Condensed Consolidated Interim Financial Statements of

ENABLENCE TECHNOLOGIES INC.

For the three months ended September 30, 2011 and 2010
(in United States dollars)

(Unaudited)

ENABLENCE TECHNOLOGIES INC.
Condensed Consolidated Interim Financial Statements
September 30, 2011 and 2010
(Unaudited)

ENABLENCE TECHNOLOGIES INC.
Condensed Consolidated Balance Sheets
(Unaudited - In thousands of United States dollars)

	Note	September 30, 2011	June 30, 2011	May 1, 2010 (Note 4)
CURRENT ASSETS				
Cash and cash equivalents		$ 8,131	$ 10,404	$ 23,043
Accounts receivable	5	4,842	5,928	11,525
Inventories	6	5,667	5,558	13,540
Prepaid expenses and deposits		585	598	2,281
Restricted cash	7	1,305	1,306	1,522
Assets held for disposal	19	21,796	21,191	-
		42,326	44,985	51,911
PROPERTY, PLANT AND EQUIPMENT		9,059	9,414	10,417
INTANGIBLE AND OTHER ASSETS		203	457	4,653
INVESTMENT IN JOINT VENTURE	8	3,213	3,492	-
GOODWILL		5,697	5,697	13,828
ASSETS HELD FOR DISPOSAL	19	926	1,314	-
		$ 61,424	$ 65,359	$ 80,809
CURRENT LIABILITIES				
Trade and other payables		$ 5,507	$ 5,859	$ 14,024
Current portion of notes payable	10	13,347	12,800	1,085
Unearned revenue		166	188	6,052
Liabilities related to assets held for disposal	19	26,166	24,697	-
		45,186	43,544	21,161
NOTES PAYABLE	10	7,523	8,443	3,977
DEFERRED INCOME TAX LIABILITY		1,978	1,981	3,729
LIABILITIES RELATED TO ASSETS HELD FOR DISPOSAL	19	7,815	7,179	-
		62,502	61,147	28,867
EQUITY				
Share capital	11	222,567	222,567	162,395
Contributed surplus	11	9,172	8,631	6,526
Accumulated other comprehensive loss		(1,100)	(750)	-
Deficit		(231,717)	(226,236)	(116,979)
		(1,078)	4,212	51,942
		$ 61,424	$ 65,359	$ 80,809

GOING CONCERN (Note 2)
COMMITMENTS (Note 17)

See accompanying notes to the unaudited condensed consolidated interim financial statements

APPROVED BY THE BOARD

"Peter Dey"
Chairman of the Board of Directors

"R Stephen Bower"
Director

ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Statements of Loss, Other Comprehensive (Loss) Income and Comprehensive Loss

For the three months ended September 30, 2011 and 2010

(Unaudited - In thousands of United States dollars and shares except per share data)

	Note		Three months ended September 30 2011		2010
Revenues		$	5,821	$	8,117
Cost of revenues			4,340		5,927
Gross margin			1,481		2,190
Operating expenses					
Research and development			1,508		1,289
Sales and marketing			302		434
General and administration			1,144		1,265
Stock-based compensation	11		240		210
Amortization			175		375
Restructuring charges	13		-		796
			3,369		4,369
Operating loss			(1,888)		(2,179)
Other income (expense)					
Finance and other income			21		-
Finance expense			(271)		(228)
Foreign exchange (loss) gain			(846)		337
Loss before income taxes			(2,984)		(2,070)
Deferred income tax recovery			114		217
Net loss from continuing operations			(2,870)		(1,853)
Net loss from discontinued operations (net of tax)	19		(2,611)		(6,441)
Net loss			(5,481)		(8,294)
Other comprehensive (loss) income					
Foreign currency translation (losses) gains			(350)		160
Comprehensive loss		$	(5,831)	$	(8,134)
Net loss per share basic and diluted	12				
Continuing operations		$	(0.01)	$	(0.00)
Discontinued operations			(0.01)		(0.02)
Weighted average number of outstanding shares					
Basic and diluted	11		466,546		384,196

See accompanying notes to the unaudited condensed consolidated interim financial statements

ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Statements of Changes in Equity

For the three months ended September 30, 2011, nine months June 30, 2011, three months September, 30 2010 and two months June 30, 2011

(Unaudited - In thousands of United States dollars and shares)

	Number of shares	Share capital (Note 11)	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Equity
Balance at May 1, 2010 (Note 4)	327,174	$ 162,395	$ 6,526	$ -	$ (116,979)	$ 51,942
Stock-based compensation	-	-	238	-	-	238
Exercise of options	950	472	(137)	-	-	335
Exercise of warrants	74	36	(15)	-	-	21
Issuance of common shares on acquisition of Teledata Networks Ltd. (Note 20)	54,932	29,624	-	-	-	29,624
Net loss	-	-	-	-	(4,547)	(4,547)
Foreign currency translation	-	-	-	(339)	-	(339)
Balance at June 30, 2010	383,130	192,527	6,612	(339)	(121,526)	77,274
Stock-based compensation	-	-	322	-	-	322
Exercise of warrants	1,298	641	(271)	-	-	370
Net loss	-	-	-	-	(8,294)	(8,294)
Foreign currency translation	-	-	-	160	-	160
Balance at September 30, 2010	384,428	193,168	6,663	(179)	(129,820)	69,832
Stock-based compensation	-	-	1,525	-	-	1,525
Exercise of warrants	18	6	(1)	-	-	5
Issuance of common shares (Note 11)	82,100	29,837	-	-	-	29,837
Fair value of warrants issued (Note 11)	-	(444)	444	-	-	-
Net loss	-	-	-	-	(96,416)	(96,416)
Foreign currency translation	-	-	-	(571)	-	(571)
Balance at June 30, 2011	466,546	222,567	8,631	(750)	(226,236)	4,212
Stock-based compensation	-	-	541	-	-	541
Net loss	-	-	-	-	(5,481)	(5,481)
Foreign currency translation	-	-	-	(350)	-	(350)
Balance at September 30, 2011	466,546	$ 222,567	$ 9,172	$ (1,100)	$ (231,717)	$ (1,078)

See accompanying notes to the unaudited condensed consolidated interim financial statements

ENABLENCE TECHNOLOGIES INC.
Condensed Consolidated Statements of Cash Flows
For the three months ended September 30, 2011 and 2010
(Unaudited - In thousands of United States dollars)

	Three months ended September 30	
	2011	**2010**
Cash provided by (used in):		
Operating activities		
Net loss	$ (5,481)	$ (8,294)
Loss from discontinued operations	2,611	6,441
Adjusted for the following non-cash items:		
Amortization	628	780
Stock-based compensation (note 11)	240	210
Unrealized foreign exchange loss (gain)	1,110	(445)
Deferred income tax recovery	(114)	(217)
	(1,006)	(1,525)
Changes in non-cash working capital (Note 18)	549	(240)
Cash used in operating activities – continuing operations	(457)	(1,765)
Cash from (used in) operating activities – discontinued operations	3,196	(1,861)
Cash from (used in) operating activities	2,739	(3,626)
Investing activities		
Decrease (Increase) in restricted cash	(8)	48
Purchase of property, plant and equipment	(162)	(170)
Cash used in investing activities – continuing operations	(170)	(122)
Cash from investing activities – discontinued operations	72	2,910
Cash (used in) from investing activities	(98)	2,788
Financing activities		
Advance from (repayment of) notes payable	(375)	3,096
Proceeds from issuance of common shares, warrants and options, net of issuance costs (Note 11)	-	370
Cash (used in) from provided by financing activities – continuing operations	(375)	3,466
Cash used in financing activities – discontinued operations	-	(2,793)
Cash (used in) provided by financing activities	(375)	673
Effect of foreign currency translation on cash and cash	(2,018)	(392)
Increase (decrease) in cash and cash equivalents	248	(557)
Cash and cash equivalents, beginning of period	11,927	6,439
Cash and cash equivalents , end of period	12,175	5,882
Less cash and equivalents of discontinued operations at end of period	(4,044)	(3,045)
Cash and cash equivalents, end of period – continuing operations	$ 8,131	$ 2,837
Interest Paid	$ 144	$ 99
Interest Received	21	4

See accompanying notes to the unaudited condensed consolidated interim financial statements

1. REPORTING ENTITY

Enablence Technologies Inc. (the "Company" or "Enablence") is incorporated under the Canada Business Corporations Act. The head office of Enablence is located at 1 St. Clair Avenue East, Suite 504, Toronto, Ontario, Canada. Enablence is a publicly traded company listed on the TSX Venture Exchange. The Company designs, manufactures and sells optical components and subsystems for access, metro and long-haul markets to a global customer base. The Company's product lines address all three segments of optical networks: Access, connecting homes and businesses to the network; Metro, communication rings within large cities; and Long-haul, linking cities, countries and continents.

2. BASIS OF PREPARATION

(i) Going Concern

These unaudited condensed consolidated interim financial statements (the "interim financial statements") have been prepared using accounting policies which are consistent with International Financial Reporting Statements ("IFRS") and on the basis of accounting principles applicable to a going concern. This assumes the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

At September 30, 2011, the Company had cash of $8,131 (not including $4,044 held in subsidiaries that are reported as discontinued operations), working capital of $1,510 (not including negative working capital of $4,370 held in discontinued operations) and used cash of $457 in its operating activities (not including $3,196 of cash generated by discontinued operations) for the three month period ended September 30, 2011.The Company had an accumulated deficit of $231,717, as the Company has sustained significant losses since its inception. The Company has announced its intention to divest of its Systems segment, in part due to the cash required to fund that business segment. A portion of the Systems segment was sold on September 15, 2011 (Note 19)

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 divestiture of its Systems segment, the ability to generate positive cash flow from its remaining business, and the ability to refinance its 5% subordinated notes on maturity in June 2012, which has an outstanding balance of $10,636 as at September 30, 2011. There is substantial risk in the divestiture plans of the Systems segment.

If the going concern assumption was not appropriate for these interim financial statements, significant adjustments to the carrying values of assets and liabilities, reported expenses and balance sheet classifications would result. These adjustments would be material.

2. BASIS OF PREPARATION (continued)

(ii) Statement of compliance

The interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB") using the accounting policies the Company expects to adopt in its June 30, 2012 consolidated Financial Statements. The Company is a first time adopter of IFRS and has followed the requirements of IFRS 1 – First-time Adoption of IFRS ("IFRS 1") in its initial application of IFRS as disclosed more fully in note 4 of these interim financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated Financial Statements for the year ending June 30, 2012 could result in restatement of these interim financial statements.

(iii) Basis of measurement

These interim financial statements should be read in conjunction with the Company's 2011 annual consolidated financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles and in consideration of the IFRS transition disclosures included in Note 4 of these interim financial statements.

These interim financial statements have been prepared mainly on a historical cost basis. Other measurement bases used are described in the applicable notes.

(iv) Approval of Interim Financial Statements

The interim financial statements were authorized for issuance by the Board of Directors on December 19, 2011.

(v) Functional and presentation currency

Financial statements reported by the Company as at or prior to June 30, 2011 were presented in Canadian dollars ("CAD"). The Company has changed the presentation currency of its financial statements to the United States dollar ("USD").

While each of the Company's subsidiaries has its own functional currency, the functional currency of the parent company, Enablence Technologies Inc., is the Canadian dollar. However, the majority of the revenues, cost of revenues and operating expenses from significant subsidiaries are denominated in USD. Furthermore, the majority of the Company's debt is in USD. Presenting these interim financial statements in USD also allows investors to more easily compare the Company's results with most of its direct competitors.

As a result, these interim financial statements are presented in USD. This change has been implemented retrospectively, such that the comparative figures in these interim financial statements also reflect a USD presentation currency.

2. BASIS OF PREPARATION (continued)

(vi) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses and the related disclosures of contingent assets and liabilities.

Significant estimates in the accompanying interim financial statements relate to the allowance for doubtful accounts, inventory provisions and valuation, asset impairments, accruals, unearned revenue, stock-based compensation, the estimated useful lives and valuation of property, plant and equipment, deferred income taxes, the carrying values of intangible assets and goodwill. Actual results could differ from these estimates.

Significant judgements in the accompanying interim financial statements relate to the purchase price allocations with respect to acquisitions, functional currency determinations and determination of cash-generating units (“CGU”).

3. SIGNIFICANT ACCOUNTING POLICIES

Transition to IFRS

The Company’s Financial Statements were previously prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). Canadian GAAP differs in some areas from IFRS. In preparing these interim financial statements, the Company has amended certain accounting and measurement methods previously applied in the Canadian GAAP financial statements to comply with IFRS. Note 4 of these interim financial statements contains reconciliations and descriptions of the impact of the transition from Canadian GAAP to IFRS.

Basis of consolidation

The interim financial statements include the accounts of Enablence Technologies Inc., and its subsidiaries as detailed below. All intercompany transactions have been eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

The following chart summarizes the entities consolidated in the interim financial statements:

Name of Entity	Place of incorporation	Functional Currency
Continuing Operations		
Enablence Technologies Inc	Canadian Business Corporation Act	CAD
Enablence USA Inc.	Delaware, USA	USD
Enablence USA Technologies Inc.	Delaware, USA	USD
Enablence USA Components Inc.	California, USA	USD
Enablence Switzerland AG	Switzerland	Swiss Franc (CHF)
Enablence Canada Inc	Ontario, Canada	CAD
Discontinued Operations		
Enablence USA FTTx Networks, Inc	Delaware, USA	USD
Enablence Systems Inc.	Delaware, USA	USD
Teledata Networks Ltd.	Israel	USD
TDN Networks B.V.	Netherlands	USD
Telsul Teledata Telecomunicases S.A. (Brazil),	Brazil	Real
TDN Telecomunicaoes Brazil S.A. (Brazil).	Brazil	Real

(i) *Business Combinations:*

Acquisitions on or after May 1, 2010

For acquisitions on or after May 1, 2010, the Company measures goodwill at the acquisition date as the fair value of the consideration transferred less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

Acquisitions prior to May 1, 2010

As part of its transition to IFRS, the Company elected to restate only those business combinations that occurred on or after May 1, 2010. In respect of acquisitions prior to May 1, 2010, goodwill represents the amount recognized under the Company's previous Canadian GAAP.

(ii) *Subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All of the Company's subsidiaries are wholly-owned. The financial statements of subsidiaries are included in the Company's interim financial statements from the date that control commences until the date that control ceases.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Jointly controlled entities

Joint ventures are those entities over whose activities the Company has joint control. The Company determines joint control when there is existence of a contractual agreement to share continuing power with other participating parties to determine strategic operating, investing, and financing activities of the joint venture.

In the prior fiscal year, the Company made an investment in a joint venture named Foshan Sunsea-Enablence Optoelectronics Technology Co., Ltd (the "China JV"). As at September 30, 2011 the Company has not yet fulfilled its remaining obligations (providing certain capital equipment, intellectual property and know-how).

As a result, the Company has recorded the joint venture as an investment at cost in these interim financial statements. The Company will proportionately consolidate its 49% interest in the China JV once its remaining obligations are completed.

The China JV expects to change its name to Sunblence Technologies Co.,LTD.

(iv) 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 interim financial statements

Revenue recognition

Revenue is recognized at the fair value of consideration received or receivable.

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

(a) the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;

(b) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

(c) the amount of revenue can be measured reliably;

(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Multiple-element arrangements
When a single sales transaction requires the delivery of more than one product or service ("multiple elements"), the revenue recognition criteria are applied separately to identifiable components. A component is considered to be separately identifiable if the product or service delivered has stand-alone value to that customer. The consideration is allocated to deliverables based on their relative fair values. The fair value of each component is determined using vendor specific objective evidence, third party evidence of selling price, or estimated selling price.

Revenue is not recognized when payment is received for services not rendered and is recognized over the term of the contract. Revenue may also be deferred under certain contractual arrangements whereby delivery is not considered to have occurred until all elements of the product or service have been delivered and accepted. If these criteria are not met, then revenue is deferred until such criteria are met or until the period(s) over which the last element is delivered. If there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting based on each unit's relative fair value.

Cash and cash equivalents

The Company considers all highly liquid investments with original maturity of three months or less to be cash equivalents.

Restricted cash

Restricted cash represents cash provided to support letters of credit outstanding and to support certain of the Company's credit facilities.

Inventories

Inventories are recorded at the lower of cost or net realizable value. Cost is calculated based on the weighted average method. Write-downs are taken for excess and obsolete inventory and for reduction in the carrying value of inventory to reflect realizable value based on current cost, production and sales estimates.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

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

Property, plant and equipment

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

Asset class	*Amortization term*
Machinery and equipment	3 to 12 years
Lab equipment and tooling	3 years
Photomasks	3 years
Computer equipment	3 to 5 years
Office furniture and equipment	3 and 5 years
Leasehold improvements	Lesser of 10 years or term of lease

Amortization 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets consist of intellectual property, customer relationships, brand names, patents and software. Costs incurred to acquire patents are recorded at cost and amortized over ten years, the expected useful life of the patents. Software is recorded at cost and amortized using the straight-line method over an estimated useful life of 3 years.

Intangible assets acquired in a business combination represent intellectual property, customer relationships and brand names and are recorded at fair value estimated by management based on the expected discounted future cash flows associated with the acquired intangible assets. Acquired intangible assets are amortized on a straight-line basis over three to five years based on their expected future life.

The amortization methods and estimates of useful life and residual value of intangible assets are reviewed annually or more frequently if events or circumstances indicate there may be impairment.

Goodwill

Goodwill is calculated as the excess of the fair value of consideration paid over the fair value of tangible and intangible assets acquired and liabilities assumed in a business combination.

Impairment of long-lived assets

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

Goodwill is not amortized and is tested annually for impairment (or more frequently if events or circumstances indicate there may be impairment) in the third quarter of each fiscal year.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. 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, or “CGU”).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Non-derivative financial assets:

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

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

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

The Company's financial assets and liabilities are as follows:

Loans and receivables:

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

Other financial liabilities:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

The following is a summary of the classification the Company has applied to each of its significant categories of financial instruments outstanding:

Financial instrument	Classification
Cash and cash equivalents	Loans and receivables
Restricted cash	Loans and receivables
Accounts receivable	Loans and receivables
Trade and other payables	Other financial liabilities
Notes payable	Other financial liabilities

Provisions

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

Government grants

Royalty-bearing grants from the Government of Israel for approved research and development projects are recognized at the time the Company is entitled to such grants. Grants that compensate the Company for expenses incurred are recognized in earnings in the same period in which the expenses are recognized. The liability to repay the Government of Israel is calculated as a royalty percentage of qualifying revenues made by the Company. The Company records the fair value of expected future grant repayments in liabilities related to assets held for disposal, since the government grants relate to the Systems segment.

Employee Benefits

Other than the liability for Israeli severance, the Company has no liability for employee benefits. The Company's liability for severance pay with respect to its Israel employees is calculated pursuant to Israeli Severance Pay Law and employee agreements based on the most recent salary of the employees and the number of years of employment, as of the balance sheet date. Employees are entitled to severance pay of one month's salary for each year of employment or a portion thereof. The Company has made monthly deposits with insurance companies' pension funds to fund this liability for its Israeli employees. Any underfunded amounts of this liability are recorded in liabilities related to assets held for disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Benefits (continued)

The deposited funds may be withdrawn only upon the fulfillment of the obligations pursuant to Israeli Severance Pay Law or labour agreements. The value of the deposited funds is based on the cash surrendered value of these policies.

Stock-based compensation

The grant date fair value of share-based payment awards granted to employees is recognized as an expense, with a corresponding increase in equity, over the period the employees unconditionally become entitled to the awards. For awards with graded vesting, the fair value of each tranche is recognized over the respective vesting period. The amount recognized as an expense is adjusted for expected forfeitures, such that the amount of stock based compensation expense recognized is based on the number of awards that are ultimately expected to vest.

Research and development costs

Research and development costs are expensed as incurred as the criteria for deferral under IFRS are not met.

Discontinued Operations

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the financial information is re-presented as if the operation had been discontinued form the start of the comparative period.

Non-current assets held for sale

Non-current assets, or disposal groups comprising of assets and liabilities, that are expected to be recovered primarily through sale rather than through continued use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group are re-measured in accordance with the Company's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on a pro-rata basis, except that no loss is allocated to inventories, financial assets, and deferred tax assets, which continue to be measured in accordance with the Company's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognized in earnings. Gains are not recognized in excess of any cumulative impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

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

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 exchange rates prevailing at the dates of transactions. The resulting translation adjustments are included in accumulated other comprehensive income (loss) in equity.

Earnings per share

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

Future Changes in Accounting Policies

The IASB recently issued a number of new accounting standards. The new standards determined to be applicable to the Company are disclosed below. Other standards have been excluded as they are not applicable.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Changes in Accounting Policies (continued)

(i) Financial instruments

Two phases of IFRS 9, Financial Instruments ("IFRS 9") were issued by the IASB in November 2009 and October 2010. IFRS 9 will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its Financial Statements.

(ii) Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements ("IFRS 10") was issued by the IASB in May 2011. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12, Consolidation - Special Purpose Entities and IAS 27, Consolidated and Separate Financial Statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 10 on its Financial Statements.

(iii) Joint Arrangements

IFRS 11, Joint Arrangements ("IFRS 11") was issued by the IASB in May 2011. IFRS 11 provides a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. IFRS 11 requires the use of the equity method of accounting for interests in joint ventures, except for joint operations, thereby eliminating the proportionate consolidation method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 11 on its Financial Statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Changes in Accounting Policies (continued)

(iv) Disclosure of Interests in Other Entities

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), was issued by the IASB in May 2011. IFRS 12 incorporates the disclosure requirements for all strategic investments including interests in subsidiaries, joint arrangements, and associated as well as unconsolidated structured entities. IFRS 12 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The adoption of this standard is not expected to have a material impact on the Company's Financial Statements.

(v) Fair Value Measurement

IFRS 13, Fair Value Measurement ("IFRS 13"), was issued by the IASB in May 2011. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The adoption of this standard is not expected to have a material impact on the Company's Financial Statements.

4. TRANSITION TO IFRS

For all periods up to and including the year ended June 30, 2011, the Company prepared its Financial Statements in accordance with Canadian GAAP. These interim financial statements, for the quarter ended September 30, 2011, are the first the Company has prepared under IFRS.

In preparing these interim financial statements, the Company's opening IFRS balance sheet was prepared as at May 1, 2010, the Company's date of transition to IFRS. This note contains reconciliations and descriptions of the impact of transition from Canadian GAAP to IFRS as at May 1, 2010, September 30, 2010 and June 30, 2011, and also for the fourteen and three month periods ended June 30, 2011 and September 30, 2010 respectively.

4. TRANSITION TO IFRS (continued)

Elective exemptions applied:

IFRS 1 First-Time Adoption of International Financial Reporting Standards allows first-time adopters certain exemptions from the retrospective application of certain IFRSs.

The Company has elected to apply the following exemptions:

Business combinations
IFRS 3 Business Combinations has not been applied to business combinations that occurred before May 1, 2010. Accordingly, the Company has not restated business combinations that took place prior to this date.

Cumulative translation differences
IFRS 1 allows a company to reset its cumulative currency translation ("CTA") differences for all foreign operations on the date of transition. The Company has taken this election and as a result the Company's CTA is deemed to be zero as at May 1, 2010.

Elective exemptions not applied by the Company

The following exemptions have not been elected by the Company but are applicable to the Company. Other elective exemptions that were not applied were either not applicable or not material.

Fair value or revaluation as deemed cost
IFRS allows a company to elect to measure any property, plant and equipment at fair value at the date of transition and deem that value as its new cost. The Company will not elect to measure its property and equipment at fair value at the date of transition to IFRS.

Leases
The Company will not elect to determine whether an arrangement existing at date of transition contains a lease on the basis of information existing at that date. When the Company adopted section 3065 under Canadian GAAP it had performed the same analysis at that time and as a result International Financial Reporting Interpretations Committee ("IFRIC") 4 provides that the Company need not reassess on transition to IFRS.

4. TRANSITION TO IFRS (continued)

Mandatory exceptions applied by the Company

IFRS 1 includes four mandatory exceptions to retrospective application. The impacts of applying these exceptions are as follows:

Estimates
This exception prohibits the use of hindsight to correct estimates made under Canadian GAAP unless there was objective evidence of error. During the transition to IFRS the Company did not require any changes in estimates and did not note any errors in those estimates when reviewing for transition purposes. As a result, this exception had no impact on the Company's interim financial statements or on transition.
De-recognition of financial assets and financial liabilities
This exception required that any non-derivative financial assets or non-derivative financial liabilities that were de-recognized under Canadian GAAP, as a result of a transaction that occurred before May 1, 2010 would not be recognized under IFRS, unless they qualify for recognition as a result of a later transaction or event. The Company did not previously derecognize any assets or liabilities and as a result this exception had no impact on the Company's interim financial statements or on transition.

Hedge accounting
This exception required that an entity should not reflect in its opening IFRS balance sheet a hedging relationship of a type that does not qualify for hedge accounting under IAS 39. The Company did not have any hedge items or any items that would now qualify for hedge accounting under IFRS at the date of transition and as a result, this exception had no impact on the Company's interim financial statements or on transition.

Non-controlling Interests
This exception required prospective application of IAS 27 from the date of transition; however the Company does not have any non-controlling interests. As a result, this exception had no impact on the Company's interim financial statements or on transition.

Financial Statement Reconciliations
The following are reconciliations of the Company's condensed consolidated balance sheet from Canadian GAAP to IFRS as at May 1, 2010, September 30, 2010 and June 30, 2011, and reconciliations of the Company's consolidated statement of loss, other comprehensive income (loss) and comprehensive loss for the three months ended September 30, 2010 and the fourteen months ended June 30, 2011.

Included within the reconciliations are adjustments that would have been made under Canadian GAAP to retrospectively reclassify the company's discontinued operations (note 19), as well as the change in presentation currency from CAD to USD (note 2). These adjustments do not relate to the transition from Canadian GAAP to IFRS.

(In thousands of United States dollars except per share data and except as otherwise indicated)

4. TRANSITION TO IFRS (continued)

Canadian GAAP to IFRS consolidated balance sheet reconciliation as at May 1, 2010

	Note	Canadian GAAP (CAD)	Canadian GAAP (USD) (Note A)	IFRS Adjustments (USD)	IFRS (USD)
CURRENT ASSETS					
Cash and cash equivalents		$ 23,407	$ 23,043	$ -	$ 23,043
Accounts receivable		11,707	11,525	-	11,525
Inventories		13,754	13,540	-	13,540
Prepaid expenses and deposits		2,317	2,281	-	2,281
Restricted cash		1,546	1,522	-	1,522
		52,731	51,911	-	51,911
PROPERTY, PLANT AND EQUIPMENT		10,582	10,417	-	10,417
INTANGIBLE AND OTHER ASSETS		4,727	4,653	-	4,653
GOODWILL		14,046	13,828	-	13,828
		$ 82,086	$ 80,809	$ -	$ 80,809
CURRENT LIABILITIES					
Trade and other payables		$ 14,244	$ 14,024	$ -	$ 14,024
Unearned revenue		6,148	6,052	-	6,052
Current portion of notes payable		1,102	1,085	-	1,085
		21,494	21,161	-	21,161
NOTES PAYABLE		4,040	3,977	-	3,977
DEFERRED INCOME TAX LIABILITY		3,788	3,729	-	3,729
		29,322	28,867	-	28,867
EQUITY					
Share capital		170,269	162,395	-	162,395
Contributed surplus	1	10,399	9,602	(3,076)	6,526
Accumulated other comprehensive income (loss)	4	3,898	(2,694)	2,694	-
Deficit	1, 4	(131,802)	(117,361)	382	(116,979)
		52,764	51,942	-	51,942
		$ 82,086	$ 80,809	$ -	$ 80,809

(In thousands of United States dollars except per share data and except as otherwise indicated)

4. TRANSITION TO IFRS (continued)

Canadian GAAP to IFRS consolidated balance sheet reconciliation as at September 30, 2010

	Note	Canadian GAAP (CAD)	Canadian GAAP (USD) (Note A)	IFRS Adjustments (USD)	IFRS (USD)
CURRENT ASSETS					
Cash and cash equivalents		$ 2,919	$ 2,837	$ -	$ 2,837
Accounts receivable		6,491	6,308	-	6,308
Inventories		5,118	4,974	-	4,974
Prepaid expenses and deposits		593	576	-	576
Restricted cash		1,492	1,450	-	1,450
Assets held for disposal		41,662	40,488	-	40,488
		58,275	56,633	-	56,633
PROPERTY, PLANT AND EQUIPMENT		10,270	9,981	-	9,981
INTANGIBLE AND OTHER ASSETS		741	720	-	720
GOODWILL		5,862	5,697	-	5,697
ASSETS HELD FOR DISPOSAL	2, 3	72,565	70,520	8,110	78,630
		$ 147,713	$ 143,551	$ 8,110	$ 151,661
CURRENT LIABILITIES					
Trade and other payables		7,955	7,731	-	7,731
Unearned revenue		235	228	-	228
Current portion of notes payable		1,259	1,224	-	1,224
Liabilities related to assets held for disposal		36,379	35,354	-	35,354
		45,828	44,537	-	44,537
NOTES PAYABLE		17,263	16,776	-	16,776
DEFERRED INCOME TAX LIABILITY		2,229	2,166	-	2,166
LIABILITIES RELATED TO ASSETS HELD FOR DISPOSAL	2	10,079	9,795	8,555	18,350
		75,399	73,274	8,555	81,829
EQUITY					
Share capital		202,231	193,168	-	193,168
Contributed surplus	1	10,355	9,558	(2,895)	6,663
Accumulated other comprehensive income (loss)	4	4,226	(2,873)	2,694	(179)
Deficit	1, 2, 4	(144,498)	(129,576)	(244)	(129,820)
		72,314	70,277	(445)	69,832
		$ 147,713	$ 143,551	$ 8,110	$ 151,661

(In thousands of United States dollars except per share data and except as otherwise indicated)

4. TRANSITION TO IFRS (continued)

Canadian GAAP to IFRS Consolidated balance sheet reconciliation as at June 30, 2011

	Note	Canadian GAAP (CAD)	Canadian GAAP (USD) (Note A)	IFRS Adjustments (USD)	IFRS (USD)
CURRENT ASSETS					
Cash and cash equivalents		$ 10,035	$ 10,404	**$** -	$ 10,404
Accounts receivable		5,718	5,928	-	5,928
Inventories		5,361	5,558	-	5,558
Prepaid expenses and deposits		577	598	-	598
Restricted cash		1,260	1,306	-	1,306
Assets held for disposal		20,439	21,191	-	21,191
		43,390	44,985	-	44,985
PROPERTY, PLANT AND EQUIPMENT		9,080	9,414	-	9,414
INTANGIBLE AND OTHER ASSETS		441	457	-	457
INVESTMENT IN JOINT VENTURE		3,368	3,492	-	3,492
GOODWILL		5,494	5,697	-	5,697
ASSETS HELD FOR DISPOSAL		1,267	1,314	-	1,314
		$ 63,040	$ 65,359	**$** -	$ 65,359
CURRENT LIABILITIES					
Trade and other payables		$ 5,649	$ 5,859	**$** -	$ 5,859
Unearned revenue		181	188	-	188
Current portion of notes payable		12,346	12,800	-	12,800
Liabilities related to assets held for disposal		23,820	24,697	-	24,697
		41,996	43,544	-	43,544
NOTES PAYABLE		8,143	8,443	-	8,443
DEFERRED INCOME TAX LIABILITY		1,911	1,981	-	1,981
LIABILITIES RELATED TO ASSETS HELD FOR DISPOSAL	2	1,401	1,453	5,726	7,179
		53,451	55,421	5,726	61,147
EQUITY					
Share capital		231,408	222,567	-	222,567
Contributed surplus	1	12,511	11,730	(3,099)	8,631
Accumulated other comprehensive income (loss)	4	(411)	(3,444)	2,694	(750)
Deficit	1, 2, 3, 4	(233,919)	(220,915)	(5,321)	(226,236)
		9,589	9,938	(5,726)	4,212
		$ 63,040	$ 65,359	**$** -	$ 65,359

(In thousands of United States dollars except per share data and except as otherwise indicated)

4. TRANSITION TO IFRS (continued)

Canadian GAAP to IFRS consolidated statement of loss, other comprehensive loss and comprehensive loss reconciliation for the three months ended September 30, 2010

	Note	Canadian GAAP (CAD)	Canadian GAAP (USD) (Note A)	IFRS Adjustments (USD)	IFRS (USD)
Revenue		$ 8,438	$ 8,117	$ -	$ 8,117
Cost of sales		6,161	5,927	-	5,927
Gross margin		2,277	2,190	-	2,190
Operating expenses					
Research and development		1,340	1,289	-	1,289
Sales and marketing		451	434	-	434
General and administration		1,315	1,265	-	1,265
Stock-based compensation	1	272	262	(52)	210
Amortization		390	375	-	375
Restructuring charges		827	796	-	796
		4,595	4,421	(52)	4,369
OPERATING LOSS		(2,318)	(2,231)	52	(2,179)
Other income (expense)					
Finance expense		(237)	(228)	-	(228)
Foreign exchange gain		350	337	-	337
LOSS BEFORE INCOME TAXES		(2,205)	(2,122)	52	(2,070)
RECOVERY OF DEFERRED INCOME TAXES		226	217	-	217
Net loss from continuing operations		(1,979)	(1,905)	52	(1,853)
Net loss from discontinued operations	1	(6,409)	(6,165)	(276)	(6,441)
NET LOSS		(8,388)	(8,070)	(224)	(8,294)
OTHER COMPREHENSIVE (LOSS) INCOME					
Unrealized (loss) gain on translating financial statements of foreign operations		(2,523)	160	-	160
OTHER COMPREHENSIVE (LOSS) INCOME		(2,523)	160	-	160
COMPREHENSIVE LOSS		$ (10,911)	$ (7,910)	$ (224)	$ (8,134)

(In thousands of United States dollars except per share data and except as otherwise indicated)

4. TRANSITION TO IFRS (continued)

Canadian GAAP to IFRS consolidated statement of loss, other comprehensive loss and comprehensive loss reconciliation for the fourteen months ended June 30, 2011

	Note	Canadian GAAP (CAD)	Canadian GAAP (USD) (Note A)	IFRS Adjustments (USD)	IFRS (USD)
Revenue		$ 35,300	$ 35,000	$ -	$ 35,000
Cost of sales		25,668	25,444	-	25,444
Gross margin		9,632	9,556	-	9,556
Operating expenses					
Research and development		6,458	6,420	-	6,420
Sales and marketing		1,743	1,723	-	1,723
General and administration		6,988	6,952	-	6,952
Stock-based compensation	1	2,106	2,108	(883)	1,225
Amortization		1,457	1,436	-	1,436
Restructuring charges		1,429	1,411	-	1,411
		20,181	20,050	(883)	19,167
OPERATING (LOSS) INCOME		(10,549)	(10,494)	883	(9,611)
Other income (expense)					
Finance income		45	47	-	47
Finance expense		(1,045)	(1,044)	-	(1,044)
Gain on disposal of equipment		1	1	-	1
Foreign exchange gain		818	828	-	828
(LOSS) INCOME BEFORE INCOME TAXES		(10,730)	(10,662)	883	(9,779)
RECOVERY OF DEFERRED INCOME TAXES		582	577	-	577
Net (loss) income from continuing operations		(10,148)	(10,085)	883	(9,202)
Net loss from discontinued operations	1, 2, 3	(91,968)	(93,469)	(6,586)	(100,055)
NET LOSS		(102,116)	(103,554)	(5,703)	(109,257)
OTHER COMPREHENSIVE (LOSS) INCOME					
Unrealized loss on translating financial statements of foreign operations		(4,309)	(750)	-	(750)
OTHER COMPREHENSIVE (LOSS) INCOME		(4,309)	(750)	-	(750)
COMPREHENSIVE LOSS		$ (106,425)	$ (104,304)	$ (5,703)	$ (110,007)

4. TRANSITION TO IFRS (continued)

Notes to the reconciliation of the consolidated balance sheets as at May 1, 2010, September 30, 2010 and June 30, 2011 and consolidated statement of loss, other comprehensive income (loss) and comprehensive loss for the three months ended September 30, 2010 and the fourteen months ended June 30, 2011 are as follows:

Certain presentation differences between Canadian GAAP and IFRS have no impact on reported earnings or total equity. Some line items are described differently (renamed) under IFRS compared to Canadian GAAP, although the assets and liabilities included in these line items are unaffected. The changes made for presentation purposes are as follows:

Note A. Change in presentation currency adjustments not related to IFRS transition
As part of the transition to IFRS the Company reviewed the functional currency of each of its entities and determined that, under IFRS, there is no change to the functional currency for the parent Company or any of its subsidiaries. However, the Company elected to change its presentation currency from Canadian dollars (“CAD”) to United States dollars (“USD”) during the current period as described in Note 2. As a result, the Company adjusted its opening IFRS balance sheet (May 1, 2010) to account for the change in presentation currency retrospectively. IAS 21 requires a company to make this change by converting the balance sheet on transition at the exchange rate in effect on that day. The consolidated balance sheet was converted on transition at a rate of CAD$1.0158 = US$1.

IFRS transition adjustments

(1) *Share-based payments*
Under Canadian GAAP, companies were required to make an accounting policy choice to recognize compensation cost for an award with service conditions that had a graded vesting schedule on either (a) a graded vesting basis by treating each tranche of the grant with separate vesting periods as separate awards and amortizing the expense of each tranche on a straight line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards, (i.e., accelerated or graded vesting method) or (b) on a straight-line basis over the requisite period for the entire award. Under Canadian GAAP, the Company selected the straight-line basis (option b). IFRS requires companies to use the accelerated or graded vesting method.

Further, under Canadian GAAP, the Company accounted for forfeitures as they occurred (i.e. stock compensation expense on forfeited options was reversed in the period the options were forfeited). IFRS requires companies to estimate forfeitures based on historical and expected patterns. As a result management has included estimated forfeitures in its determination of stock compensation expense under IFRS.

(In thousands of United States dollars except per share data and except as otherwise indicated)

4. TRANSITION TO IFRS (continued)

(1) Share-based payments (continued)

These changes in accounting resulted in the Company adjusting contributed surplus and retained earnings by $3,076 on its consolidated balance sheet as at May 1, 2010 ($2,895 and $3,099 as at September 30, 2010 and June 30, 2011, respectively). This includes a recovery of $1,172 to account for an updated estimate on forfeitures due to the announced divestiture of the Systems segment in the June 2011 quarter.

The following table provides a summary of the changes on comprehensive loss with respect to share-based payments.

		Fourteen months ended June 30, 2011		Three months ended September 30, 2010
Share based payments under Canadian GAAP (USD)	$	2,108	$	262
Share based payments under IFRS (USD)				
Continuing operations		1,225		210
Discontinued operations		860		112
Total Expense		2,085		322
Change to comprehensive loss	$	23	$	(60)

(2) Government Grants

Teledata Networks Ltd. (“Teledata”) is a wholly owned subsidiary of the Company and was purchased in June, 2010(subsequent to the date of transition to IFRS). Teledata receives grants from the Government of Israel for research and development of products in order to generate future income. The funding is repayable as royalties to be paid on sales made by Teledata.

Under Canadian GAAP, the Company recognized the royalties as an increase of cost of revenues and recorded a liability to repay the Government in the amount of a fixed royalty percentage of historical sales made by Teledata.

IFRS requires the liability to repay the Government to be measured at fair value (i.e. unlike Canadian GAAP, the repayment liability under IFRS includes the present value of expected royalties on future sales which are assessed as probable). As the liability existed as at the date of the Teledata acquisition, this IFRS difference impacts the Company’s purchase price allocation, resulting in an increase in Goodwill and Liabilities related to assets held for sale of $8,655. The additional goodwill amount of $8,655 was reclassified to long-lived assets held for disposal and subsequently written off during the fiscal year ended June 30, 2011 in connection with the Company’s annual impairment testing and additional impairment testing associated with the announced divestiture of the Systems segment.

4. TRANSITION TO IFRS (continued)

(2) Government Grants (continued)

The associated liability is adjusted from the original value, periodically based upon the funding received and the royalties due. The net impact to the associated liability and retained earnings was $nil as at May 1, 2010 ($100 and $462 as at September 30, 2010 and June 30, 2011, respectively).The Company re-assessed the fair-value of the liability to repay the Government as at June 30, 2011, using revised assumptions based upon Company policy to appropriately record the liability to fair-value at year-end, resulting in a reduction of the liability of $2,467.

The cumulative impact of write-down of goodwill and the re-assessment of the liability resulted in the Company increasing accumulated deficit by $nil on its consolidated balance sheet as at May 1, 2010 ($100 and $5,726 as at September 30, 2010 and June 30, 2011, respectively).

(3) Business Combinations

The Company has elected under IFRS 1 not to apply IFRS 3 retrospectively to business combinations that occurred prior to May 1, 2010. For such business combinations, the Company has continued with the same accounting treatment under its previous accounting framework (Canadian GAAP). As required by IFRS 1, goodwill relating to business combinations that occurred prior to May 1, 2010 was tested for impairment as at the date of transition to IFRS. No impairment existed at the date of transition.

All business combinations that occurred on and subsequent to May 1, 2010, are accounted for in accordance with the requirements of IFRS 3. The acquisition of Teledata is the only acquisition made by the Company on or subsequent to May 1, 2010. Under IFRS, acquisition-related costs incurred are required to be expensed in the period in which they are incurred. Under Canadian GAAP, acquisition-related costs were capitalized and were included in the purchase price of the business acquisition.

As at June 30, 2011, the total acquisition-related costs of $591 ($545 and $nil as at September 30, 2010 and May 1, 2010, respectively) was subsequently written off during the fiscal year ended June 30, 2011 in connection with the Company's annual impairment testing and additional impairment testing associated with the announced divestiture of the Systems segment.

(3) Other comprehensive loss

As permitted under IFRS1 elections, the Company has reset its cumulative translation difference to zero, on the transition date of May 1, 2010. This resulted in an adjustment of $2,694 to accumulated other comprehensive loss and accumulated deficit as at May 1, 2010.

(In thousands of United States dollars except per share data and except as otherwise indicated)

4. TRANSITION TO IFRS (continued)

The following chart summarizes the impacts of the IFRS conversion adjustments:

		June 30, 2011		September 30, 2010		May 1, 2010
Equity under Canadian GAAP (USD)	$	9,938	$	70,277	$	51,942
Share-based payments (1)		-		-		-
Government grants (2)		(5,726)		100		-
Business Combinations (3)		-		(545)		-
Other comprehensive loss (4)		-		-		-
Total Equity under IFRS	$	4,212	$	69,832	$	51,942

		Fourteen months ended June 30, 2011		Three months ended September 30, 2010
Comprehensive loss under Canadian GAAP (USD)	$	(104,304)	$	(7,910)
Share-based payments (1)		23		(60)
Government grants (2)		(5,726)		54
Business Combinations (3)		-		(218)
Other comprehensive loss (4)		-		-
Total Comprehensive loss under IFRS	$	(110,007)	$	(8,134)

5. ACCOUNTS RECEIVABLE

		September 30, 2011		June 30, 2011		May 1, 2010
Trade	**$**	**4,886**	$	6,009	$	11,424
Other		**118**		89		39
Accrued		**-**		-		62
Allowance for doubtful accounts		**(162)**		(170)		-
	$	**4,842**	$	5,928	$	11,525

6. INVENTORIES

		September 30, 2011		June 30, 2011		May 1, 2010
Raw materials	**$**	**3,372**	$	3,913	$	6,244
Work-in-progress		**1,526**		1,326		1,154
Finished goods		**867**		411		5,115
Inventory at customer sites		**-**		-		3,313
Allowance for obsolescence		**(98)**		(92)		(2,286)
	$	**5,667**	$	5,558	$	13,540

7. RESTRICTED CASH

Restricted cash represents cash that has been provided as security against guarantees and outstanding letters of credit. Also included in restricted cash is $1,200 (June 30, 2011 - $1,200, May 1, 2010 - $nil) that is collateral for a secured note payable.

8. JOINT VENTURE

Enablence has invested in a joint venture that will operate in China, which is to be re-named Sunblence Technologies Co.,LTD (the “China JV”). The China JV partner owns 51% of the China JV, and Enablence owns a 49% interest. The China JV will develop, manufacture and sell optical components based in part on Enablence’s planar lightwave circuit (“PLC”) technology.
The initial investments by the China JV partners are to be as follows:

- $9,180 by the JV Partner, all in cash
- $8,820 by Enablence, comprising:
  - o $3,500 in cash
  - o $1,000 of capital equipment
  - o $4,320 in intellectual property and know-how

In May 2011, the Company paid the cash investment in the China JV, through its contribution of $3,500. The investment was made by Enablence Technologies Inc., which has a functional currency of CAD, therefore, the investment is held at cost with foreign exchange fluctuations to the balance sheet amount.

At September 30, 2011, the Company had not delivered the capital equipment or intellectual property and know-how required to finalize the China JV agreement. As a result, the cash investment made by the Company as at September 30, 2011 has been recorded at cost, and the joint venture has not been proportionally consolidated. Once the transfer of capital equipment and intellectual property is completed, Enablence expects to account for the China JV using the proportional consolidation method, whereby Enablence will include 49% of the China JV’s results from operations and balance sheet in its interim financial statements.

Since its initiation, the China JV has incurred a net loss of $227 of which $111 would have been reflected in Enablence’s financial results if proportionate consolidation had been adopted.

9. LINE OF CREDIT

The Company has a $1,000 line of credit, undrawn at September 30, 2011, which is subject to certain limitations based on accounts receivable balances. The interest rate, based on the Wall Street Journal prime rate plus 1.50%, resulted in an interest rate of 4.75% at September 30, 2011. The note is secured by the assets of one of the subsidiaries of the Company. As at September 30, 2011, the Company would have been unable to draw on the line of credit due to the above mentioned accounts receivable limitations.

(In thousands of United States dollars except per share data and except as otherwise indicated)

10. NOTES PAYABLE

		September 30, 2011		June 30, 2011		May 1, 2010
Secured note 1 (a)	**$**	**3,734**	$	4,212	$	2,062
Secured note 2 (b)		**3,500**		3,500		-
5% Subordinated notes (c)		**10,636**		10,531		-
5% Convertible notes (d)		**3,000**		3,000		3,000
		20,870		21,243		5,062
Less: current portion		**13,347**		12,800		1,085
Net long-term portion	**$**	**7,523**		8,443		3,977

(a) On July 16, 2010, a secured note payable, with a principal of $1,879 at the time of redemption, was repaid from the proceeds of a new $5,000 secured note. The new secured note of $5,000 has a maturity date of July 20, 2013. The interest rate, based on the Wall Street Journal prime rate plus 1.50%, resulted in an interest rate of 4.75% at September 30, 2011. The note is repayable as interest only for the first six months, then monthly payments of $181 per month for interest and principal thereafter. The note is secured by the assets of Enablence USA Components Inc. and is subject to certain financial performance and asset coverage covenants of the subsidiary.

(b) On May 10, 2011, Enablence finalized a note payable with a U.S. bank, with a principal amount of $3,500, secured by $1,200 cash on deposit and a lien on the shares in the Company's investment in the China JV. The note has a maturity date of April 20, 2016 and an interest rate at the greater of 5.5% and Wall Street Journal Prime Rate plus 1.5%. The note is repayable as interest only for the first twelve months, then interest and principal amortized over the remaining term of the loan. As partial consideration for the loan, the Company issued to the bank warrants to purchase up to 400,000 common shares of Enablence, at an exercise price of CAD$0.22 per share, expiring April 9, 2013. The warrants were valued at $42 (CAD$404) and recorded as a non-cash issuance cost. The fair value was determined using the Black-Scholes model.

(c) Subordinated notes, with a principal amount of $10,000, are secured by a subordinated lien on the Company's North American assets. The notes have a maturity date of June 23, 2012 and an interest rate of 5%. Principal and interest are payable at maturity.

10. NOTES PAYABLE (continued)

(d) Convertible notes, with a principal amount of $3,000, are unsecured and bear interest at a rate of 5% and mature on November 19, 2018. The notes were issued on November 19, 2008. For the first 36 months, monthly payments of interest only are made. These Notes are convertible, at the option of the holder, from the third anniversary until the fifth anniversary or in the event of a default, at a conversion price equal to the greater of (i) the closing market price on the last trading day prior to the date of the conversion notice, and (ii) the conversion price of $0.317 (CAD$0.365) in the first two years, $0.349 (CAD$0.402) in the third year, $0.384 (CAD$0.442) in the fourth year and $0.422 (CAD$0.486) in the fifth year. The maximum number of shares that can be issued pursuant to the notes is 9,464 shares. The notes can also be converted in the event of a default of payment.

The Company has recorded the entire value of the convertible notes as debt as the Company has determined there was no value associated with the equity component.

11. SHARE CAPITAL

Authorized:
The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. At September 30, 2011, there are 466,546 common shares and no preferred shares outstanding.

In May 2011, Enablence completed a private placement of 45,500 common shares at a price of CAD$0.22 per share for net cash proceeds of $10,234 (CAD$9,908) (gross proceeds of $10,339 (CAD$10,010)).

On December 6, 2010, Enablence completed a public offering of 36,600 common shares at a price of CAD$0.58 per share for net cash proceeds of $19,603 (CAD$19,707) (gross proceeds of $21,116 (CAD$21,228)). As partial compensation for this transaction, 1,464 broker warrants were issued, entitling the holder of each warrant to purchase one common share at a price of CAD$0.58 per share to December 5, 2012. The warrants were valued at $402 (CAD$404) and recorded as a non-cash issuance cost. The fair value was determined using the Black-Scholes model.

On February 4, 2010, the Company completed a public offering of 71,875 common shares at a price of CAD$0.40 per share for net proceeds of CAD$26,772 (gross proceeds of CAD$28,750). As partial compensation for this transaction, 2,875 broker warrants were issued entitling the holder of each warrant to purchase one common share per warrant at a price of CAD$0.40 per share until August 4, 2011. The warrants were valued at CAD$529 and recorded as a non-cash issuance cost. The fair value was determined using the Black-Scholes model.

(In thousands of United States dollars except per share data and except as otherwise indicated)

11. SHARE CAPITAL (continued)

On May 12, 2009, Enablence completed a public offering of 46,000 common shares at a price of CAD$0.30 per share for net proceeds of CAD$12,927 (gross proceeds of CAD $13,800). As partial compensation for this transaction, 1,840 broker warrants were issued entitling the holder of each warrant to purchase one common share at a price of CAD$0.30 per share to November 12, 2010. The warrants were valued at CAD$396 and recorded as a non-cash issuance cost. The fair value was determined using the Black-Scholes model. All 1,840 of the warrants were exercised, for cash proceeds of CAD$552, prior to November 12, 2010.

Warrants

Each warrant entitles the holder to purchase one common share of the Company. A summary of the warrants outstanding and the changes during the periods is presented below:

	Three months ended September 30, 2011		Three months ended September 30, 2010	
	Number of warrants	Weighted average exercise price (CAD)	Number of warrants	Weighted average exercise price (CAD)
Outstanding and exercisable, beginning of period	4,451	$ 0.44	3,903	$ 0.37
Issued	-	-	-	-
Exercised	-	-	(1,298)	0.30
Expired	(2,587)	0.40	-	-
Outstanding, and exercisable end of period	1,864	$ 0.50	2,605	$ 0.40

The following table summarizes information for warrants outstanding:

Exercise price per share (CAD)	Expiry	September 30, 2011	September 30, 2010
$ 0.30	November 12, 2010	-	18
$ 0.40	August 4, 2011	-	2,587
$ 0.58	December 5, 2012	1,464	-
$ 0.22	April 9, 2013	400	-
		1,864	2,605

(In thousands of United States dollars except per share data and except as otherwise indicated)

11. SHARE CAPITAL (continued)

Stock option plan

The Company has established a stock option plan available for directors, officers, employees and consultants, and authorized a stock option pool equal to 10% of the outstanding common shares. At September 30, 2011, the available option pool was 46,655.

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 granted prior to March 18, 2008 all vested prior to September 30, 2009 in accordance with the terms of their grant. Options granted on or after March 18, 2008 generally vest in four equal annual portions starting one year after the date of grant. All options expire on the 10th anniversary of the grant or 90 days after termination of employment. Options granted to directors vest over a two year period.

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

	Three months ended September 30, 2011		Three months ended September 30, 2010	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Outstanding, beginning of period	28,687	$ 0.74	17,964	$ 0.86
Granted	-	-	13,215	0.60
Exercised	-	-	-	-
Forfeited	(1,799)	0.63	(260)	1.06
Expired	(265)	0.82	(72)	1.08
Outstanding, end of period	26,623	$ 0.75	30,847	$ 0.75
Exercisable, end of period	15,281	$ 0.85	11,633	$ 0.93

(In thousands of United States dollars except per share data and except as otherwise indicated)

11. SHARE CAPITAL (continued)

The following table summarizes the options outstanding and exercisable as at September 30, 2011:

Options Outstanding			Options Exercisable	
Exercise Price ($) (CAD)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Exercise Price ($) (CAD)
$ 0.30	512	4.28	362	$ 0.30
0.37	2,904	4.82	2,904	0.37
0.44	100	9.37	-	0.44
0.445	300	9.37	-	0.445
0.49	1,000	8.26	250	0.49
0.50	3,159	5.89	2,578	0.50
0.60	9,960	8.83	2,620	0.60
0.67	700	9.02	-	0.67
0.72	1,500	8.56	375	0.72
0.80	2,595	5.44	2,595	0.80
1.15	1,598	4.13	1,363	1.15
1.37	300	5.48	300	1.37
2.30	1,750	6.36	1,750	2.30
2.39	245	6.47	184	2.39
$ 0.75	26,623	7.10	15,281	$ 0.85

The fair value of options granted is determined using the Black-Scholes option pricing model with the following assumptions updated quarterly for the following grant periods:

	Three months ended September 30, 2011	Three months ended September 30, 20110
Risk-free interest rate	n/a	1.99%
Expected life of options (years)	n/a	5
Expected annualized volatility	n/a	99%
Expected dividend yield	n/a	nil
Weighted average Black-Scholes Value of each Option	n/a	CAD$ 0.45

During the three-month period ended September 30, 2011, stock-based compensation expense was $541 (2010 - $322). Stock-based compensation is recorded as an increase to contributed surplus and transferred to share capital when the underlying options are exercised. Grant date fair value of options issued during the three months ended September 30, 2011 was $nil (2010 - $5,741).

(In thousands of United States dollars except per share data and except as otherwise indicated)

11. SHARE CAPITAL (continued)

During the three months ended September 30, 2011, the Company changed its accounting policy for the classification of stock-based compensation expense. The Company has reclassified the stock-based compensation expense of the Systems segment to discontinued operations to provide more relevant information on the financial statements. The reclassifications of $301 and $112 have been made for the three months ending Sept 30, 2011 and 2010 respectively, reducing stock-based compensation expense, and increasing loss from discontinued operations.

12. LOSS PER SHARE

Basic loss per common share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period. As a result of the net losses in each of the reporting periods, the potential effect of the exercise of stock options, convertible notes and warrants was anti-dilutive; therefore, 28,487 potentially dilutive shares at September 30, 2011 (2010 – 33,452) have not been included in the calculation of diluted loss per common share for the three months ended September 30, 2011 and 2010.

13. RESTRUCTURING CHARGES

During the three months ended September 30, 2011, the Company recorded $nil in restructuring costs (2010 - $796). Included in trade and other payables at September 30, 2011 is $230 related to restructuring charges (June 30, 2011 - $nil; September 30, 2010 – $nil) which are expected to be substantially paid out in cash in the quarter ending December 31, 2011.

The restructuring charges are related to activities that are an effort to reduce costs and improve operating efficiencies. The restructuring charges consist of severance and benefits related to the reduction of the Company's workforce and the relocation of its Wilmington, Massachusetts operations to its Fremont, California location.

14. FINANCIAL INSTRUMENTS

Carrying values and fair values

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

	September 30, 2011	June 30, 2011	May 1, 2010
Loans and receivables (1)	$ **14,278**	$ 17,638	$ 36,090
Other financial liabilities (2)	**26,377**	27,102	19,086

(1) Includes cash and cash equivalents, restricted cash and accounts receivable
(2) Includes trade and other payables and notes payable

14. FINANCIAL INSTRUMENTS (continued)

Carrying values and fair values (continued)

The financial assets and liabilities measured at fair value on the balance sheet consist of items classified as current and are amounts that are generally expected to be settled within one year. There are three levels of the fair value hierarchy as follows:

IFRS 7 - Financial Instruments: Disclosures (“IFRS &”) requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. IFRS & establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value.

Level 1: Values based upon unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based upon quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based upon prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The following table presents the financial instruments recorded at fair value in the Consolidated Balance Sheet, classified using the fair value hierarchy described above:

	Level 1	Level 2	Level 3	Total financial assets and liabilities at fair value
Financial assets				
Cash and cash equivalents	$ 8,131	$ -	$ -	$ 8,131
Restricted cash	1,305	-	-	1,305
Total financial assets	$ 9,436	$ -	$ -	$ 9,436

The carrying amounts of accounts receivable, trade and other payables approximate fair value due to the short term maturity of these financial instruments.

(In thousands of United States dollars except per share data and except as otherwise indicated)

14. FINANCIAL INSTRUMENTS (continued)

Credit risk

Financial instruments which potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents, restricted cash and accounts receivable. The Company primarily invests its excess cash in high quality financial instruments. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. Two customers accounted for approximately 40% of the accounts receivable balance at September 30, 2011 (29% and 11% individually). As at June 30, 2011 two customers accounted for approximately 46% of the accounts receivable balance (24% and 22% individually); As at May 1, 2010 no one customer accounted for greater than 10% of the accounts receivable balance.

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

The allowance for doubtful accounts is reviewed by management at each balance sheet reporting date. The Company updates its estimate of the allowance for doubtful accounts based on an examination of the aged accounts receivable listing, considering such factors as customer payment history and the current financial condition of the customers. Accounts receivable are written off once determined to be not collectible.

The ageing of trade accounts receivable (gross of the allowance of $162 at September 30, 2011 (June 30, 2011 - $170; May 1, 2010 - $255)) is summarized as follows:

	September 30, 2011	June 30, 2011	May 1, 2010
Current or under 60 days	**$ 3,643**	$ 4,803	$ 8,628
Past due 61 to 90 days	**67**	211	676
Past due greater than 90 days	**1,176**	995	2,120
Total trade accounts receivable	**$ 4,886**	$ 6,009	$ 11,424

Of the $1,176 of past due accounts receivable greater than 90 days at September 30 2011, $433 has been collected between September 30, 2011 and December 7, 2011.

(In thousands of United States dollars except per share data and except as otherwise indicated)

14. FINANCIAL INSTRUMENTS (continued)

(Credit risk, continued)

The continuity of the allowance for doubtful accounts is as follows:

		September 30, 2011		June 30, 2011
Balance, beginning of period	$	**170**	$	99
Increase (decrease) during the period		**(8)**		71
Balance, end of period	$	**162**	$	170

Interest rate risk

The Company is exposed to interest rate risk as its secured notes payable have a variable interest rate based on the Wall Street Journal prime rate. The Company does not use derivative instruments to reduce its exposure to interest rate risk as the risk is considered manageable.

An increase in the interest rate of 1% would result in an increase in interest expense of $48 for the year.

Foreign currency risk

The Company operates internationally with subsidiaries in the United States, Israel and Switzerland and is therefore subject to foreign currency risk. Enablence reports its financial results in U.S Dollars. Most of the Company's revenues are based in U.S. currency, and the Company incurs expenses in both Canadian and U.S. dollars, the Israeli shekel and, to a lesser extent, the Swiss franc. 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 following currencies against the U.S. dollar would have increased net losses from operations and increased other comprehensive income ("OCI") by the amounts shown below. A weakening of the following currencies would have the opposite effect.

	Three months ended September 30, 2011		Three months ended September 30, 2010	
	Net loss	OCI	Net loss	OCI
CAD$	$ 150	$ 709	$ 208	$ 917
Swiss francs (CHF)	(15)	(407)	(16)	(313)

(In thousands of United States dollars except per share data and except as otherwise indicated)

14. FINANCIAL INSTRUMENTS (continued)

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 receivable in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs.

At September 30, 2011, the Company has financial liabilities, payments for which are due as follows including interest:

	To Sept. 30, 2012	To Sept. 30, 2013	To Sept. 30, 2014	To Sept. 30, 2015	Beyond Sept. 30, 2015	Total
Trade and other payables	$5,507	$nil	$nil	$nil	$nil	$5,507
Secured notes	2,669	2,768	978	978	571	7,964
Subordinated notes	11,001	-	-	-	-	11,001
Convertible debt	535	549	528	506	1,426	3,544
Total	$19,712	$3,317	$1,506	$1,484	$1,997	$28,016

15. CAPITAL MANAGEMENT

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

Management defines capital as the Company's total equity and long-term debt. In order to maintain or strengthen its capital structure, the Company's management believes it could issue new shares or raise new debt. To date, no dividends have been paid to the Company's shareholders and none are planned.

There were no changes in the Company's approach to capital management during the period.

(In thousands of United States dollars except per share data and except as otherwise indicated)

16. SEGMENTED INFORMATION

With the planned divestiture of certain operations (Discontinued Operations, note 19), the Company operates in one segment, Optical Components.

Certain assets are analyzed geographically as follows:

	September 30, 2011		June 30, 2011		May 1, 2010	
	Property, plant and equipment	Goodwill, intangible and other assets	Property, plant and equipment	Goodwill, intangible and other assets	Property, plant and equipment	Goodwill, intangible and other assets
United States	**$ 5,520**	**$ 5,697**	$ 5,766	$ 5,785	$ 7,167	$ 18,077
Switzerland	**2,909**	**-**	3,024	-	2,661	-
Canada	**630**	**203**	624	369	589	404
	$ 9,059	**$ 5,900**	$ 9,414	$ 6,154	$ 10,417	$ 18,481

Revenue is analyzed geographically as follows:

	Three months ended September 30, 2011	**Three months ended September 30, 2010**
Americas	$ 3,466	$ 3,766
Asia Pacific	1,720	2,175
Europe, Middle East and Africa	635	2,176
	$ 5,821	$ 8,117

During the three months ended September 30, 2011, two customers accounted for 21% of the Company's total revenue (11%, and 10% individually). Three customers accounted for 55% of the Company's total revenue (22%, 20% and 13%, respectively) during the three months ended September 30, 2010.

17. COMMITMENTS

The Company leases office space and certain capital assets under operating leases. Minimum lease payments due under these leases for the next five years and beyond are as follows:

2012	$ 527
2013	547
2014	341
2015	348
2016	58
2017 and beyond	-
	$ 1,821

(In thousands of United States dollars except per share data and except as otherwise indicated)

17. COMMITMENTS (continued)

At September 30, 2011, the Company had a performance bond outstanding in the amount of $2,850. This performance bond is secured by $100 of restricted cash.

18. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Net change in non-cash operating working capital items:

		Three months ended September 30, 2011		Three months ended September 30, 2010
Net inflow (outflow) of cash:				
Accounts receivable	$	864	$	(464)
Inventories		(144)		(433)
Prepaid expenses and deposits		(27)		(18)
Trade and other payables		(122)		744
Unearned revenue		(22)		(69)
	$	549	$	(240)

19. DISCONTINUED OPERATIONS

In April, 2011, the Company announced that it had begun an initiative to explore strategic alternatives to divest of the Systems segment, which may include the sale, partial sale or closure of the Systems segment. The Systems segment manufactures and sells fiber-to-the-premises ("FTTP") equipment and multi-service access platforms ("MSAP") for triple-play residential and business services that enable voice, data, video and internet communications across both copper and fiber-based network infrastructures.

The Company's decision to divest the Systems segment was driven by the estimated cash requirements to complete the development and initial supply of key products in Systems' product roadmap and build its revenue to a predictable and cash positive level. Fluctuations in Systems' revenue level has consumed a significant amount of the Company's cash resources. Enablence management further concluded that the synergy and integration opportunities between Components and the Systems segment were not as significant as previously anticipated, and were no longer strategic.
On September 15, 2011, the Company completed the sale of parts of the US Systems segment in two transactions.

Enablence sold the Trident7™ Universal Access Platform for delivery of FTTP services through optical networks, for certain assets valued at $5,100, which comprised of $2,000 of cash, with an additional $750 being held back, and the assumption of certain liabilities and contingent liabilities. Also included in the sale are related inventory, certain patents, certain product and process technology and customer contracts and lists. Under terms of the purchase agreement, the purchaser will honour customer contracts and agreements for the Trident7 and its related product lines. Subject to certain working capital adjustments, the $750 hold back is to be paid $500 in March 2012, and $250 in October 2012.

(In thousands of United States dollars except per share data and except as otherwise indicated)

19. DISCONTINUED OPERATIONS (continued)

Enablence sold the MAGNM FX™ product line, by divesting certain assets, including $180 of cash, and transferring related warranty obligations, totalling $440.

The assets and liabilities related to the Systems segment have been reclassified as assets or liabilities held for disposal on the consolidated balance sheets as at September 30, 2011 and June 30, 2011. Operating results related to these assets and liabilities have been included in income from discontinued operations on the consolidated statements of loss. Comparative period balances have been restated.

The following table presents selected financial information related to discontinued operations. The assets and liabilities related to the Systems segment have not been reclassified as at May 1, 2010, however, the table below provides the assets and liabilities of the Systems segment, had this reclassification been made :

		September 30, 2011		**June 30, 2011**		**May 1, 2010**
Assets						
Current Assets of Discontinued Operations						
Cash and cash equivalents	**$**	**4,044**	$	1,523	$	1,289
Accounts receivable		**7,545**		6,873		6,562
Inventories		**4,048**		9,638		9,495
Prepaid expenses and deposits		**3,639**		531		1,100
Restricted cash		**2,520**		2,626		72
		21,796		21,191		18,518
PROPERTY, PLANT AND EQUIPMENT		**926**		1,314		471
INTANGIBLES AND OTHER ASSETS		**-**		-		3,620
GOODWILL		**-**		-		8,131
		926		1,314		12,222
Total Assets Held for Disposal	**$**	**22,722**	$	22,505	$	30,740
Liabilities						
Current Liabilities of Discontinued Operations						
Accounts payable and accrued liabilities	**$**	**25,282**	$	23,426	$	5,685
Deferred Revenues		**884**		1,271		5,785
		26,166		24,697		11,470
DEFERRED TAX LIABILITY		**-**		-		1,361
NON CURRENT OTHER LIABILITIES		**6,547**		5,726		-
EMPLOYEE BENEFITS		**1,268**		1,453		-
		7,815		7,179		1,361
Total Liabilities Held for Disposal	**$**	**33,981**	$	31,876	$	12,831

(In thousands of United States dollars except per share data and except as otherwise indicated)

19. DISCONTINUED OPERATIONS (continued)

Results from operations:

	Three months ended September 30	
	2011	2010
Revenues	$ 8,202	$ 18,875
Cost of revenue	4,967	13,265
Gross Margin	3,235	5,610
Gross Margin %	*39.4%*	*29.7%*
Operating Expenses		
Research and development	3,166	4,189
Sales and Marketing	1,739	3,187
General and administrative	242	1,500
Stock-based compensation	301	112
Amortization	157	3,711
Restructuring charges	(134)	218
Operating loss	(2,236)	(7,307)
Interest Income	1	66
Interest expense	(696)	-
Foreign exchange gain (loss)	320	(118)
Loss before income taxes	(2,611)	(7,359)
Recovery of deferred income taxes	0	918
Loss from Discontinued Operations	$ (2,611)	$ (6,441)

20. ACQUISITION OF TELEDATA

On June 23, 2010, the Company completed its acquisition of all the shares of Teledata, a high-speed broadband equipment provider based in Israel. The acquisition was accounted for by the purchase method, whereby the results of the operations of Teledata are included in the consolidated statements of loss, other comprehensive loss and comprehensive loss and cash flows since the acquisition date. The net purchase price of $49,624 was allocated based on the estimated fair values of the identifiable assets and liabilities acquired.

The results and financial position of Teledata is included in the Discontinued Operations.

Transaction costs of $591 were incurred in connection with the acquisition. These transaction costs were expensed as incurred and as a result are included in the Company's net loss from discontinued operations for the year ended June 30, 2011.

(In thousands of United States dollars except per share data and except as otherwise indicated)

20. ACQUISITION OF TELEDATA (continued)

Purchase Price

Cash	$ 10,000
Issuance of 54,932 common shares	29,624
U.S. $10,000 of 5% subordinated secured notes	10,000
	$ 49,624

The allocation of the purchase price was:		
Cash		$ 1,422
Accounts receivable		9,364
Inventory		4,974
Prepaid expenses and deposits		1,990
Accounts payable and accrued liabilities		(24,161)
Other payable		(12,255)
Net working capital acquired		(18,666)
Property and equipment		931
Restricted cash		5,612
Intangible assets		
Customer relationships	15,380	
Technology	14,363	
Trade name	2,499	
Non-compete agreement	149	
		32,391
Goodwill		37,453
Deferred tax liability		(8,097)
Total purchase price		$ 49,624

Cash issued as part of purchase price	$ 10,000
Less: Cash acquired	(1,422)
Cash portion of acquisition	$ 8,578

The intangible assets of the acquisition were included in the Company's annual review of intangible assets in the Company's prior fiscal year, and again subsequent to the announced intention to divest of the Systems segment. Based upon these reviews, the intangible assets and the goodwill associated with the acquisition of Teledata have been written off to $nil in the fiscal year ended June 30, 2011.

21. SUBSEQUENT EVENTS

On December 14, 2011, the Company elected to remove cumulative impacts of the Systems segment from retained earnings, totalling $175,014. This adjustment will be made during the three month period ending December 31, 2011, resulting in a decrease in share capital, and a decrease in accumulated deficit. The net impact of this change on shareholders' equity is $nil.

This election is pursuant to Section 38(1) of the Canadian Business Corporations Act ("CBCA"), which states that a corporation may reduce the stated capital of any class of its shares for any purpose, including a reduction of the stated capital account of a class of shares by an amount which does not exceed the stated capital of that class if the corporation believe that the amount of the stated capital of the class is not represented by the value of the corporations' realizable assets.

The shareholders of the Company must authorize a reduction in the stated capital account of any class of shares. On December 14, 2011, the shareholders of the Company passed a special resolution approving the reduction in stated capital of $175,014.

The Company elected to make this change to provide financial statements that are reflective of the continuing operations of the Company.