ENABLENCE TECHNOLOGIES INC.

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

FOR THE YEAR ENDED JUNE 30, 2017

DATED: OCTOBER 26, 2017

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, 2017 compared to June 30, 2016 and results of operations for the year ended June 30, 2017 compared to the year ended June 30, 2016.

This MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes for the years ended June 30, 2017 and 2016. 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 26, 2017.

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

Subsequent to June 30, 2017, the Company received $200,000 in unsecured short term bridge loans from a related party with interest accruing at a rate of 10%.

Subsequent to June 30, 2017, the Company received an principal repayment extension from EDC resulting in the first monthly principal repayment being deferred to commence in March 2018.

SELECTED FISCAL YEAR INFORMATION

Statement of Operations Data	Year ended June 30		
	2017	2016	2015
Revenue	**$3,447**	$1,623	$2,047
Gross margin	**(729)**	(2,324)	(4,096)
Operating expenses	**7,413**	6,107	6,166
Operating loss	**(8,142)**	(8,431)	(10,262)
Net loss	**(8,631)**	(8,893)	(10,613)
Basic and diluted loss per share:			
Net loss	**($0.02)**	($0.02)	($0.06)

Balance Sheet Data	As at June 30		
	2017	2016	2015
Total assets	**$9,628**	$3,097	$4,050
Total liabilities	**14,046**	5,787	9,651
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 lightwave circuit ("PLC") intellectual property, know-how and trade secrets in the production of an array of photonic components. The Company's product lines address: access - connecting homes and businesses to the network; metro - communication rings within cities of different sizes; and long-haul - linking cities, countries and continents. The Company offers leading expertise in transmission, switching & routing, wavelengths management, and signal performance management for networks ranging from 1.25 to 100 gigabits per second. The Company's current product line includes multiple wavelength channel transmission and receiving optical subassembly (TOSA/ROSA), and wavelength management products. The Company is expanding its TOSA/ROSA production capacity by collaborating with a manufacturing partner. The 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 trans-impedance amplifiers) onto one silicon based platform, which forms a hybrid 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, cloud data centres, sensor systems, biomedical and aerospace applications.

RESULTS OF OPERATIONS

Summary of Fourth Quarter Results

The Company reported revenues of $1,236 for the quarter ended June 30, 2017 as compared to $738 for the prior quarter ended March 31, 2017, an increase of 67%. The increase was primarily due to higher sales volumes of our TOSA/ROSA product to existing customers in the current quarter. The Company reported a net loss from operations of $2,454 for the quarter ended June 30, 2017 as compared to $2,183 for the quarter ended March 31, 2017. The increase in the loss was due to increased operating expenses to support new product development.

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, 2016 and subsequent quarters has been taken from our unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the unaudited consolidated financial statements for the fiscal period ended June 30, 2017.

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 2015	31-Dec 2015	31-Mar 2016	30-Jun 2016	30-Sep 2016	31-Dec 2016	31-Mar 2017	30-Jun 2017
Revenue	$ 205	$ 194	$ 544	$ 680	$ 548	$ 925	$ 738	$ 1,236
Gross Margin	(692)	(665)	(247)	(720)	(175)	(137)	(246)	$ (171)
GM %	(337.6%)	(342.8%)	(45.4%)	(105.9%)	(31.9%)	(14.8%)	(33.3%)	(13.8%)
Expenses								
Research & development	656	710	1,177	1,227	1,134	1,040	1,027	1,414
Sales & marketing	1	-	1	9	6	7	69	79
General & administration	397	454	704	509	535	558	532	712
Stock-based compensation	40	39	71	112	84	82	81	53
Expenses	1,094	1,203	1,953	1,857	1,759	1,687	1,709	2,258
Operating loss	(1,786)	(1,868)	(2,200)	(2,577)	(1,934)	(1,824)	(1,955)	(2,429)
Other expense	(146)	(16)	(24)	(316)	(94)	(127)	(217)	(44)
Gain on settlement of debt	-	-	-	176	-	-	-	-
Loss on sale of equipment	-	-	(127)	-	-	-	-	-
Foreign exchange (loss) gain	(37)	3	17	8	(1)	(14)	(11)	19
Net loss	(1,969)	(1,881)	(2,334)	(2,709)	(2,029)	(1,965)	(2,183)	(2,454)
Weighted average shares outstanding	232,881	376,962	469,858	395,085	509,071	515,707	560,541	589,403
Basic and diluted income (loss) per share								
Continuing operations	($0.01)	($0.01)	($0.01)	($0.01)	$0.00	($0.01)	$0.00	($0.01)
Adjusted EBITDA(1)	(1,491)	(1,583)	(1,888)	(2,406)	(1,710)	(1,617)	(1,685)	(2,163)

(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 2015	31-Dec 2015	31-Mar 2016	30-Jun 2016	30-Sep 2016	31-Dec 2016	31-Mar 2017	30-Jun 2017
Net loss for the period	(1,969)	(1,881)	(2,334)	(2,709)	(2,029)	(1,965)	(2,183)	(2,454)
Add (deduct):								
Net interest and other expense	146	16	24	316	94	127	217	44
Amortization	255	246	241	59	140	125	189	213
Gain on settlement of debt	-	-	-	(176)	-	-	-	-
Loss on sale of equipment	-	-	127	-	-	-	-	-
Foreign exchange (gain) loss	37	(3)	(17)	(8)	1	14	11	(19)
Stock-based compensation expense	40	39	71	112	84	82	81	53
"Adjusted EBITDA"	(1,491)	(1,583)	(1,888)	(2,406)	(1,710)	(1,617)	(1,685)	(2,163)

SUMMARY OF RESULTS FOR THE YEAR ENDED JUNE 30, 2017 COMPARED TO THE YEAR ENDED JUNE 30, 2016

The following table sets forth a summary of key earnings information from our consolidated financial statements for the years ended June 30, 2017 and 2016.

	Year ended June 30, 2017	Year ended June 30, 2016	Increase (decrease)	
Revenues	**$ 3,447**	$ 1,623	$ 1,824	112.4%
Cost of revenues	**4,049**	2,825	1,224	43.3%
Loss on inventory impairment	**127**	1,122	(995)	(88.7%)
Gross margin	**(729)**	(2,324)	1,595	(218.8%)
	(21.1%)	*(143.2%)*		
Operating expenses:				
Research and development	**4,615**	3,770	845	22.4%
Sales and marketing	**161**	11	150	1363.6%
General and administrative	**2,337**	2,064	273	13.2%
Stock based compensation	**300**	262	38	14.5%
Total operating expenses	**7,413**	6,107	1,306	21.4%
Loss from operations	**(8,142)**	(8,431)	289	(3.4%)
Other income (expenses):				
Finance and other income	**34**	41	(7)	
Finance expense	**(516)**	(298)	(218)	42.2%
Write-off of equipment deposit	**-**	(245)		
Foreign exchange loss	**(7)**	(9)	2	
Gain on settlement of debt	**-**	176		
Loss on sale of equipment	**-**	(127)	127	
Net loss	**(8,631)**	(8,893)	262	(3.0%)
Other comprehensive income (net of tax):			-	
Foreign currency translation gain	**117**	230	(113)	(96.6%)
Comprehensive loss	**$ (8,514)**	$ (8,663)	$ 149	(1.8%)

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, 2017 in terms of the Canadian dollar equivalent of US$1 was CAD $1.33 (2016 – CAD $1.33).

REVENUES

Revenue for the year ended June 30, 2017 was $3,447 as compared to $1,623 for the prior year, an increase of $1,824 or 112%. The increase in the current year is primarily due to the increase in sales of the Company’s new TOSA/ROSA product.

During the year ended June 30, 2017, one customer accounted for 65% of the Company’s total revenue. During the year ended June 30, 2016, four customers account for 88% of the Company’s total revenue (26%, 23%, 21% and 18% individually).

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

	2017	2016
	$	$
Americas	**271**	238
Europe, Middle East, Africa	**484**	645
Asia Pacific	**2,692**	740
	3,447	1,623

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, 2017 was ($729) as compared to ($2,324) for the prior year. This improvement in gross margin is due to an increase in revenues from the 10x10 product, lower amortization costs and less inventory write-offs when compared to the prior year.

OPERATING EXPENSES

R&D expense for the year ended June 30, 2017 was $4,615 as compared to $3,770 for the prior year, a increase of $845 or $22%. The increase arises from the costs of R&D service providers including a related party who assists in cost reductions and new product development.

Sales & Marketing expense for the year ended June 30, 2017 was $161 as compared to $11 for the prior year. The increase relates to sales and marketing activities associated with the new products.

General & Administration expense for the year ended June 30, 2017 was $2,337 as compared to $2,064 for the prior year, a increase of $273 or 13%. The increase is primarily an increase in supply chain and finance staff costs during the current year as compared to the prior year.

Stock-based compensation expense for the year ended June 30, 2017 was $300 as compared to $262 for the prior year, a increase of $38 or 15%. The higher expense in the current year is mainly related to expensing of options granted in February 2016 and December 2016.

FINANCE AND OTHER INCOME

Enablence invests cash and cash equivalents in short-term investments with financial institutions. Interest income is a function of prevailing interest rates and the amount of funds invested.

FINANCE EXPENSE

Interest and finance expense for the year ended June 30, 2017 was $516 as compared to $298 for the prior year, a increase of $218 or 42%.

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.

The increase primarily relates to interest on the increased level of term debt provided by the EDC loan facility. The prior periods balance included transaction fees associated with the acquisition of the secured bank debt by the Consortium on August 21, 2015 and associated with initiating the loan facility with EDC.

The table below sets out the Notes Payable balances outstanding:

	2017	2016
	$	$
Short-term Loans (a) and (c)	**1,194**	11
Loan from Export Development Canada (b)	**3,856**	1,698
	5,050	1,709
Less current portion	**3,472**	11
Long-term portion	**1,578**	1,698

(a) During the fiscal year ended June 30, 2017, the Company obtained non-interest bearing, unsecured short-term loans in the amount of $5,231 CAD from certain related and unrelated parties of which $1,755 CAD of the loan was repaid during the year, $385 was converted to equity, $1,156 was exchanged for a convertible debenture, leaving an unpaid balance of $1,194 ($1,549 CAD) at June 30, 2017. The exchange of debt instruments represented a substantial modification to the terms of the existing liability. As a result it was accounted for as a modification. No gain or loss was recognized on the modification. On April 1, 2017, the terms of the loan were changed to start accruing interest at the rate of 10% per annum. The remaining balance of $1,194 at June 30, 2017 was repaid in early July 2017 which included principal of $1,138 and interest of $56.

(b) On March 3, 2016, the Company closed a secured term loan facility with Export Development Canada (“EDC”) of $3 million CAD. In August 2016, the loan facility was increased to $5 million CAD. 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 the initial draw down which was in March 2016. 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 (see Subsequent Events). Interest is payable monthly at the rate of prime plus 10% resulting in a rate of 12.7% at June 30, 2017 (June 30, 2016 -12.7%). The loan facility is secured against all of the assets of the Company and is guaranteed by the Company’s subsidiaries. At June 30, 2017 the principal amount drawn on the EDC term facility is $3,832 plus interest accrued of $24.

(c) During the quarter ended September 30, 2014, the Company received short-term, non-interest bearing, unsecured bridge loans (“Bridge Loan”) in the amount of CAD$720 from certain related and unrelated parties of which CAD$420 was provided by companies controlled by directors of the Company. The companies that provided the Bridge loan were issued 4,800 warrants exercisable at a price of $0.15 which expired on September 25, 2015. During the year ended June 30, 2016, CAD$214 of the loan was repaid. CAD$92 of the Bridge loan was converted to common shares on October 23, 2015 and another CAD$200 was replaced by an interest bearing promissory note. The remaining balance of $11 (CAD$14) was paid during the fiscal year ended at June 30, 2017.

LOSS ON SALE OF EQUIPMENT

During the prior year, the Company reported a loss of $127 on the sale of certain unused equipment to the Company’s contract manufacturer in China for use in the manufacturing of Enablence’s 10x10 product.

GAIN ON SETTLEMENT OF DEBT

During the prior 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 the Company recorded a foreign exchange loss of $7 as compared to a gain of $9 in the prior year.

INCOME TAXES

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

NET LOSS

The net loss from operations for the year ended June 30, 2017 was $8,631 as compared to $8,893 for the prior year, a decrease of $262 of 3%.

FOREIGN CURRENCY TRANSLATION GAIN

During the year ended June 30, 2017, the Company recorded a foreign currency translation gain of $117 as compared to a gain of $230 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, 2017	Year ended June 30, 2016
Basic and diluted loss per common share:		
From continuing operations	$(0.02)	$(0.02)
Weighted Average Number of Common Shares	543,306	395,085

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

OUTLOOK

The Company's financial position continues to remain challenged. The Company will need to raise additional financing to carry out its business plan. 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, and related party, in conjunction with the closing of equity financing of CAD$4.6 million from the same 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 over time. 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.

For the year ended June 30, 2017, a significant portion of our revenue was generated from the sale of our TOSA/ROSA products. These products are the first products we have commercialized that utilize our unique hybrid integration technology. Current sales volumes are however, constrained by manufacturing capacity. The contract manufacturer that we have engaged with has not yet been able to produce our product in sufficient quantities to meet the product volume requirements of our customer. Revenue growth is dependent upon either increases in production quantities at our current contract manufacturer or through the introduction of an additional contract manufacturer.

During the third calendar quarter of 2017, our new subsidiary in China, Suzhou Enablence Optoelectronic Technologies Co, Ltd., commenced operations. This facility will allow us to expand chip processing capacity, reduce chip manufacturing costs and allow us to provide better customer service. As a result, our chip production cost is expected to be reduced significantly due to lower labor costs and enhanced production procedures. We will continue to reduce our production costs along with improving our progress in process automation and capacity expansion.

Driven by the global trend in datacenter construction, we are seeing growing demand for PLC chips as well as TOSA/ROSA for use in datacenter transceiver modules. We believe that our PLC platform and proprietary PIC technology enable cost effective solutions to meet the rapid growth in datacenter transceivers demand. Our ability to develop low cost datacenter solutions, as well as securing customer orders for data center applications, is important for us to diversify our revenue stream and to achieve financial success in this new emerging datacenter marketplace.

Assuming the immediate financing requirements are achieved, we expect that over the next few quarters, our financial status will continue to 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.

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, 2017 the Company secured convertible debenture financing of $5,780 ($7,500 CAD, see Convertible Debenture financing below), new equity investments of $3,730, warrant exercises of $1,591 and an $2,000 increase in a loan facility designed to finance customer purchase orders (*see Finance Expense section above as well as details below*). In addition the Company received short term bridge financing during the year which was partially converted to equity and convertible debentures by June 30, 2017.

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, 2017, there are 621,928 common shares and no preferred shares outstanding.

Convertible Debenture financing during current fiscal year

On June 30, 2017 the Company issued a total of $5,780 ($7,500 CAD) of unsecured convertible debentures (the "Debentures") of which $4,624 of the Debentures were issued through a private placement for cash, and $1,156 were issued as a result of a debt settlement agreement with a creditor to settle outstanding short term loans received by the Company during the year. The Debentures bear interest at a rate of 10% per annum, are payable quarterly commencing on September 30, 2017, and are convertible, at the option of their holder, into common shares of the Company (the "Shares") at a price of $0.08 CAD per Share. The Debentures mature on June 30, 2020.

As the Debentures are convertible into common shares at the option of the holder, they have been accounted for into their component parts. Management has determined the fair value of the Company's liability to make future payments of principal and interest to be $4,694 and the fair value of the holders' conversion option to be $1,086. The carrying value of the debentures is accreted to the principal amount over the term to conversion through a charge to interest expense. The carrying value of the equity component of $1,086 is recorded to contributed surplus. The Company determined the carrying value of the liability by discounting the stream of future cash payments of interest and principal at an estimated market rate of 18% for a similar liability that does not have an associated conversion/equity component. The carrying value of the debentures will be accreted to the principal amount over the term to conversion through a charge to interest expense. Professional and financing costs of $378 were incurred to complete the issuance of the Debentures. The portion of the financing fees that relate to the Debentures have been split between debt and equity in the same proportion as the Debentures split between debt and equity. The debt financing costs of $307 are being amortized over the three year term of the debt. The equity financing costs of $71 have been charged to contributed surplus.

Equity Financing during current fiscal year

On June 30, 2017 the Company issued 7,143 common shares at a price of $0.07 CAD per share as a result of a debt settlement agreement with a creditor, settling short term bridge financing in the amount of $385. The securities issued under the Securities for Debt Transaction are subject to a four-month hold period pursuant to applicable securities laws until October 31, 2017.

On May 29, 2017 the Company closed a first tranche of equity financing at a price of $0.07 CAD per share for gross proceeds in the amount of $1,579 resulting in the issuance of 30,700 common shares. On June 21, 2017 a second tranche of the equity financing was completed at a price of $0.07 CAD per share for gross proceeds of $461 resulting in the issuance of 8,543 common shares. Share issuance costs of $133 were incurred to complete these financings.

On December 22, 2016, the Company completed the first tranche of financing in the amount of $1,482 at a price of $0.08 CAD per share resulting in the issuance of 25,000 shares. On January

12, 2017 the Company then completed a second tranche of financing with the issuance of 6,250 shares for gross proceeds of $381. Share issuance costs of $40 were incurred to complete these financings.

During the fiscal year ended June 30, 2017 a total of 35,242 warrants were exercised for gross proceeds of $1,591 resulting in the issuance of 35,242 common shares. Upon the exercise of these warrants, the fair value as determined at the time of issue of the warrants of $427, and originally recorded to contributed surplus, was transferred to share capital.

<u>April 5, 2017 Financing announcement and termination of Esrey Energy Ltd letter of intent</u>
On April 5, 2017 the Company announced its intention to complete additional financings in the amount of $6 million. Enablence also announced the termination, by mutual agreement, of the non-binding letter of intent with Esrey Energy Ltd. as was detailed in a press release issued on December 8, 2016 (the "Letter of Intent"). Enablence did not pursue the proposed business combination of the two companies, however, the Company did achieve its stated goal as announced at the time of execution of the Letter of Intent, to raise funds of $10 million to pursue its growth strategy. This goal was achieved through a combination of the exercise of outstanding warrants, the private placements including the ones completed in December 2016 and January 2017, and a portion of cash advances being converted to equity.

The Company has sustained significant losses since its inception, and expects to continue 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.

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, 2017 and June 30, 2016.

	June 30, 2017	June 30, 2016
Cash and Cash Equivalents	$ **5,082**	$ 650
Restricted cash	**4**	4
	5,086	654
Working Capital (working capital deficiency)	**196**	(1,950)

The working capital from operations at June 30, 2017 was $196 as compared to a working capital deficiency of $1,950 at June 30, 2016. The improvement is primarily due to the increase in cash as a result of the equity and convertible debenture financings in May and June of 2017.

The chart below highlights the Company's cash flows during the year ended June 30, 2017 and 2016.

	Year ended June 30, 2017	2016
Cash used in Operating activities	**(8,839)**	(8,202)
Investing activities		
Sale of equipment	**-**	150
Purchase of property, plant and equipment	**(1,060)**	(287)
	(1,060)	(137)
Financing activities		
Repayment of bank loans	**-**	(1,347)
Repayment of operating line of credit	**-**	(465)
Advances from lending consortium	**-**	419
Advances/Repayments on bridge and short-term loans	**2,724**	199
Advances from long-term loans	**2,158**	1,688
Proceeds from the exercise of warrants	**1,591**	-
Proceeds from issuance of convertible debentures	**4,245**	
Net proceeds from issuance of common shares	**3,730**	8,072
	14,448	8,566
Effect of foreign currency translation	**(117)**	254
Net change in cash and cash equivalents	**4,432**	481

At June 30, 2017, the Company had cash available of $5,082 (not including $4 of restricted cash). The Company consumed $8,839 in operating activities for the year ended June 30, 2017 compared to $8,202 for the prior year.

Equity Financing during prior fiscal year

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 were subject to a four month hold period which expired 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 three months ended June 30, 2016, 3,214 of the warrants issued on conversion were exercised resulting in cash proceeds of $173 (CAD$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 three months ended June 30, 2016, 200 warrants were exercised resulting in cash proceeds of $9 (CDN$12).

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, 2017 and for loans secured during and subsequent to the period. The continued debt and 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 621,928 common shares issued and outstanding as of October 26, 2017 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).

	2018	2019	2020+	Total
	$	$	$	$
Accounts payable and accrued liabilities	4,399	-	-	4,399
Notes payable	3,827	1,628	-	5,455
Convertible debentures	578	578	6,359	7,515
Total	8,804	2,206	6,359	17,369

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.

MANAGEMENT AND BOARD OF DIRECTORS

During September 2017, Dan Shmitt was appointed as a Director to the Company.

TRANSACTIONS WITH RELATED PARTIES

At June 30, 2017 ZTE Corporation, ("ZTE"), a strategic investor holds 15.3% of the issued and outstanding shares of the Company. During the year ended June 30, 2017, the Company had sales of $2,238 (2016 - $197) to ZTE. At June 30, 2017, the Company had an accounts receivable balance with ZTE of $814 (2016 - $153). This amount is included in accounts and other receivables. As at June 30, 2017 the Company had a $Nil balance (2016 - $693) in deferred revenue relating to pre-payments from ZTE.

As at June 30, 2017, China TriComm Ltd. ("TriComm") owned 30,000 Enablence common shares of the Company. TriComm is controlled by Zhiyin Gao, a director and significant shareholder of the Company. Subsequent to the year end Zhiyin Gao resigned as a Director of the Company.

As at June 30, 2017, Irixi Holding Ltd. ("Irixi"), owned 39,408 Enablence common shares of the Company. Irixi is a joint venture controlled by TriComm and Win Brand, which are companies controlled by a director and significant shareholder of Enablence. The following transactions took place between Irixi and the Company during fiscal 2017 and 2016:

- During the fiscal year ended June 30, 2017, Suzhou Irixi Ltd ("Suzhou Irixi"), controlled by Irixi, incurred certain start-up and production costs in the amount of $61 on behalf of Suzhou Enablence Optoelectronic Technologies Co., LTD, which has been recorded as an outstanding liability at June 30, 2017.

- During the fiscal year ended June 30, 2017 Enablence had made $99 of sales to Suzhou Irixi and made purchases of $128 from Suzhou Irixi the net amount of which was recorded to cost of revenues. The Company has the following amounts recorded at June 30, 2017 relating to these transactions: an account receivable balance due from Suzhou Irixi of $44 and an accounts payable owing to Suzhou Irixi of $44.

- During the fiscal year ended June 30, 2017 Suzhou Irixi provided other consulting services and materials to Enablence. As a result, at June 30, 2017 the Company has an amount of $60 set up as an accrued liability owing to Suzhou Irixi.

- Prior to the start of fiscal year 2016, the Company received short-term, non-interest bearing, unsecured loans in the amount of $990 from Irixi. $160 of these loans were repaid and $1 million CAD of the loans were converted to equity during the year ended June 30, 2016 and a gain of $176 was recorded on the conversion of debt to equity. The remaining balance of $11 was repaid during the fiscal year ended June 30, 2017.

- 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 during 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, whereby, all parties are to work together on product development. During the year, Irixi Technologies Inc. and Irixi Photonics Inc. (see below) charged $62 for travel expenses incurred in the provision of product development services by its engineers (2015 -$21).

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 Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") 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 is contracted to pay Irixi Photonics $150/month ("Service Fees") over the 2016 calendar year. 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 retains ownership of all Intellectual Property associated with the products under the agreement. Pursuant to this agreement, the Company paid Irixi Photonics a total of $1,800 of which $900 was paid during fiscal year 2016 and $900 was paid in fiscal year 2017. The Company signed a new services agreement with Irixi for the 2017 calendar year at a monthly fee of $130, as well as a base royalty on certain future products at 3% of net sales and additionally a potential 17.5% bonus royalty on gross margin on such products if certain criteria and targets are met. As of June 30, 2017 the Company had paid Irixi $650 of monthly fees under this new contract and had $130 recorded as an accrued liability.

At June 30, 2017, an amount of $432 (2016 - $312) is included in accounts payable and accrued liabilities relating to consulting services provided by Irixi. Of this amount, $120 (2016 - $98) was incurred and recorded to consulting fee expense during the current fiscal year relating to services provided through Irixi, by Todd Zhang, also the CFO of Enablence. During the year ended June 30, 2017 $Nil (2016 - $40) was paid relating to these consulting services.

The Consortium debt 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, 2017:

- A controlling shareholder of Paradigm provided short term loans to the Company of $3,241 during the year and converted a portion of the loans to equity, exchanged a portion into convertible debentures and then was repaid the remaining balance of $1,194 during July 2017
- Paradigm earned $474 of commissions relating to the equity and debenture financing the Company closed during May and June 2017.

June 30, 2016:

- Paradigm was part of the lending consortium that was paid a fee of $150 in 2016 in connection with their acquisition of debt.
- $350 CAD of loans received in the prior year were repaid in the year ended June 30, 2016
- A total amount of $2,450 CAD of short term loans to the Company was converted to equity during the year ended June 30, 2016, representing short term loans of $600 CAD provided during the fiscal year ended June 30, 2016 and $1,850 outstanding from the fiscal year ended June 30, 2015.
- 3,214 warrants were exercised during the year ended June 30, 2016.

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, 2017 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 Company's consolidated financial statements are prepared in accordance with IFRS recognition and measurement principles that often require Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts presented and disclosed in the consolidated financial statements. Management reviews these estimates and assumptions on an ongoing basis based on historical experience, changes in business conditions and other relevant factors as it believes to be reasonable under the circumstances. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Estimates

Useful lives of depreciable assets
The useful lives of depreciable assets have been determined based on Management’s estimated utility of the assets. Uncertainties in these estimates relate to technological obsolescence and wear and damage of assets.

Share-based compensation
The estimation of share-based compensation requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own share price, the probable life of share options granted and the time of exercise of those share options. The model used by the Company is the Black-Scholes valuation model.

Fair value measurement
Management uses valuation techniques to determine the fair value of financial instruments. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm’s length transaction at the reporting date.

Judgments

Recognition of deferred income tax assets
Management continually evaluates the likelihood that its deferred tax assets could be realized. This requires Management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgment.

Inventories
Inventories are initially recognized at cost, and subsequently at the lower of cost and net realizable value. Management estimates the net realizable values of inventories, considering the most reliable evidence available at each reporting date. The future realization of these inventories may be affected by future technology or other market driven changes that may reduce future selling prices.

Going concern risk assessment
The assessment of the Company's ability to continue as a going concern and raising additional debt or equity financing or attaining sufficient revenues to achieve and sustain profitability for the ensuing year, and to fund planned research and development activities, involves significant judgment base on historical experience and other factors including expectation of future events that are believed to be reasonable under the circumstances.

Impairment
Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases. In assessing impairment, Management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Functional currency
An area of judgment that has a significant effect on the amounts recognized in these consolidated financial statements is the determination of functional currency. The determination of the Company and it subsidiaries' functional currency often requires significant judgment where the primary economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation methods used.

CHANGES IN ACCOUNTING POLICIES

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

IFRS 9 – Financial Instruments
The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 Financial instruments: recognition and measurement. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. The Company is currently assessing the impact of the standard on its consolidated financial statements. The Company expects to apply the standard for its consolidated financial statements dated June 30, 2019.

IFRS 15 – Revenues
IFRS 15, issued in May 2014, specifies how and when entities recognize, measure, and disclose revenue. The standard supersedes all current standards dealing with revenue recognition,

including IAS 11 Construction contracts, IAS 18 Revenue, IFRIC 13 Customer loyalty programs, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from customers, and SIC 31 Revenue - barter transactions involving advertising services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognized. Amendments to IFRS 15, issued in April 2016, clarify some requirements and provide additional transition relief for when an entity first applies IFRS 15. IFRS 15, and the amendments, are effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of this standard on its consolidated financial statements. The Company expects to apply the standard for its consolidated financial statements dated June 30, 2019.

IFRS 16
IFRS 16, issued in January 2016, introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The standard will supersede IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently assessing the impact of this standard on its consolidated financial statements. The Company expects to apply the standard for its consolidated financial statements dated June 30, 2020.

IFRS 2 Share-based payments
Amendments to IFRS 2, issued in June 2016, provide clarification on how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations; and
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments are effective for reporting periods beginning on or after January 1, 2018. The Company is currently assessing the impact of these amendments on its consolidated financial statements. The Company expects to apply the amendments for its consolidated financial statements dated June 30, 2019.

IFRIC 22 Foreign currency transactions and advance consideration
IFRIC 22 was issued in December 2016 to provide guidance on accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The new interpretation is effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of this interpretation on its consolidated financial statements. The Company expects to apply the interpretation for its consolidated financial statements dated June 30, 2019.

FINANCIAL AND OTHER INSTRUMENTS

Enablence's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, convertible debentures 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.