ENABLENCE TECHNOLOGIES INC.

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

FOR THE YEAR ENDED JUNE 30, 2016

DATED: OCTOBER 28, 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 Enablence Technologies Inc. ("Enablence" or the "Company") at June 30, 2016 compared to June 30, 2015 and results of operations for the year ended June 30, 2016 compared to the year ended June 30, 2015.

This MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes for the years ended June 30, 2016 and 2015. References made herein to "Enablence", the "Company", "we" and "our" mean Enablence, its subsidiaries, 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 October 28, 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.
- 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 people

SUBSEQUENT EVENTS

On July 11, 2016, the Company made a draw of CAD$804 to fully utilize its existing CAD$3 million loan facility with Export Development Canada ("EDC"). In August 2016, EDC amended the loan facility to increase the maximum amount available to $5 million and advanced another CAD$1,973 to the Company. To date, the Company has drawn CAD$4,973 under this facility.

In addition, during October 2016, the Company received short-term, non-interest bearing, unsecured bridge loans in the amount of CAD$885.

During September 2016 and October 2016, 750 warrants were exercised for gross proceeds of CAD$45.

SELECTED FISCAL YEAR INFORMATION

Statement of Operations Data	**Year ended June 30**		
	2016	2015	2014
Revenue	**$1,623**	$2,047	$4,686
Gross margin	**(2,324)**	(4,096)	(3,365)
Operating expenses	**6,107**	6,166	8,995
Operating loss	**(8,431)**	(10,262)	(12,360)
Net loss from continuing operations	**(8,893)**	(10,613)	(16,732)
Net income from discontinued operations	**-**	-	555
Net loss	**(8,893)**	(10,613)	(16,177)
Basic and diluted loss per share:			
Net loss from continuing operations	**($0.02)**	($0.06)	($0.12)
Net loss	**($0.02)**	($0.06)	($0.12)

Balance Sheet Data	**As at June 30**		
	2016	2015	2014
Total assets	**$3,097**	$4,050	$8,916
Total liabilities	**5,787**	9,651	8,177
Cash dividends declared per share	**nil**	nil	nil

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 lightware 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. Some new capacity has been put into use in the second half of calendar 2016 while more capacity is expected to be added in the first half of calendar 2017. 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. There were no changes recorded in the current year.

RESULTS OF OPERATIONS

Summary of Fourth Quarter Results

The Company reported revenues of $680 for the quarter ended June 30, 2016 as compared to $544 for the prior quarter ended March 31, 2016. The increase was due to higher sales volumes of both legacy and new products to existing customers in the current quarter. The Company reported a net loss from operations of $2,577 for the quarter ended June 30, 2016 as compared to $2,334 for the quarter ended March 31, 2016. The increase in the loss during the quarter over quarter period is mainly a result of the combination of a larger write off of inventory during the current period, the write-off of a deposit on equipment and higher R&D and stock based compensation expense offset by lower general and administrative costs, gain on settlement of debt and no loss on sale of equipment as compared to a loss of $127 reported in the prior quarter.

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 September 30, 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 audited consolidated financial statements for the fiscal period ended June 30, 2016.

All 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.

	30-Sep 2014	31-Dec 2014	31-Mar 2015	30-Jun 2015	30-Sep 2015	31-Dec 2015	31-Mar 2016	30-Jun 2016
Revenue	$ 1,089	$ 299	$ 428	$ 231	$ 205	$ 194	$ 544	$ 680
Gross Margin	(393)	(789)	(998)	(1,916)	(692)	(665)	(247)	(720)
GM %	(36.1%)	(263.9%)	(233.2%)	(829.4%)	(337.6%)	(342.8%)	(45.4%)	(105.9%)
Expenses								
Research & development	947	823	716	762	656	710	1,177	1,227
Sales & marketing	96	104	53	32	1	-	1	9
General & administration	573	466	435	691	397	454	704	509
Stock-based compensation	202	160	129	(23)	40	39	71	112
Expenses	1,818	1,553	1,333	1,462	1,094	1,203	1,953	1,857
Operating loss	(2,211)	(2,342)	(2,331)	(3,378)	(1,786)	(1,868)	(2,200)	(2,577)
Other expense	(46)	(38)	(31)	(186)	(146)	(16)	(24)	(316)
Gain on settlement of debt	-	-	-	-	-	-	-	176
Loss on sale of equipment	-	-	-	-	-	-	(127)	-
Foreign exchange (loss) gain	-	(15)	(21)	(14)	(37)	3	17	8
Net loss	(2,257)	(2,395)	(2,383)	(3,578)	(1,969)	(1,881)	(2,334)	(2,709)
Weighted average shares outstanding	164,183	168,124	183,264	212,220	232,881	376,962	469,858	395,085
Basic and diluted income (loss) per share								
Continuing operations	($0.01)	($0.01)	($0.01)	($0.02)	($0.01)	($0.01)	($0.01)	($0.01)
Adjusted EBITDA[1]	(1,823)	(1,902)	(1,922)	(3,170)	(1,491)	(1,583)	(1,888)	(2,406)

(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: finance income and expense, income tax recovery and expense, depreciation, amortization, losses on write-off or sale of equipment, foreign exchange gains and losses in earnings, and stock-based compensation expense. 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-Sep 2014	31-Dec 2014	31-Mar 2015	30-Jun 2015	30-Sep 2015	31-Dec 2015	31-Mar 2016	30-Jun 2016
Net loss for the period	(2,257)	(2,395)	(2,383)	(3,578)	(1,969)	(1,881)	(2,334)	(2,709)
Add (deduct):								
Net interest and other expense	46	38	31	186	146	16	24	316
Amortization	186	280	280	231	255	246	241	59
Gain on settlement of debt	-	-	-	-	-	-	-	(176)
Loss on sale of equipment	-	-	-	-	-	-	127	-
Foreign exchange (gain) loss	-	15	21	14	37	(3)	(17)	(8)
Stock-based compensation expense	202	160	129	(23)	40	39	71	112
"Adjusted EBITDA"	(1,823)	(1,902)	(1,922)	(3,170)	(1,491)	(1,583)	(1,888)	(2,406)

SUMMARY OF RESULTS FOR THE YEAR ENDED JUNE 30, 2016 COMPARED TO THE YEAR ENDED JUNE 30, 2015

The following table sets forth a summary of key earnings information from our consolidated financial statements for the years ended June 30, 2016 and 2015.

	Year ended June 30, 2016	Year ended June 30, 2015	Increase (decrease)	
Revenues	**$ 1,623**	$ 2,047	$ (424)	(20.7%)
Cost of revenues	**2,825**	4,897	(2,072)	(42.3%)
Loss on inventory impairment	**1,122**	1,246	(124)	(10.0%)
Gross margin	**(2,324)**	(4,096)	1,772	(76.2%)
	(143.2%)	*(200.1%)*		
Operating expenses:				
Research and development	**3,770**	3,248	522	16.1%
Sales and marketing	**11**	285	(274)	(96.1%)
General and administrative	**2,064**	2,165	(101)	(4.7%)
Stock based compensation	**262**	468	(206)	(44.0%)
Total operating expenses	**6,107**	6,166	(59)	(1.0%)
Loss from operations	**(8,431)**	(10,262)	1,831	(17.8%)
Other income (expenses):				
Finance and other income	**41**	2	39	
Finance expense	**(298)**	(303)	5	(1.7%)
Write-off of equipment deposit	**(245)**	-	(245)	
Foreign exchange (loss)gain	**(9)**	(50)	41	
Gain on settlement of debt	**176**	-	176	
Loss on sale of equipment	**(127)**	-	(127)	
Net loss	**(8,893)**	(10,613)	1,720	(19.3%)
Other comprehensive income (net of tax):			-	
Foreign currency translation gain	**230**	190	40	17.4%
Comprehensive loss	**$ (8,663)**	**$ (10,423)**	$ 1,760	(20.3%)

Enablence converts foreign currency-denominated transactions related to the statement of comprehensive 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 year ended June 30, 2016 in terms of the Canadian dollar equivalent of US$1 was CAD $1.33 (2015 – CAD $1.17).

REVENUES

Revenue for the year ended June 30, 2016 was $1,623 as compared to $2,047 for the prior year, a decrease of 21% or $424.

As announced earlier, the Company has been phasing out its legacy product portfolio, which previously was the main revenue contributor for the Company, and focusing on the transition to the development, product delivery and volume production of its new products to meet the demand of its customers for TOSA/ROSA products. The combination of these two situations has led to the reduction in revenues for the year over year period.

During the year ended June 30, 2016, four customers accounted for 88% of the Company's total revenue (26%, 23%, 21% and 18% individually). Three customers accounted for 59% (26%, 19% and 14% individually) of the Company's total revenue during the year ended June 30, 2015.

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

	Year ended			
	June 30, 2016		June 30, 2015	
Americas	**$**	**238**	$	537
Asia Pacific		**645**		1,061
Europe, Middle East and Africa		**740**		449
	$	**1,623**	$	2,047

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 year ended June 30, 2016 was (2,324) as compared to (4,096) for the prior year. This change in gross margin was due to lower material and labour costs as a result of reduced sales from the low margin legacy products ad well as lower inventory write-offs.

OPERATING EXPENSES

R&D expenses for the year ended June 30, 2016 was $3,770 as compared to $3,248 for the prior year, an increase of 16% or $522. The current year increase is due primarily to the $900 of R&D development services provided by Irixi, a related party, to assist in new product development, which commenced in January 2016, partially offset by a decrease in staff and related compensation costs at the Fremont office.

Sales & Marketing expenses for the year ended June 30, 2016 was $11 as compared to $285 for the prior year. There were minimal sales and marketing activities undertaken in the current year as the Company focused on improving production and yields of new products.

General & Administration expenses for the year ended June 30, 2016 were $2,064 which is slightly down from the prior year amount of $2,165.

Stock-based compensation for the year ended June 30, 2016 was $262 as compared to $468 for the prior year. The higher expense in the prior year is mainly related to expensing of options granted in previous years at higher fair values and lower forfeiture rates than in the current year.

FINANCE AND OTHER INCOME

Enablence invests cash and cash equivalents in short-term investments with financial institutions. The Company earned $5 interest for the year ended June 30, 2016 as compared to $2 for the prior year. Interest income is a function of prevailing interest rates and the amount of funds invested. In addition, the Company sold some scrap equipment for $36. The proceeds from this sale are included in other income in the year ended June 30, 2016.

FINANCE EXPENSE

Interest and finance expense for the year ended June 30, 2016 was $298 as compared to $303 for the prior year. The Company's interest expense is a function of the balance of debt, and applicable interest rates, and the average foreign exchange rate between the underlying currency of the debt security and the U.S. dollar.

Interest expense in the current year primarily relates to interest on secured loans and long term loans. The current year balance also includes transaction fees associated with the acquisition of the secured bank debt by the Consortium (see below) on August 21, 2015 and for initiating the loan facility with EDC.

The table below sets out the Notes Payable balances outstanding:

		June 30, 2016	June 30, 2015
Secured Note 1	(a)	**$ -**	$ 505
Secured Note 2	(a)	**-**	836
Line of credit	(a)	**-**	465
Bridge Loan	(b)	**11**	416
Short-term Loan/Promissory Notes	(c)	**-**	2,408
Loan from Export Development Canada	(d)	**1,698**	-
		1,709	4,630
Less current portion		**11**	4,630
Long term portion		**$ 1,698**	$ -

(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 accrued at the same rate as previously on the bank debt, which is prime rate as published in the Wall Street Journal plus 3.25%. During the year ended June 30, 2016, interest of $37 and final loan principal balance of $1,219 was repaid by the Company to Consortium holders. In addition, $419 of the debt was converted to equity. The Consortium debt included $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. During the year ended June 30, 2016, CAD$214 of the loan was repaid (2015 – CAD$200). CAD$92 of the Bridge loan was converted to equity and another CAD$200 was replaced by an interest bearing promissory note. Details of the new promissory note are in (c) below. The remaining balance of $11 (CAD$14) remains outstanding at June 30, 2016.

(c) During the period from September 2014 through August 2015, certain related and unrelated parties extended short-term, non-interest bearing, unsecured loans to the Company ("Short-Term Loans"), in the amount of $3,103. During the year ended June

30, 2016, $39 of the loan was repaid (2015 – $70). In addition, $2,830 of the loans were converted to equity.

The remaining balance was replaced by an interest bearing promissory note of CAD$150. The total amount of the new promissory note was CAD$350. The loan had a maturity date of May 1, 2016 and seven monthly payments of principal only CAD$50 starting November 1, 2015. Interest was calculated monthly at a rate of 10% on the remaining principal balance. Interest was not due or payable until the earlier of an event of default and the final payment of principal on or before May 1, 2016. The full principal balance of CAD$350 as well as CAD$14 of accrued interest was repaid during the year ended June 30, 2016.

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

Subsequent to year end, the loan facility was increased to CAD$5 million and additional draws were made by the Company. On July 11, 2016, the Company made a draw of CAD$804 to fully utilize its existing CAD$3 million loan facility with EDC. In August 2016, EDC amended the loan facility to increase the maximum amount available to $5 million and advanced another CAD$1,973 to the Company. To date, the Company has drawn CAD$4,973 under this facility.

WRITE-OFF OF EQUIPMENT DEPOSIT

During the 2014 fiscal year, the Company made deposits for the purchase of certain equipment. The Company no longer plans to purchase the equipment and it was determined that the deposit was not refundable. Therefore, the deposit of $245 was written off during the year ended June 30, 2016.

LOSS ON SALE OF EQUIPMENT

The Company reported a loss of $127 on the sale of equipment to the Company's contract manufacturer in China. This is to be used by the contract manufacturer to produce Enablence's 10 by 10 product.

GAIN ON SETTLEMENT OF DEBT

During the year, certain loan amounts were converted to equity. The Company recorded a gain of $176 on the settlement of a portion of the conversion.

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 year ended June 30, 2016 the Company recorded a foreign exchange loss of $9 as compared to a loss of $50 in 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 operations for the year ended June 30, 2016 was $8,431 as compared to $10,262 for the prior year. The decrease in net loss is primarily due to lower compensation costs, reduced inventory write-offs, lower stock based compensation and minimal sales and marketing expenses. This is partially offset by additional R&D services fees, the loss on the sale of equipment and the write-off of the equipment deposit.

FOREIGN CURRENCY TRANSLATION GAIN

During the year ended June 30, 2016 the Company recorded a foreign exchange translation gain of $230 as compared to a gain of $190 in 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.

	Year ended June 30,	
	2016	**2015**
Basic and diluted loss per common share:		
From continuing operations	$(0.02)	$(0.06)
Weighted Average Number of Common Shares	395,085	181,857

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, the conversion of CAD$4,504 of existing debt to equity, and secured loan facility (see note 8 (d)). 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.

As reported previously, 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 Equity Financing 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 year ended June 30, 2016, Enablence secured new equity investments, and secured a loan facility of up to $3,000 designed to finance customer purchase orders. In addition, the Company's bank debt which was acquired by a Consortium in August 2015 was fully repaid in February 2016. See full financing details below as well as within the Subsequent Events section above.

Enablence has not generated positive cash flow from operations since its inception, and has relied on cash from the issuance of shares and debt to fund its operations. The table below sets out the cash, cash equivalents, and working capital at June 30, 2016 and June 30, 2015.

	June 30, 2016	June 30, 2015
Cash and Cash Equivalents	$ **650**	$ 169
Restricted cash	**4**	4
	654	173
Working Capital deficiency	**(1,950)**	(7,196)

The working capital deficiency from operations at June 30, 2016 was $1,950 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 during the year ended June 30, 2016 as well as the reduction of debt levels.

The chart below highlights the Company's cash flows during the year ended June 30, 2016 and 2015.

	Year ended June 30, 2016	2015
Cash used in Operating activities	**(8,202)**	(6,352)
Investing activities		
Sale of equipment	**150**	-
Purchase of property, plant and equipment	**(287)**	(253)
	(137)	(253)
Financing activities		
Repayment of bank loans	**(1,347)**	(570)
Repayment of operating line of credit	**(465)**	(497)
Advances from lending consortium	**419**	-
Advanced from bridge and short-term loans	**199**	2,824
Advances from long-term loans	**1,688**	-
Net proceeds from issuance of common shares	**8,072**	3,746
	8,566	5,503
Effect of foreign currency translation	**254**	88
Net change in cash and cash equivalents	**481**	(1,014)

At June 30, the Company had cash available of $650 (not including $4 of restricted cash). The Company consumed $8,202 in operating activities for the year ended June 30, 2016 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 Enablence 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 June 30, 2016, there are 509,050 common shares and no preferred shares outstanding.

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

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

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

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

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

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

The CAD$4,000 Equity Financing was completed in three tranches: The first tranche of the financing closed on September 14, 2015 for $159 (CAD$210) with the sale of 4,200 units resulting in the issuance of 4,200 shares and 2,100 warrants. The second tranche of the financing closed on September 18, 2015 for $465 (CAD$615) with the sale of 12,300 units resulting in the issuance of 12,300 shares and 6,150 warrants. The third and final tranche closed on October 5, 2015 for $2,407 (CAD$3,175) with the sale of 63,500 units resulting in the issuance of 63,500 shares and 31,750 warrants. The shares and warrants were subject to a four-month holding period. During the year ended June 30, 2016, 200 warrants were exercised resulting in cash proceeds of $9 (CDN$12).

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. During the year ended June 30, 2016, 8,750 of the issued warrants were exercised resulting in cash proceeds of $404 (CDN$525).

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, 2016, the Company secured bridge loans and other short-term loans in the amount of $1,100. These loans were fully repaid or converted to equity prior to June 30, 2016.

CAPITAL RESOURCES

Enablence finances its operations through the issuance of common shares and debt. The Company may also receive cash proceeds on the issue of additional common shares on the exercise of options and warrants depending in part on the market price for its shares.

The Company periodically evaluates the opportunity to raise additional funds through either the public or private placement of equity capital to strengthen its financial position and to provide sufficient cash reserves to protect itself from the effects of the volatile economic conditions that are difficult to predict.

See the Liquidity and Subsequent Events sections above for details on financings completed during the year ended June 30, 2016 and for loans secured during and subsequent to the period. The continued equity funding will help to position Enablence to address the increased demand it is experiencing in its 100G/s components business and to focus on its customer needs and future growth opportunities.

Enablence is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There are 509,800,830 common shares issued and outstanding as of October 28, 2016 and no preferred shares issued and outstanding. The common shares of Enablence trade on the TSX Venture Exchange under the symbol "ENA" or "ENA.V".

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

The table below presents the Company's contractual obligations from continuing operations (note that amounts do not include future interest costs).

	to June 30, 2017	to June 30, 2018	to June 30, 2019	Total
Accounts payable and accrued liabilities	$ 3,096	$ -	$ -	$ 3,096
Loans Payable	-	943	755	1,698
Bridge and other short-term loans payable	11			11
Total	$ 3,107	$ 943	$ 755	$ 4,805

The Company is required to comply with certain obligations with respect to the loan payable to Export Development Canada 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 CDN$0.06 per common share for proceeds of CDN$4,620. All securities were subject to a four month hold period which expired June 3, 2016. As a result of the closing, the Strategic Investor holds approximately 18.66% of the issued and outstanding shares of the Company at June 30, 2016 (2015 – 8.2%). 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 the year ended June 30, 2016, the Company had sales of $197 (2015 - $233) with ZTE. At June 30, 2016, the Company had an accounts receivable balance with ZTE of $153 (2015 - $ nil). This amount is included in accounts and other receivables.
- In addition, during the year ended June 30, 2016, the Company received a pre-payment from ZTE in the amount of $210 for the fulfilment of certain purchase orders it had placed with the Company (2015 - $750). An amount of $693 related to these pre-payments is included in deferred revenue at June 30, 2016 (2015 - $517).

As at June 30, 2016, China TriComm Ltd. ("TriComm") owned 30,000 Enablence common shares, which represents approximately 5.9% (2015 – 13.6%) of the issued and outstanding common shares of the Company. TriComm is controlled by Mr. Zhiyin Gao, a director and significant shareholder of the Company. During September 2013, as a result of equity financing received, the Company recorded $112 of legal fees owing to Win Brand Limited which was included in accounts payable and accrued liabilities at June 30, 2014. The amount was paid off during the year ended June 30, 2015. Win Brand Limited ("Win Brand") is controlled by the Chief Executive Officer ("CEO") of the Company.

As at June 30, 2016, Irixi Holding Ltd. ("Irixi"), owned 39,408 Enablence common shares, which represents approximately 7.7% (2015 – 9.2%) of the issued and outstanding common shares of the Company. Irixi is a joint venture controlled by TriComm and Win Brand. During the year ended June 30, 2016, the following transactions took place between Irixi and the Company:

- Prior to the start of the current fiscal year, the Company received short-term, non-interest bearing, unsecured bridge loans in the amount of $990 from Irixi. $160 of these loans were repaid and CAD$1M of the loans were converted to equity during the year ended June 30, 2016. A gain of $176 was recorded on the conversion of debt to equity. The remaining balance is $11 and is included in loans payable at June 30, 2016

- During the year ended June 30, 2015, the Company purchased equipment from Irixi Technologies Inc. (a wholly owned subsidiary of Irixi) for $300. A balance of $108 was included in loans payable at June 30, 2015. This amount was repaid in the year ended June 30, 2016. The equipment was subsequently sold to the Company's contract manufacturer and a loss of $127 was recorded in the year ended June 30, 2016.
- During the year ended June 30, 2015, the Company entered into a Strategic Partnership agreement with Irixi and Suzhou Irixi Ltd., whereby, all parties work together on product development. During the year, Irixi Technologies Inc. and Irixi Photonics Inc. (see below) charged for travel expenses of $62 incurred in the provision of product development services by its engineers (2015 -$21). $19 of this amount remains unpaid and is included in accounts payable and accrued liabilities at June 30, 2016 (2015 -$19).

In January 2016 the Company entered into a one year R&D Services Agreement (the "Service Agreement") with Suzhou Irixi Ltd. and Irixi Photonics Inc. ("Irixi Photonics"). Irixi Photonics was created to carry out the operations of Irixi and is a company controlled by the CEO and Chief Financial Officer of Enablence. Pursuant to the Service Agreement, for R&D services provided by Irixi Photonics for the development of a new product and assistance in ramping up its volume production, Enablence will pay Irixi Photonics $150/month ("Service Fees") over a twelve month term. In addition, if certain agreed upon volume production milestones are met during the twelve month period, Irixi Photonics may be eligible for the payment of a success fee ("Success Fee"). The Success Fee amounts to $2 million less any Service Fees previously paid. The Company will retain ownership of all Intellectual Property associated with the products under the agreement. During the year ended, June 30 2016, the Company paid Irixi Photonics $900 of service fees, pursuant to this agreement.

During the fiscal year ended June 30, 2016, the Company recorded consulting fee expense of $98 (2015 - $156) for Evan Chen ($20) and Todd Zhang ($78). $40 of this amount was paid to Todd Zhang during the year ended June 30, 2016. At June 30, 2016, the total amount owing to Irixi related to consulting fee expense is $312 (2015 - $254) and is included in accounts payable and accrued liabilities.

The Consortium debt as discussed in Note 9 above, included $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. In addition, 1 million warrants were exercised by De Jong & Co. during the year ended June 30, 2016.

Paradigm Capital Partners Limited ("PCPL') is a shareholder of Enablence and is a company controlled by close family members of a director of Enablence. The following transactions took place with PCPL, its affiliates and individuals related to PCPL (collectively "Paradigm") during the year ended June 30, 2016:

- Paradigm was part of the lending consortium that was paid a fee of $150 in connection with their acquisition of the Cathay bank debt as described in note 8(a).
- CAD$350 of loans received in the prior year were repaid in the year ended June 30, 2016. Further details are provided in notes 8(b) and 8(c)
- Short-term loans of CAD$600 were received during the year ended June 30, 2016 (2015 – CAD$1,850) as described in note 8(c). The total amount of $2,450 was converted to equity during the year ended June 30, 2016.
- 3,214 warrants were exercised during the year ended June 30, 2016
- Subsequent to year end, the Company received CAD$885 in short-term, non-interest bearing, unsecured bridge loans.

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 year ended June 30, 2016 the Company did not enter into any material transactions with related parties outside of those noted elsewhere in the MD&A.

RISKS AND UNCERTAINTIES

The Company operates in a dynamic, rapidly changing environment that involves risks and uncertainties, and as a result, management expectations may not be realized for a number of reasons. An investment in Enablence common shares is speculative and involves a high degree of risk and uncertainty. The 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 Appendix A.

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

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

RESTATEMENT OF AMORTIZATION IN PRIOR PERIODS

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

Impact on equity (increase (decrease) in equity)

	July 1, 2014
	$
Property, plant and equipment	(146)
Total assets	(146)
Net impact on equity	(146)

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:

<u>IFRS 9 - Financial instruments</u>

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

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.

APPENDIX A

RISKS AND UNCERTAINTIES

An investment in the Enablence common shares is subject to a variety of risks. The Company operates in a rapidly changing environment that involves risks and uncertainties that could materially affect the Company's future results and could cause them to differ materially from those described in forward-looking statements relating to the Company. An investment in Enablence common shares is speculative and involves a high degree of risk and uncertainty. The current global economic uncertainty poses additional risks and uncertainties that may materially affect management's expectations. Any investor should also consider carefully these risks and the risks and uncertainties that are detailed below and available as part of the Company's continuous disclosure record available at www.sedar.ca.

The following are the principal risk factors relating to Enablence and its business:

Significant Future Capital Requirements; Need for Significant Additional Financing
The Company's future capital requirements will be significant. There can be no assurances that the Company will be able to raise the additional funds (on commercially reasonable terms, or at all) that it will need to develop and produce its products on a volume basis and remain competitive in its markets. Any inability to obtain additional financing when needed would have a material adverse effect on the Company. In addition, any additional equity financing or conversion of debt obligations may involve substantial dilution to Company's then existing shareholders.

The Company's revenue and operating results can be difficult to predict and can fluctuate substantially, which may harm its results of operations and cash flows
The Company's revenue is difficult to forecast and is likely to fluctuate significantly from quarter to quarter. In addition, the Company's operating results may not follow any past trends. The Company's quarterly revenue is generally dependent upon conversion of opportunities in the sales pipeline during the quarter. As a result, revenues and operating results can be difficult to predict and can fluctuate substantially. Accordingly, Enablence must build inventory based in part on its revenue forecast in order to meet delivery requirements for a major portion of its short lead-time orders. The factors affecting the Company's revenue and results, many of which are outside of its control, include:

- lack of long-term purchase commitments from customers;
- competitive conditions in the industry, including strategic initiatives by the Company or its competitors, new products, product announcements and changes in pricing policy by the Company or its competitors
- market acceptance of the Company's products;
- the Company's ability to maintain existing relationships and to create new relationships with customers;
- the discretionary nature of purchase and budget cycles of the Company's customers;
- the length and variability of the sales cycles for the Company's products;
- strategic decisions by the Company or its competitors, such as acquisitions, divestitures, spin-offs, strategic investments or changes in business strategy; and
- timing of product development and new product initiatives.

The Company's gross margin and operating results may be adversely affected by lower pricing required to compete successfully and/or if its product cost targets cannot be achieved
The intensely competitive market in which the Company conducts its business may require the Company to reduce its prices. If the Company's competitors offer deep discounts on certain products or services in an effort to recapture or gain market share or to sell other products and services, the Company may be required to lower prices or offer other favourable terms to compete successfully. Any such changes or actions would reduce the Company's margins and could adversely affect the Company's operating results. Many of the Company's competitors have significantly greater financial, technical, marketing or service resources than the Company. Many of these competitors also have a larger installed base of products, have longer operating histories or have greater name recognition than the Company.

Customers and prospective customers of the Company are generally concerned that their suppliers will continue to operate and provide product support, maintenance and warranty services.

The Company's ability to compete successfully depends on a number of factors, including:

- the successful identification and development of new products for the Company's core market;
- the Company's ability to anticipate customer and market requirements and changes in technology and industry standards in a timely manner;
- the Company's ability to gain access to and use technologies in a cost-effective manner;
- the Company's ability to introduce cost-effective new products in a timely manner;
- the Company's ability to differentiate its products from its competitors' offerings;
- the Company's ability to gain customer acceptance of its products;
- the performance of the Company's products relative to its competitors' products;
- the Company's ability to market and sell the Company's products through effective sales channels;
- the Company's ability to establish and maintain effective internal financial and accounting controls and procedures;
- the protection of the Company's intellectual property, including its processes, trade secrets and know-how; and
- the Company's ability to attract and retain qualified technical, executive and sales personnel.

Inventory Management

Lead times for the materials and components that the Company orders through its contract manufacturers may vary significantly and depend on numerous factors, including the specific supplier, contract terms and market demand for a component at a given time. If the Company overestimates its production requirements, its contract manufacturers may purchase excess components and build excess inventory. If the Company's contract manufacturers purchase excess components that are unique to its products or build excess products, the Company could be required to pay for these excess parts or products and recognize related inventory write-down costs. If the Company underestimates its product requirements, its contract manufacturers may have inadequate component inventory, which could interrupt manufacturing of its products and result in delays or cancellation of sales. In prior periods the Company has experienced excess and obsolete inventory write-downs which impact the Company's cost of revenue. This may continue in the future, which would have an adverse effect on the gross margins, consolidated financial condition and consolidated results of operations of the Company.

Accounts Receivable Management

In certain instances, the Company is limited in its ability to evaluate the creditworthiness of direct customers who decline to provide it with financial information. Any collection problems the Company may experience with these customers could have an adverse impact on the business, operating results, or financial condition of the Company. Any material collection issues with the Company's customers could result in increases in bad debt expense or collection costs, inventory impairments, or adjustments to its reported revenues or deferred revenues, any of which could adversely affect the results of operations of the Company and could result in a decline in the price of the Common Shares.

Dependence on Third Party Suppliers

The Company relies heavily on its suppliers and contract manufacturers. If third party suppliers or manufacturers lack sufficient quality control or if there are significant changes in the financial or business conditions of such third parties, it may have a material adverse effect on the Company's business. The Company's profit margins and time to market may be affected by factors beyond its immediate control. The Company's products also use other customized components that are procured from third parties. The performance and ability of these suppliers and the performance of their components are critical to its success. The hybridization of these active components onto the Company's PLC platform requires specialized equipment, the capacity of which cannot be assured through its outsourcing suppliers. Certain packaging of the Company's components is performed through contract manufacturers, and it relies on their ability to achieve the Company's pricing and capacity requirements.

International Operations

The Company generates a significant portion of its sales from customers outside of North America, including emerging markets, and is executing on a strategy to expand sales to more international markets, in part through its joint venture arrangements in China. Regulations or standards adopted by other countries may require the Company to redesign its existing products or develop new products suitable for sale in those countries. If the Company invests substantial time and resources to expand its international operations and is unable to do so successfully and in a timely manner, the business, financial condition and results of operations of the Company will suffer. In the course of expanding the Company's international operations and operating overseas, it will be subject to a variety of risks, including:

- differing regulatory requirements, including tax laws, trade laws, labour regulations, tariffs, export quotas, custom duties or other trade restrictions and changes thereto;
- greater difficulty supporting and localizing the Company's products;
- different or unique competitive pressures as a result of, among other things, the presence of local equipment suppliers;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs;
- limited or unfavourable intellectual property protection;
- changes in a specific country's or region's political or economic conditions; and
- restrictions on the repatriation of earnings.

Managing Growth

The Company pursues a growth strategy that focuses on organic growth. The Company has undertaken several acquisitions in prior years to allow the Company to expand its product offerings and customer base, and may do so in the future. While the Company has no active plans to acquire other companies, the success with which the Company can integrate companies acquired in the future will be critical in achieving the benefits from them. Failure to properly integrate and save costs and achieve market leadership based on these acquisitions may hinder the Company's ability to be successful in its growth plans. On-going plans for further acquisitions will also be dependent on the Company's ability to fund an acquisition, identify suitable acquisition candidates, acquire such companies on acceptable terms, integrate the acquired operations and technology of such companies successfully with its own and maintain the goodwill of the acquired business. The Company is unable to predict whether it will be able to identify further suitable additional acquisition candidates or the likelihood that these potential additional acquisitions will be completed. In addition, efforts to integrate acquisitions entail significant risks including, but not limited to, the possibility that the operations of the acquired business will not be profitable, diversion of the attention of the Company's management from day-to-day operation of the Company's business and the assumption of significant and/or unknown liabilities of the acquired business. An unsuccessful acquisition could reduce the Company's margins or otherwise harm its financial condition. Acquisitions could result in a dilutive issuance of equity securities, the incurrence of debt and the loss of key employees. The Company cannot ensure that the acquisitions made to date will be successfully integrated and future acquisitions will be successfully completed or that, if more acquisitions are completed, the acquired businesses, products or technologies will be integrated successfully or generate sufficient revenues to offset the associated costs of the acquisitions or other adverse effects.

Uncertain Global Economic Conditions

Current conditions in the domestic and global economies are uncertain. There continues to be a high level of market instability and market volatility with unpredictable and uncertain financial market projections. The impacts of a global recession or depression will have consequences on the Company's operations in North America and globally, preventing the roll out of optical network deployments or other consequences such as the costs of such roll outs, unavailability of funds for roll outs of new products, or upgrades of the curtailment of expenditures on new optical infrastructure. Global financial problems and lack of confidence in the strength of global financial institutions have created many economic and political uncertainties that have impacted the global economy. As a result, it is difficult to estimate the level of growth for the world economy as a whole. It is even more difficult to estimate growth in various parts of the world economy, including the markets in which the Company participates. All components of the Company's budgeting and forecasting are dependent on estimates of growth of the optical components market and the widespread acceptance of PLC technology throughout the world. The prevailing economic uncertainties render estimates of future income and expenditures difficult.

Political, Economic and Other Risks of Operations in China

The Company is setting up operations in China, as such the Company is subject to political, economic and social risks relating to operating in a foreign jurisdiction, these risks including: (i) nationalization, expropriation of assets or property with or without compensation, forced modification or cancellation of existing contracts, (ii) currency fluctuations and devaluations, unfavourable tax enforcement, changing political conditions, political unrest and civil strife, (iii) changes in governmental regulations or policies with respect to currency, production, price controls, profit repatriation, export controls, labour, taxation, trade, environmental and health and safety matters. Any of these risks could have a material adverse effect on business, results of operations and financial performance of the Company.

Difficulty in enforcement of judgements
Significant assets of the Company are located outside of Canada. Accordingly, it may be difficult for investors to enforce within Canada any judgments obtained against the Company, including judgments predicated upon the civil liability provisions of applicable Canadian securities laws. Consequently, investors may be effectively prevented from pursuing remedies against the Company under Canadian securities laws or otherwise.

The Company previously had a joint venture incorporated in China and the joint venture operations were conducted in China. The Company also has a number of subsidiaries incorporated in the United States. Certain directors and officers, including our President and Chief Executive Officer and our Chief Financial Officer, reside outside of Canada, namely in the United States and in China, and substantially all of the assets of these persons are located outside of Canada. It may not be possible for shareholders to effect service of process against the Company's directors and officers who are not resident in Canada. In the event a judgment is obtained in a Canadian court against one or more of our directors or officers for violations of Canadian securities laws or otherwise, it may not be possible to enforce such judgment against those directors and officers not resident in Canada. Additionally, it may be difficult for an investor, or any other person or entity, to assert Canadian securities law claims or otherwise in original actions instituted outside of Canada. Courts in such jurisdictions may refuse to hear a claim based on a violation of Canadian securities laws or otherwise on the grounds that such jurisdiction is not the most appropriate forum to bring such a claim. Even if a foreign court agrees to hear a claim, it may determine that the local law, and not Canadian law, is applicable to the claim. If Canadian law is found to be applicable, the content of applicable Canadian law must be proven as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by foreign law.

Market Opportunities
The demand for the Company's products depends in large part on the continued growth of the industries in which it participates, particularly in the deployment of long haul, metro and FTTH markets. A market decline could have an adverse effect on the Company's business. The speed of FTTH deployment may be affected by numerous factors including regulatory changes and general economic conditions. The rate at which the portions of the telecommunications industry and the FTTH market in which the Company participates grow is critical to its ability to meet expectations and improve the Company's financial performance.

Sales Cycles are Long and Unpredictable
The timing of the Company's revenues is difficult to predict. The Company's sales efforts often involve educating its customer base about the use and benefits of its products. The Company's customers often undertake a significant evaluation process, which frequently involves not only the Company's products but also those of its competitors and this can result in a long sales cycle. The Company spends substantial time, effort and money in its sales efforts without any assurance that its efforts will produce any sales. In addition, product purchases are frequently subject to budget constraints, multiple approvals and unplanned administrative, processing and other delays. If sales from a specific customer for a particular quarter are not realized in that quarter or at all, the Company may not achieve its revenue forecasts and its business could be materially and adversely affected.

Dependence on Key Customers
A limited number of customers account for a large percentage of the Company's revenue within any given period. The Company expects that a significant portion of its revenues will continue to be derived from a small number of customers. These customers could reduce their purchasing levels or cease buying products from the Company at any time and for any reason. If the Company does not effectively respond to the demands of its customers, they could decrease their purchases from the Company, causing the Company's sales and profits to decline. If the Company ceases doing business with a significant customer or if sales of its products to a significant customer materially decrease, it could have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, as a result of a significant volume of revenue being generated with any particular customer(s), there is the risk of trade accounts receivable being concentrated to a limited number of customers, whereas any delays or non-payment of such trade accounts receivable, could have a negative impact on the Company's liquidity and/or the Company's cash available to support business operations.

Customer Spending Patterns

Demand for the Company's products depends on the magnitude and timing of capital spending by telecom network and service providers as they construct, expand and upgrade their networks. The Company sells its components to customers that sell to the telecom service providers.

Other factors affecting the capital spending patterns of telecom service providers include the following:

- competitive pressures, including pricing pressures;
- consumer demand for new services;
- an emphasis on generating sales from services delivered over existing networks instead of new network construction or upgrades;
- the timing of annual budget approvals;
- evolving industry standards and network architectures;
- free cash flow and access to external sources of capital; and
- completion of major network upgrades.

Competitive Pressures

Competition in the Company's markets is intense, and the Company expects competition to increase. The market for optical components and subsystems is susceptible to price reductions among competitors seeking relationships with large multinational, well-capitalized businesses.

New products may be slow to be accepted into the market or may not be accepted at all. The Company is constantly exposed to the risk that its competitors may implement new technology before the Company does, or may offer lower prices, additional products or services or other incentives that Enablence cannot and will not offer. The Company can give no assurances that it will be able to compete successfully against existing or future competitors.

The Company's ability to compete successfully depends on a number of factors, including:

- the successful identification and development of new products for the Company's core market;
- the Company's ability to anticipate customer and market requirements and changes in technology and industry standards in a timely manner;
- the Company's ability to gain access to and use technologies in a cost-effective manner;
- the Company's ability to introduce cost-effective new products in a timely manner;
- the Company's ability to differentiate its products from its competitors' offerings;
- the Company's ability to gain customer acceptance of its products;
- the performance of the Company's products relative to its competitors' products;
- the Company's ability to market and sell the Company's products through effective sales channels;
- the Company's ability to establish and maintain effective internal financial and accounting controls and procedures;
- the protection of the Company's intellectual property, including its processes, trade secrets and know-how; and
- the Company's ability to attract and retain qualified technical, executive and sales personnel.

Many of the Company's existing and potential competitors are larger than the Company, with longer operating histories and substantially greater financial, technical, marketing or other resources, significantly greater name recognition, and a larger installed base of customers. Unlike some of the Company's competitors, the Company does not provide equipment financing to potential customers. In addition, many of the Company's competitors have broader product lines than it does, so they can offer bundled products, which may appeal to certain customers.

The products that the Company and its competitors sell require a substantial investment of time and funds for our customers to design into their products. Customers are typically reluctant to switch component suppliers once a particular supplier's product has been designed in. As a result, competition among component suppliers to secure contracts with potential customers is particularly intense and will continue to place pressure on product pricing. Some of the Company's competitors have resorted in the past, and may resort in the future, to offering substantial discounts to win new customers and generate cash flows. If the Company is forced to reduce prices in order to secure customers, the Company may be unable to sustain gross margins at desired levels or achieve profitability.

Product Defects and Warranty Obligations

Although the Company's products are tested prior to shipment, they may contain defects or interoperability issues (collectively described as "defects") that may only be detected when tested in the final product of our customer. In addition, defects or other malfunctions or quality control issues may not appear until the equipment has been deployed for an extended period of time. The Company also continues to introduce new products that may have undetected defects. The Company's customers may discover defects in its products at any time after deployment or as their networks are expanded and modified. Any defects in the Company's products discovered in the future, could result in lost sales and market share and negative publicity regarding its products. The Company provides limited warranties on its products. As a result, warranties on a product with a significant product defect could adversely affect the results of operations of the Company.

Product Development and Technological Change

The markets for the Company's products are characterized by rapidly changing technologies, frequent new product introductions and evolving industry standards. The Company's success will depend, in substantial part, on the timely and successful introduction of products and upgrades to those products to comply with emerging industry standards and to address competing technological and product developments carried out by its competitors. The research and development of technologically advanced products is a complex and uncertain process requiring high levels of innovation as well as the accurate anticipation of technological and market trends. The Company may focus its resources on technologies that do not become widely accepted and are not commercially viable. In addition, products may contain defects that are detected only after deployment. If the Company's products are not competitive or do not work properly, its business will suffer. The Company's products are also intended to replace current technologies. Any improvements in the costs of production of current products in the market can negatively impact the Company's margins and its competitive position in the marketplace with prices for its products falling and reducing profit margins.

Product Obsolescence

The Company's market is characterized by rapid technological advances, frequent new product introductions, evolving industry standards and recurring changes in end-user requirements. The Company's future success will depend significantly on its ability to anticipate and adapt to such changes and to offer, on a timely and cost-effective basis, products and features that meet changing customer demands and industry standards. The timely development of new or enhanced products is a complex and uncertain process, and the Company may not be able to accurately anticipate market trends or have sufficient resources to successfully manage long development cycles. The Company may also experience design, manufacturing, marketing and other difficulties that could delay or prevent the development, introduction or marketing of new products. The introduction of new or enhanced products also requires that the Company manages the transition from older products to these new or enhanced products in order to minimize disruption in customer ordering patterns and ensure that adequate supplies of new products are available for delivery to meet anticipated customer demand. If the Company is unable to develop new products or enhancements to its existing products on a timely and cost-effective basis, or if the new products or enhancements fail to achieve market acceptance, the business, consolidated financial condition and consolidated results of operations of the Company would be materially and adversely affected.

Development Stage Products and Customer Expectations

The Company may not be able to successfully demonstrate high yields on large volume production of its components and meet all of the specification requirements of all products in accordance with industry requirements for all of its product lines. There may be potential quality issues on the manufacture of these products resulting from the way the products are designed or manufactured or in the processes used for the design and manufacture of the product(s), or from the software or materials used in the product(s). These factors may cause delays in availability and shipping of products to potential customers, or even the cancellation of orders by customers. Quality issues in the products may have legal and financial implications for the Company, including delays in revenue recognition, loss of revenue or future orders, customer-imposed penalties for failure to meet contractual shipment deadlines, increased costs associated with repairing or replacing products, and a negative impact on goodwill and brand name reputation and higher manufacturing costs.

Intellectual Property
The Company depends on its proprietary technology for its success and ability to compete. The Company currently holds several issued patents and has several patent applications pending. The Company relies on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality agreements and licensing arrangements, to establish and protect its proprietary rights. Existing patent, copyright, trademark and trade secret laws will afford the Company only limited protection. In addition, the laws of some foreign countries do not protect proprietary rights to the same extent as do the laws of Canada. The Company cannot be assured that any pending patent applications will result in issued patents, and issued patents could prove unenforceable. Any infringement of the Company's proprietary rights could result in significant litigation costs. Further, any failure by the Company to adequately protect its proprietary rights could result in the Company's competitors offering similar products, resulting in the loss of its competitive advantage and decreased sales.

Despite the Company's efforts to protect its proprietary rights, attempts may be made to copy or reverse engineer aspects of its products, or to obtain and use information that the Company regards as proprietary. Accordingly, the Company may be unable to protect its proprietary rights against unauthorized third party copying or use. Furthermore, policing the unauthorized use of the Company's intellectual property would be difficult. Litigation may be necessary in the future to enforce the Company's intellectual property rights, to protect its trade secrets or to determine the validity and scope of the proprietary rights of others. Litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the business, consolidated financial condition and consolidated results of operations of the Company.

Intellectual Property Litigation
The Company may be subject to intellectual property infringement claims that are costly to defend and could limit the Company's ability to use some technologies in the future. The Company's industry is characterized by frequent intellectual property litigation based on allegations of infringement of intellectual property rights. From time to time, third parties have asserted against the Company, and may assert against it in the future, patent, copyright, trademark or other intellectual property rights to technologies or rights that are important to the business. In addition, the Company has agreed, and may in the future agree, to indemnify its customers for any expenses or liabilities resulting from claimed infringements of patents, trademarks or copyrights of third parties. Any claims asserting that the Company's products infringe, or may infringe on, the proprietary rights of third parties, with or without merit, could be time-consuming, resulting in costly litigation and diverting the efforts of management. These claims could also result in product shipment delays or require the Company to modify its products or enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available to the Company on acceptable terms, if at all.

Currency Fluctuations may Adversely Affect the Company
A substantial portion of the Company's operating costs are recognized in currencies other than US$, specifically the Canadian dollar, and in the China JV, in China Yuan Renminbi. The Company carries certain monetary assets and liabilities in these and other currencies, which differ from the Company's US dollar base reporting currency. Fluctuations in the exchange rate between these currencies and the US dollar may have a material adverse impact on the Company's business, financial condition and operating results. The Company' China JV expects to have a natural currency hedge with its RMB revenues offsetting its RMB operating costs.

Earnings History
The Company has incurred significant losses since its inception. The Company may continue to incur losses during the current and following fiscal years. The Company cannot predict with certainty that it will not continue to incur losses or experience negative cash flow in the future. The Company's continued inability to generate positive operating income and cash flow would materially and adversely affect the liquidity, consolidated results of operations and consolidated financial condition of the Company.

A significant portion of the Company's expenses is fixed, and the Company expects to continue to incur significant expenses for research and development, sales and marketing, and general and administrative functions. Given the rate of growth in the Company's customer base, its limited operating history and the intense competitive pressures it faces, the Company may be unable to adequately control operating costs. In order to achieve and maintain profitability, the Company must increase sales while maintaining control over expense levels.

Key Personnel
Competition for skilled personnel, particularly those specializing in engineering and sales, is intense. The Company cannot be certain that it will be successful in attracting and retaining qualified personnel, or that newly hired personnel, will function effectively, either individually or as a group. In addition, the industry is characterized by frequent claims relating to unfair hiring practices. The Company may become subject to such claims and may incur substantial costs in defending the Company against these claims, regardless of their merits. If the Company is unable to effectively hire, integrate and utilize new personnel, the execution of its business strategy and its ability to react to changing market conditions may be impeded, and the business, financial condition and results of operations of the Company could be materially and adversely affected.

Changes in Accounting and Tax Rules
The Company is subject to numerous tax and accounting requirements, and changes in existing accounting or taxation rules or practices, or varying interpretations of current rules or practices, could have a material adverse effect on the financial results of the Company or the manner in which the Company conducts its business. Requirements as to taxation vary substantially among the jurisdictions in which the Company operates. Complying with the tax laws of these jurisdictions can be time consuming and expensive and could subject the Company to penalties and fees if it inadvertently fails to comply. In the event the Company inadvertently fails to comply with applicable tax laws, it could have a material adverse effect on the business, results of operations, and financial condition of the Company.

Changes in Government Policy
The Company's results may be affected by changes in trade, monetary and fiscal policies, laws and regulations, or other activities of the Canadian and foreign governments, agencies and similar organizations. The Company's results may be affected by social and economic conditions that impact its operations, including in emerging markets in Asia and in markets subject to ongoing political hostilities.

Share Price Volatility
The Common Shares trade on the TSX-V; however, the Company cannot predict the extent to which investor interest will lead to the development of an active and liquid trading market in its common shares and it is possible that an active and liquid trading market will not develop or be sustained. Some companies that have volatile market prices for their securities have had securities class action lawsuits filed against them. If a lawsuit were to be filed against the Company, regardless of its outcome, it could result in substantial costs and a diversion of management's attention and resources.

The price of Common Shares may fluctuate in response to a number of events, including but not limited to:

- its quarterly operating results;
- sales of the Company's common shares by a principal shareholder;
- future announcements concerning the business of the Company or of its competitors;
- the failure of securities analysts to cover the Company and/or changes in financial forecasts and recommendations by securities analysts;
- actions of the Company's competitors;
- actions of the Company's suppliers;
- actions of directors and officers regarding purchase and sale of shares;
- the volatility of the telecommunications and technologies markets as a whole;
- general market, economic and political conditions;
- natural disasters, terrorist attacks and acts of war; and
- the other risks described in this section.