



ENABLENCE TECHNOLOGIES INC.

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

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2013

DATED: MAY 30, 2013

## Contents of this MD&A

Management's Discussion and Analysis of Financial Condition and Results of Operations.....	3
Forward-looking Statements .....	3
Overview .....	4
Enableness's business.....	4
Highlights and Summary, and Subsequent Events.....	4
Results of Operations .....	5
Summary of unaudited quarterly results.....	5
Summary of Results for the Three Months and Nine Months Ended March 31, 2013 Compared to the Three Months and Nine Months Ended March 31, 2012 .....	6
Revenues .....	7
Gross margin.....	8
Operating expenses .....	8
Finance and other income.....	9
Finance expense.....	9
Foreign exchange gain (loss).....	10
Income taxes.....	11
Net loss from continuing operations .....	11
Income (loss) from discontinued operations.....	11
Loss per common share.....	12
Outlook.....	12
Liquidity.....	13
Capital Resources.....	15
Off-balance Sheet Arrangements .....	16
Transactions with Related Parties .....	16
Risks and Uncertainties .....	17
Critical Accounting Estimates .....	17
Changes in Accounting Policies.....	17
Financial and Other Instruments.....	17
Additional Information .....	17
Glossary of Terms.....	18

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

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

The following is a discussion and analysis of the financial condition of Enablence Technologies Inc. at March 31, 2013 compared to June 30, 2012 and results of operations for the three and nine months ended March 31, 2013 compared to the three and nine months ended March 31, 2012.

This MD&A should be read in conjunction with our unaudited condensed consolidated financial statements for the three and nine months ended March 31, 2013 as well as our audited consolidated financial statements and accompanying notes for the year ended June 30, 2012. References made herein to "Enablence", the "Company", "we" and "our" mean Enablence and its subsidiaries, joint ventures and associated companies, collectively, unless the context indicates otherwise. All amounts (including numbers of common shares, options and warrants) included in the MD&A are in thousands, except per share amounts or as indicated otherwise. All financial amounts are in US\$, unless stated otherwise. Other continuous disclosure filings for the Company are available on [www.sedar.com](http://www.sedar.com)

While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, several adverse conditions and events cast substantial doubt upon the validity of this assumption at this time. The Company's continued existence is dependent upon its ability to secure additional financing and to attain profitable operations. Management is active in addressing these issues although there is no assurance that they will be successful. If the going concern assumption were not appropriate for these financial statements, adjustments might be necessary in the carrying values of assets and liabilities and the balance sheet classifications.

The effective date of this MD&A is May 30, 2013. The financial statements include the Company's 49% proportional share of the revenues, expenses, assets and liabilities of Sunblence, our joint venture in Foshan City, China.

### **FORWARD-LOOKING STATEMENTS**

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

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

- The Company will be able to raise sufficient financing to meet its financial obligations as they come due, and will be able to renegotiate certain financial obligations as they come due.
- Sunblence will achieve satisfactory volume growth, financial performance, including gross margins and operating expenses.

- The Company will continue to successfully reduce product costs to improve the Company's gross margin and/or avoid any margin erosion associated with competitive pricing pressure.
  - Enablence will develop and deliver new products on time in order to satisfy the requirements of current and future customers and contribute to near-term profitability.
  - Enablence will be able to attract and retain key people.
- The average exchange rates for Canadian dollars to U.S. dollars will be at or near Cdn\$1.00 = US\$1.00.

## **QUARTER HIGHLIGHTS AND SUBSEQUENT EVENTS**

The following summarizes the key items of the Company's third fiscal quarter ended March 31, 2013:

- Reported revenues of \$1,838 and a loss from continuing operations of \$2,829.
- Louis De Jong was appointed Chief Executive Officer of the Company succeeding John Roland, acting Chief Executive Officer. John Roland succeeded Peter Dey as Chairman of the Board.
- Issued 10,834 common shares to former shareholders of Pannaway for the cancellation of the Convertible Notes and repayment of the debt in the amount of approximately \$3,500.
- Raised Cdn\$3,010 gross through a non-brokered private placement with certain existing shareholders issuing 9,121 common shares at a price of \$0.33 per share.

## **OVERVIEW**

### ***ENABLENCE'S BUSINESS***

Enablence designs, manufactures and sells optical components and for all three segments of optical networks - access, metro and long-haul markets - to a global customer base. It utilizes its patented technologies, including PLC intellectual property, know-how and trade secrets in the production of an array of photonic components. The Company's product lines address: access - connecting homes and businesses to the network; metro - communication rings within large cities; and long-haul - linking cities, countries and continents, however is predominately focused on the metro and long-haul segments. The Company offers leading expertise in transmission, switching & routing, wavelengths management, and signal performance management for networks ranging from 1.25 to 100 gigabits per second. The Company's growing product line includes ROADM components, AWG products, VOAs and VMUX products that combine AWG and VOA functions into one product. The Company also earns revenues from engineering and design services, generally for products on the Company's roadmap and retaining any IP developed under such contracts. In addition, in June 2012, Sunblence began producing optical splitter chips for the Chinese market.

Enablence's PLC optical chip technology enables the integration of sub-components (such as waveguides, photodetectors, lasers and transimpedance amplifiers) onto one platform, which forms a photonic integrated circuit ("PIC") chip. The Company's core technology is portable to many markets that require filtering technology to separate and multiplex various optical signals. The chip-based integration capabilities of the Enablence platform technology makes it also suitable for an array of applications outside of telecommunications, including biomedical and aerospace applications, instrumentation, data centres and sensor systems.

## ***Sunblence - Our Chinese Joint Venture***

The Company's joint venture in Sunblence Technologies Co., Ltd. ("Sunblence"), based in Foshan, China, is well capitalized and expects to produce positive cash flow in calendar 2013. As the only wafer fab deploying planar lightwave circuit ("PLC") based manufacturing for optical wafers and chips in China, Sunblence is very well positioned to capitalize on demand created by the rollout of broadband services that has been mandated by the Chinese government. Enablence owns a 49% interest in Sunblence in partnership with SUNSEA Telecommunications Co. Ltd., which holds a 51% interest.

Enablence is pleased to report that Sunblence has developed 1x4, 1x8, and 1x16 splitters. It is currently working on ramping up the capacity for these products and maintaining yield rates in the mass production phase. It is also working with Enablence closely to further develop higher channel count products, such as 1x32. To expand its product portfolio, the decision has been taken to transfer V-MUX production to Sunblence, currently carried on in Enablence's Fremont facility. This transfer is expected to occur in the second half of calendar 2013.

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

For the nine month period ended March 31, 2013, Enablence has included financial results from Sunblence using the proportional consolidation method, whereby 49% of the assets and liabilities and revenues and expenses (excluding any unrealized intercompany transactions) of Sunblence are included in Enablence's consolidated results.

As previously reported, a second Chinese joint venture was terminated in the second quarter.

## **RESULTS OF OPERATIONS**

### ***SUMMARY OF UNAUDITED QUARTERLY RESULTS***

The following table sets forth unaudited summary results of operations for the past eight quarters. The information for the fiscal period ending June 30, 2011 and subsequent quarters has been taken from our unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the unaudited financial statements for the fiscal period ended March 31, 2013. All necessary adjustments, consisting of reclassifying the results of the Systems business and ENA Switzerland to discontinued operations and other normal recurring adjustments necessary for a fair presentation of information presented, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the above-noted consolidated financial statements. The quarter ended March 31, 2013 includes the results of operations for ENA Switzerland, up to the date of its divestiture in November 2012, within discontinued operations.

	<u>30-Jun</u> <u>2011</u>	<u>30-Sep</u> <u>2011</u>	<u>31-Dec</u> <u>2011</u>	<u>31-Mar</u> <u>2012</u>	<u>30-Jun</u> <u>2012</u>	<u>30-Sep</u> <u>2012</u>	<u>31-Dec</u> <u>2012</u>	<u>31-Mar</u> <u>2013</u>
Revenue	\$ 4,748	\$ 5,008	\$ 2,947	\$ 2,132	\$ 3,336	\$ 2,197	\$ 2,285	\$ 1,838
Gross Margin	824	1,149	(13)	(348)	384	440	(1,447)	195
GM %	17.4%	22.9%	(0.4%)	(16.3%)	11.5%	20.0%	(63.3%)	10.6%
Expenses								
Research & development	1,426	1,327	1,280	1,284	1,307	1,289	937	1,056
Sales & marketing	142	222	184	240	193	160	135	134
General & administration	1,644	1,083	945	1,103	1,161	1,126	1131	818
Stock-based compensation	267	240	169	149	(303)	116	112	231
Amortization	71	175	148	168	249	250	341	223
Restructuring	381	-	-	-	493	-	0	-
Expenses	3,931	3,047	2,726	2,944	3,100	2,941	2,656	2,462
Operating loss	(3,107)	(1,898)	(2,739)	(3,292)	(2,716)	(2,501)	(4,103)	(2,267)
Impairment of goodwill	-	-	-	(5,697)	-	-	-	-
Other income (expense)	(357)	(250)	(245)	(253)	(267)	(556)	(368)	(272)
Gain on disposal of equipment	-	-	-	-	2,482	-	45	-
Foreign exchange gain (loss)	129	(941)	329	175	(179)	531	(52)	(290)
Recovery of future income taxes	104	104	124	86	1,455	-	-	-
Income (loss) from continuing operations	(3,231)	(2,985)	(2,531)	(8,981)	775	(2,526)	(4,478)	(2,829)
Income (loss) from discontinued operations	(43,817)	(2,496)	(516)	10,422	285	(1,604)	106	-
Net income (loss)	(47,048)	(5,481)	(3,047)	1,441	1,060	(4,130)	(4,372)	(2,829)
Weighted average shares outstanding	20,042	23,327	23,327	23,327	23,327	23,327	28,578	42,275
Basic and diluted income (loss) per share								
Continuing operations	(\$0.16)	(\$0.13)	(\$0.11)	(\$0.38)	\$0.03	(\$0.11)	(\$0.16)	(\$0.07)
Discontinued operations	(\$2.19)	(\$0.11)	(\$0.02)	\$0.45	\$0.01	(\$0.07)	\$0.00	\$0.00

## **SUMMARY OF RESULTS FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2013 COMPARED TO THE THREE AND NINE MONTHS ENDED MARCH 31, 2012**

The results from Enablonc's Systems segment and its photodiode components business, ENA Switzerland, have been reported as discontinued operations. The Systems segment was divested during the year ended June 30, 2012 and ENA Switzerland was divested on November 19, 2012. Additional information is provided later in this MD&A.

The following tables set forth a summary of key earnings information from our consolidated financial statements for the most recent reporting periods as prepared under IFRS.

	Three months ended			Nine months ended		
	March 31, 2013	March 31, 2012	Increase (decrease)	March 31, 2013	March 31, 2012	Increase (decrease)
Revenues	\$ 1,838	\$ 2,132	\$ (294)	\$ 6,320	\$10,087	\$ (3,767)
Cost of revenues	1,643	2,480	(837)	5,552	9,299	
Loss in inventory impairment	-	-	-	1,366	-	1,366
Gross margin	195	(348)	543	(598)	788	(1,386)
	10.6%	(16.3%)		(9.5%)	7.8%	
Operating expenses:						
Research and development	1,056	1,284	(228)	3,497	3,891	(394)
Sales and marketing	134	240	(106)	429	646	(217)
General and administrative	818	1,103	(285)	3,075	3,131	(56)
Stock based compensation	231	149	82	459	558	(99)
Depreciation and amortization	223	168	55	814	491	323
Total operating expenses	2,462	2,944	(482)	8,274	8,717	(443)
Operating loss	(2,267)	(3,292)	1,025	(8,872)	(7,929)	(943)
Other income (expenses):						
Finance and other income	-	2	(2)	-	38	(38)
Finance expense	(272)	(255)	(17)	(1,196)	(786)	(410)
Gain on disposal of equipment	-	-	-	45	-	45
Foreign exchange gain (loss)	(290)	175	(465)	189	(437)	626
Write-down of goodwill	-	(5,697)	5,697	-	(5,697)	5,697
Loss before income taxes	(2,829)	(9,067)	6,238	(9,834)	(14,811)	4,977
Deferred income tax recovery	-	86	(86)	-	314	(314)
Net loss from continuing operations	(2,829)	(8,981)	6,152	(9,834)	(14,497)	4,663
Net gain (loss) from discontinued operations	-	10,422	(10,422)	(1,498)	7,410	(8,908)
Net loss	(2,829)	1,441	(4,270)	(11,332)	(7,087)	(4,245)
Other comprehensive loss:						
Foreign currency translation loss	138	131	7	(163)	64	(227)
Comprehensive loss	\$ (2,691)	\$ 1,572	(4,263)	\$ (11,495)	\$ (7,023)	(4,472)

Enableness converts foreign currency-denominated transactions related to the statement of income (loss) at the average exchange rates for the periods. As such, changes in the exchange rate between the United States dollar and the Canadian dollar can have an impact on the reported results for each fiscal period. The average exchange rate for the three and nine months ended March 31, 2013 in terms of the Canadian dollar equivalent of US\$1 was Cdn\$1.01 and Cdn\$1.00, respectively, as compared to Cdn\$1.00 and Cdn \$1.00, respectively, for the same periods of the prior year.

## REVENUES

Revenues for the three months ended March 31, 2013 were \$1,838 as compared to \$2,132 for the same period of the prior year, a decrease of 14% or \$294. Revenues for the nine months ended March 31, 2013 were \$6,320 as compared to \$10,087 for the same period of the prior year, a decrease of 37% or \$3,767.

This decrease is primarily due to soft market conditions in the Asia Pacific and the Americas regions as well as the concerns of some customers related to the Company's financial status.

Management has been actively engaging with customers since the announcement of its November 2012 and February 2013 financings, and it is expected to take a few months to restore customers' confidence. Revenue is expected to shift towards the Asia Pacific region as

Sunblence generates increasing revenues in calendar 2013. The regional revenue mix may change quarterly due to individual projects.

The Company will be introducing several new products in the next year, including its TOSA/ROSA products, which are currently being transferred from the Company's R&D facility in Ottawa to Fremont for initial commercial production. In June 2012, Sunblence began generating initial customer revenues. Sunblence's production and revenues are expected to grow significantly in the coming quarters, with the primary customer being Sunsea, our partner in Sunblence. Sunblence is also working to engage other customers to expand its customer base.

During the nine months ended March 31, 2013, one customer accounted for 24% of the Company's total revenue and for the same period of the prior year two customers accounted for 26% (15% and 11% respectively) of the Company's total revenue.

The geographic split of revenue (based on ship-to location of the customer) is as follows:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>March 31, 2013</b>	<b>March 31, 2012</b>	<b>March 31, 2013</b>	<b>March 31, 2012</b>
Americas	\$1,013	\$588	\$2,738	\$4,298
Asia Pacific	402	978	1,651	3,975
Europe, Middle East and Africa	423	566	1,931	1,814
	<u>\$1,838</u>	<u>\$2,132</u>	<u>\$6,320</u>	<u>\$10,087</u>

## **GROSS MARGIN**

The Company's cost of revenues is comprised of a number of elements, some of which vary directly with the level of revenues, such as material costs and the cost of products manufactured by third parties, and some of which do not vary significantly with the level of revenues, including many overhead costs such as compensation of operations staff, amortization and facilities costs.

Gross Margin for the three months ended March 31, 2013 was 10.6% as compared to (16.3%) for the same period of the prior year. Gross Margin for the nine months ended March 31, 2013 was (9.5%) as compared to 7.8% for the same period of the prior year. The reduction in the Gross Margin percentage is primarily due to a combination of the lower revenue in the current year and the impact of fixed costs, as well as a write-off of inventory in the second quarter in the amount of \$1,366 following a detailed review of inventory by management with respect to the lower of cost and net realizable value.

## **OPERATING EXPENSES**

**R&D** expenses for the three and nine months ended March 31, 2013 were \$1,056 and \$3,497, respectively, as compared to \$1,284 and \$3,891, respectively, for the same periods of the prior year, respectively. An amount of \$179 of project-specific government assistance reduced expenses in each of the second and third quarters of the current year.

**Sales & Marketing** expenses for the three and nine months ended March 31, 2013 were \$134 and \$429, respectively, as compared to \$240 and \$646, respectively, for the same periods of the prior year. The decrease was due to the reduction in costs associated with its corporate marketing function commencing in fiscal 2012.

**General & Administration** expenses for the three and nine months ended March 31, 2013 was

\$818 and \$3,075, respectively, as compared to \$1,103 and \$3,131, respectively, for the same periods of the prior year. This decrease in the current quarter was a result of reduced professional fees, general office expenses and directors' fees. During the quarter ended December 31, 2012, the Company closed the Toronto office and combined the corporate activities into its Ottawa head office and its Fremont location.

**Stock-based compensation** for the three and nine months ended March 31, 2013 was \$231 and \$459, respectively, as compared to \$149 and \$558, respectively, for the same periods of the prior year. The increase in the current quarter was a result of the options granted in March 2013.

**Amortization** for the three month and nine month periods ended March 31, 2013 increased as compared to the same periods of the prior year mainly due to amortization relating to Sunblence operations which commenced during the current year.

### **FINANCE AND OTHER INCOME**

Enablence invests cash and cash equivalents in short-term investments with a Canadian chartered bank. The Company earned \$nil interest for the three and nine months ended March 31, 2013 as compared to \$2 and \$38, respectively, for the same periods of the prior year. Interest income is a function of prevailing interest rates and the amount of funds invested.

### **FINANCE EXPENSE**

Interest expense for the three and nine months ended March 31, 2013 was \$272 and \$1,196, respectively, as compared to \$255 and \$786, respectively, for the same periods of the prior year. Interest expense relates to Notes Payable. On February 19, 2013 the Convertible Notes and the outstanding principal and interest were converted to equity.

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

	<b>March 31, 2013</b>	June 30, 2012
Bank Loan 1 (a)	<b>\$ 1,315</b>	\$ 2,252
Bank Loan 2 (b)	<b>1,832</b>	3,369
Bridge Loan (c)	<b>1,000</b>	-
Secured Notes (d)	<b>10,733</b>	11,037
Convertible Notes (e)	-	3,006
	<b>14,880</b>	19,664
Less current portion	<b>12,809</b>	17,105
Long term portion	<b>\$ 2,071</b>	\$ 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 March 31, 2013 was 4.75% (June 30, 2012 – 4.75%).

- (b) On May 10, 2011, Enablene 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 Enablene, 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 Enablene'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 \$10,733 at March 31, 2013. 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 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 March 31, 2013 of \$10,733, 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.
- (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 Enablene at Cdn\$0.33 per share.

### **FOREIGN EXCHANGE GAIN (LOSS)**

Foreign exchange gains and losses include realized and unrealized gains and losses on foreign exchange, including those that arise as a result of converting assets and liabilities denominated in currencies other than the functional currency of the entity into the functional currency of the entity at the balance sheet date and realized gains or losses arising from the settlement of these balances during the period.

During the three and nine months ended March 31, 2013 the Company recorded a foreign exchange gain/(loss) of (\$290) and \$189, respectively, as compared to the prior year's same periods of \$175 and (\$437), respectively. This was primarily as a result of the effect of the fluctuation in the \$Cdn/\$US exchange rate.

### **INCOME TAXES**

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

### **NET LOSS FROM CONTINUING OPERATIONS**

Net loss from continuing operations excludes the results from operations of the Systems business and ENA Switzerland. The net loss from continuing operations for the three and nine months ended March 31, 2013 was \$2,829 and \$9,834, respectively, as compared to \$8,981 and \$14,497, respectively, for the same periods of the prior year. This increase in net loss during the nine month's ended March 31, 2013 was due to a combination of the lower revenue level, as well as the inventory write-off in the current year's second quarter.

### **LOSS FROM DISCONTINUED OPERATIONS**

The loss from discontinued operations represents the financial results from the Company's Systems segment and ENA Switzerland (ENA results are included up to the November 19, 2012 ENA Switzerland divestiture). The summary of operating results from discontinued operations are as follows:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>March 31, 2013</b>	<b>March 31, 2012</b>	<b>March 31, 2013</b>	<b>March 31, 2012</b>
Revenue	\$ -	\$ 2,078	\$ 1,375	\$ 23,856
Cost of revenue	-	2,021	564	17,479
Gross margin	-	57	811	6,377
Operating expenses:				
Research and development	-	1,343	230	6,096
Sales and marketing	-	802	94	3,851
General and administrative	-	322	99	1,202
Stock-based compensation	-	2	-	312
Amortization	-	85	32	336
Restructuring recovery	-	178	-	44
Operating expenses	-	2,732	456	11,841
Operating income (loss)	-	(2,675)	356	(5,464)
Interest income	-	-	-	-
Interest expense	-	(57)	-	(815)
Property, plant and equipment Impairment loss	-	-	(1,676)	-
Gain on sale of Teledata	-	13,356	-	13,356
Loss on sale of ENA Switzerland	-	-	(129)	-
Foreign exchange (loss) gain	-	(228)	(49)	307
Loss before income taxes	-	10,396	(1,498)	7,384
Recovery of deferred income taxes	-	26	-	26
Loss from discontinued operations	\$ -	\$ 10,422	\$ (1,498)	\$ 7,410

Net income (loss) from discontinued operations for the three and nine months ended March 31, 2013 was \$nil and (\$1,498) respectively, as compared to income of \$10,422 and \$7,410 respectively, for the same periods of the prior year. Revenues declined as compared to the

same period of the prior year primarily due to the divestiture of Teledata and the U.S.-based Systems business, combined with the announcement that Enablence was exiting the Systems business, as well as the quarterly fluctuation in shipments to key customers. At December 31, 2012, Enablence has sold or wound down all of its operations in the Systems segment. The Company continues to manage through remaining liabilities with the limited cash remaining in the Systems U.S.-based entities, and as a result, will continue to show some amounts as discontinued operations, however this activity will continue to decline in the coming quarters.

As a result of the sale of ENA Switzerland on November 19, 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 during the quarter ended September 30, 2012. The impairment loss is included in the Net Loss from discontinued operations on the Statement of Comprehensive loss.

### **LOSS PER COMMON SHARE**

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Basic and diluted loss per common share:				
From continuing operations	\$ (0.07)	\$ (0.39)	\$ (0.31)	\$ (0.62)
From discontinued operations	\$ 0.00	\$ 0.45	\$ (0.05)	\$ 0.32
Weighted Average Number of Common Shares	42,275	23,327	31,314	23,327

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

### **OUTLOOK**

China has announced a multi-billion dollar, multi-year investment in a national broadband strategy. Enablence, through Sunblence, our joint venture, will have direct access to this market. The Company's advanced current and next-generation PIC-based hybrid solutions are among the industry's most cost effective and highly integrated products available. As such, the Company is optimistic about its future prospects. Despite this promising longer term outlook, the near-term prospects of the Company continue to be negatively impacted by soft industry demand and compounded by its financial difficulties, including limited working capital, that have resulted in lower than expected revenues from our Fremont operations. Steps will continue to be taken to return to profitability. This includes a reduction in the company's cost structure, increasing customer confidence about Enablence's financial condition with the previously completed financing and debt to equity conversion, and participation in an expected broader market recovery.

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

The Company continues to invest in its 40G and 100G TOSA/ROSA product portfolio. It is anticipated there will be significant demand for these products in 2014. The Company has completed production of evaluation samples of the first two products in its TOSA/ROSA portfolio and has made these available to key customers. Subsequent to quarter end, the company has received its first commercial quantity TOSA/ROSA Purchase Order from a Global Tier 1 system vendor. The company is focused on ramping up its volume production capabilities at its Fremont location and expects to begin to deliver against this Purchase Order in the coming weeks.

In order for the Company to pursue these manufacturing and marketing opportunities, the Company requires additional financing. In this regard, there are several available options which are being considered.

## LIQUIDITY

The Company's objectives when managing its liquidity and capital structure are to generate sufficient cash to fund the Company's operating, debt service and organic growth requirements. Enablence secured new equity investments during the quarter and has existing bank facilities, both of which assist in funding ongoing operations.

Enablence has not generated positive cash flow from operations since its inception, and has relied on cash from the issuance of shares and debt to fund its operations. The table below sets out the cash, cash equivalents, short-term investments and working capital at the end of the current quarter and previous fiscal year end.

	<b>March 31, 2013</b>	<b>June 30, 2012</b>
Cash and Cash Equivalents:		
Continuing operations	\$ 2,201	\$ 767
Restricted cash	45	1,205
Cash in joint venture (note 1)	656	2,002
	<u>2,902</u>	<u>3,974</u>
Discontinued operations	<u>14</u>	<u>355</u>
Working Capital:		
Continuing operations	(6,938)	(10,020)
Discontinued operations	(558)	665

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

The decrease in the working capital deficiency from \$10,020 to \$6,938 from continuing operations is mainly due to the conversion of \$3 million of notes payable to equity, as well as the reduction of the current portion of certain notes payable as a result of principal payments.

The chart below highlights the Company's cash flows during the three and nine months ended March 31, 2013 and 2012.

	Three months ended March 31, 2013	Three months ended March 31, 2012	Nine months ended March 31, 2013	Nine months ended March 31, 2012
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Continuing operations	(1,869)	(742)	(7,667)	(4,043)
Discontinued operations	-	(2,872)	609	(4,939)
<b>Investing activities</b>				
Purchase of property, plant and equipment	(253)	(527)	(425)	(749)
Other	-	-	-	-
Continuing operations	(253)	(527)	(425)	(749)
Discontinued operations	-	304	1,285	2,016
<b>Financing activities</b>				
Net proceeds from issuance of shares	2,930	-	6,229	-
Payments on notes payable	27	(837)	(1,258)	(1,531)
Continuing operations	2,957	(837)	4,971	(1,531)
Discontinued operations	-	91	-	-
Effect of foreign currency translation	(164)	(33)	(186)	45
Net change in cash and cash equivalents	669	(4,616)	(1,413)	(9,201)

At March 31, 2013, the Company had cash available of \$2,201 (not including \$45 of restricted cash and \$656 held in Sunblence). The Company consumed \$7,667 in continuing operating activities during the nine months ending March 31, 2013 (excluding discontinued operations) due mainly to the low revenue level and losses from operations. The Company has sustained significant losses since its inception, and expects to incur losses in its next quarters. The Company's ability to reach profitability is dependent on successful implementation of the following: refinancing, introduction of new products, growth and profitability of Sunblence and subsequently the implementation of the Second Chinese JV. There can be no assurance that Enablence will gain adequate market acceptance for its new products or the products of Sunblence, or be able to generate sufficient gross margins to reach profitability.

#### Equity Financing

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 \$1,285 (Cdn\$1,279). 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 Cdn\$0.05 per share with the sale of 19,817 common shares of Enablence. The shares are subject to a four-month hold period which expired on March 24, 2013, pursuant to applicable securities laws.

Also on February 19, 2013, Enablence issued 10,834 common shares on the conversion and cancellation of unsecured convertible notes held by the former shareholders of Pannaway. The shares were issued at a price of Cdn\$0.33 per share and resulted in the repayment of debt of US\$3,519 (Cdn\$3,575). These shares are subject to a four month hold period pursuant to applicable securities laws which expires on June 20, 2013.

On February 19, 2013, Enableness completed a private placement of 9,121 common shares at a price of Cdn\$0.33 per share for net cash proceeds of \$2,930 (Cdn\$2,977) and gross proceeds of \$2,963 (Cdn\$3,010). These shares are subject to a four month hold period pursuant to applicable securities laws which expires on June 20, 2013.

#### Divestiture of ENA Switzerland

On November 19, 2012 the Company sold its wholly-owned Swiss subsidiary, Enableness Switzerland ("ENA Switzerland"), to management of the subsidiary, for 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. The Company has agreed to pay 3.5% commission on the purchase price to its financial advisor, Paradigm Capital Inc..

#### Banking and Notes Payable

In July 2012, the Company obtained a \$3,000 Bridge Loan with Cathay Bank, a chartered California bank ("Bridge Loan"). The Bridge Loan, which was guaranteed by a third party, has in turn been secured by the proceeds from the proposed sale of ENA Switzerland, and the assets of the Company and its subsidiaries. In November 2012, following the sale of ENA Switzerland, and the Company repaid \$2,000 on this loan. The maturity date of the Bridge Loan has been extended to June 30, 2013.

In conjunction with Bridge Loan, the Company entered into a priorities and standstill agreement with the holders of the subordinated secured notes payable ("Secured Notes"), with the amount owing of \$10,000 plus accrued interest. This agreement provided the bank with senior security to the Secured Notes payable on the Bridge Loan, as well as certain restrictions on the Secured Notes holders' ability to initiate enforcement action against the Company to provide the Company the ability to complete the negotiation and documentation of amendments to the Company's loan obligations. In November 2012 the Company paid an amount of Cdn \$718 on the Secured Notes. Revised terms have been negotiated and verbally agreed with the holders of the majority of the value of certain secured notes payable totaling approximately \$10.5 million, including partial repayment of the Secured Notes and an extension of the term for the payment of the balance of the principal and interest. Enableness is working with the balance of the holders of the Secured Notes so that all of the notes will be revised on the same terms and conditions. Currently, LMV Capital Corp., one holder of the Secured Notes, is pursuing legal recourse in the courts in Israel for repayment of its note in the amount of approximately \$425 plus interest. The legal proceedings are ongoing and Enableness is responding to the action.

In December 2012, the maturity date of Bank Loan 1 (see FINANCE EXPENSE section above) was extended to December 20, 2015 resulting in a reduction in the monthly payment of principal and interest to \$52 from \$181.

#### Share Consolidation

On December 5, 2012, following shareholder and TSX Venture Exchange approval, the Company consolidated its common share capital on the basis of one (1) post-consolidating common share for every twenty (20) pre-consolidating common shares. 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 Company's share and per share data for prior periods has been restated to give effect to the Share Consolidation.

### **CAPITAL RESOURCES**

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

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

Enablence is authorized to issue an unlimited number of common shares of which 53,362 common shares are issued and outstanding as of May 30, 2013. The common shares of Enablence trade on the TSX Venture Exchange under the symbol "ENA" or "ENA.V".

## OFF-BALANCE SHEET ARRANGEMENTS

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

	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	\$ 4,898	\$ -	\$ -	\$ -	\$ -	\$ 4,898
Secured notes payable	380	1,141	1,141	782	-	3,444
Subordinated notes payable	10,733	-	-	-	-	10,733
Bridge loan	1,000	-	-	-	-	1,000
Total	\$ 17,011	\$ 1,141	\$ 1,141	\$ 782	\$ -	\$20,075

The Company was in breach of certain covenants on the Subordinated Notes since June 23, 2012 and is in arrears on the Subordinated Notes payable. As previously noted, the Convertible Notes payable were converted to common shares on February 19, 2013. The above chart shows the payments assuming the notes are paid pursuant to their original terms, and are not called immediately, which is the creditors right under the agreements. The Company continues to negotiate with the creditors to come to a satisfactory resolution, as described in more detail in the Liquidity section above.

The Company is exposed to currency risk as certain transactions are denominated in Canadian dollars, Swiss francs relating to ENA Switzerland, whose results are included in discontinued operations to the date of its divestiture in November 2012, and Chinese renminbi, primarily through Sunblence. Management is evaluating foreign exchange risk management strategies, however, the Company has not entered into forward, swap or option contracts to manage its exposures to fluctuations in foreign exchange rates.

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

## MANAGEMENT

On February 9, 2013 Louis De Jong was appointed Chief Executive Officer of the Company succeeding John Roland, acting Chief Executive Officer. Mr. De Jong also continues as a director of the Company. John Roland succeeded Peter Dey as Chair of the Board. Mr. Dey remains on the Board of Directors, which in addition to Messrs. De Jong, Roland, and Dey includes Dan Hilton and Enablence's Chief Operating Officer Jacob Sun.

## TRANSACTIONS WITH RELATED PARTIES

During the nine months ended March 31, 2013 the Company did not enter into any transactions with related parties.

## **RISKS AND UNCERTAINTIES**

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

Any investor should also consider carefully these risks and the risks and uncertainties that are detailed in our Annual MD&A filed on October 29, 2012, and available at: [www.sedar.com](http://www.sedar.com).

## **CRITICAL ACCOUNTING ESTIMATES**

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

## **CHANGES IN ACCOUNTING POLICIES**

### 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 Company expects that Sunblence will be accounted for using the equity method for its fiscal year ended June 30, 2014.

## **FINANCIAL AND OTHER INSTRUMENTS**

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

## **ADDITIONAL INFORMATION**

Additional information related to the Company can be found on SEDAR at: [www.sedar.com](http://www.sedar.com).

## GLOSSARY OF TERMS

Adjusted EBITDA	A non-GAAP financial measure, comprising net loss and excluding: finance income and expense, income taxes, depreciation, amortization, asset impairment charges, foreign exchange gains and losses in earnings, stock-based compensation expense and restructuring charges.
AIF	Annual information form, filed with SEDAR
AWG	Arrayed waveguide grating, an optical component
Bridge Loan	A \$3,000 loan provided by a U.S. bank secured by the proceeds from the proposed sale of ENA Switzerland, and the assets of the Company
CAD	Canadian dollars
China JV	Sunbence, the Company's joint venture operating in China
COGS	Cost of revenues, netted in gross margin
Company	Enableness Technologies Inc., referring either to Enableness and its subsidiaries and affiliates or else the corporate entity, as the context indicates
Convertible Notes	\$3,000 of Convertible Notes issued on November 19, 2008 and bear interest at 5% and at 18% since January 2012 when the Convertible Notes were in default.
CTA	Cumulative translation adjustment, a component of equity under GAAP and IFRS
Enableness	Enableness Technologies Inc., either the consolidated group or the corporate entity, as the context dictates
ENA Switzerland	Enableness Switzerland AG, a wholly-owned subsidiary, located in Zurich, Switzerland, held for disposition
Financial Statements	Enableness's audited consolidated financial statements for the year ended June 30, 2012
FTTP	Fibre-to-the-premises
G	Gigabit, 1 million bits of data
GAAP	Generally accepted accounting principles, under which Enableness reports its financial results
G&A	General and administration costs
Godan	Godan Ventures LP, the entity that acquired Teledata
IFRS	International financial reporting standards
Management Committee	A committee chaired by one of the Company's directors and comprising senior managers of the Company that is managing the day-to-day affairs of Enableness following the termination of the CEO in May 2012

MD&A	This management's discussion and analysis of financial condition and results of operations report, prepared in accordance with regulatory requirements
MSAP	Multi-service access platform, enabling very high-speed voice, data, video and internet communications
NRE	Non-recurring engineering costs, often associate with revenue-producing initiatives undertaken by the Company
PIC	A photonic integrated chip integrates sub-components (such as waveguides, photodetectors, lasers and transimpedance amplifiers) onto one platform
PLC	Planar lightwave circuit technology, including patents owned by the Company
R&D	Research and development costs
RMB	Renminbi, the Chinese currency
ROADM	Re-configurable add/drop multiplexer, an optical subsystem
Subordinated Notes	Subordinated notes, with a principal amount of \$10,000, are secured by a subordinated lien on the Company's North American assets ("Secured Notes").
Sunblence	A 49%-owned joint venture operating in China; the 51% partner is Sunsea
Sunsea	SUNSEA Telecommunications Co. Ltd., the 51% partner in Sunblence
Teledata	Teledata Networks Ltd., formerly a wholly-owned subsidiary, sold effective March 31, 2012
TOSA/ROSA	Transmitter and receiver optical subassemblies, optical components
US\$	United States dollars, the currency in which Enblence reports its financial results
VMUX	variable multiplexer/de-multiplexer, an optical subsystem comprising a VOA and multiplexer/de-multiplexer
VOA	Variable optical attenuator, an optical component