ENABLENCE TECHNOLOGIES INC.

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

FOR THE TWELVE MONTHS ENDED JUNE 30, 2012

DATED: OCTOBER 26, 2012

Contents of this MD&A

PLEASE NOTE THERE IS A GLOSSARY OF TERMS AT THE END OF THIS MD&A

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

The following is a discussion and analysis of the financial condition of Enablence Technologies Inc. at June 30, 2012 compared to June 30, 2011 and results of operations for the twelve months ending June 30, 2012 compared to the twelve and fourteen months ended June 30, 2011.

This MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended June 30, 2012. 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 US$, unless stated otherwise.

The Company adopted IFRS effective July 1, 2011 and, accordingly, the financial statements for the year ended June 30, 2012 have been prepared in accordance with IFRS. Comparative financial information presented herein was restated effective May 1, 2010 and are comparable to the fiscal 2012 results and financial position. Effective July 1, 2011, the Company determined that its presentation currency should be United States dollars, as it is the currency of the primary economic environment in which the Company operates. The Company elected to present its consolidated financial statements in US$ commencing in the first quarter for fiscal 2012. All amounts in this MD&A are in US$, except where otherwise noted. Comparative information has been restated to reflect IFRS and US$ results. During fiscal 2011, the Company changed its year end from April 30 to June 30. As a result, the results from operations for the Company's 2011 fiscal year comprise 14 months, from May 1, 2010 to June 30, 2011. Where appropriate, this MD&A includes reference to the 12 months ending June 30, 2011 to provide more comparable analysis to the twelve months ending June 30, 2012.

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 GAAP".

The effective date of this MD&A is October 26, 2012. The financial statements include the assets, liabilities, revenues and expenses of Enablence and its subsidiaries and affiliates, including its 49% proportional share of the revenues, expenses, assets and liabilities of Sunblence, its joint venture in Foshan City, China. The results from Enablence's Systems segment and its photodiode components business, ENA Switzerland, have been reported as discontinued operations due to the Company's decision in April 2011 to divest the Systems business, and in July 2012 to divest ENA Switzerland. These actions are discussed in more detail later in this MD&A.

UPDATE ON FINANCING

Enablence has commitments to secure new equity investments and bank facilities to fund ongoing operations and is restructuring its debt obligations.

Subject to the approval of the TSX Venture Exchange and the finalization of the arrangements related to a term sheet with a U.S. bank, two non-brokered private placement financings totaling approximately Cdn$6 million to be subscribed for in tranches, of which approximately Cdn$3.3 million will be done initially by certain existing shareholders (the "Initial Financing") and then a subsequent financing for approximately Cdn$2.7 million will be completed by the majority partner of Enablence's second joint venture in China (the "Second Chinese JV"), certain existing shareholders and certain other insiders of Enablence (the "Second Financing"). The Initial Financing and the Second Financing are referred to as the "Financing". The Financing will be structured such that all investors will purchase shares at the same average price and on the same terms and conditions. The Initial Financing million is being completed by some investors to reflect the weighted average price of two components: (i) Cdn$0.75 million at a price of Cdn$0.005 for an issuance of 150,000,000 common shares of Enablence, using the TSX Venture Exchange Policy on Temporary Relief from Certain Pricing Requirements, and (ii) approximately Cdn$2.6 million at a price of Cdn$0.05 for an issuance of 51,580,000 common shares of Enablence. The shares are subject to a four-month hold period pursuant to applicable securities laws. The initial tranche of the Initial Financing is expected to close on or before October 31, 2012 and the second tranche of the Initial Financing is expected to close prior to November 30, 2012. The Second Financing is expected to be completed on or before December 31, 2012.

As previously announced, Enablence is planning the divestiture of its wholly-owned photodiode business located in Switzerland. Enablence has received an unsolicited offer from management of the subsidiary, ENA Switzerland, to purchase all the outstanding shares of the subsidiary. Subject to the approval of the TSXV, the Company will proceed to negotiate a share purchase agreement with management and plans to complete the transaction in November 2012.

A term sheet has been executed with Cathay Bank, a chartered California bank. It establishes, subject to certain pre-funding conditions, a new line of credit and extra bank facilities totaling approximately $2.1-2.4 million to partially fund the repayment of the $3 million bridge loan from the same California bank announced in July 2012. In addition, the maturity date on the bridge loan has been extended from October 15, 2012 to November 15, 2012.

Revised terms have been negotiated and verbally agreed with the holders of the majority of the value of certain secured notes payable totaling approximately $11 million (the "Notes"), including partial repayment of the Notes and an extension of the term for the payment of the balance of the principal and interest. Enablence is working with the balance of the holders of the Notes so that all the Notes will be revised on the same terms and conditions. Currently, LMV Capital Corp., one holder of the Notes, is pursuing legal recourse in the courts in Israel for repayment of its Note in the amount of approximately $425 plus interest. The legal proceedings are ongoing and Enablence is responding to the action.

There are also ongoing discussions with the holders of certain unsecured notes totaling approximately $3 million for an extension of the terms for the payment of the balance of the principal and interest.

If Enablence is unable to complete the financing described above and sale of ENA Switzerland as outlined above, the Company will likely be required to pursue formal insolvency proceedings.

FORWARD-LOOKING STATEMENTS

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

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

- The Company will be able to raise sufficient financing to meet its financial obligations as they come due, and will be able to renegotiate certain financial obligations as they come due.
- The Company will be successful in divesting ENA Switzerland and the proceeds will be used to partially fund operations and refinance a part of its debt.
- Sunblence will achieve satisfactory volume growth, financial performance, including gross margins and operating expenses.
- 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.
- Enablence will develop and deliver new products on time in order to satisfy the requirements of current and future customers and contribute to near-term profitability.
- Enablence will be able to attract and retain key people.
- The average exchange rates for Canadian dollars to US dollars will be at or near Cdn$1.00 = US$1.00.

OVERVIEW

ENABLENCE'S BUSINESS

Enablence designs, manufactures and sells optical components and subsystems for all three segments of optical networks - access, metro and long-haul markets - to a global customer base. It utilizes its patented technologies, including PLC intellectual property, know-how and trade secrets in the production of an array of photonic components. The Company's product lines address: 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 networks ranging from 1.25 to 100 gigabits per second. The Company's growing product line includes ROADM components, AWG products, VOAs and VMUX products that combine AWG and VOA functions into one product. The Company also earns revenues from engineering and design services, generally for products on the Company's roadmap and retaining any IP developed under such contracts. In addition, in June 2012, Sunblence began producing optical splitter chips for the Chinese market.

Enablence's PLC optical chip technology enables the integration of sub-components (such as waveguides, photodetectors, lasers and transimpedance amplifiers) onto one platform, which forms a photonic integrated circuit ("PIC") chip. The Company's core technology is portable to many 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.

In April 2011, the Company announced that it had begun an initiative to explore strategic alternatives to divest its Systems business. The Systems segment developed, manufactured and sold fiber-to-the-premises equipment and multi-service access platforms that enable high-speed 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.

In September 2011, the Company completed the sale of the majority of its U.S.-based Systems segment, and closed its remaining US Systems business during the year ending June 30, 2012. Effective March 31, 2012, Enablence completed the sale of Teledata, its Systems subsidiary based in Israel. At June 30, 2012, the Company has some immaterial 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.

In July 2012, the Company approved and initiated a plan to sell ENA Switzerland to generate cash to contribute to the Company's refinancing activities including the partial repayment of the Company's bridge loan of $3 million in July 2012. ENA Switzerland designs, manufactures and sells photodiodes from its operation located in Switzerland. While Enablence utilizes photodiodes in certain of its optical products, it concluded that owning a photodiode company was not essential to the future success of the Company. The sale is expected to be completed in November 2012.

In October 2012, the Company announced the creation of a new joint venture in China by three partners to develop, manufacture and sell 40G/100G communication modules based on Enablence's PLC-based photonic integrated circuit technology (the "Second Chinese JV"). This will be Enablence's second joint venture in China and will allow Enablence to participate as a minority partner, holding a 22% ownership position, in entity's efforts to become a leading vendor for 40G/100G communication modules. The modules will be made by the Second Chinese JV with PLC-based PIC TOSA/ROSA subassemblies supplied by Enablence. The TOSA/ROSA products and the advanced PIC chips are part of an array of Enablence products that have been developed to address the 40G/100G market in parallel with the global market migration to these standards over the next several years. The Second Chinese JV will benefit Enablence by providing the Company with a market for its TOSA/ROSA products.

SELECTED FISCAL YEAR INFORMATION

The following tables set out selected consolidated financial information for the periods indicated. Following a change in the Company's year-end in 2011, the prior period audited results were for the 14 months ended June 30, 2011. However, to provide a more meaningful year-to-year comparison of business performance, the Company is also disclosing unaudited numbers for the 12 months ended June 30, 2011.

	Twelve Months Ended June 30, 2012	*% of Revenue*	*% increase (decrease) from prior year*	Twelve Months Ended June 30, 2011 Unaudited (Note 5)	*% of Revenue*	*% increase (decrease) from prior year*	Fourteen Months Ended June 30, 2011 (Note 4)	*% of Revenue*	*% increase (decrease) from prior year*	Twelve Months Ended April 30, 2010 (Note 3)	*% of Revenue*
Revenues	$ **13,389**	*100%*	*-51%*	$ 27,415	*100%*	*28%*	$ 31,200	*100%*	*46%*	$ 21,411	*100%*
Gross margin	**1,138**	*8%*	*-84%*	7,058	*26%*	*63%*	7,402	*24%*	*71%*	4,331	*20%*
Expenses (note 1)	**10,329**	*77%*	*-15%*	12,151	*44%*	*0%*	14,140	*45%*	*17%*	12,130	*57%*
Restructuring and impairment charges	**6,190**	*46%*	*339%*	1,411	*5%*	*-19%*	1,411	*5%*	*-19%*	1,741	*8%*
Amortization, stock based compensation, net interest, other expenses and income taxes	**(1,625)**	*-12%*	*-208%*	1,499	*5%*	*-62%*	2,055	*7%*	*-48%*	3,919	*18%*
Loss from continuing operations	**(13,756)**	*-103%*	*72%*	(8,003)	*-29%*	*-41%*	(10,204)	*-33%*	*-24%*	(13,459)	*-63%*
Income (loss) from discontinued operations	**7,729**	*58%*	*-108%*	(96,708)	*-353%*	*399%*	(99,037)	*-317%*	*411%*	(19,373)	*-90%*
Net loss	**(6,027)**	*-45%*	*-94%*	(104,711)	*-382%*	*219%*	(109,241)	*-350%*	*233%*	(32,832)	*-153%*
Net income (loss) per share (basic and diluted)											
- from continuing operations	$ **(0.03)**			$ (0.02)			$ (0.03)			$ (0.05)	
- from discontinued operations	**0.02**			(0.24)			(0.25)			(0.07)	
Net loss per share	$ **(0.01)**			$ (0.26)			$ (0.28)			$ (0.12)	
Weighted average number of outstanding shares - basic and diluted	**466,546**			402,975			400,845			270,084	
Adjusted EBITDA											
Loss from continuing operations	**(13,756)**	*-103%*	*72%*	(8,003)	*-29%*	*-41%*	(10,204)	*-33%*	*-24%*	(13,459)	*-63%*
Amortization included in gross margin	**1,392**	*10%*	*6%*	1,317	*5%*	*114%*	1,077	*3%*	*75%*	615	*3%*
Restructuring and impairment charges	**6,190**	*46%*	*339%*	1,411	*5%*	*-19%*	1,411	*5%*	*-19%*	1,741	*8%*
Amortization, stock based compensation, net interest, other expenses and income taxes	**(1,625)**	*-12%*	*-208%*	1,499	*5%*	*-62%*	2,055	*7%*	*-48%*	3,919	*18%*
Adjusted EBITDA (note 2)	**(7,799)**	*-58%*	*107%*	(3,776)	*-14%*	*-47%*	(5,661)	*-18%*	*-21%*	(7,184)	*-34%*

Note 1 - Expenses comprise research and development, sales and marketing and general and administrative expenses but exclude stock-based compensation, amortization, restructuring charges and net interest and tax expense and recovery.

Note 2 - The Company uses Adjusted EBITDA as one key measure of financial performance as it removes significant non-cash and non-recurring expenses. This measure may not be comparable to similar measures used by other companies. See below in this MD&A for a reconciliation net loss to Adjusted EBITDA.

Note 3 - Results for the year ending April 30, 2010 are restated to US$ using average exchange rates for the year, however are reported under GAAP, not IFRS. These figures have also been restated to include Systems and ENA Switzerland as discontinued operations.

Note 4 - The Company changed its year end to June 30, therefore fiscal 2011 comprises fourteen months. These figures have been restated for US$ and IFRS. These figures have also been restated to include ENA Switzerland as discontinued operations

Note 5 - Represents the period from July 1, 2010 to June 30, 2011 to be more comparable to the fiscal 2010 and fiscal 2012 results.

Summary of changes from year to year:

Summary of 2011 to 2010 variances:

- The comparison is between the twelve months ending June 30, 2011 and the twelve months ending April 30, 2010. This eliminates the impacts of the additional two months reported in the fourteen months ending June 30, 2011 in order to have more comparable results.
- The 28% revenue increase was largely driven from increased revenues from VMUX products sold to a customer in Europe, combined with overall market growth. In addition, revenues from engineering services increased due to several projects for TOSA/ROSA development.
- The improvement in gross margin from 20% to 26% was due primarily to the growth in revenues, as fixed and semi-variable costs are spread over larger volumes, combined

with cost improvements, including cost reductions realized toward the end of fiscal 2011 due to facility consolidation, discussed later in this MD&A.

- Operating expenses were consistent with the prior year, however general and administrative increased due to certain consulting costs, offset by a decrease in sales and marketing expense due to reductions in corporate marketing.

Summary of 2012 to 2011 variances:

- This comparison is between the twelve months ending June 30, 2012 and the twelve months ending June 30, 2011 to eliminate the impact of the additional two months reported in the fourteen months ending June 30, 2011 in order to have more comparable results.
- The 51% revenue decrease resulted from several factors, including a general market slowdown, a decrease in sales of VMUX products sold to a customer in Europe and impacts from customers shifting demand to other suppliers due to concerns with Enablence's financial position.
- The decrease in gross margin from 26% to 8% is primarily due to the decrease in revenues, as fixed and semi-variable costs are spread over smaller volumes. To a lesser extent, margin was negatively impacted by price erosion, as the market pressures resulted in price reduction. These factors were offset by having a full year of cost reductions realized toward the end of fiscal 2011 due to facility consolidation, discussed later in this MD&A.
- Operating expenses decreased by 14% from the prior year, primarily from reductions in marketing, consulting and corporate overhead costs.

Summary balance sheet data:

ASSETS	June 30, 2012	June 30, 2011 Pro Forma (Note 4)	May 1, 2010 Pro Forma (Note 3)	June 30, 2011 (Note 2)	May 1, 2010 (Note 1)
Cash & equivalents	$ 3,974	$ 9,911	$ 21,266	$ 10,404	$ 23,043
Accounts receivable	2,663	5,478	4,793	5,928	11,525
Inventory	4,733	4,910	3,655	5,558	13,540
Restricted cash	-	1,306	1,450	1,306	1,522
Other tangible assets	9,901	6,848	8,197	10,012	12,698
Goodwill, intangibles and other assets	337	9,646	6,881	9,646	18,481
Assets held for disposal	3,963	27,260	34,567	22,505	-
TOTAL ASSETS	$ 25,571	$ 65,359	$ 80,809	$ 65,359	$ 80,809
LIABILITIES					
Accounts payable, accrued liabilities and deferred revenues	$ 5,477	$ 5,799	$ 8,520	$ 6,047	$ 20,076
Debt	19,664	21,243	5,062	21,243	5,062
Future tax liability	-	1,663	2,089	1,981	3,729
Other long-term liabilities	516	-	-	-	-
Liabilities related to assets held for disposal	816	32,442	13,196	31,876	-
Share capital and contributed surplus	61,804	231,198	168,921	231,198	168,921
Accumulated deficit and other comprehensive loss	(62,706)	(226,986)	(116,979)	(226,986)	(116,979)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 25,571	$ 65,359	$ 80,809	$ 65,359	$ 80,809

Note 1 – Represents the consolidated balance sheet after applying IFRS policies and converting to US$. Does not include reclassifying Systems or ENA Switzerland as discontinued operations

Note 2 - Represents the consolidated balance sheet after applying IFRS policies and converting to US$. Does not include reclassifying ENA Switzerland as discontinued operations. Sunblence is accounted for at cost ($3.5 million) in other assets until the quarter ending June 30, 2012, when its results were proportionately consolidated.

Note 3 - Pro forma balance sheet after moving both Systems and ENA Switzerland to discontinued operations.

Note 4 - Pro forma balance sheet after moving and ENA Switzerland to discontinued operations. Sunblence is accounted for at cost ($3.5 million) in other assets.

Accounts receivable fluctuations are consistent with revenue fluctuations. Goodwill, intangibles and other assets increased due to the investment in Sunblence during 2011, and decreased in 2012 due to the proportional consolidation of Sunblence and the write-off of $5.7 million in goodwill in 2012. Debt increased in 2011 due primarily to the acquisition of Teledata ($10.0 million) and the $3.5 million secured note payable used to fund the investment in Sunblence.

HIGHLIGHTS AND SUMMARY – YEAR ENDING JUNE 30, 2012 AND SUBSEQUENT EVENTS

The following summarizes the key items of the year ending June 30, 2012:

- Reported revenues of $13.4 million, resulting in a loss from continuing operations of $(13.8) million and Adjusted EBITDA (a non-GAAP measure defined below) loss of $(7.8) million. Revenue was down 51% from the prior year due to market conditions, and declines in a European customer volume. Adjusted EBITDA was $4.4 million worse than the previous year, due to the decline in revenue.
- Sunblence completed the construction of its facility and installed the equipment required to produce splitter chips. In June 2012, Sunblence began production and customer shipments.
- Successfully completed a contract with a tier 1 global telecommunications systems manufacturer to develop Enablence's PLC-based components for 100G applications.
- Delivered high port count multicast switches to two tier 1 equipment vendors for their long-haul equipment.
- 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. Divested the U.S.-based Systems segment.
- Appointed Peter Dey and John Roland to the board of directors.
- Marked the departure of Tim Thorsteinson as CEO and a director.
- Established a Management Committee, chaired by Mr. Roland, a director of the Company. The Management Committee has been managing the Company’s business since the departure of Mr. Thorsteinson, and Mr. Roland has become Acting CEO of the Company until a successor is appointed. The Management Committee has met weekly since its inception. The Committee reported on a bi-weekly basis to the board of directors.
- Recorded an impairment charge of $5.7 million, reducing goodwill to $nil.

Financial highlights for the three months ending June 30, 2012:

- Reported revenues of $3.3 million, an increase of 58% from the March 2012 quarter, and a decrease of 30% from the June 2011 quarter, resulting in a loss from continuing operations of $0.8 million, including a recovery from income taxes of $1.5 million, and Adjusted EBITDA (a non-GAAP measure defined below) loss of $(1.9) million.

Subsequent to June 30, 2012, the Company:

- Obtained a $3.0 million bridge loan, through one of the Company’s subsidiaries, from a U.S. bank and guaranteed by a third party and secured against the proceeds from the sale of ENA Switzerland and the assets of the Company and its subsidiaries. The maturity date on the bridge loan has been extended from October 15, 2012 to November 15, 2012.

- Entered into a Priorities and Standstill Agreement with the holders of the subordinated secured notes payable to allow the Company to renegotiate the terms of the secured notes and sell ENA Switzerland.
- Appointed Dan Hilton to the board of directors.
- Announced that its CFO, David Toews, had resigned, effective August 31, 2012.
- Provided an update on its financing activities, including details of an expected $6 million financing, to be raised in several tranches.
- Proceeded with its efforts to sell Enablence Switzerland AG (“ENA Switzerland”) to the current management group of ENA Switzerland pursuant to their non-binding, unsolicited offer. Subject to TSX Venture approval, the sale is expected to close in November 2012.
- Announced the execution of a term sheet with Cathay Bank, subject to certain pre-funding conditions, which will establish a new line of credit and provide additional bank facilities.
- Finalized negotiation and verbally agreed with the holders of the majority of the value of the secured notes for new terms regarding the $11 million of notes outstanding, including the repayment of $2 million and an extension of the term for the repayment of the balance of the principal and interest. Currently, LMV Capital Corp., one holder of the Notes, is pursuing legal recourse in the courts in Israel for repayment of its Note in the amount of approximately $425 plus interest. The legal proceedings are ongoing and Enablence is responding to the action.

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

Sunblence - Our First Chinese Joint Venture

The Company continues to support the efforts of its joint venture with SUNSEA Telecommunications Co. Ltd. Sunblence, the joint venture, positions Enablence to capitalize on the significant opportunities presented by the Chinese market for optical splitter components required for very high-speed telecommunications equipment.

Sunblence has begun production of splitter chips, with the initial focus being the 1X8 configuration. During June of 2012, Sunblence generated its first customer revenue, from Sunsea, and Enablence recorded of its portion of the initial customer revenues from Sunblence, reflecting its 49% share. Sunblence is refining its production processes, working with Enablence staff, to improve its yields and allow Sunblence to start volume production. Management continues to expect the joint venture to create significant shareholder value in the future as it grows its production and improves yields. Enablence owns a 49% interest in Sunblence, and will record 49% of these results in its financial statements, reflecting its ownership share. Sunblence revenues are expected to rise significantly in 2013 and 2014.

During the quarter ending June 30, 2012, Enablence completed its investment into Sunblence, including the transfer of capital assets and IP, and Sunblence started generating customer revenues. As a result of these milestones, Enablence has begun accounting for Sunblence using the proportional consolidation method, whereby 49% of the assets and liabilities and revenues and expenses of Sunblence, excluding unrealized intercompany transactions, are included with those of Enablence. As this is the first time the results have been consolidated, the 2012 financial results include Enablence’s share of the results from Sunblence since its inception in May 2011.

Our Second Chinese Joint Venture

Three partners, including Enablence, have established the Second Chinese JV to develop, manufacture and sell 40G/100G communication modules based on Enablence's PLC-based photonic integrated circuit technology. This will allow Enablence to participate as a minority partner, holding a 22% ownership interest, in the Second Chinese JV's efforts to become a leading vendor for 40G/100G communication modules. The modules will be made by the Second Chinese JV with PLC-based PIC TOSA/ROSA sub-assemblies supplied by Enablence. The TOSA/ROSA products and the advanced PIC chips are part of an array of Enablence products that have been developed to address the 40G/100G market in parallel with the global market migration to these standards over the next several years. The joint venture will benefit Enablence by providing the Company with a market for its some of its TOSA/ROSA products.

The Second Chinese JV is not expected to produce communication modules on a commercial basis until the beginning of 2014.

RESULTS OF OPERATIONS

SUMMARY OF UNAUDITED QUARTERLY RESULTS

The following table sets forth unaudited summary results of operations for the past eight quarters. The information for the fiscal period ending September 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 year ended June 30, 2012. All necessary adjustments, consisting of reclassifying the results of the Systems business and ENA Switzerland to discontinued operations and other 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.

Amounts in thousands except per share data	Fiscal 2012 3 months ending **June 30, 2012**	March 31, 2012	December 31, 2011	September 30, 2011	Fiscal 2011 3 months ending **June 30, 2011**	March 31, 2011	December 31, 2010	September 30, 2010
Revenues	**$ 3,336**	$ 2,116	$ 2,929	$ 5,008	**$ 4,748**	$ 7,269	$ 7,862	$ 7,536
Gross Margin	**384**	(382)	(13)	1,149	**824**	2,029	2,331	1,874
Gross Margin %	**11.5%**	-18.1%	-0.4%	22.9%	**17.4%**	27.9%	29.6%	24.9%
Expenses								
Research & development	**1,307**	1,284	1,280	1,327	**1,426**	1,222	1,278	1,195
Sales & marketing	**193**	240	184	222	**142**	268	345	396
General & administrative	**1,161**	1,149	899	1,083	**1,644**	1,325	1,662	1,248
Stock-based compensation	**(303)**	149	169	240	**267**	292	303	210
Amortization	**249**	168	148	175	**71**	362	381	375
Restructuring charges	**493**	-	-	-	**381**	151	83	796
Operating loss	**(2,716)**	(3,372)	(2,693)	(1,898)	**(3,107)**	(1,591)	(1,721)	(2,346)
Impairment of goodwill	**-**	(5,697)	-	-	**-**	-	-	-
Other income (expense)	**(267)**	(247)	(240)	(242)	**(357)**	(215)	(225)	(185)
Gain on disposal of equipment	**2,482**	-	-	-	**-**	-	-	-
Foreign exchange gain (loss)	**(179)**	175	330	(942)	**129**	322	388	378
Recovery of future income taxes	**1,455**	105	105	104	**104**	105	110	208
Net loss for the period	**775**	(9,036)	(2,498)	(2,978)	**(3,231)**	(1,379)	(1,448)	(1,945)
Income (loss) from discontinued operations	**285**	10,477	(549)	(2,503)	**(43,817)**	(42,577)	(3,965)	(6,349)
Net income (loss) for the period	**$ 1,060**	$ 1,441	$ (3,047)	$ (5,481)	**$ (47,048)**	$ (43,956)	$ (5,413)	$ (8,294)
Weighted average shares outstanding	**466,546**	466,546	466,546	466,546	**400,845**	421,046	394,387	384,196
Basic & diluted income (loss) per share								
Continuing Operations	**$ 0.00**	$ (0.02)	$ (0.01)	$ (0.01)	**$ (0.01)**	$ (0.00)	$ (0.00)	$ (0.01)
Discontinued Operations	**0.00**	0.02	(0.00)	(0.01)	**(0.11)**	(0.10)	(0.01)	(0.02)
Adjusted EBITDA[(1)]	**$ (1,921)**	$ (2,707)	$ (2,031)	$ (1,140)	**$ (1,913)**	$ (394)	$ (534)	$ (560)

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

NON-GAAP FINANCIAL MEASURES

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

One key non-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, 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:

Amounts in thousands	F2012 3 months ending **June 30, 2012**	March 31, 2012	December 31, 2011	September 30, 2011	F2011 3 months ending **June 30, 2011**	March 31, 2011	December 31, 2010	September 30, 2010
Net income (loss) for the period	**$ 1,060**	$ 1,441	$ (3,047)	$ (5,481)	**$ (47,048)**	$ (43,956)	$ (5,413)	$ (8,294)
Add (Deduct)								
(Income) loss from Discontinued Operations	**(285)**	(10,477)	549	2,503	**43,817**	42,577	3,965	6,349
Net interest and other expense	**(2,215)**	247	240	242	**357**	215	225	185
Amortization (note 1)	**605**	516	493	518	**546**	754	801	780
Impairment of intangible assets and goodwill	**-**	5,697	-	-	**-**	-	-	-
Recovery of future income taxes	**(1,455)**	(105)	(105)	(104)	**(104)**	(105)	(110)	(208)
"EBITDA"	**(2,290)**	(2,681)	(1,870)	(2,322)	**(2,432)**	(515)	(532)	(1,188)
Realized foreign exchange (gain) loss	**179**	(175)	(330)	942	**(129)**	(322)	(388)	(378)
Stock-based compensation	**(303)**	149	169	240	**267**	292	303	210
Restructuring charges	**493**	-	-	-	**381**	151	83	796
"Adjusted EBITDA"	**$ (1,921)**	$ (2,707)	$ (2,031)	$ (1,140)	**$ (1,913)**	$ (394)	$ (534)	$ (560)

(1) Amortization includes amounts that are recorded as part of cost of revenues and therefore does not equal the amount reported on the face of the Consolidated Statements of Loss, Other Comprehensive Loss and Comprehensive 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			
Amounts in thousands	**June 30, 2012**	March 31, 2012	December 31, 2011	September 30, 2011	**June 30, 2011**	March 31, 2011	December 31, 2010	September 30, 2010
Revenues	**$ 3,336**	$ 2,116	$ 2,929	$ 5,008	**$ 4,748**	$ 7,269	$ 7,862	$ 7,536
Adjusted gross margin	**740**	(34)	332	1,492	**1,299**	2,421	2,751	2,279
Adjusted gross margin %	**22%**	-2%	11%	30%	**27%**	33%	35%	30%
Expenses								
Research & development	**1,307**	1,284	1,280	1,327	**1,426**	1,222	1,278	1,195
Sales & marketing	**193**	240	184	222	**142**	268	345	396
General & administrative	**1,161**	1,149	899	1,083	**1,644**	1,325	1,662	1,248
Operating expenses	**2,661**	2,673	2,363	2,632	**3,212**	2,815	3,285	2,839
Adjusted EBITDA	**(1,921)**	(2,707)	(2,031)	(1,140)	**(1,913)**	(394)	(534)	(560)

Adjusted gross margin above reflects reported gross margin after removing amortization expense. The Company uses Adjusted EBITDA as one key financial metric to evaluate the profitability and potential 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 TWELVE MONTHS ENDED JUNE 30, 2012 COMPARED TO THE THREE AND TWELVE MONTHS ENDED JUNE 30, 2011

The following tables set forth a summary of key earnings information from our consolidated financial statements for the most recent reporting periods as prepared under IFRS. Following a change in the Company's year end, prior period audited results were for the 14 months ended June 30, 2011. However, to provide a more meaningful year on year comparison of business performance, the Company is also disclosing unaudited numbers for the 12 months, or year ended June 30, 2011.

	Three months ended June 30 2012 (unaudited)	Three months ended June 30 2011 (unaudited)	Increase (decrease) $	Increase (decrease) %	Twelve months ended June 30 (note 1) 2012	Twelve months ended June 30 (note 1) 2011 (unaudited)	Increase (decrease) $	Increase (decrease) %	Fourteen months ended June 30 2011
Revenues	$ 3,336	$ 4,748	$ (1,412)	-30%	$ 13,389	$ 27,415	$ (14,026)	-51%	31,200
Cost of revenue	2,952	3,924	(972)	-25%	12,251	20,357	(8,106)	-40%	23,798
Gross margin	384	824	(440)		1,138	7,058	(5,920)		7,402
Gross margin %	*11.5%*	*17.4%*	*31.2%*	*-6%*	*8.5%*	*25.7%*	*42.2%*	*-17%*	*23.7%*
Operating expenses									
Research and development	1,307	1,426	(119)	-8%	5,198	5,121	77	2%	5,985
Sales and marketing	193	142	51	36%	839	1,151	(312)	-27%	1,393
General and administrative	1,161	1,644	(483)	-29%	4,292	5,879	(1,587)	-27%	6,762
Stock-based compensation	(303)	267	(570)	n/m	255	1,072	(817)	-76%	1,225
Amortization	249	71	178	n/m	740	1,189	(449)	-38%	1,429
Restructuring charges	493	381	112	29%	493	1,411	(918)	-65%	1,411
Operating loss	(2,716)	(3,107)	391	-13%	(10,679)	(8,765)	(1,914)	22%	(10,803)
Interest Income	6	12	(6)	-50%	44	37	7	19%	45
Interest expense	(273)	(369)	96	-26%	(1,059)	(1,019)	(40)	4%	(1,044)
Impairment of goodwill	-	-	-	n/m	(5,697)	-	(5,697)	n/m	-
Gain on disposal of equipment	2,482	-	2,482	n/m	2,482	-	2,482	n/m	-
Foreign exchange gain (loss)	(179)	129	(308)	n/m	(616)	1,217	(1,833)	n/m	1,054
Loss before income taxes	(680)	(3,335)	2,655	-80%	(15,525)	(8,530)	(6,995)	82%	(10,748)
Recovery of deferred income taxes	1,455	104	1,351	n/m	1,769	527	1,242	n/m	527
Net loss from continuing operations	$ 775	$ (3,231)	$ 4,006	n/m	$ (13,756)	$ (8,003)	$ (5,753)	72%	(10,221)
Income (loss) from discontinued operations	285	(43,817)	44,102	n/m	7,729	(96,708)	104,437	n/m	(99,037)
Net income (loss)	$ 1,060	$ (47,048)	$ 48,108	n/m	$ (6,027)	$ (104,711)	$ 98,684	-94%	(109,258)
Adjusted EBITDA*	$ (1,921)	$ (1,913)	$ (8)	0%	$ (7,799)	$ (3,401)	$ (4,398)	n/m	(3,520)
Basic & diluted income (loss) per share									
Continuing operations	$ -	$ (0.01)	$ 0.01	n/m	$ (0.02)	$ (0.02)	$ (0.00)	5%	(0.03)
Discontinued operations	0.00	(0.11)	0.11	n/m	0.02	(0.24)	0.26	n/m	(0.25)
Net income (loss) per share (basic & diluted)	0.00	(0.12)	0.12	-101%	(0.01)	(0.26)	0.26	-98%	(0.27)

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

Note 1 – Fiscal 2011 covers 14 months, from May 1, 2010 to June 30, 2011 due to the change in fiscal year end. For purposes of the following discussion, comparisons will be to the 12 months from July 1, 2010 to June 30, 2011. The two-month period for May and June 2010 is not comparable to any other period.

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 June 30,		Twelve Months Ended June 30,	
2012	2011	**2012**	2011
1.010	0.968	**1.003**	1.001

REVENUES

Year ending June 30, 2012 compared to the year ending June 30, 2011:

Revenue decreased by $14.0 million or 51% in fiscal 2012 compared to the prior year. This decrease was driven by a continuing drop in demand across the Company's product lines for AWG and VMUX components and subsystems due mainly to a general market slowdown, which started to impact the Company in the June 2011 quarter and has continued through fiscal 2012. Other factors negatively impacting revenue include price erosion, resulting in lower prices due to competitive pressures. Revenue was also negatively impacted compared to the prior year due to a key customer in Europe whose volume of VMUX consumption has decreased significantly in fiscal 2012. Management believes Enablence's financial position has had a negative impact on revenue because of the buying patterns of its customers, as customers have shifted their supply away from Enablence to other suppliers until such time as the financial future of the Company is more certain. The refinancing activities discussed elsewhere in this MD&A may alleviate these concerns for many customers.

During the twelve months ending June 30, 2012, three customers accounted for 42% (17%, 13% and 12% individually) of the Company's total revenue. During the twelve months ended June 30, 2011, three customers accounted for 53% of the Company's total revenue (27%, 14% and 12% individually). During the fourteen months ended June 30, 2011, three customers accounted for 54% of the Company's total revenue (26%, 15% and 13% individually).

Quarter ending June 30, 2012 compared to the quarter ending June 30, 2011:

Revenue decreased by $1.4 million or 30% in the quarter ending June 30, 2012 compared to the prior year period. This decrease was driven primarily by a drop in revenue from customers that rely primarily on product supplied from Japan. The Company generated approximately $1 million of revenue in the 2011 quarter, as it was an alternate supplier to customers impacted by the tsunami in March of 2011. The Company did not generate any significant revenues from new products during the 2012 quarter, but is planning to introduce several new products in future quarters to add to revenues and help improve the level of revenues. The timing for the introduction of these new products has been delayed due to the financial challenges faced by the Company, as it was unable to purchase the necessary capital equipment in a timely manner. However, the Company has purchased the equipment it needs to continue its development of TOSA/ROSA and other products.

During the three months ended June 30, 2012, four customers accounted for 62% (24%, 14%, 13% and 10% individually) of the Company's total revenue and two customers accounted for 50% (31% and 18% individually) of the accounts receivable balance at June 30, 2012. During the three months ended June 30, 2011, three customers accounted for 52% of the Company's total revenue (21%, 20% and 11% individually), and two customers accounted for 46% (24% and 22% individually) of the accounts receivable balance at June 30, 2011.

Revenues for the quarter ending September 30, 2012 decreased to $2.2 million as a result of certain orders that were shipped in the June 2012 quarter that were earlier than normal, and due to the Company's uncertain financial status during the most recent fiscal quarter. Enablence expects customers to resume their purchases when certain of the financing challenges of the Company have been resolved.

The Company will be introducing several new products in the next year, including its TOSA/ROSA products, which are currently being transferred from the Company's R&D facility in Ottawa to Fremont for initial commercial production. These introductions have been delayed from prior expectations due to financing and operational problems. Sunblence has begun generating customer revenues, albeit nominal in the June 2012 quarter. Sunblence's production and revenues are expected to grow significantly in the coming quarters, with the primary customer being Sunsea, the partner in Sunblence.

Revenue (based on ship-to location of the customer) follows:

Region	Three months ended June 30, 2012		2011		Twelve months ended June 30, 2012		2011		Fourteen months ended June 30, 2011	
	$	%	$	%	$	%	$	%	$	%
Americas	1,659	50%	1,590	33%	6,352	47%	9,692	36%	10,863	35%
Asia Pacific	865	26%	2,112	44%	4,632	35%	9,380	34%	9,987	32%
Europe, Middle East and Africa	812	24%	1,046	22%	2,405	18%	8,343	30%	10,350	33%
	$ 3,336	100%	$ 4,748	100%	$ 13,389	100%	$ 27,415	100%	$31,200	100%

Revenue from European customers decreased significantly in fiscal 2012 from the prior year due to a decline with one key customer whose volumes have dropped. Revenues from customers in the Asia Pacific and the Americas regions decreased due mainly to soft market conditions. Revenue is expected to shift towards Asia Pacific as Sunblence starts generating significant revenues. This regional revenue mix may change quarterly due to individual projects. The Company does not generate significant revenue in Central and Latin America, therefore that geographic region has been combined with the Americas region.

GROSS MARGIN

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

	Three months ended June 30 2012	2011	Increase (decrease) $	%	Twelve months ended June 30 2012	2011	Increase (decrease) $	%
Revenues	$ 3,336	$ 4,748	$ (1,412)	-30%	$ 13,389	$ 27,415	$ (14,026)	-51%
Variable cost of revenues	1,888	2,627	(740)	-28%	8,193	14,623	(6,430)	-44%
Variable gross margin	1,448	2,121	(672)		5,196	12,792	(7,596)	
Variable gross margin %	43%	45%			39%	47%		
Amortization	457	476	(19)		1,805	1,690	115	
Other fixed COGS	608	821	(213)		2,254	4,044	(1,790)	
Total COGS	2,952	3,924	(972)		12,251	20,357	(8,106)	
Reported gross margin	384	824	(440)		1,138	7,058	(5,920)	
Reported gross margin %	11.5%	17.4%			8.5%	25.7%		

Twelve months ending June 30, 2012 compared to the twelve months ending June 30, 2011:

Gross margin decreased from 25.7% in the prior year period to 8.5% in the current fiscal year, a decrease of approximately 17 points. Gross margin was negatively impacted by approximately 22 points due to lower volume, because the fixed and semi-variable costs have been absorbed by lower revenues. Gross margin was also negatively impacted by approximately 3 points due to pricing pressures during the quarter as demand dropped and competitive pressures increased in the market. The Company partially offset these declines by approximately 8 points from cost reductions, primarily through reduced staffing costs and facility costs as a result of the closure of the Company's Wilmington, Massachusetts operations. The Company combined its U.S. manufacturing in its Fremont, California location, generating approximately $1 million of savings annually.

Quarter ending June 30, 2012 compared to the quarter ending June 30, 2011:

Gross margin decreased from 17.4% in the prior year quarter to 11.5% in the current fiscal quarter, a decrease of approximately 6 points. Gross margin was negatively impacted by approximately 10 points due to the drop in volume. Gross margin was also negatively impacted by approximately 8 points due to pricing pressures during the 2012 quarter. Partially offsetting the decline due to volume is approximately 3 points of margin improvement due to cost reductions completed at the end of fiscal 2011, and another 9 points from mix impacts and other cost reductions in operations costs achieved during the year.

OPERATING EXPENSES

R&D expenses for the twelve months ended June 30, 2012 increased by $0.1 million, or 2% compared to the same period in the prior year. The Company maintained its spending levels despite the drop in revenue in order to continue development on products addressing the anticipated growth in demand for 100G-capable systems.

R&D expense in the fourth quarter of fiscal 2012 decreased by $0.1 million, or 8% over the prior year period, as the Company experienced staff attrition in its Fremont California office during the 2012 quarter.

Sales & Marketing expenses for the twelve months ended June 30, 2012 decreased by $0.3 million or 27%, primarily due to the Company closing its corporate marketing function in fiscal 2011.

Sales & marketing expenses the fourth quarter of fiscal 2012 increased by $0.1 million or 36%, compared to the prior year quarter. The prior year quarter represented the lowest spending on sales and marketing in several years, as the Company completed its restructuring of the function just prior to that quarter.

The Company is evaluating the opportunity to strengthen its sales & marketing resources, partially as the result of staff attrition, in order to expand its served market and expand the Company's customer base. The plans to add additional resources are dependent, in part, on the Company's ability to improve its financial position.

General & Administration expenses for the twelve months ended June 30, 2012 decreased by $1.5 million or 26% 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 current year includes $0.4 million of expense from Sunblence, compared to $nil in the 2011 period. This represents Enablence's 49% share of Sunblence's spending since it was founded. Sunblence is incurring most of its expenses as G&A costs until it has started producing product at higher volumes, at which point staff and overheads will be charged to cost of revenues.

G&A expenses for the fourth quarter of fiscal 2012 decreased by $0.4 million, or 24%, compared to the prior year period. Excluding Sunblence, G&A costs decreased by $0.8 million, driven by a reduction in consulting expenses incurred in the prior year quarter, as well as the impact of combining the U.S. operations. The Company also recorded reductions to certain accrued expenses, such as bonus accruals, in the June 2012 quarter, which reduced G&A expenses.

Enablence has initiated a plan to close its Toronto office and combine the corporate activities into its Ottawa and Fremont locations.

Stock-based compensation for the year ended June 30, 2012 decreased by $0.4 million, or 35% compared to the prior year period. The decrease resulted from the fact that no options have been granted in the past 16 months since February 2011, and that the first vesting tranche of the options granted at that time and earlier have been amortized.

Stock-based compensation for the fourth quarter of fiscal 2012 decreased by $0.1 million, or 49% compared to the prior year period.

There were 11,097,500 options outstanding at June 30, 2012 compared to 28,687,054 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 year. Stock-based compensation expense related to employees in the Systems segment is reported as discontinued operations.

Amortization for the twelve months ended June 20, 2012 decreased by $0.4 million due to decreased intangible asset amortization. Amortization related to intangible assets decreased as certain assets were fully amortized or had been written down by the end of fiscal 2011.

Amortization for the fourth quarter of fiscal 2012 increased by $0.2 million compared to the prior year period, due to amortization from Sunblence.

Restructuring charges for the twelve months ended June 30, 2012 were $0.4 million, compared to $1.4 million in the prior year period. The current year restructuring costs relate primarily to severance costs related to the plan to close the Toronto, Ontario office, and include the costs associated with the former CEO's contract not being renewed in May 2012. 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. These costs comprised employee-related and facility exit costs.

Restructuring charges for the fourth quarter of fiscal 2012 were $0.4 million, compared to $0.4 million in the prior year period. The current year amount relates to the planned corporate office changes and the cost of the former CEO's contract. The prior year amount related to the Wilmington, Massachusetts relocation, and consisted of employee-related costs.

FINANCE AND OTHER INCOME

Enablence invests cash and cash equivalents in short-term investments with a Canadian chartered bank. The Company earned $43 of interest for the twelve months ended June 30, 2012 as compared to $37 during the twelve months ended June 20, 2011. During the fourth quarter of fiscal 2012, Enablence earned interest income on these investments of $5 as compared to $12 during the prior year period. Interest income is a function of prevailing interest rates and the amount of funds invested.

FINANCE EXPENSE

Interest expense for the twelve months ended June 30, 2012 was $1.1 million compared to $1.0 million 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. Interest expense for the fourth quarter of fiscal 2012 was $273compared to $369 during the prior year period.

The Company’s interest expense is a function of the balance of debt, applicable interest rates, and the average foreign exchange rate between the underlying currency of the debt security and the U.S. dollar. The table below sets out the balances outstanding at the end of each period:

	June 30 2012	June 30 2011
Secured note payable (a)	$ 2,252	$ 4,212
Secured note payable (b)	3,369	3,500
Convertible notes payable	3,006	3,000
Subordinated notes payable	10,000	10,000
Subordinated notes payable Interest	1,037	531
Total	$ 19,664	$ 21,243
Current portion	$ 17,105	$ 12,800
Long-term portion	2,559	8,443

(a) This secured note payable 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 June 30, 2012. At that date, the Company was in violation of certain covenants of this Secured note payable. Subsequent to year end, and in conjunction with the $3.0 million bridge loan discussed later in this MD&A, the covenants were updated, and the Company is no longer in violation of these covenants. Because the covenant violation was in effect at June 30, 2012, the secured note payable has been classified as current.

(b) This secured note payable 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%, resulting in an interest rate of 5.5% at June 30, 2012. This secured note payable is secured, in part, by cash on deposit totalling $1.2 million with the bank holding the note. Subsequent to year end, the Company and bank agreed to net the $1.2 million cash deposit against the note payable.

At June 30, 2012, the interest rate on the subordinated notes is 5.0%. Since December 2011, the Company stopped making payments on the convertible notes payable. Since being in default, the interest rate on the convertible notes is 18%. The Company 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.

Revised terms have been negotiated and verbally agreed with the holders of the majority of the value of certain secured notes payable totaling $11 million, including partial repayment of the Notes and an extension of the term for the payment of the balance of the principal and interest. Enablence is working with the balance of the holders of the Notes so that all the Notes will be revised on the same terms and conditions. Currently, one holder is pursuing legal recourse for repayment of its Note. Enablence is responding to the action.

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 and recorded an impairment expense of $5.7 million (2011 - $nil). The goodwill arose from the February 2008 acquisition of ANDevices, Inc.

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 twelve months ended June 30, 2012 the Company recorded a foreign exchange loss of $0.6 million as compared to a foreign exchange gain of $1.2 million during the twelve months ended June 30, 2011. During the three months ended June 30, 2012 the Company recorded a foreign exchange loss of $0.2 million compared to a foreign exchange gain of $0.1 million during the three months ended June 30, 2011. The main driver of the foreign exchange gains and losses are the notes payable that are denominated in US$, but carried in a Canadian functional currency company. A gain is recognized when the Cdn$ strengthens compared to the US$, and a loss is recognized with the Cdn$ weakens compared to the US$.

INCOME TAXES

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

Deferred income tax recovery in income 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 twelve months ended June 30, 2012 the Company recorded a future income tax recovery of $1.8 million, as compared to $0.5 million during the twelve months ended June 30, 2011. During the three months ended June 30, 2012, the Company recorded a deferred income tax recovery of $1.5 million compared to $0.1 million during the three months ended June 30, 2011. The increase in the current year quarter is due to reducing the deferred income tax liability reported on the balance sheet to $nil, primarily as a result of tax losses in the Company's U.S. subsidiaries.

NET LOSS FROM CONTINUING OPERATIONS

Net loss from continuing operations excludes the results from operations of the Systems business and ENA Switzerland. The net loss from continuing operations for the twelve months ended June 30, 2012 was $13.8 million compared to $8 million for the twelve months ending June 30, 2011. The increase in net loss from continuing operations was driven mainly by decreased revenues and the resulting impact on gross margin and the $5.7 million impairment of goodwill in fiscal 2012, offset partially by the gain on sale of intellectual property and capital assets to Sunblence, reduced restructuring costs, G&A expenses and amortization and the deferred income tax recovery. The net income from continuing operations for the three months ended June 30, 2012 was $0.8 million compared to $3.2 million in the three months ended June 30, 2011 due to the gain on sale of intellectual property and capital assets to Sunblence and an income tax recovery, while the impact of reduced revenue was offset by reduced operating expenses.

INCOME (LOSS) FROM DISCONTINUED OPERATIONS

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

	Three months ended June 30		Increase (decrease)		Twelve months ended June 30 (note 1)		Increase (decrease)		Fourteen months ended June 30
	2012	2011	$	%	2012	2011	$	%	2011
Revenues	**$ 760**	$ 7,060	$ (6,300)	-89%	**$ 24,650**	$ 60,386	$ (35,736)	-59%	**66,028**
Cost of revenue	**505**	6,569	(6,064)	-92%	**17,984**	44,251	(26,267)	-59%	**48,151**
Gross margin	**255**	491	(236)		**6,666**	16,135	(9,469)		**17,877**
Gross margin %	***33.6%***	*7.0%*	*27%*	*4%*	***27.0%***	*26.7%*	*0%*	*26%*	***27.1%***
Operating Expenses									
Research and development	**162**	9,445	(9,283)	-98%	**6,937**	20,953	(14,016)	-67%	**22,636**
Sales and marketing	**61**	2,800	(2,739)	-98%	**3,912**	12,882	(8,970)	-70%	**14,261**
General and administrative	**47**	1,065	(1,018)	-96%	**1,612**	5,808	(4,196)	-72%	**6,384**
Stock-based compensation	**-**	(550)	550	-100%	**311**	775	(464)	-60%	**860**
Amortization	**-**	1,809	(1,809)	-100%	**336**	12,381	(12,045)	-97%	**12,886**
Restructuring charges (recovery)	**-**	7,633	(7,633)	n/m	**(1,015)**	7,633	(8,648)	-113%	**7,633**
Operating loss	**(15)**	(21,712)	21,697	-100%	**(5,427)**	(44,297)	38,870	-88%	**(46,783)**
Interest Income	**1**	-	1	n/m	**1,672**	2	1,670	83500%	**2**
Interest expense	**(4)**	86	(90)	n/m	**(2,629)**	(81)	(2,548)	n/m	**(105)**
Impairment of intangible assets	**-**	(9,317)	9,317	n/m	**-**	(23,877)	23,877	-100%	**(23,877)**
Impairment of goodwill	**-**	(14,171)	14,171	n/m	**-**	(37,432)	37,432	n/m	**(37,432)**
Gain on sale of Teledata	**3**	-	3	n/m	**13,356**	-	13,356	n/m	**-**
Gain on sale of North American Systems	**-**	-	-	n/m	**124**	-	124	n/m	**-**
Foreign exchange gain (loss)	**47**	(200)	247	n/m	**354**	(648)	1,002	-155%	**(629)**
Income (loss) before income taxes	**32**	(45,315)	45,347	-100%	**7,450**	(106,333)	113,783	-107%	**(108,823)**
Recovery of deferred income taxes	**253**	1,497	(1,244)	-83%	**279**	9,625	(9,346)	-97%	**9,788**
Income (loss) from discontinued operations	**$ 285**	$ (43,817)	$ 44,102	n/m	**$ 7,729**	$ (96,708)	$ 104,437	n/m	**(99,036)**

Revenues declined in fiscal 2012 compared to the prior year primarily due to the divestiture of Teledata and the US-based Systems business, combined with the announcement that Enablence was exiting the Systems business. For the quarter ending June 30, 2012, revenue and most of the financial results are from that of ENA Switzerland. Operating expenses declined as a result of cost reduction activities, mainly in North America, including the divestiture of the US-based operations and Teledata. 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 2011based on updated information and the settlement of obligations hat were accrued at the higher end of the estimated range of the exposure. Restructuring charges in the prior year period relate to acquisition costs associated with the purchase of Teledata. These costs were previously included in goodwill, however, with the change to IFRS, these costs are expenses. Interest expense in the current year periods are due to late payment charges from certain service and product providers. The recovery of deferred income taxes is the result of the amortization of intangible assets, and in the quarter ending June 30, 2012 the write off of the deferred income tax liability to $nil on the balance sheet.

For the quarter ending June 30, revenues declined in 2012 compared to the prior year primarily due to the divestiture of Teledata and 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 2012 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 the exposure. Restructuring charges in the prior year period relate to acquisition costs associated with the purchase of Teledata. These costs were previously included in goodwill, however, with the change to IFRS, these costs are expenses. Interest expense in the current year periods are due to late payment charges from certain service and product providers. The recovery of deferred income taxes is the result of the amortization of intangible assets, and in the quarter ending June 30, 2012 the write off of the deferred income tax liability to $nil on the balance sheet.

Cash proceeds on the sale of Teledata were nominal. The gain on sale of Teledata is due to the net liabilities exceeding net assets in Teledata. Details of the transaction are discussed elsewhere in this MD&A.

At June 30, 2012, Enablence has sold or wound down all of its operations in the Systems segment. The Company continues to manage through remaining liabilities with the limited cash remaining in the Systems U.S.-based entities, and as a result, will continue to show some amounts as discontinued operations, however this activity will continue to decline in the coming quarters.

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. Cash proceeds from the sale were one dollar, and Godan 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 that 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 royalties payable regarding certain government grants. These were accrued as liabilities as a result of the Company's adoption of IFRS.

DIVESTITURE OF THE U.S.-BASED SYSTEMS SEGMENT

On September 15, 2011, the Company sold part of the Systems business, primarily the Trident7™ Universal Access Platform for delivery of FTTP services through optical networks to Aurora Networks, Inc. Proceeds from the sales consisted of $2.75 million of cash and the transfer of certain liabilities and contingent liabilities. The proceeds included $2.0 million received in cash in September 2011 and a $0.75 million holdback. In April 2012, $250 of the holdback was collected. The balance of $500 remains outstanding. In addition, the Company sold its MAGNM™ FX product line, by divesting certain assets, including $0.2 million of cash and transferring certain liabilities totaling $0.4 million to FX Support, LLC. The following chart summarizes the results of the dispositions:

Net cash proceeds:	$	1,860
Cash proceeds receivable		750
Total proceeds		2,610
Carrying value of assets sold		5,872
Total liabilities transferred		(3,281)
Net assets sold		2,591
Gain on sale	$	19

In January 2012, the Company disposed of the remaining warranty obligation by divesting certain assets, including $80 of cash and transferring certain liabilities to a third party. There was not gain or loss recorded on the transaction.

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 June 30		Twelve months ended June 30		Fourteen months ended June 30
	2012	2011	2012	2011	2011
Basic and diluted income (loss) per common share					
- From continuing operations	(0.00)	(0.01)	(0.03)	(0.02)	(0.03)
- From discontinued operations	0.00	(0.10)	0.02	(0.24)	(0.25)
Weighted Average Number of Common Shares	466,546	449,357	466,546	402,975	400,845

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

OUTLOOK

China has announced a multi-billion dollar, multi-year investment in a national broadband strategy. Enablence, through its two joint venture partners will have direct access to this market. The Company's advanced current and next-generation PIC-based hybrid solutions are among the industry's most cost effective and highly integrated products available. As such the Company is optimistic about its future prospects. Despite this promising outlook, the near term prospects of the Company have been negatively impacted by soft industry demand, particularly in North America, compounded by financial difficulties, including limited working capital, that have resulted in lower than expected revenues from its Fremont operations. Steps will continue to be taken to return this part of the business to profitability. This includes a modest restructuring, participation in a broader market recovery and finally, increased customer confidence about Enablence's financial condition with the recently announced financing that is scheduled to be completed before the end of December 2012.

In the meantime, the Sunblence joint venture in Foshan City, China has been ramping splitters to full production, most of which will be purchased by its majority partner, Sunsea. The Company expects this state-of-the-art production facility to reach its full potential in calendar 2013. The Company anticipates it will be able to transfer the production of other products currently manufactured in Fremont to Sunblence when splitter manufacturing achieves full production.

The Second Chinese JV is not expected to produce TOSA/ROSA communication modules on a commercial basis until the beginning of 2014. It is anticipated there will be significant demand for these products both 4x10G and 4x25G in the Chinese market. In the meantime the Company has been transferring these products from its Ottawa R&D facility to Fremont and expects to have initial commercial production before the end of December 2012. This product was developed for and with the financial assistance of a Tier 1 customer of the Company.

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. Enablence has commitments to secure new equity investments and bank facilities to fund ongoing operations and is restructuring its debt obligations. If Enablence is unable to complete the refinancing and sale of ENA Switzerland as outlined below, the Company will likely be required to pursue formal insolvency proceedings.

Enablence 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 and previous fiscal year end.

	June 30, 2012	June 30, 2011
Cash and Cash Equivalents		
- Continuing operations	$ 767	$ 10,404
- Cash in joint venture (note 1)	2,002	-
- Restricted cash	1,205	1,306
	3,974	11,710
- Discontinued operations	355	1,523
Working Capital		
- Continuing operations	(10,020)	4,947
- Discontinued operations	3,147	(3,506)

Note 1 – represents 49% of the cash in the joint venture, Sunblence. There are no restrictions for Sunblence using the cash, however there are restrictions for the cash to be sent to Enablence, so this cash is identified separately. The Company is working with Sunsea to accelerate the ability to distribute cash from Sunblence to Sunsea and Enablence.

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 twelve months ended June 30, 2012 and the fourteen months ended June 2011.

	Twelve months ending June 30, 2012	Fourteen months ending June 30, 2011
Cash from (used in) operating activities		
- Continuing operations	(4,224)	(11,342)
- Discontinued operations	(4,734)	(18,800)
Investing activities		
Cash from consolidation of China JV	6,222	-
Investment in China JV	-	(3,480)
Purchase of property, plant and equipment	(5,795)	(1,368)
Cash used in investing activities	427	(4,848)
Cash from (used in) investing activities - Discontinued operations (note 1)	(610)	(10,296)
Financing activities		
Advance from bank indebtedness	-	(18)
Advance from notes payable (note 2)	-	8,500
Repayment of notes payable (note 2,3)	(2,062)	(2,545)
Proceeds from issuance of common shares	-	30,234
Cash (used in) provided by financing activities	(2,062)	36,171
Effect of foreign currency translation	(327)	409
Net change in cash and cash equivalents	(11,530)	(8,706)

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 fiscal 2011, 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 combined with $1,879 payment from note 2 above

At June 30, 2012, the Company had cash available of $0.8 million (not including $0.4 million held in discontinued operations, $1.2 million of restricted cash and $2.0 million held in the Sunblence). The Company consumed $4.2 million in continuing operating activities in the year ending June 30, 2012 (excluding discontinued operations) due mainly to the low revenue level. The Company has sustained significant losses since its inception, and expects to incur losses in its next quarters. The Company's ability to reach profitability is dependent on successful implementation of the following: refinancing, introduction of new products, growth and profitability of Sunblence and subsequently the implementation of the Second Chinese JV. There can be no assurance that Enablence will gain adequate market acceptance for its new products or the products of Sunblence, or be able to generate sufficient gross margins to reach profitability. The Company has not earned operating profits in its history.

In July 2012, the Company obtained a $3.0 million bridge loan with Cathay Bank, a chartered California bank. The bridge loan, which has been guaranteed by a third party, has in turn been secured by the proceeds from the proposed sale of ENA Switzerland, and the assets of the Company and its subsidiaries. In conjunction with this loan, the Company entered into a priorities and standstill agreement with the holders of the subordinated secured notes payable, with principal and interest owing of $11.0 million. This agreement provided the bank with senior security to the subordinated secured notes payable on the $3 million bridge loan, as well as certain restrictions on the subordinated secured note holders to initiate enforcement action against the Company to provide the Company the ability to complete the negotiation and documentation of amendments to the Company's loan obligations.

Subject to the approval of the TSX Venture Exchange and the finalization of the arrangements related to a term sheet with a U.S. bank, two non-brokered private placement financings totaling approximately Cdn$6 million to be subscribed for in tranches, of which approximately Cdn$3.3 million will be done initially by certain existing shareholders (the "Initial Financing") and then a subsequent financing for approximately Cdn$2.7 million will be completed by the majority partner of Enablence's second joint venture in China (the "Second Chinese JV"), certain existing shareholders and certain other insiders of Enablence (the "Second Financing"). The Initial Financing and the Second Financing are referred to as the "Financing". The Financing will be structured such that all investors will purchase shares at the same average price and on the same terms and conditions. The Initial Financing million is being completed by some investors to reflect the weighted average price of two components: (i) Cdn$0.75 million at a price of Cdn$0.005 for an issuance of 150,000,000 common shares of Enablence, using the TSX Venture Exchange Policy on Temporary Relief from Certain Pricing Requirements, and (ii) approximately Cdn$2.6 million at a price of Cdn$0.05 for an issuance of 51,580,000 common shares of Enablence. The shares are subject to a four-month hold period pursuant to applicable securities laws. The initial tranche of the Initial Financing is expected to close on or before October 31, 2012 and the second tranche of the Initial Financing is expected to close prior to November 30, 2012. The Second Financing is expected to be completed on or before December 31, 2012.

As previously announced, Enablence is planning the divestiture of its wholly-owned photodiode business located in Switzerland. Enablence has received an unsolicited offer from management of the subsidiary, ENA Switzerland, to purchase all the outstanding shares of the subsidiary. Subject to the approval of the TSXV, the Company will proceed to negotiate a share purchase agreement with management and plans to complete the transaction in November 2012.

A term sheet has been executed with Cathay Bank, a chartered California bank. It establishes, subject to certain pre-funding conditions, a new line of credit and extra bank facilities totaling approximately $2.1-2.4 million to partially fund the repayment of the $3 million bridge loan from the same California bank announced in July 2012. In addition, the maturity date on the bridge loan has been extended from October 15, 2012 to November 15, 2012.

Revised terms have been negotiated and verbally agreed with the holders of the majority of the value of certain secured notes payable totaling approximately $11 million (the "Notes"), including partial repayment of the Notes and an extension of the term for the payment of the balance of the principal and interest. Enablence is working with the balance of the holders of the Notes so that all the Notes will be revised on the same terms and conditions. Currently, LMV Capital Corp., one holder of the Notes, is pursuing legal recourse in the courts in Israel for repayment of its Note in the amount of approximately $425 plus interest. The legal proceedings are ongoing and Enablence is responding to the action.

There are also ongoing discussions with the holders of certain unsecured notes totaling approximately $3 million for an extension of the terms for the payment of the balance of the principal and interest.

If Enablence is unable to complete the financing described above and sale of ENA Switzerland as outlined above, the Company will likely be required to pursue formal insolvency proceedings.

CAPITAL RESOURCES

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

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

Enablence is authorized to issue an unlimited number of common shares of which 466,546,094 common shares are issued and outstanding as of October 26, 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	$ 6,075	$ 3,125	$ 2,135	$ 815	$ -
Subordinated notes payable	11,037	11,037	-	-	-
Convertible notes payable	3,516	921	1,045	970	580
Facilities leases	1,587	558	793	236	-
	$ 22,215	$ 15,641	$ 3,973	$ 2,021	$ 580

The Company was in breach of certain covenants on a portion of the secured note payable at June 30, 2012 and is in arrears on the subordinated notes payable and 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, as described in more detail in the Liquidity section above.

The Company is exposed to currency risk as certain transactions are denominated in Canadian dollars, Swiss francs relating to ENA Switzerland, whose results are included in discontinued operations, and Chinese renminbi, primarily through the Sunblence. 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 twelve months ended June 30, 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 fourteen months ending June 30, 2011 of $0.4 million).

RISKS AND UNCERTAINTIES

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

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

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

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

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

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

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

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

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

Participation in Joint Ventures

Enablence is currently participating in two joint ventures in which the Company does not have a majority interest or maintain operational control. Under the governing documents for these joint ventures, certain key matters such as the approval of business plans and decisions as to the timing and amount of cash distributions require the consent of the joint venture partners, and some matters may be approved without the Company's consent. The Company's joint venture partners may have economic or business interests or goals that are inconsistent with the Company's goals, exercise their rights in a way that prohibits the Company from acting in a manner in which the Company would like to or our partners may be unable or unwilling to fulfil their obligations under the joint venture arrangements or other agreement. The Company may enter into similar arrangements in the future to pursue additional opportunities. There can be no assurance given that the actions or decisions of the Company's joint venture partners will not affect the Company's ventures in a way that hinders the Company's corporate objectives or reduces any anticipated cost savings or revenue enhancement resulting from these ventures.

Managing Growth
The Company pursues a growth strategy that focuses on organic growth. The Company has undertaken several acquisitions in prior years to allow the Company to expand its product offerings and customer base, and may do so in the future. While the Company has no active plans to acquire other companies, the success with which the Company can integrate companies acquired in the future will be critical in achieving the benefits from them. Failure to properly integrate and save costs and achieve market leadership based on these acquisitions may hinder the Company's ability to be successful in its growth plans. On-going plans for further acquisitions will also be dependent on the Company's ability to fund an acquisition, identify suitable acquisition candidates, acquire such companies on acceptable terms, integrate the acquired operations and technology of such companies successfully with its own and maintain the goodwill of the acquired business. The Company is unable to predict whether it will be able to identify further suitable additional acquisition candidates or the likelihood that these potential additional acquisitions will be completed. In addition, efforts to integrate acquisitions entail significant risks including, but not limited to, the possibility that the operations of the acquired business will not be profitable, diversion of the attention of the Company's management from day-to-day operation of the Company's business and the assumption of significant and/or unknown liabilities of the acquired business. An unsuccessful acquisition could reduce the Company's margins or otherwise harm its financial condition. Acquisitions could result in a dilutive issuance of equity securities, the incurrence of debt and the loss of key employees. The Company cannot ensure that the acquisitions made to date will be successfully integrated and future acquisitions will be successfully completed or that, if more acquisitions are completed, the acquired businesses, products or technologies will be integrated successfully or generate sufficient revenues to offset the associated costs of the acquisitions or other adverse effects.

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

Divestitures may adversely affect our business
The Company has actively pursued certain divestitures, such as the Systems segment and ENA Switzerland, to further its business objectives, or eliminate assets that did not meet our return-on-investment criteria. The anticipated benefits of our divestitures and other strategic transactions may not be realized or may be realized more slowly than we expected. Divestitures and other strategic opportunities have resulted in, and in the future could result in, a number of financial consequences, including without limitation: reduced cash balances; contingent liabilities, including indemnification obligations; restructuring actions, which could result in charges that have a material effect on our results of operations and our financial position; legal, accounting and advisory fees; and one-time write-offs of large amounts.

Inventory Management

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

Accounts Receivable Management

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

International Operations

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

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

Uncertain Global Economic Conditions

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

Market Opportunities
The demand for the Company’s products depends in large part on the continued growth of the industries in which it participates, particularly in the deployment of long haul, metro and FTTH markets. A market decline could have an adverse effect on the Company’s business. The speed of FTTH deployment may be affected by numerous factors including regulatory changes and general economic conditions. The rate at which the portions of the telecommunications industry and the FTTH market in which the Company participates grow is critical to its ability to meet expectations and improve the Company’s financial performance.

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

Customer Spending Patterns
Demand for the Company’s products depends on the magnitude and timing of capital spending by telecom network and service providers as they construct, expand and upgrade their networks. The Company sells its components to customers that sell to the telecom service providers. Continued macroeconomic weakness and uncertainty in 2013 or future periods could result in further weakness in the Company’s new order activity, which would have an adverse effect on the business, revenues, operating results, and financial condition of the Company.

Other factors affecting the capital spending patterns of telecom service providers include the following:

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

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

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

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

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

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

Product Defects and Warranty Obligations
Although the Company's products are tested prior to shipment, they may contain defects or interoperability issues (collectively described as "defects") that may only be detected when tested in the final product of our customer. In addition, defects or other malfunctions or quality

control issues may not appear until the equipment has been deployed for an extended period of time. The Company also continues to introduce new products that may have undetected defects. The Company's customers may discover defects in its products at any time after deployment or as their networks are expanded and modified. Any defects in the Company's products discovered in the future, could result in lost sales and market share and negative publicity regarding its products. The Company provides limited warranties on its products. As a result, warranties on a product with a significant product defect could adversely affect the results of operations of the Company.

Product Development and Technological Change

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

Product Obsolescence

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

Development Stage Products and Customer Expectations

The Company may not be able to successfully demonstrate high yields on large volume production of its components and meet all of the specification requirements of all products in accordance with industry requirements for all of its product lines. There may be potential quality issues on the manufacture of these products resulting from the way the products are designed or manufactured or in the processes used for the design and manufacture of the product(s), or from the software or materials used in the product(s). These factors may cause delays in availability and shipping of products to potential customers, or even the cancellation of orders by customers. Quality issues in the products may have legal and financial implications for the Company, including delays in revenue recognition, loss of revenue or future orders, customer-imposed penalties for failure to meet contractual shipment deadlines, increased costs associated with repairing or replacing products, and a negative impact on goodwill and brand name reputation and higher manufacturing costs.

Intellectual Property

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

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

Intellectual Property Litigation

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

Currency Fluctuations may Adversely Affect the Company

A substantial portion of the Company's operating costs are recognized in currencies other than US$, specifically the Canadian dollar, and in the China JV, in China Yuan Renminbi. The Company carries certain monetary assets and liabilities in these and other currencies, which differ from the Company's US dollar base reporting currency. Fluctuations in the exchange rate between these currencies and the US dollar may have a material adverse impact on the Company's business, financial condition and operating results. The Company' China JV expects to have a natural currency hedge with its RMB revenues offsetting its RMB operating costs.

Earnings History

The Company has incurred significant losses since its inception. At June 30, 2012, the Company had an accumulated deficit of $62 million, after reduction in capital of $170 million. The Company may continue to incur losses during the current and following fiscal years. The Company cannot predict with certainty that it will not continue to incur losses or experience negative cash flow in the future. The Company's continued inability to generate positive operating income and cash flow would materially and adversely affect the liquidity, consolidated results of operations and consolidated financial condition of the Company.

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

Key Personnel

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

Changes in Accounting and Tax Rules

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

Changes in Government Policy

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

Share Price Volatility

The Common Shares trade on the TSX-V; however, the Company cannot predict the extent to which investor interest will lead to the development of an active and liquid trading market in its common shares and it is possible that an active and liquid trading market will not develop or be sustained. Some companies that have volatile market prices for their securities have had securities class action lawsuits filed against them. If a lawsuit were to be filed against the Company, regardless of its outcome, it could result in substantial costs and a diversion of management's attention and resources.

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

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

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.

CHANGES IN ACCOUNTING POLICIES

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

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 Enablence, which are consistent with IFRS. Note 23 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

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 fourteen months ending June 30, 2011 by $23. The increase was offset by the reclassification to discontinued operations for the stock based compensation that is related to Systems segment personnel for the fourteen months ending June 30, 2011 $860.

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 payment of royalties relating to 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 June 30, 2012, the Company no longer has any liability for government grants on its balance sheet, due to the divestiture of Teledata.

IAS 21 Effect of Changes in Foreign Exchange Rates – The Company has restated its financial statements to US$ 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 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 at May 1, 2010.

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.

GLOSSARY OF TERMS

Adjusted EBITDA	A non-GAAP financial measure, comprising net loss and excluding: finance income and expense, income taxes, depreciation, amortization, asset impairment charges, foreign exchange gains and losses in earnings, stock-based compensation expense and restructuring charges.
AIF	Annual information form, filed with SEDAR
AWG	Arrayed waveguide grating, an optical component
CAD	Canadian dollars
China JV	Sunbence, the Company's joint venture operating in China
COGS	Cost of revenues, netted in gross margin
Company	Enablence Technologies Inc., referring either to Enablence and its subsidiaries and affiliates or else the corporate entity, as the context indicates
CTA	Cumulative translation adjustment, a component of equity under GAAP and IFRS
Enablence	Enabence Technologies Inc., either the consolidated group or the corporate entity, as the context dictates
ENA Switzerland	Enablence Switzerland AG, a wholly-owned subsidiary, located in Zurich, Switzerland, held for disposition
Financial Statements	Enablence's audited consolidated financial statements for the year ended June 30, 2012
FTTP	Fibre-to-the-premises
G	Gigabit, 1 million bits of data
GAAP	Generally accepted accounting principles, under which Enablence reports its financial results
G&A	General and administration costs
Godan	Godan Ventures LP, the entity that acquired Teledata
IFRS	International financial reporting standards

Management Committee	A committee chaired by one of the Company's directors and comprising senior managers of the Company that is managing the day-to-day affairs of Enablence following the termination of the CEO in May 2012
MD&A	This management's discussion and analysis of financial condition and results of operations report, prepared in accordance with regulatory requirements
MSAP	Multi-service access platform, enabling very high-speed voice, data, video and internet communications
NRE	Non-recurring engineering costs, often associate with revenue-producing initiatives undertaken by the Company
PIC	A photonic integrated chip integrates sub-components (such as waveguides, photodetectors, lasers and transimpedance amplifiers) onto one platform
PLC	Planar lightwave circuit technology, including patents owned by the Company
R&D	Research and development costs
RMB	Renminbi, the Chinese currency
ROADM	Re-configurable add/drop multiplexer, an optical subsystem
Sunblence	A 49%-owned joint venture operating in China; the 51% partner is Sunsea
Sunsea	SUNSEA Telecommunications Co. Ltd., the 51% partner in Sunblence
Teledata	Teledata Networks Ltd., formerly a wholly-owned subsidiary, sold effective March 31, 2012
TOSA/ROSA	Transmitter and receiver optical subassemblies, optical components
US$	United States dollars, the currency in which Enablence reports its financial results
VMUX	variable multiplexer/de-multiplexer, an optical subsystem comprising a VOA and multiplexer/de-multiplexer
VOA	Variable optical attenuator, an optical component