ENABLENCE TECHNOLOGIES INC.

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

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012

DATED: MAY 29, 2012

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

The following is a discussion and analysis of the financial condition of Enablence Technologies Inc. (“Enablence” or the “Company”) as at March 31, 2012 compared to June 30, 2011 and results of operations for the three and nine months ending March 31, 2012 compared to the three and nine months ended March 31, 2011.

Enablence is facing significant financial challenges. In its MD&A for the period ending December 31, 2011, the Company indicated that management believed it had sufficient cash to continue operations until May, 2012. The Company has not been able to raise additional cash, or renegotiate certain notes payable at the time of this MD&A. The Company has a cash shortage combined with several debt instruments with repayment terms that the Company does not currently have the ability to meet. The Company has approximately $0.9 million of cash as at May 29, 2012, and does not have sufficient cash to continue to operate the business without an additional cash injection or some other strategic alternative. In order for the Company to execute its business plan, it will need to renegotiate the terms of its existing debt obligations in addition to raise an additional $7-10 million of cash. The Company is actively pursuing alternatives to accomplish these objectives, however there can be no assurance the Company will be successful in these efforts. In the event the Company is unable to raise sufficient cash, or renegotiate its debt facilities, it will be forced to pursue formal insolvency proceedings.

This MD&A discusses these issues in more detail, and should be read in conjunction with our unaudited condensed consolidated interim financial statements and accompanying notes for the three and nine months ended March 31, 2012 (the “financial statements”). The Company adopted International Financial Reporting Standards (“IFRS”) effective July 1, 2011 and, accordingly, the financial statements for the three and nine months ended March 31, 2012 have been prepared using accounting policies which are consistent with IFRS. Comparative financial information presented herein was restated effective May 1, 2010 and are comparable to the fiscal 2012 results and financial position. In addition, the Company determined that its presentation currency should be United States dollars (“USD”) as it is the currency of the primary economic environment in which the Company operates and the Company elected to present its consolidated financial statements in USD commencing in the first quarter for fiscal 2012. All amounts in this MD&A are in USD, except where otherwise noted. Comparative information has been restated to reflect IFRS and USD results.

This MD&A should be read in conjunction with the Company’s other continuous disclosure filings available on www.sedar.com. Filings prior to fiscal 2012 (i.e. June 30, 2011 and prior) were reported in Canadian dollars and then-existing Canadian Generally Accepted Accounting Principles (“GAAP”).

The effective date of this MD&A is May 29, 2012. The financial statements include the assets, liabilities, revenues and expenses of Enablence and its subsidiaries. The results from Enablence’s Systems segment have been reported as discontinued operations due to the Company’s decision in April 2011 to divest the Systems business, which is discussed in more detail later in this MD&A.

References made herein to “Enablence”, the “Company”, “we” and “our” mean Enablence and its subsidiaries, collectively, unless the context indicates otherwise. All amounts included in the MD&A are in thousands, except per share amounts or as indicated otherwise. All financial amounts are in USD, unless stated otherwise.

FORWARD-LOOKING STATEMENTS

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

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

- The Company will be able to raise sufficient financing to meet its financial obligations as they come due, or will be able to renegotiate certain financial obligations as they come due, including the $10,000 subordinated note due June 23, 2012. If Enablence is unable to complete its financing and some restructuring of its indebtedness, it will likely be required to pursue formal insolvency proceedings prior to June 30, 2012.
- The China joint venture, referred to as “Sunblence”, will commence operations and will begin generating customer revenues prior to June 30, 2012 with substantial volume growth in subsequent quarters.
- The Company will continue to successfully reduce product costs to improve the Company’s gross margin and/or avoid any margin erosion associated with competitive pricing pressure.
- The Company will develop and deliver new products on time in order to satisfy the demands of current and future customers and contribute to near term profitability.
- The average exchange rates for Canadian dollars to US dollars will be at or near CDN$1.00 = US$1.00.

Factors that could cause actual results to differ materially from expected results include, but are not limited to, the following:

- The Company’s quarterly revenue is generally dependent upon conversion of opportunities in the sales pipeline during the quarter. As a result, revenues and operating results can be difficult to predict and can fluctuate substantially. The Company’s success in realizing customer opportunities may be negatively impacted by depressed economic conditions, changes in sales cycles, and/or weaker than expected success versus competitors.
- Delays in product development programs for new products and new product features which lead to cost overruns and /or missed customer opportunities.
- Weaker than expected market acceptance of new products to be introduced by the Company.
- The Company’s gross margin and operating results may be adversely affected by the level of pricing required to compete successfully or a failure by the Company to achieve its product cost targets, including as a result of lower revenue levels.
- Product performance or manufacturing yield issues that result in increased costs to the Company and/or lost revenue opportunities.
- Longer than expected lead times from suppliers could result in production delays and potentially delayed or lost revenues.

- Shifts in value of the US dollar relative to the Canadian dollar may cause the Company's operating costs to fluctuate significantly when reported in USD.

Additional risks are discussed herein and under "Risk Factors" in the Company's Annual Information Form available online at www.sedar.com.

OVERVIEW

ENABLENCE'S BUSINESS

Enablence designs, manufactures and sells optical components and subsystems for access, metro and long-haul markets to a global customer base. It utilizes its patented technologies including planar lightwave circuit ("PLC") intellectual property, know-how and trade secrets in the production of an array of photonic components. 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, however is predominately focused on the metro and long-haul segments. The Company offers leading expertise in transmission, switching & routing, wavelengths management, and signal performance management for 1.25 giga-bit per second ("G") to 100G networks. The Company's expanding product line includes reconfigurable optical add/drop multiplexer ("ROADM") components, photodiodes, arrayed waveguide grating ("AWG") products, variable optical attenuators ("VOA") and multiplexer and demultiplexer ("VMUX") products which combine AWG and VOA functions in one product. The Company also provides engineering and design services and is planning to introduce optical splitter chips through Sunblence, its joint venture in China, by June 30, 2012.

Enablence is one of a few companies that possesses the capability to manufacture optical components using three key optical material groups, namely silica-on-silicon, polymer and indium phosphide. Enablence's PLC optical chip technology enables the integration of sub-components (waveguides, photodetectors, lasers and transimpedance amplifiers) onto one platform.

The Company's core technology is portable to numerous markets that require filtering technology to separate and multiplex various optical signals. The chip-based integration capabilities of the Enablence platform technology makes it also suitable for an array of applications outside of telecommunications, including biomedical and aerospace applications, instrumentation, data centres and sensor systems which are experiencing growing demand due in part to infrastructure projects worldwide.

In April 2011, the Company announced that it had begun an initiative to explore strategic alternatives to divest, including sale, partial sale or closure, of its Systems business. The Systems segment developed, manufactured and sold fiber-to-the-premises ("FTTP") equipment and multi-service access platforms ("MSAP") that enable voice, data, video and internet communications. The results from operations of the Systems segment have been reclassified as discontinued operations, and therefore are not included in the detailed discussion of financial results, or included in the current period or comparative financial information, except to the extent they are addressed as discontinued operations.

Effective March 31, 2012, Enablence announced the sale of Teledata Networks Ltd. ("Teledata"), its subsidiary based in Israel. This sale represented the remaining portion of the Systems business. After the divestiture of Teledata, the Company has some remaining assets and obligations to be settled in its US based legal entities that held the US Systems assets.

These assets and liabilities are being settled as efficiently as possible. The Company currently has no employees associated with the Systems business.

HIGHLIGHTS AND SUMMARY

The following summarizes the key items of its third fiscal quarter ending March 31, 2012:

- Reported positive net income of $1.4 million, driven by the accounting gain on the sale to Teledata
- Reported revenues of $2.8 million, resulting in a loss from continuing operations of $(9.1) million, including a $5.7 million goodwill impairment charge, and Adjusted EBITDA (a non-GAAP measure defined below) loss of $(2.7) million. Revenues were down 66% from the previous year due mainly to a general market slowdown, and Adjusted EBITDA was $2.7 million worse than the previous year, due to the decline in revenue;
- Completed the sale of Teledata, recording a gain on the sale of $13.4 million, due to the assumption of net liabilities by the purchaser; and
- Recorded an impairment charge of $5.7 million, reducing goodwill to $nil.

Certain of these developments are described in more detail throughout this MD&A.

RECENT DEVELOPMENTS

Subsequent to March 31, 2012, the Company announced that it had not renewed the contract of its chief executive officer, Tim Thorsteinson. As a result, Mr. Thorsteinson has left the board of directors as well. The Company has established an executive committee, comprised of four senior managers, reporting to John Roland and Peter Dey of the board of directors, to act in the place of the CEO while the Company finalizes its restructuring efforts. Mr. Thorsteinson has also stepped down from the board of directors. Under the terms of his employment agreement, Mr. Thorsteinson is entitled to severance. Mr. Thorsteinson and the Company are working towards a compromise solution, given the financial condition of the Company.

Divestiture of Teledata

Effective March 31, 2012, the Company sold its interest in Teledata to Godan Ventures LP, a special purpose vehicle established by Taldan Capital Limited (the “Acquirer”). Cash proceeds from the sale were one dollar, and the Acquirer assumed all of the assets and liabilities of Teledata. The following chart summarizes the results of the dispositions:

Net cash proceeds:	$	-
Assets and liabilities of Teledata as at the transaction date:		
Current assets		7,862
Current liabilities		(14,420)
Working capital liability		(6,558)
Long lived assets		778
Non-current liabilities		(7,576)
Net liabilities over assets	$	13,356
Gain on sale	$	13,356

Enablence announced the sale on April 18, 2012, indicating a working capital liability of $2.8 million which was based on Teledata’s December 31, 2011 balance sheet. The $3.8 million increase in the final working capital liability was due to the operating losses of Teledata during

the quarter ending March 31, 2012. Included in non-current liabilities is approximately $6.3 million related to certain government grants which were accrued as liabilities as a result of the Company's adoption of IFRS.

Update on the China Joint Venture

The Company continues to support the efforts of its joint venture with SUNSEA Telecommunications Co. Ltd. ("Sunsea", or the "JV Partner"). The joint venture, Sunblence Technologies Co., Ltd (the "China JV", or "Sunblence") positions Enablence to capitalize on the vast opportunity presented by the Chinese market for optical splitter components required for very high-speed telecommunications equipment.

Sunblence has produced prototype sample splitter chips in different configurations during May 2012. Currently, Sunblence is working with Enablence staff to allow Sunblence to start volume production. The prototype chips are currently being evaluated in order to select the final production versions, produce the production mask sets and begin initial manufacturing of the splitters. Yield rates over 70% (the initial target level) are expected to be reached over the coming quarters. Sunblence continues to target generating customer revenues in the June 2012 quarter. These timelines represent a delay from previous expectations, due to complications with certain equipment and the ability to bring repair parts into China on a timely basis. This delay will negatively impact the Company's previous revenue expectations for Sunblence for the calendar year of 2012. Previously, Sunblence was targeting revenues of between $8-10 million for the calendar year, however due to the delays outlined above, this is expected to be between $6-8 million. Enablence's long-term view of Sunblence has not changed, and management continues to expect the joint venture to create significant shareholder value. Enablence owns a 49% interest in Sunblence. Revenues are expected to rise significantly in 2013 and 2014. Management expects Sunblence to be profitable and accretive to Enablence's Adjusted EBITDA (as defined below) toward the end of calendar 2012, although no assurances can be given that the revenue, growth and profit forecasts will be realized. Enablence will record 49% of these results in its financial statements, reflecting its ownership share.

RESULTS OF OPERATIONS

SUMMARY OF UNAUDITED QUARTERLY RESULTS

The following table sets forth unaudited summary results of operations for the past eight (8) fiscal periods. The information for the fiscal period ending June 30, 2010 and subsequent quarters has been taken from our unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the unaudited financial statements for the fiscal period ended March 31, 2012. All necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of information presented have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the above noted consolidated financial statements and the notes to those statements.

As a result of a change in the Company's year end from April 30 to June 30, 2010 the fiscal period ended June 30, 2010 comprises only two months, rather than the typical three months for other fiscal periods presented. The operating results for the two-month period ended June 30, 2010 are not readily comparable to the other three-month fiscal periods.

	Fiscal 2012			Fiscal 2011				
	3 months ending			3 months ending				2 months
Amounts in thousands except per share data	**March 31, 2012**	December 31, 2011	September 30, 2011	June 30, 2011	**March 31, 2011**	December 31, 2010	September 30, 2010	ending June 30, 2010
Revenues	**$ 2,810**	$ 3,551	$ 5,821	$ 5,645	**$ 8,294**	$ 8,715	$ 8,117	$ 4,229
Gross Margin	**(133)**	99	1,481	1,132	**2,693**	2,870	2,190	671
Gross Margin %	**-4.7%**	2.8%	25.4%	20.1%	**32.5%**	32.9%	27.0%	15.9%
Expenses								
Research & development	**1,435**	1,433	1,508	1,573	**1,253**	1,376	1,289	929
Sales & marketing	**333**	257	302	240	**367**	419	434	263
General & administrative	**1,198**	950	1,144	1,666	**1,382**	1,706	1,265	933
Stock-based compensation	**149**	169	240	267	**292**	303	210	153
Amortization	**168**	148	175	71	**362**	385	375	243
Restructuring charges	**-**	-	-	381	**151**	83	796	-
Operating loss	**(3,416)**	(2,858)	(1,888)	(3,066)	**(1,114)**	(1,402)	(2,179)	(1,850)
Impairment of goodwill	**(5,697)**	-	-	-	**-**	-	-	-
Other income (expense)	**(253)**	(246)	(250)	(270)	**(231)**	(238)	(228)	(30)
Foreign exchange gain (loss)	**118**	389	(846)	(8)	**266**	377	337	(162)
Recovery of future income taxes	**112**	114	114	123	**114**	118	217	5
Net loss for the period	**(9,136)**	(2,601)	(2,870)	(3,221)	**(965)**	(1,145)	(1,853)	(2,037)
Income (loss) from discontinued operations	**10,577**	(446)	(2,611)	(43,827)	**(42,991)**	(4,268)	(6,441)	(2,510)
Net income (loss) for the period	**$ 1,441**	$ (3,047)	$ (5,481)	$ (47,048)	**$ (43,956)**	$ (5,413)	$ (8,294)	$ (4,547)
Weighted average shares outstanding	**466,546**	466,546	466,546	449,357	**421,046**	394,387	384,196	333,983
Basic & diluted income (loss) per share								
Continuing Operations	**$ (0.02)**	$ (0.01)	$ (0.01)	$ (0.01)	**$ (0.00)**	$ (0.00)	$ (0.01)	$ (0.01)
Discontinued Operations	**0.02**	(0.00)	(0.01)	(0.10)	**(0.10)**	(0.01)	(0.02)	(0.01)
Adjusted EBITDA[(1)]	**$ (2,650)**	$ (2,094)	$ (1,020)	$ (1,872)	**$ 83**	$ (215)	$ (393)	$ (1,202)

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

Non-GAAP Financial Measures

The Company's management reports and analyzes its financial results and performance using a range of financial measures. Some of these measures, such as revenues, net income (loss) and cash flow from operating activities, are defined by IFRS. Other measures are not defined by IFRS.

One non-GAAP measure used by management is “Adjusted EBITDA”. Adjusted EBITDA comprises: Net income (loss) excluding the following – finance income and expense, income tax recovery and expense, depreciation and amortization, asset impairment charges, foreign exchange gains and losses in earnings, stock-based compensation expense and restructuring charges. Adjusted EBITDA does not have any standardized meaning according to IFRS. Therefore, it may not be comparable to similar measures presented by other companies. The reconciliation of Adjusted EBITDA with the IFRS measure of net income (loss) is as follows:

	F2012			F2011				
	3 months ending			3 months ending				2 months
Amounts in thousands	**March 31, 2012**	December 31, 2011	September 30, 2011	June 30, 2011	**March 31, 2011**	December 31, 2010	September 30, 2010	ending June 30, 2010
Net income (loss) for the period	**$ 1,441**	$ (3,047)	$ (5,481)	$ (47,048)	**$ (43,956)**	$ (5,413)	$ (8,294)	$ (4,547)
Add back (income) loss from Discontinued Operations	**(10,577)**	446	2,611	43,827	**42,991**	4,268	6,441	2,510
Net interest and other expense	**253**	246	250	270	**231**	238	228	30
Amortization (note 1)	**617**	595	628	546	**754**	801	780	495
Impairment of intangible assets and goodwill	**5,697**	-	-	-	**-**	-	-	-
Recovery of future income taxes	**(112)**	(114)	(114)	(123)	**(114)**	(118)	(217)	(5)
"EBITDA"	**(2,681)**	(1,874)	(2,106)	(2,528)	**(94)**	(224)	(1,062)	(1,517)
Realized foreign exchange (gain) loss	**(118)**	(389)	846	8	**(266)**	(377)	(337)	162
Stock-based compensation	**149**	169	240	267	**292**	303	210	153
Restructuring charges	**-**	-	-	381	**151**	83	796	-
"Adjusted EBITDA"	**$ (2,650)**	$ (2,094)	$ (1,020)	$ (1,872)	**$ 83**	$ (215)	$ (393)	$ (1,202)

(1) Amortization includes amounts that are recorded as part of cost of revenues and therefore does not equal the amount on the face of the Consolidated Statements of Income (Loss), Other Comprehensive Income (Loss) and Comprehensive Income (Loss). Instead the Amortization figure used above is found in the Consolidated Statements of Cash Flows, which includes all amortization.

The following chart reflects a pro forma operating statement, showing the elements that comprise Adjusted EBITDA.

	F2012			F2011				
	3 months ending			3 months ending				2 months
Amounts in thousands	**March 31, 2012**	December 31, 2011	September 30, 2011	June 30, 2011	**March 31, 2011**	December 31, 2010	September 30, 2010	ending June 30, 2010
Revenues	**$ 2,810**	$ 3,551	$ 5,821	$ 5,645	**$ 8,294**	$ 8,715	$ 8,117	$ 4,229
Adjusted gross margin	**316**	546	1,934	1,607	**3,085**	3,286	2,595	923
Adjusted gross margin %	**11%**	15%	33%	28%	**37%**	38%	32%	22%
Expenses								
Research & development	**1,435**	1,433	1,508	1,573	**1,253**	1,376	1,289	929
Sales & marketing	**333**	257	302	240	**367**	419	434	263
General & administrative	**1,198**	950	1,144	1,666	**1,382**	1,706	1,265	933
Operating expenses	**2,966**	2,640	2,954	3,479	**3,002**	3,501	2,988	2,125
Adjusted EBITDA	**(2,650)**	(2,094)	(1,020)	(1,872)	**83**	(215)	(393)	(1,202)

Adjusted gross margin above reflects reported gross margin after removing amortization expense. The Company uses Adjusted EBITDA as one financial metric to evaluate the profitability and potential recurring cash flows of its business, and continues to take actions to improve this financial metric as outlined in the Outlook section below.

SUMMARY OF RESULTS FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2012 COMPARED TO THE THREE AND NINE MONTHS ENDED MARCH 31, 2011

Enablence converts foreign currency-denominated transactions related to the statement of income (loss) at the average exchange rates for the periods. As such, changes in the exchange rate between the United States dollar and the Canadian dollar can have an impact on the reported results for each fiscal period. The following chart summarizes the average exchange rates for the periods discussed in this MD&A.

	Three months ended March 31		Nine months ended March 31	
	2012	2011	2012	2011
Canadian dollar equivalent of $1 USD	1.0011	0.9861	1.0015	1.0130

The following tables set forth a summary of key operating and other information from our consolidated financial statements for the most recent reporting periods as prepared using accounting policies which are consistent with IFRS.

	Three months ended March 31		Increase (decrease)		Nine months ended March 31		Increase (decrease)	
	2012	2011	$	%	2012	2011	$	%
Revenues	$ 2,810	$ 8,294	$ (5,484)	-66%	$ 12,182	$ 25,126	$ (12,944)	-52%
Cost of revenue	2,943	5,601	(2,658)	-47%	10,735	17,373	(6,638)	-38%
Gross margin	(133)	2,693	(2,826)		1,447	7,753	(6,306)	
Gross margin %	*-4.7%*	*32.5%*	*51.5%*	*-37%*	*11.9%*	*30.9%*	*48.7%*	*-19%*
Operating expenses								
Research and development	1,435	1,253	182	15%	4,376	3,918	458	12%
Sales and marketing	333	367	(34)	-9%	892	1,220	(328)	-27%
General and administrative	1,198	1,382	(184)	-13%	3,292	4,353	(1,061)	-24%
Stock-based compensation	149	292	(143)	-49%	558	805	(247)	-31%
Amortization	168	362	(194)	-54%	491	1,122	(631)	-56%
Restructuring charges	-	151	(151)	n/m	-	1,030	(1,030)	n/m
Operating loss	(3,416)	(1,114)	(2,302)	n/m	(8,162)	(4,695)	(3,467)	74%
Interest Income	2	11	(9)	-82%	38	24	14	58%
Interest expense	(255)	(242)	(13)	5%	(787)	(721)	(66)	9%
Impairment of goodwill	(5,697)	-	(5,697)	n/m	(5,697)	-	(5,697)	n/m
Foreign exchange gain (loss)	118	266	(148)	-56%	(339)	980	(1,319)	n/m
Loss before income taxes	(9,248)	(1,079)	(8,169)	n/m	(14,947)	(4,412)	(10,535)	n/m
Recovery of deferred income taxes	112	114	(2)	-2%	340	449	(109)	-24%
Net loss from continuing operations	$ (9,136)	$ (965)	$ (8,171)	n/m	$ (14,607)	$ (3,963)	$ (10,644)	n/m
Income (loss) from discontinued operations	10,577	(42,991)	53,568	n/m	7,520	(53,700)	61,220	n/m
Net income (loss)	$ 1,441	$ (43,956)	$ 45,397	n/m	$ (7,087)	$ (57,663)	$ 50,576	-88%
Adjusted EBITDA*	$ (2,650)	$ 83	$ (2,733)	n/m	$ (5,764)	$ (525)	$ (5,239)	n/m
Basic & diluted income (loss) per share								
Continuing operations	$ (0.02)	$ (0.00)	$ (0.02)	n/m	$ (0.03)	$ (0.01)	$ (0.02)	n/m
Discontinued operations	0.02	(0.10)	0.13	n/m	0.02	(0.13)	0.15	n/m
Net income (loss) per share (basic & diluted)	0.00	(0.10)	0.11	-103%	(0.01)	(0.14)	0.13	-93%

* Adjusted EBITDA does not have any standardized meaning according to IFRS and is defined and reconciled to net income (loss) above.

Revenues

Quarter ending March 31, 2012 compared to the quarter ending March 31, 2011:

Revenue decreased by $5.5 million or 66% in the quarter ending March 31, 2012 compared to the prior year period. This decrease was driven by a continuing drop in demand across the Company's product lines for arrayed waveguide grating ("AWG") and multiplexer and demultiplexer ("VMUX") optical components due mainly to a general market slowdown, which started to impact the Company in the June 2011 quarter and has continued through the current quarter, and to a lesser extent due to lower prices resulting from competitive pressures. The Company did not generate any significant revenues from new products during the quarter, and is planning to introduce several new products in the coming quarters to add to revenues and help reverse the decline in revenue.

During the three months ended March 31, 2012, two customers accounted for 33% (19% and 14% individually) of the Company's total revenue and one customer accounted for 26% of the accounts receivable balance at March 31, 2012. During the three months ended March 31, 2011, two customers accounted for 42% of the Company's total revenue (27% and 15% individually), and two customers accounted for 46% (24% and 22% individually) of the accounts receivable balance at June 30, 2011.

Nine months ending March 31, 2012 compared to nine months ending March 31, 2011:

Revenue decreased by $12.9 million or 52% compared to the prior year. As above, this decrease was driven by a slowdown in demand for Enablence products and as part of a general market slowdown. Revenue was also negatively impacted compared to the prior year due to a key customer in Europe whose volumes have decreased significantly from the prior year.

During the nine months ending March 31, 2012, two customers accounted for 26% (15% and 11% individually) of the Company's total revenue. During the nine months ended March 31, 2011, three customers accounted for 52% of the Company's total revenue (26%, 13% and 13% individually).

Management expects revenues for the quarter ending June 30, 2012 to improve compared to the current quarter, and to continue to grow in subsequent quarters, as the Company begins to generate revenue from its new products and the Company's customers resume their historical buying patterns. The Company will be introducing its multi-channel 100G optical components, including transmitter/receiver optical sub-assembly ("TOSA/ROSA"), as well as 40G differential quadrature phase shift keying ("DQPSK") products among others during fiscal 2012. Sunblence has completed its initial evaluation wafer production and will begin generating customer revenues in the quarter ending June 30, 2012, with the primary customer being the JV Partner.

Revenue (based on ship-to location of the customer) is split by region as follows:

	Three months ended March 31				Nine months ended March 31			
Region	2012		2011		2012		2011	
	$	%	$	%	$	%	$	%
North America	1,095	39%	3,035	36%	5,848	48%	10,138	40%
Asia Pacific	1,097	39%	2,790	34%	4,352	36%	7,587	30%
Europe, Middle East and Afri	618	22%	2,469	30%	1,982	16%	7,401	29%
	2,810	100%	8,294	100%	12,182	100%	25,126	100%

Revenue decreased significantly in Europe from the prior year quarter, due to a decline with one key customer whose volumes have decreased significantly. Asia Pacific and the Americas decreased due to general market conditions. Revenue is expected to shift towards Asia Pacific as the China JV starts generating revenue. This regional revenue mix may change quarterly due to individual projects; however it is expected to remain significant outside North America. The Company does not generate significant revenue in Central and Latin America, therefore that geographic region has been combined in the Americas region.

Gross Margin

The Company's cost of revenues (or "COGS") is comprised of a number of elements, some of which vary with revenues, such as material costs and the cost of products manufactured by third parties, and some of which do not vary significantly with the level of revenues, including many overhead costs such as compensation of operations staff, amortization and facilities costs. The following chart summarizes the fixed and variable elements included in gross margin:

	Three months ended March 31		Increase (decrease)		Nine months ended March 31		Increase (decrease)	
	2012	2011	$	%	2012	2011	$	%
Revenues	$ 2,810	$ 8,294	$ (5,484)	-66%	$ 12,182	$ 25,126	$ (12,944)	-52%
Variable Cost of Revenues	1,587	3,871	(2,284)	-59%	6,656	12,210	(5,554)	-45%
Variable gross margin	1,223	4,423	(3,200)		5,526	12,916	(7,390)	
Variable gross margin %	44%	53%			45%	51%		
Amortization	449	393	56		1,348	1,215	134	
Other fixed COGS	907	1,337	(430)		2,731	3,948	(1,217)	
Total COGS	2,943	5,601	(2,658)		10,735	17,373	(6,638)	
Reported Gross Margin	(133)	2,693	(2,826)		1,447	7,753	(6,306)	
Reported Gross Margin %	-4.7%	32.5%			11.9%	30.9%		

Quarter ending March 31, 2012 compared to the quarter ending March 31, 2011:

Gross margin decreased from 32.5% in the prior year quarter to negative (4.7%) in the current fiscal quarter. Gross margin was negatively impacted by approximately 41 points due to the significant drop in revenue, where the fixed and semi-variable costs have been absorbed by lower revenues. Gross margin was also negatively impacted by pricing pressures during the quarter by approximately 5 points as demand dropped and competitive pressures increased in the market. Partially offsetting the decline due to volume is approximately 9 points of margin improvement due to cost reductions completed at the end of fiscal 2011. The Company combined its U.S. manufacturing in its Fremont, California location, generating approximately $0.25 million of savings per quarter.

Nine months ending March 31, 2012 compared to the nine months ending March 31, 2011:

Gross margin decreased from 30.9% in the prior year to 11.9% in the current fiscal year. Gross margin was negatively impacted by approximately 22 points due to lower volumes and 3 points due to pricing pressure. The Company offset these declines by approximately 6 points from cost reductions.

Operating expenses

Research & Development ("R&D") expenses for the third quarter of fiscal 2012 increased by $0.2 million, or 15% over the prior year period, as the Company added R&D capability to support its new product development, focused on products addressing the anticipated growth in demand for 100G capable products, as well as expanding its photodiode offerring. During the 2012 quarter, NRE revenue was lower than in the prior year period, and therefore less costs were absorbed into COGS.

R&D expenses for the nine months ended March 31, 2012 increased by $0.5 million, or 12% consistent with the reasons for the increase in the current quarter compared to the prior year.

The Company has deferred adding resources for R&D until the Company's financial stability is improved. The Company does require additional resources to achieve its product development plans for the development in TOSA / ROSA and DQPSK products.

Sales & Marketing expenses for the third quarter of fiscal 2012 decreased by $0.03 million or 9%, compared to the prior year quarter. During fiscal 2011, the Company shut down its corporate marketing function in order to reduce costs.

Sales and marketing expenses for the nine months ended March 31, 2012 decreased by $0.3 million or 27%, primarily due to the Company shut down of its corporate marketing function in fiscal 2011.

The Company is evaluating the opportunity to selectively increase its sales & marketing resources in strategic locations in order to expand its served market and expand the Company's customer base. The plans to add additional resources are dependent on the Company's ability to improve its financial position.

General & Administration expenses for the third quarter of fiscal 2012 decreased by $0.2 million, or 13%, compared to the prior year period. The decreased in spending was driven by a reduction in certain consulting expenses incurred in the prior year quarter, as well as the impact of combining the US operations.

General and administration expenses for the nine months ended March 31, 2012 decreased by $1.1 million or 24% due to the consolidation of U.S. operations, and prior year spending that included certain consulting expenses that have not been continued in fiscal 2012.

The Company expects general & administration expenses to remain at their current level, however is evaluating specific cost reductions in this area to be implemented in the June 2012 quarter.

Stock-based compensation for the third quarter of fiscal 2012 decreased by $0.1 million, or 49% compared to the prior year period. Stock-based compensation for the nine months ended March 31, 2012 decreased by $0.2 million, or 31% compared to the prior period. The decrease resulted from the fact that no options have been granted since September 2011, and that the first tranche of options granted at that time have been fully amortized. The Company did not grant any options during the quarter ending March 31, 2012.

Total stock options outstanding as at March 31, 2012 were 14,391 compared to 28,867 as at June 30, 2011. The decrease in stock options outstanding is due largely to staff reductions made in the Systems segment, including the divestiture of Teledata during the quarter. Stock-based compensation expense related to employees in the Systems segment is reported as discontinued operations.

Amortization for the third quarter of fiscal 2012 decreased by $0.2 million compared to the prior year period, due to decreased intangible asset amortization. Amortization for the nine months ended March 31, 2012 decreased by $0.6 million, also due to decreased intangible asset amortization. Amortization related to intangible assets decreased as certain assets were fully amortized at the end of fiscal 2011.

Restructuring charges for the third quarter of fiscal 2012 were $nil, compared to $0.2 million in the prior year period. Restructuring charges for the nine months ended March 31, 2011 were $nil, compared to $1.0 million in the prior year period. In the prior year, the Company incurred costs related to closing the corporate marketing function and to relocating the Company's polymer-based production from its Wilmington, Massachusetts fabrication facility to its Fremont, California fabrication facility, and were comprised of employee related and facility exit costs.

Finance and other income

Enablence invests cash and cash equivalents in short-term investments with a Canadian chartered bank. During the third quarter of fiscal 2012, Enablence earned interest income on these investments of $2 as compared to $10 during the prior year period. The Company earned $38 of interest for the nine months ended March 31, 2012 as compared to $24 during the nine months ended March 31, 2011. Interest income is a function of prevailing interest rates and the amount of funds invested.

Finance expense

Interest expense during the third quarter of fiscal 2012 was $255 compared to $242 during the prior year period. For the nine months ended March 31 2012, interest expense was $787 compared to $721 in the prior year period. The increase in the current year quarter was due primarily to the addition of a $3.5 million of secured note payable in May 2011, partially offset due to lower interest on the Company's other secured note payable, due to repayment of principal amounts. The Company's interest expense is a function of the balance of debt, the prevailing interest rates, and the average foreign exchange rate between the underlying currency of the debt security and the Canadian dollar. The table below sets out the balances outstanding at the end of each period:

	March 31, 2012	June 30, 2011
Secured note payable (a)	$ 2,753	$ 4,212
Secured note payable (b)	3,500	3,500
Convertible notes payable	2,965	3,000
Subordinated notes payable	10,000	10,000
Subordinated notes payable Interest	886	531
Total	$ 20,104	$ 21,243
Current portion	17,339	12,800
Long term portion	2,765	8,443

The secured note payable (a) was issued on July 16, 2010 and has an interest rate based on the Wall Street Journal prime rate plus 1.50%, resulting in an interest rate of 4.75% at March 31, 2012. The secured note payable (b) was issued on May 10, 2011 and has an interest rate based on the greater of 5.5% and the Wall Street Journal prime rate plus 1.50% (which was 4.75% at March 31, 2012), resulting in an interest rate of 5.5% at March 31, 2012. The interest rate on the convertible notes and subordinated notes is 5.0%.

During the quarter ending March 31, 2012, the Company stopped making payments on the Convertible notes payable, and is in negotiations with the holders of the notes to restructure the payment terms. The Company has not yet finalized these negotiations, and has classified the debt as current, since the payment terms under the existing agreement have not been met.

As at March 31, 2012, the Company is in violation of certain covenants of Secured note payable(a). The Company is working with the lending institution to adjust the covenants, however these negotiations have not been finalized and the Company has therefore classified the debt as current.

Impairment of goodwill

Goodwill is tested at the conclusion of the third quarter of each fiscal year or if factors indicative of impairment are present. The Company performed impairment tests on its goodwill at March 31, 2012 and recorded an impairment expense of $5.7 million (2011 - $nil). The goodwill arose from the acquisition of ANDevices, Inc., which was acquired in February, 2008.

The significant drivers of the impairment charges was an increase in the present value factor to reflect the increased risk in the business due to the current financial position and the dependency on products yet to be released for future growth. Also negatively impacting the valuation of goodwill was the decline in revenues, revised assumptions around revenue and revenue growth, which were updated based on more current estimates and based on the recent results from operations.

Foreign exchange gain (loss)

Foreign exchange gains and losses include realized and unrealized gains and losses on foreign exchange, including those that arise as a result of converting assets and liabilities denominated in currencies other than the functional currency of the entity into the functional currency of the entity at the balance sheet date and realized gains or losses arising from the settlement of these balances during the period. During the three months ended March 31, 2012 the Company recorded a foreign exchange gain of $0.1 million compared to a foreign exchange gain $0.3 million during the three months ended March 31, 2011. During the nine months ended March 31, 2012 the Company recorded a foreign exchange loss of $0.3 million as compared to a foreign exchange gain of $0.9 million during the nine months ended March 31, 2011. The main driver of the foreign exchange gains and losses are the notes payable that are denominated in US Dollars, but carried in a Canadian functional currency company. A gain is recognized when the CAD strengthens compared to the USD, and a loss is recognized with the CAD weakens compared to the USD.

Income taxes

There are no income taxes currently payable or recoverable by the Company or its subsidiaries.

Deferred income tax recovery is due to the amortization of the intangible assets recognized on acquisitions and the related future tax liabilities that were recorded at that time, as well as the timing differences between amortization for accounting and tax on certain property, plant and equipment. The future tax liability is drawn down in line with the amortization differences and impairment of the related assets. No future tax asset has been recorded, and none will be recorded until, in the opinion of management, it is more likely than not that the future tax assets will be realized.

During the three months ended March 31, 2012, the Company recorded a deferred income tax recovery of $0.1 million compared to $0.1 million during the three months ended March 31, 2011. During the nine months ended March 31, 2012 the Company recorded a future income tax recovery of $0.3 million, as compared to $0.4 million during the nine months ended March 31, 2011.

Net loss from continuing operations

Net loss from continuing operations excludes the results from operations of the Systems business. The net loss from continuing operations for the three months ended March 31, 2012 was $9.1 million compared to $1.0 million in the three months ended March 31, 2011 due to the factors above. The main drivers in the increased net loss from continuing operations were decreased revenues, and the related impact on gross margin, combined with the impairment of goodwill in the current year quarter, partially offset by reduced operating expenses, amortization and restructuring charges, discussed in more detail above. The net loss from continuing operations for the nine months ended March 31, 2012 was $14.6 million compared to $4.0 million for the nine months ending March 31, 2011. The increase in net loss from continuing operations was driven mainly by decreased revenues and gross margins and the $5.7 million impairment of goodwill in the current year, offset by reduced restructuring costs, general and administrative expenses and amortization.

Income (loss) from discontinued operations

The income (loss) from discontinued operations represents the financial results from the Company's Systems segment. The summary operating results from discontinued operations are as follows:

	Three months ended March 31		Increase (decrease)		Nine months ended March 31		Increase (decrease)	
	2012	2011	$	%	2012	2011	$	%
Revenues	$ 1,400	$ 6,583	$ (5,183)	-79%	$ 21,761	$ 50,867	$ (29,106)	-57%
Cost of revenue	1,558	5,644	(4,086)	-72%	16,043	36,363	(20,320)	-56%
Gross margin	(158)	939	(1,097)		5,718	14,504	(8,786)	
Gross margin %	*-11.3%*	*14.3%*	*-26%*	*21%*	*26.3%*	*28.5%*	*-2%*	*30%*
Operating Expenses								
Research and development	1,871	4,100	(2,229)	-54%	5,611	12,206	(6,595)	-54%
Sales and marketing	709	3,179	(2,470)	-78%	3,605	9,870	(6,265)	-63%
General and administrative	487	1,035	(548)	-53%	1,041	3,867	(2,826)	-73%
Stock-based compensation	2	608	(606)	-100%	312	1,325	(1,013)	-76%
Amortization	85	3,460	(3,375)	-98%	336	10,701	(10,365)	-97%
Restructuring charges (recovery)	(855)	-	(855)	n/m	44	218	(174)	-80%
Operating loss	(2,457)	(11,443)	8,986	-79%	(5,231)	(23,683)	18,452	-78%
Interest Income	6	21	(15)	n/m	6	39	(33)	-85%
Interest expense	(191)	-	(191)	n/m	(820)	-	(820)	n/m
Impairment of intangible assets	-	(14,559)	14,559	n/m	-	(14,559)	14,559	-100%
Impairment of goodwill	-	(23,260)	23,260	n/m	-	(23,260)	23,260	n/m
Gain on sale of Teledata	13,356	-	13,356	n/m	13,356	-	13,356	n/m
Foreign exchange gain (loss)	(137)	(28)	(109)	n/m	209	(339)	548	-162%
Income (loss) before income taxes	10,577	(49,269)	59,846	-121%	7,520	(61,802)	69,322	-112%
Recovery of deferred income taxes	-	6,278	(6,278)	-100%	-	8,102	(8,102)	-100%
Income (loss) from discontinued operations	$ 10,577	$ (42,991)	$ 53,568	n/m	$ 7,520	$ (53,700)	$ 61,220	n/m

Revenues declined in the current quarter compared to the prior year primarily due to the divestiture of the US-based Systems business, combined with the announcement that Enablence was exiting the Systems business, as well as the quarterly fluctuation in shipments to key customers. Gross margins decreased in the current quarter compared to the prior year period due to the large decrease in revenue, as fixed costs are spread over less revenue. Operating expenses declined as a result of cost reduction activities, mainly in North America, including the divestiture of the US based operations. Amortization decreased year over year as the intangible assets that were being amortized were written off to $nil in the quarters ending March 31 and June 30, 2011. The recovery in restructuring charges during the current quarter is the result of adjusting reserves taken during the fourth quarter of fiscal 2011 based on updated information, and the settlement of certain obligations that were accrued at the higher end of the

estimated range of exposure. Restructuring charges in the prior year period relate to acquisition costs associated with the acquisition of Teledata. These costs were previously included in goodwill, however with the change to IFRS, these costs are expensed. Interest expense in the current year periods are due to certain late payment charges from certain service and product providers. The recovery of deferred income taxes is the result of amortization of intangible assets. As a result of the decrease in amortization expense, the deferred income tax recovery amount was reduced to $nil in the current year.

The gain on sale of Teledata is due to the net liabilities exceeding net assets in Teledata, which was sold for nominal consideration. Details of the transaction are discussed earlier in this MD&A.

As of March 31, 2012, Enablence has wound down or sold all of its operations in the Systems segment. The Company continues to manage through remaining liabilities with the limited cash remaining in the Systems US based entities, and as a result, will continue to show some amounts as discontinued operations, however this activity will continue to decline over the coming months.

Income (loss) per common share

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

	Three months ended March 31		Nine months ended March 31	
	2012	2011	2012	2011
Basic and diluted income (loss) per common share				
- From continuing operations	(0.02)	(0.00)	(0.03)	(0.01)
- From discontinued operations	0.02	(0.10)	0.02	(0.13)
Weighted Average Number of Common Shares	466,546	421,046	466,546	399,722

Due to a net loss from continuing operations, financial instruments including warrants and options are anti-dilutive.

CHANGE IN ACCOUNTING POLICIES

Adoption of International Financial Reporting Standards ("IFRS")

The Company adopted IFRS effective July 1, 2011 and, as a result, certain of the accounting policies under which the Company's financial results are reported have changed from prior periods. Note 3 to the Company's financial statements explains the revised accounting policies adopted by the Company, which are consistent with IFRS. Note 19 to the Company's financial statements explains the principal adjustments made by the Company in restating its Canadian GAAP statement of financial position as at May 1, 2010 and its previously published Canadian GAAP financial statements for the fiscal year ending June 30, 2011 and three and nine months ending March 31, 2011.

The principal areas of impact in measurement and recognition were as follows:

IFRS 2 Share-based Payments – Stock options generally vest over a four-year period. Prior to the adoption of IFRS 2, the Company recognized the fair value of stock options on a straight-line basis over the four-year vesting period. Under IFRS 2, Share-Based Payments, the fair value of each tranche of the award is determined separately and recognized as compensation expense over the term of its respective vesting period. This will result in accelerated recognition of stock compensation expense under IFRS. The impact of this change resulted in increased stock-based compensation expense for the three and nine months ending March 31, 2011 by $359 and $674 respectively. The increase was offset by the reclassification to discontinued operations for the stock based compensation that is related to Systems segment personnel for the three and nine months ending March 31, 2011 of $608 and $1,325 respectively.

IAS 20 Government Grants – The Company's government assistance for research and development of products meets the definition of a forgivable loan. IFRS differs from Canadian GAAP in the recognition of the grant on the balance sheet and in earnings, as IFRS requires the entity to meet the terms of forgiveness in order to recognize into income; as such, the Company had recognized a liability under IFRS as the terms of forgiveness has not been met. Government grants to date have only been applicable to the Company's former subsidiary in Israel ("Teledata"), which was reported as part of discontinued operations. The Company has adjusted the Teledata purchase price equation to include an $8.7 million liability for the repayment of government grants. The Company reduced the carrying value of the liability at June 30, 2011 to $5.7 million based on revised fair value estimates applicable at that date. As of March 31, 2012, the Company no longer has any liability for government grants on its balance sheet, due to the divestiture of Teledata on March 31, 2012.

IAS 21 Effect of Changes in Foreign Exchange Rates – The Company has restated its financial statements to USD from Canadian dollars. While this change was not due to the change to IFRS, it did impact accumulated other comprehensive loss in the May 1, 2010 balance sheet, as the cumulative translation adjustment ("CTA") changed from a balance of Canadian $3.9 million to a negative balance of $2.7 million. As permitted under IFRS1 elections, the Company has reset its CTA to $nil, on the transition date of May 1, 2010. This resulted in an adjustment of $2.7 million to accumulated other comprehensive loss and accumulated deficit as at May 1, 2010.

OUTLOOK

With the sale of Teledata, management will be able focus solely on its optical components and subsystems business, including the China JV, Sunblence. Management's current focus is to obtain sufficient funding to continue to operate the business. If the Company is unable to obtain the additional financing, the Company will be required to pursue formal insolvency proceedings .

The Company is in discussions with several potential investors, and is exploring the ability to generate cash through additional debt supported by external parties, and potentially issue debentures that would be convertible into common shares. Until new financing is secured, the Company is not able to finalize any negotiations with its existing debt holders.

Management believes the optical components market will begin to recover from the slow down that started in mid-2011. The speed at which the market will recover is difficult to predict, however with the growth in mobile devices, and continued increase in communication volumes, management believes that spending on optical networks will increase. Initiatives for Enablence to achieve or exceed the expected market return include:

- expanding our product portfolio through existing product evolution, including products that address the growing need for higher speed networks and more flexible/dynamic networks, and new products identified through our non-recurring engineering ("NRE") services and sales; and
- supporting Sunblence to provide growing volumes and access to the Chinese market for optical components based on Enablence's proprietary PLC technology.

The primary focus areas for the Company are:

- refinancing the business.
- moving Sunblence's operations from pre-production to initial customer revenues and subsequent high growth; and
- introducing the Company's TOSA/ROSA products and migrating production from Ottawa to Fremont;

A number of product developments are planned and being implemented in the next twelve months, including:

- several multi-channel 100G optical components, aimed at the long-haul, metro loop and datacom optical fiber markets, including Transmitter Optical Sub-Assembly and Receiver Optical Sub-Assembly ("TOSA/ROSA") products. These products are being designed with a number of formats, including 100G coherent, 4X25G and 10X10G. The Company is in the midst of transitioning these products from its development centre in Ottawa, Ontario, to its manufacturing facility in Fremont, California, in order to produce at lower costs and higher volumes. The Company expects to complete this transition by the end of September, 2012.
- PLC-based products for deployment in homeland security applications that require ultra-fast interpretation of significant amounts of complex data in order to operate effectively.
- increasing our value-add in photodiodes by doing our own packaging and producing higher-speed avalanche photodiodes ("APD's").

These development programs will be funded, in part, by third party funded design contracts, where Enablence retains the rights to the intellectual property developed and gains a "lead customer" for initial product revenues during a defined period of exclusivity.

The Company's initiatives to manage working capital and cash flow include:

- continuing to work closely with our key vendors and customers to optimize cash flow; exploring opportunities for establishing banking relationships to provide access to additional debt financing;
- continuing to evaluate opportunities to generate capital and strengthen the Company's balance sheet to accelerate growth by being a lower risk supplier to our customers and allowing flexibility to address growth opportunities as they arise; and
- refinancing the notes payable. The Company has initiated discussions with certain noteholders about the alternatives for refinancing or deferring settlement of the Notes beyond their current maturity date. However, there can be no assurance that the Company will be successful in restructuring these instruments.

LIQUIDITY

The Company's objectives when managing its liquidity and capital structure are to generate sufficient cash to fund the Company's operating and debt service requirements (debt service costs are currently $0.7 million per quarter, increasing to $0.9 million per quarter in May of 2012), and refinance the Notes on or prior to maturity (the subordinated note payable of $10 million plus $1 million of accrued interest is currently due to mature on June 23, 2012). The Company has not generated positive cash flow from operations since its inception, and has relied on cash from the issuance of shares and debt to fund its operations. The table below sets out the cash, cash equivalents, short-term investments and working capital at the end of the current quarter and most recent year end fiscal periods.

	March 31, 2012	June 30, 2011
Cash and Cash Equivalents		
- Continuing operations	$ 2,694	$ 10,404
- Discontinued operations	132	1,523
Working Capital		
- Continuing operations	(9,341)	4,947
- Discontinued operations	(324)	(3,506)

The decrease in working capital is due to losses from operations, principal payments on notes payable, and the reclassification of certain notes payable as current due to covenant breach or late payment, as described elsewhere in this MD&A and in the financial statements.

The chart below highlights the Company's cash flows during the three and nine months ended March 31, 2012 and 2011.

	Three months ended March 31		Nine months ended March 31	
	2012	2011	2012	2011
Cash from (used in) operating activities				
- Continuing operations	(829)	(1,779)	(3,821)	(4,318)
- Discontinued operations	(2,786)	(6,847)	(5,161)	(15,182)
Investing activities				
Decrease (Increase) in restricted cash	125	406	120	1,430
Purchase of property, plant and equipment and intangibles	(527)	(239)	(778)	(1,143)
Cash used in investing activities	(402)	167	(658)	287
Cash from investing activities - Discontinued operations (note 1)	304	(461)	2,045	2,187
Financing activities				
Advance from bank indebtedness	-	984	-	984
Advance from notes payable (note 2)	-	-	-	5,000
Repayment of notes payable (note 2,3)	(746)	(384)	(1,531)	(2,387)
Proceeds from issuance of common shares	-	-	-	19,978
Cash (used in) provided by financing activities	(746)	600	(1,531)	23,575
Cash (used in) provided by financing activities - Discontinued operations (note 1)	-	-	-	(2,696)
Effect of foreign currency translation	(52)	(455)	26	(1,488)
Net change in cash and cash equivalents	(4,511)	(8,775)	(9,100)	2,365

note 1 – During the prior year period, the Company paid of a line of credit which was secured by restricted cash. During the current year, certain performance guarantees that have been secured by restricted cash have expired, resulting in a reduction in restricted cash and an increase in cash in discontinued operations.

note 2 – During the three months ended September 30, 2010, the Company repaid a note payable of $1,879 from the proceeds of a $5,000 note payable with a different bank.

note 3 – Repayments of principal on notes payable

At March 31, 2012, the Company had cash of $ 2.7 million (not including $0.1 million held in discontinued operations). The Company consumed $2.8 million in operations in the quarter ending March 31, 2012 due mainly to the low revenue level. The Company has sustained significant losses since its inception, and expects to incur losses in its next quarter.

At May 29, 2012 the Company's cash position had declined to approximately $0.9 million following continued losses from operations due to the depressed revenue levels.

These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon the ability to secure additional financing (through additional debt or the sale of common shares), the ability to generate positive cash flow from its remaining business, and the ability to pay or refinance its $ 10,000 note payable on maturity in June 2012. As a result of the market slow-down, which started in the June 2011 quarter, the Company will require either an extension on its note payable, or require additional funding through external sources in order to settle the note payable. The Company will also require additional cash in order to complete its current product roadmap and fund operations until the business is able to generate cash from operations. Management believes it will require between $7 and 10 million of additional cash to fund operations. While management believes it

will be able to source sufficient resources to fund the business moving forward, there is substantial risk. If successful, management expects to obtain this additional financing through the issuance of convertible debentures and through increasing its debt with an existing lender, with the support of third party guarantees. This additional funding is conditional on acceptable due diligence and an acceptable agreement with the existing debt holders to defer or convert their obligations.

The Company's ability to reach profitability is dependent on raising additional cash, the successful introduction of new products and the success of the China JV. There can be no assurance that Enablence will gain adequate market acceptance for its new products or the products of the China JV, or be able to generate sufficient gross margins to reach profitability. The Company has not yet earned operating profits.

The Company believes that the existing working capital and forecasted revenues will not be sufficient to cover the Company's total cash requirements to and beyond March 31, 2013, based upon its operating forecasts. The Company will require additional cash to operate the business, estimated to be between $7 and $10 million, in order to operate the Company to break even. This amount does not include any amounts required to refinance the $10 million subordinated note. These forecasts include assumptions regarding:

- revenue growth from the acceptance of the Company's new products;
- impacts of continued price erosion in the market, and a continued slow recovery of the market;
- an increase in design services revenue and margins from key optical component customers;
- improvements in supply chain and inventory management performance; and
- improved treasury management, particularly as it relates to accounts receivable.

The Company expects to invest up to $1.0 million during the next 12 months on component manufacturing equipment to improve manufacturing processes with the ultimate objective of improving gross margins and product offerings, and on design and test equipment.

CAPITAL RESOURCES

Enablence finances its operations through the issuance of common shares and certain notes payable.

Enablence may receive cash proceeds on the issue of additional common shares on the exercise of options and warrants depending in part on the market price for its shares.

The Company periodically evaluates the opportunity to raise additional funds through either the public or private placement of equity capital to strengthen its financial position and to provide sufficient cash reserves to protect itself from the effects of the current unpredictable economic conditions.

Enablence is authorized to issue an unlimited number of common shares of which 466,546,094 common shares are issued and outstanding as of May 29, 2012. The common shares of Enablence trade on the TSX Venture Exchange under the symbol "ENA" or "ENA.V".

OFF BALANCE SHEET ARRANGEMENTS

The table below presents the Company's contractual obligations from continuing operations (note that amounts include future interest costs).

	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Secured notes payable	$ 6,793	$ 3,061	$ 2,672	$ 1,060	$ -
Subordinated notes payable	11,001	11,001	-	-	-
Convertible notes payable	3,435	703	1,055	976	701
Facilities leases	1,587	558	793	236	-
	$ 22,816	$ 15,323	$ 4,520	$ 2,272	$ 701

The Company is currently in breach of certain covenants on a portion of the secured note payable, and is in arrears on the convertible notes payable. The above chart shows the payments assuming the notes are paid pursuant to their original terms, and are not called immediately, which is the creditors right under the agreements. The Company continues to negotiate with the creditors to come to a satisfactory resolution.
The Company is exposed to currency risk as certain transactions are denominated in Canadian dollars, Swiss francs and Israeli shekels. Management is evaluating foreign exchange risk management strategies. However, the Company has not entered into forward, swap or option contracts to manage its exposures to fluctuations in foreign exchange rates.

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

TRANSACTIONS WITH RELATED PARTIES

During the three and nine months ended March 31, 2012 the Company did not enter into any transactions with related parties (2011 - consulting costs pursuant to a contract with a former executive of the Company were paid for the three and nine months ending March 31, 2011 of $75 and $225 respectively).

RISKS AND UNCERTAINTIES

The Company operates in a dynamic, rapidly changing environment that involves risks and uncertainties and as a result management expectations may not be realized for a number of reasons. An investment in Enablence common shares is speculative and involves a high degree of risk and uncertainty. The current global economic crises pose additional risks and uncertainties which may materially affect management's expectations.

Any investor should also consider carefully these risks and the risks and uncertainties that are detailed in our Annual Information Form filed on October 20, 2011, and available at: www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements, in conformity with IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amount of revenue and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates include, but are not limited to, investment tax credits, allowance for doubtful accounts, inventory provisions, inventory valuation, asset impairments, accruals, stock-based compensation, the estimated useful lives and valuation of property, plant and equipment, deferred income taxes, carrying value of intangible assets and goodwill.

FINANCIAL AND OTHER INSTRUMENTS

Enablence's financial instruments consist of cash and cash equivalents, accounts receivable, restricted cash, accounts payable and accrued liabilities, and notes payable. Unless otherwise noted, it is the opinion of Enablence's management that Enablence is not exposed to significant interest, currency or credit risk arising from these financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

ADDITIONAL INFORMATION

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