Enablence
Technologies Inc.

ENABLENCE TECHNOLOGIES INC.

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

FOR THE YEAR ENDED JUNE 30, 2013

DATED: OCTOBER 29, 2013

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

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

This MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes for the years ended June 30, 2013 and 2012. References made herein to "Enablence", the "Company", "we" and "our" mean Enablence, its subsidiaries, and its joint venture, 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

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 October 29, 2013. The financial statements include the Company's 49% proportional share of the revenues, expenses, assets and liabilities of Sunblence Technologies Co. Ltd ("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 and financial performance.
- 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.

SUBSEQUENT EVENTS

Subsequent to the June 30, 2013 year end, the Company completed a $14,295 financing transaction (the "Financing Transaction") and retired all of the remaining secured subordinated promissory notes in conjunction with the financing as follows:

- The Financing Transaction was comprised of a $11,400 issuance of common shares (the "Equity Transaction") and a $2,895 convertible bridge loan (the " Financing Bridge Loan"). The Equity Transaction was structured as follows: China TriComm Ltd. and its affiliates subscribed for 45,000 common shares at an issue price of $0.193 and certain existing shareholders of the Company, subscribed for an additional 15,000 common shares also at $0.193 per share. China TriComm Ltd. is an investment company which is under common ownership with Zhejiang Chuangyi Technologies, a leading integrated infrastructure equipment and solution provider for the cable industry in China.

- As part of the $14,295 Financing Transaction, an affiliate of China TriComm Ltd., provided Enablence with a Financing Bridge Loan for working capital purposes. The Financing Bridge loan was received in two tranches – the first tranche for $480 was received on July 15, 2013 and the second tranche for $2,415 was received on July 22, 2013. The Financing Bridge Loan automatically converted to common shares of Enablence at $0.145 per share on the closing of the Equity Transaction. A finder's fee was paid to an arm's length party in connection with the Financing Transaction in the amount of 3,600 common shares of Enablence.

- The Equity Transaction was subject to certain conditions including the Noteholder Condition. In connection with the Noteholder Condition, Enablence entered into an agreement in principle with the holders of substantially all of the secured subordinated promissory notes to eliminate (pro rata to each note holder's interest) the approximately US$11,725 of principal and accrued interest. These notes were exchanged for total cash payments of $3,801 and the issuance of 19,865 common shares of Enablence at $0.193 per share. The cash payments combined with the issuance of the shares represented a full and final settlement of these subordinated notes. The Company is expecting to record a realized loss of approximately $311 on the settlement of these subordinated notes.

SELECTED FISCAL YEAR INFORMATION

Statement of Operations Data	Year ended June 30			
	Twelve Months Ended **2013**	Twelve Months Ended 2012	Twelve Months Ended 2011	Fourteen Months Ended 2011
Revenue	**$7,879**	$13,389	$27,415	$31,200
Gross margin	**(703)**	1,138	7,058	7,402
Operating expenses	**10,770**	11,817	12,151	14,140
Operating loss	**(11,473)**	(10,679)	(5,093)	(6,738)
Net loss from continuing operations	**(14,007)**	(13,756)	(8,003)	(10,204)
Net (loss) income from discontinued operations	**(1,551)**	7,729	(96,708)	(99,037)
Net loss	**(15,558)**	(6,027)	(104,711)	(109,241)
Basic and diluted loss per share:				
Net loss from continuing operations (1)	**($0.38)**	($0.59)	($0.40)	($0.60)
Net loss (1)	**($0.42)**	($0.26)	($5.20)	($5.60)

(1) Based on weighted average shares post-consolidation

Balance Sheet Data	As at June 30		
	2013	2012	2011
Total assets	**$15,039**	$25,571	$65,359
Total liabilities	**20,806**	26,472	61,147
Cash dividends declared per share	**nil**	nil	nil

OVERVIEW

ENABLENCE'S BUSINESS

Enablence designs, manufactures and sells optical components and subsystems for all three segments of optical networks - access, metro and long-haul markets - to a global customer base. It utilizes its patented technologies, including planar light circuit ("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 they are 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 switch 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 April 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, based in Foshan, China, is well capitalized and Sunblence management expects to capture future 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.

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 high-speed telecommunications equipment.

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 and 1x64. 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. The transfer schedule will be determined according to the market demand of the VMUX product.

As Enablence adds to its product portfolio, it anticipates that Sunblence may become a contract manufacturer for some of its products which it should be able to make at lower costs than at the Company's manufacturing facility in Fremont. The joint venture will be required to incur capital costs to produce such products and no decision has yet been made by the Sunblence board of directors to do so because all efforts have been to improve the splitter production in quality and yields to position Sunblence to take advantage of the splitter market when it responds to the Chinese government initiatives.

For the year ended June 30, 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 Fourth Quarter Results

The Company reported revenues of $1,559 for the quarter ended June 30, 2013 as compared to $1,838 for the prior quarter ended March 31, 2013 resulting in a net loss of $4,442 for the quarter ended June 30, 2013 as compared to $2,829 for the quarter ended March 31, 2013. A significant portion of the increase in the loss for the quarter ended June 30, 2013 related to the write-off of $1,038 of a Value Added Tax (VAT) receivable related to Sunblence, the receipt of which is dependent on certain business performance conditions of which Sunblence may not be able to satisfy. Certain other expenses that increased included interest expense on the notes payable, financial advisory expenses, impairment on certain intangible assets and foreign exchange losses, partially offset by a reduced amortization expenses and a reduction in previously accrued restructuring expenses.

Summary of Unaudited Quarterly Results

The following table sets forth unaudited summary results of operations for the past eight quarters. The information for the fiscal period ending September 30, 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 audited consolidated financial statements for the fiscal year ended June 30, 2013. All necessary adjustments, consisting of reclassifying the results of the Systems business and Enablence Switzerland AG ("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 December 31, 2012 includes the results of operations for ENA Switzerland within discontinued operations, up to the date of its divestiture in November 2012.

	30-Sep 2011	31-Dec 2011	31-Mar 2012	30-Jun 2012	30-Sep 2012	31-Dec 2012	31-Mar 2013	30-Jun 2013
Revenue	$ 5,008	$ 2,947	$ 2,132	$ 3,336	$ 2,197	$ 2,285	$ 1,838	$ 1,559
Gross Margin	1,149	(13)	(348)	384	440	(1,232)	195	(106)
GM %	22.9%	(0.4%)	(16.3%)	11.5%	20.0%	(53.9%)	10.6%	(6.8%)
Expenses								
Research & development	1,327	1,280	1,284	1,307	1,289	937	1,056	1,024
Sales & marketing	222	184	240	193	160	135	134	144
General & administration	1,083	945	1,103	1,161	1,126	1,131	818	2,003
Stock-based compensation	240	169	149	(303)	116	112	231	53
Amortization	175	148	168	249	250	341	223	(161)
Restructuring	-	-	-	493	-	-	-	(352)
Expenses	3,047	2,726	2,944	3,100	2,941	2,656	2,462	2,711
Operating loss	(1,898)	(2,739)	(3,292)	(2,716)	(2,501)	(3,888)	(2,267)	(2,817)
Other expense	(250)	(245)	(253)	(267)	(556)	(368)	(272)	(901)
Impairment of goodwill/intangibles	-	-	(5,697)	-	-	-	-	(121)
(Loss) gain on disposal of equipment	-	-	-	2,482	-	45	-	(107)
Foreign exchange (loss) gain	(941)	329	175	(179)	531	(52)	(290)	(443)
Recovery of future income taxes	104	124	86	1,455	-	-	-	-
Income (loss) from continuing operations	(2,985)	(2,531)	(8,981)	775	(2,526)	(4,263)	(2,829)	(4,389)
Income (loss) from discontinued operations	(2,496)	(516)	10,422	285	(1,604)	106	-	(53)
Net income (loss)	(5,481)	(3,047)	1,441	1,060	(4,130)	(4,157)	(2,829)	(4,442)
Weighted average shares outstanding (shares post consolidation)	23,327	23,327	23,327	23,327	23,327	28,578	42,275	53,413
Basic and diluted income (loss) per share								
Continuing operations	($0.13)	($0.11)	($0.38)	$0.03	($0.11)	($0.15)	($0.07)	($0.08)
Discontinued operations	($0.11)	($0.02)	$0.45	$0.01	($0.07)	$0.00	$0.00	($0.00)

SUMMARY OF RESULTS FOR THE YEAR ENDED JUNE 30, 2013 COMPARED TO THE YEAR ENDED JUNE 30, 2012

The results from Enablence'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 table sets forth a summary of key earnings information from our consolidated financial statements for the years ended June 30, 2013 and 2012.

	Year ended June 30, 2013	2012	Increase (decrease)
Revenues	**$ 7,879**	$13,389	$ (5,510)
Cost of revenues	**7,216**	12,251	(5,035)
Loss on inventory impairment	**1,366**	-	1,366
Gross margin	**(703)**	1,138	(1,841)
	(8.9%)	*8.5%*	
Operating expenses:			
Research and development	**4,306**	5,198	(892)
Sales and marketing	**573**	839	(266)
General and administrative	**5,078**	4,292	786
Stock based compensation	**512**	255	257
Depreciation and amortization	**653**	740	(87)
Restructuring charges	**(352)**	493	(845)
Total operating expenses	**10,770**	11,817	(1,047)
Operating loss	**(11,473)**	(10,679)	(794)
Other income (expenses):			
Finance and other income	**103**	44	59
Finance expense	**(2,200)**	(1,059)	(1,141)
Foreign exchange loss	**(254)**	(616)	362
(Loss) gain on transfer of intangibles and fixed assets to Sunblenc	**(104)**	2,482	(2,586)
Gain on sale of equipment	**42**	-	42
Write-down of goodwill and intangibles	**(121)**	(5,697)	5,576
Loss before income taxes	**(14,007)**	(15,525)	1,518
Deferred income tax recovery	**-**	1,769	(1,769)
Net loss from continuing operations	**(14,007)**	(13,756)	(251)
Net (loss) income from discontinued operations	**(1,551)**	7,729	(9,280)
Net loss	**(15,558)**	(6,027)	(9,531)
Other comprehensive (loss) income (net of tax):			
Foreign currency translaction (loss) gain	**398**	346	52
Comprehensive loss	**$ (15,160)**	$ (5,681)	$ (9,479)

Enablence converts foreign currency-denominated transactions related to the statement of income (loss) at the average exchange rates for the periods. As such, changes in the exchange rate between the United States dollar and the Canadian dollar can have an impact on the reported results for each fiscal period. The average exchange rate for the year ended June 30, 2013 in terms of the Canadian dollar equivalent of US$1 was CDN$1.01 and CDN $1.00 for the prior year.

REVENUES

Revenue for the year ended June 30, 2013 was $7,879 as compared to $13,389 for the prior year, a decrease of 41% or $5,510. The decrease was a result of a combination of competitive pressures, soft demand for certain products and the financial condition of the Company.

In spite of the year over year decrease in revenue, the Company expects that with its improved financial situation, as a result of the September 2013 financing and debt settlement, revenue will start to increase with the introduction of new 40G and 100G products.

During the year ended June 30, 2013, one customer accounted for 26% of the Company's total revenue. Three customers accounted for 43% of the Company's total revenue (18%, 13% and 12%, respectively) during the year ended June 30, 2012.

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

	Year ended			
	June 30, 2013		June 30, 2012	
Americas	**$**	**3,505**	$	6,352
Asia Pacific		**1,874**	$	4,632
Europe, Middle East and Africa		**2,500**		2,405
	$	**7,879**	$	13,389

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 year ended June 30, 2013 was (8.9%) as compared to 8.5% for 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 of the current year. The inventory write-off was 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 year ended June 30, 2013 was $4,306 as compared to $5,198 for the prior year. This reduction was a result of a reduced number of employees in the current year, as well as additional project-specific government assistance recorded in the current year as an offset to expenses.

Sales & Marketing expenses for the year ended June 30, 2013 was $573 as compared to $839 for the prior year. The decrease was due to the reduction in costs associated with the corporate marketing function commencing in fiscal 2012.

General & Administration expenses for the year ended June 30, 2013 was $5,078 as compared to $4,292 for the prior year. This increase is primarily as a result of the write-off of $1,038 of Value Added Tax (VAT) receivable related to Sunblence, the receipt of which is dependent on certain business performance conditions of which Sunblence may not be able to satisfy. Certain other expenses decreased including professional fees, general office expenses and directors' fees. During the year ended June 30, 2013, 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 year ended June 30, 2013 was $512 as compared to $255 for the prior year. The increase primarily related to the expense associated with the new options granted in March 2013.

Amortization for the year ended June 30, 2013 decreased as compared to prior year mainly due to a lower asset base for amortization.

Restructuring recoveries for the year ended June 30, 2013 were $352 as compared to an expense in the prior year of $493. The recoveries in the current year were a result of the reversal of certain accrued liabilities no longer applicable.

FINANCE AND OTHER INCOME

Enablence invests cash and cash equivalents in short-term investments with financial institutions. The Company earned $103 interest for the year ended June 30, 2013 as compared to $44 for the prior year. Interest income is a function of prevailing interest rates and the amount of funds invested.

FINANCE EXPENSE

Interest expense for the year ended June 30, 2013 was $2,200 as compared to $1,059 for the prior year. Interest expense primarily relates to Notes Payable. On February 19, 2013 the Convertible Notes and the related 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 year:

		June 30, 2013	June 30, 2012
Bank Loan 1	(a)	**$ 1,313**	$ 2,252
Bank Loan 2	(b)	**1,797**	3,369
Bridge Loan	(c)	**1,000**	-
Secured Notes	(d)	**11,633**	11,037
Convertible Notes	(e)	**-**	3,006
		15,743	19,664
Less current portion		**13,927**	17,105
Long term portion		**$ 1,816**	$ 2,559

(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 had a maturity date of July 20, 2013. The interest rate at June 30, 2013 was 5.50% (June 30, 2012 – 4.75%). The note was repayable as interest only for the first six months, then monthly payments of $181 per month for interest and principal thereafter. In December 2012, the maturity date of the bank loan was extended to December 2015, resulting in monthly payments of principal and interest being reduced to $52. The note is secured by the assets of Enablence USA Components Inc. and is subject to certain financial performance and asset coverage covenants of the subsidiary. The Company was in breach of certain of these covenants during the year ended June 30, 2013. Subsequent to the financing received in September 2013, the Company was in compliance with these covenants.

(b) On May 10, 2011, Enablence 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 Sunblence. The note has a maturity date of April 20, 2016 and an interest rate of 5.50% at June 30, 2013 (June 30, 2012 – 5.50%). The note was 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 pre-consolidated common shares of

Enablence, at an exercise price of Cdn$0.22 per share, which expired on 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. Subsequent to June 30, 2012, the $1,200 of cash reflected as restricted cash was used to pay down the loan.

(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 was 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 $11,633 at June 30, 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 initiating enforcement action against the Company. This agreement was intended from provide the Company the time it needed to complete the negotiation and documentation of amendments to the Company's loan obligations. The Bridge Loan was paid in full subsequent to the close of the equity financing described in the Subsequent Events section.

(d) Subordinated notes, with a principal amount of $10,000, are secured by a subordinated lien on the Company's North American assets. The notes had a maturity date of June 23, 2012 and an interest rate of 5%. The interest rate increased to 12% as a result of payments being in default, effective for the period from July 1, 2012 to the final settlement subsequent to June 30, 2013. Principal and interest are payable at maturity. As at June 30, 2012 and 2013, these notes remained unpaid, and thus are included as current liabilities. On July 1, 2012, the Company entered into a standstill agreement with the holders of the Secured Notes to negotiate revised terms for the notes. Subsequent to June 30, 2013, an agreement was reached to settle the notes in full as part of the equity financing described in the Subsequent Events section.

(e) Convertible notes, with a principal amount of $3,000, were unsecured with an interest rate of 5%, which rose to 18% on default of payment in January 2012, and maturity date of November 19, 2018. The notes were issued on November 19, 2008. For the first 36 months, monthly interest only payments were required to be made. These notes were convertible, at the option of the holder, from the third anniversary until the fifth anniversary or in the event of a default (at the holders 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 could be issued pursuant to the notes was 9,464 shares. The notes could also be converted in the event of a default of payment.

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

At June 30, 2012, these notes remained unpaid and the Company was in default as a result of missed payments (the Company stopped making payments on these notes in January 2012). This debt was reclassified to current liabilities at June 30, 2012 as a result of the event of default. On February 19, 2013, the Convertible Notes were settled by conversion to 10,834 common shares of Enablence 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 fiscal year ended June 30, 2013 the Company recorded a foreign exchange loss of $254 as compared to a loss of $616 for the prior year. This was primarily as a result of the effect of the fluctuation in the $CDN/$US exchange rate.

INCOME TAXES

An income tax recoverable amount of $1,769 was record in the prior year which related to the North America Enablence operations.

NET LOSS FROM CONTINUING OPERATIONS

Net loss from continuing operations excludes the results from discontinued operations which includes the Systems business and ENA Switzerland. The net loss from continuing operations for the year ended June 30, 2013 was $14,007 as compared to $13,756 for the prior year. This decrease in net loss was primarily due to the lower revenue and gross margin as well as higher interest expense in the current year, more than offset by higher prior year operating expenses and the goodwill/intangibles write down in the prior year partially offset by the gain on transfer of assets to the Sunblence joint venture in the prior year.

LOSS FROM DISCONTINUED OPERATIONS

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

	Year ended	
	June 30, 2013	June 30, 2012
Revenue	**$ 1,314**	$ 24,650
Cost of revenue	**476**	17,984
Gross margin	**838**	6,666
Operating expenses:		
Research and development	**209**	6,937
Sales and marketing	**83**	3,912
General and administrative	**85**	1,612
Stock-based compensation	**-**	311
Amortization	**28**	336
Restructuring recovery	**-**	(1,015)
Operating expenses	**405**	12,093
Operating income (loss)	**433**	(5,427)
Interest income	**-**	7
Interest expense		(964)
Property, plant and equipment impairment loss	**(1,676)**	-
Loss on sale of ENA Switzerland	**(165)**	-
Gain on sale of Teledata	-	13,356
Gain on sale of North American Systems	**-**	124
Foreign exchange (loss) gain	**(44)**	354
(Loss) gain before income taxes	**(1,451)**	7,450
Income tax (expense) recovery	**(100)**	279
(Loss) gain from discontinued operations	**$ (1,551)**	$ 7,729

Net income (loss) from discontinued operations for the fiscal years ended June 30, 2013 was ($1,551) as compared to income of $7,729 for 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. As at December 31, 2012, Enablence 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.

	Year ended June 30, 2013	2012
Basic and diluted loss per common share:		
From continuing operations	$(0.38)	$(0.59)
From discontinued operations	$(0.42)	$(0.26)
Weighted Average Number of Common Shares	36,824	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 PLC-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 lower than expected revenues from our Fremont operations. Steps will continue to be taken to return to profitability. This includes pursuits to increase customers' confidence regarding 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 2014. 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 received its first commercial quantity TOSA/ROSA Purchase Order from a Global Tier 1 system vendor. The Company continues to focus on ramping up its volume production capabilities at its Fremont location and expects to make further investments in its production capabilities in fiscal 2014.

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 year, as well as subsequent to year-end, and has existing bank facilities, both of which assist in funding ongoing operations. The Company settled debt, as stated in the Finance Expense section above, which included Convertible Notes with a principal of $3 million settled in February 2013, and $11.7 million of Subordinated Notes and the $1 million Bridge Loan settled in September 2013.

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 June 30, 2013 and 2012.

	June 30, 2013	June 30, 2012
Cash and Cash Equivalents:		
Continuing operations	$ 567	$ 767
Restricted cash	21	1,205
Cash in joint venture (note 1)	350	2,002
	938	3,974
Discontinued operations	-	355
Working Capital:		
Continuing operations	(10,855)	(10,020)
Discontinued operations	(555)	3,147

Note 1 – represents 49% of the cash in the Sunbence joint venture. There are no restrictions for Sunblence using the cash, however there are restrictions for the cash to be sent outside of China, so this cash is identified separately.

The increase in the working capital deficiency from $10,020 to $9,816 from continuing operations is mainly due to a combination of a decrease in current assets, as well as decreases in Accounts payable and accrued liabilities and notes payable, as a result of the conversion of $3 million of notes payable to equity in February 2013, combined with other changes to cash and other operating working capital items.

The chart below highlights the Company's cash flows during the year ended June 30, 2013 and 2012.

	Year ended June 30, 2013	Year ended June 30, 2012
Cash provided by (used in)		
Operating activities		
Continuing operations	**(10,761)**	(4,224)
Discontinued operations	**303**	(4,734)
Investing activities		
Purchase of property, plant and equipment	**(491)**	(5,795)
Other	**-**	6,222
Continuing operations	**(491)**	427
Discontinued operations	**1,464**	(610)
Financing activities		
Net proceeds from issuance of shares	**6,229**	-
Payments on notes payable	**(394)**	(2,062)
Continuing operations	**5,835**	(2,062)
Discontinued operations	**-**	-
Effect of foreign currency translation	**259**	(327)
Net change in cash and cash equivalents	**(3,391)**	(11,530)

At June 30, 2013, the Company had cash available of $567 (not including $21 of restricted cash and $350 held in Sunblence). The Company consumed $10,761 in continuing operating activities during the year ended June 30, 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: introduction of new products, growth and profitability of Sunblence, additional financing. 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

In November 2012, Enablence completed private placements for a total of 201,580 common shares, on a pre-consolidated share basis, for gross proceeds of $3,346 and net proceeds of $3,299. Two existing shareholders of the Company participated in the equity offering. Subsequent to the private placement, one of the shareholders held directly or indirectly 16.5% of the Company's issued and outstanding shares and the other held directly or indirectly 19.5% of the Company's issued and outstanding shares.

The first tranche of the non-brokered private placement financing closed on November 5, 2012 with the sale of 124,133 common shares for net proceeds of $2,032. 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 net proceeds of $1,267. 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 were subject to a four-month hold period which expired on March 24, 2013, pursuant to applicable securities laws.

On February 19, 2013, Enablence 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 and gross proceeds of $2,963. Two existing shareholders of the Company participated in the equity offering. Subsequent to the private placement, one of the shareholders held directly or indirectly 18.9% of the Company's issued and outstanding shares and the other held directly or indirectly 19.9% of the Company's issued and outstanding shares

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$3,520 (CDN$3,575).

On May 31, 2013, Enablence issued 150 common shares to one of its Board members in lieu of compensation at a price of CDN$0.33 per share.

Divestiture of ENA Switzerland

On November 19, 2012 the Company sold its wholly-owned Swiss subsidiary, Enablence 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 agreed to pay 3.5% commission on the purchase price to its financial advisor, Paradigm Capital Inc., who is also a shareholder of the Company.

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 final balance of $1,000 of the Bridge Loan was paid in September 2013 (see "Subsequent Events").

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. In September 2013 an agreement was reached and settlement was made on the Secured Notes (see Subsequent Events).

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 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.

Subsequent Events
Subsequent to the June 30, 2013 year end, the Company completed a $14,295 financing transaction (the "Financing Transaction") and retired all of the remaining secured subordinated promissory notes in conjunction with the financing. For further details see "Subsequent Events" section above.

CAPITAL RESOURCES

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

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

As stated above in the "Subsequent Events" section, the Company completed new financing and the settlement of certain debts in September 2013. This balance sheet restructuring and related funding helped to position Enablence to address the increased demand it is experiencing in its 100G/s components business and to focus on its customer needs and future growth opportunities.

Enablence is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There are 53,511 common shares issued and outstanding as of October 29, 2013 and no preferred shares issued and outstanding. The common shares of Enablence trade on the TSX Venture Exchange under the symbol "ENA" or "ENA.V".

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

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

	Carrying value	to June 30, 2014	to June 30, 2015	to June 30, 2016	to June 30, 2017	Total
Accounts payable and accrued liabilities	$ 4,454	$ 4,454	$ -	$ -	$ -	$ 4,454
Secured notes payable	3,110	1,426	1,141	782		3,349
Subordinated notes payable	11,633	11,633	-	-	-	11,633
Bridge loan	1,000	1,000	-	-	-	1,000
Total	$ 20,197	$ 18,513	$ 1,141	$ 782	$ -	$ 20,436

Prior to the financing and debt settlement in September 2013, as stated in the "Subsequent Events" section, the Company was in breach of certain covenants on the Subordinated Notes and 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, also in 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 AND BOARD OF DIRECTORS

On February 9, 2013 the following changes were made to management and the board: Louis De Jong was appointed Chief Executive Officer of the Company succeeding John Roland, Acting Chief Executive Officer; John Roland succeeded Peter Dey as Chair of the Board; Mr. De Jong and Mr. Dey continued as a directors of the Company.

In September 2013, as a result of the refinancing and restructuring of the Company, as previously described above, the board of directors of the Company was restructured to provide for the appointment of two directors nominated by the new investors: Mr. Zhiyin Gao and Mr. Tao Zhang. In order to provide for these agreed appointments, Peter Dey and Dan Hilton resigned from the Board effective as of September 10, 2013. In addition, subject to shareholder approval, the board will be expanded to seven directors at the next Company shareholder meeting in December 2013 and the new investors will have three nominees on the Board.

TRANSACTIONS WITH RELATED PARTIES

During the year ended June 30, 2013 the Company did not enter into any material transactions with related parties outside of those noted elsewhere in the MD&A.

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 Enablence 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 APPENDIX A.

CRITICAL ACCOUNTING ESTIMATES

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 and provisions, 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.

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

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

ADDITIONAL INFORMATION

Additional information related to the Company can be found on SEDAR at: www.sedar.com.

APPENDIX A

RISKS AND UNCERTAINTIES

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

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

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

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

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

The Company's gross margin and operating results may be adversely affected by lower pricing required to compete successfully and/or if its product cost targets cannot be achieved
The intensely competitive market in which the Company conducts its business may require the Company to reduce its prices. If the Company's competitors offer deep discounts on certain products or services in an effort to recapture or gain market share or to sell other products and services, the Company may be required to lower prices or offer other favourable terms to compete successfully. Any such changes or actions would reduce the Company's margins and could adversely affect the Company's operating results. Many of the Company's competitors have significantly greater financial, technical, marketing or service resources than the Company. Many of these competitors also have a larger installed base of products, have longer operating histories or have greater name recognition that the Company. Customers and prospective customers of the Company are generally concerned that their suppliers will continue to operate and provide product support, maintenance and warranty services.

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

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

Participation in Joint Ventures

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

Managing Growth

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

Dependence on Third Party Suppliers

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

Divestitures may adversely affect our business

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

Inventory Management

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

Accounts Receivable Management

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

International Operations

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

- differing regulatory requirements, including tax laws, trade laws, labour regulations, tariffs, export quotas, custom duties or other trade restrictions and changes thereto;

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

Uncertain Global Economic Conditions

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

Market Opportunities

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

Sales Cycles are Long and Unpredictable

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

Customer Spending Patterns

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

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

- competitive pressures, including pricing pressures;
- consumer demand for new services;
- an emphasis on generating sales from services delivered over existing networks instead of new network construction or upgrades;

- the timing of annual budget approvals;
- evolving industry standards and network architectures;
- free cash flow and access to external sources of capital; and
- completion of major network upgrades.

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

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

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

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

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

Product Defects and Warranty Obligations
Although the Company's products are tested prior to shipment, they may contain defects or interoperability issues (collectively described as "defects") that may only be detected when tested in the final product of our customer. In addition, defects or other malfunctions or quality control issues may not appear until the equipment has been deployed for an extended period of time. The Company also continues to introduce new products that may have undetected defects. The Company's customers may discover defects in its products at any time after deployment or as their networks are expanded and modified. Any defects in the Company's products discovered in the future, could result in lost sales and market share and negative publicity regarding its products. The Company provides limited warranties on

its products. As a result, warranties on a product with a significant product defect could adversely affect the results of operations of the Company.

Product Development and Technological Change

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

Product Obsolescence

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

Development Stage Products and Customer Expectations

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

Intellectual Property

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

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

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

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

Earnings History
The Company has incurred significant losses since its inception. The Company may continue to incur losses during the current and following fiscal years. The Company cannot predict with certainty that it will not continue to incur losses or experience negative cash flow in the future. The Company's continued inability to generate positive operating income and cash flow would materially and adversely affect the liquidity, consolidated results of operations and consolidated financial condition of the Company.

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

Key Personnel
Competition for skilled personnel, particularly those specializing in engineering and sales, is intense. The Company cannot be certain that it will be successful in attracting and retaining qualified personnel, or that newly hired personnel, will function effectively, either individually or as a group. In particular, the Company must continue to expand its direct sales force, including hiring additional sales managers, to grow its customer base and increase sales. Even if the Company is successful in hiring additional sales personnel, new sales representatives often require up to a year to become effective. In addition, the industry is characterized by frequent claims relating to unfair hiring practices. The Company may become

subject to such claims and may incur substantial costs in defending the Company against these claims, regardless of their merits. If the Company is unable to effectively hire, integrate and utilize new personnel, the execution of its business strategy and its ability to react to changing market conditions may be impeded, and the business, financial condition and results of operations of the Company could be materially and adversely affected.

Changes in Accounting and Tax Rules

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

Changes in Government Policy

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

Share Price Volatility

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

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

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

GLOSSARY OF TERMS

AIF	Annual information form, filed with SEDAR
AWG	Arrayed waveguide grating, an optical component
CDN	Canadian dollars
China JV	Sunbence, the Company's joint venture operating in China
COGS	Cost of revenues, netted in gross margin
Company	Enablence Technologies Inc., referring either to Enablence and its subsidiaries and affiliates or else the corporate entity, as the context indicates
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
Enablence	Enablence Technologies Inc., either the consolidated group or the corporate entity, as the context dictates
ENA Switzerland	Enablence Switzerland AG, a wholly-owned subsidiary, located in Zurich, Switzerland, held for disposition in Fiscal 2012 and sold on November 19, 2012.
FTTP	Fibre-to-the-premises
G	Gigabit, 1 million bits of data
GAAP	Generally accepted accounting principles, under which Enablence reports its financial results
G&A	General and administration costs
IFRS	International financial reporting standards
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 Enablence reports its financial results
VMUX	variable multiplexer/de-multiplexer, an optical subsystem comprising a VOA and multiplexer/de-multiplexer
VOA	Variable optical attenuator, an optical component