



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, 2015

DATED: JUNE 1, 2015

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

The following is a discussion and analysis of the financial condition of Enableness Technologies Inc. ("Enableness" or the "Company") at March 31, 2015 compared to June 30, 2014 and results of operations for the three and nine months ended March 31, 2015 compared to the three and nine months ended March 31, 2014.

This MD&A should be read in conjunction with our unaudited condensed consolidated financial statements for the three and nine months ended March 31, 2015 as well as our audited consolidated financial statements and accompanying notes for the year ended June 30, 2014. References made herein to "Enableness", the "Company", "we" and "our" mean Enableness, 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](http://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 June 1, 2015.

### **FORWARD-LOOKING STATEMENTS**

This MD&A includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements, including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect management's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Company does not undertake or accept any obligation to release publicly any updates or revisions to any forward-looking statements to reflect any change in the Company's expectations, except as prescribed by applicable securities laws.

Key assumptions made in preparing the forward-looking statements contained in this MD&A include, but are not limited to, the following:

- The Company will be able to raise sufficient financing to meet its financial obligations as they come due, and will be able to renegotiate certain financial obligations as they come due
- The Company will continue to successfully reduce product costs to improve the Company's gross margin and/or avoid any margin erosion associated with competitive pricing pressure.

- Enablence will develop and deliver new products on time in order to satisfy the requirements of current and future customers and contribute to near-term profitability.
- Enablence will be able to attract and retain key staff.

## **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.

## **QUARTER HIGHLIGHTS**

The following summarizes the key items of the Company's third fiscal quarter ended March 31, 2015:

- Closed bridge and short term loan financing of \$1,032 during the quarter
- Revenues of \$428 and a loss from operations of \$2,331. The decrease in revenues for this quarter compared to the three months ended March 31, 2014, was anticipated due to a combination of the transitioning from old legacy to new products which is in process.

## **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 current product line includes 8x10G TOSA/ROSA, multiple wavelength channel transmission and receiving optical subassembly, and AWG products. The Company is expanding its TOSA/ROSA production capacity by collaborating with manufacture partner. The new capacity is expected to be ready in late calendar year 2015 or early 2016. 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.

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.

The Company has a 49% ownership interest in a joint venture, Sunblence Technologies Co., (“Sunblence”), which is located in Foshan, China. Sunblence develops, manufactures and sells splitter chips, based primarily on Enablence’s planar lightwave circuit (“PLC”) technology, to the Chinese market. The balance of the 51% ownership interest is held by SUNSEA Telecommunications Co., Ltd., (“SUNSEA”). As previously reported in the June 30, 2014 annual consolidated financial statements and MD&A, the Company wrote off its investment in Sunblence due to the identification of certain impairment indicators. The Sunblence operation has been losing money and due to the competitive pricing pressures on its splitter chips products, has not been able to reach profitability with this one product line. The operation requires at least one additional product line as well as additional funding in order to continue operations, neither of which may be readily available. The future results of Sunblence no longer have an impact on the Company’s financial results following the impairment write off at June 30, 2014.

## **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, 2013 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, 2015.

All necessary adjustments for these past eight quarters, consisting of restating the investment in the Sunblence joint venture under the equity method, 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.

	<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>	<u>30-Jun</u> <u>2014</u>	<u>30-Sep</u> <u>2014</u>	<u>31-Dec</u> <u>2014</u>	<u>31-Mar</u> <u>2015</u>
Revenue	\$ 1,470	\$ 1,321	\$ 1,069	\$ 1,054	\$ 1,242	\$ 1,089	\$ 299	\$ 428
Gross Margin	129	(691)	(548)	(608)	(1,518)	(393)	(789)	(998)
GM %	8.8%	(52.3%)	(51.3%)	(57.7%)	(122.2%)	(36.1%)	(263.9%)	(233.2%)
Expenses								
Research & development	1,103	987	1,156	1,144	1,483	947	823	716
Sales & marketing	144	141	144	156	164	96	104	53
General & administration	685	756	859	748	864	573	466	435
Stock-based compensation	53	123	113	97	60	202	160	129
Restructuring	(352)	-	-	-	-	-	-	-
Expenses	<u>1,633</u>	<u>2,007</u>	<u>2,272</u>	<u>2,145</u>	<u>2,571</u>	<u>1,818</u>	<u>1,553</u>	<u>1,333</u>
Operating loss	<u>(1,504)</u>	<u>(2,698)</u>	<u>(2,820)</u>	<u>(2,753)</u>	<u>(4,089)</u>	<u>(2,211)</u>	<u>(2,342)</u>	<u>(2,331)</u>
Other expense	(999)	(271)	(33)	(29)	(28)	(46)	(38)	(31)
Write-down of intangible and other assets	(129)	-	-	-	(59)	-	-	-
Loss on sale of property, plant and equipment	(102)	-	-	-	-	-	-	-
Equity loss from joint venture	(997)	(398)	(448)	(310)	(318)	-	-	-
Impairment loss on investment in joint venture	-	-	-	-	(2,947)	-	-	-
Foreign exchange (loss) gain	(443)	26	26	36	(18)	-	(15)	(21)
Gain on debt settlement	-	399	-	-	-	-	-	-
Loss from continuing operations	<u>(4,174)</u>	<u>(2,942)</u>	<u>(3,275)</u>	<u>(3,056)</u>	<u>(7,459)</u>	<u>(2,257)</u>	<u>(2,395)</u>	<u>(2,383)</u>
Income (loss) from discontinued operations	(53)	-	-	-	555	-	-	-
Net loss	<u>(4,227)</u>	<u>(2,942)</u>	<u>(3,275)</u>	<u>(3,056)</u>	<u>(6,904)</u>	<u>(2,257)</u>	<u>(2,395)</u>	<u>(2,383)</u>
Weighted average shares outstanding	53,413	77,252	157,516	157,516	157,883	164,183	168,124	183,264
Basic and diluted income (loss) per share								
Continuing operations	\$2.00	(\$0.04)	(\$0.02)	(\$0.02)	(\$0.05)	(\$0.01)	(\$0.01)	(\$0.01)
Discontinued operations	(\$0.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Adjusted EBITDA <sup>(1)</sup>	(2,626)	(2,412)	(2,633)	(2,412)	(3,783)	(1,823)	(1,902)	(1,922)

(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”. The Company discloses Adjusted EBITDA as a supplemental non-GAAP financial performance measure because the Company believes it is a useful metric by which to compare the performance of our business from period to period. The Company understands that measures similar to Adjusted EBITDA are broadly used by analysts, rating agencies and investors in assessing our performance. Accordingly, we believe that the presentation of Adjusted EBITDA provides useful information to investors.

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:

	30-Jun 2013	30-Sep 2013	31-Dec 2013	31-Mar 2014	30-Jun 2014	30-Sep 2014	31-Dec 2014	31-Mar 2015
Net loss for the period	(4,227)	(2,942)	(3,275)	(3,056)	(6,904)	(2,257)	(2,395)	(2,383)
Add (deduct):								
(Income) loss from discontinued operations	53	-	-	-	(555)	-	-	-
Net interest and other expense (gain)	1,101	(128)	33	29	28	46	38	31
Amortization	174	561	522	554	564	186	280	280
Impairment of intangible and other assets	129	-	-	-	59	-	-	-
Impairment loss on investment in joint venture	-	-	-	-	2,947	-	-	-
Foreign exchange (gain) loss	443	(26)	(26)	(36)	18	-	15	21
Stock-based compensation expense	53	123	113	97	60	202	160	129
Restructuring recovery	(352)	-	-	-	-	-	-	-
<b>"Adjusted EBITDA"</b>	<b>(2,626)</b>	<b>(2,412)</b>	<b>(2,633)</b>	<b>(2,412)</b>	<b>(3,783)</b>	<b>(1,823)</b>	<b>(1,902)</b>	<b>(1,922)</b>

## SUMMARY OF RESULTS FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2015 COMPARED TO THE THREE AND NINE MONTHS ENDED MARCH 31, 2014

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, 2015 and 2014.

	Three months ended			Nine months ended		
	March 31, 2015	2014	Increase (decrease)	March 31, 2015	2014	Increase (decrease)
Revenues	\$ 428	\$ 1,054	\$ (626)	\$ 1,816	\$ 3,444	\$ (1,628)
Cost of revenues	1,426	1,662	(236)	3,996	5,291	(1,295)
Gross margin	(998)	(608)	(390)	(2,180)	(1,847)	(333)
	(233.2%)	(57.7%)		(120.0%)	(53.6%)	
Operating expenses:						
Research and development	716	1,144	(428)	2,486	3,287	(801)
Sales and marketing	53	156	(103)	253	441	(188)
General and administrative	435	748	(313)	1,474	2,363	(889)
Stock based compensation	129	97	32	491	333	158
Total operating expenses	1,333	2,145	(812)	4,704	6,424	(1,720)
Operating loss	(2,331)	(2,753)	422	(6,884)	(8,271)	1,387
Other income (expenses):						
Finance and other income	-	3	(3)	-	8	(8)
Finance expense	(31)	(32)	1	(115)	(341)	226
Equity loss from joint venture	-	(310)	310	-	(1,156)	1,156
Foreign exchange (loss)gain	(21)	36	(57)	(36)	88	(124)
Gain on debt settlement	-	-	-	-	399	(399)
Net loss	(2,383)	(3,056)	673	(7,035)	(9,273)	2,238
Other comprehensive (loss) income (net of tax):						
Foreign currency translation gain	82	58	24	137	82	55
Comprehensive loss	\$ (2,301)	\$ (2,998)	697	\$ (6,898)	\$ (9,191)	\$ 2,293

Enablene 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, 2015 in terms of the Canadian dollar equivalent of US\$1 was CDN \$1.241 and CDN \$1.152, as compared to CDN \$1.104 and CDN \$1.062 respectively, for the same periods of the prior year.

## REVENUES

Revenue for the three months ended March 31, 2015 was \$428 as compared to \$1,054 for the same period of the prior year, a decrease of 59% or \$626. Revenue for the nine months ended March 31, 2015 was \$1,816 as compared to \$3,444 for the same period of the prior year, a decrease of 47% or \$1,628.

As announced earlier, the Company has been phasing out its legacy product portfolio which was the main revenue contributor for the same period of the prior year. In the meantime, the Company's lack of available financial resources has prevented it from increasing the production of its TOSA/ROSA product despite the demand from its customer. The combination of these two situations has led to the reduction in revenues for the three and nine months ended March 31, 2015.

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 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, 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>

## 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, 2015 was \$(998) as compared to \$(608) for the same period of the prior year. Gross Margin for the nine months ended March 31, 2015 was \$(2,180) as compared to \$(1,847) for the same period of the prior year. The unfavourable Gross Margin is primarily due to the following: the impact of the fixed component of production costs on the low volume level of sales; no current capability to take advantage of the discounted volume pricing offered by our vendors due to our low revenue and materials purchase volumes; costs involved during this transitional period as we focus on rolling out new products and obtaining new financing, ramping up our capacity to produce Tosa/Rosa products, while continuing to support the fixed cost base.

## **OPERATING EXPENSES**

**R&D** expenses for the three months ended March 31, 2015 decreased by \$428 or 37% to \$716 as compared to \$1,144 for the same period of the prior year. R&D expenses for the nine months ended March 31, 2015 decreased by \$801 or 24% to \$2,486 as compared to \$3,287 for the same period of the prior year. The decrease is due primarily to a reduction in compensation costs.

**Sales & Marketing** expenses for the three months ended March 31, 2015 decreased by \$103 or 66% to \$53 as compared to \$156 for the same period of the prior year. Sales & Marketing expenses for the nine months ended March 31, 2015 decreased by \$188 or 43% to \$253 as compared to \$441 for the same period of the prior year. The decrease is due to reduced activity and lower compensation costs.

**General & Administration** expenses for the three months ended March 31, 2015 decreased by \$313 or 42% to \$435 as compared to \$748 for the same period of the prior year. The decrease is mainly due to lower compensation and severance costs in the current quarter as compared to the prior quarter. In addition, professional and consulting fees and travel expenses are also lower in the current quarter. General & Administration expenses for the nine months ended March 31, 2015 decreased by \$889 or 38% to \$1,474 as compared to \$2,363 for the same period of the prior year. This decrease is mainly due to lower compensation costs and lower professional fees in the current period as compared to the prior period, when professional fees were incurred in connection with the finance restructuring.

**Stock-based compensation** expense for the three months ended March 31, 2015 increased by \$32 or 33% to \$129 as compared to \$97 for the same period of the prior year. Stock-based compensation expense for the nine months ended March 31, 2015 also increased by \$158 or 47% to \$491 from \$333 in the previous year. The increase in the current year is due to a large option grant in June 2014.

## **FINANCE EXPENSE**

Interest expense for the three months ended March 31, 2015 was \$31 and consistent with interest expenses for the same period of the prior year. Interest expense for the nine months ended March 31, 2015 decreased by \$226 or 197% to \$115 as compared to \$341 for the same period of the prior year. Interest expense primarily related 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:

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

- (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. This deposit will be repaid by the Company upon the closing of the next financing. 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.

- (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.

### ***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, 2015 the Company recorded a foreign exchange loss of \$21 and \$36 respectively, as compared to a gain of \$36 and \$88 respectively, for the same periods of the prior year. Even though exchange rate fluctuations are higher in the current periods, the amount is lower in the current periods as there is no longer significant US dollar denominated debt or US dollar cash balances in the Canadian entities.

### ***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 Enablence 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 Enablence 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 OPERATIONS***

Net loss from operations for the three months ended March 31, 2015 was \$2,383 as compared to \$3,056 for the prior year’s same period. Net loss from operations for the nine months ended March 31, 2015 was \$7,035 as compared to \$9,273 for the prior year’s same period. The decrease in net loss is primarily due to lower compensation costs, lower finance expense and the impact of the fixed component of cost of revenues in the current period, as well as the loss from the joint venture in the prior year’s same periods due to the impairment write-off of the investment in the joint venture.

## **LOSS PER COMMON SHARE**

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>March 31,</b>		<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Basic and diluted loss per common share:	\$(0.01)	\$(0.02)	\$(0.04)	\$(0.07)
Weighted Average Number of Common Shares	183,264	157,516	171,774	130,567

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

## **OUTLOOK**

The Company's financial position remains challenged. In recent months the Company has closed certain bridge financing as well as equity financing, both in December 2014, and most recently, subsequent to March 31, 2015, in the amount of \$1.5 million (see Finance Expense and Subsequent Events sections above). In order to conserve cash, the Company previously placed certain employees on temporary layoff status and is looking at other cost saving strategies. The Company has an immediate need to raise additional financing from either existing or new investors in order to fund its day-to-day operations. In the event the Company is unable to raise the additional financing, the Company will have to look at other alternatives including the possibility of ceasing operations. The Company also continues to be highly dependent on additional equity financing in the longer term, until revenues and gross margins increase to a point at which operations become profitable. There is no certainty that additional funding in the immediate or longer term will be secured.

In conjunction with the closing of financing back in December 2014, the Company entered into a continuing Business Cooperation Agreement with a Strategic Investor. This agreement outlines existing and future research and development and product supply collaboration between Enablence and the Strategic Investor. Products covered under the Agreement include advanced TOSA / ROSA products which are based on our unique hybrid integration technology. The volume requirements for products covered under this Agreement are expected to increase significantly during the next 12 to 24 months, and we are expected to meet certain milestones in connection with the Agreement. This is an important step for the Company on its roadmap to entering the high end TOSA/ROSA market which places significant reliance on our PLC integration platform and provides a growth engine for the Company in the foreseeable future.

As a result of the agreement with our Strategic Investor and their urgent product requirements, we continue to be under tremendous pressure to increase our production output. In the short term, this has not been possible as our production capacity has been severely constrained due to our limited financial resources. The additional financing as previously mentioned is required in order to ramp our production output.

TOSA/ROSA products currently shipping and under development using our proprietary PIC technology are expected to contribute positively to our financial status if we are able to ramp up

our capacity and reduce product unit costs through increased production levels. Our ability to quickly ramp up the existing TOSA/ROSA production capacity is our top priority in both meeting our supply requirement and achieving financial success in the new emerging datacenter market. We are currently in negotiations with certain contract manufacturers to reach a strategic partnership in building our TOSA/ROSA assembly capacity to meet the urgent demand of TOSA/ROSA products from our customers.

Assuming the immediate financing requirements are achieved, we expect that during the next few quarters, our financial status will be impacted by a number of factors: 1) The pursuit of additional equity financing from potential investors. The timing and amount of funding from our investors will impact the timing of the ramp-up of our production capacity and our product delivery, which is currently constrained by limited financial resources. 2) The success of continuing with cost efficiencies and production improvement initiatives. We aim to further reduce costs and expect that our profitability on TOSA/ROSA products will improve significantly as a result of product development and capacity expansion. 3) The adjustment of the existing product portfolio. To minimize cash consumption and focus our limited resources on the demands of the fast growing TOSA/ROSA market, we will continue to phase-out low volume/low margin products. Such initiatives will continue to have a negative impact on our revenue in the short term, as we transition to and ramp up our TOSA/ROSA product volume over the next several quarters.

## 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.

Subsequent to the quarter ended March 31, 2015, the Company closed equity financing in the amount of \$1.5 million (see Subsequent Events section).

During the nine months ended March 31, 2015, the Company secured bridge loans and other short-term loans in the amount of \$2,579.

On December 14, 2014 the Company closed equity financing with the sale of 18,000 shares for gross proceeds of \$2,322 and net proceeds of \$2,292 after share issuance costs. This relates to the non-brokered private placement of up to \$10,000 Cdn that the Company announced in June 2014. The Company will continue to be dependent on existing and new investors for additional equity financing and there is no certainty that the additional funding will be secured.

Enableness 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, and working capital at March 31, 2015 and June 30, 2014.

	<b>March 31, 2015</b>	<b>June 30, 2014</b>
Cash and Cash Equivalents	\$ 160	\$ 1,182
Restricted cash	<u>4</u>	<u>5</u>
	<u>164</u>	<u>1,187</u>
Working Capital deficiency	(4,990)	(1,539)

The working capital position from operations at March 31, 2015 decreased to a deficiency of \$4,990 from the working capital deficiency of \$1,539 at June 30, 2014. The decrease was due to an increase in short-term loans payable, increase in deferred revenue and a decrease in accounts receivable and inventory.

The chart below highlights the Company's cash flows during the three and nine months ended March 31, 2015 and 2014.

	Three months ended March 31,		Nine months ended March 31,	
	2015	2014	2015	2014
<b>Cash used in Operating activities</b>	<b>(1,612)</b>	<b>(2,279)</b>	<b>(4,829)</b>	<b>(7,240)</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment	<b>(5)</b>	(214)	<b>(47)</b>	(525)
<b>Financing activities</b>				
Net proceeds from issuance of shares	-	-	<b>2,292</b>	14,081
Repayment of secured loans	-	-	-	(3,861)
Repayment of bank loans	<b>(186)</b>	(350)	<b>(1,179)</b>	(2,034)
Advances from bridge and short-term loans	<b>1,032</b>	-	<b>2,579</b>	-
	<b>846</b>	(350)	<b>3,692</b>	8,186
Effect of foreign currency translation	<b>88</b>	(181)	<b>161</b>	(59)
Net change in cash and cash equivalents	<b>(683)</b>	<b>(3,024)</b>	<b>(1,023)</b>	<b>362</b>

At March 31, 2015, the Company had cash available of \$160 (not including \$4 of restricted cash). The Company consumed \$4,829 in operating activities during the nine months ended March 31, 2015 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 introduction of new products, improved margins, revenue growth and additional financing. There can be no assurance that Enableness will gain adequate market acceptance for its new products or be able to generate sufficient gross margins to reach profitability.

## CAPITAL RESOURCES

Enableness 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.

See Liquidity section for details on equity and debt financings closed during the fiscal year.

Enableness is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There are 213,264 common shares issued and outstanding as of June 1, 2015 and no preferred shares issued and outstanding. The common shares of Enableness 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 operations.

	to March 31, 2016	to March 31, 2017	to March 31, 2018	Total
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

The Company is required to comply with certain financial covenants with respect to the secured notes payable 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 has been classified as current liabilities.

The Company is exposed to currency risk primarily due to certain transactions being denominated in Canadian dollars. 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.

Enableness 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.

## TRANSACTIONS WITH RELATED PARTIES

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.

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. The timetable for repayment of the remainder of the Short-Term Loans has not yet been determined (also see Subsequent Events).

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.

## **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 Enablene common shares is speculative and involves a high degree of risk and uncertainty. The Company is highly dependent on additional financing to continue operations and there is no certainty that it will be able to obtain such financing. 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 27, 2014 and available at [www.sedar.com](http://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 impairment of intangible assets and the joint venture, allowance for doubtful accounts, valuation of debt and equity instruments, inventory provisions and valuation, asset impairments, 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).

## **CHANGES IN ACCOUNTING POLICIES**

### 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 January 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 January 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.

#### *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.

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

### **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](http://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	Sunblence, 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
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