



ENABLENCE TECHNOLOGIES INC.
Unaudited Interim Consolidated Financial Statements

For the three months ended September 30, 2024 and 2023
(in thousands of United States dollars and shares)

NOTICE TO READER

The accompanying unaudited consolidated financial statements of Enablece Technologies Inc. (“Enablece” or the “Company”) for the three months ended September 30, 2024 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company (the “Board”). These statements have not been reviewed by the Company’s external auditors.

Date: November 21, 2024

<u>“Todd Haugen”</u> Todd Haugen CEO	<u>“Stan Besko”</u> Stan Besko CFO
--	--

Enablence Technologies Inc.

Consolidated statements of financial position

(in thousands of United States dollars)

		As at September 30, 2024	As at June 30, 2024
		\$	\$
Assets			
Note			
Current assets			
Cash and cash equivalents	4	674	614
Accounts and other receivables	5	1,003	526
Inventories	6	741	648
Prepaid expenses and deposits		1,571	597
		3,989	2,385
Property, plant and equipment	7	1,816	1,746
		5,805	4,131
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	7,114	7,002
Notes payable	11	563	538
Lease Liabilities	8	380	497
Contract liabilities	10	168	196
		8,225	8,233
Lease Liabilities	8	644	644
Notes payable	11,21	22,330	16,764
Convertible Debentures	12	5,074	4,666
		36,273	30,307
Shareholders' deficiency			
Share capital	14	122,355	122,087
Contributed surplus	14	20,395	20,576
Warrants	14,21	1,286	1,286
Accumulated other comprehensive income	14	127	593
Deficit		(174,631)	(170,718)
		(30,468)	(26,176)
		5,805	4,131

Basis of presentation - going concern (Note 2)

Contingencies and commitments (Note 18)

Approved by the Board:

"Louis De Jong"

Director

"Derek J. Burney"

Director

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

Enablence Technologies Inc.

Consolidated statements of net loss and comprehensive loss

For the three months ended September 30

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

		Three Months Ended	
		30-Sep	
		2024	2023
	Note		
Revenues	10,20	1,218	225
Cost of revenues	15	1,775	895
Gross margin		(557)	(670)
Operating expenses			
Research and development	15	712	654
Sales and marketing	15	249	169
General and administration	15	1,109	941
Stock-based compensation	15	86	47
		2,156	1,811
Loss before other income (expenses)		(2,713)	(2,481)
Other income (expense)			
Finance/other income	11	5	6
Interest expense	11,12	(1,262)	(12)
Foreign exchange gain (loss)		56	20
Income (loss) before taxes		(3,913)	(2,466)
Income tax recovery (expense)	13		
Net loss		(3,913)	(2,466)
Other comprehensive income (loss), net of tax			
Foreign currency translation gain (loss)		(466)	262
Comprehensive loss		(4,379)	(2,204)
Net income (loss) per share - basic and diluted	16	(\$0.21)	(\$0.13)
		(\$0.21)	(\$0.13)
Weighted average number of outstanding shares - basic and diluted	11,14	18,680	18,590
		18,680	18,590

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

Enablence Technologies Inc.

Consolidated statements of changes in shareholders' deficiency

For the three months ended September 30

(in thousands of United States dollars and shares)

		Number of shares	Share capital (Note 15)	Contributed surplus	Share Purchase Warrants	Accumulated other comprehensive income (loss)	Deficit	Deficiency
	Note		\$	\$	\$	\$	\$	\$
Balance at July 1, 2023		18,590	121,759	20,562	1,286	90	(156,610)	(12,913)
Stock-based compensation	11,12	-	-	47	-	-	-	47
Net loss		-	-	-	-	-	(2,466)	(2,466)
Foreign currency translation gain		-	-	-	-	262	-	262
Balance at September 30, 2023		18,590	121,759	20,609	1,286	352	(159,075)	(15,069)
Balance at July 1, 2024		18,914	122,087	20,576	1,286	593	(170,718)	(26,176)
Stock-based compensation	11,12	-	-	87	-	-	-	87
Share purchase warrants	11,15	-	-	-	-	-	-	-
Net loss		-	-	-	-	-	(3,913)	(3,913)
Option/RSU/DSU Exercise	14	263	268	(268)	-	-	-	-
Foreign currency translation gain (loss)		-	-	-	-	(466)	-	(466)
Balance at September 30, 2024		19,177	122,355	20,395	1,286	127	(174,631)	(30,468)

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

Enablence Technologies Inc.
Consolidated statements of cash flows
For the three months ended September 30
(in thousands of United States dollars)

		Three Months Ended 30-Sep	
		2024	2023
		\$	\$
Cash provided by (used in):			
Operating activities			
	Note		
Net loss		(3,913)	(2,466)
Adjusted for the following non-cash items:		-	-
Depreciation	7	94	53
Stock-based compensation	14	86	47
Accrued interest on short- and long-term notes payable	11	1,262	12
		(2,471)	(2,354)
Changes in non-cash working capital	17	(1,460)	(108)
Cash used in operating activities		(3,931)	(2,462)
Investing activities			
Purchase of property, plant and equipment	7	(260)	(141)
Cash provided by (used in) investing activities		(260)	(141)
Financing activities			
Advances from long-term notes payable	11,21	4,469	-
Advances from Convertible Debentures	12	-	-
Repayments of long-term notes payable	11	(82)	-
Cash provided by financing activities		4,387	-
Effect of foreign currency translation on cash and cash equivalents		(136)	(3)
Increase (decrease) in cash and cash equivalents		60	(2,606)
Cash and cash equivalents, beginning of period		614	4,223
Cash and cash equivalents, end of period		674	1,617

Supplemental cash flow information

Interest paid - included in operating activities

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

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

1. Description of Business

Enablence Technologies Inc. (the “Company” or “Enablence”) is incorporated under the Canada Business Corporations Act. The head office of Enablence is located at 390 March Road, Suite 119, Ottawa, Ontario, K2K 0G7, Canada. Enablence is a publicly traded company listed on the TSX Venture Exchange (“TSXV” – ENA). The Company designs, manufactures and sells optical components, primarily in the form of planar lightwave circuits (“PLC”) on silicon-based chips. Enablence products serve a global customer base, primarily focused on data centres and advanced vision end markets in which Enablence works with customers that have emerging market uses for its technology, including medical devices, automotive LiDAR and virtual and augmented reality headsets. In select strategic circumstances, the Company also uses its proprietary, non-captive fabrication plant in Fremont, California to manufacture chips designed by third party customers.

2. Basis of presentation

(i) *Going concern*

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

At September 30, 2024, the Company had cash and cash equivalents of \$674 (June 2024: \$614), negative working capital of \$4,236 (June 2024: \$5,848) and had used cash of \$3,931 (three months ended September 30, 2023: \$2,462) in its operating activities for the three months ended September 30, 2024. The Company achieved a comprehensive loss of \$4,397 for the three months ended September 30, 2024 (three months ended September 30, 2023: comprehensive loss of \$2,204) and as of that date had an accumulated deficit of \$174,631 (June 2024: \$170,718).

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

(ii) *Statement of compliance*

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

(iii) *Basis of measurement*

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

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

(iv) *Classification of expenses*

The expenses within the consolidated statements of comprehensive loss are presented by function. Refer to Note 15 for details of expenses by nature.

(v) *Approval of consolidated financial statements*

The consolidated financial statements were authorized for issuance by the Board of Directors on November 21, 2024.

(vi) *Presentation currency*

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

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

(vii) *Use of estimates and judgements*

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

Estimates

Expected Credit Loss ("ECL")

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

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

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

Warrants

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

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

Fair value measurement

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

Judgements

Recognition of deferred income tax assets

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

Accounting for loan from related parties

Management assesses the likelihood that the terms received on loans from related parties could be replicated in open market, arms-length transactions. If it believes the terms, including the interest rate, offered by the related party are below market, it adjusts the stated fair market value of the loan by discounting the expected cash flows of the loan at what it believes represents a fair market rate. Any difference between the face value of the amount owed and the fair market value are booked to equity as contributed surplus.

Going concern risk assessment

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

Impairment

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

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

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

Enablence Technologies Inc.

Notes to the consolidated financial statements
September 30, 2024 and 2023
(in thousands of U.S. dollars and shares)

3. Material Accounting Policies

Basis of consolidation

The consolidated financial statements include the accounts of Enablence Technologies Inc. and its subsidiaries. The chart below summarizes the entities included in the consolidated financial statements as at June 30, 2024 and 2023:

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

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

(i) *Wholly owned subsidiaries*

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company has power over the investee, is exposed or has rights to variable returns from its involvement with the investee; and can use its power to affect its returns. The Company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Wholly owned subsidiaries are entities controlled by the Company and where the parent owns 100% of the shares. The financial statements of wholly owned subsidiaries are included in the Company's consolidated financial statements as all Company's subsidiaries have the same fiscal year end as the Company.

(ii) *Transactions eliminated upon consolidation*

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

Revenue Recognition

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

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

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

Revenue for all sources is recognized in a manner that depicts the transfer of promised goods and services to a customer at an amount that reflects the consideration expected to be received in exchange for transferring those goods and services, applying the following five steps:

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

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

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

Inventories

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

Income taxes

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts determined for taxation purposes. Deferred tax is not recognized for the following

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

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

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

Investment tax credits

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

Property, plant and equipment

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

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

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate. Expenditures for repairs and maintenance are expensed as incurred.

Leases

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone price. However, for leases of real estate for which the Company is a lessee, it has elected separate lease and non-lease components, given the operating costs alongside the lease are variable according to utility demands and volume. As such, only the contractually defined lease payment is represented.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently amortized using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined based on the lease period. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. Lease terms for right-of-use assets vary between one to five years. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is measured at amortized cost using the effective interest method. Subsequently, the Company measures the lease liability by: (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

Impairment of long-lived assets

The carrying values of all property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

not be recoverable. If any such indication exists, then the asset's recoverable amount is estimated.

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

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

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

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

Financial instruments

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

Classification

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

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

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

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

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

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

Financial liabilities are measured at amortized cost unless they must be measured at FVTPL (such as derivatives), or if the Company has chosen to evaluate them at FVTPL.

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

<u>Financial Instrument</u>	<u>Classification</u>
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Other receivables (excl. due from government agencies)	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Notes payable including related party loans	Amortized cost
Convertible Debentures	Amortized cost
Lease Liabilities	Amortized cost

Measurement

Initial recognition - A financial asset or financial liability is initially recorded at its fair value, which is typically the transaction price, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. In the event that fair value is determined to be different from the transaction price, and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique that uses only data from observable markets, then the difference between fair value and transaction price is recognized as a gain or loss at the time of initial recognition.

Amortized cost - The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses. The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

Fair value through profit or loss - Changes in fair value after initial recognition, whether realized or not, are recognized through net loss. Income arising in the form of interest, dividends, or similar, is recognized through net loss when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

Fair value through other comprehensive income - Changes in fair value after initial recognition, whether realized or not, are recognized through other comprehensive income. Income arising in the form of interest, dividends, or similar, is recognized through the comprehensive income when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

Impairment

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

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

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

Convertible debentures

The convertible debentures are separated into their debt and equity components, where the conversion feature meets the fixed-for-fixed criterion under IAS 32. The value of the debt component of the debentures is determined, at the time of issuance, by discounting the future interest obligations and the principal payment due at maturity, using a discount rate which represents the estimated borrowing rate available to the Company for similar debentures having no conversion rights. The remaining portion of the gross proceeds of the debentures issued is presented as an option to convert debentures in equity net of the tax implications, and the attributed amount remains over the term of the related convertible debentures. Convertible debenture issue costs are applied against the two components on a pro rata basis of the allocated proceeds of issue.

Provisions

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

Stock-based compensation

The Company's equity compensation plan allows for the issuance of stock options, RSUs and DSUs. The Company accounts for stock-based compensation arrangements using the fair value method of accounting. When employees are rewarded using stock-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is measured at the grant date. The stock-based compensation cost is recorded as an expense in net loss and credited to contributed surplus. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of awards expected to vest. Estimates are subsequently revised if there is any indication that the number expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if awards ultimately exercised are different to that estimated on vesting. An award with different vesting dates is considered a separate grant for the calculation of fair value and the resulting fair value is amortized over the vesting period of the respective grants. When share options are exercised, any consideration paid by employees is credited to share capital in addition to the amount previously recorded in contributed surplus. When RSUs or DSUs are settled through issuance of common shares, the amount previously recorded in contributed surplus is

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

credited to share capital. The Company's equity compensation plan does not feature cash settlement for stock options exercised, although the Company, at its discretion, may settle RSUs and DSUs in either cash or common shares of the Company.

Warrants

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

Research and development costs

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

Foreign currency transactions

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

Foreign currency translation

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

Earnings per share

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

Enablence Technologies Inc.

Notes to the consolidated financial statements
September 30, 2024 and 2023
(in thousands of U.S. dollars and shares)

Segmented reporting

Operating segments are reported in a manner consistent with the internal reporting used for the consolidated financial statements. The Company has determined that it has only one operating segment, which is the fabrication of planar lightwave circuit optical chips.

Recent Accounting Pronouncements and Future Changes in Accounting Policies

At the date of authorization of these consolidated financial statements, certain new standards, amendments, and interpretations to existing standards have been published by the IASB but are not yet effective and have not been adopted early by the Company. The Company does not intend to early adopt these standards and is currently evaluating the impact of these new standards on the consolidated financial statements.

Management anticipates that all the relevant pronouncements will be adopted in the Company's accounting policies for the first reporting period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements. _

Future Accounting Policies

IAS 1 Presentation of Financial Statements (October 2022 Amendments)

In October 2022, the International Accounting Standards Board (IASB) issued amendments to IAS 1 which were incorporated into Part I of the CPA Canada Handbook – Accounting in December 2022. The amendments require an entity to disclose, in specified circumstances, information in the notes that enables financial statement users to understand the risk that non-current liabilities with covenants could become repayable within 12 months after the reporting period. As part of the amendments, a provision was added to clarify that only covenants that an entity must comply with on or before the reporting date would affect a liability's classification as current or non-current, even if compliance with the covenant is only assessed after the entity's reporting date. Covenants which an entity must comply with after the reporting date would not affect classification of a liability as current or non-current at the reporting date. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with early adoption permitted. The Company has determined that there is no current impact of this amendment on its consolidated financial statements.

IFRS 16 Leases (September 2022 Amendments)

In September 2022, the International Accounting Standards Board (IASB) issued amendments to IFRS 16 Leases to add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 Revenue from Contracts with Customers to be accounted for as a sale. The amendments were incorporated into Part I of the CPA Canada Handbook in December 2022.

The amendments require a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The IASB has not prescribed a particular method for

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

measuring the lease liability. A seller-lessee must apply the amendments retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier adoption permitted. The Company does not own its facilities and therefore does not expect to be affected by this change in policy.

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

In May 2023, the International Accounting Standards Board (IASB) issued disclosure-only amendments to IFRS 7 Financial Instruments: Disclosures and IAS 7 Statement of Cash Flows. The amendments require entities to disclose sufficient information necessary for users of financial statements to understand the effects of supplier finance arrangements on an entity's liabilities and cash flows, as well as on its liquidity risk and risk management. The amendments are effective for annual periods beginning on or after January 1, 2024, with earlier adoption permitted. The Company has determined that there is no current impact of this amendment on its consolidated financial statements.

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

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

For Canadian entities, there is currently no mandatory requirement to comply with the ISSB Standards. Canadian authorities including the CSSB and the Canadian Securities Administrators ("CSA") will decide on application in Canada. The Company has determined that there is no current impact of this amendment on its consolidated financial statements.

4. Cash and Cash Equivalents

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

	September 30, 2024	June 30, 2024
	\$	\$
Cash	670	610
Restricted Cash	4	4
	674	614

Enablence Technologies Inc.

Notes to the consolidated financial statements
September 30, 2024 and 2023
(in thousands of U.S. dollars and shares)

5. Accounts and Other Receivables

Trade and other receivables consist of the following:

	September 30, 2024	June 30, 2024
	\$	\$
Trade	815	343
Allowance for expected credit loss	(94)	(43)
	721	300
Other	282	226
	1,003	526

Included in other receivables is an amount of \$208 (June 30, 2024 - \$179) related to investment tax credits receivable and \$63 (June 30, 2024 - \$28) of amounts due from government agencies.

	September 30, 2024	June 30, 2024
	\$	\$
Current or under 60 days	782	278
Past due 61 to 90 days	1	42
Past due more than 90 days	32	23
	815	343

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

6. Inventories

	September 30, 2024	June 30, 2024
	\$	\$
Raw materials	383	206
Work-in-progress	178	134
Finished goods	180	307
	741	648

During the three months ended September 30, 2024, management performed a review of inventory for obsolescence. As a result of management's review of inventory for obsolescence, \$Nil (June 30, 2024 - \$Nil) of obsolete and impaired inventory was provided for through cost of sales. A continuity of the provision is presented below:

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

	September 30, 2024	June 30, 2024
	\$	\$
Opening balance	-	-
Write-off of unrealizable inventory	-	-
Additional impairment provision recorded	-	-
Closing balance	-	-

The amount of inventory recognized as cost of revenues for the year ended September 30, 2024 was \$830 (June 2024 - \$1,193).

7. Property, Plant and Equipment and ROU Assets

	Machinery and equipment	Lab equipment and tooling	Photomasks	Office furniture and equipment	Leaseholds	ROU Assets	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
As at June 30, 2024	12,448	2,272	1,145	451	807	1,533	18,656
Additions	260	-	-	-	-	-	260
Dispositions	-	-	-	-	-	-	-
As at Sep 30, 2024	12,707	2,272	1,145	451	807	1,533	18,916
Accumulated depreciation							
As at June 30, 2024	11,808	2,264	1,145	442	765	487	16,910
Depreciation	60	1	-	2	3	124	190
Dispositions	-	-	-	-	-	-	-
As at Sep 30, 2024	11,868	2,265	1,145	444	768	611	17,100
Carrying value							
As at Sep 30, 2024	839	7	-	7	39	922	1,816

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

	Machinery and equipment	Lab equipment and tooling	Photomasks	Office furniture and equipment	Leaseholds	ROU Assets	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
As at June 30, 2023	12,175	2,272	1,145	441	765	-	16,797
Additions	287	-	-	10	43	1,533	1,873
Dispositions	(14)	-	-	-	-	-	(14)
As at Sep 30, 2023	12,448	2,272	1,145	451	807	1,533	18,656
							-
Accumulated depreciation							
As at June 30, 2023	11,615	2,258	1,145	434	765	-	16,217
Depreciation	197	6	-	7	-	487	698
Dispositions	(4)	-	-	-	-	-	(4)
As at Sep 30, 2023	11,808	2,264	1,145	442	765	487	16,910
							-
Carrying value							
As at Sep 30, 2023	640	8	-	9	43	1,046	1,746

Depreciation expense for the three months ended September 30, 2024 of \$190 (three months ended September 30, 2023 - \$698) was allocated in the consolidated statements of comprehensive income (loss) as follows: \$61 (three months ended September 30, 2023 - \$49) in cost of revenues; \$128 (three months ended September 30, 2023 - \$2) in general and administration; and \$1 (three months ended September 30, 2023 - \$2) in research and development.

8. Lease Liabilities

As at September 30, 2024 lease liabilities were discounted using the Company's market borrowing rate 10%. The Company has two longer term building leases. The building in Fremont operates under a 3-year lease agreement beginning in August 2023. The building in Suzhou, China operates under a 4-year lease agreement beginning in April 2024. To provide operational flexibility, the Company seeks to include extension or termination options in its leases. At the commencement of a lease, the Company assesses whether it is reasonably certain it will exercise the lease extension option (or not exercise a termination option).

The discounted fair value of the building in Fremont is \$1,497 with a depreciation of \$485. The discounted fair value of the Suzhou, China building is \$37 with a depreciation of \$1. The Company reassesses this when a significant event or significant change in circumstances within the Company's control has occurred. Depreciation on the leases was \$487 for the year ended June 30, 2024.

Enablence Technologies Inc.

Notes to the consolidated financial statements
September 30, 2024 and 2023
(in thousands of U.S. dollars and shares)

	September 30, 2024	June 30, 2024
	Building	Building
	\$	\$
Balance - Beginning of year		
Additions	1,141	1,534
Lease renewals, reassessments and modifications		-
Interest expense on lease liabilities	28	122
Payments	146	514
Balance - End of Year	1,024	1,141
Current portion of lease liabilities	380	497
Non-current portion of lease liabilities	644	644

9. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities is a royalty amount payable of \$284 (June 30, 2024 - \$280) relating to royalty-bearing government funding received for approved research and development projects, of which \$Nil (2023 - \$Nil) was paid during the year. The repayment of this amount is calculated at 2.5% of the Company's actual qualifying revenues, up to a maximum value equivalent to the total related government funding received by the Company.

10. Contract Liabilities

The following table provides information about contract liabilities from contracts with customers. Contract liabilities primarily relate to the advance consideration received from customers for non-recurring engineering services, for which revenue is recognized upon delivery of set items within the service contracts.

	September 30, 2024	June 30, 2024
	\$	\$
Balance, beginning of year	196	265
New contract additions in year	73	294
Revenue recognized in year - from opening balance	(30)	(94)
Revenue recognized in year - from current year additions	(71)	(269)
Balance, end of year	168	196

Enablence Technologies Inc.

Notes to the consolidated financial statements
September 30, 2024 and 2023
(in thousands of U.S. dollars and shares)

11. Notes Payable Including Related Party Loans

	September 30, 2024	June 30, 2024
	\$	\$
RBC loans (a)	90	89
Loan from Vortex (b) (Related Party)	9,901	9,695
Loan from Irix (c)	423	399
Loan from Burney (d) (Related Party)	50	50
Loans from Pinnacle (e)	12,429	7,069
	22,893	17,302
Less current portion	563	538
Long-term portion	22,330	16,764

- a) As at September 30, 2024, the RBC loan balance is \$90 (September 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. The balance of the loan, must be paid in full no later than December 31, 2026.
- b) Year-ended 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 - 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

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

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.

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

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.

On April 3, 2024, this Intercreditor agreement was amended to account for the additional funding provided by Pinnacle Island LP, as noted below in section d).

- 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

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

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 Amount; (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

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

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 Enablence Canada Inc. ("Enablence Canada") and Enablence USA Inc. ("Enablence USA"); (ii) each of Enablence Canada, Enablence USA and Enable USA Components Inc. ("Enablence Components", and together with Enablence Canada and Enablence 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 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.

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.

Enablence Technologies Inc.

Notes to the consolidated financial statements
September 30, 2024 and 2023
(in thousands of U.S. dollars and shares)

On July 17, 2024, the Company entered into a loan agreement with Pinnacle Island II LP, providing a term loan in the principal amount of \$4,366. Interest of \$106 accrued at September 30, 2024. The Company entered into an amending agreement for Pinnacle I, which increased the principal amount by \$294. The Company agreed to pay the Lender a structuring fee of \$216, which will be payable at maturity on July 31, 2025. The Company agreed to pay \$72 to Vortex an amendment fee which will be payable at maturity on July 31, 2025.

12. Convertible Debentures

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

During the year ended June 30, 2024, the Company recognized \$639 (2023 - \$5) in interest expense and \$662 (2023 - \$5) in interest accretion. The Loan Agreement (April 3, 2024) provided funds to meet this interest payment. As at June 30, 2024 the total convertible debenture liability is \$4,666 (June 30, 2023 - \$4,166), including accrued and unpaid interest.

The underlying agreement dated June 27, 2023 was amended twice as part of the January 30, 2024 and April 3, 2024 loans with Pinnacle Island LP. The amendments updated language and protections for Vortex ENA through and amendments to the original convertible debentures agreement and an intercreditor agreement between the Company, Vortex ENA and Pinnacle Island LP.

13. Income Taxes and Investment Tax Credits

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.

In assessing the realizability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realized. The realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those losses can be carried forward and temporary differences are deductible. The amount of the deferred tax assets considered realizable could change

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

materially in the near term, based on future taxable income during the carry-forward period.

14. Share Capital

Authorized capital stock consists of:

Unlimited number of preferred shares; NIL preferred shares outstanding

Unlimited number of common shares with no par value; 19,178 (2024 – 18,914 common shares issued and outstanding

Equity incentive plan

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

At September 30, 2024, the available common share equivalents pool was 19,178 (June 30, 2024 – 18,914). An increase of 263 shares resulted from the exercise of 263 DSUs. At September 30, 2024 outstanding options totaled 1,570 (June 30, 2024 – 1,230), outstanding RSUs totaled 709 (June 30, 2024 – 709), and outstanding DSUs totaled 672 (June 30, 2024 – 672).

Stock options:

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

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

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.

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

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

Company may elect to settle all or a portion of that settlement either in shares issued from treasury or in shares purchased in the open market.

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

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

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

Warrants

On June 27, 2023, the Company issued 575 share purchase warrants as part of the Second Loan Amended with Vortex LP (Note 10). Each full share purchase warrant allows the holder of such warrant to purchase one common share of the Company at a price of C\$2.00 per common share and expires on June 27, 2026.

Enablence Technologies Inc.

Notes to the consolidated financial statements
September 30, 2024 and 2023
(in thousands of U.S. dollars and shares)

15. Expenses by nature

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

	Three months ended September 30	
	2025	2024
<u>Cost of revenues</u>		
Materials/components	830	163
Labour	601	419
Inventory write downs/provision	-	-
Equipment and Freight	-	-
Allocation of overhead	284	264
Depreciation - COGS	61	49
Total	1,776	895
<u>Research & Development</u>		
Staff compensation	637	595
Travel	-	-
Contractors	26	36
Materials/supplies	38	4
Depreciation	1	1
Rent/Utilities	10	18
Total	713	654
<u>Sales & Marketing</u>		
Staff compensation	174	109
Travel	4	13
Trade shows	29	-
Materials/supplies/other	41	45
Rent/Utilities	1	2
Total	249	169
<u>General & Administrative</u>		
Staff compensation	655	456
Rent/Utilities	250	337
Taxes (Property tax/Use tax)	14	20
Insurance	45	41
HR management fee	6	8
Phone & Internet	12	12
Travel	23	27
Professional fees	149	262
Bad Debt expense	50	(29)
Other	70	88
Depreciation	128	2
G&A Allocation (Rent/utilities)	(295)	(283)
Total	1,108	941

Enablence Technologies Inc.

Notes to the consolidated financial statements
September 30, 2024 and 2023
(in thousands of U.S. dollars and shares)

16. Loss per share

During the three months ending September 30, 2024, the Company did not issue RSUs and DSUs to employees and directors under the terms of its Equity Incentive Plan (Note 13). 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.

17. Supplemental disclosures of cash flow information

Net change in non-cash operating working capital items:

	September 30, 2024	June 30, 2024
	\$	\$
Net inflow (outflow) of cash:		
Accounts receivable and other receivables	(477)	(41)
Inventories	(93)	(297)
Prepaid expenses and deposits	(974)	(267)
Accounts payable and accrued liabilities	112	962
Contract Liabilities	(28)	(69)
	(1,460)	288

18. Commitments

The Company's office and research and development facilities in Ottawa, Ontario, Canada are subject to a lease that was to expire September 30, 2024. On April 24, 2024 the lease was amended and the expiration date was extended to September 30, 2025. The 9th amendment to the lease agreement takes effect October 1, 2024.

The Company's office and manufacturing facilities in Fremont, California, U.S.A. are now operating under a 3-year lease (Note 7) after the prior lease arrangement moved from a month to month basis. The new lease is in effect from August 2023 and expires July 31, 2026. The testing facility in Suzhou, China is under a 4-year lease (Note 7) which is in effect from April 2024 to April 2028.

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

LEASES

	\$
Less than one year	497
Between one and five years	644
More than five years	-
	1,141

In addition, the Company has a commitment to pay an amount relating to a royalty-bearing government grant received for approved research and development projects, of which \$Nil

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

was paid during the year (2024 - \$Nil). The balance of \$25 (2024 - \$25) is included in the Company's accounts payable. The Company has an obligation to make additional royalty payments based on sales of the products related to these grants (Note 8); however, all products related to the grants have been discontinued or abandoned.

19. Financial Instruments

Carrying values and fair values

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

	September 30, 2024	June 30, 2024
	\$	\$
Assets - based on amortized cost	1,406	933
Liabilities - based on amortized cost	35,081	28,970
Leases - based on amortized cost	1,024	1,141

Notes:

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

Liabilities – based on amortized cost includes accounts payable and accrued liabilities, long-term leases, notes payable, and convertible debentures

The carrying values of cash and cash equivalents, accounts and other receivables and accounts payable and accrued liabilities approximate their fair values due to their relatively short periods to maturity. The fair value of current financial instruments approximates their carrying values due to their short-term nature, except for lease liabilities and long-term debt. The fair value of the long-term debt and lease liabilities are based upon discounted future cash flows using discount rates, adjusted for the Company's own credit risk that reflect current market conditions. Such fair value estimates are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions.

Financial Risk Management

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

Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and trade receivables. The Company's maximum credit risk is \$1,406 (June 30, 2024 - \$933). The Company maintains its cash balances in operating accounts with large, high quality financial institutions.

Accounts receivable

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

characteristics and the days past due over and above the 30-day standard credit terms. The expected loss rates are based on the payment profiles of sale over a period of 36 months before June 30, 2024. The historical loss rates are adjusted to reflect current and forward-looking information based on factors affecting the ability of the customers to settle the receivables. The Company has identified the credit worthiness for current and future customers to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factors.

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

The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its trade receivables to mitigate any possible credit losses. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. The carrying amount of trade accounts receivables are reduced using an expected credit loss and the amount of the loss is recognized in the consolidated statement of net loss in general and administrative expenses. Trade receivables are written off (i.e., de-recognized) when there is no reasonable expectation of recovery. Failing to engage with the Company on payment or alternative payment arrangements, among other things, are considered indicators of no reasonable expectation of recovery. Subsequent recoveries of amounts previously written off reduce general and administrative expenses in the consolidated statements of comprehensive income (loss).

The Company defines concentration risk as customers whose outstanding receivable is 10% or greater than the total receivable balance, after expected credit loss (Note 5).

As at September 30, 2024, one customer accounted for more than 10% of the trade receivable, totaling \$821, (June 30, 2024 – three customers, \$230), which is approximately 67% (June 30, 2024 – 76%) of the trade receivable total. The Company has taken an expected credit loss of \$51 (June 30, 2024 - \$26) against these over 10% customers.

In aggregate, as of September 30, 2024, it was determined that an expected credit loss of \$94 (June 30, 2024 - \$43) was required:

The closing balance of trade receivables loss allowance as at September 30, 2024 reconciles with the trade receivables loss allowance as at June 30, 2024 as follows:

Loss Allowance June 30, 2024	\$
Plus: Increased (decreased) allowance on trade receivables	43
Less: Write-offs of trade receivables	51
Loss Allowance September 30, 2024	-
	<hr/>
	94

Enablence Technologies Inc.

Notes to the consolidated financial statements
September 30, 2024 and 2023
(in thousands of U.S. dollars and shares)

Interest rate risk

The Company manages interest rate risk by negotiating fixed rate interest rates on loans when possible. As at June 30, 2024 the Company is not exposed to interest rate risk as all debt obligations have fixed interest rates. An increase in the interest rate of 1% would have resulted in no increase in interest expense during the three months ended September 30, 2024 (June 30, 2024 - \$Nil). The Company does not use derivative instruments to reduce its exposure to interest rate risk as the risk is considered manageable.

Foreign currency risk

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

A 10% strengthening of the C\$ against the US\$ and a 10% strengthening of the Chinese Renminbi ("RMB") against the US\$ would have affected net income (losses) from operations and the other comprehensive gain ("OCI") by the total amounts shown below. A weakening of the Canadian dollar and the Chinese Renminbi against the US\$ would have the opposite effect.

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

<u>September 30, 2024</u>		<u>September 30, 2023</u>	
Net income (loss)	OCI	Net income (loss)	OCI
(179)	(28)	(56)	30

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

<u>September 30, 2024</u>		<u>September 30, 2023</u>	
Net income (loss)	OCI	Net income (loss)	OCI
28	(2)	(12)	1

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company currently settles all of its financial obligations out of cash and cash equivalents. The ability to do so relies on the Company collecting its accounts and other receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. The Company's ability to settle its financial obligations are also dependent on the Company's ability to secure additional financing.

Enablence Technologies Inc.

Notes to the consolidated financial statements
September 30, 2024 and 2023
(in thousands of U.S. dollars and shares)

At September 30, 2024 and June 30, 2024, the Company has financial liabilities and lease liabilities which are due as follows:

As at September 30, 2024	Current		Non-Current		Total
	within 6 months	6 to 12 months	1 to 5 years	5+ years	
	\$	\$	\$		\$
Accounts payable and accrued liabilities	7,114	-	-	-	7,114
Notes payable	563	-	22,330	-	22,893
Convertible debentures	-	-	5,074	-	5,074
Lease Liabilities	380		644		1,024
Total	8,057	-	28,048	-	36,105

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	7,002	-	-	-	7,002
Notes payable	538	-	16,764	-	17,302
Convertible debentures	-	-	4,666	-	4,666
Lease Liabilities	497		644		1,141
Total	8,037	-	22,074	-	30,111

20. Capital Management

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

Management defines capital as the Company's total deficiency and debt. In order to maintain or strengthen its capital structure, the Company's management believes it could issue new shares or raise new debt. To date, no dividends have been paid to the Company's shareholders. There are no changes to the Company's approach to management of its capital for the current year as compared to the prior year.

21. Segmented Information

The Company operates in one segment, Optical Components.

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

	September 30, 2024	June 30, 2024
	\$	\$
United States	1,378	1,409
China	429	327
Canada	9	11
	1,816	1,747

Revenue is analyzed geographically as follows:

Enablence Technologies Inc.

Notes to the consolidated financial statements
September 30, 2024 and 2023
(in thousands of U.S. dollars and shares)

	September 30, 2024	September 30, 2023
	\$	\$
Americas	167	156
Europe, Middle East, Africa	92	-
Asia Pacific	959	69
	1,218	225

During the three months ended September 30, 2024, four customers accounted for 89% of the Company's total revenue (three months ended September 30, 2023 – four; 79%).

The Company generates revenue principally from the sale of its components and subsystems products ("Product") to leading communications systems suppliers. The Company also generates revenue from Non-Recurring Engineering services for clients, as well as Fab Services.

	September 30, 2024	September 30, 2023
	\$	\$
Product	971	61
NRE	169	131
Fab Service	78	33
	1,218	225

22. Key Management Personnel and Director Compensation

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

23. Related Party Transactions

Vortex Entities

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

- Vortex ENA LP ("Vortex"), which owns 1,491 shares
- Paradigm Capital Inc. ("PCI"), which owns 1,661 shares
- Paradigm Capital Partners Limited ("PCPL"), which owns 94 shares

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

- A director of PCI and PCPL owns 1,938 shares and 332 share purchase warrants

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

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

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 of 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.

On January 26, 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 Obligors' 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.

On April 3, 2024, this Intercreditor agreement was amended to account for the additional funding provided by Pinnacle Island LP.

Enablence Technologies Inc.

Notes to the consolidated financial statements

September 30, 2024 and 2023

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

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.