



ENABLENCE TECHNOLOGIES INC.

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

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2014

DATED: MAY 29, 2014

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

The following is a discussion and analysis of the financial condition of Enablence Technologies Inc. at March 31, 2014 compared to June 30, 2013 and results of operations for the three and nine months ended March 31, 2014 compared to the three and nine months ended March 31, 2013.

This MD&A should be read in conjunction with our unaudited condensed consolidated financial statements for the three and nine months ended March 31, 2014 as well as our audited consolidated financial statements and accompanying notes for the year ended June 30, 2013. 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 May 29, 2014. The financial statements include the Company's investment in Sunblence Technologies Co. Ltd ("Sunblence"), our joint venture in Foshan City, China. The 49% investment in Sunblence has been accounted for using the equity method of accounting for investments.

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 meet its financial obligations as they come due, and will be able to raise sufficient additional financing

- The Company will continue to 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 staff.

QUARTER HIGHLIGHTS

The following summarizes the key items of the Company's third fiscal quarter ended March 31, 2014:

- Reported revenues of \$1,054 and a loss from continuing operations of \$3,056
- Started ramp up of TOSA/ROSA capacity
- Received large TOSA/ROSA orders of more than \$1.3 million at the end of the quarter

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 lightwave 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. 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, 8x10G/10x10G TOSA/ROSA, 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, Sunblence Technologies Co., ("Sunblence") is our joint venture with SUNSEA Telecommunications Co., Ltd., ("SUNSEA") in China. Sunblence develops, manufactures and sells 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 a solution for an array of applications including telecommunications, data centres and sensor systems, biomedical and aerospace applications and instrumentation.

Sunblence - Our Chinese Joint Venture

Sunblence is based in Foshan, China. Sunblence develops, manufactures and sells optical components based primarily on Enablence's planar lightwave circuit ("PLC") technology. Enablence and SUNSEA owns 49% and 51% interest in Sunblence, respectively.

Sunblence has developed 1x4, 1x8, 1x16, and 1x32 splitters. The supply and demand dynamics of the optical splitter market in China has experienced unfavorable trends in the past two years. Due to severe price erosion, Sunblence was not able to achieve its anticipated financial goal. Enablence is in discussions with SUNSEA reviewing various options, one of which includes expansion of Sunblence's product portfolio to include more advanced products. The joint venture will be required to incur capital costs to further advance its product portfolio, though no decision has yet been made by the Sunblence board of directors on this matter.

For the three and nine months ended March 31, 2014, Enablence has included financial results from Sunblence using the equity method of accounting, whereby 49% of the net assets and net losses (excluding any unrealized intercompany transactions) of Sunblence are included in Enablence's consolidated results. Prior to its current fiscal year beginning July 1, 2013, the Company accounted for its investment using the proportionate consolidation method whereby 49% of the assets and liabilities and revenue and expenses of Sunblence were included in Enablence's consolidated results. 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 and 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.

RESULTS OF OPERATIONS

Summary of Unaudited Quarterly Results

The following table sets forth unaudited summary results of operations for the past eight quarters. The information for the fiscal period ended June 30, 2012 and subsequent quarters has been taken from our unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the unaudited consolidated financial statements for the fiscal period ended March 31, 2014. 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 results of operations for ENA Switzerland within discontinued operations, up to the date of its divestiture in November 2012, is included in the quarter ended December 31, 2012.

	30-Jun 2012	30-Sep 2012	31-Dec 2012	31-Mar 2013	30-Jun 2013	30-Sep 2013	31-Dec 2013	31-Mar 2014
Revenue	\$ 3,332	\$ 2,125	\$ 2,153	\$ 1,742	\$ 1,470	\$ 1,321	\$ 1,069	\$ 1,054
Gross Margin	382	444	(1,412)	223	129	(691)	(548)	(608)
GM %	11.5%	20.9%	(65.6%)	12.8%	8.8%	(52.3%)	(51.3%)	(57.7%)
Expenses								
Research & development	1,307	1,289	937	1,056	1,024	942	1,121	1,104
Sales & marketing	193	153	142	134	144	141	144	156
General & administration	769	749	941	646	780	705	831	697
Stock-based compensation	(303)	116	112	231	53	123	113	97
Amortization	155	96	212	161	134	96	63	91
Restructuring	493	-	-	-	(352)	-	-	-
Expenses	<u>2,614</u>	<u>2,403</u>	<u>2,344</u>	<u>2,228</u>	<u>1,783</u>	<u>2,007</u>	<u>2,272</u>	<u>2,145</u>
Operating loss	<u>(2,232)</u>	<u>(1,959)</u>	<u>(3,756)</u>	<u>(2,005)</u>	<u>(1,654)</u>	<u>(2,698)</u>	<u>(2,820)</u>	<u>(2,753)</u>
Other expense	(270)	(556)	(368)	(272)	(999)	(271)	(33)	(29)
(Loss) gain on disposal of equipment	2,759	-	45	-	(224)	-	-	-
Equity loss from joint venture	(758)	(542)	(347)	(262)	(854)	(398)	(448)	(310)
Foreign exchange (loss) gain	(179)	531	(52)	(290)	(443)	26	26	36
Gain on debt settlement	-	-	-	-	-	399	-	-
Recovery of future income taxes	1,455	-	-	-	-	-	-	-
Income (loss) from continuing operations	<u>775</u>	<u>(2,526)</u>	<u>(4,478)</u>	<u>(2,829)</u>	<u>(4,174)</u>	<u>(2,942)</u>	<u>(3,275)</u>	<u>(3,056)</u>
Income (loss) from discontinued operations	285	(1,604)	106	-	(53)	-	-	-
Net income (loss)	<u>1,060</u>	<u>(4,130)</u>	<u>(4,372)</u>	<u>(2,829)</u>	<u>(4,227)</u>	<u>(2,942)</u>	<u>(3,275)</u>	<u>(3,056)</u>
Weighted average shares outstanding	23,327	23,327	28,578	42,275	53,413	77,252	157,516	157,516
Basic and diluted income (loss) per share								
Continuing operations	\$0.03	(\$0.11)	(\$0.16)	(\$0.07)	\$2.00	(\$0.04)	(\$0.02)	(\$0.02)
Discontinued operations	\$0.01	(\$0.07)	\$0.00	\$0.00	(\$0.00)	\$0.00	\$0.00	\$0.00
Adjusted EBITDA ⁽¹⁾	(2,195)	(1,804)	(3,303)	(1,462)	(2,633)	(2,412)	(2,633)	(2,412)

(1) Adjusted EBITDA does not have a standardized meaning according to IFRS and is defined and reconciled to net income (loss) below.

NON-GAAP FINANCIAL MEASURES

Management reports and analyzes its financial results and performance using a range of financial measures. Some of these measures, such as revenues, net income and cash flow from operating activities are defined by IFRS. Other measures are not defined by IFRS.

One key non-IFRS measure used by management is "Adjusted EBITDA". Adjusted EBITDA comprises: net income (loss) excluding the following: income (loss) from discontinued operations, finance income and expense, income tax recovery and expense, depreciation, amortization, asset impairment charges, foreign exchange gains and losses in earnings, stock-based compensation expense and restructuring charges. Therefore, it may not be comparable to similar measurements presented by other companies. The reconciliation of Adjusted EBITDA with the IFRS measure of net income (loss) is as follows:

	<u>30-Jun</u> <u>2012</u>	<u>30-Sep</u> <u>2012</u>	<u>31-Dec</u> <u>2012</u>	<u>31-Mar</u> <u>2013</u>	<u>30-Jun</u> <u>2013</u>	<u>30-Sep</u> <u>2013</u>	<u>31-Dec</u> <u>2013</u>	<u>31-Mar</u> <u>2014</u>
Net income (loss) for the period	1,060	(4,130)	(4,372)	(2,829)	(4,227)	(2,942)	(3,275)	(3,056)
Add (deduct):								
(Income) loss from discontinued operations	(285)	1,604	(106)	-	53	-	-	-
Net interest and other expense (gain)	(2,489)	556	323	272	1,223	(128)	33	29
Amortization (note 1)	605	581	688	574	174	561	522	554
Impairment of intangible assets and goodwill	-	-	-	-	-	-	-	-
Recovery of future income taxes	(1,455)	-	-	-	-	-	-	-
Realized foreign exchange (gain) loss	179	(531)	52	290	443	(26)	(26)	(36)
Stock-based compensation expense (recovery)	(303)	116	112	231	53	123	113	97
Restructuring charges (recovery)	493	-	-	-	(352)	-	-	-
"Adjusted EBITDA"	<u>(2,195)</u>	<u>(1,804)</u>	<u>(3,303)</u>	<u>(1,462)</u>	<u>(2,633)</u>	<u>(2,412)</u>	<u>(2,633)</u>	<u>(2,412)</u>

- (1) Amortization includes amounts that are recorded as part of cost of revenues and therefore, does not equal the amount reported on the face of the Consolidated Statement of Comprehensive Loss. The amount also includes amortization included and reported as part of Equity Loss from joint venture.

SUMMARY OF RESULTS FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2014 COMPARED TO THE THREE AND NINE MONTHS ENDED MARCH 31, 2013

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 three and nine months ended March 31, 2014 and 2013.

	Three months ended			Nine months ended		
	March 31, 2014	2013	Increase (decrease)	March 31, 2014	2013	Increase (decrease)
Revenues	\$ 1,054	\$ 1,742	\$ (688)	\$ 3,444	\$ 6,020	\$ (2,576)
Cost of revenues	1,662	1,519	143	5,291	6,765	(1,474)
Gross margin	(608)	223	(831)	(1,847)	(745)	(1,102)
	(57.7%)	12.8%		(53.6%)	(12.4%)	
Operating expenses:						
Research and development	1,104	1,056	48	3,167	3,283	(116)
Sales and marketing	156	134	22	441	429	12
General and administrative	697	646	51	2,233	2,336	(103)
Stock based compensation	97	231	(134)	333	459	(126)
Depreciation and amortization	91	161	(70)	250	469	(219)
Total operating expenses	2,145	2,228	(83)	6,424	6,976	(552)
Operating loss	(2,753)	(2,005)	(748)	(8,271)	(7,721)	(550)
Other income (expenses):						
Finance and other income	3	-	3	8	-	8
Finance expense	(32)	(272)	240	(341)	(1,196)	855
Equity loss from Joint Venture	(310)	(262)	(48)	(1,156)	(1,151)	(5)
Gain(loss) on disposal of equipment	-	-	-	-	45	(45)
Gain on debt settlement	-	-	-	399	-	399
Foreign exchange gain (loss)	36	(290)	326	88	189	(101)
Net loss from continuing operations	(3,056)	(2,829)	(227)	(9,273)	(9,834)	561
Net gain (loss) from discontinued operations	-	-	-	-	(1,498)	1,498
Net loss	(3,056)	(2,829)	(227)	(9,273)	(11,332)	2,059
Other comprehensive loss:						
Foreign currency transaction gain (loss)	58	138	(80)	82	(163)	245
Comprehensive loss	\$ (2,998)	\$ (2,691)	(307)	\$ (9,191)	\$ (11,495)	2,304

Enableness converts foreign currency-denominated transactions related to the statement of income (loss) at the average exchange rates for the periods. As such, changes in the exchange rate between the United States dollar and the Canadian dollar can have an impact on the reported results for each fiscal period. The average exchange rate for the three and nine months ended March 31, 2014 in terms of the Canadian dollar equivalent of US\$1 was CDN \$1.104 and CDN \$1.062 respectively, as compared to CDN \$1.01 and CDN \$1.00 respectively, for the same quarter of the prior year.

REVENUES

Revenue for the three months ended March 31, 2014 was \$1,054 as compared to \$1,742 for the same period of the prior year, a decrease of 40% or \$688. Revenue for the nine months ended March 31, 2014 was \$3,444 as compared to \$6,020 for the same period of the prior year, a decrease of 43% or \$2,576. The revenue decrease is mainly due to the telecom market continuing to be soft resulting in lower demand for our AWG products, as well as the fact that the Company's new product ramp-up is still in process. The new product, as previously announced in our change in growth strategy, focuses on the high growth market of integrated products (Tosa/Rosa) for datacenters communications. As compared to the same periods of the prior year, revenue from our AWG products, decreased by \$886 or 55% from \$1,604 to \$718 and by \$2,339 or 47% from \$4,984 to \$2,645 for the three and nine months ended March

31, 2014, respectively. Sales of Tosa/Rosa products increased from nil to \$121 and from nil to \$288 for the three and nine months ended March 31, 2014, respectively. We received our first volume Tosa/Rosa orders of more than \$1.3 million at the end of March 31, 2014. It is anticipated that these products will be in greater demand by the marketplace and our revenue will shift from traditional AWG products to this new product line and grow as more new products are rolled out.

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

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>March 31,</u> <u>2014</u>	<u>March 31,</u> <u>2013</u>	<u>March 31,</u> <u>2014</u>	<u>March 31,</u> <u>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>

GROSS MARGIN

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

Gross Margin for the three months ended March 31, 2014 was (57.7%) as compared to 12.8% for the same period of the prior year. Gross Margin for the nine months ended March 31, 2014 was (53.6%) as compared to (12.4%) for the same period of the prior year. The reduction in the Gross Margin percentage is due mainly to the lower revenue level on an operational cost base which is partially fixed. The Company is in the transitional period of rolling out new products for the new market, and ramping up our capacity of Tosa/Rosa products, while continuing to support the fixed cost base, all of which impacts the margin of our declining sales of traditional products.

OPERATING EXPENSES

R&D expenses for the three months ended March 31, 2014 increased by \$48 or 5% to \$1,104 as compared to \$1,056 for the same period of the prior year as a result of slightly higher material spending. R&D expenses for the nine months ended March 31, 2014 decreased by \$116 or 4% to \$3,167 as compared to \$3,283 for the same period of the prior year. This reduction for the nine month period was a result of a portion of costs being allocated to cost of revenues in support of production activities.

Sales & Marketing expenses for the three and nine months ending March 31, 2014 were relatively consistent with the same periods of the prior year.

General & Administration expenses for the three months ended March 31, 2014 increased by \$51 or 8%. The increase is primarily related to severance costs incurred as the Company

continues to streamline its operations. General and administration expenses for the nine months ended March 31, 2014 decreased by \$103 or 4% to \$2,233 as compared to \$2,336 for the same period of the prior year. This decrease is mainly due to lower professional fees in the current period as compared to the prior period when professional fees were incurred in connection with the sale of ENA Switzerland and finance restructuring.

Stock-based compensation for the three and nine months ending March 31, 2014 decreased by \$134 and \$126 respectively, as compared to the same periods of the prior year, as expense related to older option grants decreased as those grants are now fully amortized.

Amortization expenses for the three and nine months ended March 31, 2014 decreased by \$70 and \$219 in each period respectively, as compared to the same periods of the prior year. The decrease is a direct result of a smaller asset base available for amortization.

FINANCE EXPENSE

Interest expense for the three and nine months ended March 31, 2014 was \$32 and \$341, respectively, as compared to \$272 and \$1,196, respectively, for the same periods of the prior year. Interest expense primarily relates to Notes Payable and this decrease is as a result of the settlement of a significant amount of the Notes Payable in the quarter ended September 30, 2013.

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:

	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%).
- (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.

FOREIGN EXCHANGE GAIN (LOSS)

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

During the three and nine months ended March 31, 2014 the Company recorded a foreign exchange gain of \$36 and \$88, respectively, as compared to a loss of \$290 and a gain of \$189, respectively, for the same periods of the prior year. This was primarily as a result of the effect of the fluctuation in the \$CDN/\$US exchange rate. The large gain and loss in the prior period was a result of converting a much larger US dollar denominated debt balance.

GAIN ON DEBT SETTLEMENT

On September 9, 2013 the Company completed the final settlement of the secured subordinated promissory notes payable of \$11,725 in exchange for total cash payments of \$3,861 and the issuance of 19,865 common shares of Enablene at a deemed price of \$0.20, with a four month restricted period, all of which resulted in a gain on debt settlement of \$399 for the three months ended September 30, 2013. The issuance of the shares was accounted for on a fair value basis, in accordance with IFRS. The fair value of the issued shares was based on the closing market price at the settlement date of the transaction, adjusted for a discount of 10%, resulting in a price of \$0.372. In addition there were 180 common shares of Enablene issued to the noteholders as reimbursement for related legal fees which was also recorded at the same fair value price of \$0.372. The discount was based on management's estimate of the impact of the four month trading restriction.

INCOME TAXES

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

NET LOSS FROM CONTINUING OPERATIONS

Net loss from continuing operations excludes the results from discontinued operations which includes the Systems business and ENA Switzerland. The net loss from continuing operations for the three months ended March 31, 2014 was \$3,056 as compared to \$2,829 for the prior year's same period. This increase was primarily due to decreased gross margins in the current period, partially offset by reduced finance expense due to the debt settlement in September 2013 and reduced operating expenses. The net loss from continuing operations for the nine months ended March 31, 2014 was \$9,273 as compared to \$9,834 for the same period of the prior year. This decrease in net loss is primarily due to lower operating costs as well as lower interest expense and the gain on the September 2013 debt settlement.

LOSS FROM DISCONTINUED OPERATIONS

The loss from discontinued operations for the prior periods ended March 31, 2013 represents the financial results from the Company's Systems segment and ENA Switzerland. There is no gain or loss from discontinued operations for the three and nine months ended March 31, 2014. The summary of operating results from discontinued operations are as follows:

	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)

Net loss from discontinued operations for the nine months ended March 31, 2013 was \$1,498 which related to the sale of ENA Switzerland. As at December 31, 2012, Enableness sold or wound down all of its operations in the Systems segment. The Company continues to manage through remaining liabilities in the Systems U.S.-based entities, and as a result as reflected in discontinued operations.

LOSS PER COMMON SHARE

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

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2014	2013	2014	2013
Basic and diluted loss per common share:				
From continuing operations	\$(0.02)	\$(0.07)	\$(0.07)	\$(0.31)
From discontinued operations	\$0.00	\$0.00	\$0.00	\$(0.05)
Weighted Average Number of Common Shares	157,516	42,275	130,567	31,314

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

OUTLOOK

We expect that during the next few quarters, products currently under development using our proprietary PIC technology, will start to contribute positively to the Company's financial status. We anticipate that market demand for high bandwidth transmission products with small form factor, low power consumption and low cost will continue the current rapid expansion for at least several years. Our PIC products, based on our PLC integration platform, are commercially mature enough to become a viable solution to address this market demand. The revenue from PIC products is expected to provide the growth engine for the Company in the foreseeable future.

More specifically, the Company continues to invest its capital and human resources in its 40G and 100G TOSA/ROSA product portfolio. It is anticipated that there will be increased demand for these products in 2014-2016. TOSA/ROSA, inclusive of 4x10G, 4x25G, 8x25G and 10x10G configurations, are either available right now or are expected to become available in the coming quarters. The Company has secured several purchase orders for the above mentioned TOSA/ROSA products from a Global Tier-1 communication system vendor and transceiver module makers. The Company continues to focus on ramping up its production volume capacity at its Fremont location and expects to make further investments in its manufacturing capabilities during fiscal 2015.

For traditional Mux/Demux and switch/VOA products, the Company sees more demand for higher channel count and more integrated modules, such as the 96 channel Mux/Demux and VMUX devices, 2-in-1 Mux/Demux with PD arrays, and small, agile multicast switch products based on 4x4 to 8x16 configurations.

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. Enblance secured new equity investments during three months ended September 30, 2013, 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 \$11,725 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 March 31, 2014 and June 30, 2013.

	March 31,	June 30,
	<u>2014</u>	<u>2013</u>
Cash and Cash Equivalents:		
Continuing operations	946	568
Restricted cash	5	21
	<u>951</u>	<u>589</u>
Discontinued operations	<u>-</u>	<u>-</u>
Working Capital:		
Continuing operations	2,429	(11,207)
Discontinued operations	(555)	(555)

The working capital position from continuing operations at March 31, 2013 increased to \$2,429 from the working capital deficiency of \$11,207 at June 30, 2013. The increase was mainly due to the equity financing and debt settlement transactions in September 2013. Also other contributing factors included a reduction in Accounts payable and Accrued liabilities as the Company paid off certain overdue debts after receiving the financing, collections of certain trade receivables, as well as an increase in Prepaid expenses and Deposits relating to material and equipment deposits.

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.

The chart below highlights the Company's cash flows during the three and nine months ended March 31, 2014 and 2013.

	Three months ended March 31, 2014	Three months ended March 31, 2013	Nine months ended March 31, 2014	Nine months ended March 31, 2013
Cash provided by (used in)				
Operating activities				
Continuing operations	(2,279)	(1,912)	(7,240)	(6,772)
Discontinued operations	-	-	-	609
Investing activities				
Purchase of property, plant and equipment	(214)	(206)	(525)	(304)
Continuing operations	(214)	(206)	(525)	(304)
Discontinued operations	-	(645)	-	1,285
Financing activities				
Net proceeds from issuance of shares	-	2,930	14,081	6,229
Payments on notes payable	(350)	27	(5,895)	(1,258)
Continuing operations	(350)	2,957	8,186	4,971
			-	-
Effect of foreign currency translation	(181)	123	(59)	130
Net change in cash and cash equivalents	(3,024)	317	362	(81)

At March 31, 2014, the Company had cash available of \$946 (not including \$5 of restricted cash). The Company consumed \$7,240 in continuing operating activities during the nine months ended March 31, 2014 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, increased sales volumes and improved gross margins, growth and profitability of Sunblence and 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.

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 previously, 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. In addition, as stated in the "Liquidity" section above, On May 6, 2014, the Company obtained a variable rate revolving line of credit loan of \$1,500 on May 6, 2014 for working capital purposes.

Enablence is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There are 157,516 common shares issued and outstanding as of May 29, 2014 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 (non Carrying value amounts include future interest costs).

	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	\$ 5,661	\$ 4,726	\$ 1,014	\$ 53	\$ 5,793

The Company is exposed to currency risk as certain transactions are denominated in Canadian dollars 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

As a result of the refinancing and restructuring of the Company completed in September 2013, the board of directors of the Company was restructured and expanded to seven directors at the Company’s shareholder meeting held on December 18, 2013. As a result, the board was then comprised of the following directors: Louis de Jong, appointed as Chairman of the Board, succeeding John Roland, John Roland, Jacob Sun, as the Company’s Chief Executive Officer, Jim Seto, Zhiyin Gao, Tao (Todd) Zhang, as the Company’s Chief Financial Officer, and Shengyin (Kevin) Zhu. Messrs. Gao, Zhang and Zhu are nominees of China Tricomm Ltd.

On May 20, 2014, Evan Chen was appointed as Chief Executive Officer of the Company succeeding Jacob Sun.

TRANSACTIONS WITH RELATED PARTIES

During the nine months ended March 31, 2014 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 our Annual MD&A filed on October 29, 2013 and available at www.sedar.com.

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

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.

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 for details).

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.

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.

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	Enableness Technologies Inc., referring either to Enableness and its subsidiaries and affiliates or else the corporate entity, as the context indicates
Convertible Notes	\$3,000 of Convertible Notes issued on November 19, 2008 and bear interest at 5% and at 18% since January 2012 when the Convertible Notes were in default.
CTA	Cumulative translation adjustment, a component of equity under GAAP and IFRS
Enableness	Enableness Technologies Inc., either the consolidated group or the corporate entity, as the context dictates
ENA Switzerland	Enableness Switzerland AG, a wholly-owned subsidiary, located in Zurich, Switzerland, held for disposition 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 Enableness 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