

Condensed Consolidated Financial Statements of

ENABLENCE TECHNOLOGIES INC.

*For the three and nine months ended March 31, 2014 and 2013
(in thousands of United States dollars)*

(Unaudited)

“Notice to Reader”

The accompanying unaudited condensed financial statements of Enablece Technologies Inc. for the three and nine months ended March 31, 2014 have been prepared by Management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company’s external auditors.

Date: May 29, 2014

“Evan Chen”
Evan Chen
CEO

“Tao Zhang”
Tao Zhang
CFO

ENABLENCE TECHNOLOGIES INC.
Condensed Consolidated Financial Statements
March 31, 2014 and 2013
(Unaudited)

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ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Balance Sheets

(Unaudited - In thousands of United States dollars)

	Note	March 31, 2014	June 30, 2013
CURRENT ASSETS			
Cash and cash equivalents	3	\$ 951	\$ 589
Accounts receivable	4	1,462	2,099
Inventories	5	3,928	3,916
Prepaid expenses and deposits		814	50
Assets held for disposal	13	54	54
		7,209	6,708
PROPERTY, PLANT AND EQUIPMENT			
		2,836	3,583
INTANGIBLE AND OTHER ASSETS			
		41	120
INVESTMENT IN JOINT VENTURE	12	3,243	4,108
		\$ 13,329	\$ 14,519
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		\$ 3,585	\$ 3,906
Deferred revenue		90	28
Current portion of notes payable	6	1,051	13,927
Liabilities related to assets held for disposal	13	609	609
		5,335	18,470
NOTES PAYABLE	6	1,025	1,816
		6,360	20,286
DEFICIENCY			
Share capital	7	83,982	62,388
Contributed surplus		10,043	9,710
Accumulated other comprehensive gain (loss)		76	(6)
Deficit		(87,132)	(77,859)
		6,969	(5,767)
		\$ 13,329	\$ 14,519

GOING CONCERN (Note 2 (i))

See accompanying notes to the unaudited condensed consolidated financial statements

APPROVED BY THE BOARD

"Louis De Jong"

Chair of the Board of Directors

"John Roland"

Director

ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Statements of Comprehensive Loss

For the three and nine months ended March 31, 2014 and 2013

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

	Note	Three months ended March 31,		Nine months ended March 31,	
		2014	2013	2014	2013
Revenues		\$ 1,054	\$ 1,742	\$ 3,444	\$ 6,020
Cost of revenues		1,662	1,519	5,291	6,765
Gross margin		(608)	223	(1,847)	(745)
Operating expenses:					
Research and development		1,104	1,056	3,167	3,283
Sales and marketing		156	134	441	429
General and administration		697	646	2,233	2,336
Stock-based compensation		97	231	333	459
Depreciation and amortization		91	161	250	469
		2,145	2,228	6,424	6,976
Operating loss		(2,753)	(2,005)	(8,271)	(7,721)
Other income (expenses):					
Finance and other income		3	-	8	-
Finance expense		(32)	(272)	(341)	(1,196)
Equity loss from joint venture	12	(310)	(262)	(1,156)	(1,151)
Gain (loss) on disposal of equipment		-	-	-	45
Gain on debt settlement		-	-	399	-
Foreign exchange gain (loss)		36	(290)	88	189
Loss before income taxes		(3,056)	(2,829)	(9,273)	(9,834)
Deferred income tax recovery		-	-	-	-
Net loss from continuing operations		(3,056)	(2,829)	(9,273)	(9,834)
Net loss from discontinued operations		-	-	-	(1,498)
Net loss		(3,056)	(2,829)	(9,273)	(11,332)
Other comprehensive income(loss):					
Foreign currency translation income(loss)		58	138	82	(163)
Comprehensive loss		\$ (2,998)	\$ (2,691)	\$ (9,191)	\$ (11,495)
Net loss per share, basis and diluted:					
Continuing operations		\$(0.02)	\$(0.07)	\$(0.07)	\$(0.31)
Continuing and discontinued operations		\$(0.02)	\$(0.07)	\$(0.07)	\$(0.36)
Weighted average number of outstanding shares:					
Basic and diluted	8	157,516	42,275	130,567	31,314

See accompanying notes to the unaudited condensed consolidated financial statements

ENABLENCE TECHNOLOGIES INC.
Condensed Consolidated Statements of Changes in Equity
For the three and nine months ended March 31, 2014 and 2013
(Unaudited - In thousands of United States dollars and shares)

	Note	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Equity (Deficiency)
Balance at July 1, 2012		466,546	\$ 52,606	\$ 9,198	\$ (404)	\$ (62,301)	\$ (901)
Stock-based compensation		-	-	459	-	-	459
November 5, 2012 Private Placement		124,133	2,060	-	-	-	2,060
November 26, 2012 Private Placement		77,447	1,286	-	-	-	1,286
Share consolidation		(634,720)	-	-	-	-	-
February 19, 2013 Private Placement		9,121	2,963	-	-	-	2,963
February 19, 2013 Conversion of Notes		10,834	3,519	-	-	-	3,519
Share issuance costs		-	(80)	-	-	-	(80)
Net loss		-	-	-	-	(11,332)	(11,332)
Foreign currency translation loss		-	-	-	(163)	-	(163)
Balance at March 31, 2013		53,361	\$ 62,354	\$ 9,657	\$ (567)	\$ (73,633)	\$ (2,189)
Balance at July 1, 2013		53,511	\$ 62,388	\$ 9,710	\$ (6)	\$ (77,859)	\$ (5,767)
Stock-based compensation		-	-	333	-	-	333
September 9, 2013 private placement	7	60,000	11,430	-	-	-	11,430
September 9, 2013 Conversion of bridge loan	7	20,000	2,948	-	-	-	2,948
September 9, 2013 private placement shares issued for commission and expenses		3,960	1,471	-	-	-	1,471
Share issuance costs	7	-	(1,702)	-	-	-	(1,702)
September 9, 2013 debt settlement	7	20,045	7,447	-	-	-	7,447
Net loss		-	-	-	-	(9,273)	(9,273)
Foreign currency translation gain		-	-	-	82	-	82
Balance at March 31, 2014		157,516	\$ 83,982	\$ 10,043	\$ 76	\$ (87,132)	\$ 6,969

See accompanying notes to the unaudited condensed consolidated financial statements

ENABLENCE TECHNOLOGIES INC.
Condensed Consolidated Statements of Cash Flows
For the three and nine months ended March 31, 2014 and 2013
(Unaudited - In thousands of United States dollars)

	Note	Three months ended March 31,		Nine months ended March 31,	
		2014	2013	2014	2013
Cash provided by (used in)					
Operating activities					
Net loss		\$ (3,056)	\$ (2,829)	\$ (9,273)	\$ (11,332)
Loss from discontinued operations		-	-	-	1,498
Adjusted for the following non-cash items					
Depreciation and amortization		428	512	1,266	1,492
Stock-based compensation		97	231	333	459
Equity loss from joint venture	12	310	262	1,156	1,151
Gain on sale of equipment		-	-	-	(45)
Gain on debt settlement		-	-	(399)	-
Unrealized foreign exchange (gain) loss		-	292	-	(189)
		(2,221)	(1,532)	(6,917)	(6,966)
Changes in non-cash working capital	11	(58)	(380)	(323)	194
Cash used in operating activities - continuing operations		(2,279)	(1,912)	(7,240)	(6,772)
Cash provided by operating activities - discontinued operations	13	-	-	-	609
Cash used in operating activities		(2,279)	(1,912)	(7,240)	(6,163)
Investing activities					
Purchase of property, plant and equipment		(214)	(206)	(525)	(304)
Cash used in investing activities - continuing operations		(214)	(206)	(525)	(304)
Cash (used in) provided by investing activities - discontinued operations		-	(645)	-	1,285
Cash (used in) provided by investing activities		(214)	(851)	(525)	981
Financing activities					
Proceeds from issuance of shares, net of issuance costs	7	-	2,930	14,081	6,229
Advances from (repayment of) notes payable		(350)	27	(5,895)	(1,258)
Cash (used in) provided by financing activities		(350)	2,957	8,186	4,971
Cash (used in) provided by financing activities		(350)	2,957	8,186	4,971
Effect of foreign currency translation on cash and cash equivalents		(181)	123	(59)	130
(Decrease) increase in cash and cash equivalents		(3,024)	317	362	(81)
Cash and cash equivalents, beginning of period		3,975	1,929	589	2,327
Cash and cash equivalents, end of period		951	2,246	951	2,246
Less cash of discontinued operations at end of period	13	-	(14)	-	(14)
Cash and cash equivalent, end of period - continuing operations		\$ 951	\$ 2,232	\$ 951	\$ 2,232
Interest paid		\$ 31	\$ -	\$ 157	\$ 781
Interest received		3	-	8	-

See accompanying notes to the unaudited condensed consolidated financial statements

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2014 and 2013

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

These unaudited condensed consolidated financial statements should be read in conjunction with Enablence Technologies Inc.'s annual, audited financial statements approved by the Company's Board of Directors on October 29, 2013. "Enablence" and the "Company" mean either Enablence Technologies Inc. and its subsidiaries and joint venture collectively or the entity Enablence Technologies Inc., as the context dictates. Amounts reported are in thousands of U.S. dollars, except where noted.

1. CORPORATE INFORMATION

Enablence is incorporated under the Canada Business Corporations Act. Its head office is located at 390 March Road, Suite 119, Ottawa, Ontario, K2K 0G7, Canada. Enablence is a publicly-traded company listed on the TSX Venture Exchange (TSXV – ENA). The Company designs, manufactures and sells optical components and subsystems to a global customer base. The Company's product lines address all three segments of optical networks: access - connecting homes and businesses to the network; metro - communication rings within large cities; and long-haul - linking cities, countries and continents.

2. BASIS OF PRESENTATION

(i) Going Concern

These Condensed Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and on a going concern basis. This assumes the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

At March 31, 2014, the Company has cash of \$ 951 (including restricted cash of \$5 (see note 3)), working capital of \$2,429 and used \$7,240 of cash in its operating activities from continuing operations for the nine months ended March 31, 2014. The Company has sustained significant losses since its inception. Enablence has a deficit of \$87,132 at March 31, 2014.

These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate positive cash flows, and its ability to obtain sufficient additional cash in order to execute its business plan, including funding operating losses.

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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2014 and 2013

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

2. BASIS OF PRESENTATION (continued)

(ii) *Statement of compliance*

These Condensed Consolidated Financial Statements were prepared in accordance with IFRS, as issued by the International Accounting Standards Board (“IASB”), under International Accounting Standard (“IAS”) 34 – Interim Financial Reporting and were prepared using the same basis of presentation, accounting policies and methods of computation as outlined in Note 3, Significant Accounting Policies in our audited consolidated financial statements for the year ended June 30, 2013. These condensed consolidated financial statements do not include all of the notes required in annual financial statements.

These condensed consolidated financial statements were authorized for issuance by the Board of Directors on May 29, 2014.

(iii) *Use of estimates and judgements*

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

Significant estimates in the accompanying financial statements relate to the allowance for doubtful accounts, realizable amounts from receivable/holdback amounts, valuation of debt and equity instruments, 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 and indirect taxes, the carrying values of intangible assets and goodwill. Actual results could differ from these estimates.

Significant judgements in the accompanying financial statements relate to the purchase price allocations with respect to acquisitions, the going concern assessment, functional currency determinations and determination of cash generating units (“CGU”).

(iv) *Accounting policy changes:*

Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements (“IFRS 10”) was issued by the IASB in May 2011. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12, Consolidation - Special Purpose Entities and IAS 27, Consolidated and Separate Financial Statements. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Company has adopted this standard for its fiscal year ending June 30, 2014. There are no material changes to the Company’s financial statements from the adoption of this standard.

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2014 and 2013

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

2. BASIS OF PRESENTATION (continued)

Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, *SIC-13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, IAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

The Company reviewed and assessed the classification of the Company's investments in joint arrangements in accordance with the requirements of IFRS 11. The Company concluded that the investment in Sunblence, which was classified as a jointly controlled entity under IAS 31 and was accounting for using the proportionate consolidation method, should now be classified as a joint venture commencing in the fiscal year 2014 in accordance with IFRS 11, accounted for using the equity method (see Note 12).

Disclosure of Interests in Other Entities

IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), was issued by the IASB in May 2011. IFRS 12 incorporates the disclosure requirements for all strategic investments including interests in subsidiaries, joint arrangements, and associates as well as unconsolidated structured entities. IFRS 12 is to be applied for annual periods beginning on or after January 1, 2013. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (see note 12).

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2014 and 2013

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

2. BASIS OF PRESENTATION (continued)

Fair Value Measurement

IFRS 13, Fair Value Measurement (“IFRS 13”), was issued by the IASB in May 2011. IFRS 13 defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company has adopted this standard for its fiscal year ending June 30, 2014. The adoption of this standard did not have a material impact on the Company's financial statements.

(v) *Future changes in accounting policies:*

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

Financial instruments

IFRS 9, Financial Instruments (“IFRS 9”) was issued by the IASB in October 2010, and will replace IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss (“FVTPL”) and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The current version of IFRS 9 does not include a mandatory effective date. An effective date will be added when all phases of the projects are complete and a final version of IFRS 9 is issued. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

3. CASH AND CASH EQUIVALENTS

	<u>March 31,</u> <u>2014</u>	<u>June 30,</u> <u>2013</u>
Cash	\$ 946	\$ 568
Restricted Cash	5	21
Total Cash and cash equivalents	<u>\$ 951</u>	<u>\$ 589</u>

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2014 and 2013

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

4. ACCOUNTS RECEIVABLE

	March 31, 2014	June 30, 2013
Trade	\$ 1,231	\$ 1,923
Allowance for doubtful accounts	(43)	(43)
	1,188	1,880
Other	274	219
Total accounts receivable	\$ 1,462	\$ 2,099

5. INVENTORIES

	March 31, 2014	June 30, 2013
Raw materials	\$ 2,234	\$ 2,417
Work-in-progress	1,674	1,471
Finished goods	67	75
Allowance for obsolescence	(47)	(47)
Total Inventory	\$ 3,928	\$ 3,916

6. NOTES PAYABLE

	March 31, 2014	June 30, 2013
Bank Loan 1 (a)	\$ 848	\$ 1,313
Bank Loan 2 (b)	1,228	1,797
Bridge Loan (c)	-	1,000
Secured Notes (d)	-	11,633
	2,076	15,743
Less current portion	1,051	13,927
Long term portion	\$ 1,025	\$ 1,816

(a) This represents the balance of a secured note of \$5,000 with a maturity date of December 2015 and monthly payments of principal and interest of \$52. The interest rate at March 31, 2014 was 5.50% (March 31, 2013 – 5.50%). 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 (See Note 7), the Company is 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. During the quarter ended September 30, 2012, \$1,200 of cash was used to partially pay down the loan. The note has a maturity date of April 20, 2016 and monthly payments of \$42. The interest rate at March 31, 2014 was 5.50% (March 31, 2013 – 5.50%).

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2014 and 2013

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

6. NOTES PAYABLE (continued)

- (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. This agreement provided the Bridge Loan lender with senior security to the Secured Notes as well as certain restrictions on the Secured Notes holders from initiating enforcement action against the Company. This agreement was intended to 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 in September 2013.
- (d) Subordinated notes, with a principal amount of \$10,000, were 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. 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. In September 2013, as part of the equity financing described in Note 7, the notes were settled in full.

7. SHARE CAPITAL

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. At March 31, 2014, there are 157,516 common shares and no preferred shares outstanding.

On September 9, 2013, the Company completed a \$14,325 financing transaction (the “Financing Transaction”) and retired all of the remaining secured subordinated promissory notes in conjunction with the financing.

The Financing Transaction was comprised of a \$11,430 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 \$14,325 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

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2014 and 2013

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

7. SHARE CAPITAL (continued)

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, and 360 shares were issued to cover expenses, both of which were recorded at a fair value for accounting purposes of \$0.372 per share. The fair value reflects a 10% discount from the closing market price on the date of the transaction. Management believes the discount is appropriate given the volatility of the stock and the four month holding period that the shares are subject to.

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 \$11,725 of principal and accrued interest. These notes were exchanged for total cash payments of \$3,861 and the issuance of 19,865 common shares of Enablence recorded at a fair value for accounting purposes of \$0.372 per share. There were an additional 180 shares issued by the Company to the holders of these secured subordinated promissory notes at the same fair value for accounting purposes of \$0.372. The cash payments combined with the issuance of the shares represented a full and final settlement of these subordinated notes. As a result, the Company has recorded a gain of \$399 on the settlement of these subordinated notes. The fair value reflects a 10% discount from the closing market price on the date of the transaction. Management believes the discount is appropriate given the volatility of the stock and the four month holding period that the shares are subject to.

Stock option plan

The Company has established a stock option plan available for directors, officers, employees and consultants, and authorized a stock option pool equal to 10% of the outstanding common shares. At March 31, 2014, the available option pool was a total of 10,420. The Board of Directors administers the stock option plan.

Historically options have been granted with exercise prices equal to the fair market value of the common shares of the Company on the date of grant. Options generally vest in four equal annual portions starting one year after the date of grant. Options granted to directors vest over a two-year period. All options expire on the 10th anniversary of the grant. After termination of employment, unvested options are forfeited immediately and vested options expire 90 days subsequent to termination.

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2014 and 2013

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

7. SHARE CAPITAL (continued)

The following table summarizes the options outstanding and exercisable as at March 31, 2014. Balances and exercise prices have been adjusted to reflect the effect of the consolidation of the Company's share capital on December 5, 2012. There were no option grants or expiries during the three and nine months ended March 31, 2014.

Options Outstanding			Options Exercisable	
Exercise Price (Cdn \$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Exercise Price (Cdn \$)
\$ 0.33	5,020	9.0	2,399	\$ 0.33
7.40	68	2.4	68	7.40
10.00	66	3.9	66	10.00
12.00	59	6.5	44	12.00
16.00	26	3.0	26	16.00
23.00	12	4.4	12	23.00
46.00	75	3.9	75	46.00
47.80	6	3.9	6	47.80
\$ 1.49	5,332	8.7	2,696	\$ 2.56

Stock-based compensation is recorded as an increase to contributed surplus and transferred to share capital when the underlying options are exercised.

8. LOSS PER SHARE

As a result of the net loss from continuing operations and the net loss in each of the reporting periods, the potential effect of the exercise of stock options, convertible notes and warrants was anti-dilutive. Accordingly, 4,782 potentially dilutive option shares at March 31, 2014 (2013 – 5,333) and nil share warrants (2013 – 20) have not been included in the calculation of diluted loss per common share for the three and nine months ended March 31, 2014.

ENABLENCE TECHNOLOGIES INC.

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2014 and 2013

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

9. FINANCIAL INSTRUMENTS

Credit risk

The age of trade accounts receivable is summarized as follows gross of the allowance of \$43 at March 31, 2014 (June 30, 2013 - \$43):

	March 31, 2014	June 30, 2013
Current or under 60 days	\$ 1,002	\$ 1,341
Past due 61 to 90 days	33	61
Past due more than 90 days	196	521
Total Trade accounts receivable	<u>\$ 1,231</u>	<u>\$ 1,923</u>

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

Liquidity risk

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

At March 31, 2014, the Company has financial liabilities, payments for which are due as follows including interest:

	Carrying value	To March 31, 2015	To March 31, 2016	To March 31, 2017	Total
Accounts payable and accrued liabilities	\$ 3,585	\$ 3,585	\$ -	\$ -	\$ 3,585
Secured notes payable	2,076	1,141	1,014	53	2,208
Total	<u>\$ 5,661</u>	<u>\$ 4,726</u>	<u>\$ 1,014</u>	<u>\$ 53</u>	<u>\$ 5,793</u>

ENABLENCE TECHNOLOGIES INC.

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10. SEGMENTED INFORMATION

The Company operates in one segment, Optical Components, with the divestiture of its Systems business (Discontinued Operations, Note 13).

Certain assets are analyzed geographically as follows:

	<u>March 31, 2014</u>		<u>June 30, 2013</u>	
	<u>Property plant and equipment</u>	<u>Intangibles and other assets</u>	<u>Property plant and equipment</u>	<u>Intangibles and other assets</u>
United States	\$ 2,600	\$ -	\$ 3,388	\$ 59
Canada	236	41	195	61
Total	<u>\$ 2,836</u>	<u>\$ 41</u>	<u>\$ 3,583</u>	<u>\$ 120</u>

Revenue is analyzed geographically as follows:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>March 31, 2014</u>	<u>March 31, 2013</u>	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Americas	\$525	\$917	\$1,628	\$2,438
Asia Pacific	258	402	864	1,651
Europe, Middle East and Africa	271	423	952	1,931
	<u>\$1,054</u>	<u>\$1,742</u>	<u>\$3,444</u>	<u>\$6,020</u>

During the nine months ended March 31, 2014, one customer accounted for 14% of the Company's total revenue and for the same period of the prior year one customer accounted for 24% of the Company's total revenue.

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

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>March 31, 2014</u>	<u>March 31, 2013</u>	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Product	\$927	\$1,385	\$3,183	\$4,567
NRE	127	357	261	1,453
Total	<u>\$1,054</u>	<u>\$1,742</u>	<u>\$3,444</u>	<u>\$6,020</u>

ENABLENCE TECHNOLOGIES INC.

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11. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Net change in non-cash operating working capital items:

	Three months ended		Nine months ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Net inflow (outflow) of cash:				
Accounts receivable	\$ 487	\$ 59	\$ 1,068	\$ (96)
Inventories	216	(220)	(13)	753
Prepaid expenses and deposits	(165)	179	(682)	(48)
Accounts payable and accrued liabilities	(583)	(408)	(758)	(425)
Deferred revenue	(13)	10	62	10
	<u>\$ (58)</u>	<u>\$ (380)</u>	<u>\$ (323)</u>	<u>\$ 194</u>

12. JOINT VENTURE

Beginning with its fiscal period July 1, 2013, the Company has adopted IFRS11, Joint Arrangements. Pursuant to this standard, the Company will account for its investment in the joint venture using the equity method of accounting. The equity method under IAS 28 recognizes the investment initially at cost and adjusts thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee. The impact on the statements is that: the line items for assets, liabilities, revenues and expenses are reduced to remove the portion belonging to the joint venture; the investment in the joint venture is captured as a single line item on the balance sheet; and the activity of the joint venture is captured as a single line item on the statement of profit and loss. Comparative numbers have been restated to conform with the equity method of accounting for this investment.

The Company has an investment in a joint venture named Sunblence Technologies Co., Ltd. ("Sunblence"). Sunsea Telecommunications Co. Ltd. ("Sunsea") owns 51% of Sunblence and Enablence owns a 49% interest in Sunblence. Sunblence develops, manufactures and sells optical components based primarily on Enablence's planar lightwave circuit ("PLC") technology. Initial production and revenues of splitter products was achieved in June 2012.

The initial investments by the partners in the Sunblence joint venture were as follows:

1. \$9,180 by Sunsea, all in cash
2. \$8,820 by Enablence, comprising:
 - \$3,500 in cash
 - \$1,000 of capital equipment
 - \$4,320 in intellectual property and know-how

In May 2011, the Company paid its \$3,500 cash investment in Sunblence.

At June 30, 2012, the Company had completed its initial investment obligations which included the cash investment, and the transfer of the intellectual property and the capital equipment.

ENABLENCE TECHNOLOGIES INC.

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12. JOINT VENTURE (continued)

At that time, Enablence began accounting for Sunblence using the proportionate consolidation method, whereby Enablence included 49% of Sunblence's balance sheet and results from operations in its consolidated financial statements.

Beginning with its fiscal period July 1, 2013, the Company has adopted IFRS11, Joint Arrangements. Pursuant to this standard, the Company accounts for its investment in the joint venture using the equity method of accounting. The equity method under IAS 28 recognizes the investment initially at cost and adjusts thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee. The impact on the statements is that: the line items for assets, liabilities, revenues and expenses are reduced to remove the portion belonging to the joint venture; the investment in the joint venture is captured as a single line item on the statement of profit and loss. Comparative numbers have been restated to conform with the equity method of accounting for this investment.

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12. JOINT VENTURE (continued)

The following is the Company's opening comparative restated balance sheet under the equity method of accounting, as at July 1, 2012:

	<u>July 1, 2012</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,972
Accounts receivable	2,659
Inventories	4,648
Prepaid expenses, deposits and taxes	113
Assets held for disposal	<u>3,963</u>
	13,355
PROPERTY, PLANT AND EQUIPMENT	5,320
INTANGIBLE AND OTHER ASSETS	337
INVESTMENT IN JOINT VENTURE	<u>6,181</u>
	<u>\$ 25,193</u>
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	\$ 5,415
Deferred revenue	23
Current portion of notes payable	17,105
Liabilities related to assets held for disposal	<u>816</u>
	23,359
NOTES PAYABLE	2,559
OTHER LONG-TERM LIABILITIES	<u>176</u>
	<u>\$ 26,094</u>
DEFICIENCY	
Share capital	52,606
Contributed surplus	9,198
Accumulated other comprehensive loss	(404)
Deficit	<u>(62,301)</u>
	<u>(901)</u>
	<u>\$ 25,193</u>

ENABLENCE TECHNOLOGIES INC.

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12. JOINT VENTURE (continued)

The following is a breakdown of the Company's share of the joint venture's assets and liabilities that have been aggregated into a single line investment on the balance sheet, as at July 1, 2012:

	<u>July 1, 2012</u>
CURRENT ASSETS	
Cash and cash equivalents	\$ 2,002
Accounts receivable	4
Inventories	85
Prepaid expenses, deposits and taxes	1,078
	<u>3,169</u>
PROPERTY, PLANT AND EQUIPMENT	3,390
	<u>\$ 6,559</u>
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	\$ 38
OTHER LONG-TERM LIABILITIES	340
	<u>378</u>
NET ASSETS	<u>\$ 6,181</u>

The following is a breakdown of the Company's proportionate share of the joint venture's assets and liabilities:

	<u>March 31, 2014</u>	<u>June 30, 2013</u>
Current assets	\$ 560	\$ 869
Non-current assets	3,236	3,756
Current liabilities	553	515

The above amounts of assets and liabilities include the following:

	<u>March 31, 2014</u>	<u>June 30, 2013</u>
Cash	\$ 128	\$ 350
Short-term loan	266	-

The short-term loan was obtained by the joint venture on December 31, 2013. The loan has a maturity date of July 31, 2014 and interest rate of 7.80%. The loan is payable at maturity. The loan was obtained for working capital purposes and is secured by the joint ventures' equipment.

ENABLENCE TECHNOLOGIES INC.

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12. JOINT VENTURE (continued)

The Company's share of the joint venture's revenue and expenses was as follows:

	Three months ended		Nine months ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Revenue	\$ 65	\$ 96	\$ 148	\$ 300
Operating and other expenses	375	358	1,304	1,451
Net loss	(310)	(262)	(1,156)	(1,151)
Foreign currency translation gain	55	(91)	99	96
Comprehensive loss	(255)	(353)	(1,057)	(1,055)

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

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

The Company recorded a loss on the transaction of \$129, as per below:

Gross proceeds on disposal	\$ 2,000
Commission on disposal	<u>(70)</u>
Net proceeds	1,930
Assets sold	2,483
Less liabilities sold	<u>(424)</u>
Net assets sold	2,059
Loss on disposal of net assets	<u>(129)</u>

Subsequent to the quarter ended December 31, 2012, the loss was adjusted to \$165.

ENABLENCE TECHNOLOGIES INC.

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

Presentation of Discontinued Operations Financial Information

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

The remaining assets and liabilities related to the Systems segment have been presented as assets and liabilities held for disposal on the condensed consolidated balance sheets as at March 31, 2014 and comparative prior periods. There are no operating results to report for these remaining net assets relating to the Systems segment for the reported periods.

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

	<u>March 31,</u> <u>2014</u>	<u>June</u> <u>30, 2013</u>
Assets		
Inventories	\$ 50	\$ 50
Prepaid expenses and deposits	4	4
Total assets held for disposal	<u>\$ 54</u>	<u>\$ 54</u>
Liabilities		
Trade and other payables	609	609
Total liabilities held for disposal	<u>\$ 609</u>	<u>\$ 609</u>

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

The results of operations of ENA Switzerland as included in discontinued operations of the Company during the reporting periods are presented below.

	Three months ended		Nine months ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Revenue	\$ -	\$ -	\$ -	\$ 1,375
Cost of revenue	-	-	-	564
Gross margin	-	-	-	811
Operating expenses:				
Research and development	-	-	-	230
Sales and marketing	-	-	-	94
General and administrative	-	-	-	99
Amortization	-	-	-	32
Operating expenses	-	-	-	455
Operating income (loss)	-	-	-	356
Interest expense	-	-	-	-
Property, plant and equipment Impairment loss	-	-	-	(1,676)
Loss on sale of ENA Switzerland	-	-	-	(129)
Foreign exchange (loss) gain	-	-	-	(49)
Loss before income taxes	-	-	-	(1,498)
Recovery of deferred income taxes	-	-	-	-
Loss from discontinued operations	\$ -	\$ -	\$ -	\$ (1,498)

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

14. SUBSEQUENT EVENT

On May 6, 2014, the Company obtained a variable rate revolving line of credit loan of \$1,500 for working capital purposes. The loan is secured by the accounts receivable of the Company. As further collateral, \$500 has been deposited with the lending bank to protect against the possibility that the accounts receivable will not completely satisfy a future default under the loan. The loan has a maturity date of June 1, 2015 and an interest rate based on the Wall Street Journal prime rate plus 3.25%. Beginning July 1, 2014, monthly payments of interest only are required. The loan is payable in one payment of all outstanding principal and accrued unpaid interest on June 1, 2015.