



ENABLENCE TECHNOLOGIES INC.

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

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2015

DATED: FEBRUARY 23, 2016

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 December 31, 2015 compared to June 30, 2015 and results of operations for the three and six months ended December 31, 2015 compared to the three months ended December 31, 2014.

This MD&A should be read in conjunction with our unaudited condensed consolidated financial statements for the three and six months ended December 31, 2015 as well as our audited consolidated financial statements and accompanying notes for the year ended June 30, 2015. 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

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 February 23, 2016.

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.
- Enableness 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 people

SUBSEQUENT EVENTS

In January 2016 the Company entered into a one year R&D Services Agreement with Irix whereby, for R&D services provided by Irix for the development of a new product and assistance in ramping up its volume production, Enablence will pay Irix \$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 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. Subsequent to December 31, 2015, the Company has paid Irix \$300 of service fees, pursuant to this agreement.

On February 2, 2016, the Company closed a private placement with ZTE Corporation (“Strategic Investor”) for 77,000 shares at a price of CAD\$0.06 per common share for proceeds of CAD\$4,620. All securities will be subject to a four month hold period pursuant to applicable securities laws expiring June 3, 2016. As a result of the closing, the Strategic Investor holds approximately 19.11% 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.

During February 2016, the remaining principal balance on the Consortium debt in the amount of \$824 and the Bridge loans in the amount of \$192 were fully repaid. In addition, all accrued interest was paid.

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 multiple wavelength channel transmission and receiving optical subassembly (TOSA/ROSA), and wavelength management products. The Company is expanding its TOSA/ROSA production capacity by collaborating with a manufacturing partner. The new capacity is expected to be ready in early 2016. The Company also earns revenues from engineering and design services, generally for products on the Company’s roadmap and retains 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”). During the year-ended June 30, 2014, the Company wrote off its investment in Sunblence due to the identification of certain impairment indicators at that time.

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 March 31, 2014 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 December 31, 2015.

All necessary adjustments for these past eight quarters, consisting of restating the investment in the Sunblence joint venture under the equity method and the subsequent impairment, reclassifying the results of the Systems business 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>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>	<u>30-Jun</u> <u>2015</u>	<u>30-Sep</u> <u>2015</u>	<u>31-Dec</u> <u>2015</u>
Revenue	\$ 1,054	\$ 1,242	\$ 1,089	\$ 299	\$ 428	\$ 231	\$ 205	\$ 194
Gross Margin	(608)	(1,518)	(393)	(789)	(998)	(1,916)	(692)	(665)
GM %	(57.7%)	(122.2%)	(36.1%)	(263.9%)	(233.2%)	(829.4%)	(337.6%)	(342.8%)
Expenses								
Research & development	1,144	1,483	947	823	716	762	656	710
Sales & marketing	156	164	96	104	53	32	1	-
General & administration	748	864	573	466	435	691	397	454
Stock-based compensation	97	60	202	160	129	(23)	40	39
Expenses	<u>2,145</u>	<u>2,571</u>	<u>1,818</u>	<u>1,553</u>	<u>1,333</u>	<u>1,462</u>	<u>1,094</u>	<u>1,203</u>
Operating loss	<u>(2,753)</u>	<u>(4,089)</u>	<u>(2,211)</u>	<u>(2,342)</u>	<u>(2,331)</u>	<u>(3,378)</u>	<u>(1,786)</u>	<u>(1,868)</u>
Other expense	(29)	(28)	(46)	(38)	(31)	(186)	(146)	(16)
Write-down of intangible and other assets	-	(59)	-	-	-	-	-	-
Equity loss from joint venture	(310)	(318)	-	-	-	-	-	-
Impairment loss on investment in joint venture	-	(2,947)	-	-	-	-	-	-
Foreign exchange (loss) gain	36	(18)	-	(15)	(21)	(14)	(37)	3
Loss from continuing operations	<u>(3,056)</u>	<u>(7,459)</u>	<u>(2,257)</u>	<u>(2,395)</u>	<u>(2,383)</u>	<u>(3,578)</u>	<u>(1,969)</u>	<u>(1,881)</u>
Income from discontinued operations	-	555	-	-	-	-	-	-
Net loss	<u>(3,056)</u>	<u>(6,904)</u>	<u>(2,257)</u>	<u>(2,395)</u>	<u>(2,383)</u>	<u>(3,578)</u>	<u>(1,969)</u>	<u>(1,881)</u>
Weighted average shares outstanding	157,516	157,883	164,183	168,124	183,264	212,220	232,881	376,962
Basic and diluted loss per share								
Continuing operations	(\$0.02)	(\$0.05)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.01)
Adjusted EBITDA ⁽¹⁾	(2,412)	(3,783)	(1,823)	(1,902)	(1,922)	(3,170)	(1,491)	(1,574)

(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:

	31-Mar 2014	30-Jun 2014	30-Sep 2014	31-Dec 2014	31-Mar 2015	30-Jun 2015	30-Sep 2015	31-Dec 2015
Net loss for the period	(3,056)	(6,904)	(2,257)	(2,395)	(2,383)	(3,578)	(1,969)	(1,881)
Add (deduct):								
Income from discontinued operations	-	(555)	-	-	-	-	-	-
Net interest and other expense	29	28	46	38	31	186	146	16
Amortization	554	564	186	280	280	231	255	255
Impairment of intangible and other assets	-	59	-	-	-	-	-	-
Impairment loss on investment in joint venture	-	2,947	-	-	-	-	-	-
Foreign exchange (gain) loss	(36)	18	-	15	21	14	37	(3)
Stock-based compensation expense	97	60	202	160	129	(23)	40	39
"Adjusted EBITDA"	(2,412)	(3,783)	(1,823)	(1,902)	(1,922)	(3,170)	(1,491)	(1,574)

SUMMARY OF RESULTS FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2015 COMPARED TO THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2014

The following table sets forth a summary of key earnings information from our consolidated financial statements for the three and six months ended December 31, 2015 and 2014.

	Three months ended			Six months ended			
	December 31,		Increase	December 31,		Increase	
	2015	2014	(decrease)	2015	2014	(decrease)	
Revenues	\$ 194	\$ 299	\$ (105)	\$ 399	\$ 1,388	\$ (989)	(71.3%)
Cost of revenues	859	1,088	(229)	1,756	2,570	(814)	(31.7%)
Gross margin	(665)	(789)	124	(1,357)	(1,182)	(175)	12.9%
	(342.8%)	(263.9%)		(340.1%)	(85.2%)		
Operating expenses:							
Research and development	710	823	(113)	1,366	1,770	(404)	(22.8%)
Sales and marketing	-	104	(104)	1	200	(199)	(99.5%)
General and administrative	454	466	(12)	851	1,039	(188)	(18.1%)
Stock based compensation	39	160	(121)	79	362	(283)	(78.2%)
Total operating expenses	1,203	1,553	(350)	2,297	3,371	(1,074)	(31.9%)
			-				
Operating loss	(1,868)	(2,342)	474	(3,654)	(4,553)	899	(19.7%)
Other income (expenses):							
Finance and other income	10	-	10	32	-	32	
Finance expense	(26)	(38)	12	(194)	(84)	(110)	56.7%
Foreign exchange gain (loss)	3	(15)	18	(34)	(15)	(19)	
Net loss	(1,881)	(2,395)	514	(3,850)	(4,652)	802	(20.8%)
Other comprehensive (loss) income (net of tax):							
Foreign currency translation (loss) gain	(44)	44	(88)	183	55	128	69.9%
Comprehensive loss	\$ (1,925)	\$ (2,351)	426	\$ (3,667)	\$ (4,597)	\$ 930	(25.4%)

Enableness converts foreign currency-denominated transactions related to the statement of income (loss) at the average exchange rates for the periods. As such, changes in the exchange rate between the United States dollar and the Canadian dollar can have an impact on the reported results for each fiscal period. The average exchange rate for the three and six months ended December 31, 2015 in terms of the Canadian dollar equivalent of US\$1 was CAD \$1.34 and CAD \$1.32 as compared to CAD \$1.14 and CAD \$1.11, for the same period of the prior year.

REVENUES

Revenue for the three months ended December 31, 2015 was \$194 as compared to \$299 for the same period of the prior year and the Revenue for the six months ended December 31, 2015 was \$399 as compared to \$1,388 for the same period of the prior year. The revenue in the current year is primarily from the sale of legacy products. The Company continues to focus on the development and production of its new TOSA/ROSA products to meet the demand of its customers.

During the six months ended December 31, 2015, two customers accounted for 60% (36% and 24% respectively) of the Company's total revenue and for the same period of the prior year, three customers accounted for 70% (38%, 21%, and 11% respectively) of the Company's total revenue.

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

	Three months ended		Six months ended	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Americas	\$ 58	\$ 58	\$ 96	\$ 360
Asia Pacific	42	68	133	696
Europe, Middle East and Africa	94	173	170	332
	\$ 194	\$ 299	\$ 399	\$ 1,388

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 December 31, 2015 was \$(665) as compared to \$(789) for the same period of the prior year. Gross margin for the six months ended December 31, 2015 was \$(1,357) as compared to \$(1,182) for the same period of the prior year. The reduced gross margin is primarily due to the following: the impact of the fixed component of production costs on the low volume level of sales; write-off of inventory; certain costs involved during this transitional period as we focus on rolling out new products, 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 December 31, 2015 decreased by \$113 or 14% to \$710 as compared to \$823 for the same period of the prior year. R&D expenses for the six months ended December 31, 2015 decreased by \$404 or 23% to \$1,366 as compared to \$1,770 for the same period of the prior year. The decrease is due primarily to a reduction in compensation costs.

Sales & Marketing expenses for the current year's three and six months ended December 31, 2015 was minimal as compared to \$104 and \$200 for the same periods of the prior year. The decrease is due to reduced activity and no compensation costs incurred in the current fiscal year.

General & Administration expenses for the three months ended December 31, 2015 were \$454 as compared to \$466 for the same period of the prior year. General & Administration expenses for the six months ended December 31, 2015 decreased by \$188 or 18% to \$851 as compared to \$1,039 for the same period of the prior year. The decrease for the year to date period was mainly due to reduced professional fees and certain office related costs.

Stock-based compensation expense for the three months ended December 31, 2015 decreased by \$121 or 76% to \$39 as compared to \$160 for the same period of the prior year. Stock-based compensation expense for the six months ended December 31, 2015 also decreased by \$283 or 78% to \$79 from \$362 in the previous year. The higher expense in the prior year's periods mainly related to expensing of options granted in previous years.

FINANCE EXPENSE

Interest expense for the three months ended December 31, 2015 was \$26 as compared to \$38 for the same period of the prior year. Interest expense for the six months ended December 31, 2015 was \$194 as compared to \$84 for the same period of the prior year. Interest expense primarily relates to Notes Payable and the current year increase is as a result of the transaction fees associated with the acquisition of the secured bank debt by the Consortium on August 21, 2015.

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:

		December 31, 2015	June 30, 2015
Loan payable to Lending Consortium	(a)	\$ 828	\$ -
Secured Note 1	(a)	-	505
Secured Note 2	(a)	-	836
Line of credit	(a)	-	465
Bridge Loan	(b)	10	416
Promissory Note/Short-term Loans	(c)	190	2,408
		\$ 1,028	\$ 4,630
Less current portion		1,028	4,630
Long term portion		\$ -	\$ -

- (a) On August 21, 2015, the Company's existing secured bank debt provided by a bank in the United States (see the table above: Secured Note 1 and 2 and Line of Credit) was acquired by a lending group in Canada (the "Consortium"), made up of certain minority shareholders of the Company, secured against the assets of the Company in Canada and the United States. The total amount owing to the Consortium at August 21, 2015 was \$1,638. This was comprised of the outstanding secured bank debt at that time 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%. Interest in the amount of \$4 has been accrued as of December 31, 2015 and is included in the loan balance payable. During the six months ended December 31, 2015, interest of \$25 and loan principal balance of \$395 was repaid by the Company to Consortium holders. In addition, \$419 of the debt was converted to equity. The repayment terms of the remaining Consortium debt are yet to be completely determined. Therefore, the full amount of the loan has been classified as a current amount. The remaining principal balance and all accrued interest was repaid in February 2016. The Consortium debt includes \$209 invested by a related party and a company controlled by one of the directors of Enablence, De Jong & Co.
- (b) 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. CAD\$200 of the loan was repaid prior to June 30, 2015. During the quarter ended December 31, 2015, CAD\$92 of the Bridge loan was converted to equity and CAD\$214 of the loan was repaid. CAD\$200 was replaced by an interest bearing promissory note. Details of the new promissory note are in 6 (c) below. The remaining balance of \$10 (CAD\$14) is expected to be paid before March 31, 2016.
- (c) During the period from September 2014 through August 2015, certain related and unrelated parties extended short-term, non-interest bearing, unsecured loans ("Short-Term Loans"), in the amount of \$3,103. \$39 of the loan was repaid during the three months ended September 30, 2015 and another \$70 was repaid during the three months ended December 31, 2015. Also, during the quarter ended December 31, 2015, \$2,830 of the loans were converted to equity. The remaining balance was replaced by an interest bearing promissory note of \$108 (CAD\$150). The total amount of the new promissory note was \$253 (CAD\$350). The loan has a maturity date of May 1, 2016 and seven monthly payments of principal only CAD\$50 starting November 1, 2015. Interest

is calculated monthly at a rate of 10% on the remaining principal balance. Interest is not due or payable until the earlier of an event of default and the final payment of principal on or before May 1, 2016. During the quarter ended December 31, 2015, payments of \$72 (CAD\$100) were made. The outstanding balance of \$190 includes \$8 of accrued interest. The outstanding balance, including interest was fully repaid in February 2016.

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 six months ended December 31, 2015 the Company recorded a foreign exchange gain of \$3 and a foreign exchange loss of \$34 respectively, as compared to a loss of \$15 in each of the same periods of the prior year.

INCOME TAXES

There were no income taxes payable or recoverable in the current or prior year.

NET LOSS

The net loss from continuing operations for the three months ended December 31, 2015 was \$1,881 as compared to \$2,395 for the same period of the prior year. The net loss from continuing operations for the six months ended December 31, 2015 was \$3,850 as compared to \$4,652 for the same period of the prior year. The decrease in net loss is primarily due to lower overhead and compensation costs partially offset by additional finance expense relating to the Consortium debt and the increase in the negative gross margin impacted by reduced revenues in the current period.

FOREIGN CURRENCY TRANSLATION GAIN

During the three months ended December 31, 2015 the Company recorded a foreign exchange translation loss of \$44 as compared to a gain of \$44 in the same period of the prior year. During the six months ended December 31, 2015 the Company recorded a foreign exchange gain of \$183 compared to a gain of \$55 in the same period of the prior year.

LOSS PER COMMON SHARE

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

	Three months ended December 31,		Six months ended December 31,	
	2015	2014	2015	2014
Basic and diluted loss per common share:	\$(0.01)	\$(0.01)	\$(0.01)	\$(0.03)
Weighted Average Number of Common Shares	376,962	168,124	304,921	166,154

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

OUTLOOK

In recent months, the Company has been actively raising financing which has resulted in the closing of additional equity financing and the conversion of CAD\$4,504 of existing debt to equity. In addition, the Company is anticipating securing loan facilities of \$3,000 designed to finance customer purchase orders (see more details in Subsequent Events and Liquidity sections). The Company's financial position continues to remain challenged and cash conservation measures and cost saving strategies continue to be considered. 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 February 2016, the Company signed an updated Business Cooperation Agreement with a Strategic Investor in conjunction with the closing of equity financing of CAD\$4.6 million from the same investor (See Subsequent Events section) This Business Cooperation Agreement builds on the original agreement signed at the end of calendar 2014 expanding on 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 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.

TOSA/ROSA products currently shipping and under development using our proprietary PIC technology are expected to contribute positively to our financial status, assuming we are able to successfully ramp up capacity, increase production levels and reduce product unit costs. In this regard, the Company recently entered into an agreement with a large, well-established manufacturing partner, in order to work with them to fulfill these production objectives. Our ability to quickly ramp up the existing TOSA/ROSA production capacity is our top priority in both meeting our Strategic Investor's supply requirement and achieving financial success in the new emerging datacenter market.

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. During the six months ended December 31, 2015, as well as subsequent to December 31, 2015 year end, Enableness secured new equity investments. In addition, the Company's bank debt was acquired by a lending consortium ("Consortium") in August 2015. See full financing details below as well as within the Subsequent Events section above.

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 December 31, 2015 and June 30, 2015.

	December 31, 2015	June 30, 2015
Cash and Cash Equivalents	\$ 686	\$ 169
Restricted cash	4	4
	<u>690</u>	<u>173</u>
Working Capital deficiency	(2,650)	(7,196)

The working capital deficiency from operations at December 31, 2015 was \$2,812 as compared to a working capital deficiency of \$7,196 at June 30, 2015. The decrease in deficiency was primarily due to the successful completion of multiple financings over the six month period ending December 31, 2015 as well as the reduction of debt levels.

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

	Three months ended December 31,		Six months ended December 31,	
	2015	2014	2015	2014
Cash used in Operating activities	(2,039)	(1,905)	(3,770)	(3,217)
Investing activities				
Purchase of property, plant and equipment	(22)	(11)	(53)	(42)
Financing activities				
Repayment of bank loans	-	(832)	(1,347)	(993)
Repayment of operating line of credit	-	-	(465)	-
(Repayment of) advances from lending Consortium	(406)	-	1,243	-
(Repayment of) advances from bridge and short-term loans	(286)	802	370	1,547
Subscriptions received in advance of financing close	(610)	-	-	-
Net proceeds from issuance of shares/units	3,198	2,299	4,234	2,292
	1,896	2,269	4,035	2,846
Effect of foreign currency translation	121	42	305	73
Net change in cash and cash equivalents	(44)	395	517	(340)

At December 31, 2015, the Company had cash available of \$686 (not including \$4 of restricted cash). The Company consumed \$3,770 in operating activities for the six months ended December 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 few 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.

Equity Financing

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, 2015, there are 419,886 common shares and no preferred shares outstanding.

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 are subject to a four month hold period expiring April 5, 2016.

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.

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. Enableness 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 Enableness 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, Enableness will use 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 repayment of the Consortium debt is yet to be determined. 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 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 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 are subject to a four-month holding period.

In June 2015, the Company initiated a non-brokered private placement for up to CAD\$2,000 at a price of CAD\$0.05 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 \$0.06 per warrant. The first tranche of the financing closed on June 26, 2015 for CAD\$350 with the sale of 7,000 units resulting in the issuance of 7,000 shares and 3,500 warrants. The shares and warrants are subject to a four-month holding which expired on October 27, 2015. The second tranche of this financing closed on July 6, 2015 for \$435 (CAD\$550) with the sale of 11,000 units resulting in the issuance of 11,000 shares and 5,500 warrants. The shares and warrants are subject to a four-month holding which expired on November 7, 2015.

In April 2015, the Company completed a non-brokered private placement for CAD\$1,500 at a price of CAD\$0.05 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 \$0.06 per warrant. The financing was completed in two parts. The first part closed on April 2, 2015 for gross proceeds of CAD\$1,150 from the issuance of 23,000 shares and 11,500 warrants. The shares and warrants were subject to a four month hold period which expired on August 3, 2015. The remainder of the financing closed on April 10, 2015 for gross proceeds of CAD\$350 from the issuance of 7,000 shares and 3,500 warrants. The shares and warrants were subject to a four month hold period which expired on August 11, 2015. De Jong & Co Inc., controlled by Louis De Jong, and John Roland, each purchased 5,000 of these Units. Each is an insider and considered a related party.

In June 2014, the Company initiated a non-brokered private placement for up to 66,667 shares at a price of CAD\$0.15 for gross proceeds of CAD\$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 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.

Bridge Loans

During the year ended ended June 30, 2015, and the quarter ended September 30, 2015, the Company secured bridge loans and other short-term loans in the amount of \$3,721 of which \$247 was repaid prior to September 30, 2015. During the three months ended December 31, 2015, another \$302 was paid and approximately \$2,901 was converted to equity leaving a balance of \$192 payable at December 31, 2015, after taking into consideration differences related to foreign exchange translations.

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 the Liquidity and Subsequent Events sections above for details on financings completed during the six months ended December 31, 2015 and subsequent to that. The continued equity funding will help to position Enableness to address the increased demand it is experiencing in its 100G/s components business and to focus on its customer needs and future growth opportunities.

Enableness is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There are 496,886,554 common shares issued and outstanding as of February 23, 2016 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 continuing operations (note that amounts include future interest costs).

	to December 31, 2016	to December 31, 2017	to December 31, 2018	Total
Accounts payable and accrued liabilities	\$ 2,932	\$ -	\$ -	\$ 2,932
Loan payable to lending Consortium	828	-	-	828
Bridge and other short-term loans payable	200			200
Total	\$ 3,960	\$ -	\$ -	\$ 3,960

The Company is required to comply with certain obligations with respect to the loan payable to the lending Consortium which is secured against the assets of the Company (see Finance Expense section above and the references to notes payable).

The Company is exposed to currency risk as certain transactions are 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.

Enablence has not entered into any other material off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to unconsolidated entities, or derivative instrument obligations, or with respect to any obligations under a variable interest entity arrangement.

TRANSACTIONS WITH RELATED PARTIES

On February 2, 2016, the Company closed a private placement with ZTE Corporation (“Strategic Investor”) for 77,000 shares at a price of CAD\$0.06 per common share for proceeds of CAD\$4,620. All securities will be subject to a four month hold period pursuant to applicable securities laws expiring June 3, 2016. As a result of the closing, the Strategic Investor holds approximately 19.11% 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.

The Consortium debt as discussed in the Finance expense section above, includes \$209 invested by a related party and a company controlled by one of the directors of Enablence, De Jong & Co. This debt was fully repaid by the Company in February 2016.

During the six months ended December 31, 2015, the Company recorded consulting fee expense of \$38 for Evan Chen and Todd Zhang (2014 - \$78). This amount is payable to Irix. At December 31, 2015, the total amount owing to Irix related to consulting fee expense is \$292 (June 30, 2015 - \$254) and is included in accounts payable and accrued liabilities.

During the three months ended December 31, 2015, the Company repaid loans to Irix in the amount of \$230. In addition, Irix debt in the amount of CAD\$1 million was converted to equity as part of the debt to equity conversion as discussed in the Liquidity section, which closed in October 2015.

In January 2016 the Company entered into a one year R&D Services Agreement with Irix whereby, for R&D services provided by Irix for the development of a new product and assistance in ramping up its volume production, Enablence will pay Irix \$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 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. Subsequent to December 31, 2015, the Company has paid Irix \$300 of service fees, pursuant to this agreement.

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. During the six months ended December 31, 2015 the Company did not enter into any material transactions with related parties outside of those noted elsewhere in the MD&A.

RISKS AND UNCERTAINTIES

The Company operates in a dynamic, rapidly changing environment that involves risks and uncertainties, and as a result, management expectations may not be realized for a number of reasons. An investment in 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 28, 2015 and available at www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES

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

Significant estimates in the accompanying financial statements relate to the impairment of intangible assets and the joint venture, allowance for doubtful accounts, valuation of debt and equity instruments, inventory provisions and valuation, stock-based compensation, the estimated useful lives and valuation of property, plant and equipment, certain accruals and provisions and unearned revenue. 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

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" (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 11 – Joint Arrangements

IFRS 11, "Joint Arrangements" (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 is not expected to have a material impact on the Company's consolidated financial statements.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15, "Revenue from Contracts with 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. 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.

IAS 1 – Presentation of Financial Statements

IAS1, "Presentation of Financial Statements (IAS 1) was amended by the IASB on December 18, 2014. The amendments to existing IAS 1 requirements relate to materiality; order of the notes; subtotals; accounting policies; and disaggregation. The amendments are effective for annual periods beginning or after January 1, 2016. The Company is currently evaluating the impact of these amendments on its consolidated financial statements.

FINANCIAL AND OTHER INSTRUMENTS

Enableness'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 Enableness's management that Enableness 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.