

Condensed Consolidated Interim Financial Statements of

ENABLENCE TECHNOLOGIES INC.

*For the three and six months ended December 31, 2011 and 2010
(in United States dollars)*

(Unaudited)

ENABLENCE TECHNOLOGIES INC.
Condensed Consolidated Interim Financial Statements
December 31, 2011 and 2010
(Unaudited)

	<u>PAGE</u>
Condensed Consolidated Balance Sheets	1
Condensed Consolidated Statements of Loss, Other Comprehensive (Loss) Income and Comprehensive Loss	2
Condensed Consolidated Statements of Changes in Equity	3
Condensed Consolidated Statements of Cash Flows	4
Notes to the Condensed Consolidated Financial Statements	5 – 44

ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Balance Sheets

(Unaudited - In thousands of United States dollars)

	Note	December 31, 2011		June 30, 2011
CURRENT ASSETS				
Cash and cash equivalents		\$	4,960	\$ 10,404
Accounts receivable	4		4,497	5,928
Inventories	5		5,195	5,558
Prepaid expenses and deposits			605	598
Restricted cash	6		1,305	1,306
Assets held for disposal	17		14,933	21,191
			31,495	44,985
PROPERTY, PLANT AND EQUIPMENT				
			8,525	9,414
INTANGIBLE AND OTHER ASSETS				
			183	457
INVESTMENT IN JOINT VENTURE	7		3,312	3,492
GOODWILL			5,697	5,697
ASSETS HELD FOR DISPOSAL	17		858	1,314
		\$	50,070	\$ 65,359
CURRENT LIABILITIES				
Trade and other payables		\$	4,537	\$ 5,859
Current portion of notes payable	8		13,738	12,800
Unearned revenue			63	188
Liabilities related to assets held for disposal	16		19,282	24,697
			37,620	43,544
NOTES PAYABLE	8		6,700	8,443
DEFERRED INCOME TAX LIABILITY			1,857	1,981
LIABILITIES RELATED TO ASSETS HELD FOR DISPOSAL	17		7,557	7,179
			53,734	61,147
EQUITY				
Share capital	9		52,606	222,567
Contributed surplus	9		9,350	8,631
Accumulated other comprehensive loss			(817)	(750)
Deficit	9		(64,803)	(226,236)
			(3,664)	4,212
		\$	50,070	\$ 65,359

GOING CONCERN (Note 2)
COMMITMENTS (Note 15)

See accompanying notes to the unaudited condensed consolidated interim financial statements

APPROVED BY THE BOARD
"Peter Dey"
Chairman of the Board of Directors

"R Stephen Bower"
Director

ENABLENCE TECHNOLOGIES INC.

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

For the three and six months ended December 31, 2011 and 2010

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

	Note	Three months ended December 31		Six months ended December 31	
		2011	2010	2011	2010
Revenues		\$ 3,551	\$ 8,715	\$ 9,372	\$ 16,832
Cost of revenues		3,452	5,845	7,792	11,772
Gross margin		99	2,870	1,580	5,060
Operating expenses					
Research and development		1,433	1,376	2,941	2,665
Sales and marketing		257	419	559	853
General and administration		950	1,706	2,094	2,971
Stock-based compensation	9	169	303	409	513
Amortization		148	385	323	760
Restructuring charges	11	-	83	-	879
		2,957	4,272	6,326	8,641
Operating loss		(2,858)	(1,402)	(4,746)	(3,581)
Other income (expense)					
Finance and other income		15	9	36	13
Finance expense		(261)	(247)	(532)	(479)
Foreign exchange gain (loss)		389	377	(457)	714
Loss before income taxes		(2,715)	(1,263)	(5,699)	(3,333)
Deferred income tax recovery		114	118	228	335
Net loss from continuing operations		(2,601)	(1,145)	(5,471)	(2,998)
Net loss from discontinued operations (net of tax)	17	(446)	(4,268)	(3,057)	(10,709)
Net loss		(3,047)	(5,413)	(8,528)	(13,707)
Other comprehensive (loss) income					
Foreign currency translation gain (loss)		283	1	(67)	161
Comprehensive loss		\$ (2,764)	\$ (5,412)	\$ (8,595)	\$ (13,546)
Net loss per share basic and diluted	10				
Continuing operations		\$ (0.01)	\$ (0.00)	\$ (0.01)	\$ (0.01)
Discontinued operations		(0.00)	(0.01)	(0.01)	(0.03)
Weighted average number of outstanding shares					
Basic and diluted	9	466,546	394,387	466,546	389,291

See accompanying notes to the unaudited condensed consolidated interim financial statements

ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Statements of Changes in Equity For the periods ended December 31, 2011 and December 31, 2010 (Unaudited - In thousands of United States dollars and shares)

	Number of shares	Share capital (Note 9)	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Equity
Balance at May 1, 2010 (Note 18)	327,174	\$ 162,395	\$ 6,526	\$ -	\$ (116,979)	\$ 51,942
Stock-based compensation	-	-	238	-	-	238
Exercise of options	950	472	(137)	-	-	335
Exercise of warrants	74	36	(15)	-	-	21
Issuance of common shares on acquisition of Teledata Networks Ltd.	54,932	29,624	-	-	-	29,624
Net loss	-	-	-	-	(4,547)	(4,547)
Foreign currency translation	-	-	-	(339)	-	(339)
Balance at June 30, 2010	383,130	192,527	6,612	(339)	(121,526)	77,274
Stock-based compensation (Note 9)	-	-	1,230	-	-	1,230
Exercise of warrants	1,316	647	(272)	-	-	375
Issuance of common shares (Note 9)	36,600	19,603	-	-	-	19,603
Fair value of warrants issued (Note 9)	-	(402)	402	-	-	-
Net loss	-	-	-	-	(13,707)	(13,707)
Foreign currency translation	-	-	-	161	-	161
Balance at December 31, 2010	421,046	212,375	7,972	(178)	(135,233)	84,936
Stock-based compensation	-	-	617	-	-	617
Exercise of warrants	-	-	-	-	-	-
Issuance of common shares (Note 9)	45,500	10,234	-	-	-	10,234
Fair value of warrants issued (Note 8)	-	(42)	42	-	-	-
Net loss	-	-	-	-	(91,003)	(91,003)
Foreign currency translation	-	-	-	(572)	-	(572)
Balance at June 30, 2011	466,546	222,567	8,631	(750)	(226,236)	4,212
Stock-based compensation (Note 9)	-	-	719	-	-	719
Reduction of share capital to deficit (Note 9)	-	(169,961)	-	-	169,961	-
Net loss	-	-	-	-	(8,528)	(8,528)
Foreign currency translation	-	-	-	(67)	-	(67)
Balance at December 31, 2011	466,546	\$ 52,606	\$ 9,350	\$ (817)	\$ (64,803)	\$ (3,664)

See accompanying notes to the unaudited condensed consolidated interim financial statements

ENABLENCE TECHNOLOGIES INC.
Condensed Consolidated Statements of Cash Flows
For the three and six months ended December 31, 2011 and 2010
(Unaudited - In thousands of United States dollars)

	Three months ended December 31		Six months ended December 31	
	2011	2010	2011	2010
Cash provided by (used in):				
Operating activities				
Net loss	\$ (3,047)	\$ (5,413)	\$ (8,528)	\$ (13,707)
Loss from discontinued operations	446	3,881	3,057	10,322
Adjusted for the following non-cash items:				
Amortization	595	801	1,223	1,581
Stock-based compensation (Note 9)	169	303	409	513
Unrealized foreign exchange loss (gain)	(400)	(383)	710	(828)
Deferred income tax recovery	(114)	(118)	(228)	(335)
	(2,351)	(929)	(3,357)	(2,454)
Changes in non-cash working capital (Note 16)	(313)	(232)	364	(472)
Cash used in operating activities – continuing operations	(2,664)	(1,161)	(2,993)	(2,926)
Cash used in operating activities – discontinued operations	(4,371)	(6,087)	(2,375)	(7,948)
Cash used in operating activities	(7,035)	(7,248)	(5,368)	(10,874)
Investing activities				
Decrease (Increase) in restricted cash	3	976	(5)	1,024
Purchase of property, plant and equipment	(89)	(734)	(251)	(904)
Cash (used in) from investing activities – continuing operations	(86)	242	(256)	120
Cash from (used in) investing activities – discontinued operations	1,669	(262)	1,741	2,648
Cash from (used in) investing activities	1,583	(20)	1,485	2,768
Financing activities				
(Repayment of) advance from notes payable	(410)	(99)	(785)	2,997
Proceeds from issuance of common shares, warrants and options, net of issuance costs (Note 9)	-	19,608	-	19,978
Cash (used in) from financing activities – continuing operations	(410)	19,509	(785)	22,975
Cash used in financing activities – discontinued operations	-	97	-	(2,696)
Cash (used in) provided by financing activities	(410)	19,606	(785)	20,279
Effect of foreign currency translation on cash and cash equivalents	1,024	(641)	78	(1,033)
(Decrease) increase in cash and cash equivalents	(4,838)	11,697	(4,590)	11,140
Cash and cash equivalents, beginning of period	12,175	5,882	11,927	6,439
Cash and cash equivalents, end of period	7,337	17,579	7,337	17,579
Less cash and equivalents of discontinued operations at end of period	(2,377)	(4,521)	(2,377)	(4,521)
Cash and cash equivalents, end of period – continuing operations	\$ 4,960	\$ 13,058	\$ 4,960	\$ 13,058
Interest Paid	\$ 136	\$ 108	\$ 280	\$ 246
Interest Received	15	2	36	-

See accompanying notes to the unaudited condensed consolidated interim financial statements

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

1. REPORTING ENTITY

Enablence Technologies Inc. (the “Company” or “Enablence”) is incorporated under the Canada Business Corporations Act. The head office of Enablence is located at 1 St. Clair Avenue East, Suite 504, Toronto, Ontario, M4T 2V7, Canada. Enablence is a publicly traded company listed on the TSX Venture Exchange. The Company designs, manufactures and sells optical components and subsystems for access, metro and long-haul markets to a global customer base. The Company’s product lines address all three segments of optical networks: Access, connecting homes and businesses to the network; Metro, communication rings within large cities; and Long-haul, linking cities, countries and continents.

2. BASIS OF PREPARATION

(i) *Going Concern*

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

At December 31, 2011, the Company had cash of \$4,960 (not including \$2,377 held in subsidiaries that are reported as discontinued operations), negative working capital of \$1,776 (not including negative working capital of \$4,349 held in discontinued operations) and used cash of \$2,993 in its operating activities (not including \$2,375 of cash used by discontinued operations) for the six month period ended December 31, 2011. The Company has sustained significant losses since its inception in 2006. The Company had an accumulated deficit of \$64,803 after offsetting \$169,961 of the previously reported accumulated deficit to share capital as explained in Note 9. The Company has announced its intention to divest of its Systems segment, in part due to the cash required to fund that business segment.

These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon the divestiture of the remaining portion of its Systems segment, the ability to generate positive cash flow from its remaining business, and the ability to refinance the current portion of notes payable of \$13,738. There is substantial risk in the divestiture plans of the Systems segment.

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

2. BASIS OF PREPARATION (continued)

(ii) *Statement of compliance*

The interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB") using the accounting policies the Company expects to apply in its June 30, 2012 consolidated Financial Statements. The Company adopted IFRS in its first fiscal quarter interim financial statements for the period ending September 30, 2011, and were prepared in accordance with the requirements of IFRS 1 – First-time Adoption of IFRS ("IFRS 1") in its initial application of IFRS, as disclosed more fully in Note 18 of these interim financial statements.

Any changes to IFRS that are given effect in the Company's annual consolidated Financial Statements for the year ending June 30, 2012 could result in restatement of these interim financial statements. No such changes are anticipated at this time

(iii) *Basis of measurement*

These interim financial statements should be read in conjunction with the Company's 2011 annual consolidated financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") and in consideration of the IFRS transition disclosures included in Note 18 of these interim financial statements.

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

(iv) *Approval of Interim Financial Statements*

The interim financial statements were authorized for issuance by the Board of Directors on February 24, 2012.

(v) *Presentation currency*

These condensed consolidated interim financial statements are presented in United States dollars ("USD"). At the beginning of current year, the Company changed its presentation currency from Canadian dollars ("CAD") to USD. The Company has restated the comparable periods to reflect this change. However, as a result of this change in presentation currency, the Company's prior fiscal year interim and annual financial statements as filed may not be comparable to results filed in the current year.

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

2. BASIS OF PREPARATION (continued)

(vi) *Use of estimates and judgements*

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Transition to IFRS

For periods prior to and including June 30, 2011, Company's Financial Statements were previously prepared in accordance with Canadian GAAP. Canadian GAAP differed in some areas from related IFRS. In preparing these interim financial statements, the Company has amended certain accounting and measurement methods previously applied in the Canadian GAAP financial statements to comply with IFRS. Note 18 of these interim financial statements contains reconciliations and descriptions of the impact of the transition from Canadian GAAP to IFRS.

Basis of consolidation

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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

(i) *Business Combinations:*

Acquisitions on or after May 1, 2010

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

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

Acquisitions prior to May 1, 2010

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

(ii) *Subsidiaries*

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) *Jointly controlled entities*

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

In the fiscal year ended June 30, 2011, the Company made an investment in a joint venture named Sunblence Technologies Co.,LTD ("Sunblence" or the "China JV"). As at December 31, 2011 the Company has not yet fulfilled its remaining obligations (providing certain capital equipment, intellectual property and know-how).

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

(iv) Transactions eliminated upon consolidation:

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

Revenue recognition

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

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

- (a) the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- (b) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) the amount of revenue can be measured reliably;
- (d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
- (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Multiple-element arrangements

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

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

Cash and cash equivalents

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

Restricted cash

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

Inventories

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

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

Property, plant and equipment

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

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

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate.

Expenditures for repairs and maintenance are expensed as incurred.

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

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

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

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

Goodwill

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

Impairment of long-lived assets

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

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

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

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Non-derivative financial assets:

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

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

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

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

Loans and receivables:

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

Other financial liabilities:

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

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

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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

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

Provisions

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

Government grants

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

Employee Benefits

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee Benefits (continued)

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

Stock-based compensation

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

Research and development costs

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

Discontinued Operations

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

Non-current assets held for sale

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

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

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

Earnings per share

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

Future Changes in Accounting Policies

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Changes in Accounting Policies (continued)

(i) Financial instruments

Two phases of IFRS 9, Financial Instruments (“IFRS 9”) were issued by the IASB in November 2009 and October 2010. IFRS 9 will replace IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss (“FVTPL”) and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its Financial Statements.

(ii) Consolidated Financial Statements

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

(iii) Joint Arrangements

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Changes in Accounting Policies (continued)

(iv) Disclosure of Interests in Other Entities

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

(v) Fair Value Measurement

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

4. ACCOUNTS RECEIVABLE

	December 31, 2011	June 30, 2011
Trade	\$ 4,606	\$ 6,009
Other	49	89
Accrued	-	-
Allowance for doubtful accounts	(158)	(170)
	\$ 4,497	\$ 5,928

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

5. INVENTORIES

	December 31, 2011	June 30, 2011
Raw materials	\$ 3,200	\$ 3,913
Work-in-progress	1,626	1,326
Finished goods	389	411
Inventory at customer sites	60	-
Allowance for obsolescence	(80)	(92)
	<u>\$ 5,195</u>	<u>\$ 5,558</u>

6. RESTRICTED CASH

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

7. JOINT VENTURE

The China JV partner owns 51% of the China JV, and Enablence owns a 49% interest. The China JV will develop, manufacture and sell optical components based in part on Enablence's planar lightwave circuit ("PLC") technology.

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

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

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

At December 31, 2011, the Company had not delivered certain capital equipment or completed the transfer of intellectual property and know-how required to finalize the China JV agreement. As a result, the cash investment made by the Company as at December 31, 2011 has been recorded at cost, and the joint venture has not been proportionally consolidated. Once the transfer of capital equipment and intellectual property is completed, Enablence expects to account for the China JV using the proportionate consolidation method, whereby Enablence will include 49% of the China JV's results from operations and balance sheet in its interim financial statements.

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

7. JOINT VENTURE (continued)

Since its initiation, the China JV has incurred a net loss of \$123 of which \$60 would have been reflected in Enableness's financial results if proportionate consolidation had been adopted.

8. NOTES PAYABLE

	December 31, 2011	June 30, 2011
Secured note 1 (a)	\$ 3,247	\$ 4,212
Secured note 2 (b)	3,500	3,500
5% Subordinated notes (c)	10,762	10,531
5% Convertible notes (d)	2,929	3,000
	<u>20,438</u>	<u>21,243</u>
Less: current portion	<u>13,738</u>	<u>12,800</u>
Net long-term portion	<u>\$ 6,700</u>	<u>8,443</u>

(a) On July 16, 2010, a secured note payable, with a principal of \$1,879 at the time of redemption, was repaid from the proceeds of a new \$5,000 secured note. The new secured note of \$5,000 has a maturity date of July 20, 2013. The interest rate, based on the Wall Street Journal prime rate plus 1.50%, resulted in an interest rate of 4.75% at December 31, 2011. The note is repayable as interest only for the first six months, then monthly payments of \$181 per month for interest and principal thereafter. The note is secured by the assets of Enableness USA Components Inc. and is subject to certain financial performance and asset coverage covenants of the subsidiary.

(b) On May 10, 2011, Enableness finalized a note payable with a U.S. bank, with a principal amount of \$3,500, secured by \$1,200 of cash on deposit and a lien on the shares in the Company's investment in the China JV. The note has a maturity date of April 20, 2016 and an interest rate at the greater of 5.5% or Wall Street Journal Prime Rate plus 1.5%. The note is repayable as interest only for the first twelve months, then monthly payments of \$82 per month for interest and principal thereafter. As partial consideration for the loan, the Company issued to the bank warrants to purchase up to 400,000 common shares of Enableness, at an exercise price of CAD\$0.22 per share, expiring April 9, 2013. The warrants were valued at \$42 and recorded as a non-cash issuance cost. The fair value was determined using the Black-Scholes model.

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

8. NOTES PAYABLE (continued)

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

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

9. SHARE CAPITAL

Authorized:

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. At December 31, 2011, there are 466,546 common shares and no preferred shares outstanding.

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

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

9. SHARE CAPITAL (continued)

Warrants

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

	Six months ended December 31, 2011		Six months ended December 31, 2010	
	Number of warrants	Weighted average exercise price (CAD)	Number of warrants	Weighted average exercise price (CAD)
Outstanding and exercisable, beginning of period	4,451	\$ 0.44	3,903	\$ 0.37
Issued	-	-	1,464	0.58
Exercised	-	-	(1,316)	0.30
Expired	(2,587)	0.40	-	-
Outstanding, and exercisable end of period	1,864	\$ 0.50	4,051	\$ 0.47

The following table summarizes information for warrants outstanding:

Exercise price per share (CAD)	Expiry	December 31, 2011	December 31, 2010
\$ 0.40	August 4, 2011	-	2,587
\$ 0.58	December 5, 2012	1,464	1,464
\$ 0.22	April 9, 2013	400	-
		1,864	4,051

Stock option plan

The Company has established a stock option plan available for directors, officers, employees and consultants, and authorized a stock option pool equal to 10% of the outstanding common shares. At December 31, 2011, the available option pool was 46,655.

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

9. SHARE CAPITAL (continued)

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

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

	Six months ended December 31, 2011		Six months ended December 31, 2010	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Outstanding, beginning of period	28,687	\$ 0.74	17,964	\$ 0.86
Granted	-	-	13,915	0.60
Exercised	-	-	-	-
Forfeited	(2,327)	0.64	(878)	0.75
Expired	(1,369)	0.86	(279)	1.19
Outstanding, end of period	24,991	\$ 0.74	30,722	\$ 0.74
Exercisable, end of period	14,637	\$ 0.84	12,324	\$ 0.89

The following table summarizes the options outstanding and exercisable as at December 31, 2011:

Options Outstanding			Options Exercisable	
Exercise Price (\$) (CAD)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Exercise Price (\$) (CAD)
\$ 0.30	225	0.2	225	\$ 0.30
0.37	2,904	3.3	2,904	0.37
0.44	100	9.1	-	0.44
0.445	300	9.1	-	0.445
0.49	1,000	8.0	250	0.49
0.50	3,063	3.8	2,715	0.50
0.60	9,521	8.6	2,480	0.60
0.67	700	8.8	175	0.67
0.72	1,500	8.3	375	0.72
0.80	2,595	1.8	2,595	0.80
1.15	789	3.6	684	1.15
1.37	300	5.2	300	1.37
2.30	1,750	6.1	1,750	2.30
2.39	244	6.1	184	2.39
\$ 0.74	24,991	6.2	14,637	\$ 0.84

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

9. SHARE CAPITAL (continued)

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

	Six months ended December 31, 2011	Six months ended December 31, 2010
Risk-free interest rate	n/a	1.55-1.99%
Expected life of options (years)	n/a	5
Expected annualized volatility	n/a	99-100%
Expected dividend yield	n/a	nil
Weighted average Black-Scholes Value of each Option	n/a	\$ 0.34

Stock-based compensation is recorded as an increase to contributed surplus and transferred to share capital when the underlying options are exercised. The stock-based compensation expense for the Company is as follows:

	Three months ended December 31, 2011	Three months ended December 31, 2010	Six months ended December 31, 2011	Six months ended December 31, 2010
Stock based Compensation	\$ 169	\$ 303	\$ 409	\$ 513
Stock based Compensation – Discontinued Operations	9	605	310	717
Increase in Contributed Surplus	\$ 178	\$ 908	\$ 719	\$ 1,230

Grant date fair value of options issued during the three and six months ended December 31, 2011 was \$nil (2010 - \$4,911).

On December 14, 2011, shareholders' resolutions were passed to reduce the stated share capital of the common shares to an amount more representative of the value of the Company's net realizable assets. The Company elected to remove cumulative impacts of the Systems segment from retained earnings, totaling \$169,961. This adjustment was made during the three month period ended December 31, 2011, resulting in a decrease in share capital, and an offsetting decrease in accumulated deficit. The net impact of this change on equity is \$nil.

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

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

10. LOSS PER SHARE

As a result of the net losses in each of the reporting periods, the potential effect of the exercise of stock options, convertible notes and warrants was anti-dilutive; therefore, 26,855 potentially dilutive shares at December 31, 2011 (2010 – 34,773) have not been included in the calculation of diluted loss per common share for the three and six months ended December 31, 2011 and 2010.

11. RESTRUCTURING CHARGES

During the three months ended December 31, 2011, the Company recorded \$nil in restructuring costs (2010 - \$83). During the six months ended December 31, 2011, the Company recorded \$nil in restructuring costs (2010 - \$879). Included in trade and other payables at December 31, 2011 is \$90K related to restructuring charges (June 30, 2011 - \$230).

The restructuring charges are related to activities that are an effort to reduce costs and improve operating efficiencies. The restructuring charges consist of severance and benefits related to the reduction of the Company's workforce and the relocation of its Wilmington, Massachusetts operations to its Fremont, California location which was completed in the three months ended June 30, 2011.

12. FINANCIAL INSTRUMENTS

Carrying values and fair values

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

	December 31, 2011	June 30, 2011
Loans and receivables (1)	\$ 10,762	\$ 17,638
Other financial liabilities (2)	24,975	27,102

(1) Includes cash and cash equivalents, restricted cash and accounts receivable

(2) Includes trade and other payables and notes payable

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

12. FINANCIAL INSTRUMENTS (continued)

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

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

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

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

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

	Level 1	Level 2	Level 3	Total financial assets and liabilities at fair value
Financial assets				
Cash and cash equivalents	4,960	\$ -	\$ -	4,960
Restricted cash	1,305	-	-	1,305
Total financial assets	6,265	\$ -	\$ -	6,265

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

Credit risk

Financial instruments which potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents, restricted cash and accounts receivable. The Company primarily invests its excess cash in high quality financial instruments. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. One customer accounted for approximately 41% of the accounts receivable balance at December 31, 2011. As at June 30, 2011 two customers accounted for approximately 46% of the accounts receivable balance (24% and 22% individually).

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

12. FINANCIAL INSTRUMENTS (continued)

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

The age of trade accounts receivable (gross of the allowance of \$158 at December 31, 2011 (June 30, 2011 - \$170) is summarized as follows:

	December 31,		June 30, 2011
	2011		
Current or under 60 days	\$ 3,480	\$	4,803
Past due 61 to 90 days	218		211
Past due greater than 90 days	908		995
Total trade accounts receivable	\$ 4,606	\$	6,009

Of the \$908 of past due accounts receivable greater than 90 days at December 31, 2011, \$551 has been collected between December 31, 2011 and February 20, 2012.

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

	December 31,		June 30, 2011
	2011		
Balance, beginning of period	\$ 170	\$	99
(Decrease) increase during the period	(12)		71
Balance, end of period	\$ 158	\$	170

Interest rate risk

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

An increase in the interest rate of 1% would result in an increase in interest expense of \$13 and \$27 for the three and six months ended December 31, 2011 respectively (2010 - \$12 and \$25 respectively)

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

12. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk

The Company operates internationally with subsidiaries in the United States, Israel and Switzerland and is therefore subject to foreign currency risk. Enablence reports its financial results in U.S. Dollars. Most of the Company's revenues are based in U.S. currency, and the Company incurs expenses in both Canadian and U.S. dollars, the Israeli shekel and, to a lesser extent, the Swiss franc. To date, the Company has not used foreign currency forward contracts or other hedging strategies to manage its foreign currency exposure.

A 10% strengthening of the following currencies against the U.S. dollar would have increased net losses from operations and increased other comprehensive income ("OCI") by the amounts shown below. A weakening of the following currencies would have the opposite effect.

	Six months ended December 31, 2011		Six months ended December 31, 2010	
	Net loss	OCI	Net loss	OCI
CAD\$	\$ 759	\$ (1,225)	\$ 783	\$ (2,124)
Swiss francs (CHF)	(84)	(217)	(35)	(239)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company currently settles all of its financial obligations out of cash and cash equivalents. The ability to do so relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs.

At December 31, 2011, the Company has financial liabilities, payments for which are due as follows including interest:

	To December 30, 2012	To December 30, 2013	To December 30, 2014	To December 30, 2015	Beyond December 30, 2015	Total
Trade and other payables	\$4,537	\$-	\$-	\$-	\$-	\$4,537
Secured notes	2,865	2,231	978	978	326	7,378
Subordinated notes	11,001	-	-	-	-	11,001
Convertible debt	566	544	522	501	1,303	3,436
Total	\$18,969	\$2,775	\$1,500	\$1,479	\$1,629	\$26,352

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

13. CAPITAL MANAGEMENT

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

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

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

14. SEGMENTED INFORMATION

With the planned divestiture of certain operations (Discontinued Operations, Note 17), the Company operates in one segment, Optical Components.

Certain assets are analyzed geographically as follows:

	December 31, 2011		June 30, 2011	
	Property, plant and equipment	Goodwill, intangible and other assets	Property, plant and equipment	Goodwill, intangible and other assets
United States	\$ 5,182	\$ 5,697	\$ 5,766	\$ 5,785
Switzerland	2,775	-	3,024	-
Canada	568	183	624	369
	\$ 8,525	\$ 5,880	\$ 9,414	\$ 6,154

Revenue is analyzed geographically as follows:

	Three months ended December 31, 2011	Three months ended December 31, 2010	Six months ended December 31, 2011	Six months ended December 31, 2010
Americas	1,288	3,337	4,754	7,103
Asia Pacific	1,535	2,622	3,255	4,797
Europe, Middle East and Africa	728	2,756	1,364	4,932
	3,551	8,715	9,373	16,832

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

14. SEGMENTED INFORMATION (continued)

During the six months ended December 31, 2011, one customer accounted for 16% of the Company's total revenue. Three customers accounted for 54% of the Company's total revenue (25%, 17% and 12%, respectively) during the six months ended December 31, 2010.

15. COMMITMENTS

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

2012	\$ 547
2013	494
2014	344
2015	304
2016	18
2017 and beyond	-
	<hr/>
	\$ 1,707

At December 31 2011, the Company had a performance bond outstanding in the amount of \$2,850. This performance bond is secured by \$100 of restricted cash.

16. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Net change in non-cash operating working capital items:

	Three months ended December 31, 2011	Three months ended December 31, 2010	Six months ended December 31, 2011	Six months ended December 31, 2010
Net inflow (outflow) of cash:				
Accounts receivable	\$ 503	\$ (1,429)	\$ 1,495	\$ (1,893)
Inventories	466	(360)	322	(793)
Prepaid expenses and deposits	(12)	457	(39)	439
Trade and other payables	(1,167)	1,130	(1,289)	1,874
Unearned revenue	(103)	(30)	(125)	(99)
	<hr/>			
	\$ (313)	\$ (232)	\$ 364	\$ (472)

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

17. DISCONTINUED OPERATIONS

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

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

On September 15, 2011, the Company completed the sale of the substantial majority of its US Systems business in two transactions.

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

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

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

17. DISCONTINUED OPERATIONS (continued)

The following table presents selected financial information related to discontinued operations.

	December 31, 2011		June 30, 2011
Assets			
Current Assets of Discontinued Operations			
Cash and cash equivalents	\$ 2,377	\$	1,523
Accounts receivable	7,582		6,873
Inventories	3,495		9,638
Prepaid expenses and deposits	664		531
Restricted cash	815		2,626
	14,933		21,191
PROPERTY, PLANT AND EQUIPMENT			
	858		1,314
INTANGIBLES AND OTHER ASSETS			
	-		-
GOODWILL			
	-		-
	858		1,314
Total Assets Held for Disposal	\$ 15,791	\$	22,505
Liabilities			
Current Liabilities of Discontinued Operations			
Accounts payable and accrued liabilities	\$ 18,505	\$	23,426
Deferred Revenues	777		1,271
	19,282		24,697
DEFERRED TAX LIABILITY			
	-		-
NON CURRENT OTHER LIABILITIES			
	6,405		5,726
EMPLOYEE BENEFITS			
	1,152		1,453
	7,557		7,179
Total Liabilities Held for Disposal	\$ 26,839	\$	31,876

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

17. DISCONTINUED OPERATIONS (continued)

Results from operations:

	Three months ended		Six months ended	
	December 31		December 31	
	2011	2010	2011	2010
Revenues	\$ 12,159	\$ 25,409	\$ 20,361	\$ 44,284
Cost of revenue	9,286	17,454	14,485	30,719
Gross Margin	2,873	7,955	5,876	13,565
Gross Margin %	23.6%	31.3%	28.9%	31%
Operating Expenses				
Research and development	1,485	3,917	4,419	8,106
Sales and Marketing	1,157	3,504	2,896	6,691
General and administrative	581	1,331	814	2,831
Stock-based compensation	9	605	310	717
Amortization	94	3,530	251	7,241
Restructuring charges	-	-	(134)	218
Operating loss	(453)	(4,932)	(2,680)	(12,239)
Interest Income	(1)	(60)	-	6
Interest expense	(52)	12	(757)	12
Foreign exchange gain (loss)	60	193	380	75
Loss before income taxes	(446)	(4,787)	(3,057)	(12,146)
Recovery of deferred income taxes	0	906	0	1824
Loss from Discontinued Operations	\$ (446)	\$ (3,881)	\$ (3,057)	\$ (10,322)

18. TRANSITION TO IFRS

For all periods up to and including the year ended June 30, 2011, the Company prepared its Financial Statements in accordance with Canadian GAAP. These are the Company's second interim financial statements prepared in accordance with IFRS. The Company has applied IFRS 1 and the accounting policies set out in Note 3 have been applied in preparing these interim financial statements. The comparative information presented in these interim financial statements has also been presented under IFRS.

In preparing these interim financial statements, the Company's opening IFRS balance sheet was prepared as at May 1, 2010, the Company's date of transition to IFRS. This note contains reconciliations and descriptions of the impact of transition from Canadian GAAP to IFRS as at December 31, 2010 and June 30, 2011, and also for the fourteen month period ended June 30, 2011 and the three and six month periods ended December 31, 2010 respectively.

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

18. TRANSITION TO IFRS (continued)

Elective exemptions applied:

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

The Company has elected to apply the following exemptions:

Business combinations

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

Cumulative translation differences

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

Elective exemptions not applied by the Company

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

Fair value or revaluation as deemed cost

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

Leases

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

18. TRANSITION TO IFRS (continued)

Mandatory exceptions applied by the Company

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

Estimates

This exception prohibits the use of hindsight to correct estimates made under Canadian GAAP unless there was objective evidence of error. During the transition to IFRS the Company did not require any changes in estimates and did not note any errors in those estimates when reviewing for transition purposes. As a result, this exception had no impact on the Company's interim financial statements or on transition.

De-recognition of financial assets and financial liabilities

This exception required that any non-derivative financial assets or non-derivative financial liabilities that were de-recognized under Canadian GAAP, as a result of a transaction that occurred before May 1, 2010 would not be recognized under IFRS, unless they qualify for recognition as a result of a later transaction or event. The Company did not previously derecognize any assets or liabilities and as a result this exception had no impact on the Company's interim financial statements or on transition.

Hedge accounting

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

Non-controlling Interests

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

Financial Statement Reconciliations

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

Included within the reconciliations are adjustments that would have been made under Canadian GAAP to retrospectively reclassify the company's discontinued operations (note 17), as well as the change in presentation currency from CAD to USD (note 2). These adjustments do not relate to the transition from Canadian GAAP to IFRS.

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

18. TRANSITION TO IFRS (continued)

Canadian GAAP to IFRS consolidated balance sheet reconciliation as at December 31, 2010

	Note	Canadian GAAP (CAD)	Canadian GAAP (USD) (Note A)	IFRS Adjustments (USD)	IFRS (USD)
CURRENT ASSETS					
Cash and cash equivalents		\$ 17,491	\$ 17,579	\$ -	\$ 17,579
Accounts receivable		26,612	26,746	-	26,746
Inventories		20,773	20,877	-	20,877
Prepaid expenses and deposits		2,762	2,776	-	2,776
Restricted cash		2,952	2,967	-	2,967
		70,590	70,945	-	70,945
PROPERTY, PLANT AND EQUIPMENT		11,222	11,278	-	11,278
INTANGIBLE AND OTHER ASSETS		29,261	29,408	-	29,408
GOODWILL		42,964	43,181	8,101	51,282
		\$ 154,037	\$ 154,812	\$ 8,101	\$ 162,913
CURRENT LIABILITIES					
Operating Line of Credit		70	70	-	70
Trade and other payables		38,798	38,991	-	38,991
Unearned revenue		1,545	1,553	-	1,553
Current portion of notes payable		1,779	1,788	-	1,788
		42,192	42,402	-	42,402
NOTES PAYABLE		16,131	16,212	-	16,212
ACCRUED SEVERANCE PAY		1,390	1,397	-	1,397
DEFERRED INCOME TAX LIABILITY		9,496	9,544	-	9,544
OTHER LONG-TERM LIABILITIES	2	-	-	8,422	8,422
		69,209	69,555	8,422	77,977
EQUITY					
Share capital		221,540	212,375	-	212,375
Contributed surplus	1	11,419	10,612	(2,640)	7,972
Accumulated other comprehensive income (loss)	4	1,718	(2,872)	2,694	(178)
Deficit	1, 2, 4	(149,849)	(134,858)	(375)	(135,233)
		84,828	85,257	(321)	84,936
		\$ 154,037	\$ 154,812	\$ 8,101	\$ 162,913

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

18. TRANSITION TO IFRS (continued)

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

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

18. TRANSITION TO IFRS (continued)

Canadian GAAP to IFRS consolidated statement of loss, other comprehensive loss and comprehensive loss reconciliation for the three months ended December 31, 2010

	Note	Canadian GAAP (CAD)	Canadian GAAP (USD) (Note A)	IFRS Adjustments (USD)	IFRS (USD)
Revenue		\$ 8,828	\$ 8,715	\$ -	\$ 8,715
Cost of sales		5,921	5,845	-	5,845
Gross margin		2,907	2,870	-	2,870
Operating expenses					
Research and development		1,394	1,376	-	1,376
Sales and marketing		424	419	-	419
General and administration		1,728	1,706	-	1,706
Stock-based compensation	1	661	653	(350)	303
Amortization		390	385	-	385
Restructuring charges		84	83	-	83
		4,681	4,622	(350)	4,272
OPERATING LOSS		(1,774)	(1,752)	350	(1,402)
Other income (expense)					
Finance income		9	9	-	9
Finance expense		(250)	(247)	-	(247)
Foreign exchange gain		382	377	-	377
LOSS BEFORE INCOME TAXES		(1,633)	(1,613)	350	(1,263)
RECOVERY OF DEFERRED INCOME TAXES		120	118	-	118
Net loss from continuing operations		(1,513)	(1,495)	350	(1,145)
Net loss from discontinued operations	1	(3,836)	(3,787)	(481)	(4,268)
NET LOSS		(5,349)	(5,282)	(131)	(5,413)
OTHER COMPREHENSIVE (LOSS) INCOME					
Unrealized (loss) gain on translating financial statements of foreign operations		(2,503)	1	-	1
OTHER COMPREHENSIVE (LOSS) INCOME		(2,503)	1	-	1
COMPREHENSIVE LOSS		\$ (7,852)	\$ (5,281)	\$ (131)	\$ (5,412)

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

18. TRANSITION TO IFRS (continued)

Canadian GAAP to IFRS consolidated statement of loss, other comprehensive loss and comprehensive loss reconciliation for the six months ended December 31, 2010

	Note	Canadian GAAP (CAD)	Canadian GAAP (USD) (Note A)	IFRS Adjustments (USD)	IFRS (USD)
Revenue		\$ 17,266	\$ 16,832	\$ -	\$ 16,832
Cost of sales		12,082	11,772	-	11,772
Gross margin		5,184	5,060	-	5,060
Operating expenses					
Research and development		2,734	2,665	-	2,665
Sales and marketing		875	853	-	853
General and administration		3,043	2,971	-	2,971
Stock-based compensation	1	933	915	(402)	513
Amortization		780	760	-	760
Restructuring charges		911	879	-	879
		9,276	9,043	(402)	8,641
OPERATING LOSS		(4,092)	(3,983)	402	(3,581)
Other income (expense)					
Finance income		14	13	-	13
Finance expense		(492)	(479)	-	(479)
Foreign exchange gain		732	714	-	714
LOSS BEFORE INCOME TAXES		(3,838)	(3,735)	402	(3,333)
RECOVERY OF DEFERRED INCOME TAXES		346	335	-	335
Net loss from continuing operations		(3,492)	(3,400)	402	(2,998)
Net loss from discontinued operations	1	(10,245)	(9,952)	(757)	(10,709)
NET LOSS		(13,737)	(13,352)	(355)	(13,707)
OTHER COMPREHENSIVE (LOSS) INCOME					
Unrealized (loss) gain on translating financial statements of foreign operations		(5,026)	161	-	161
OTHER COMPREHENSIVE (LOSS) INCOME		(5,026)	161	-	161
COMPREHENSIVE LOSS		\$ (18,763)	\$ (13,191)	\$ (355)	\$ (13,546)

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

18. TRANSITION TO IFRS (continued)

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

	Note	Canadian GAAP (CAD)	Canadian GAAP (USD) (Note A)	IFRS Adjustments (USD)	IFRS (USD)
Revenue		\$ 35,300	\$ 35,000	\$ -	\$ 35,000
Cost of sales		25,668	25,444	-	25,444
Gross margin		9,632	9,556	-	9,556
Operating expenses					
Research and development		6,458	6,420	-	6,420
Sales and marketing		1,743	1,723	-	1,723
General and administration		6,988	6,952	-	6,952
Stock-based compensation	1	2,106	2,108	(883)	1,225
Amortization		1,457	1,436	-	1,436
Restructuring charges		1,429	1,411	-	1,411
		20,181	20,050	(883)	19,167
OPERATING (LOSS) INCOME		(10,549)	(10,494)	883	(9,611)
Other income (expense)					
Finance income		45	44	-	44
Finance expense		(1,045)	(1,041)	-	(1,041)
Gain on disposal of equipment		1	1	-	1
Foreign exchange gain		818	810	-	810
(LOSS) INCOME BEFORE INCOME TAXES		(10,730)	(10,680)	883	(9,797)
RECOVERY OF DEFERRED INCOME TAXES		582	577	-	577
Net (loss) income from continuing operations		(10,148)	(10,103)	883	(9,220)
Net loss from discontinued operations	1, 2, 3	(91,968)	(93,451)	(6,586)	(100,037)
NET LOSS		(102,116)	(103,554)	(5,703)	(109,257)
OTHER COMPREHENSIVE (LOSS) INCOME					
Unrealized loss on translating financial statements of foreign operations		(4,309)	(750)	-	(750)
OTHER COMPREHENSIVE (LOSS) INCOME		(4,309)	(750)	-	(750)
COMPREHENSIVE LOSS		\$ (106,425)	\$ (104,304)	\$ (5,703)	\$ (110,007)

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

18. TRANSITION TO IFRS (continued)

Notes to the reconciliation of the consolidated balance sheets as at December 31, 2010 and June 30, 2011 and consolidated statement of loss, other comprehensive income (loss) and comprehensive loss for the three and six months ended December 31, 2010 and the fourteen months ended June 30, 2011 are as follows:

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

Note A. Change in presentation currency adjustments not related to IFRS transition

As part of the transition to IFRS the Company reviewed the functional currency of each of its entities and determined that, under IFRS, there is no change to the functional currency for the parent Company or any of its subsidiaries. However, the Company elected to change its presentation currency from Canadian dollars ("CAD") to United States dollars ("USD") during the current period as described in Note 2. As a result, the Company adjusted its opening IFRS balance sheet (May 1, 2010) to account for the change in presentation currency retrospectively. IAS 21 requires a company to make this change by converting the balance sheet on transition at the exchange rate in effect on that day. The consolidated balance sheet was converted on transition at a rate of CAD\$1.0158 = US\$1.

IFRS transition adjustments

(1) *Share-based payments*

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

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

18. TRANSITION TO IFRS (continued)

(1) Share-based payments (continued)

These changes in accounting resulted in the Company adjusting contributed surplus and retained earnings by \$2,640 and \$3,099 on its consolidated balance sheet as at December 31, 2010 and June 30, 2011, respectively. This includes a recovery of \$1,172 to account for an updated estimate on forfeitures due to the announced divestiture of the Systems segment in the June 2011 quarter.

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

	Fourteen months ended June 30, 2011	Three months ended December 31, 2010	Six months ended December 31, 2010
Share based payments under Canadian GAAP (USD)	\$ 2,108	\$ 653	\$ 915
Share based payments under IFRS (USD)			
Continuing operations	1,225	303	513
Discontinued operations	860	605	717
Total Expense	2,085	908	1,230
Change to comprehensive loss	\$ 23	\$ (255)	\$ (315)

(2) Government Grants

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

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

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

18. TRANSITION TO IFRS (continued)

(2) *Government Grants (continued)*

The associated liability is adjusted from the original value, periodically based upon the funding received and the royalties due. The net impact to the associated liability and retained earnings was \$233 and \$462 as at as at December 31, 2010 and June 30, 2011, respectively. The Company re-assessed the fair-value of the liability to repay the Government as at June 30, 2011, using revised assumptions based upon Company policy to appropriately record the liability to fair-value at year-end, resulting in a reduction of the liability of \$2,467.

The cumulative impact of write-down of goodwill and the re-assessment of the liability resulted in the Company increasing accumulated deficit by \$233 and \$5,726 on its consolidated balance sheet as at as at December 31, 2010 and June 30, 2011, respectively.

(3) *Business Combinations*

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

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

As at June 30, 2011, the total acquisition-related costs of \$591 (\$554 and \$nil as at December 31, 2010 and May 1, 2010, respectively) was subsequently written off during the fiscal year ended June 30, 2011 in connection with the Company's annual impairment testing and additional impairment testing associated with the announced divestiture of the Systems segment.

(3) *Other comprehensive loss*

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended December 31, 2011 and 2010

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

18. TRANSITION TO IFRS (continued)

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

		June 30, 2011	December 31, 2010
Equity under Canadian GAAP (USD)	\$	9,938	\$ 85,257
Share-based payments (1)		-	-
Government grants (2)		(5,726)	233
Business Combinations (3)		-	(554)
Other comprehensive loss (4)		-	-
Total Equity under IFRS	\$	4,212	\$ 84,936

		Fourteen months ended June 30, 2011	Three months ended December 31, 2010	Six months ended December 31, 2010
Comprehensive loss under Canadian GAAP (USD)	\$	(104,304)	(5,281)	\$ (13,191)
Share-based payments (1)		23	(255)	(315)
Government grants (2)		(5,726)	133	187
Business Combinations (3)		-	(9)	(227)
Other comprehensive loss (4)		-	-	-
Total Comprehensive loss under IFRS	\$	(110,007)	(5,412)	\$ (13,546)

19. Comparative Period Adjustment

The Company has adjusted its condensed consolidated statements of cash flows for the six months ended December 31, 2011 to correct the presentation of certain amounts on the cash flow statement as previously reported for the three months ended September 30, 2011. The adjustment resulted in an increase of \$1,202 to cash used in operating activities - discontinued operations, offset to effect of foreign currency translation on cash, for the six months ended December 31, 2011. This adjustment on the cash flow statement had no impact on the Company's condensed consolidated balance sheets or its condensed consolidated statements of loss.