Condensed Consolidated Financial Statements of

ENABLENCE TECHNOLOGIES INC.

For the three and six months ended December 31, 2012 and 2011
(in thousands of United States dollars)

(Unaudited)

“Notice to Reader”

The accompanying unaudited condensed financial statements of Enablence Technologies Inc. for the three and six months ended December 31, 2012 have been prepared by Management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company’s external auditors.

Date: February 28, 2013

_*”Louis De Jong”*_______	_*”Louis De Jong”*_______
Louis De Jong	Louis De Jong
CEO	Acting CFO

ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Financial Statements

December 31, 2012 and 2011

(Unaudited)

ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Balance Sheets

(Unaudited - In thousands of United States dollars)

	Note	December 31, 2012	June 30, 2012
CURRENT ASSETS			
Cash and cash equivalents	3	**$ 2,233**	$ 3,974
Accounts receivable	4	**2,823**	2,663
Inventories	5	**3,942**	4,733
Prepaid expenses, deposits and taxes		**1,332**	1,191
Assets held for disposal	6	**68**	3,963
		10,399	16,524
PROPERTY, PLANT AND EQUIPMENT		**7,639**	8,710
INTANGIBLE AND OTHER ASSETS		**294**	337
		$ 18,331	$ 25,571
CURRENT LIABILITIES			
Trade and other payables		**$ 5,158**	$ 5,476
Current portion of notes payable	7	**16,128**	17,105
Liabilities related to assets held for disposal	6	**626**	816
		21,912	23,397
NOTES PAYABLE	7	**2,289**	2,559
OTHER LONG-TERM LIABILITIES		**307**	516
		24,508	26,472
DEFICIENCY			
Share capital	8	**55,905**	52,606
Contributed surplus		**9,426**	9,198
Accumulated other comprehensive loss		**(705)**	(404)
Deficit		**(70,803)**	(62,301)
		(6,177)	(901)
		$ 18,331	$ 25,571

GOING CONCERN (Note 2 (i))

See accompanying notes to the unaudited condensed consolidated financial statements

APPROVED BY THE BOARD

"Dan Hilton"
Chair of the Audit Committee

"Peter Dey"
Director

ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Statements of Comprehensive Loss

For the three and six months ended December 31, 2012 and 2011

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

	Note	Three months ended December 31, 2012	Three months ended December 31, 2011	Six months ended December 31, 2012	Six months ended December 31, 2011
Revenues		**$ 2,285**	$ 2,947	**$ 4,482**	$ 7,955
Cost of revenues		**2,367**	2,960	**4,124**	6,819
Loss on inventory impairment	5	**1,366**	-	**1,366**	-
Gross margin		**(1,447)**	(13)	**(1,007)**	1,136
Operating expenses:					
Research and development		**937**	1,280	**2,226**	2,607
Sales and marketing		**135**	184	**295**	406
General and administration		**1,131**	945	**2,257**	2,028
Stock-based compensation		**112**	169	**228**	409
Depreciation and amortization		**341**	148	**591**	323
		2,656	2,726	**5,597**	5,773
Operating loss		**(4,103)**	(2,739)	**(6,604)**	(4,637)
Other income (expenses):					
Finance and other income		**-**	15	**-**	36
Finance expense		**(368)**	(260)	**(924)**	(531)
Gain on disposal of equipment		**45**	-	**45**	
Foreign exchange gain (loss)		**(52)**	329	**479**	(612)
Loss before income taxes		**(4,478)**	(2,655)	**(7,004)**	(5,744)
Deferred income tax recovery		**-**	124	**-**	228
Net loss from continuing operations		**(4,478)**	(2,531)	**(7,004)**	(5,516)
Net loss from discontinued operations		**106**	(516)	**(1,498)**	(3,012)
Net loss		**(4,372)**	(3,047)	**(8,502)**	(8,528)
Other comprehensive income(loss):					
Foreign currency translation income(loss)		**224**	283	**(301)**	(67)
Comprehensive loss		**$ (4,148)**	$ (2,764)	**$ (8,803)**	$ (8,595)
Net loss per share, basis and diluted:					
Continuing operations		**$(0.16)**	$(0.11)	**$(0.27)**	$(0.24)
Discontinued operations		**$0.00**	$(0.02)	**$(0.06)**	$(0.13)
Consolidated operations		**$(0.15)**	$(0.13)	**$(0.33)**	$(0.37)
Weighted average number of outstanding shares:					
Basic and diluted	9	**28,578**	23,327	**25,953**	23,327

See accompanying notes to the unaudited condensed consolidated financial statements

ENABLENCE TECHNOLOGIES INC.
Condensed Consolidated Statements of Changes in Equity
For the three and six months ended December 31, 2012 and 2011
(Unaudited - In thousands of United States dollars and shares)

	Note	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Deficiency
Balance at July 1, 2011		466,546	$ 222,567	$ 8,631	$ (750)	$ (226,236)	$ 4,212
Stock-based compensation		-	-	719	-	-	719
Reduction of share capital to deficit		-	(169,961)	-	-	169,961	-
Net loss		-	-	-	-	(8,528)	(8,528)
Foreign currency translation loss		-	-	-	(67)	-	(67)
Balance at December 31, 2011		466,546	$ 52,606	$ 9,350	$ (817)	$ (64,803)	$ (3,664)
Balance at July 1, 2012		466,546	$ 52,606	$ 9,198	$ (404)	$ (62,301)	$ (901)
Stock-based compensation		-	-	228	-	-	228
November 5, 2012 Private Placement	8	124,133	2,060	-	-	-	2,060
November 26, 2012 Private Placement	8	77,447	1,286	-	-	-	1,286
Share issuance costs	8	-	(47)	-	-	-	(47)
Share consolidation	8	(634,720)	-	-	-	-	-
Net loss		-	-	-	-	(8,502)	(8,502)
Foreign currency translation loss		-	-	-	(301)	-	(301)
Balance at December 31, 2012		**33,406**	**$ 55,905**	**$ 9,426**	**$ (705)**	**$ (70,803)**	**$ (6,177)**

See accompanying notes to the unaudited condensed consolidated financial statements

ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Statements of Cash Flows

For the three and six months ended December 31, 2012 and 2011

(Unaudited - In thousands of United States dollars)

	Note	Three months ended December 31, 2012	Three months ended December 31, 2011	Six months ended December 31, 2012	Six months ended December 31, 2011
Cash provided by (used in)					
Operating activities					
Net loss		**$ (4,372)**	$ (3,047)	**$ (8,502)**	$ (8,528)
Gain(loss) from discontinued operations		**(106)**	516	**1,498**	3,012
Adjusted for the following non-cash items					
Amortization		**682**	493	**1,263**	1,011
Stock-based compensation		**112**	169	**228**	409
Gain on sale of equipment		**(45)**	-	**(45)**	-
Unrealized foreign exchange (gain) loss		**294**	(400)	**(254)**	710
Deferred income tax recovery		**-**	(105)	**-**	(209)
		(3,435)	(2,374)	**(5,812)**	(3,595)
Changes in non-cash working capital	12	**1,004**	(265)	**15**	294
Cash used in operating activities - continuing operations		**(2,431)**	(2,639)	**(5,797)**	(3,301)
Cash provided by operating activities - discontinued operations	6	**398**	(5,469)	**609**	(2,067)
Cash (used in) provided by operating activities		**(2,033)**	(8,108)	**(5,188)**	(5,368)
Investing activities					
Purchase of property, plant and equipment		**(46)**	(60)	**(172)**	(222)
Decrease (increase) in restricted cash		**-**	(5)	**-**	(5)
Proceeds from sale of business		**-**	8		-
Cash used in investing activities - continuing operations		**(46)**	(57)	**(172)**	(227)
Cash provided by investing activities - discontinued operations		**1,930**	1,640	**1,930**	1,712
Cash used in investing activities		**1,884**	1,583	**1,758**	1,485
Financing activities					
Proceeds from issuance of shares, net of issuance costs	8	**3,299**	-	**3,299**	-
Advances from (repayment of) notes payable		**(2,656)**	(319)	**(1,285)**	(694)
Cash provided by (used in) financing activities - continuing operations		**643**	(319)	**2,014**	(694)
Cash provided by (used in) financing activities - discontinued operations			(91)		(91)
Cash provided by (used in) financing activities		**643**	(410)	**2,014**	(785)
Effect of foreign currency translation on cash and cash equivalents		**(29)**	2,095	**(21)**	78
(Decrease) increase in cash and cash equivalents		**465**	(4,840)	**(1,437)**	(4,590)
Cash and cash equivalents, beginning of period		**2,427**	12,177	**4,329**	11,927
Cash and cash equivalents, end of period		**2,892**	7,337	**2,892**	7,337
Less cash of discontinued operations at end of period	6	**(659)**	(3,008)	**(659)**	(3,008)
Cash and cash equivalent, end of period - continuing operations		**$ 2,233**	$ 4,329	**$ 2,233**	$ 4,329
Interest paid		**$ 719**	$ 136	**$ 781**	$ 280
Interest received		**-**	15	**-**	36

See accompanying notes to the unaudited condensed consolidated financial statements

These unaudited condensed consolidated financial statements should be read in conjunction with Enablence Technologies Inc.'s annual, audited financial statements approved by the Company's Board of Directors on February 28, 2013. "Enablence" and the "Company" mean either Enablence Technologies Inc. and its subsidiaries, joint ventures and associated companies collectively or the entity Enablence Technologies Inc., as the context dictates. Amounts reported are in thousands of U.S. dollars, except where noted.

1. CORPORATE INFORMATION

Enablence is incorporated under the Canada Business Corporations Act. Its head office is located at 390 March Road, Suite 119, Ottawa, Ontario, K2K 0G7, Canada. Enablence is a publicly-traded company listed on the TSX Venture Exchange (TSXV – ENA). The Company designs, manufactures and sells optical components and subsystems 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 PRESENTATION

(i) Going Concern

These Condensed Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and on a going concern basis. 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, 2012, excluding discontinued operations, the Company has cash of $2,233 (including $963 held in its joint venture company in China, Sunblence Technologies Co., LTD. ("Sunblence"), negative working capital of $12,071 and used $5,797 of cash in its operating activities for the six months ended December 31, 2012. The Company has sustained significant losses since its inception. Enablence has a deficit of $70,803 at December 31, 2012. As at December 31, 2012 the Company had $16,128 of notes payable that are due in the next 12 months, including $10,596 of subordinated notes payable ("Subordinated Notes") and $3,456 of convertible notes payable ("Convertible Notes") that are in default. On February 19, 2013 the Convertible Notes were converted to common shares of the Company (See Subsequent Events Note 14) and the terms of the Subordinated notes are in the process of being renegotiated. In addition, On February 19, 2013 the Company raised additional equity in the amount of Cdn$3,010 through a non-brokered private placement (See Subsequent Events Note 14).

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 its ability to generate positive cash flows, and its ability to refinance the current portion of notes payable, and its ability to obtain sufficient additional cash in order to execute its business plan, including funding operating losses.

2. BASIS OF PRESENTATION (continued)

If the going concern assumption was not appropriate for these 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.

(ii) Statement of compliance

These Condensed Consolidated Financial Statements were prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), under International Accounting Standard ("IAS") 34 – Interim Financial Reporting. These Condensed Consolidated Financial Statements were prepared using the same basis of presentation, accounting policies and methods of computation as outlined in Note 3, Significant Accounting Policies in our audited consolidated financial statements for the year ended June 30, 2012. The condensed consolidated financial statements do not include all of the notes required in annual financial statements.

These condensed consolidated financial statements were authorized for issuance by the Board of Directors on February 28, 2013.

(iii) 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 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 and the carrying values of intangible assets. Actual results could differ from these estimates.

Significant judgements in the accompanying financial statements relate to the going concern assessment and the determination of cash generating units.

(iv) Future changes in accounting policies:

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

<u>Financial instruments</u>
IFRS 9, Financial Instruments ("IFRS 9") was issued by the IASB in October 2010, and 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

2. BASIS OF PRESENTATION (continued)

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.

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.

Joint Arrangements
IFRS 11, Joint Arrangements ("IFRS 11") was issued by the IASB in May 2011. IFRS 11 provides a view of joint arrangements by based 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. Enablence expects that it will account for its investment in Sunblence (Note 22) using the equity method for its fiscal year ending June 30, 2014 rather than the proportionate consolidation method after adopting IFRS 11. Details of Sunblence's financial position and results of operations are provided in Note 13 to these financial statements.

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 associates 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 Company is currently evaluating the impact of IFRS 12 on its financial statements.

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.

Presentation of Financial Statements
Amendments to IAS 1, Presentation of Financial Statements ("IAS 1"), which are effective for annual periods beginning on or after July 1, 2012, are to be applied retroactively. The

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

2. BASIS OF PRESENTATION (continued)

amendments require that an entity present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. The Company is currently evaluating the impact of amendments to IAS 1 on its financial statements.

Investments in Associates and Joint Ventures
In May 2011, the IASB issued amendments to IAS 28, Investments in Associates and Joint Ventures ("IAS 28"), which are effective for interim and annual periods commencing January 1, 2013. These amendments require any retained portion of an investment in an associate or joint venture that has not been classified as held-for-sale to be measured using the equity method until disposal. After disposal, if the retained interest continues to be an associate or joint venture, the amendments require for it to be continued to be accounted for under the equity method. The amendments also disallow the re-measurement of any retained interest in an investment upon the cessation of significant influence or joint control. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

3. CASH AND CASH EQUIVALENTS

	December 31, 2012	June 30, 2012
Cash	**$ 1,265**	$ 767
Restricted Cash	**5**	1,205
Cash at Sunblence	**963**	2,002
Total Cash and cash equivalents	**$ 2,233**	$ 3,974

4. ACCOUNTS RECEIVABLE

	December 31, 2012	June 30, 2012
Trade	**$ 2,841**	$ 2,520
Other	**31**	194
Allowance for doubtful accounts	**(49)**	(51)
Total accounts receivable	**$ 2,823**	$ 2,663

5. INVENTORIES

	December 31, 2012	June 30, 2012
Raw materials	**$ 3,136**	$ 3,418
Work-in-progress	**692**	1,282
Finished goods	**114**	136
Inventory at customer sites	**-**	172
Allowance for obsolescence	**-**	(275)
Total Inventory	**$ 3,942**	$ 4,733

Following a review of inventory at December 31, 2012, the Company recorded a loss on inventory impairment in the amount of $1,366. This write-down was a result of: i) certain inventory items determined to be obsolete, and ii) inventory items valued at a cost which was

5. INVENTORIES (continued)

greater than net realizable value and as such were written down to net realizable value. This amount has been recorded on the Condensed Consolidated Statements of Comprehensive Loss.

6. DIVESTITURE OF ENABLENCE SWITZERLAND and ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

On November 19, 2012 the Company closed the sale of its wholly-owned Swiss subsidiary, Enablence Switzerland ("ENA Switzerland"), to Albiva Holdings AG for a total gross proceeds of \$2,000 (net proceeds of \$1,930) paid on closing, and the repayment of an intercompany loan of \$82 within twelve months of the closing. Paradigm Capital Inc., Enablence's financial advisor, earned a commission of 3.5% of the purchase price.

Presentation of Discontinued Operations Financial Information

The assets and liabilities related to ENA Switzerland had previously been presented as assets or liabilities held for disposal on the Company's consolidated balance sheets and comparative period amounts had been restated. Operating results related to these assets and liabilities have been included in results from discontinued operations on the condensed consolidated statements of loss up to the date of the divestiture, and comparative period amounts have been restated.

The assets and liabilities related to the Systems segment have been presented as assets and liabilities held for disposal on the condensed consolidated balance sheets as at December 31, 2012 and comparative prior periods. Operating results related to these assets and liabilities have been included in results from discontinued operations on the condensed consolidated statements of loss, and comparative period balances have been restated. There are no operating results to report for these remaining net assets relating to the Systems segment for the reported periods.

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

6. DIVESTITURE OF ENABLENCE SWITZERLAND and ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

The following tables presents selected financial information related to assets held for sale for the Systems segment.

	December 31, 2012	June 30, 2012
Assets		
Cash and cash equivalents	**$ 14**	$ 355
Accounts receivable	**-**	348
Inventories	**50**	600
Prepaid expenses and deposits	**4**	178
Property, plant and equipment	**-**	2,482
Total assets held for disposal	**$ 68**	$ 3,963
Liabilities		
Trade and other payables	**626**	816
	$ 626	$ 816

The following table summarizes the proceeds of disposal applied to the net assets of ENA Switzerland:

Proceeds of Disposal	
Gross proceeds on disposal	$ 2,000
Commission on disposal	(70)
Net proceeds	1,930
Assets sold	2,483
Less liabilities sold	(424)
Net assets sold	2,059
Loss on disposal of net assets	(129)

The related assets and liabilities for ENA Switzerland at the time of sale on November 19, 2012 were as follows:

Assets and Liablilities held for sale	November 19, 2012
Cash and cash equivalents	$ 646
Accounts receivable	355
Inventories	563
Prepaid expenses and deposits	116
Property, plant and equipment	803
	$ 2,483
Trade and other payables	424
	$ 424

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

6. DIVESTITURE OF ENABLENCE SWITZERLAND and ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS (continued)

The results of operations of ENA Switzerland as included in discontinued operations of the Company up to the date of divestiture were as follows:

	Three months ended		Six months ended		
	December 31, 2012	December 31, 2011	**December 31, 2012**		December 31, 2011
Revenue	**$ 616**	$ 12,763	**$ 1,375**		$ 21,778
Cost of revenue	**187**	10,010	**564**		15,458
Gross margin	**429**	2,753	**811**		6,320
Operating expenses:					
Research and development	**86**	1,406	**230**		4,753
Sales and marketing	**36**	1,230	**94**		3,049
General and administrative	**45**	577	**99**		880
Stock-based compensation	**-**	9	**-**		310
Amortization	**11**	94	**32**		251
Restructuring recovery	**-**	-	**-**		(134)
Operating expenses	**179**	3,316	**456**	**-**	9,109
Operating income (loss)	**251**	(563)	**356**	**-**	(2,789)
Interest income	**-**	(1)	**-**		-
Interest expense	**3**	(61)	**-**		(758)
Property, plant and equipment Impairment loss	**-**	(10)	**(1,676)**		-
Loss on sale of ENA Switzerland	**(129)**	-	**(129)**		-
Foreign exchange (loss) gain	**(19)**	119	**(49)**		535
Loss before income taxes	**106**	(516)	**(1,498)**	**-**	(3,012)
Recovery of deferred income taxes	**-**	-	**-**		
Loss from discontinued operations	**$ 106**	$ (516)	**$ (1,498)**		$ (3,012)

As a result of the sale of ENA Switzerland on November 19, 2012, during the quarter ended September 30, 2012 the Company determined that there was an impairment of net assets within discontinued operations relating to ENA Switzerland, and as a result an impairment charge of $1,676 was recorded at that time. The impairment loss is included in the Net Loss from discontinued operations on the Statement of Comprehensive loss.

7. NOTES PAYABLE

		December 31, 2012	June 30, 2012
Bank Loan 1	(a)	**$ 1,404**	$ 2,252
Bank Loan 2	(b)	**1,961**	3,369
Bridge Loan	(c)	**1,000**	-
Secured Notes	(d)	**10,596**	11,037
Convertible Notes	(e)	**3,456**	3,006
		18,417	19,664
Less current portion		**16,128**	17,105
Long term portion		**$ 2,289**	$ 2,559

(a) On July 16, 2010, a secured note payable with a U.S. Bank, with a principal balance of $1,879 was repaid from the proceeds of a new $5,000 secured note. The new secured note of $5,000 ("Bank Loan 1") had a maturity date of July 20, 2013, is secured by the assets of Enablence USA Components Inc., is repayable by monthly payments of $181 for principal and interest, with an interest rate based on the Wall Street Journal prime rate plus 1.50% and is subject to certain financial performance and asset coverage covenants of the subsidiary. At June 30, 2012, the Company was in breach of certain covenants on this note payable and as a result the Company renegotiated Bank Loan 1 and is no longer in breach. In December 2012 the maturity date of the bank loan was extended to December 20, 2015 resulting in monthly payments of principal and interest being reduced to $52. The interest rate on the loan at December 31, 2012 was 4.75% (June 30, 2012 – 4.75%).

(b) On May 10, 2011, Enablence finalized a note payable with a U.S. bank, with a principal amount of $3,500 ("Bank Loan 2"), secured by $1,200 of cash on deposit and a lien on the shares in the Company's investment in Sunblence. Bank Loan 2 has a maturity date of April 20, 2016 and an interest rate of 5.5% at September 30, 2012 (June 30, 2012 5.5%), based on the greater of 5.5% or the Wall Street Journal Prime Rate plus 1.5%. Bank Loan 2 is repayable by monthly payments of $82 for interest and principal. As partial consideration for Bank Loan 2, the Company issued warrants to the bank to purchase up to 400,000 common shares of Enablence, at an exercise price of Cdn$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. During the three months ended September 30, 2012, $1,200 of cash previously reflected as restricted cash (note 3) was used to partially repay Bank Loan 2.

(c) In July 2012, the Company obtained a $3,000 bridge loan from a U.S Bank ("Bridge Loan"), to fund Enablence's operations through October 2012. The Bridge Loan, which has been guaranteed by a third party, was secured by the proceeds from the sale of ENA Switzerland, and the assets of the Company. On November 20, 2012, following the sale of ENA Switzerland, the Company repaid $2,000 on the Bridge Loan. In conjunction with the Bridge Loan, the Company previously entered into a priorities and standstill agreement with the holders of the Secured Notes (defined below), which are subordinated notes with principal and interest owing of $10,596 at December 31, 2012. This agreement provided the Bridge Loan lender with senior security to the Secured Notes as well as certain restrictions on the Secured Notes holders to initiate enforcement action against the Company. This agreement was intended to provide the Company the time it needs to complete the negotiation and documentation of amendments to the Company's loan obligations. The maturity date of the Bridge Loan is in the process of being extended by the bank to June 30, 2013.

(d) Secured notes, with a principal amount of $10,000, are secured by a subordinated lien on the Company's North American assets ("Secured Notes"). These notes had a maturity date of June 23, 2012 and an interest rate of 5%. Principal and interest were payable at maturity. In November 2012 a payment in the amount of Cdn$718 was made on the Secured Notes resulting in an outstanding balance at December 31, 2012 of $10,596, all of which is included in current liabilities. As noted above, during the three months ended September 30, 2012, the Company entered into a standstill agreement with the holders of the Secured Notes to negotiate revised terms for the notes. Discussions are underway with the holders of the Secured Notes to resolve the default and finalize revised terms.

7. NOTES PAYABLE (continued)

(e) Convertible notes, with a principal amount of $3,000, are unsecured, mature on November 19, 2018 and had an interest rate of 5% ("Convertible Notes") when they were issued on November 19, 2008. For the first 36 months, monthly interest-only payments were required to be 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 the holder's option), 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 (Cdn$0.365) in the first two years, $0.349 (Cdn$0.402) in the third year, $0.384 (Cdn$0.442) in the fourth year and $0.422 (Cdn$0.486) in the fifth year. The maximum number of shares that can be issued pursuant to the notes is 9,464 shares. On February 19, 2013, the Convertible Notes were converted to 10,834 common shares of Enablence at Cdn$0.33 per share (see Note 14 Subsequent Events).

The Company originally recorded the entire value of the Convertible Notes as debt as the Company determined there was no value associated with the equity component. At December 31, 2012, as a result of being in default on missed payments (the Company stopped making payments on these notes in January 2012), this debt has been reclassified to current liabilities and interest has been accrued at 18% from January 2012 to December 31, 2012 based on the terms of default.

8. SHARE CAPITAL

During November 2012, the Company raised $3,346 of equity financing. The first tranche of the non-brokered private placement financing closed on November 5, 2012 with the sale of 124,133 common shares for proceeds of $2,060. The first tranche was completed at two different prices: (i) Cdn$462 at a price of Cdn$0.005 per share with the sale of 92,370 common shares of Enablence, using the TSX Venture Exchange Policy on Temporary Relief from Certain Pricing Requirements ("TRCPR"), and (ii) Cdn$1,588 at a price of Cdn$0.05 per share with the sale of 51,578 common shares of Enablence. The second tranche closed on November 26, 2012 with the sale of 77,447 common shares for proceeds of $1,286. The second tranche was completed at two different prices: (i) Cdn$288 at a price of Cdn$0.005 per share with the sale of 57,630 common shares of Enablence, using the TRCPR, and (ii) Cdn$991 at a price of Cdn0.05 per share with the sale of 19,817 common shares of Enablence. The shares are subject to a four-month hold period which expires on March 24, 2013, pursuant to applicable securities laws.

On December 5, 2012, the Company consolidated its common share capital on the basis of one (1) post-consolidation common share for every twenty (20) pre-consolidation common shares held ("Share Consolidation") following shareholder and TSX Venture Exchange approval. The Share Consolidation reduced the Company's 668,126 issued and outstanding common shares at that time to 33,406 post-consolidation common shares. The exercise or conversion price of outstanding stock options and warrants, and the number of such options and warrants outstanding, was proportionately adjusted based upon the Share Consolidation. The Company's share and per share data for prior periods has been restated to give effect to the Share Consolidation.

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

9. LOSS PER SHARE

As a result of the net loss from continuing operations and the net loss in each of the reporting periods, the potential effect of the exercise of stock options, convertible notes and warrants was anti-dilutive. Accordingly, 490 potentially dilutive option shares at December 31, 2012 (2011 – 1,250) and 20 (2011 – 93) share warrants have not been included in the calculation of diluted loss per common share for the three months ended December 31, 2012.

10. FINANCIAL INSTRUMENTS

Credit risk
The age of trade accounts receivable is summarized as follows prior to the allowance of $49 at December 31, 2012 (June 30, 2012 - $51)):

	December 31, 2012	June 30, 2012
Current or under 60 days	**$ 2,120**	$ 2,071
Past due 61 to 90 days	**39**	17
Past due more than 90 days	**682**	432
Total Trade accounts receivable	**$ 2,841**	$ 2,520

Management has reviewed the receivables balances in detail, and is satisfied that the allowances for uncollectible accounts are sufficient.

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. The Company's ability to settle its financial obligations are also dependant on the Company's ability to secure additional financing.

At December 31, 2012, the Company has financial liabilities, payments for which are due as follows including interest:

Liquidity risk	**to June 30, 2013**	**to June 30, 2014**	**to June 30, 2015**	**to June 30, 2016**	**to June 30, 2017**	**Total**
Trade and other payables	$ 5,158	$ -	$ -	$ -	$ -	$ 5,158
Secured notes payable	2,261	628	628	471	-	3,988
Subordinated notes payable	10,596	-	-	-	-	10,596
Convertible notes payable	3,456					3,456
Bridge loan	1,000	-	-	-	-	1,000
Total	$ 22,471	$ 628	$ 628	$ 471	$ -	$24,198

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

As certain notes payables are in default, these have been classified as current on the balance sheet, however, the financial liabilities above have been presented based upon the initial payment terms.

11. SEGMENTED INFORMATION

The Company operates in one segment, Optical Components, with the divestiture of its systems business (Discontinued Operations, Note 6).

Certain assets are analyzed geographically as follows:

	December 31, 2012		June 30, 2012	
	Property plant and equipment	**Intangibles and other assets**	Property plant and equipment	Intangibles and other assets
United States	**$ 4,112**	**$ 66**	$ 4,769	$ 74
China	**3,145**	**-**	3,390	-
Canada	**382**	**227**	551	263
Total	**$ 7,639**	**$ 294**	$ 8,710	$ 337

Revenue is analyzed geographically as follows:

	Three months ended		**Six months ended**	
	December 31, 2012	December 31, 2011	**December 31, 2012**	December 31, 2011
Americas	**$1,181**	$1,057	**$1,725**	$3,710
Asia Pacific	**350**	1,277	**1,249**	2,997
Europe, Middle East and Africa	**754**	613	**1,508**	1,248
	$2,285	$2,947	**$4,482**	$7,955

During the six months ended December 31, 2012, two customers accounted for 43% (28% and 15%, respectively) of the Company's total revenue and for the same period of the prior year one customer accounted for 19% of the Company's total revenue.

The Company generates revenue principally from the sale of its components and subsystems products ("Product") to leading communications systems suppliers. The Company also generates revenue from non-recurring engineering ("NRE") development services for clients.

	Three months ended		**Six months ended**	
	December 31, 2012	December 31, 2011	**December 31, 2012**	December 31, 2011
Product	$1,261	$2,511	$3,386	$6,706
NRE	1,024	436	1,096	1,249
Total	$2,285	$2,947	$4,482	$7,955

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

12. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Net change in non-cash operating working capital items:

	Three months ended		Six months ended	
	December 31, 2012	December 31, 2011	**December 31, 2012**	December 31, 2011
Net inflow (outflow) of cash:				
Accounts receivable	**$ 4**	$ 601	**$ (61)**	$ 1,461
Inventories	**1,196**	449	**790**	306
Prepaid expenses and deposits	**205**	(16)	**(142)**	(64)
Trade and other payables	**(402)**	(1,174)	**(573)**	(1,284)
Unearned revenue	**-**	(125)	**-**	(125)
	$ 1,004	$ (265)	**$ 15**	$ 294

13. JOINT VENTURE

The following amounts are included in the Company's interim financial statements as a result of the proportionate consolidation of the Company's 49% joint venture interest in Sunblence.

	December 31, 2012	June 30, 2012
Current assets	**$ 2,583**	$ 3,169
Non-current assets	**3,145**	3,390
Current liabilities	**145**	38
Non-current liabilities	**127**	340

	Three months ended	**Six months ended**
	December 31, 2012	**December 31, 2012**
Revenue	**$ 132**	$ 204
Operating and other expenses	**484**	1,093
Net loss	**(351)**	(888)
Foreign currency translation gain	**132**	187
Comprehensive loss	**(219)**	(701)

Note 1 - Operations commenced in June 2012

14. SUBSEQUENT EVENTS

On February 19, 2013 the Company closed a non-brokered private placement equity financing of Cdn$3,010 with certain existing shareholders issuing 9,121 common shares at a price of $0.33 per share.

On February 19, 2013 the Company issued 10,834 common shares to former shareholders of Pannaway for the cancellation of certain unsecured convertible notes and repayment of the debt in the amount of approximately US$3,500 at price of Cdn$0.33 per share. As a result of this conversion, the total principal and interest outstanding at the time of conversion will be transferred to share capital.