ENABLENCE TECHNOLOGIES INC.

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

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018

DATED: November 29, 2018

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 September 30, 2018 compared to June 30, 2018 and results of operations for the three months ended September 30, 2018 compared to the three months ended September 30, 2017.

This MD&A should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes for the three months ended September 30, 2018 as well as our audited consolidated financial statements and accompanying notes for the year ended June 30, 2018. 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 otherwise indicated. 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 conditions indicate the existence of material uncertainties that cast significant doubt about the Company's ability to continue as a going concern. 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 current situation and the plans to resolve it are contained in the Outlook section of this MD&A.

The effective date of this MD&A is November 29, 2018.

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 the current liability with EDC as well as 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
- To raise financing to allow the Company fully implement its business plan

SUBSEQUENT EVENTS

Subsequent to September 30, 2018, the Company received $889 in unsecured short term bridge loans with interest accruing at a rate of 10% of which $284 was provided by a related party.

On October 3, 2018, the Company received a default notice from EDC as a result of scheduled principal and interest payments having not been made. The notice requires Enablence to make payment of the amount in arrears of $549 ($719 CAD) plus a per diem default fee until full payment of this amount has been made. On October 26, 2018, as a result of the default, EDC provided Enablence with a demand for repayment on the total value of the loan, inclusive of interest, of $3,997. At the same time, EDC provided the Company with a forbearance on the loan, providing the Company three months to rectify the default subject to meeting certain ongoing terms and conditions.

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 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 December 31, 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 three months ended September 30, 2018.

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.

	31-Dec 2016	31-Mar 2017	30-Jun 2017	30-Sep 2017	31-Dec 2017	31-Mar 2018	30-Jun 2018	30-Sep 2018
Revenue	$ 925	$ 738	$ 1,236	$ 1,926	$ 1,230	$ 174	$ 58	$ 148
Gross Margin	(137)	(246)	(171)	106	(649)	(460)	(1,155)	(557)
GM %	(14.8%)	(33.3%)	(13.8%)	5.5%	(52.8%)	(264.4%)	(1991.4%)	(376.4%)
Expenses								
Research & development	1,040	1,027	1,414	1,435	927	739	695	697
Sales & marketing	7	69	79	47	60	76	71	70
General & administration	558	532	712	567	588	513	554	479
Stock-based compensation	82	81	53	33	33	13	3	4
Expenses	1,687	1,709	2,258	2,082	1,608	1,341	1,323	1,250
Operating loss	(1,824)	(1,955)	(2,429)	(1,976)	(2,257)	(1,801)	(2,478)	(1,807)
Finance and other expense	(127)	(217)	(44)	(358)	(412)	(407)	(551)	(448)
Gain on sale of property, plant and equip.	-	-	-	-	-	-	62	-
Foreign exchange (loss) gain	(14)	(11)	19	5	(37)	(57)	(110)	94
Net loss	(1,965)	(2,183)	(2,454)	(2,329)	(2,706)	(2,265)	(3,077)	(2,161)
Weighted average shares outstanding	515,707	560,541	589,403	621,929	621,929	621,928	621,928	635,624
Basic and diluted income (loss) per share	($0.01)	$0.00	($0.01)	($0.00)	($0.00)	($0.00)	($0.00)	($0.00)
Adjusted EBITDA(1)	(1,617)	(1,685)	(2,163)	(1,747)	(2,028)	(1,576)	(2,354)	(1,708)

(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:

	31-Dec 2016	31-Mar 2017	30-Jun 2017	30-Sep 2017	31-Dec 2017	31-Mar 2018	30-Jun 2018	30-Sep 2018
Net loss for the period	(1,965)	(2,183)	(2,454)	(2,329)	(2,706)	(2,265)	(3,077)	(2,161)
Add (deduct):								
Net interest and other expense	127	217	44	358	412	407	551	448
Amortization	125	189	213	196	196	212	121	95
Gain on sale of equipment	-	-	-	-	-	-	(62)	-
Foreign exchange (gain) loss	14	11	(19)	(5)	37	57	110	(94)
Stock-based compensation expense	82	81	53	33	33	13	3	4
"Adjusted EBITDA"	(1,617)	(1,685)	(2,163)	(1,747)	(2,028)	(1,576)	(2,354)	(1,708)

SUMMARY OF RESULTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2017

The following table sets forth a summary of key earnings information from our consolidated financial statements for the three months ended September 30, 2018 and 2017.

	Three months ended September 30		Increase	
	2018	**2017**	(decrease)	
Revenues	**$ 148**	$ 1,926	$ (1,778)	(92.3%)
Cost of revenues	**705**	1,820	(1,115)	(61.3%)
Gross margin	**(557)**	106	(663)	(625.5%)
	(376.4%)	*5.5%*		
Operating expenses:				
Research and development	**697**	1,435	(738)	(51.4%)
Sales and marketing	**70**	47	23	48.9%
General and administrative	**479**	567	(88)	(15.5%)
Stock based compensation	**4**	33	(29)	(87.9%)
Total operating expenses	**1,250**	2,082	(832)	(40.0%)
Loss from operations	**(1,807)**	(1,976)	169	(8.6%)
Other income (expenses):				
Finance and other income	**-**	(1)	1	
Finance expense	**(448)**	(357)	(91)	25.5%
Foreign exchange loss	**94**	5	89	
Net loss	**(2,161)**	(2,329)	168	(7.2%)
Other comprehensive income (net of tax):			-	
Foreign currency translation gain (loss)	**(317)**	255	(572)	(224.3%)
Comprehensive loss	**$ (2,478)**	$ (2,074)	$ (404)	19.5%

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 as well as changes in the exchange rate between the Chinese renminbi (RMB). The average exchange rate for the three months ended September 30, 2018 in terms of the Canadian dollar equivalent of US$1 was CAD $1.31 (September 30, 2017 – CAD $1.33) and in terms of the Chinese RMB equivalent of US$1 was RMB $0.1469 (September 30, 2017 – RMB $0.146)

REVENUE

Revenue for the three months ended September 30, 2018 was $148 as compared to $1,926 for the same period of the prior year, a decrease of $1,778. Due to the U.S. trade restrictions placed on the Company's major customer, there were no shipments of 10x10 TOSA ROSA product during the three months ended September 30, 2018 and the second half of the fiscal year ended June 30, 2018. In July 2018, these US trade restrictions were removed and the customer is now in the process of using up current inventory, prior to placing new orders of 10x10 TOSA ROSA product with Enablence.

During the three months ended September 30, 2018, two customers accounted for 93% of the Company's total revenue (61% and 32% individually) and during the three months ended September 30, 2017, two customers accounted for 91% of the Company's total revenue (76% and 15% individually).

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

	Three months ended September 30,	
	2018	2017
	$	$
Americas	**57**	10
Europe, Middle East, Africa	**-**	436
Asia Pacific	**91**	1,480
	148	1,926

GROSS MARGIN

The Company's cost of revenues is comprised of a number of elements, some of which vary directly with the level of revenues, such as material costs and the cost of products manufactured by third parties, and some of which do not vary significantly with the level of revenues, including many overhead costs such as compensation of operations staff, amortization and facilities costs.

Gross margin for the three months ended September 30, 2018 was ($557) as compared to $106 for the same period of the prior year.

This increase in the gross margin loss for the current year's period compared to the prior year's same period is due to a) a larger portion of the fixed cost component of the Fremont fabrication facility being absorbed into cost of sales due to the reduced sales and inventory production at the Fremont facility as well as b) no sales of 10x10 TOSA ROSA products during the three months ended September 30, 2018.

OPERATING EXPENSES

R&D expense for the three months ended September 30, 2018 was $697 as compared to $1,435 for the same period in the prior year, a decrease of $738. The decrease is primarily due to the impact of Irixi service agreement costs incurred in the prior year's period but not the current year's period, as well as lower R&D materials spending during the current year's period.

Sales & Marketing expense for the three months ended September 30, 2018 was $70 as compared to $47 for the same period of the prior year. This decrease relates mainly to reduced travel and supplies expenses during the current year's period compared to the prior year's period.

General & Administration expense for the three months ended September 30, 2018 was $479 as compared to $567 for the same period of the prior year, a decrease of $88. The decrease primarily relates to lower staff levels during current year's period.

Stock-based compensation expense for the three months ended September 30, 2018 was $4 as compared to $33 for the same period of the prior year, a decrease of $29. The decrease in the current year's expense compared to the prior year mainly relates to option grants issued in prior years that have now been fully expensed.

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

The Company's interest expense is a function of the balance of debt, and applicable interest rates, and the average foreign exchange rate between the underlying currency of the debt security and the U.S. dollar.

Interest and finance expense for the three months ended September 30, 2018 was $448 as compared to $357 for the prior year's same period, an increase of $91. The increase primarily relates to a combination of the interest on the convertible debentures, notes payable as well as EDC loans as compared to the prior year's same period.

Notes payable were as follows at September 30, 2018:

	September 30 2018	June 30, 2018
	$	$
Short-term Loans (a)	**5,320**	4,369
Loan from Export Development Canada (b)	**4,005**	3,804
	9,325	8,173
Less current portion	**9,325**	8,173
Long-term portion	**-**	-

(a) During the fiscal year ended June 30, 2017, the Company obtained non-interest bearing, unsecured short-term loans in the amount of $4,044 ($5,231 CAD) from certain related and unrelated parties of which $1,320 ($1,755 CAD) of the loans were 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 financial 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 paid in July 2017 which included principal of $1,138 and interest of $56. During the year ended June 30, 2018, the Company obtained 10% interest bearing unsecured short term loans in the amount of $1,497 of which $558 was from a related party, and obtained non-interest bearing unsecured short term loans in the amount of $2,700, of which a fee of $125 is payable on the May 2018 maturity of $1,250 of this loan. During the three months ended September 30, 2018 the Company obtained 10% interest bearing unsecured short term loans in the amounts of $883 of which $252 was from a related party. As at September 30, 2018 a total amount of $5,320 remains owing on these loans which includes $96 of accrued interest and $125 of accrued fees.

(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. Interest is payable monthly at the rate of prime plus 10% resulting in a rate of 13.70% at September 30, 2018 (June 30, 2018 -13.45%). The loan facility is secured against all of the assets of the Company and is guaranteed by the Company's subsidiaries. On October 30, 2017, the Company received a principal repayment extension from EDC resulting in the first monthly principal repayment being deferred to commence in March 2018. On March 9, 2018 the Company received an additional principal repayment extension from EDC resulting in the first monthly principal repayment being deferred to commence in August 2018. In accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, the amendment was considered a modification of debt. At September 30, 2018 the principal amount drawn on the EDC term facility is $4,005 inclusive of interest. On October 3, 2018, the Company received a default notice from EDC as a result of scheduled principal and interest payments having not been made. The notice requires Enablence to make payment of the amount in arrears of $549 ($719 CAD) plus a per diem default fee until full payment of this amount has been made. On October 26, 2018, as a result of the default, EDC provided Enablence with a demand for repayment on the total value of the loan, inclusive of interest to date at that time of $3,997. At the same time, EDC provided the Company with a forbearance on the loan, providing the Company three months to rectify the default subject to meeting certain ongoing terms and conditions.

FOREIGN EXCHANGE GAIN (LOSS)

Foreign exchange gains and losses include realized and unrealized gains and losses on foreign exchange, including those that arise as a result of converting assets and liabilities denominated in currencies other than the functional currency of the entity into the functional currency of the entity at the balance sheet date and realized gains or losses arising from the settlement of these balances during the period.

During the three months ended the Company recorded a foreign exchange gain of $94 as compared to a gain of $5 in the same period of the prior year which relates to foreign currency fluctuations during the period.

INCOME TAXES

There were no income taxes payable or recoverable during the current or prior year's three months ended September 30.

NET LOSS

The net loss from operations for the three months ended September 30, 2018 was $2,161 as compared to $2,329 for the same period of the prior year, a decrease of $168

FOREIGN CURRENCY TRANSLATION GAIN

During the three months ended September 30, 2017, the Company recorded a foreign currency translation loss of $317 as compared to a gain of $255 for the same period of the prior year.

LOSS PER COMMON SHARE

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

	Three months ended September 30, 2018	Three months ended September 30, 2017
Basic and diluted loss per common share:		
From continuing operations	$(0.00)	$(0.00)
Weighted Average Number of Common Shares	635,624	621,928

Due to the net loss from operations, 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 (see Subsequent Events and Finance Expense sections regarding recent debt financing).

The Company has been highly dependent on one customer, and recent events as disclosed in the Revenue section regarding U.S. trade restrictions and the effect on collecting accounts receivable and shipping additional 10x10 TOSA ROSA products, were successfully resolved during the quarter ending September 30, 2018.

During early fiscal 2018, the Company continued the development of its core competency in PLC design and fabrication, with the main target markets being in the cloud data center interconnection as well the emerging 5G Wireless networks. The latter is in the early stages of deployment in major markets around the globe, including both the United States, Europe, and China, and are expected to be on the fast track of growth in 2020 and the following years. The Company has developed a series of compact optical multiplexers and demultiplexers to be used in multi-channel high-speed optical transceivers for these markets. The Company plans to start production ramping in the next four quarters after completing product qualifications with a number of US based customers. The Company believes that the above mentioned products represent a sizeable revenue growth opportunity for the Company, for at least the next 3 years.

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.

During the 2017 and 2018 fiscal year, 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 Company's financial and working capital position as well as the trade restriction placed on a major customer of Enablence by the U.S. government (recently lifted – see Revenue section). 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. The revenue growth is dependent upon increases in production quantities which will be achieved if the financing being pursued is successful.

During the third quarter of fiscal 2017, our new subsidiary in China, Suzhou Enablence Optoelectronic Technologies Co, Ltd., commenced operations. When this facility is fully equipped in accordance with our business plan, it 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 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, and optical Multiplexor/DeMultiplex or products will improve significantly over time as a result of product development and capacity expansion. Profitability will also be impacted by pressure from our customers to reduce the selling price per unit as volumes increase and the marketplace for these products evolves.

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 three months ended September 30, 2018 the Company obtained short term debt financing in the amount of $883.

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 September 30, 2018, there are 641,927 common shares and no preferred shares outstanding.

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 and cash equivalents, and working capital at September 30, 2018 and June 30, 2018.

		September 30, 2018		June 30, 2018
Cash and Cash Equivalents	$	**173**	$	103
Restricted cash		**4**		4
		177		107
Working Capital (working capital deficiency)		**(16,498)**		**(14,812)**

The working capital deficiency from operations at September 30, 2018 was $16,498 as compared to working capital deficiency of $14,812 at June 30, 2018. This reduction in the working capital during the three months ended September 30, 2018 as compared to the prior year's same period was mainly due to the cash used in operations as well as the increase in debt financing outstanding at the end of the current year.

The chart below highlights the Company's cash flows during the three months ended September 30, 2018 and 2017.

	Three months ended September 30, 2018	2017
Cash used in Operating activities	**(1,553)**	(2,929)
Investing activities		
Purchase of property, plant and equipment	**(67)**	(118)
Proceeds on disposal	**2**	-
	(65)	(118)
Financing activities		
Advances from short-term loans	**874**	200
Repayments on short-term loans	**-**	(1,194)
Net proceeds from issuance of shares	**755**	-
	1,629	(994)
Effect of foreign currency translation	**59**	-
Net change in cash and cash equivalents	**70**	(4,041)

At September 30, 2018, the Company had cash available of $173 (not including $4 of restricted cash). The Company consumed $1,553 in operating activities for the three months ended September 30, 2018 compared to $2,929 for the same period of the prior year.

During the three months ended September 30, 2018 the Company obtained 10% interest bearing unsecured short term loans in the amounts of $883 of which $252 was from a related party. As at September 30, 2018 a total amount of $5,320 remains owing on these loans which includes $96 of accrued interest and $125 of accrued fees.

Convertible Debenture financing during prior 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 related party creditor to settle outstanding short term loans received by the Company during the year ended June 30, 2017. 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 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 were split between debt and equity. The debt financing costs of $307 is being amortized over the three year term of the debt. The equity financing costs of $71 have been charged to contributed surplus.

During the three months ended September 30, 2018, the Company recorded accretion of $231 to interest expense and $24 of amortization of the debt financing costs. Of the $753 interest earned since June 30, 2017, $31 has been paid and the unpaid balance of $722 is overdue and included in accrued interest. As at September 30, 2018, the total convertible debenture liability is $5,621.

Equity Financing

On July 30, 2018 the Company closed an equity financing at a price of $0.05 CAD per share for gross proceeds in the amount of $758 ($1,000 CAD) resulting in the issuance of 20,000 common shares. There was no equity financing raised during the fiscal year ended June 30, 2018.

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 three months ended September 30, 2018 and for loans obtained subsequent to the year end. 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 641,927 common shares issued and outstanding as of November 29, 2018 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 operations.

	To Sept 30, 2019	To Sept 30, 2020	To Sept 30, 2021+	Total
	$	$	$	$
Accounts payable and accrued liabilities	4,366	-	-	4,366
Notes payable	9,325	-		9,325
Convertible debentures	5,621	-		5,621
Total	19,312	-	-	19,312

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

The Company is exposed to currency risk as certain transactions are denominated in Canadian dollars. Management is evaluating foreign exchange risk management strategies, however, the Company has not entered into forward, swap or option contracts to manage its exposures to fluctuations in foreign exchange rates.

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

TRANSACTIONS WITH RELATED PARTIES

On February 2, 2016, the Company closed a private placement with ZTE Corporation ("Strategic Investor) for 77,000 shares at a price of $0.06 CAD per common share for proceeds of $3,280 ($4,620 CAD). The Strategic Investor holds approximately 14.8% (June 30, 2018 – 15.3%) of the issued and outstanding shares of the Company. As part of the financing, (i) the Strategic Investor entered into a voting agreement with certain shareholders of the Company to vote in favour of one nominee of the Strategic Investor to the Board of Directors of the Company, (ii) the Strategic Investor will have a right of participation to maintain its percentage of shareholdings in the Company in future issuances of securities by the Company, and (iii) the Company has put in place a Product Roadmap Development Committee which will make recommendations to the Board of Directors on future product development (iv) an updated version of the Business Cooperation Agreement from December 2014 was signed by the Company and the Strategic Investor.

During the three months ended September 30, 2018, the Company had sales of $Nil to ZTE (September 30, 2017 - $1,463). At September 30, 2018, the Company had an accounts receivable balance with ZTE of $715 (June 30, 2018 - $1,066) which is included in accounts and other receivables. $348 of this ZTE receivable has been received by the Company subsequent to September 30, 2018.

As at September 30, 2018, China TriComm Ltd. ("TriComm") owned 30,000 Enablence common shares of the Company. TriComm is controlled by Zhiyin Gao, a former director of the Company who resigned in September 2017.

As at September 30, 2018, Irixi Holding Ltd. ("Irixi"), owned 39,408 common shares of the Company. Irixi is a joint venture controlled by China TriComm Ltd. (a company controlled by a former director of the Company) and Win Brand (a company whereby the CEO and CFO of the Company have ownership interests). Suzhou Irixi Ltd. ("Suzhou Irixi") is a company controlled by Irixi. The following transactions took place between Irixi, Suzhou Irixi and the Company during the three months ended September 30, 2018 and the year ended June 30, 2018:

- During the three months ended September 30, 2018, Suzhou Irixi provided employee related services and utilities to the Company of $26 (FY2018 – $85). At September 30, 2018 $94 (2018 - $66) remains outstanding within accounts payable and accrued liabilities relating to these services.

- During the fiscal year ended June 30, 2018, Irixi paid $463 to a contract manufacturer for the delivery of finished goods to a customer of which $463 is owing to Irixi at September 30, 2018

- At September 30, 2018 an amount of $582 (2018 – $552) is included in accounts payable and accrued liabilities relating to consulting services provided by Irixi. Of this amount, $30 (2018 - $30) was incurred and recorded to consulting fee expense relating to services provided through Irixi by Todd Zhang, the CFO of the Company. At September 30, 2018 $362 (June 30, 2018 - $332) remains outstanding within accounts payable and accrued liabilities relating to these consulting services.

- During the fiscal year ended June 30, 2017, Suzhou Irixi incurred certain start-up and production costs on behalf of Suzhou Enablence Optoelectronic Technologies Co., LTD. An amount of $64 (June 30, 2018 - $61) is included in accrued liabilities at September 30, 2018 related to these costs.

- During the fiscal year ended June 30, 2017 USA Irixi provided other consulting services and materials to Enablence. As a result, at September 30, 2018 the Company has an amount of $17k owing to USA Irixi (June 30, 2018 - $17).

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 Photonics 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 targets are met. As of September 30, 2018, under the 2017 contract, the Company has paid Irixi Photonics $1,235 of monthly fees and has $325 recorded as an accrued liability.

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 periods ended:

Three months ended September 30, 2018:

- The Company received $252 in unsecured short term bridge loans from a controlling shareholder of Paradigm (also see Subsequent Events)

Year ended June 30, 2018:

- The Company received $568 in unsecured short term bridge loans from a controlling shareholder of Paradigm accruing interest at a rate of 10% amounting to $26.

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.

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 three months ended September 30, 2018 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.

Any investor should also consider carefully these risks and the risks and uncertainties that are detailed in our Annual MD&A filed October 29, 2018 and available at www.sedar.com.

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.

Inventories
Inventories are initially recognized at cost, and subsequently at the lower of cost and net realizable value. Management estimates the net realizable value 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. Management assesses inventory periodically and uses a provision to provide for estimated obsolescence and cost-price erosion.

Stock-based compensation
The estimation of stock-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 forfeiture rate, 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.

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 based 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 its 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

New or amended IFRS standards effective July 1, 2018

The Company has adopted the following new or amended IFRS standards for the interim and annual period beginning on July 1, 2018:

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB released IFRS 15, Revenue from contracts with customers, which supersedes IAS 11, Construction Contracts, and IAS 18, Revenue as well as other related interpretations. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company has adopted IFRS 15 on the effective date using a modified retrospective basis which involves not restating periods prior to the date of initial application. The application of this new standard had no impact on the reported results. The Company's accounting policy for revenue recognition under IFRS 15 is as follows:

To determine the amount and timing of revenue to be recognized, the Company follows a 5-step process:

1. Identifying the contract with the customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognizing revenue when/as performance obligations are satisfied.

IFRS 15 principally affects the timing of revenue recognition for transactions by each element in an arrangement (distinct goods or services in a bundled price or deliveries that occur at different points in time and/or over different periods of time). Revenue is recognized when the Company transfers control of the goods or services to the customer upon delivery.

Certain information and disclosures normally included in annual consolidated financial statements, prepared in accordance with IFRS 15 Revenue from contracts, were omitted where such information is not considered material to the understanding of the Company's interim financial information.

Under IFRS 15, we apply the following practical expedients:

- We do not adjust the promised amount of consideration for the effects of a significant financing component if, at contract inception, we expect the period between when we transfer the promised goods or services to a customer and when the customer pays for that good or service will be one year or less; and
- Costs of obtaining a contract that would be amortized within one year or less are immediately expensed.

IFRS 9 – Financial Instruments

In July 2014, the IASB completed the three-part project to replace IAS 39, Financial instruments: recognition and measurement by issuing IFRS 9, Financial instruments. IFRS 9, Financial instruments includes (a) classification and measurement of financial assets and financial liabilities, (b) a forward-looking 'expected loss' impairment model and (c) a substantially-reformed approach to hedge accounting.

The Company has adopted IFRS 9 on the effective date and determined that there was no impact on its reported results.

New and revised IFRS issued but not yet effective

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

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.

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.