# ENABLENCE TECHNOLOGIES INC.

## 2011 ANNUAL INFORMATION FORM

**For the Fourteen Months Ended June 30, 2011**

**Dated: October 20, 2011**

**TABLE OF CONTENTS**

**Page**

## GENERAL MATTERS

### Date of Information

Unless otherwise indicated, all information contained in this Annual Information Form ("AIF") of Enablence Technologies Inc. ("Enablence" or the "Company") is as of October 20, 2011.

For reporting purposes, the Company prepares its financial statements in Canadian dollars and in conformity with accounting principles generally accepted in Canada (Canadian GAAP). Unless otherwise stated, all dollar ("$") amounts in this AIF are expressed in Canadian dollars. References to "US$" are to United States dollars.

### Currency and Exchange Rates

All references in this AIF to "dollars" or "$" are to Canadian dollars unless otherwise indicated. The Company generates a material part of its revenues and incurs a material portion of its expenses and costs in United States (U.S.) dollars. As such, the financial position and operating results of the Company are affected by changes in the exchange rate between the Canadian dollar and the U.S. dollar.

The following table sets out the exchange rates for currencies expressed in terms of equivalent Canadian dollars for one U.S. dollar in effect for the following periods:

| | Fiscal Year Ended | | |
|---|---|---|---|
| | **April 30 2009** | **April 30 2010** | **June 30 2011** |
| End of the period | 1.193 | 1.016 | 0.965 |
| Average for the period | 1.144 | 1.074 | 1.008 |

| | **Two months ended** | **Three Months Ended** | | | |
|---|---|---|---|---|---|
| | **June 30, 2010** | **September 30, 2010** | **December 31, 2010** | **March 31, 2011** | **June 30, 2011** |
| High for the period | 1.085 | 1.067 | 1.037 | 1.006 | 0.991 |
| Low for the period | 1.002 | 1.011 | 0.997 | 0.967 | 0.944 |
| Average for the period | 1.039 | 1.040 | 1.014 | 0.987 | 0.968 |

Exchange rates are the historical interbank foreign exchange rates for the appropriate period as quoted by OANDA Corporation on its website www.oanda.com.

## FORWARD-LOOKING INFORMATION

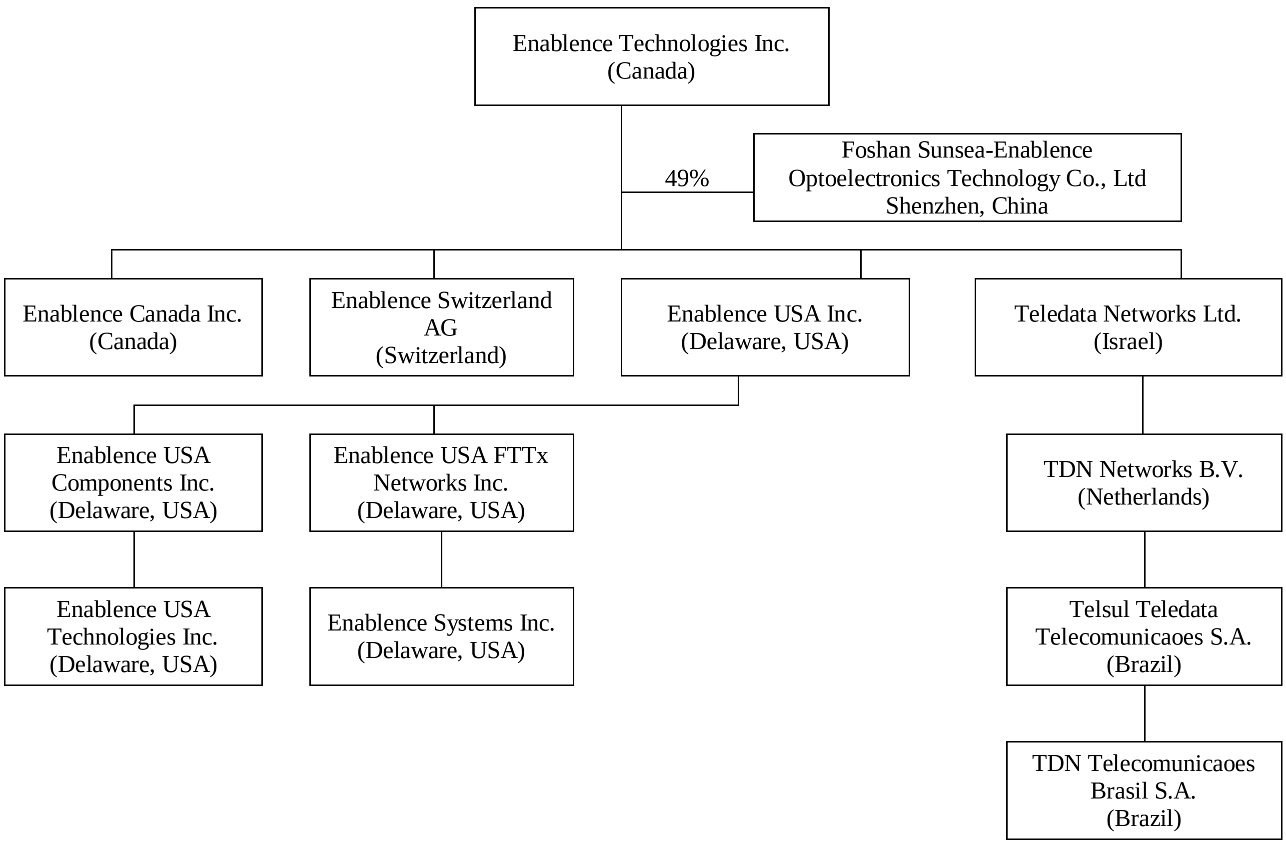
This AIF and the documents incorporated by reference herein contain "forward-looking information" concerning anticipated developments and events which the Company has a reasonable basis to believe may occur in the future. These forward-looking statements are made as of the date of this short form prospectus or, in the case of documents incorporated by reference herein, as of the date of such documents. These forward-looking statements may concern anticipated developments in the Company's operations in future periods, product developments, the adequacy of the Company's financial resources and other events or conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by words such as "expects", "expectation", "anticipates", "believes", "intends", "estimates", "predicts", "potential", "targeted", "plans", "possible" and similar expressions, or statements that events, conditions or results "will", "may", "could" or "should" occur or be achieved. These forward-looking statements include, without limitation, statements about the Company's market opportunities, strategies, competition, expected activities and expenditures as the Company pursues its business plan, the results of the planned divestiture of the Company's Systems segment, the adequacy of the Company's available cash resources and other statements about future events, conditions or results. Forward-looking statements are statements about the future and are inherently uncertain, and actual results of the Company or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, such as the significant future capital requirements of the Company and the need for significant additional financing, fluctuations in quarterly and annual operating results, gross margins, customer spending patterns, sales cycles, dependence on third party suppliers and contract manufacturers, managing growth and integration, the current global economic conditions, spending patterns and new orders from customers, the competitive market and well financed competitors, the Company's history of negative cash flow, product demand and new services, rapidly changing markets, product development and technological change, business combinations and restructuring of service providers, inventory management, consolidation of manufacturing operations, manufacturing requirements and inventory, undetected product defects, payment defaults by the Company's customers, international operations and expansion, retention of key and qualified personnel, future acquisitions and planned divestitures, share price volatility, protection of intellectual property rights and potential related litigation, and accounting and tax rule changes, including, without limitation, those referred to in this AIF under the heading "Risk Factors". Although the Company has attempted to identify important factors (which it believes are reasonable) that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, investors should not place undue reliance on forward-looking statements. Such statements are based on a number of assumptions which may prove to be incorrect, including but not limited to assumptions about: general business and current global economic conditions, interest rates and foreign exchange rates, market competition, the availability of financing, changes to tax rates and benefits, the Company's costs of production and operations as well as those of the Company's competitors, the Company's ability to sell the Systems segment, the Company's ability to attract and retain skilled employees, and the Company's ongoing relations with its suppliers and business partners. Other than as specifically required by law, the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results or otherwise.

## CORPORATE STRUCTURE

**Name, Address and Incorporation**
The Company is a corporation continued under the *Canada Business Corporations Act* (the "CBCA"). The head and registered office of the Company is located at 1 St. Clair Avenue East, Suite 504, Toronto, Ontario M4T 2V7, Telephone: (647) 729-1605.

**Intercorporate Relationships**

At October 20, 2011, the Company had 11 subsidiaries. All the Company's subsidiaries are wholly-owned either directly or indirectly. The Company also has a 49% ownership interest in Foshan Sunsea-Enablence Optoelectronics Technology Co., Ltd, and Sunsea Telecommunications Co. Ltd. owns a 51% interest. Set out below are the structure and jurisdiction of these entities.



## GENERAL DEVELOPMENT OF THE BUSINESS

### History of the Business and Significant Acquisitions/Dispositions and Securities Transactions

*Background*

The Company started by developing planar lightwave circuit ("PLC") technologies and acquiring PLC and similar patents, with a view of developing products based on the PLC technologies. Subsequent to a reverse take over ("RTO") of Pacific Northwest Partners Limited on July 24, 2006, the Company initiated a strategy of growth by acquisition and organic product development. The vision was, and remains, to achieve profitable growth through acquisitions and organic growth, including the acquisition and integration of existing businesses with a view of building a vertically integrated optical components and subsystems business.

*Dispositions*

On April 28, 2011, the Company announced that it was exploring strategic alternatives for the divestiture of the Systems segment. The Company established an Independent Committee of the Board of Directors, comprised of the independent directors, namely, Messrs. Bower and Ryan to review the alternatives for divestiture, and oversee the divestiture process.

On September 15, 2011, the Company announced the completion of the sale by the Company and two of its subsidiaries, Enablence Systems Inc. and Enablence USA FTTx Networks Inc. (the "Selling Subsidiaries"), of a part of the Enablence Systems segment, primarily the Trident7™ Universal Access Platform for delivery of FTTP services through optical networks to Aurora Networks, Inc. for a total purchase price of US$5.1 million, comprised of US$2.75 million of cash and the assumption of certain liabilities and contingent liabilities. The cash portion of the purchase prices includes a US$0.75 million holdback, while US$2.0 million of the cash portion of the purchase price was received by Enablence on September 15, 2011.

On September 15, 2011, the Selling Subsidiaries announced the completion of the sale of the MAGNM™ FX product line which also formed part of the Enablence Systems Division, by divesting certain assets, including US$0.2 million of cash and transferring certain liabilities totalling US$0.4 million to FX Support, LLC.

*Acquisitions*

On February 7, 2008, the Company completed the acquisition of ANDevices, Inc. (now Enablence USA Components Inc.) whereby the Company acquired all the shares of ANDevices, Inc. for an aggregate price of US$13.5 million and the issuance of 9,085,113 common shares of Enablence at a price of $2.47 per common share. The operations of ANDevices are an integral part of the Components Division of the Company. The Company filed a business acquisition report on Form 51-102F4 dated June 9, 2008 in respect of the acquisition of ANDevices, Inc.

On May 5, 2008, the Company completed the acquisition of Wave7 Optics, Inc. ("Wave7") pursuant to which Enablence acquired all the shares of Wave7 for an aggregate purchase price of US$10.5 million and the issuance of 2,078,385 common shares valued at $3.5 million. Wave7 was a part, along with the operations of Pannaway Technologies Inc. (see below), of the Systems segment of the Company. The Company filed a business acquisition report on Form 51-102F4 dated July 21, 2008 in respect of the acquisition of Wave 7 Optics, Inc. These acquisitions are included in the Systems segment for which the Company is planning to divest. The sale of the Trident7™ product line assets was the major element of the Wave 7 business.

On July 31, 2008, the Company and its wholly-owned subsidiary, Enablence Technologies USA Inc., completed an asset acquisition from DuPont Photonics and its parent, E.I. DuPont de Nemours and Company to acquire certain assets of DuPont Photonics. The purchase price was 6,847,638 common shares for an aggregate cash consideration of US$9.5 million, and at the same time, an investment by DuPont of US$5 million in common shares of Enablence.

On November 18, 2008, the Company completed the acquisition of Pannaway Technologies Incorporated (now Enablence Systems Inc.). Under the terms of the agreement, the Company issued 20,250,000 common shares and US $200,000 to Pannaway shareholders and 5,500,000 common shares to a Pannaway debt holder in respect of the cancellation of certain Pannaway debt at a price of $0.30 per common share. The Company also issued 10-year convertible notes in the aggregate of US$3.0 million bearing interest of 5% per annum to four Pannaway debtholders. This acquisition was included in the Systems segment for which the Company is planning to divest. The sale of the MAGNM FX™ product line assets was a significant element of the Pannaway business.

In June 23, 2010, the Company completed the acquisition of Teledata Networks Ltd. ("Teledata"), a high-speed broadband equipment provider based in Israel. In consideration of acquisition, the Company paid US$10 million in cash, issued US$10 million of subordinated secured, 5%, two-year promissory notes and 54,932,143 common shares to the shareholders of Teledata valued at $30.8 million. The Company filed a business acquisition report on Form 51-102F4 dated September 14, 2010 in respect of the acquisition of Teledata. Teledata is included in the Systems segment for which the Company is planning to divest.

On May 12, 2011, the Company invested in a joint venture named Foshan Sunsea-Enablence Optoelectronics Technology Co., Ltd (the "China JV") with Sunsea Telecommunications Co. Ltd. (the "JV Partner") that will operate in China. The JV Partner will own 51% of the China JV, and Enablence will own a 49% interest. The China JV will develop, manufacture and sell optical components based in part on Enablence's PLC technology, initially comprising a family of optical splitters.

The initial investments by the China JV partners are as follows:

- US$9,180 by the JV Partner, all in cash
- US$8,820 by Enablence, comprising:
    - US$3,500 in cash, paid on May 12, 2011;
    - US$1,000 of capital equipment; and,
    - US$4,320 in intellectual property and know-how

The Company is in process of transferring the capital equipment and the intellectual property and know-how. The Company expects to complete the transfer during the quarter ending December 31, 2011.

*Equity and Debt Financings*

On July 16, 2010, the Company issued a US$5 million three year, secured, promissory note, bearing interest at 1.5 percentage points over the prime rate published by the Wall Street Journal. The Company used $1.9 million of the proceeds of this promissory note the Company to repay an existing promissory note.

On December 6, 2010, the Company closed a public offering of an aggregate of 36,599,700 common shares (including 1,599,700 common shares pursuant to the partial exercise by the agents of the over-allotment option) at a price of $0.58 per share for total gross proceeds of approximately $21.2 million (net proceeds of approximately $19.7 million). An insider, Tim Thorsteinson, Chief Executive Officer of the Company, subscribed for 258,620 common shares in the offering for $150,000.

On May 5, 2011, the Company announced the closing of the non-brokered private placement financing. The Company issued 45,500,000 common shares at a price of $0.22 per common share for gross proceeds of $10.0 million (net proceeds of approximately $9.9 million).

On May 11, 2011, the Company announced that it had finalized a US$3.5 million note payable with a California chartered bank (the "Bank") to be used to fund the Company's investment in the China JV. The note payable matures on April 20, 2016, bears interest at the greater of 5.5% and Wall Street Journal Prime Rate plus 1.5% and is secured by US$1.2 million of cash on deposit and the shares in the China JV. Interest is payable on the note for the first 12 months and interest and principal is repayable amortized over the remaining term of the loan. The Company granted warrants to acquire up to 400,000 common shares of the Company, at a price of $0.22 per share, expiring April 9, 2013, to the Bank.

*Other Corporate Developments*

On July 25, 2010, the Company announced that it was changing its year end from April 30, 2011 to June 30, 2011. The current fiscal year covers 14 months from May 1, 2010 to June 30, 2011.

On July 28, 2010, the Company announced that it would transfer its polymer production capacity from its Wilmington, Massachusetts facility to its Fremont, California fabrication facility, and that the Wilmington, Massachusetts facility would be subsequently closed. This transfer was completed during the quarter ending June 30, 2011.

On September 22, 2010, the Company appointed David Toews as Chief Financial Officer.

On April 19, 2011, the Company announced the resignation of Nishith Goel and Stephan Guerin as directors.

On April 28, 2011, the Company announced that it had begun an initiative to explore strategic alternatives to achieve the most value-enhancing and efficient divestiture including sale, partial sale or closure of the Systems segment. The decision to divest the Systems segment will allow management to focus on its optical component business. The Company has retained an investment banker to assist in the evaluation of alternatives such as a sale, partial sale or closure. Part of the divestiture was completed on September 15, 2011, however the Company continues to own the Teledata business, as well as certain parts of the United States Systems business that was not sold as part of the sale transactions described below. Management continues to explore its options with respect to the remaining Systems business, and expects to complete the divestiture by December 31, 2011, however there can be no assurance as to the likelihood, terms or timing of any transaction.

*Product Developments*

During the most recent fourteen months, the Company has introduced several products, including both 8x8 and 8x12 multicast switches, 2-in-1 arrayed waveguide grating (AWG), 10x10 Gigabits per second (“G”) transceivers, single channel 100G transceivers and various high speed photodiodes. Enablence is applying its PLC technology to advance its product portfolio into high-speed (40G/100G) photonic integrated circuits (“PIC”) transceivers and photodetector chips. Enablence is also combining silica-on-silicon PLC with polymer PLC technologies to produce colorless, directionless, and contentionless, reconfigurable optical add/drop multiplexers (“CDC ROADMs”). Both the high-speed components and CDC ROADM are key building blocks for new generation optical transport networks.

## BUSINESS OF ENABLENCE

Enablence designs, manufactures and sells optical components and subsystems for access, metro and long-haul markets to a global customer base. It utilizes its patented technologies including planar lightwave circuit (“PLC”) intellectual property (“IP”) in the production of an array of photonics components and broadband subsystems. The Company’s product lines address all three segments of optical networks: Access, connecting homes and businesses to the network; Metro, communication rings within large cities; and Long-haul, linking cities and continents. Enablence products are predominantly focused on the metro and long-haul segments, while the Company plans to use its China JV to address the access market with its optical splitter products. The Company offers leading expertise in transmission, switching & routing, wavelength management, and signal performance management for 1.25G to 100G networks. The Company’s expanding product line includes ROADM components, photodiodes, arrayed waveguide grating (“AWG”) products, variable optical attenuators (“VOA”) and multiplexer and demultiplexer (“VMUX”) products which combine AWG and VOA functions in one product, and other products. The Company also provides engineering and design services for custom components, defense and instrumentation applications. Enablence will be introducing splitter chips through its China JV.

The core competencies of Enablence include:

- an experienced sales team that has developed relationships with many of the Tier 1 customers;
- design and integration of PLC-based optical components, subsystems and custom integrated solutions;
- design and production of PLC-based AWG devices ), using the Company's silica-on-silicon fabrication facilities;
- design and production of proprietary PLC-based ROADMs using silica-on-silicon technology together with polymer PLC IP;
- design and production of advanced photodiodes using the gallium arsenide and indium phosphide technologies; and
- design and know-how to build optical splitter chips that take optical signals and separate them for optical networks, which is part of Enablence's contribution to the China JV.

With these capabilities Enablence is one of the few companies that possesses all three capabilities to process optical wafers in the key optical material groups, namely silica-on-silicon, polymer and indium phosphide to provide commercially available products using all three substrates. Enablence's PLC optical chip technology enables the integration of sub-components (waveguides, photodetectors, lasers and transimpedance amplifiers) on-to-one platform.

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

*Growth Strategy*

A number of product developments are planned for 2012 fiscal year, including:

- integration of high speed capabilities (40G and 100G) across our product offering;
- development of multi-channel 100G optical components, aimed at the long-haul, metro loop and datacom optical fiber markets, including Transmitter Optical Sub-Assembly and Receiver Optical Sub-Assembly ("TOSA/ROSA") products;
- expand the multicast switch into 8x16, 8x24 and higher port count NxM switches for next generation CDC ROADM to enable a more dynamic and agile optical transport network ("OTN")
- increasing our value-add in photodiodes with packaging and higher-speed avalanche photodiodes ("APD's")

These development programs are expected to be funded by a combination of third party funded design contracts and internal resources, supplemented as required by debt or equity financing.

## RISK FACTORS

An investment in the Enablence common shares is subject to certain risks. Risk factors relating to the Company 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.

The Company operates in a dynamic, 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 which 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. Its recent and future acquisitions may also impose a financial strain requiring more capital. 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 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 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 channel partners;
- varying size, timing and contractual terms of orders for the Company's products, which may delay the recognition of revenue;
- 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.

**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.

**Managing Growth**

The Company pursues a growth strategy that focuses on organic growth and acquisitions. The Company has undertaken several acquisitions 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 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, while management of the Company believes it has the experience and know-how to integrate acquisitions, such efforts 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.

The Company has experienced significant growth in its sales and operations in recent years. The Company expects to expand its research and development, sales, marketing and support activities depending on future business and economic conditions. The Company's historical growth has placed, and is expected to continue to place, significant demands on the management, as well as the financial and operational resources of the Company, as required to:

- implement and maintain effective financial disclosure controls and procedures;
- implement appropriate operational and financial systems;
- manage a larger organization;
- expand the Company's manufacturing and distribution capacity;
- increase the Company's sales and marketing efforts; and
- broaden the Company's customer support capabilities.]

**Divestitures may adversely affect our business.**

The Company is actively pursuing certain divestitures, such as the expected separation of the Systems segment, that would further our business objectives, or eliminate assets that do 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 writeoffs 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. 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. In the past, the sectors of the telecommunications industry in which the Company participates have seen higher growth and the speed of FTTH deployment may be affected by numerous factors including regulatory changes. However, companies in the telecommunications industry generally were negatively impacted by the economic slowdown and the corresponding reduction in capital spending by the telecommunications industry from 2001 to 2003 and are demonstrating similar symptoms in the current economic conditions. The rate at which the portions of the telecommunications industry and the FTTH market in which the Company participates continue to 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 2011 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 revenue and operating costs are recognized in currencies other than Canadian dollars. Revenues and operating costs are typically denominated in United States dollars. The Company carries certain monetary assets and liabilities in these and other currencies, which differ from the Company's Canadian dollar base reporting currency. Fluctuations in the exchange rate between these currencies and the Canadian dollar may have a material adverse impact on the Company's business, financial condition and operating results. The Company has a natural currency hedge with its United States dollar revenues offsetting its United States dollar operating costs. Similarly, there is a natural currency hedge with the United States dollar monetary assets and monetary liabilities. However, neither of these natural currency hedges fully addresses the Company's exposure to the Canadian dollar denominated operating costs, monetary assets and monetary liabilities.

**Earnings History**

The Company has incurred significant losses since its inception. As of June 30, 2011, the Company had an accumulated deficit of $233.9 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 are fixed, and the Company expects to continue to incur significant expenses for research and development, sales and marketing, and general and administrative functions. Given the rate of growth in the Company's customer base, its limited operating history and the intense competitive pressures it faces, the Company may be unable to adequately control operating costs. In order to achieve and maintain profitability, the Company must increase sales while maintaining control over expense levels.

**Key Personnel**

The Company's success depends, in large part, on the continued contributions of its key management, engineering, sales and marketing personnel, many of whom are highly skilled and would be difficult to replace. 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.

Although the Company has entered into employment agreements with key officers, any incapacity or inability of one of these individuals to perform their services would have a material adverse effect on the Company.

**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. Effective July 1, 2011, the Company is required to present its financial statements in accordance with International Financial Reporting Standards ("IFRS"), which may have an adverse impact on results previously reported in accordance with prior Canadian generally accepted accounting principles. In recent years, the geographic scope of the Company's business has expanded, and such expansion requires it to comply with the tax laws and regulations of multiple jurisdictions. Requirements as to taxation vary substantially among jurisdictions. 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 which 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.

## DIVIDENDS

The Company has never declared or paid any dividends. The Company currently intends to retain any future earnings to finance the development and growth of its business and does not expect to pay any cash dividends in the foreseeable future.

## CAPITAL STRUCTURE OF THE COMPANY

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. As of October 20, 2011 there are 466,546,094 common shares of the Company issued and outstanding.

The holders of the common shares are entitled to receive notice of and to attend all annual and special meetings of the Company's shareholders and to one vote in respect of each common share held at all such meetings. The holders of the common shares are entitled, at the discretion of the Board of Directors, to receive out of any or all of the Company's profits or surplus properly available for the payment of dividends, any dividend declared by the Board of Directors and payable by the Company on the common shares. The holders of the common shares will participate rateably in any distribution of the Company's assets upon the Company's liquidation, dissolution or winding-up or other distribution of the Company's assets among the Company's shareholders for the purpose of winding up the Company's affairs. Such participation will be subject to the rights, privileges, restrictions and conditions attached to any of the Company's securities issued and outstanding at such time ranking in priority to the common shares upon the Company's liquidation, dissolution or winding-up.

The Board of Directors has the authority to issue an unlimited number of preferred shares, issuable in series, and to determine prior to any such issuance the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the shareholders. Preferred shares may, at the discretion of the Board of Directors, be entitled to preference over the common shares and any other shares ranking junior to the preferred shares with respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding up. If any cumulative dividends or amounts payable on a return of capital are not paid in full, preferred shares of all issued series would participate rateably in accordance with the amounts that would be payable on such shares if all such dividends were declared and paid in full or the sums which would be payable on such shares on the return of capital if all amounts so payable were paid in full, as the case may be. The Company has no plans at present to issue preferred shares.

## PRIOR SALES

The following tables summarize the securities convertible into, or exercisable to acquire, Common Shares that have been issued by the Company during the 14 months ended June 30, 2011:

*Warrants issued:*

| Date | Exercise Price ($) | Number of Warrants Granted |
|---|---|---|
| December 6, 2010 | $0.58 | 1,463,988 |
| May 9, 2011 | $0.22 | 400,000 |

*Options Granted*

| Date | Exercise Price ($) | Number of Stock Options Granted |
|---|---|---|
| September 10, 2010 | $0.60 | 13,215,000 |
| October 4, 2010 | $0.67 | 700,000 |
| February 8, 2011 | $0.44 | 515,000 |

## MARKET FOR SECURITIES OF THE COMPANY

The Common Shares are listed and posted for trading on the TSX-V under the trading symbol "ENA". The following table sets forth the price range per share and trading volume for the Common Shares since September 2010:

| | Common Shares | | |
|---|---|---|---|
| | Volume | High | Low |
| | | | |
| **2010** | | | |
| September | 20,237,573 | 0.630 | 0.550 |
| October | 5,411,481 | 0.750 | 0.600 |
| November | 10,025,392 | 0.700 | 0.560 |
| December | 6,527,266 | 0.630 | 0.520 |
| **2011** | | | |
| January | 9,011,515 | 0.540 | 0.440 |
| February | 9,311,716 | 0.470 | 0.355 |
| March | 18,317,400 | 0.380 | 0.230 |
| April | 43,515,239 | 0.300 | 0.205 |
| May | 6,880,870 | 0.210 | 0.170 |
| June | 23,309,501 | 0.185 | 0.075 |
| July | 26,485,672 | 0.130 | 0.080 |
| August | 13,607,031 | 0.090 | 0.055 |
| September | 18,878,068 | 0.100 | 0.045 |
| October 1-18 | 3,921,534 | 0.100 | 0.070 |

## DIRECTORS AND OFFICERS

Set out below are the names, committee memberships (as at the date hereof), municipalities of residence, principal occupations and periods of service of the directors and executive officers of the Company.

| Name and Municipality of Residence | Current Position as a Director or as an Officer | Director Since | Principal Occupation During Past Five Years | No. of Fully Diluted common shares (common shares and options) owned directly or indirectly at October 20, 2011 |
|---|---|---|---|---|
| Arvind Chhatbar(1)<br>Ottawa, Ontario | Director, Chair of the Board of Directors | July 24, 2006 | Chair of the Board of Directors from July 2006 to present; CEO, Enablence from July 2006 to April 2010; President and CEO, Enablence Inc. from December 2003 to July 2006; | 15,550,603 fully diluted common shares (includes 11,824,549 common shares and 3,726,054 options) |
| John J. Ryan, III(1) (2)<br>West Palm Beach, Florida | Director | July 24, 2006 | Retired | 4,971,472 fully diluted common shares (includes 4,321,472 common shares and 650,000 options) |
| R. Stephen Bower (1) (2)<br>Calgary, Alberta | Director, Chair of the Audit Committee, Chair of Independent Committee | August 27, 2008 | CFO of EnerCare Inc. (formerly The Consumers' Waterheater Income Fund) from 2007 to 2010; CFO and acting CFO of Wi-LAN Inc. (TSX: WIN) from 2006 to 2007; CFO of SiGe Semiconductor, Inc. from 1999 to 2005. | 145,833 fully diluted common shares (includes 45,833 common shares and 100,000 options) |
| Tim Thorsteinson<br>Toronto, Ontario | Director, Chief Executive Officer | November 6, 2009 | CEO, Enablence from April 15, 2010 to present; President and COO, Enablence from December 30, 2009 to April 15, 2010; President of the Broadcast Division of Harris Corporation from April 2006 to October 2009; President and CEO of Leitch Technology Corporation from November 2003 to April 2006. | 2,758,620 fully diluted common shares (includes 258,620 common shares and 2,500,000 options) |
| David Toews,<br>Toronto, Ontario | Chief Financial Officer | | CFO of Enablence from September 22, 2010 to present; VP and Controller for the Broadcast Division of Harris Corporation from October 2005 to September 2010. CFO of Leitch Technology Corporation from February 2004 to October 2005, and VP Finance for Leitch from December 2000 to February 2004. | 1,035,000 fully diluted shares (includes 35,000 common shares and 1,000,000 options) |
| Jacob Sun<br>Fremont, California | President, Components and Subsystems Division | | President, Components and Subsystems Division since the acquisition of ANDevices in February 2008. President and CEO of ANDevices from 2003 to 2008. | 1,571,006 fully diluted shares (including 311,006 common shares and 1,260,000 options) |

**Notes:**

(1) Member of the Audit Committee.
(2) Member of the Independent Committee

The term of office for each director is from the date of the meeting at which he or she is elected or appointed until the next annual meeting of shareholders of the Company or until his or her successor is elected or appointed, unless his or her office is vacated before that time in accordance with the by-laws of the Company.

The following sets out additional information with respect to the education, experience and employment history of each of the directors and officers referred to above during the past five years.

***Tim Thorsteinson***
***Director and Chief Executive Officer***

Tim Thorsteinson was appointed a director of the Company in November 2009, as the President and Chief Operating Officer of the Company on December 30, 2009, and as the Chief Executive Officer on April 15, 2010. From April 2006 to October 2009, Mr. Thorsteinson was the President of the Broadcast Division of Harris Corporation where he also served as a Harris Corporate Officer and member of the Harris Executive Committee. Prior to joining Harris Corporation, from November 2003 to April 2006, Mr. Thorsteinson was the President and CEO of Leitch Technology where he helped to turnaround and restructure Leitch Technology. Mr. Thorsteinson also held several senior and executive management positions at Thomson Broadcast & Media Solutions, the Grass Valley Group and the video and networking division at Tektronix.

***R. Stephen Bower, FCA, ICD.D***
***Director and Chair of the Audit Committee and Independent Committee***

Stephen Bower is a Chartered Accountant, formerly serving as Chief Financial Officer of EnerCare Inc. (formerly The Consumers' Waterheater Income Fund (TSX: CWI.UN)) from 2007 to September 2010, where he supported the CEO in completing a number of acquisitions and led the successful $50 million financing and an additional refinancing of $570 million in publicly-traded debt. Previously he was CFO and acting CFO of Wi-LAN Inc. (TSX: WIN) from 2006 to 2007 and CFO of SiGe Semiconductor, Inc. from 1999 to 2005. He has held several Board roles, including Director and Chair of the Audit Committee of FisherCast Global Corporation from 2004 to 2008, as well as the Boards of Financial Executives International – Canada and the Accounting Standards Board of the CICA. Mr. Bower graduated with a Bachelor of Commerce from McGill University, completed his Chartered Accountant ("CA") designation in 1974 and was awarded his fellow designation ("FCA") by the Institute of Chartered Accountants of Ontario in 2006. He completed his Institute of Corporate Directors designation in 2010.

***Arvind Chhatbar***
***Director and Chair of the Board of Directors***

Arvind Chhatbar is the Chair of the Board of Directors. Mr. Chhatbar was the Chief Executive Officer of Enablence from inception to April 15, 2010. Mr. Chhatbar has significant experience in the field of technology commercialization, and has pioneered the creation of several technology spin-off companies from the NRC. He helped to create SiGe Microsystems, Inc., Iridian Spectral Technologies Ltd., CrossLight Software Inc., Toth Information Systems, Inc. and several other successful startups. He has been the President of Vitesse Re-Skilling Inc. from its inception in 1996 to 2007. He was elected Chair of the Indo Canada Ottawa Business Chamber from 2006 to 2008, and joined the Board of Governors of Carleton University in 2010. Mr. Chhatbar holds two post-graduate degrees in public and business administration.

***John J. Ryan III***
***Director***

John Ryan is a successful entrepreneur and investor in numerous industries from oil and gas to optical networking. Mr. Ryan founded Evergreen Resources Inc., a developer of coal bed methane reserves in the United States, which in May 2004 merged with Pioneer Natural Resources in a US$2.1 billion transaction. At Evergreen Resources Inc., he was a member of the Board of Directors and served as the Chairman of the Audit Committee. From January 2000 to September 2004, he was the President of CISA Trust Company (Switzerland) S.A. which provided estate planning and investment advisory services.

***David Toews***
***Chief Financial Officer***

David Toews has been the CFO of Enablence since September 22, 2010. Mr. Toews has more than 20 years experience in all aspects of accounting and financial management and was most recently VP and Controller for the Broadcast Division of Harris Corporation. Mr. Toews worked as CFO during the turnaround of Leitch Technology prior to its sale to Harris Corporation. Mr. Toews is a Chartered Accountant, and holds a Bachelor of Commerce (Honours) from McMaster University.

***Jacob Sun***
***President, Components and Subsystems***

President, Components and Subsystems division since the acquisition of ANDevices in February 2008. Dr. Sun has over 20 years of experience in fiber optics and optical components. He was the President and CEO of ANDevices from 2003 to 2008 and joined Enablence when ANDevices was acquired by Enablence in 2008. Before co-founding ANDevices, Dr. Sun was Senior VP of Operations of Axon Photonics. Prior to joining Axon Photonics in 1999, he was Senior Director of Manufacturing & Engineering at PIRI, which was a joint venture between NTT, Batelle and Mitsubishi International. Dr. Sun was one of the three founding technical members that established PIRI and developed its core technology. PIRI was the leading supplier of fiber optic waveguide components. Dr. Sun holds a Ph.D. from the University of Rochester and an M.B.A. from Ohio State University.

As at October 20, 2011, the directors and executive officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 16,796,480 common shares of the Company, representing approximately 4% of the Company's outstanding common shares. The information as to securities beneficially owned or over which control or direction is exercised is not within the knowledge of the Company and has been furnished by the directors and executive officers individually.

None of the directors or officers of the Company is, or has, within the prior ten years, been a director or officer of any other issuer that, while that person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the issuer access to any statutory exemptions under securities legislation for a period of more than 30 consecutive days or was declared bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangements or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that issuer.

None of the directors or officers of the Company has been subject to any significant penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

None of the directors or officers of the Company has, within the prior ten years, become bankrupt, made a proposal under any legislation related to bankruptcy or insolvency or has been subject to or instituted any proceedings, arrangements or compromise with creditors, or had a receiver, receiver-manager or trustee appointed to hold the assets of the director or officer.

## AUDIT COMMITTEE

Audit Committee Mandate

The responsibilities and functions of the Audit Committee are set out in the Audit Committee Charter attached as Appendix "A" to this Annual Information Form (the "Audit Committee Charter"). The Audit Committee reviews the Audit Committee Charter on a yearly basis. On October 20, 2011, the Audit Committee Charter was reviewed and confirmed by the Board.

Composition

The following are the members of the Committee

| | | |
|---|---|---|
| R. Stephen Bower[(1)] | Independent[(2)] | Financially literate |
| John Ryan III | Independent[(2)] | Financially literate |
| Arvind Chhatbar [(3)] | Not Independent | Financially literate |

Notes:
(1) Audit Committee Chair
(2) As defined by National Instrument 52-110, Audit Committees ("NI 52-110")
(3) Mr. Chhatbar was appointed to the Audit Committee upon the resignation of Nishith Goel on April 19, 2011.

The Board of Directors believes that the composition of the Audit Committee reflects financial literacy and expertise. Currently, Messrs. Bower and Ryan have been determined by the Board of Directors to be "independent" and all the members of the Audit Committee have been determined to be "financially literate" as such terms are defined under Canadian securities laws and stock exchange rules. The Board of Directors has made these determinations based on the education as well as breadth and depth of experience of each member of the Audit Committee. The education and experience of each member of the Audit Committee that is relevant to the performance of his or her responsibilities as an Audit Committee member is outlined above under the heading "Directors and Executive Officers".

Audit Committee Oversight

At no time since the commencement of the Company's most recently completed financial year was a recommendation of the Committee to nominate or compensate an external auditor not adopted by the board of directors of the Company.

Reliance on Certain Exemptions

The Company has relied on the exemption in Section 6.1(Venture Issuers) of National Instrument 52-110 ("NI 52-110"). NI 52-110 exempts issuers listed on the TSX-V from the requirements of Parts 3 *(Composition of the Audit Committee)* and 5 *(Reporting Obligations)* of NI 52-110. As a result, the members of the Audit Committee are not required to be either "independent" or "financially literate" within the meaning of NI 52-110; however, the Company is required to provide on an annual basis, disclosure regarding its Audit Committee in its management proxy circular. See the disclosure above under the heading "Composition".

Pre-approval Policies and Procedures

The Committee has adopted specific policies and procedures for the engagement of non-audit services as described in the Audit Committee Charter.

| **Deloitte & Touche LLP** | **Fiscal 2010** | **Fiscal 2011** |
|---|---|---|
| Audit fees and related expenses | $ 213,298 | $ 261,400 |
| Audit related fees | 92,700 | 235,220 |
| Income tax compliance (1) | 39,000 | 53,500 |
| | $ 344,998 | $ 550,120 |

| **KPMG LLP** | **Fiscal 2010** | **Fiscal 2011** |
|---|---|---|
| All other fees [(2)] | $ - | $ 92,150 |

Note:
(1) Deloitte & Touche LLP was retained by the Company to perform corporate income tax compliance services for the fiscal year ended June 30, 2011. The amount shown is the estimated fee for these services.
(2) KPMG LLP was retained by the Company to perform IFRS advisory services, and valuation services related to an acquisition.

## CONFLICTS OF INTEREST

Certain of the directors, proposed directors and/or officers serve as directors and/or officers of other companies or have significant shareholdings in other companies. Situations may arise where the directors, officers and promoters of the Company may be in a conflict of interest. Any conflicts of interest will be subject to and governed by the law applicable to directors and officers conflicts of interest, including the procedures prescribed by the *Canada Business Corporations Act* ("CBCA"). The CBCA requires that directors and officers of the Company, who are also directors or officers of a party which enters into a material contract with the Company or otherwise have a material interest in a material contract entered into by the Company, must disclose their interest and, in certain instances, refrain from voting on any resolution of the Company's directors to approve the contract.

Tim Thorsteinson, Chief Executive Officer and director of the Company subscribed for 258,620 Common Shares for gross proceeds of $150,000 as part of the public offering that was completed in December 2010.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No insider (as such term is defined in the *Securities Act* (Ontario) or any associate or affiliate of the foregoing has any interest, direct or indirect, in any material transactions in which the Company has participated within the three years prior to the date hereof, or in any proposed transaction which has materially affected or will materially affect the Company except as otherwise disclosed in this document.

## TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc. is the Company's registrar and transfer agent. The register of the transfers of the common shares of the Company are located at 100 University Avenue, 9th Floor, North Tower, Toronto, Ontario M5J 2Y1.

## MATERIAL CONTRACTS

The only contracts entered into by the Company for the fiscal year ending June 30, 2011 which were material and entered into outside the ordinary course of business, or in the ordinary course of business under the criteria set out in National Instrument 51-102 – Continuous Disclosure Obligations or were entered into before the fiscal year ending June 30, 2011, but are still in effect are the following:

1. Agency Agreement between Enablence and the Lead Agent, Paradigm Capital Inc. and Raymond James Ltd. dated November 23, 2010 in connection with the prospectus offering of up to 35,000,000 common shares at $0.58 per share in which they received a 6.0% cash commission on the aggregate proceeds of the offering, excluding proceeds from sales to insiders and advisors of the Company, and compensation options equal to 4.0% of the aggregate number of shares sold under the offering. The Agency Agreement included an over allotment option for an additional 5,250,000 common shares. See "General Development of the Business – Equity and Debt Financings".

2. Asset Purchase Agreement dated August 29, 2011, between Enablence, Enablence Systems Inc., Enablence USA FTTx Networks Inc. (together, "Sellers"), and Aurora Networks, Inc. for the sale by the Sellers of the Trident7 Universal Access Platform for delivery FTTP services through optical networks. See "General Development of the Business – Dispositions".

## ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com and on the Company's web site at www.enablence.com.

Upon request to the Chief Financial Officer of the Company at the Company's registered office, 1 St Clair Avenue East, Suite 504, Toronto, Ontario M4T 2V7, the Company will provide any person with a copy of this AIF.

A copy of any of these documents may be obtained without charge at any time when a preliminary short form prospectus has been filed in respect of a distribution of any securities of the Company or any securities of the Company are in the course of a distribution pursuant to a short form prospectus. At any other time, any document referred to above may be obtained by security holders of the Company without charge and by any other person upon payment of a reasonable charge.

Additional information including directors' and executive officers' remuneration and indebtedness, principal holders of the Company's securities and options to purchase securities, where applicable, is contained in the management proxy circular prepared by the Company in connection with its annual and special meeting of shareholders to be held on December 14, 2011. Additional financial information is provided in the Company's consolidated financial statements and management's discussion and analysis for the fourteen months ended June 30, 2011.

**SCHEDULE A**
**Amended and Restated Audit Committee Charter**
**(adopted by the Board of Directors on July 24, 2009; confirmed October 20, 2011)**

*Mandate*

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its financial oversight responsibilities to the Company's shareholders, the investment community and others regarding the:

(a) Company's financial statements, MD&A's and financial press releases;

(b) Financial reporting process and systems of internal accounting and financial controls; and

(c) Identification, assessment and programs to manage risk.

In doing so, the Audit Committee is responsible for maintaining a clear and open communications channel with the external auditors and Company management.

Subject to the determination of the Board from time to time, the Audit Committee is to review the:

(a) Recommendation to shareholders regarding the appointment of the Auditors;

(b) Scope and compensation of the Auditors;

(c) Company's financial policies and procedures;

(d) Legal and environmental compliance programs; and

(e) Budgets and forecasts of the Company.

The Audit Committee is responsible for providing meaningful and effective oversight and counsel to management without assuming responsibility for management's day-to-day responsibilities.

Management is responsible for the reliable preparation, presentation and integrity of the financial statements and other financial information of the Company. They are responsible for defining, implementing and maintaining appropriate accounting and financial reporting principles and policies, as well as internal controls and procedures that provide compliance with accounting standards and applicable laws and regulations. Management is responsible for maintaining a system of internal controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, executed, recorded and reported properly.

*Composition*

The Committee will consist of at least three members of the Board of Directors. The Board of Directors will appoint the Committee members and the Chair of the Committee. In selecting members and the Chair, the Board of Directors will take into consideration those directors who bring background skills and experience relevant to financial statement review and analysis.

A majority of the members of the Committee will be independent and all members of the Committee will be financially literate.

*Meetings*

The Committee meets at least four times annually, or more frequently as circumstances dictate. As part of its job to foster open communication, in each meeting where the auditors are present, the Committee shall, for a portion of the meeting, meet separately with the auditors without management present, and with management without the auditors present. A quorum for meetings of the Audit Committee shall be at least 50% of the members of the committee.

*Responsibilities and Duties*

To fulfill its responsibilities and duties, the Committee:

*Documents/Reports Reviews*

1. Reviews and updates its Mandate annually for approval by the Board.

2. Reviews the Company's annual and interim financial statements, MD&A and financial press releases before the Company publicly discloses this information as well as any reports containing financial information which are submitted to any governmental body, or to the public, including prospectuses and any certification, report, opinion or review rendered by the external auditors.

*External Auditors*

The Audit Committee has the direct responsibility for the oversight of the external auditors and their compensation for audit and any non-audit services. In discharging this responsibility, the Audit Committee shall:

1. Review annually the *performance*, experience, qualifications and independence of the external auditors.

2. Recommend to the Board on the selection and, where applicable, the replacement of the external auditors nominated annually for shareholders' approval.

3. At each meeting, consult with the external auditors, without the presence of management, about the quality of the Company's accounting principles, internal controls and the completeness and accuracy of the Company's financial statements.

4. Review and approve the audit plan, services and fees.

5. Resolve any disagreements between management and the external auditors regarding financial reporting.

6. Inform the external auditors and management that the auditors shall have direct access to the Audit Committee at all times, as well as the Committee having direct access to the auditors at all times.

7. Instruct the auditors that that are ultimately accountable to the Audit Committee and are required to report directly to the Committee.

8. Review all management letters from the external auditors together with management's responses thereto and action plans to resolve any significant issues.

9. Review and pre-approve all non-audit services provided by the Company's external auditors, together with the fees for such services, in accordance with the policy for such services.

*Financial Reporting Processes*

1. In consultation with the external auditors, review with management the integrity of the Corporation's financial reporting process and controls.

2. Consider the external auditor's judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.

3. Consider and approve, if appropriate, changes to the Company's accounting principles and practices as recommended by the external auditors and/or management.

4. Review significant judgments made by management in the preparation of the financial statements and the view of the external auditors as to appropriateness of such judgments.

5. Following completion of the annual audit, review separately with management and the external auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.

6. Review and resolve any significant disagreements between management and the external auditors in connection with the preparation of the financial statements.

7. Review with the external auditors and management the extent to which changes and improvements in financial or accounting practices have been implemented.

8. Review any complaints or concerns about any questionable accounting, internal accounting controls or auditing matters.

9. Review the officer certification process.

10. Establish a procedure for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

*Other*

1. Review the Company's Annual Information Form in respect of disclosure required by Form 52-110F1 and F2.

2. Review incidents or alleged incidents of fraud, illegal acts and conflicts of interest.

3. Discuss with management and the auditors any correspondence from or with regulators or governmental agencies.

4. Review any related party transactions as defined in the *Securities Act* (Ontario).

5. The Audit Committee may, at its own discretion or at the request of the Board, investigate such other matters as are considered necessary or appropriate in carrying out its mandate and in such matters shall have the authority to retain such counsel, experts or other advisors, financial or otherwise, as it deems necessary or appropriate, and set out and commit the Company to pay the compensation for such advisors.