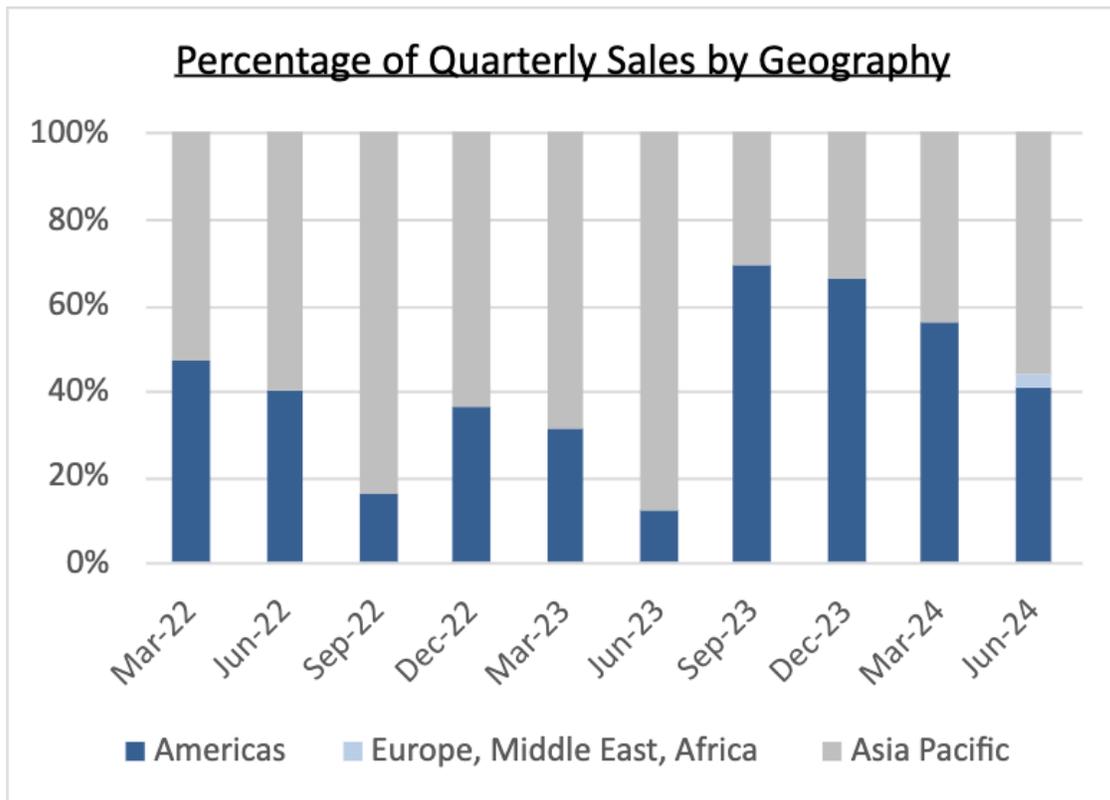
During the year ended June 30, 2024, eight customers accounted for 79% of the Company's total revenue (2023 – seven customers, 82%). Enableness continues to focus on diversifying customers, geographies, and applications.

In the year ended June 30, 2024, the Company processed sales to 25 separate customers across its business, a decrease in total customers in the same period in the prior year (2023 – 32 customers).

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

	June 30, 2024	June 30, 2023
	\$	\$
Americas	655	452
Europe, Middle East, Africa	50	-
Asia Pacific	896	1,509
	1,601	1,961

As previously reported, the Company has focused its sales efforts on the Americas markets since the beginning of 2020. For the year ended June 30, 2024, the Company's Americas business increased by 45% (2023 – decline of 63%), as the focus on Americas regains traction and secures some new customers. Over the same period, APAC declined 41% to \$896. The Company will gain momentum in its Americas business since it has the only non-captive (i.e., not owned by, or beholden to, one customer) optical chip fabrication plant in North America and it can deliver its products faster to local customers than competitors who primarily manufacture products in Asia. Production is at capacity, with the fab getting increased investments in equipment to stretch capacity to meet increased market demand. It is the Company's intention to continue to prioritize growth in the Americas business in the near-term.



For the year ended June 30, 2024, 53% of the Company's revenue is comprised of product revenue (2023: 62%) which includes amounts relating to recurring third-party fabrication services revenue from work performed at the Company's Fremont facility, and 36% is comprised of non-recurring engineering revenue (2023: 24%). Product revenue generally results from the sale of wafers/chips to end customers while NRE revenue is comprised of new research and development projects for customers. Often, NRE projects result in long-term recurring product revenue for the Company once it has solved a design challenge for the customer. In this sense, stability or growth in the percentage of NRE revenues can be seen as a positive leading indicator for future revenues of the Company as it indicates increasing demand for new engineering services from customers.

The split of revenue between product sales of optical chips, NRE and Fab services revenue is as follows:

	June 30, 2024	June 30, 2023
	\$	\$
Product	848	1,214
NRE	578	466
Fab Service	175	281
	1,601	1,961

Fab services declined 38% to \$175 in June 30, 2024 from \$281 the previous year. Fab services represent an overflow in that it uses available fab space but generally it is not stable revenue. Product and NRE sales declined over that same period to a combined \$1,426, representing a 15% decline. The Company is moving towards more product and NRE sales, which are more predictable and stable. NRE will only grow as fast as the Company can add designers.

GROSS MARGIN

The Company's cost of revenues is comprised of several elements, some of which vary directly with the level of revenues, such as material costs and the cost of products manufactured by third parties, and some of which do not vary significantly with the level of revenues, including many overhead costs such as compensation of operations staff, amortization and facilities costs. In general, the Company's costs are heavily skewed towards fixed costs because of the operation of its fabrication plant in Fremont, California and the significant number of staff needed at that operation, particularly in the areas of testing and processing once wafers and chips have been completed.

Gross margin for the year ended June 30, 2024 was (\$2,329) as compared to (\$1,373) for the prior year, a decline of \$956, or 70%. The decline is due primarily to flat revenues matched with a significant investment in wafer fabrication in support of a ramp up in wafer production. Early investment was necessary to counter any risks to capacity constraints for the pipeline opportunities.

OPERATING EXPENSES

Research & development ("R&D") expense for the year ended June 30, 2024 was \$2,767 as compared to \$1,822 for the prior year, an increase of \$945, or 52%.

The increase in 2024 versus 2023 reflects the investment in additional specialized engineers as the company seizes growing market opportunities in LiDAR and AI.

Sales & marketing expense for the year ended June 30, 2024 was \$738 as compared to \$501 for the prior year, an increase of \$237, or 47%. The increase was driven by investments in product marketing, demand generation and increased brand exposure, reflective of the growth in product demand.

General & administration expense for the year ended June 30, 2024 was \$3,923 as compared to \$2,999 for the prior year, an increase of \$924, or 31%.

The increase is due to higher compensation costs of \$1,692, up from \$1,257, relating to an increase in headcount and moderate raises, insurance, and depreciation as the company has long term leases in Fremont (3-Year) and Suzhou, China (4-Year).

Stock-based compensation expense for the year ended June 30, 2024 was \$173 as compared to \$1,147 for the prior year, a decrease of \$974 or 84.9%.

During the 2024 fiscal year, the Company awarded options, but did not award RSUs and DSUs to certain employees and the directors of the Company under the terms of the updated omnibus equity incentive plan approved by the Company's common shareholders at the AGM on October 26, 2021.

Total stock-based compensation expense during the year ended June 30, 2024 relating to current and prior year grants was \$175 (2023 - \$1,147) of which \$82 relates to stock options (2023- \$651), \$85 relates to RSU grants (2023 - \$268), and \$9 (2023 - \$229), relates to grants of DSUs. For the year ended June 30, 2024, of the total stock-based compensation expense \$69 (2023 - \$919) was attributable to general and administrative personnel and \$Nil (2023 - \$229) relates to members of the Company's Board.

As at June 30, 2024, \$175 of stock-based compensation expense related to stock options, RSUs, and DSUs is included in contributed surplus (2023 - \$1,147)

GAIN ON DISPOSAL OF PROPERTY, PLANT, AND EQUIPMENT

During the year ended June 30, 2024, the Company disposed of certain lab equipment and recognized a loss of \$14. The equipment was partially depreciated, writing off the balance of \$9.

FINANCE/OTHER INCOME

During the year ended June 30, 2024, the Company did not gain from financing or other income.

INTEREST EXPENSE

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

Interest and finance expense for the year ended June 30, 2024 was \$4,178 as compared to \$1,759 for the same period of the prior year, an increase of \$2,419, or 137%. The increase was driven by three loans from Pinnacle Island LP that were consolidated into on loan agreement issued on April 3, 2024 for \$6,561. The loans supported working capital requirements as the Company ramps up headcount and production capacity.

Notes payable were as follows at June 30, 2024:

	June 30, 2024	June 30, 2023
	\$	\$
RBC loans (a)	89	91
Loan from Vortex (b) (Related Party)	9,695	7,943
Loan from Irix (c)	399	378
Loan from Burney (d) (Related Party)	50	
Loans from Pinnacle (e)	7,069	-
	17,302	8,412
Less current portion	538	469
Long-term portion	16,764	7,943

- a) As at June 30, 2024, the RBC loan balance is \$89 (June 30, 2023 - \$91). 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. As at June 30, 2024, the RBC loan balance of \$89 included interest of \$1.5. The balance of the loan, must be paid in full no later than December 31, 2026.

- b) At June 30, 2023, Vortex advanced to the Company an additional \$6,333 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% 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 has been recorded as notes payable and the portion of advances relating to below-market interest rates of \$2,654 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 11), \$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 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 11) 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.

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.

Year-ended 2024

As at June 30, 2024, the discounted carrying value of the balance owing on the Vortex LP term facility is \$9,695 (2023 - \$7,943), inclusive of accretion of \$2,114 (2023 - \$8). The face value of the senior secured loan payable to Vortex was \$12,905 as at June 30, 2024 inclusive of interest and fees.

On January 26, 2024 the Company entered into an Intercreditor Agreement with Vortex ENA and Pinnacle Island LP. A key tenet within the agreement is that (a) the Pinnacle Obligations are fully subordinated to the prior irrevocable performance and repayment in full of all Vortex Obligations, and (b) the Vortex Obligations and the Vortex Security have priority, to the full extent of the Vortex Obligations, over the Pinnacle Obligations and the Pinnacle Security in all respects and at all times. For greater certainty, the Security in connection with any Obligor's Assets ranks in descending order of priority, first, the Vortex Security to the full extent of the Vortex Obligations, and second, the Pinnacle Security to the full extent of the Pinnacle Obligations.

None of Vortex's rights to enforce the subordinations and postponements provided in this agreement will be prejudiced or impaired in any way by (a) any act or failure to act by any Obligor, (b) any act or failure to act by Vortex (or any agent of or trustee for Vortex), or (c) any non-compliance by any Obligor, Pinnacle, or any holder of the Pinnacle Obligations with any of the agreements or instruments relating to the Pinnacle Obligations, regardless of any knowledge of that non-compliance of which Vortex may have or otherwise be charged.

On April 3, the Company signed a First Amendment to the Second Amended and Restated Loan agreement with Vortex ENA LP. In this amendment, the lender has revised language on the Liquidity Event and Pinnacle Debenture documentation, amending the Original Loan agreement to include Pinnacle Loan Agreement documentation. Section 4 of Schedule A to the Original Loan agreement is amended with the following language as it relates to Pinnacle LP: if any Transaction Party (i) fails to pay any amount due, under any one or more loans or guarantees to which it is a party, on the due date or within any applicable grace period or (ii) is otherwise in default under any one or more agreements evidencing its indebtedness or guarantee to which it is a party (including, for certainty and in each case, any of the Pinnacle Debenture Documentation or the Pinnacle Loan Agreement Documentation);" The agreement also stipulates that the Company pays the Lender an amendment fee of \$128, which is fully earned as of the date of this first amendment and the Lender agrees to defer payment until the Maturity date of July 31, 2025.

- 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, 2024, a total of \$23 (2023 - \$16) of interest has been accrued and the amount owing on the note payable is \$399 (2023 - \$378). The Company did not repay the note on its due date of May 31, 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.
- d) On November 16, 2023, the Company received a Demand Promissory Note in exchange for \$50, with a \$5 issuance fee within the first year and a subsequent 10% interest per annum for

outstanding interest beyond the first year. The Demand Promissory note was issued by the board Chairman and related party, Derek J. Burney.

- e) On December 13, 2023, the Company and Pinnacle signed a Demand Promissory Note in exchange for \$1,505, with a 10% interest rate per annum, accruing from the date of signature. The funds were issued in support of working capital requirements. From the face value of \$1,505, \$30 represented a structuring fee (2%), which was paid to the lender out of the proceeds. The Promissory Note is payable on demand to the Lender and bears an interest rate of 10% per annum calculated monthly in arrears, on the basis of the actual number of days elapsed and on the basis of a year of 365 days. The Promissory Note has been accruing interest from the date it was issued and will cease to accrue interest on the date of repayment. The Company may, at its option, make payment of, in the manner contemplated in the Promissory Note, all or any part of their indebtedness outstanding pursuant to the Promissory Note, without bonus or penalty. The Demand Promissory note structuring fee forms part of the principal amount, as it was paid by the Company to the Lender from the proceeds of the Promissory Note. The Promissory Note is not convertible into common shares of the Company and is presently unsecured. As a result, no fair value assessment was done to create an interest accretion charge.

On January 30, 2024, the Company and Pinnacle Island entered into a Loan Agreement which would provide the Company with a subordinated secured non-revolving term loan (the "Loan Facility") in the maximum principal amount of \$3,200, with such amount being comprised of: (i) the Promissory Note Principal Amount; (ii) \$18 representing interest on the Promissory Note Principal Amount¹; (iii) \$1,635, representing the additional cash that will be advanced to the Company; and (iv) \$33, representing a portion of the Loan Agreement Structuring Fee that will be payable in connection with the Loan Transaction as discussed below. Conditional in the Loan were directed funds of \$142 that were used to reduce outstanding payables. The principal amount outstanding under the Loan Facility shall bear interest at rate of 12% per annum and has a maturity date of July 31, 2025. Interest shall accrue both before and after maturity, demand, default and judgement. Interest shall be calculated monthly in arrears, on the basis of the actual number of days elapsed and on the basis of a year of 365 days and shall accrue from the date of the Loan Agreement until actual repayment. The Company used the proceeds from the Loan Facility to finance its working capital requirements.

As additional consideration for entering into the Loan Agreement, the Company agreed to pay a structuring fee to the Lender of \$160 of which (i) \$30 was previously paid to the Lender, being the Promissory Note Structuring Fee that was paid to the Lender when the Promissory Note Principal Amount was advanced to the Company, and (ii) \$33 will be paid to the Lender upon entering into the Loan Agreement. The remaining balance of the Loan Agreement Structuring Fee, being \$97, will be paid to the Lender on July 31, 2025, being the Maturity Date. The Loan Facility will be a secured obligation of the Company. In order to secure the Company's obligations under the Loan Facility, the Loan Agreement provides that, within 30 days of the date of the Loan Agreement: (i) the Company will execute and deliver a general security agreement granting the Lender a second priority security interest over all of the present and after-acquired assets of the Issuer and a second priority pledge of the shares of Enablene Canada Inc. ("Enablene Canada") and Enablene USA Inc. ("Enablene USA"); (ii) each of Enablene Canada, Enablene USA and Enable USA Components Inc. ("Enablene Components", and together with Enablene Canada and Enablene USA, the "Guarantors") will execute and deliver a guarantee (a "Subsidiary Guarantee") and a general security agreement (a "Subsidiary GSA") granting the Lender a second priority security interest over all of its present and after-acquired assets.

The Demand Promissory Note issued on December 13 was extinguished as part of this consolidation of the loans under this new Loan Agreement. The carrying balance assumed the increased interest rate of 12% up from 10% in the original Promissory Note. An extinguishment charge of \$127 was taken to legal expenses

Legal costs of \$46 were accrued for completion of this new loan agreement. The funds for this loan were partially used to pay outstanding legal fees of \$139.

On April 3, 2024, the Company and Pinnacle Island entered into a Loan Agreement which would provide the Company with a subordinated secured non-revolving term loan (the "Loan Facility") in the maximum principal amount of \$6,828, with such amount being comprised of the existing Loan Agreement January 30 carrying amount of \$3,338 and face value amount of \$3,490. From the face value amount, the Company redirected funds of; (i) \$309 of interest payment toward the Convertible Debentures interest owing; (ii) \$18 of legal fees to the Lender, (iii) \$200 toward outstanding payables. The Company was also required to pay a restructuring fee of \$156, which will be deferred for repayment upon the Loan maturity date of July 31, 2025. A modification charge of \$16 was recognized.

As part of this Loan agreement, the Company entered into a First Amendment to the Second Amended and Restated Loan Agreement between Enablece and Vortex from June 27, 2023. The First Amendment to the Second Amended and Restated Loan agreement include revised language to Liquidity event and loan documentation and a reiteration of acknowledgements and confirmations to terms held within the original agreement. The First Amendment to the Original Loan agreement also updated language around Liquidity event and cited a revised Intercreditor agreement, which provides updates to the Original Intercreditor Agreement from January 30, 2024. In this funding event, an amendment was made to the Intercreditor Agreement from January 30, 2024, in which all elements of the first Intercreditor Agreement hold true with the addition of definitions around Pinnacle Loan Agreements and Vortex Loan Agreements.

On June 30, 2024, legal costs of \$64 were accrued toward the completion of this agreement. The funds for this loan were partially used to pay outstanding legal fees of \$203. The interest accrued at June 30, 2024 is \$197 and the accretion of the legal costs is \$8. The difference between the carrying amount at modification date and its fair value resulted in a modification loss of \$16, which was taken into legal expense.

FOREIGN EXCHANGE GAIN (LOSS)

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

During the year ended June 30, 2024, the Company recorded a foreign exchange loss of \$8 compared to a foreign exchange loss of \$8 for the prior year.

INCOME TAXES

Income tax expense is recognized based on the annual income tax rate for the fiscal year multiplied by the pre-tax income. 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:

	2024	2023
	\$	\$
Expected tax rate	26.50%	26.50%
Expected tax benefit from loss	(3,656)	(2,546)
Increase (decrease) in taxes from		
Permanent differences	757	880
Benefit of loss carryforwards and other temporary differences not recognized	(4,351)	(6,268)
Expired losses	7,539	7,251
Rate change related to opening temporary differences	-	-
Rate differential on tax jurisdictions	(115)	(64)
Other	(174)	(245)
	-	(985)

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.

As a result of the operating losses, there were no income taxes payable or recoverable during the year ended June 30, 2024, compared with the \$985 tax loss provision for the previous year.

NET LOSS

The net loss for the year ended June 30, 2024 was a loss of \$14,108 as compared to a loss of \$8,605 for the prior year, an increase of \$5,503, or 39%. The higher loss was driven by investments in manufacturing capacity and production as well as an increase in interest expenses from the additional loans.

FOREIGN CURRENCY TRANSLATION GAIN (LOSS)

During the year ended June 30, 2024, the Company recorded a foreign exchange translation gain of \$503, as compared to a gain of \$134 for the prior year. This is the result of conversion of the Company's operations that are being transacted in non-US\$ currencies (Canadian dollar and Chinese Renminbi), being converted to the Company's reporting currency, which is the U.S. dollar.

INCOME (LOSS) PER COMMON SHARE

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

Net income (loss) per share - basic	(\$0.75)	(\$0.47)
Net income (loss) per share - diluted	(\$0.75)	(\$0.47)
Weighted average number of outstanding shares - basic	18,914	18,590
Weighted average number of outstanding shares - diluted	18,914	18,590

During the year ending June 30, 2024, the Company did not issue RSUs and DSUs to certain employees and directors under the terms of its Equity Incentive Plan. At the discretion of the Board, RSUs and DSUs may be redeemed and settled, all or in portion, in shares issued from treasury.

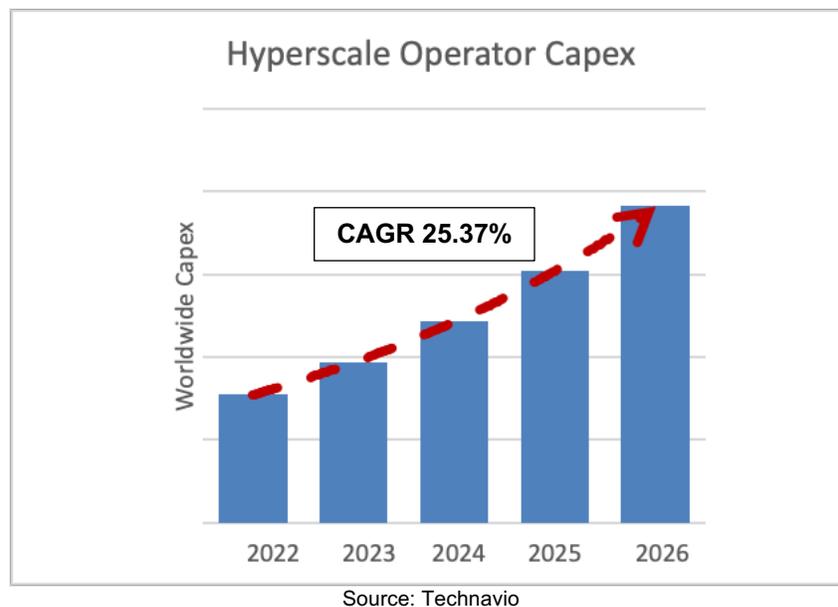
The potential effect of the exercise of stock options, warrants and convertible debentures are antidilutive as all stock options and convertible debenture conversion rights are out-of-the money based on the Company's last reported share price; therefore, as of the end of the year, 4,424 potentially dilutive shares from the exercise of stock options, warrants and convertible debentures have not been included in the calculation of net loss per share (diluted).

OUTLOOK

The Company continues to develop its core competency in PLC optical chip design and fabrication, targeting high-growth markets – such as data centers, and the advanced vision applications to which the Company's PLC technology is uniquely suited, including LiDAR, AI OCT, and AR/VR. Of particular note is the expansion of the market for Optics. The Company is not only seeing strong future demand in traditional optical communications segment but optical sensing is seeing innovative new broad market applications particularly in automotive, medical, as well as aerospace and defense. Additionally, the market for optical compute has finally arrived and markets will see the first commercial AI data center products manufactured with Enablence chips entering production in calendar year 2025.

Datacoms:

Data center construction continues to grow globally to support a number of cloud-based services, including computing, storage, databases, and Internet of Things, among many others. Mega-cap cloud computing companies (Alphabet, Amazon, Apple, Meta Platforms, Microsoft) continue to spend on the construction of hyperscale data centers. The size of the hyperscale data center market, which directly affects the Company's revenue prospects, is projected to grow at a CAGR more than 25% over the next five years.



Enablence has developed a series of compact PLC optical chips - multiplexers and demultiplexers - that are used in multi-channel high-speed optical transceivers in our target markets. In the past three years, we worked closely with our customers and contract manufacturers to ensure our products meet their design and process specifications. The combination of growing data center and emerging photonics markets will drive increasing demand for optical chips such as those manufactured by Enablence over the coming 5 years. To meet increasing optical networking performance requirements Enablence is releasing a full line of new datacoms products for short, medium, and long-range applications with industry leading speeds up to 800 Gb/sec.

In 2023, the industry saw a massive shift in datacenters as they adjusted roadmaps to support the explosion of AI market demand. AI computing is particularly well suited to PLC technology as it is exceptionally efficient and has a high-power capacity both of which are critical to data center AI deployments. To meet the demands of this market shift, Enablence will deliver a new product line in the coming fiscal year.

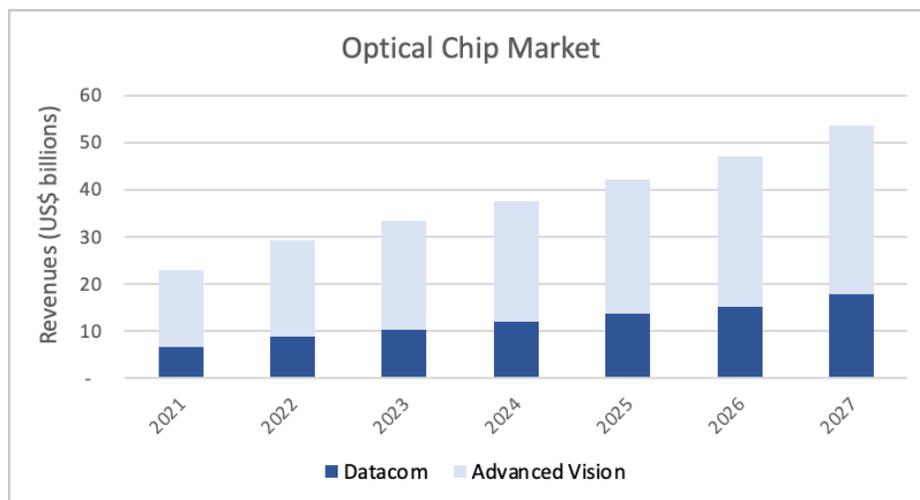
This fiscal year Enablence achieved record monthly output at our fab. We continue to focus on increasing the size of recurring chip orders from existing customers while adding new customers particularly in geographically and industry diversified, through targeted NRE projects and traditional sales channels for existing and new chip designs. We will also selectively offer our fabrication facility services to third-party customers that we believe are strategic to our business or where the relationship can help Enablence quickly access emerging markets for optical products, increasing our revenue generating capabilities and helping offset our fixed cost operations.

Advanced Vision:

In the normal course, Enablence examines other strategic opportunities in markets beyond data centers. For example, the Company is currently leveraging its world-class optics knowledge to develop products for customers in need of Light Detection and Ranging (“LiDAR”) solutions for autonomous vehicle applications and warehousing automation. We are currently working with U.S., European, and Asian customers in the LiDAR industry on design projects and anticipate additional long-term demand increases from these customers as they complete testing of our products and move forward with the commercial launch of products in the coming 12 to 24 months.

In addition, the Company is working with a mega-cap technology company to deliver optical chips for use in augmented and virtual reality devices, a market that Enablence expects to grow significantly in the coming years. Other recent projects in the medical device (including an ongoing project for a startup company backed by a prominent university and consumer products company focused on optical tomography) and sensor markets will provide additional opportunities for growth in the future as these markets materialize and grow.

Both the Datacoms and Advanced Vision sectors of the global optical chip market are expected to experience robust growth over the next several years.



Source: Yole Development; Technavio Market reports (2021-22); Company Estimates.

To meet increasing customer demand, the Company increased production capacity at its fabrication plant from the average 100-150 wafer per month production rate during fiscal 2022, to a potential 400 wafers per month in fiscal 2023. The Company also plans to invest in testing

equipment and skilled research staff in the Company's location in Ottawa, allowing the research and design team to more rapidly iterate new designs and expand our customer base. This investment in R&D will support the expected increase in demand for the Company's NRE services, which is critical to the Company future growth in optical chip product sales.

Last year the company highlighted three challenges, stabilizing manufacturing at higher production volumes, decreasing R&D cycle times, and accessing required capital. All areas were successfully addressed. At a 400 wafer per month capacity, the company could deliver 83% yields, up over 10%. The R&D cycle time was reduced by 50% from 12 weeks to 6 weeks. Finally, the company raised \$11m in the capital markets.

Going forward the company faces four significant challenges:

1. Increased capacity to meet projected demand – despite increasing capacity in its fab, the current sales pipeline indicates additional capacity will be required to fulfill orders. Given it takes 12 months or more to add meaningful capacity it must plan sufficiently in advance.
2. Additional access to capital – wafer fabrication is a capital intensive business and expanding capacity will require access to additional capital to meet customer demands sufficiently in advance of those demands.
3. Delivering designs that meet the strident AI and LiDAR requirements on the required schedule – while PLC technology is well suited to these applications, they have exacting requirements which will require R&D focus to address.
4. Scaling global sales – AI sales are squarely in datacoms and will benefit from existing sales relationships. LiDAR on the other hand, requires an expanded go to market motion that will include hiring sales and expanding marketing.

LIQUIDITY

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

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. As at June 30, 2024, there are 18,914 common shares and no preferred shares outstanding after giving effect to the 120:1 consolidation of common shares which occurred during the year ended June 30, 2022 (see "*Recapitalization*").

The Company has sustained significant losses since its inception and expects to continue to incur losses over the short term as it is now ramping up its manufacturing capacity to address the increase in demand. The Company's ability to reach profitability is dependent on successful introduction of new products, improved margins, revenue growth, the completion of required maintenance and upgrades to its fabrication facility and the securing of additional financing to support this growth. There can be no assurance that Enablence will gain adequate market

acceptance for its new products or be able to generate sufficient gross margins to reach profitability; however, as noted above under “Outlook”, management of the Company is focused on addressing these issues.

Enableness has not generated positive cash flow from operations since its inception and has relied on cash from the issuance of equity and debt to fund its operations. The table below sets out the Company’s cash and cash equivalents, and working capital as at June 30, 2024 and 2023:

	June 30, 2024	June 30, 2023
Cash	610	\$4,219
Restricted Cash	\$4	\$4
	614	\$4,223
Working Capital (Deficiency)	(\$5,848)	(\$1,385)

The working capital deficiency from operations at June 30, 2024 was \$5,848 as compared to a working capital deficiency of \$1,385 at June 30, 2023. The increase in the working capital deficiency during the year ended June 30, 2024 is due to increased operating expenses and manufacturing investments.

As at June 30, 2024, the Company had cash available of \$610 (not including \$4 of restricted cash). The Company consumed \$9,032 in operating activities for the year ended June 30, 2024 as compared to \$5,592 in the prior year. The increase in cash used in operations in the year ended June 30, 2024 as compared to the prior year is primarily the result of investments in manufacturing capacity, increased headcount across sales, product and development, and for interest payments. This increase in cash used in operating activities extended the Company’s reliance on external financing (see *Notes payable financing*, below).

The chart below highlights the Company’s cash flows for the years ended June 30, 2024 and 2023:

	Year ended June 30	
	2024	2023
Cash used in Operating activities	(9,032)	(5,592)
Investing activities		
Purchase of property, plant, and equipment	(340)	(515)
Proceeds on disposal of property, plant, and equipment	-	-
Total cash used in investing activities	(340)	(515)
Financing activities		
Advances from short-term notes payable	50	-
Advances from long-term notes payable	6,561	6,264
Advances from Convertible Debentures	-	8,218
Repayments of long-term notes payable	(314)	(3,287)
Net proceeds from issuance of shares	68	-
Debt financing costs	-	(168)
Principal payments under capital lease obligations	(392)	-
Total cash from financing activities	5,973	11,027
Effect of foreign currency translation	(210)	(888)
Net change in cash and cash equivalents	(3,609)	4,032

Notes Payable Financing:

On November 16, 2023, the Company received a Demand Promissory Note in exchange for \$50, with a \$5 issuance fee within the first year and a subsequent 10% interest per annum for outstanding interest beyond the first year. The Demand Promissory note was issued by the board Chairman and related party, Derek J. Burney.

On December 13, 2023, the Company and Pinnacle signed a Demand Promissory Note in exchange for \$1,505, with a 10% interest rate per annum, accruing from the date of signature. The funds were issued in support of working capital requirements. From the face value of \$1,543, \$31 represented a structuring fee (2%), which was paid to the lender out of the proceeds. The Promissory Note is payable on demand to the Lender and bears an interest rate of 10% per annum calculated monthly in arrears, on the basis of the actual number of days elapsed and on the basis of a year of 365 days. The Promissory Note has been accruing interest from the date it was issued and will cease to accrue interest on the date of repayment. The Company may, at its option, make payment of, in the manner contemplated in the Promissory Note, all or any part of their indebtedness outstanding pursuant to the Promissory Note, without bonus or penalty. The Company paid a structuring fee to the Lender of 2% of the Promissory Note Principal Amount. The Demand Promissory note structuring fee forms part of the principal amount, as it was paid by the Company to the Lender from the proceeds of the Promissory Note. The Promissory Note is not convertible into common shares of the Company and is presently unsecured. As a result, no fair value assessment was done to create an interest accretion charge.

On January 30, 2024, the Company and Pinnacle Island entered into a Loan Agreement which would provide the Company with a subordinated secured non-revolving term loan (the "Loan Facility") in the maximum principal amount of \$3,200, with such amount being comprised of: (i) the Promissory Note Principal Amount; (ii) \$18 representing interest on the Promissory Note Principal Amount¹; (iii) \$1,635, representing the additional cash that will be advanced to the Company; and (iv) \$33, representing a portion of the Loan Agreement Structuring Fee that will be payable in connection with the Loan Transaction as discussed below. Conditional in the Loan were directed funds of \$142 that were used to reduce outstanding payables to Bennett Jones and Cassels. The principal amount outstanding under the Loan Facility shall bear interest at rate of 12% per annum, and has a maturity date of July 31, 2025. Interest shall accrue both before and after maturity, demand, default and judgement. Interest shall be calculated monthly in arrears, on the basis of the actual number of days elapsed and on the basis of a year of 365 days and shall accrue from the date of the Loan Agreement until actual repayment. The Company used the proceeds from the Loan Facility to finance its working capital requirements.

As additional consideration for entering into the Loan Agreement, the Company agreed to pay a structuring fee to the Lender of \$160 of which (i) \$30 was previously paid to the Lender, being the Promissory Note Structuring Fee that was paid to the Lender when the Promissory Note Principal Amount was advanced to the Company, and (ii) \$33 will be paid to the Lender upon entering into the Loan Agreement. The remaining balance of the Loan Agreement Structuring Fee, being \$97, will be paid to the Lender on July 31, 2025, being the Maturity Date. The Loan Facility will be a secured obligation of the Company. In order to secure the Company's obligations under the Loan Facility, the Loan Agreement provides that, within 30 days of the date of the Loan Agreement: (i) the Company will execute and deliver a general security agreement granting the Lender a second priority security interest over all of the present and after-acquired assets of the Issuer and a second priority pledge of the shares of Enableness Canada Inc. ("Enableness Canada") and Enableness USA Inc. ("Enableness USA"); (ii) each of Enableness Canada, Enableness USA and Enableness USA Components Inc. ("Enableness Components", and together with Enableness Canada and Enableness USA, the "Guarantors") will execute and deliver a guarantee (a "Subsidiary Guarantee") and a general security agreement (a "Subsidiary GSA") granting the Lender a second priority security interest over all of its present and after-acquired assets. The Loan Agreement also provides that the Issuer, the Guarantors, the Lender and Vortex ENA LP is considered a "related party" of the Issuer. The Issuer notes that the sole officer and director of the general partner of the Lender is also the sole officer and director of the general partner of Vortex ENA LP.

As a result of such relationships and their respective interests in the success of the Issuer, the Lender and Vortex ENA LP may be considered to be acting jointly or in concert. Accordingly, the entering into of the Loan Agreement and the granting of security discussed above is considered a "related party transaction" for purposes of Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions ("MI 61-101"). The Issuer is relying on exemptions from the formal valuation and minority shareholder approval requirements available under MI 61-101. The Issuer is exempt from the formal valuation requirement in Section 5.4 of MI 61-101 in reliance on Section 5.5(b) of MI 61-101, as no securities of the Issuer are listed on a specified market under MI 61-101. Additionally, the Issuer is exempt from the minority shareholder approval requirement in Section 5.6 of MI 61-101 in reliance on Section 5.7(1)(f) of MI 61-101 in respect of the Loan Transaction, as such loan is not convertible directly or indirectly, into equity or voting securities of the Issuer.

In connection with the Loan Transaction, the Lender also entered into the Amended and Restated Convertible Debenture to reflect that the repayment obligations of the Issuer are secured on the same basis as the Issuer's repayment obligations under the Loan Facility. The Company GSA and each Subsidiary Guarantee and Subsidiary GSA will grant a second priority security interest as security for the Issuer's repayment obligations under the Amended and Restated Convertible Debenture upon the effective date of the Amended and Restated Convertible Debenture (which is expected to be March 7, 2024), as discussed in more detail below. There are no changes proposed to the maturity date, principal amount or conversion price of the Convertible Debenture. In accordance with the terms of the Convertible Debenture (and which term will not be amended in the Amended and Restated Convertible Debenture), the Lender could convert the principal into Common Shares representing over 20% of the issued and outstanding Common Shares. Therefore, the Amended and Restated Convertible Debenture will retain the "blocker" provision which stipulates that, until the Issuer obtains disinterested shareholder approval of the creation of the Lender as a potential new control person of the Issuer (the "Control Person Approval"), the Lender may not convert any portion of the principal amount of the Amended and Restated Convertible Debenture to the extent that such issuance of Common Shares results in the Lender holding Common Shares that exceed 19.9% of the then issued and outstanding Common Shares. On March 7, 2024, The Company sought and received the Control Person Approval at its annual and special meeting of shareholders. For the same reasons noted above, since the Lender may be considered to be acting jointly or in concert with Vortex ENA LP, a "related party" of the Issuer, the CD Amendment is a "related party transaction" of the Company for purposes of MI 61-101. Although it does not impact the availability of the exemption from the requirement for minority shareholder approval for the Loan Transaction, the Convertible Debentures Amendment may also be considered a "connected transaction" with the Loan Transaction, since it involves the same parties and was negotiated concurrently. While the Issuer is exempt from the formal valuation requirement in Section 5.4 of MI 61-101 in reliance on Section 5.5(b) of MI 61-101, as no securities of the Issuer are listed on a specified market under MI 61-101, the Issuer is not exempt from the minority shareholder approval requirements under MI 61-101 in respect of the Convertible Debenture Amendment. As such, the Company obtained minority shareholder approval for the Convertible Debenture Amendment at the annual general and special meeting (along with the Control Person Approval).

The Demand Promissory Note issued on December 13 was extinguished as part of this consolidation of the loans under this new Loan Agreement. The carrying balance assumed the increased interest rate of 12% up from 10% in the original Promissory Note. An extinguishment charge of \$127 was taken to legal expenses

Legal costs of \$46 were accrued for completion of this new loan agreement. The funds for this loan were partially used to pay outstanding legal fees of \$139. The interest accrued at June 30, 2024 is \$162.

On April 3, 2024, the Company and Pinnacle Island entered into a Loan Agreement which would provide the Company with a subordinated secured non-revolving term loan (the "Loan Facility") in the maximum principal amount of \$6,828, with such amount being comprised of the existing

Loan Agreement January 30 carrying amount of \$3,193 and face value amount of \$3,940. From the face value amount, the Company redirected funds of; (i) \$309 of interest payment toward the Convertible Debentures interest owing; (ii) \$18 of legal fees to the Lender, (iii) \$200 toward outstanding payables and prepaid legal fees for Bennett Jones and Cassels. The Company was also required to pay a restructuring fee of \$156, which will be deferred for repayment upon the Loan maturity date of July 31, 2025.

As part of this Loan agreement, the Company entered into a First Amendment to the Second Amended and Restated Loan Agreement between Enablence and Vortex from June 27, 2023. The First Amendment to the Second Amended and Restated Loan agreement include revised language to Liquidity event and loan documentation and a reiteration of acknowledgements and confirmations to terms held within the original agreement. The First Amendment to the Original Loan agreement also updated language around Liquidity event and cited a revised Intercreditor agreement, which provides updates to the Original Intercreditor Agreement from January 30, 2024. In this funding event, an amendment was made to the Intercreditor Agreement from January 30, 2024, in which all elements of the first Intercreditor Agreement hold true with the addition of definitions around Pinnacle Loan Agreements and Vortex Loan Agreements, making the two all-encompassing for the outstanding loan agreements between the parties.

On June 30, 2024, legal costs of \$64 were accrued toward the completion of this agreement. The funds for this loan were partially used to pay outstanding legal fees of \$203. The interest accrued at June 30, 2024 is \$197 and the accretion of the legal costs is \$8. The prior loan agreement carrying value of \$3.2 resulted in a modification loss of \$16, which was taken into legal expense.

BOARD AND MANAGEMENT

Derek J. Burney, Louis De Jong, Oded Tal and Dan Huff are the Directors of the Company. Mr. Derek J. Burney became Chair of the Board of Directors following the Annual General and Special Meeting on March 7, 2024. Mr. De Jong acts as Chair of the Audit Committee and Mr. Dan Huff replaced Mr. Derek J. Burney as Chair of the Compensation Committee.

CAPITAL RESOURCES

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

The Company periodically evaluates the opportunity to raise additional funds through either the public or private placements of equity and debt capital to strengthen its financial position and to provide sufficient cash reserves to protect itself from the effects of the volatile economic conditions that are difficult to predict. Please refer to the section entitled *Risks and Uncertainties* for more information.

See the *Liquidity*, *Interest Expense* and *Subsequent Events* sections above for details on financings completed during the year ended June 30, 2024 and for loans obtained subsequent to year end. As stated in the *Liquidity* section above, the Company has been able to raise additional long-term and short-term loan financing to support its operating deficits and growth needs. It is expected that the Company will have the ability to access a number of different financing sources, including traditional debt and equity options, to finance future operations and growth needs.

Enablence is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There are 18,914 common shares issued and outstanding as of June 30, 2024 and no preferred shares issued and outstanding. The common shares of Enablence trade on the TSX Venture Exchange under the symbol "ENA" or "ENA.V".

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

The table below presents the Company's contractual obligations from operations:

As at June 30, 2024	Current		Non-Current		Total
	within 6 months	6 to 12 months	1 to 5 years	5+ years	
	\$	\$	\$		\$
Accounts payable and accrued liabilities	6,691	-	-	-	6,691
Notes payable	538	-	16,764	-	17,302
Convertible debentures	-	-	4,666	-	4,666
Lease Liabilities			1,141		1,141
Total	7,229	-	22,571	-	29,800

As at June 30, 2023	Current		Non-Current		Total
	within 6 months	6 to 12 months	1 to 5 years	5+ years	
	\$	\$	\$		\$
Accounts payable and accrued liabilities	6,040	-	-	-	6,040
Notes payable	469	-	7,943	-	8,412
Convertible debentures	-	-	4,166	-	4,166
Total	6,509	-	12,109	-	18,618

The Company is exposed to currency risk as certain transactions are denominated in Canadian dollars and Chinese renminbi. Management continually evaluates foreign exchange risk management strategies; however, at this time, the Company has not entered any forward, swap or option contracts to manage its exposures to fluctuations in foreign exchange rates.

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

TRANSACTIONS WITH RELATED PARTIES

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 Enableness 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 1,491 shares
- Paradigm Capital Inc. ("PCI"), which owns 1,661 shares
- 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 Enableness and the Vortex Entities in the years ended June 30, 2023:

At June 30, 2023, Vortex advanced to the Company an additional \$6,333 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% 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 has been recorded as notes payable and the portion of advances relating to below-market interest rates of \$2,654 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..

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 11), \$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 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 11) 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.

Year-ended 2024

As at June 30, 2024, the discounted carrying value of the balance owing on the Vortex LP term facility is \$9,707 (2023 - \$7,943), inclusive of accretion of \$2.13 (2023 - \$8). The face value of the senior secured loan payable to Vortex was \$12,905 as at June 30, 2023 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.

Other Related Party Transactions

On November 16, 2023, the Company received a Demand Promissory Note from a director of the company in exchange for \$50, with a \$5 issuance fee within the first year and a subsequent 10% interest per annum for outstanding interest beyond the first year. The director owns DSUs and is Chair for the board.

RISKS AND UNCERTAINTIES

The Company's financial position remains challenged in a dynamic, rapidly changing environment that involves risks and uncertainties. As a result, management expectations may not be realized. The Company continues to be dependent on additional financing until revenues and gross margins increase to the point that operations are profitable. As a result, an investment in Enableness is speculative.

Any investor should consider carefully these risks and the risks and uncertainties that are detailed in *Appendix A*.

CRITICAL ACCOUNTING ESTIMATES

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

Estimates

Expected Credit loss ("ECL")

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

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.

Right-of-use assets and lease liabilities

To determine the value of the initial recognition and subsequent re-measurement of right-of-use assets and lease obligations, management is required to exercise judgment in several areas, such as determining the appropriate discount rate, whether it is reasonably certain that an extension or termination option will be exercised, whether variable payments are in substance

fixed, and whether a right-of-use asset is impaired. The Company enters into leases with third-party landlords and as a consequence the rate implicit in the relevant lease is not readily determinable. Therefore, the Company uses its incremental borrowing rate as the discount rate for determining its lease liabilities at the lease commencement date. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over similar terms which requires estimations when no observable rates are available. Changes in these estimates and assumptions could affect the identification and determination of the value of lease liabilities and right-of-use assets at initial recognition, as well as the subsequent measurement of lease liabilities and right-of-use assets. These items could potentially result in changes to amounts reported in the statements of net earnings and comprehensive income and statements of financial position in a given period.

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 forfeiture rate, 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.

Judgments

Recognition of deferred income tax assets

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

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

Impairment

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

FINANCIAL AND OTHER INSTRUMENTS

Enablence's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, convertible debentures and notes payable. Unless otherwise noted, it is the opinion of Enablence's management that Enablence is not exposed to significant interest, currency or credit risk arising from these financial instruments.

The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

ADDITIONAL INFORMATION

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

APPENDIX A

RISKS AND UNCERTAINTIES

An investment in the Enableness common shares is subject to a variety of risks. The Company operates in a rapidly changing environment that involves risks and uncertainties that could materially affect the Company's future results and could cause them to differ materially from those described in forward-looking statements relating to the Company. An investment in Enableness common shares is speculative and involves a high degree of risk and uncertainty. The current global economic uncertainty poses additional risks and uncertainties that may materially affect management's expectations. Any investor should also consider carefully these risks and the risks and uncertainties that are detailed below and available as part of the Company's continuous disclosure record available at www.sedar.ca.

The following are the principal risk factors relating to Enableness and its business:

Significant future capital requirements; need for significant additional financing

The Company's future capital requirements will be significant. There can be no assurances that the Company will be able to raise the additional funds (on commercially reasonable terms, or at all) that it will need to develop and produce its products on a volume basis and remain competitive in its markets. Any inability to obtain additional financing when needed would have a material adverse effect on the Company. In addition, any additional equity financing or conversion of debt obligations may involve substantial dilution to Company's then existing shareholders.

The Company's revenue and operating results can be difficult to predict and can fluctuate substantially, which may harm its results of operations and cash flows

The Company's revenue is difficult to forecast and is likely to fluctuate significantly from quarter to quarter. In addition, the Company's operating results may not follow any past trends. The Company's quarterly revenue is generally dependent upon conversion of opportunities in the sales pipeline during the quarter. As a result, revenues and operating results can be difficult to predict and can fluctuate substantially. Accordingly, Enableness must build inventory based in part on its revenue forecast to meet delivery requirements for a major portion of its short lead- time orders. The factors affecting the Company's revenue and results, many of which are outside of its control, include:

- lack of long-term purchase commitments from customers;
- competitive conditions in the industry, including strategic initiatives by the Company or its competitors, new products, product announcements and changes in pricing policy by the Company or its competitors
- market acceptance of the Company's products;
- the Company's ability to maintain existing relationships and to create new relationships with customers;
- the discretionary nature of purchase and budget cycles of the Company's customers;
- the length and variability of the sales cycles for the Company's products;
- strategic decisions by the Company or its competitors, such as acquisitions, divestitures, spin-offs, strategic investments or changes in business strategy; and
- timing of product development and new product initiatives.

The Company's gross margin and operating results may be adversely affected by lower pricing required to compete successfully and/or if its product cost targets cannot be achieved

The intensely competitive market in which the Company conducts its business may require the Company to reduce its prices. If the Company's competitors offer deep discounts on certain

products or services in an effort to recapture or gain market share or to sell other products and services, the Company may be required to lower prices or offer other favourable terms to compete successfully. Any such changes or actions would reduce the Company's margins and could adversely affect the Company's operating results. Many of the Company's competitors have significantly greater financial, technical, marketing or service resources than the Company. Many of these competitors also have a larger installed base of products, have longer operating histories or have greater name recognition than the Company. Customers and prospective customers of the Company are generally concerned that their suppliers will continue to operate and provide product support, maintenance and warranty services.

The Company's ability to compete successfully depends on a number of factors, including:

- the successful identification and development of new products for the Company's core market;
- the Company's ability to anticipate customer and market requirements and changes in technology and industry standards in a timely manner;
- the Company's ability to gain access to and use technologies in a cost-effective manner;
- the Company's ability to introduce cost-effective new products in a timely manner;
- the Company's ability to differentiate its products from its competitors' offerings;
- the Company's ability to gain customer acceptance of its products;
- the performance of the Company's products relative to its competitors' products;
- the Company's ability to market and sell the Company's products through effective sales channels;
- the Company's ability to establish and maintain effective internal financial and accounting controls and procedures;
- the protection of the Company's intellectual property, including its processes, trade secrets and know-how; and
- the Company's ability to attract and retain qualified technical, executive and sales personnel.

Inventory Management

Lead times for the materials and components that the Company orders through its contract manufacturers may vary significantly and depend on numerous factors, including the specific supplier, contract terms and market demand for a component at a given time. If the Company overestimates its production requirements, its contract manufacturers may purchase excess components and build excess inventory. If the Company's contract manufacturers purchase excess components that are unique to its products or build excess products, the Company could be required to pay for these excess parts or products and recognize related inventory write-down costs. If the Company underestimates its product requirements, its contract manufacturers may have inadequate component inventory, which could interrupt manufacturing of its products and result in delays or cancellation of sales. In prior periods the Company has experienced excess and obsolete inventory write-downs which impact the Company's cost of revenue. This may continue in the future, which would have an adverse effect on the gross margins, consolidated financial condition and consolidated results of operations of the Company.

Accounts Receivable Management

In certain instances, the Company is limited in its ability to evaluate the creditworthiness of direct customers who decline to provide it with financial information. Any collection problems the Company may experience with these customers could have an adverse impact on the business, operating results, or financial condition of the Company. Any material collection issues with the Company's customers could result in increases in bad debt expense or collection costs, inventory impairments, or adjustments to its reported revenues or deferred revenues, any of which could adversely affect the results of operations of the Company and could result in a decline in the price of the Common Shares.

Dependence on Third Party Suppliers

The Company relies heavily on its suppliers and contract manufacturers. If third party suppliers or manufacturers lack sufficient quality control or if there are significant changes in the financial or business conditions of such third parties, it may have a material adverse effect on the Company's business. The Company's profit margins and time to market may be affected by factors beyond its immediate control. The Company's products also use other customized components that are procured from third parties. The performance and ability of these suppliers and the performance of their components are critical to its success. The hybridization of these active components onto the Company's PLC platform requires specialized equipment, the capacity of which cannot be assured through its outsourcing suppliers. Certain packaging of the Company's components is performed through contract manufacturers, and it relies on their ability to achieve the Company's pricing and capacity requirements.

International Operations

The Company generates a significant portion of its sales from customers outside of North America, including emerging markets. Regulations or standards adopted by other countries may require the Company to redesign its existing products or develop new products suitable for sale in those countries. If the Company invests substantial time and resources to expand its international operations and is unable to do so successfully and in a timely manner, the business, financial condition and results of operations of the Company will suffer. In the course of expanding the Company's international operations and operating overseas, it will be subject to a variety of risks, including:

- differing regulatory requirements, including tax laws, trade laws, labour regulations, tariffs, export quotas, custom duties or other trade restrictions and changes thereto;
- greater difficulty supporting and localizing the Company's products;
- different or unique competitive pressures as a result of, among other things, the presence of local equipment suppliers;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;
- limited or unfavourable intellectual property protection;
- changes in a specific country's or region's political or economic conditions;
- restrictions on the repatriation of earnings; and
- travel restrictions and/or ongoing temporary plant closures or demand fluctuations specifically related to its international operations stemming from the continuation of the COVID-19 pandemic.

Managing Growth

The Company pursues a growth strategy that focuses on organic growth. The Company has undertaken several acquisitions in prior years to allow the Company to expand its product offerings and customer base and may do so in the future. While the Company has no active plans to acquire other companies, the success with which the Company can integrate companies acquired in the future will be critical in achieving the benefits from them. Failure to properly integrate and save costs and achieve market leadership based on these acquisitions may hinder the Company's ability to be successful in its growth plans. On-going plans for further acquisitions will also be dependent on the Company's ability to fund an acquisition, identify suitable acquisition candidates, acquire such companies on acceptable terms, integrate the acquired operations and technology of such companies successfully with its own and maintain the goodwill of the acquired business. The Company is unable to predict whether it will be able to identify further suitable additional acquisition candidates or the likelihood that these potential additional acquisitions will be completed. In addition, efforts to integrate acquisitions entail significant risks including, but not limited to, the possibility that the operations of the acquired business will not be profitable,

diversion of the attention of the Company's management from day-to-day operation of the Company's business and the assumption of significant and/or unknown liabilities of the acquired business. An unsuccessful acquisition could reduce the Company's margins or otherwise harm its financial condition. Acquisitions could result in a dilutive issuance of equity securities, the incurrence of debt and the loss of key employees. The Company cannot ensure that the acquisitions made to date will be successfully integrated and future acquisitions will be successfully completed or that, if more acquisitions are completed, the acquired businesses, products or technologies will be integrated successfully or generate sufficient revenues to offset the associated costs of the acquisitions or other adverse effects.

Uncertain Global Economic Conditions

Current conditions in the domestic and global economies are uncertain. There continues to be a high level of market instability and market volatility with unpredictable and uncertain financial market projections. The impacts of a global recession or depression will have consequences on the Company's operations in North America and globally, preventing the roll out of optical network deployments or other consequences such as the costs of such roll outs, unavailability of funds for roll outs of new products, or upgrades of the curtailment of expenditures on new optical infrastructure. Global financial problems and lack of confidence in the strength of global financial institutions have created many economic and political uncertainties that have impacted the global economy. As a result, it is difficult to estimate the level of growth for the world economy as a whole. It is even more difficult to estimate growth in various parts of the world economy, including the markets in which the Company participates. All components of the Company's budgeting and forecasting are dependent on estimates of growth of the optical components market and the widespread acceptance of PLC technology throughout the world. The prevailing economic uncertainties render estimates of future income and expenditures difficult.

Political, Economic and Other Risks of Operations in China

The Company has operations in China, as such the Company is subject to political, economic and social risks relating to operating in a foreign jurisdiction, these risks including: (i) nationalization, expropriation of assets or property with or without compensation, forced modification or cancellation of existing contracts, (ii) currency fluctuations and devaluations, unfavourable tax enforcement, changing political conditions, political unrest and civil strife, (iii) changes in governmental regulations or policies with respect to currency, production, price controls, profit repatriation, export controls, labour, taxation, trade, environmental and health and safety matters, (iv) continued implementation of lockdowns in metropolitan areas in which the Company's customers and suppliers operate as a result of China's "zero covid" policy. Any of these risks could have a material adverse effect on business, results of operations and financial performance of the Company.

Difficulty in enforcement of judgements

Significant assets of the Company are located outside of Canada. Accordingly, it may be difficult for investors to enforce within Canada any judgments obtained against the Company, including judgments predicated upon the civil liability provisions of applicable Canadian securities laws. Consequently, investors may be effectively prevented from pursuing remedies against the Company under Canadian securities laws or otherwise.

The Company previously had a joint venture incorporated in China and the joint venture operations were conducted in China. The Company also has a number of subsidiaries incorporated in the United States. Certain directors reside in the United States, and substantially all of the assets of these persons are located outside of Canada. It may not be possible for shareholders to effect service of process against the Company's directors who are not resident in Canada. In the event a judgment is obtained in a Canadian court against one or more of our directors for violations of Canadian securities laws or otherwise, it may not be possible to enforce such judgment against those directors not resident in Canada. Additionally, it may be difficult for

an investor, or any other person or entity, to assert Canadian securities law claims or otherwise in original actions instituted outside of Canada. Courts in such jurisdictions may refuse to hear a claim based on a violation of Canadian securities laws or otherwise on the grounds that such jurisdiction is not the most appropriate forum to bring such a claim. Even if a foreign court agrees to hear a claim, it may determine that the local law, and not Canadian law, is applicable to the claim. If Canadian law is found to be applicable, the content of applicable Canadian law must be proven as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by foreign law.

Market Opportunities

The demand for the Company's products depends in large part on the continued growth of the industries in which it participates, particularly in the deployment of large-scale data centres. A market decline could have an adverse effect on the Company's business. The speed of data centre deployment may be affected by numerous factors including regulatory changes and general economic conditions. The rate at which the portions of the datacoms industry in which the Company participates grow is critical to its ability to meet expectations and improve the Company's financial performance.

Sales Cycles are Long and Unpredictable

The timing of the Company's revenues is difficult to predict. The Company's sales efforts often involve educating its customer base about the use and benefits of its products. The Company's customers often undertake a significant evaluation process, which frequently involves not only the Company's products but also those of its competitors and this can result in a long sales cycle. The Company spends substantial time, effort and money in its sales efforts without any assurance that its efforts will produce any sales. In addition, product purchases are frequently subject to budget constraints, multiple approvals and unplanned administrative, processing and other delays. If sales from a specific customer for a particular quarter are not realized in that quarter or at all, the Company may not achieve its revenue forecasts and its business could be materially and adversely affected.

Dependence on Key Customers

A limited number of customers account for a large percentage of the Company's revenue within any given period. The Company expects that a significant portion of its revenues will continue to be derived from a small number of customers. These customers could reduce their purchasing levels or cease buying products from the Company at any time and for any reason. If the Company does not effectively respond to the demands of its customers, they could decrease their purchases from the Company, causing the Company's sales and profits to decline. If the Company ceases doing business with a significant customer or if sales of its products to a significant customer materially decrease, it could have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, as a result of a significant volume of revenue being generated with any particular customer(s), there is the risk of trade accounts receivable being concentrated to a limited number of customers, whereas any delays or non-payment of such trade accounts receivable, could have a negative impact on the Company's liquidity and/or the Company's cash available to support business operations.

Customer Spending Patterns

Demand for the Company's products depends on the magnitude and timing of capital spending by telecom network and service providers as they construct, expand and upgrade their networks. The Company sells its components to customers that sell to the telecom service providers. Other factors affecting the capital spending patterns of telecom service providers include the following:

- competitive pressures, including pricing pressures;

- consumer demand for new services;
- an emphasis on generating sales from services delivered over existing networks instead of new network construction or upgrades;
- the timing of annual budget approvals;
- evolving industry standards and network architectures;
- free cash flow and access to external sources of capital; and
- completion of major network upgrades.

Competitive Pressures

Competition in the Company's markets is intense, and the Company expects competition to increase. The market for optical components and subsystems is susceptible to price reductions among competitors seeking relationships with large multinational, well-capitalized businesses.

New products may be slow to be accepted into the market or may not be accepted at all. The Company is constantly exposed to the risk that its competitors may implement new technology before the Company does, or may offer lower prices, additional products or services or other incentives that Enablence cannot and will not offer. The Company can give no assurances that it will be able to compete successfully against existing or future competitors.

The Company's ability to compete successfully depends on a number of factors, including:

- the successful identification and development of new products for the Company's core market;
- the Company's ability to anticipate customer and market requirements and changes in technology and industry standards in a timely manner;
- the Company's ability to gain access to and use technologies in a cost-effective manner;
- the Company's ability to introduce cost-effective new products in a timely manner;
- the Company's ability to differentiate its products from its competitors' offerings;
- the Company's ability to gain customer acceptance of its products;
- the performance of the Company's products relative to its competitors' products;
- the Company's ability to market and sell the Company's products through effective sales channels;
- the Company's ability to establish and maintain effective internal financial and accounting controls and procedures;
- the protection of the Company's intellectual property, including its processes, trade secrets and know-how; and
- the Company's ability to attract and retain qualified technical, executive and sales personnel.

Many of the Company's existing and potential competitors are larger than the Company, with longer operating histories and substantially greater financial, technical, marketing or other resources, significantly greater name recognition, and a larger installed base of customers. Unlike some of the Company's competitors, the Company does not provide equipment financing to potential customers. In addition, many of the Company's competitors have broader product lines than it does, so they can offer bundled products, which may appeal to certain customers.

The products that the Company and its competitors sell require a substantial investment of time and funds for our customers to design into their products. Customers are typically reluctant to switch component suppliers once a particular supplier's product has been designed in. As a result, competition among component suppliers to secure contracts with potential customers is particularly intense and will continue to place pressure on product pricing. Some of the Company's competitors have resorted in the past, and may resort in the future, to offering substantial discounts to win new customers and generate cash flows. If the Company is forced to reduce prices in order to secure customers, the Company may be unable to sustain gross margins at desired levels or achieve profitability.

Product Defects and Warranty Obligations

Although the Company's products are tested prior to shipment, they may contain defects or interoperability issues (collectively described as "defects") that may only be detected when tested in the final product of our customer. In addition, defects or other malfunctions or quality control issues may not appear until the equipment has been deployed for an extended period of time. The Company also continues to introduce new products that may have undetected defects. The Company's customers may discover defects in its products at any time after deployment or as their networks are expanded and modified. Any defects in the Company's products discovered in the future, could result in lost sales and market share and negative publicity regarding its products. The Company provides limited warranties on its products. As a result, warranties on a product with a significant product defect could adversely affect the results of operations of the Company.

Product Development and Technological Change

The markets for the Company's products are characterized by rapidly changing technologies, frequent new product introductions and evolving industry standards. The Company's success will depend, in substantial part, on the timely and successful introduction of products and upgrades to those products to comply with emerging industry standards and to address competing technological and product developments carried out by its competitors. The research and development of technologically advanced products is a complex and uncertain process requiring high levels of innovation as well as the accurate anticipation of technological and market trends. The Company may focus its resources on technologies that do not become widely accepted and are not commercially viable. In addition, products may contain defects that are detected only after deployment. If the Company's products are not competitive or do not work properly, its business will suffer. The Company's products are also intended to replace current technologies. Any improvements in the costs of production of current products in the market can negatively impact the Company's margins and its competitive position in the marketplace with prices for its products falling and reducing profit margins.

Product Obsolescence

The Company's market is characterized by rapid technological advances, frequent new product introductions, evolving industry standards and recurring changes in end-user requirements. The Company's future success will depend significantly on its ability to anticipate and adapt to such changes and to offer, on a timely and cost-effective basis, products and features that meet changing customer demands and industry standards. The timely development of new or enhanced products is a complex and uncertain process, and the Company may not be able to accurately anticipate market trends or have sufficient resources to successfully manage long development cycles. The Company may also experience design, manufacturing, marketing and other difficulties that could delay or prevent the development, introduction or marketing of new products. The introduction of new or enhanced products also requires that the Company manages the transition from older products to these new or enhanced products in order to minimize disruption in customer ordering patterns and ensure that adequate supplies of new products are available for delivery to meet anticipated customer demand. If the Company is unable to develop new products or enhancements to its existing products on a timely and cost-effective basis, or if the new products or enhancements fail to achieve market acceptance, the business, consolidated financial condition and consolidated results of operations of the Company would be materially and adversely affected.

Development Stage Products and Customer Expectations

The Company may not be able to successfully demonstrate high yields on large volume production of its components and meet all of the specification requirements of all products in accordance with industry requirements for all of its product lines. There may be potential quality issues on the manufacture of these products resulting from the way the products are designed or manufactured or in the processes used for the design and manufacture of the product(s), or from the software or materials used in the product(s). These factors may cause delays in availability

and shipping of products to potential customers, or even the cancellation of orders by customers. Quality issues in the products may have legal and financial implications for the Company, including delays in revenue recognition, loss of revenue or future orders, customer-imposed penalties for failure to meet contractual shipment deadlines, increased costs associated with repairing or replacing products, and a negative impact on goodwill and brand name reputation and higher manufacturing costs.

Intellectual Property

The Company depends on its proprietary technology for its success and ability to compete. The Company currently holds several issued patents and has several patent applications pending. The Company relies on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect its proprietary rights. Existing patent, copyright, trademark and trade secret laws will afford the Company only limited protection. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of Canada. The Company cannot be assured that any pending patent applications will result in issued patents, and issued patents could prove unenforceable. Any infringement of the Company's proprietary rights could result in significant litigation costs. Further, any failure by the Company to adequately protect its proprietary rights could result in the Company's competitors offering similar products, resulting in the loss of its competitive advantage and decreased sales.

Despite the Company's efforts to protect its proprietary rights, attempts may be made to copy or reverse engineer aspects of its products, or to obtain and use information that the Company regards as proprietary. Accordingly, the Company may be unable to protect its proprietary rights against unauthorized third party copying or use. Furthermore, policing the unauthorized use of the Company's intellectual property would be difficult. Litigation may be necessary in the future to enforce the Company's intellectual property rights, to protect its trade secrets or to determine the validity and scope of the proprietary rights of others. Litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the business, consolidated financial condition and consolidated results of operations of the Company.

Intellectual Property Litigation

The Company may be subject to intellectual property infringement claims that are costly to defend and could limit the Company's ability to use some technologies in the future. The Company's industry is characterized by frequent intellectual property litigation based on allegations of infringement of intellectual property rights. From time to time, third parties have asserted against the Company, and may assert against it in the future, patent, copyright, trademark or other intellectual property rights to technologies or rights that are important to the business. In addition, the Company has agreed, and may in the future agree, to indemnify its customers for any expenses or liabilities resulting from claimed infringements of patents, trademarks or copyrights of third parties. Any claims asserting that the Company's products infringe, or may infringe on, the proprietary rights of third parties, with or without merit, could be time-consuming, resulting in costly litigation and diverting the efforts of management. These claims could also result in product shipment delays or require the Company to modify its products or enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available to the Company on acceptable terms, if at all.

Currency Fluctuations may Adversely Affect the Company

A substantial portion of the Company's operating costs are recognized in currencies other than US\$, specifically the Canadian dollar, and the Chinese Renminbi. The Company carries certain monetary assets and liabilities in these and other currencies, which differ from the Company's U.S. dollar base reporting currency. Fluctuations in the exchange rate between these currencies and the U.S. dollar may have a material adverse impact on the Company's business, financial condition and operating results.

Earnings History

The Company has incurred significant losses since its inception. The Company may continue to incur losses during the current and following fiscal years. The Company cannot predict with certainty that it will not continue to incur losses or experience negative cash flow in the future. The Company's continued inability to generate positive operating income and cash flow would materially and adversely affect the liquidity, consolidated results of operations and consolidated financial condition of the Company.

A significant portion of the Company's expenses are fixed, and the Company expects to continue to incur significant expenses for research and development, sales and marketing, and general and administrative functions. Given the rate of growth in the Company's customer base, its limited operating history and the intense competitive pressures it faces, the Company may be unable to adequately control operating costs. To achieve and maintain profitability, the Company must increase sales while maintaining control over expense levels.

Key Personnel

Competition for skilled personnel, particularly those specializing in engineering and sales, is intense. The Company cannot be certain that it will be successful in attracting and retaining qualified personnel, or that newly hired personnel, will function effectively, either individually or as a group. In addition, the industry is characterized by frequent claims relating to unfair hiring practices. The Company may become subject to such claims and may incur substantial costs in defending the Company against these claims, regardless of their merits. If the Company is unable to effectively hire, integrate and utilize new personnel, the execution of its business strategy and its ability to react to changing market conditions may be impeded, and the business, financial condition and results of operations of the Company could be materially and adversely affected.

Changes in Accounting and Tax Rules

The Company is subject to numerous tax and accounting requirements, and changes in existing accounting or taxation rules or practices, or varying interpretations of current rules or practices, could have a material adverse effect on the financial results of the Company or the manner in which the Company conducts its business. Requirements as to taxation vary substantially among the jurisdictions in which the Company operates. Complying with the tax laws of these jurisdictions can be time consuming and expensive and could subject the Company to penalties and fees if it inadvertently fails to comply. In the event the Company inadvertently fails to comply with applicable tax laws, it could have a material adverse effect on the business, results of operations, and financial condition of the Company.

Changes in Government Policy

The Company's results may be affected by changes in trade, monetary and fiscal policies, laws and regulations, or other activities of the Canadian and foreign governments, agencies and similar organizations. The Company's results may be affected by social and economic conditions that impact its operations, including in emerging markets in Asia and in markets subject to ongoing political hostilities.

Cybersecurity Threats

The reliability and security of the Company's information technology ("IT") systems is important to the Company's business and operations. Although the Company has established and continues to enhance security controls intended to protect the Company's IT systems and infrastructure, there is no guarantee that such security measures will be effective in preventing unauthorized physical access or cyberattacks. A significant breach of the Company's IT systems could, among other things, cause disruptions in the Company's manufacturing operations (such as operational

delays from production downtime, inability to manage the supply chain or produce product for customers, disruptions in inventory management), lead to the loss, destruction, corruption or inappropriate use of sensitive data, including employee information or intellectual property, result in lost revenues due to theft of funds or due to a disruption of activities, including remediation costs, or from litigation, fines and liability or higher insurance premiums, the costs of maintaining security and effective IT systems, which could negatively affect results of operations and the potential adverse impact of changing laws and regulations related to cybersecurity or result in theft of the Company's, its customers' or suppliers' intellectual property or confidential information. If any of the foregoing events (or other events related to cybersecurity) occurs, the Company may be subject to a number of consequences, including reputational damage, a diminished competitive advantage and negative impacts on future opportunities which could have a material adverse effect on the Company.

Share Price Volatility

The Common Shares trade on the TSXV; however, the Company cannot predict the extent to which investor interest will lead to the development of an active and liquid trading market in its common shares and it is possible that an active and liquid trading market will not develop or be sustained. This risk is elevated given the existence of the Cease Trader Order over the Company's common shares that was in place from June 2020 to July 2021. Some companies that have volatile market prices for their securities or that have operated under a Cease Trade Order have had securities class action lawsuits filed against them. If a lawsuit were to be filed against the Company, regardless of its outcome, it could result in substantial costs and a diversion of management's attention and resources.

The price of Common Shares may fluctuate in response to a number of events, including but not limited to:

- its quarterly operating results;
- sales of the Company's common shares by a principal shareholder;
- future announcements concerning the business of the Company or of its competitors;
- the failure of securities analysts to cover the Company and/or changes in financial forecasts and recommendations by securities analysts;
- actions of the Company's competitors;
- actions of the Company's suppliers;
- actions of directors and officers regarding purchase and sale of shares;
- the volatility of the telecommunications and technologies markets as a whole;
- general market, economic and political conditions;
- natural disasters, terrorist attacks and acts of war; and
- the other risks described in this section.