

Interim Condensed Consolidated Financial Statements of

ENABLENCE TECHNOLOGIES INC.

*For the three months ended September 30, 2016 and 2015
(in thousands of United States dollars and shares)*

(Unaudited)

“Notice to Reader”

The accompanying unaudited condensed financial statements of Enablece Technologies Inc. for the three months ended September 30, 2016 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: November 29, 2016

“Evan Chen”
Evan Chen
CEO

“Tao Zhang”
Tao Zhang
CFO

ENABLENCE TECHNOLOGIES INC.
Interim Condensed Consolidated Financial Statements
September 30, 2016 and 2015
(Unaudited)

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ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Balance Sheets

(Unaudited - In thousands of United States dollars)

	September 30, 2016	June 30, 2016
	\$	\$
Assets		
Current assets		
Cash and cash equivalents (Note 3)	368	654
Accounts and other receivables (Note 4)	582	647
Inventories (Note 5)	876	597
Prepaid expenses and deposits	297	241
	2,123	2,139
Property, plant and equipment	1,181	958
	3,304	3,097
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,033	3,096
Current portion of notes payable (Note 6)	250	11
Deferred revenue	1,066	982
	4,349	4,089
Notes payable	3,569	1,698
	7,918	5,787
Shareholders' deficiency		
Share capital (Note 7)	99,272	99,266
Contributed surplus	11,630	11,546
Accumulated other comprehensive income	538	523
Deficit	(116,054)	(114,025)
	(4,614)	(2,690)
	3,304	3,097

GOING CONCERN (Note 2 (i))

See accompanying notes to the unaudited condensed consolidated financial statements

Approved by the Board:

"Louis De Jong"
Director

"Evan Chen"
Director

ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Statements of Comprehensive Loss

For the three months ended September 30, 2016 and 2015

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

	Three months ended September 30,	
	2016	2015
	\$	\$
Revenues	548	205
Cost of revenues	723	897
Gross margin	(175)	(692)
Operating expenses		
Research and development	1,134	656
Sales and marketing	6	1
General and administration	535	397
Stock-based compensation (Note 7)	84	40
	1,759	1,094
Loss from operations	(1,934)	(1,786)
Other income (expense)		
Finance and other income	-	22
Finance expense	(94)	(168)
Foreign exchange loss	(1)	(37)
Net loss	(2,029)	(1,969)
Other comprehensive income, net of tax		
Foreign currency translation gain	15	227
Comprehensive loss	(2,014)	(1,742)
Net loss per share, basic and diluted (Note 8)	(\$0.01)	(0.01)
Weighted average number of outstanding shares		
Basic and diluted (Note 8)	509,071	232,881

See accompanying notes to the unaudited condensed consolidated financial statements

ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

For the three months ended September 30, 2016 and 2015

(Unaudited - In thousands of United States dollars and shares)

	Number of shares	Share capital (Note 7) \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Deficit \$ Restated (Note 13)	Equity (deficiency) \$
Balance at July 1, 2015	220,263	88,652	10,586	293	(105,132)	(5,601)
Stock-based compensation (Note 7)	-	-	40	-	-	40
Issuance of common shares (Note 7)						
July 6, 2015 private placement	11,000	435	-	-	-	435
September 2015 private placement	16,500	624	-	-	-	624
Fair value of warrants issued (Note 7)	-	(188)	188	-	-	-
Share issuance costs	-	(23)	-	-	-	(23)
Net loss	-	-	-	-	(1,969)	(1,969)
Exchange differences on translating operations	-	-	-	227	-	227
Balance at September 30, 2015	247,763	89,500	10,814	520	(107,101)	(6,267)
Balance at July 1, 2016	509,050	99,266	11,546	523	(114,025)	(2,690)
Stock-based compensation (Note 7)	-	-	84	-	-	84
Exercise of warrants	125	6	-	-	-	6
Net loss	-	-	-	-	(2,029)	(2,029)
Exchange differences on translating operations	-	-	-	15	-	15
Balance at September 30, 2016	509,175	99,272	11,630	538	(116,054)	(4,614)

See accompanying notes to the unaudited condensed consolidated financial statements

ENABLENCE TECHNOLOGIES INC.
Condensed Consolidated Statements of Cash Flows
For the three months ended September 30, 2016 and 2015
(Unaudited - In thousands of United States dollars)

	Three months ended September 30,	
	2016	2015
	\$	\$
Cash provided by (used in):		
Operating activities		
Net loss	(2,029)	(1,969)
Adjusted for the following non-cash items:		
Amortization	140	255
Stock-based compensation (Note 7)	84	40
Unrealized foreign exchange loss	-	69
	(1,805)	(1,605)
Changes in non-cash working capital (Note 12)	(249)	(126)
Cash used in operating activities	(2,054)	(1,731)
Investing activities		
Purchase of property, plant and equipment	(363)	(31)
Cash used in investing activities	(363)	(31)
Financing activities		
Advances from long-term loans	2,109	-
Proceeds from exercise of warrants	6	-
Repayment of bank loans	-	(1,347)
Repayment of operating line of credit	-	(465)
Advances from lending Consortium	-	1,649
Advances from bridge and short-term loans	-	656
Subscriptions received in advance of financing close	-	610
Net proceeds from issuance of units	-	1,036
Cash provided by financing activities	2,115	2,139
Effect of foreign currency translation on cash and cash equivalents	16	184
Increase (decrease) in cash and cash equivalents	(286)	561
Cash and cash equivalents, beginning of period	654	173
Cash and cash equivalents, end of period	368	734
Supplementary information		
Interest paid	79	38

See accompanying notes to the unaudited condensed consolidated financial statements

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended September 30, 2016 and 2015

(In thousands of United States dollars and shares)

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 28, 2016. "Enablence" and the "Company" mean either Enablence Technologies Inc. and its subsidiaries collectively or the entity Enablence Technologies Inc., as the context dictates. Amounts reported are in thousands of U.S. dollars, except where noted.

1. DESCRIPTION OF BUSINESS

Enablence Technologies Inc. ("Enablence" or the "Company") is incorporated under the Canada Business Corporations Act. The head office of Enablence 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 for access, metro and long-haul markets 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 September 30, 2016, the Company had cash of \$368, negative working capital of \$2,226 and had used cash of \$2,054 in its operating activities for the three months ended September 30, 2016. The Company incurred a comprehensive loss of \$2,014 for the three months ended September 30, 2016 and as of that date had an accumulated deficit of \$116,054. The Company had \$250 of notes and debt payable that are due in the next 12 months.

These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. Subsequent to year-end, the Company has been successful in obtaining additional financing. See Subsequent events Note 14 for further detail.

The Company's ability to continue as a going concern is dependent upon the ability to generate positive cash flow and the ability to execute its business plan, including funding operating losses, and obtaining additional sources of financing.

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 Interim Condensed Consolidated Financial Statements

For the three months ended September 30, 2016 and 2015

(In thousands of United States dollars and shares)

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, 2016. 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 November 28, 2016.

(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 impairment of property, plant and equipment, valuation of debt and equity instruments, inventory provisions and valuation, asset impairments, and certain accruals and provisions. Actual results could differ from these estimates.

Significant judgements in the accompanying financial statements relate to inventory cost capitalization, functional currency determinations and recognition of deferred tax assets.

(iv) *Accounting policy changes:*

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of the Corporation as at and for the year ended June 30, 2016. Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2016.

IFRS 11 - Joint Arrangements (IFRS 11)

IFRS 11, was amended by the IASB on May 6, 2014. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments did not have an impact on the Company’s consolidated financial statements.

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended September 30, 2016 and 2015

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2. BASIS OF PRESENTATION (continued)

(v) *New and Revised IFRS issued but not yet effective*

The following is a list of standards and amendments that have been issued but are not yet effective and have not been adopted by the Company.

IFRS 9 - Financial Instruments (IFRS 9)

IFRS 9, was issued by the IASB on July 24, 2014 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 and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. 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. Final amendments released on July 24, 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

IFRS 15 - Revenue from Contracts with Customers (IFRS 15)

IFRS 15, was issued by the IASB on May 28, 2014, and will replace IAS 18, *Revenue*, IAS 11, *Construction contracts*, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard. It is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

3. CASH AND CASH EQUIVALENTS

The cash and cash equivalents balance includes guaranteed investment certificates and restricted cash. Restricted cash represents cash that has been provided as security against guarantees or is otherwise not currently available for use.

Cash and cash equivalents

	<u>September 30, 2015</u>	<u>June 30, 2016</u>
Cash	\$ 364	\$ 650
Restricted Cash	4	4
Total Cash and cash equivalents	<u>\$ 368</u>	<u>\$ 654</u>

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended September 30, 2016 and 2015

(In thousands of United States dollars and shares)

4. ACCOUNTS AND OTHER RECEIVABLES

	<u>September 30, 2016</u>	<u>June 30, 2016</u>
Trade	\$ 525	\$ 585
Allowance for doubtful accounts	-	-
	<u>525</u>	<u>585</u>
Other	57	62
Total accounts receivable	<u>\$ 582</u>	<u>\$ 647</u>

5. INVENTORIES

	<u>September 30, 2016</u>	<u>June 30, 2016</u>
Raw materials	\$ 336	\$ 357
Work-in-progress	659	774
Finished goods	390	117
Obsolescence allowance	(509)	(651)
Total Inventory	<u>\$ 876</u>	<u>\$ 597</u>

6. NOTES PAYABLE

	<u>September 30, 2016</u>	<u>June 30, 2016</u>
Bridge Loan (a)	11	11
Loan from Export Development Canada (b)	3,808	1,698
	<u>\$ 3,819</u>	<u>\$ 1,709</u>
Less current portion	250	11
Long term portion	<u>\$ 3,569</u>	<u>\$ 1,698</u>

- (a) During the quarter ended September 30, 2014, the Company received short-term, non-interest bearing, unsecured bridge loans ("Bridge Loan") in the amount of CAD\$720 from certain related and unrelated parties of which CAD\$420 was provided by companies controlled by directors of the Company. The companies that provided the Bridge loan were issued 4,800 warrants exercisable at a price of \$0.15. These warrants expired on September 25, 2015. During the year ended June 30, 2016, CAD\$92 of the Bridge loan was converted to common shares on October 23, 2015 and, all amounts other than the remaining balance of \$11 (CAD\$14) outstanding at September 30, 2016, were repaid during the year ended June 30, 2016.

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Notes to the Interim Condensed Consolidated Financial Statements

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6. NOTES PAYABLE (continued)

- (b) On March 3, 2016, the Company closed a secured term loan facility with Export Development Canada (“EDC”) of up to CAD\$3 million. In August 2016, the loan facility was increased to CAD\$5 million. The loan facility is designed to finance up to 85% of the value of purchase orders from a major telecommunications equipment provider, ZTE Corporation, a strategic investor in the Company. The loan facility is available in the form of a term loan for a period of 18 months from the date of draw. Repayment of principal is to commence 18 months after the first draw on the loan. Principal then is to be repaid in 17 equal monthly instalments. Interest is payable monthly at the rate of prime plus 10% resulting in a rate of 12.7% at September 30, 2016 (June 30, 2016 -12.7%). The loan facility is secured against all of the assets of the Company and is guaranteed by the Company’s subsidiaries.

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 September 30, 2016, there are 509,175 common shares and no preferred shares outstanding.

During the three months ended September 30, 2016, 125 warrants were exercised for gross proceeds of \$6.

On February 2, 2016, the Company completed a non-brokered private placement with ZTE Corporation (“Strategic Investor”) for 77,000 common shares at a price of CDN\$0.06 per share amounting to gross proceeds of \$3,280 (CDN\$4,620). The securities are subject to a four month hold period which expires on June 3, 2016. As a result of the closing, the Strategic Investor held approximately 19% of the issued and outstanding shares of the Company. As part of the financing, (i) the Strategic Investor entered into a voting agreement with certain shareholders of the Company to vote in favour of one nominee of the Strategic Investor to the Board of Directors of the Company, (ii) the Strategic Investor will have a right of participation to maintain its percentage of shareholdings in the Company in future issuances of securities by the Company, and (iii) the Company has put in place a Product Roadmap Development Committee which will make recommendations to the Board of Directors on future product development (iv) an updated version of the Business Cooperation Agreement from December 2014 was signed by the Company and the Strategic Investor.

On November 12, 2015, the Company announced a non-brokered private placement for up to CAD\$2,000 at a price of CAD\$0.0525 per unit. Each unit was comprised of one common share and one half of one common share purchase warrant. Each full warrant is exercisable for a period of eighteen months at an exercise price of \$0.07 per warrant. The financing was completed in two parts. The first part closed on November 24, 2015 for gross proceeds of \$1,455 (CAD\$1,936) from the issuance of 36,880 shares and 18,440 warrants. The shares and warrants are subject to a four month hold period expiring on March 25, 2016. The remainder of the financing closed on December 7, 2015 for gross proceeds of \$48 (CAD\$64) from the issuance of 1,215 shares and 608 warrants. The shares and warrants were subject to a four month hold period which expired on April 5, 2016.

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended September 30, 2016 and 2015

(In thousands of United States dollars and shares)

7. SHARE CAPITAL (continued)

On September 15, 2015, the Company announced a proposed conversion of up to CAD\$3,000 of existing debt arrangements into units at a price of \$0.0525 per unit, with each unit comprised of one common share and one half warrant. Each full warrant was exercisable for a period of 18 months at an exercise price of \$0.07 per warrant. Additionally, the Company proposed to convert up to CAD\$1,000 of existing debt arrangements, with certain insiders of the Company, for shares at a price of \$0.0525 per share. Such Insiders would not receive warrants as part of this conversion. The proposed conversion was completed on October 23, 2015 with the conversion of \$2,810 of debt and the issuance of 70,528 shares and 25,740 warrants. The securities are subject to a four month hold period which expired on February 24, 2016. During the three months ended June 30, 2016, 3,214 of the warrants issued on conversion were exercised resulting in cash proceeds of \$173 (CDN\$225).

On August 21, 2015 the Company announced an overall financing and debt conversion package (the "Financing") of up to CAD\$10,000. The Financing includes three components, the first of which is a non-brokered private placement financing (the "Equity Financing") for a minimum of CAD\$4,000 at a price of \$0.05 CAD per unit ("Unit), which was completed on October 5, 2015 (see details below). The second component of the Financing, which is conditional, is the provision of a loan facility for up to CAD\$3,000 (the "Loan Facility") by a senior, investment grade lender. Enablence has received a "Non-Binding Indication" letter from the prospective lender. The Loan Facility is subject to a number of closing conditions including the completion of the Equity Financing for a minimum CAD\$4,000 which occurred on October 5, 2015 (see details below). The Loan Facility is designed to finance purchase orders from ZTE Corporation to Enablence and is to be in the form of a term loan with principal repayment commencing 18 months after funds are drawn. The Loan Facility would be secured against the assets of the Company with first ranking priority. The third component is, as part of the Financing, that certain existing non-secured debt arrangements (not to exceed CAD \$3,000), may be required to be converted into equity.

In order to meet a condition of the new senior, secured lender, Enablence used proceeds from the Financing to repay its existing senior secured debt. This existing secured bank debt was acquired by a lending group ("Consortium") in Canada in August 2015, secured against the assets of the Company in Canada and the United States, to replace the existing secured facility with a bank in the United States.

The total amount owing to the Consortium at August 21, 2015, as a result of its acquisition of the Company's bank debt, was \$1,638. This is comprised of the bank debt outstanding just prior to August 21, 2015 of \$1,468, plus additional fees and legal costs of \$170 associated with the transaction. Interest on the Consortium debt accrues at the same rate as previously on the bank debt, which is prime rate as published in the Wall Street Journal plus 3.25%. The Consortium debt includes \$209 invested by a related party and a company controlled by one of the directors of Enablence, De Jong & Co. The final portion of the Consortium debt was fully repaid in February 2016.

The CAD\$4,000 Equity Financing was completed in three tranches: The first tranche of the financing closed on September 14, 2015 for \$159 (CAD\$210) with the sale of 4,200 units resulting in the issuance of 4,200 shares and 2,100 warrants. The second tranche of the financing closed on September 18, 2015 for \$465 (CAD\$615) with the sale of 12,300 units

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended September 30, 2016 and 2015

(In thousands of United States dollars and shares)

7. SHARE CAPITAL (continued)

resulting in the issuance of 12,300 shares and 6,150 warrants. The third and final tranche closed on October 5, 2015 for \$2,407 (CAD\$3,175) with the sale of 63,500 units resulting in the issuance of 63,500 shares and 31,750 warrants. The shares and warrants were subject to a four-month holding period. During the three months ended June 30, 2016, 200 warrants were exercised resulting in cash proceeds of \$9 (CDN\$12

Warrants

Each warrant entitles the holder to purchase one common share of the Company. A summary of the warrants outstanding and the changes during the period is presented below:

	Three months ended			
	September 30, 2016		September 30, 2015	
	Number of warrants	Weighted average exercise price (Cdn \$)	Number of warrants	Weighted average exercise price (Cdn \$)
Outstanding and exercisable, beginning of period	96,624	\$ 0.06	23,300	\$ 0.07
Issued	-	-	13,750	0.06
Exercised	(125)	0.06	-	-
Expired	-	-	(4,800)	0.15
Outstanding and exercisable, end of period	96,499	\$ 0.06	32,250	\$ 0.15

The following table summarizes information for warrants outstanding:

Exercise price per share (CAD\$)	Issue date	Expiry date	September 30, 2016	September 30, 2015
\$0.06	02-Apr-15	02-Oct-16	5,500	11,500
\$0.06	10-Apr-15	10-Oct-16	625	3,500
\$0.06	26-Jun-15	26-Dec-16	3,500	3,500
\$0.06	06-Jul-15	06-Jan-17	5,500	5,500
\$0.06	14-Sep-15	14-Mar-17	2,100	2,100
\$0.06	18-Sep-15	18-Mar-17	5,950	6,150
\$0.06	05-Oct-15	05-Apr-17	31,750	-
\$0.07	23-Oct-15	23-Apr-17	22,526	-
\$0.07	24-Nov-15	24-May-17	18,440	-
\$0.07	04-Dec-15	04-Jun-17	608	-
			96,499	32,250

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended September 30, 2016 and 2015

(In thousands of United States dollars and shares)

7. SHARE CAPITAL (continued)

Stock option plan

The Company has established a stock option plan available for directors, officers, employees and consultants, and has authorized a stock option pool equal to 10% of the outstanding common shares. At September 30, 2016, the available option pool was a total of 33,622 (2015 – 13,972). The Board of Directors administers the stock option plan.

Options are 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 tenth anniversary of the grant. After termination of employment, unvested options are forfeited immediately and vested options expire 90 days subsequent to termination.

A summary of the Company's stock options and changes during the periods is presented below.

	Three months ended			
	September 30, 2016		September 30, 2015	
	Number of options	Weighted average exercise price (Cdn \$)	Number of options	Weighted average exercise price (Cdn \$)
Outstanding, beginning of period	17,840	\$ 0.24	11,404	\$ 0.34
Forfeited	(325)	0.09	(30)	0.24
Expired	(157)	21.04	(570)	0.33
Outstanding, end of period	17,359	\$ 0.21	10,804	\$ 0.34
Exercisable, end of period	8,764	\$ 0.32	5,939	\$ 0.49

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended September 30, 2016 and 2015

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7. SHARE CAPITAL (continued)

The following table summarizes the options outstanding and exercisable as at September 30, 2016.

Options Outstanding			Options Exercisable	
Exercise Price (Cdn \$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Exercise Price (Cdn \$)
\$ 0.09	7,600	9.4	-	\$ 0.09
0.15	6,825	7.7	6,000	0.15
0.33	2,855	6.5	2,685	0.33
10.00	41	1.4	41	10.00
12.00	9	4.1	9	12.00
16.00	25	0.5	25	16.00
23.00	4	1.9	4	23.00
\$ 0.21	17,359	8.2	8,764	\$ 0.32

No options were granted during the three months ended September 30, 2016. Total stock-based compensation expense for the three months ended September 30, 2016, related to prior year grants, was \$84 (2015 - \$40).

8. LOSS PER SHARE

As a result of 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, 17,359 potentially dilutive option shares at September 30, 2016 (2015 – 10,804) and 96,499 share warrants (2015 – 32,250) have not been included in the calculation of diluted loss per common share for the three months ended September 30, 2016.

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended September 30, 2016 and 2015

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9. FINANCIAL INSTRUMENTS

Credit risk

The age of trade accounts receivable is summarized as follows:

	September 30, 2016	June 30, 2016
Current or under 60 days	\$ 354	\$ 445
Past due 61 to 90 days	20	88
Past due more than 90 days	151	52
Total Trade accounts receivable	\$ 525	\$ 585

Management has reviewed the receivables balances in detail, and is satisfied that an allowance for uncollectible accounts is not required.

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 September 30, 2016, the Company has financial liabilities, payments for which are due as follows:

	to September 30, 2017	to September 30, 2018	to September 30, 2019	Total
Accounts payable and accrued liabilities	\$ 3,033	\$ -	\$ -	\$ 3,033
Loans payable	239	2,677	892	3,808
Bridge and other short-term loans payable	11			11
Total	\$ 3,283	\$ 2,677	\$ 892	\$ 6,852

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10. SEGMENTED INFORMATION

The Company operates in one segment, Optical Components.

Property, plant and equipment is analyzed geographically as follows:

	Property plant and equipmen	
	September 30, 2016	June 30, 2016
United States	\$ 733	\$ 771
China	427	\$ 151
Canada	21	36
Total	\$ 1,181	\$ 958

Revenue is analyzed geographically as follows:

	Three months ended	
	September 30, 2016	September 30, 2015
Americas	\$ 96	\$ 38
Asia Pacific	385	77
Europe, Middle East and Africa	67	90
	\$ 548	\$ 205

During the three months ended September 30, 2016, three customers accounted for 66% (26%, 25%, and 15% respectively) of the Company's total revenue and for the same period of the prior year, three customers accounted for 73% (34%, 29%, and 10% respectively) 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. A breakdown of revenues is as follows:

	Three months ended	
	September 30, 2016	September 30, 2015
Product	\$ 548	\$ 178
NRE	-	27
	\$ 548	\$ 205

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended September 30, 2016 and 2015

(In thousands of United States dollars and shares)

11. RELATED PARTY TRANSACTIONS

At September 30, 2016 ZTE Corporation, ("ZTE"), a strategic investor held 18.66% of the issued and outstanding shares of the Company. During the three months ended September 30, 2016, the Company recorded sales with ZTE of \$81. At September 30, 2016, the Company had an accounts receivable balance from ZTE of \$234 (June 30, 2016 - \$153). In addition, at September 30, 2016, included in deferred revenue is a balance of \$693 related to pre-payments received from ZTE in previous periods for the fulfilment of certain purchase orders (June 30, 2016 - \$693).

As at September 30, 2016, Irix Holding Ltd. ("Irix"), owned 39,408 Enablence common shares, which represents approximately 7.7% of the issued and outstanding common shares of the Company. In January 2016 the Company entered into a one year R&D Services Agreement (the "Service Agreement") with Suzhou Irix Ltd. and Irix Photonics Inc. ("Irix Photonics"). Irix Photonics was created to carry out the operations of Irix and is a company controlled by the CEO and Chief Financial Officer ("CFO") of Enablence. Pursuant to the Service Agreement, for R&D services provided by Irix Photonics for the development of a new product and assistance in ramping up its volume production, Enablence will pay Irix Photonics \$150/month ("Service Fees") over a twelve month term. In addition, if certain agreed upon volume production milestones are met during the twelve month period, Irix Photonics may be eligible for the payment of a success fee ("Success Fee"). The Success Fee amounts to \$2 million less any Service Fees previously paid. The Company will retain ownership of all Intellectual Property associated with the products under the agreement. During the three months ended, September 30 2016, the Company paid Irix Photonics \$450 of service fees, pursuant to this agreement.

During the year ended June 30, 2015, the Company entered into a Strategic Partnership agreement with Irix and Suzhou Irix Ltd., whereby, all parties work together on product development. During the three months ended September 30, 2016 Irix Photonics charged \$9 for travel expenses incurred in the provision of product development services by its engineers (2015 -\$24). These travel expenses were paid prior to the end of the quarter on September 30, 2016.

During the three months ended September 30, 2016, the Company recorded consulting fee expenses for Todd Zhang of \$30. During the quarter ended September 30, 2015 consulting fee of \$29 was recorded for both Todd Zhang and Evan Chen. These amounts are payable to Irix. At September 30, 2016, the total amount owing to Irix related to consulting fee expense is \$342 (June 30, 2016 - \$312).

Paradigm Capital Partners Limited ("PCPL") is a shareholder of Enablence and is a company controlled by close family members of a director of Enablence. Subsequent to the end of the quarter, the Company received CAD\$1,662 in short-term, non-interest bearing, unsecured bridge loans from an individual related to PCPL.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. See also Notes Payable (note 6) for further information on related party transactions.

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended September 30, 2016 and 2015

(In thousands of United States dollars and shares)

12. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Net change in non-cash operating working capital items:

	<u>Three months ended</u>	
	<u>September</u>	<u>September</u>
	<u>30, 2016</u>	<u>30, 2015</u>
Net inflow (outflow) of cash:		
Accounts and other receivables	\$ 65	\$ 428
Inventories	(279)	85
Prepaid expenses and deposits	(56)	3
Accounts payable and accrued liabilities	(63)	(901)
Deferred revenue	84	259
	<u>\$ (249)</u>	<u>\$ (126)</u>

Amortization expense for the three months ended September 30, 2016 of \$140 (2015 - \$255) includes the following in the Consolidated statements of comprehensive loss: a) \$111 (2015 - \$191) included within cost of revenues, b) \$13 (2015 - \$48) included with general and administration, and c) \$16(2015 - \$16) included within research and development.

13. RESTATEMENT IN PRIOR PERIODS

During 2016, the Company determined that certain errors had accumulated in its calculations of amortization for prior periods. These errors resulted in amortization being understated for prior periods. As a result the Company has restated its amortization for previous periods as follows:

Impact on equity (increase(decrease) in equity)	July 1, 2014
Property, plant and equipment	(146)
Total assets	(146)
Net impact on equity	(146)

14. SUBSEQUENT EVENTS

Subsequent to September 30, 2016, the Company received short-term, non-interest bearing, unsecured bridge loans in the amount of CAD\$2,087.

During October 2016, 625 warrants were exercised for gross proceeds of CAD\$38.