

Interim Condensed Consolidated Financial Statements of

ENABLENCE TECHNOLOGIES INC.

*For the three and nine months ended March 31, 2015 and 2014
(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 and nine months ended March 31, 2015 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: June 1, 2015

“Evan Chen”
Evan Chen
CEO

“Tao Zhang”
Tao Zhang
CFO

ENABLENCE TECHNOLOGIES INC.
Interim Condensed Consolidated Financial Statements
March 31, 2015 and 2014
(Unaudited)

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ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Balance Sheets

(Unaudited - In thousands of United States dollars)

	Note	March 31, 2015	June 30, 2014
Assets			
Current Assets			
Cash and cash equivalents	3	\$ 164	\$ 1,187
Accounts and other receivables	4	1,211	1,417
Inventories	5	2,414	3,334
Prepaid expenses and deposits		520	419
		4,309	6,357
Property, plant and equipment		2,186	2,862
Intangible and other assets		7	34
		\$ 6,502	\$ 9,253
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		\$ 4,084	\$ 4,591
Current portion of notes payable	6	4,273	2,873
Deferred revenue		942	432
		9,299	7,896
Other long-term liabilities		241	281
		9,540	8,177
Shareholders' (deficiency) equity			
Share capital	7	87,199	84,906
Contributed surplus		10,594	10,103
Accumulated other comprehensive gain		240	103
Deficit		(101,071)	(94,036)
		(3,038)	1,076
		\$ 6,502	\$ 9,253

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, 2015 and 2014

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

	Note	Three months ended March 31,		Nine months ended March 31,	
		2015	2014	2015	2014
Revenues		\$ 428	\$ 1,054	\$ 1,816	\$ 3,444
Cost of revenues		1,426	1,662	3,996	5,291
Gross margin		(998)	(608)	(2,180)	(1,847)
Operating expenses:					
Research and development		716	1,144	2,486	3,287
Sales and marketing		53	156	253	441
General and administration		435	748	1,474	2,363
Stock-based compensation		129	97	491	333
		1,333	2,145	4,704	6,424
Loss from operations		(2,331)	(2,753)	(6,884)	(8,271)
Other income (expenses):					
Finance and other income		-	3	-	8
Finance expense		(31)	(32)	(115)	(341)
Equity loss from joint venture	13	-	(310)	-	(1,156)
Gain on debt settlement	7	-	-	-	399
Foreign exchange (loss) gain		(21)	36	(36)	88
Net loss		(2,383)	(3,056)	(7,035)	(9,273)
Other comprehensive income(loss):					
Foreign currency translation income		82	58	137	82
Comprehensive loss		\$ (2,301)	\$ (2,998)	\$ (6,898)	\$ (9,191)
Net loss per share, basic and diluted:	8	\$(0.01)	\$(0.02)	\$(0.04)	\$(0.07)
Weighted average number of outstanding shares:					
Basic and diluted	8	183,264	157,516	171,774	130,567

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 and nine months ended March 31, 2015 and 2014 (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, 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 loss		-	-	-	82	-	82
Balance at March 31, 2014		157,516	\$ 83,982	\$ 10,043	\$ 76	\$ (87,132)	\$ 6,969
Balance at July 1, 2014		164,183	\$ 84,906	\$ 10,103	\$ 103	\$ (94,036)	\$ 1,076
Stock-based compensation		-	-	491	-	-	491
December 12, 2014 private placement	7	19,080	2,461	-	-	-	2,461
Share issuance costs	7	-	(168)	-	-	-	(168)
Net loss		-	-	-	-	(7,035)	(7,035)
Foreign currency translation gain		-	-	-	137	-	137
Balance at March 31, 2015		183,263	\$ 87,199	\$ 10,594	\$ 240	\$ (101,071)	\$ (3,038)

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, 2015 and 2014
(Unaudited - In thousands of United States dollars)

	Note	Three months ended March 31,		Nine months ended March 31,	
		2015	2014	2015	2014
Cash used in					
Operating activities					
Net loss		\$ (2,383)	\$ (3,056)	\$ (7,035)	\$ (9,273)
Adjusted for the following non-cash items					
Amortization		255	428	721	1,266
Stock-based compensation		129	97	491	333
Equity loss from joint venture	13	-	310	-	1,156
Gain on debt settlement		-	-	-	(399)
		(1,999)	(2,221)	(5,823)	(6,917)
Changes in non-cash working capital	12	387	(58)	994	(323)
Cash used in operating activities		(1,612)	(2,279)	(4,829)	(7,240)
Investing activities					
Purchase of property, plant and equipment		(5)	(214)	(47)	(525)
Cash used in investing activities		(5)	(214)	(47)	(525)
Financing activities					
Proceeds from issuance of shares, net of issuance costs	7	-	-	2,292	14,081
Repayment of secured loans		-	-	-	(3,861)
Repayment of bank loans	6	(186)	(350)	(1,179)	(2,034)
Advances from bridge and short-term loans	6	1,032	-	2,579	-
Cash provided by (used in) financing activities		846	(350)	3,692	8,186
Effect of foreign currency translation on cash and cash equivalents		88	(181)	161	(59)
(Decrease) increase in cash and cash equivalents		(683)	(3,024)	(1,023)	362
Cash and cash equivalents, beginning of period		847	3,975	1,187	589
Cash and cash equivalents, end of period		\$ 164	\$ 951	\$ 164	\$ 951
Supplementary information					
Interest paid		\$ 13	\$ 31	\$ 84	\$ 157
Interest received		-	3	-	8

See accompanying notes to the unaudited condensed consolidated financial statements

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2015 and 2014

(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 27, 2014. "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. 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 March 31, 2015, the Company has cash of \$164, negative working capital of \$4,990 and had used cash of \$4,829 in its operating activities for the nine months ended March 31, 2015. The Company incurred a comprehensive loss of \$6,898 for the nine months ended March 31, 2015 and as of that date had an accumulated deficit of \$101,071. The Company has \$4,273 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. 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 and nine months ended March 31, 2015 and 2014

(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, 2014. 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 June 1, 2015.

(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 intangible assets and the joint venture, allowance for doubtful accounts, 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 the functional currency determinations, recognition of deferred tax assets and determination of cash generating units (CGU”).

(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, 2014, with the exception of the following amendments to accounting standards or new interpretations issued by the IASB, which were applicable from July 1, 2014. Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2014.

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2015 and 2014

(In thousands of United States dollars and shares)

2. BASIS OF PRESENTATION (continued)

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

Amendments to IAS 32 *Financial Instruments: Presentation* This focuses on four main areas:

- the meaning of "currently has a legally enforceable right of set-off"
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

The IAS 32 amendments were applied retrospectively on July 1, 2014 with no impact.

Impairment of Assets

In May 2013, the IASB amended IAS 36, Impairment of Assets ("IAS 36") to clarify the requirement to disclose information about the recoverable amount of assets for which an impairment loss has been recognized or reversed. The IAS 36 amendments were applied retrospectively on July 1, 2014.

IFRIC 21 Levies ("IFRIC 21")

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain.

The Interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. It provides the following guidance on recognition of a liability to pay levies:

- the liability is recognised progressively if the obligating event occurs over a period of time.
- if an obligation is triggered on reaching a minimum threshold, the liability is recognised when that minimum threshold is reached.

IFRIC 21 was applied beginning July 1, 2014 with no impact.

Amendments to IFRS 2 - Share-based Payments

In the second calendar quarter of 2014, the IASB issued Amendments to IFRS 2, *Share-based Payments*. The amendments change the definitions of "vesting condition" and "market condition" in the Standard, and add definitions for "performance condition" and "service condition". They also clarify that any failure to complete a specified service period, even due to the termination of an employee's employment or a voluntary departure, would result in a failure to satisfy a service condition. This would result in the reversal, in the current period, of compensation expense previously recorded reflecting the fact that the employee failed to complete a specified service condition. These amendments are effective for transactions with a grant date on or after July 1, 2014. There was no impact to the Company in implementing this amendment.

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2015 and 2014

(In thousands of United States dollars and shares)

2. BASIS OF PRESENTATION (continued)

Amendments to IFRS 3 - Business Combinations (contingent consideration)

In the second calendar quarter of 2014, the IASB issued Amendments to IFRS 3, *Business Combinations*. The amendments clarify the guidance in respect of the initial classification requirements and subsequent measurement of contingent consideration. This will result in the need to measure the contingent consideration at fair value at each reporting date, irrespective of whether it is a financial instrument or a non-financial asset or liability. Changes in fair value will need to be recognized in profit and loss. These amendments are effective for transactions with acquisition dates on or after July 1, 2014. The amendment to the standard did not have any impact on the Company's condensed consolidated interim financial statements.

(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, Financial Instruments ("IFRS 9") was issued by the IASB on July 24, 2014, and will replace IAS 39, Financial Instruments: Recognition and Measurement. 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 treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative host contracts not within the scope of this standard. The effective date for this standard is for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRS 15 - Revenue from Contracts and Customers

IFRS 15, Revenue from Contracts and Customers ("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 and it is effective for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2015 and 2014

(In thousands of United States dollars and shares)

3. CASH AND CASH EQUIVALENTS

	March 31, 2015	June 30, 2014
Cash	\$ 160	\$ 1,177
Guaranteed Investment Certificate	-	5
Restricted Cash	4	5
Total Cash and cash equivalents	<u>\$ 164</u>	<u>\$ 1,187</u>

4. ACCOUNTS RECEIVABLE

	March 31, 2015	June 30, 2014
Trade	\$ 1,125	\$ 1,165
Allowance for doubtful accounts	(2)	(2)
	<u>1,123</u>	<u>1,163</u>
Other	88	254
Total accounts receivable	<u>\$ 1,211</u>	<u>\$ 1,417</u>

5. INVENTORIES

	March 31, 2015	June 30, 2014
Raw materials	\$ 1,067	\$ 1,985
Work-in-progress	1,112	1,476
Finished goods	297	32
Allowance for obsolescence	(62)	(159)
Total Inventory	<u>\$ 2,414</u>	<u>\$ 3,334</u>

During the quarter ended March 31, 2015, management performed a review of inventory for obsolescence. As a result of the review, \$355 of obsolete inventory was written off.

6. NOTES PAYABLE

	March 31, 2015	June 30, 2014
Secured Note 1 (a)	\$ 455	\$ 770
Secured Note 2 (b)	752	1,141
Line of credit (c)	487	962
Bridge Loan (d)	607	-
Short-term Loan (e)	1,972	-
	<u>\$ 4,273</u>	<u>\$ 2,873</u>
Less current portion	4,273	2,873
Long term portion	<u>\$ -</u>	<u>\$ -</u>

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2015 and 2014

(In thousands of United States dollars and shares)

6. NOTES PAYABLE (continued)

- (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 \$42. The interest rate at March 31, 2015 was 5.50% (March 31, 2014 – 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.
- (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 principal and interest of \$52. The interest rate at March 31, 2015 was 5.50% (March 31, 2014 – 5.50%).
- (c) 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 by a related party, related due to a 12% ownership interest in the Company, 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% resulting in an interest rate of 6.50% at March 31, 2015. Monthly payments of interest only are required beginning July 1, 2014. The Company has repaid \$475 of the loan, \$2 of which was during the three months ended March 31, 2015. The loan balance consisting of principal and accrued unpaid interest is due on June 1, 2015.

The Company is required to comply with certain financial covenants with respect to secured note 1 and secured note 2 and the Line of credit. As at March 31, 2015, the Company was in contravention of certain of these banking covenants; therefore, the full amount of the secured notes 1 and 2 have been classified as current liabilities.

- (d) During the quarter ended September 30, 2014, the Company received short-term, non-interest bearing, unsecured bridge loans ("Bridge Loan") in the amount of \$607 from certain related parties of which \$449 was provided by companies controlled by directors of the Company. Subsequent to March 31, 2015, \$160 of the Bridge Loan was repaid. The timetable for repayment of the remainder of the Bridge Loan has not yet been determined. Those companies that have provided the Bridge Loan have been issued warrants exercisable at a price of \$0.15 for an aggregate of 4,800 common shares of the Company, which expire in one year. The common shares issuable upon the exercise of the warrants are subject to a four month hold period.

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2015 and 2014

(In thousands of United States dollars and shares)

6. NOTES PAYABLE (continued)

- (e) During the nine months ended March 31, 2015, certain related parties extended further short-term, non-interest bearing, unsecured loans ("Short-Term Loans"), in the amount of \$1,972, of which \$1,032 was received during the three months ended March 31, 2015. There were no warrants issued in respect of these Short-Term Loans. Subsequent to March 31, 2015, \$40 of the Short-Term Loan was repaid. The timetable for repayment of the remainder of the Short-Term Loans has not yet been determined.

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 December 31, 2014, there are 183,263 common shares and no preferred shares outstanding.

In June 2014, the Company initiated a non-brokered private placement for up to 66,667 shares at a price of Cdn\$0.15 for gross proceeds of Cdn\$10,000, to be subscribed for in tranches by new strategic shareholders as well as certain existing shareholders of the Company.

The first tranche of the financing closed on June 26, 2014 with the sale of 6,667 shares for gross proceeds of \$937 and net proceeds of \$924 after share issuance costs. The shares are subject to a four-month hold period pursuant to applicable securities law.

The second tranche of the financing closed on December 12, 2014 with the sale of 18,000 shares for gross proceeds of \$2,322 and net proceeds of \$2,300 after share issuance costs. The shares are subject to a four-month hold period pursuant to applicable securities law. A finder's fee of 6%, namely, 1,080 common shares of the Company, was also paid to an arm's length party, and these shares are also subject to a four month hold period pursuant to applicable securities laws.

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 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

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2015 and 2014

(In thousands of United States dollars and shares)

7. SHARE CAPITAL (continued)

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.

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				Nine months ended			
	March 31, 2015		March 31, 2014		March 31, 2015		March 31, 2014	
	Number of warrants	Weighted average exercise price (Cdn \$)	Number of warrants	Weighted average exercise price (Cdn \$)	Number of warrants	Weighted average exercise price (Cdn \$)	Number of warrants	Weighted average exercise price (Cdn \$)
Outstanding and exercisable, beginning of period	4,800	\$ -	-	\$ -	-	\$ -	-	\$ -
Issued	-	0.15	-	-	4,800	0.15	-	-
Outstanding and exercisable, end of period	4,800	\$ 0.15	-	\$ -	4,800	\$ 0.15	-	\$ -

The following table summarizes information for warrants outstanding:

Exercise price per share (Cdn\$)	Expiry	March 31, 2015	March 31, 2014
\$0.15	September 25, 2015	4,800	-

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 March 31, 2015, the available option pool was a total of 5,303 (2014 – 10,420). The Board of Directors administers the stock option plan.

ENABLENCE TECHNOLOGIES INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three and nine months ended March 31, 2015 and 2014

(In thousands of United States dollars and shares)

7. SHARE CAPITAL (continued)

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				Nine months ended			
	March 31, 2015		March 31, 2014		March 31, 2015		March 31, 2014	
	Number of options	Weighted average exercise price (Cdn \$)	Number of options	Weighted average exercise price (Cdn \$)	Number of options	Weighted average exercise price (Cdn \$)	Number of options	Weighted average exercise price (Cdn \$)
Outstanding, beginning of period	13,369	\$ 0.59	5,332	\$ 1.49	14,606	\$ 0.63	5,332	\$ 1.49
Forfeited	(307)	0.18	-	-	(1,379)	0.20	-	-
Expired	(39)	17.15	-	-	(204)	8.49	-	-
Outstanding, end of period	13,023	\$ 0.55	5,332	\$ 1.49	13,023	\$ 0.55	5,332	\$ 1.49
Exercisable, end of period	3,786	\$ 1.49	2,696	\$ 2.56	3,786	\$ 1.49	2,696	\$ 2.56

The following table summarizes the options outstanding and exercisable as at March 31, 2015.

Options Outstanding			Options Exercisable	
Exercise Price (Cdn \$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Exercise Price (Cdn \$)
\$ 0.15	8,390	9.2	-	\$ 0.15
0.33	4,390	8.0	3,543	0.33
7.40	68	1.4	68	7.40
10.00	53	2.9	53	10.00
12.00	38	5.5	38	12.00
16.00	26	2.0	26	16.00
23.00	5	3.4	5	23.00
46.00	50	2.9	50	46.00
47.80	3	2.9	3	47.80
\$ 0.55	13,023	8.6	3,786	\$ 1.49

No options were granted during the three and nine months ended March 31, 2015. Total stock-based compensation expense for the nine months ended March 31, 2015, related to prior year grants, was \$491 (2014 - \$333).

ENABLENCE TECHNOLOGIES INC.

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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, 13,023 potentially dilutive option shares at March 31, 2015 (2014 – 5,332) and 4,800 share warrants (2014 – nil) have not been included in the calculation of diluted loss per common share for the three and nine months ended March 31, 2015.

9. FINANCIAL INSTRUMENTS

Credit risk

The age of trade accounts receivable is summarized as follows gross of the allowance of \$2 at March 31, 2015 (June 30, 2014 - \$2):

	March 31,	
	2015	June 30, 2014
Current or under 60 days	\$ 458	\$ 869
Past due 61 to 90 days	8	98
Past due more than 90 days	659	198
Total Trade accounts receivable	\$ 1,125	\$ 1,165

Management has reviewed the receivables balances in detail, and is satisfied that the allowance for uncollectible accounts is 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, 2015, the Company has financial liabilities, payments for which are due as follows:

	to March 31,	to March 31,	to March 31,	Total
	2016	2017	2018	
Accounts payable and accrued liabilities	\$ 4,084	\$ -	\$ -	\$ 4,084
Secured notes payable	1,207	-	-	1,207
Line of credit payable	487	-	-	487
Bridge and other short-term loans payable	2,579	-	-	2,579
Total	\$ 8,357	\$ -	\$ -	\$ 8,357

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10. SEGMENTED INFORMATION

The Company operates in one segment, Optical Components.

Certain assets are analyzed geographically as follows:

	<u>March 31, 2015</u>		<u>June 30, 2014</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	\$ 2,073	\$ -	\$ 2,642	\$ -
Canada	113	7	220	34
Total	<u>\$ 2,186</u>	<u>\$ 7</u>	<u>\$ 2,862</u>	<u>\$ 34</u>

Revenue is analyzed geographically as follows:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>March 31, 2015</u>	<u>March 31, 2014</u>	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Americas	\$ 151	\$ 525	\$ 511	\$ 1,628
Asia Pacific	231	258	927	864
Europe, Middle East and Africa	46	271	378	952
	<u>\$ 428</u>	<u>\$ 1,054</u>	<u>\$ 1,816</u>	<u>\$ 3,444</u>

During the nine months ended March 31, 2015, three customers accounted for 55% (27%, 17%, and 11% respectively) of the Company's total revenue and for the same period of the prior year one customer accounted for 14% 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:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>March 31, 2015</u>	<u>March 31, 2014</u>	<u>March 31, 2015</u>	<u>March 31, 2014</u>
Product	\$ 428	\$ 927	\$ 1,745	\$ 3,183
NRE	-	127	71	261
	<u>\$ 428</u>	<u>\$ 1,054</u>	<u>\$ 1,816</u>	<u>\$ 3,444</u>

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11. RELATED PARTY TRANSACTIONS

During the nine months ended March 31, 2015, the Company recorded consulting fee expense of \$117 for Evan Chen and Todd Zhang (2014 - \$59). This amount is payable to Irix and is included in accounts payable and accrued liabilities at March 31, 2015.

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 (Note 6(d) and 6(e)) for further information on related party transactions.

12. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Net change in non-cash operating working capital items:

	Three months ended		Nine months ended	
	March 31, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Net inflow (outflow) of cash:				
Accounts and other receivables	\$ (145)	\$ 487	\$ 206	\$ 1,068
Inventories	632	216	920	(13)
Prepaid expenses and deposits	51	(165)	(100)	(682)
Accounts payable and accrued liabilities	(140)	(583)	(542)	(758)
Deferred revenue	(11)	(13)	510	62
	<u>\$ 387</u>	<u>\$ (58)</u>	<u>\$ 994</u>	<u>\$ (323)</u>

13. JOINT VENTURE

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.

ENABLENCE TECHNOLOGIES INC.

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13. JOINT VENTURE (continued)

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.

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.

Effective July 1, 2013, the Company adopted IFRS 11, *Joint Arrangements*. Adoption of this standard resulted in a change in the method of accounting for the investment in the joint venture from proportionate consolidation to the equity method of accounting. In accordance with the transition requirements, the initial equity investment is measured as the aggregate of the carrying amount of the assets and liabilities that the entity had previously proportionately consolidated as at the beginning of the immediately preceding period which is July 1, 2012.

Comparative numbers have been restated to conform with the equity method of accounting for this investment.

The following is a breakdown of the Company's investment in the joint venture:

	March 31, 2015	June 30, 2014
Current assets	\$ -	\$ 740
Non-current assets	-	2,811
Current liabilities	-	(604)
	-	2,947
Less: impairment of joint venture	-	(2,947)
Net investment in joint venture	-	-

During the year ended June 30, 2014, management performed a review of the Sunblence Joint Venture following the identification of certain impairment indicators, including continued losses and negative gross margins. As a result, based on a discounted cash flow analysis, comparing the expected future cash flows with the carrying value of the Sunblence Joint Venture, it was concluded an impairment provision was required on the equity investment at June 30, 2014 for the full amount of \$2,947.

For the nine months ended March 31, 2015, management determined that there had been no favourable changes in the estimates used to determine the impairment and that no amount of the previously recorded impairment could be reversed at March 31, 2015.

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13. 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, 2015	March 31, 2014	March 31, 2015	March 31, 2014
Revenue	\$ -	\$ 65	\$ -	\$ 148
Operating and other expenses	-	375	-	1,304
Net loss	-	(310)	-	(1,156)
Foreign currency translation gain	-	55	-	99
Comprehensive loss	-	(255)	-	(1,057)

14. COMPARATIVE FIGURES

Certain prior period comparative figures have been restated to conform to the current period's presentation.

15. SUBSEQUENT EVENTS

Subsequent to the quarter ended March 31, 2015, the Company closed a non-brokered private placement in the amount of \$1.5 million at a price of \$0.05 per unit ("Unit"). Each Unit is comprised of one common share ("Common Share") and one half of one common share purchase warrant ("Warrant"). Each full Warrant is exercisable for a period of 18 months at an exercise price of \$0.06 per Warrant. As a result, 30,000,000 Common Shares and 15,000,000 Warrants were issued.