ENABLENCE TECHNOLOGIES INC.

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

FOR THE YEAR ENDED JUNE 30, 2019

DATED: October 28, 2019

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, 2019 compared to June 30, 2018 and results of operations for the year ended June 30, 2019 compared to the year ended June 30, 2018.

This MD&A should be read in conjunction with our audited consolidated financial statements and accompanying notes for the years ended June 30, 2019 and 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 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 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 October 28, 2019.

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 June 30, 2019, the Company received $2,323 in unsecured short term bridge loans with interest accruing at a rate of 10% of which $229 was provided by a director of the Company and $256 was provided by a related party.

On October 28, 2019 the Company signed a forbearance agreement with EDC (see Finance section below) relating to scheduled principal and interest payments having not been made. The forbearance provides the Company until January 28, 2020 to rectify the default subject to meeting certain ongoing terms and conditions. The Company made an interest back payment of $191,000 on October 28, 2019 as part of this agreement.

SELECTED FISCAL YEAR INFORMATION

Statement of Operations Data	**Year ended June 30**	
	2019	2018
Revenue	**$1,424**	$3,388
Gross margin	**(2,509)**	(2,158)
Operating expenses	**5,411**	6,354
Operating loss	**(7,920)**	(8,512)
Net loss	**(9,780)**	(10,377)
Basic and diluted loss per share:	**($0.02)**	($0.02)

Balance Sheet Data	**As at June 30**	
	2019	2018
Total assets	**$2,174**	$4,142
Total liabilities	**25,574**	18,311
Cash dividends declared per share	**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.

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 make it a solution for an array of applications including telecommunications, cloud data centers, sensor systems, biomedical and aerospace applications.

RESULTS OF OPERATIONS

Summary of Fourth Quarter Results

The Company reported revenues of $683 for the quarter ended June 30, 2019 as compared to $503 for the prior quarter ended March 31, 2019, a increase of $180. The Company reported a net loss from operations of $1,973 for the quarter ended June 30, 2019 as compared to $2,289 for the quarter ended March 31, 2019. The decrease in the loss was primarily due to a combination of higher revenue and an increase in general and administration cost partially offset by a gain on the sale of property, plant and equipment.

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, 2017 and subsequent quarters has been taken from our unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the year ended June 30, 2019.

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 2017	31-Dec 2017	31-Mar 2018	30-Jun 2018	30-Sep 2018	31-Dec 2018	31-Mar 2019	30-Jun 2019
Revenue	$ 1,926	$ 1,230	$ 174	$ 58	$ 148	$ 90	$ 503	$ 683
Gross Margin	106	(649)	(460)	(1,155)	(557)	(656)	(1,027)	(269)
GM %	5.5%	(52.8%)	(264.4%)	(1991.4%)	(376.4%)	(728.9%)	(204.2%)	(39.4%)
Expenses								
Research & development	1,435	927	739	695	697	678	598	581
Sales & marketing	47	60	76	71	70	73	39	39
General & administration	567	588	513	554	479	441	616	1,079
Stock-based compensation	33	33	13	3	4	3	9	5
Expenses	2,082	1,608	1,341	1,323	1,250	1,195	1,262	1,704
Operating loss	(1,976)	(2,257)	(1,801)	(2,478)	(1,807)	(1,851)	(2,289)	(1,973)
Finance and other expense	(358)	(412)	(407)	(551)	(448)	(484)	(503)	(586)
Gain on sale of property, plant and equip.	-	-	-	62	-	-	-	158
Foreign exchange (loss) gain	5	(37)	(57)	(110)	94	(297)	110	96
Net loss	(2,329)	(2,706)	(2,265)	(3,077)	(2,161)	(2,632)	(2,682)	(2,305)
Weighted average shares outstanding	621,929	621,929	621,928	621,928	627,386	641,927	641,927	641,927
Basic and diluted income (loss) per share	($0.00)	($0.00)	($0.00)	($0.00)	($0.00)	($0.00)	($0.00)	($0.00)
Adjusted EBITDA[1]	(1,747)	(2,028)	(1,576)	(2,354)	(1,708)	(1,761)	(2,206)	(1,917)

(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 2017	31-Dec 2017	31-Mar 2018	30-Jun 2018	30-Sep 2018	31-Dec 2018	31-Mar 2019	30-Jun 2019
Net loss for the period	(2,329)	(2,706)	(2,265)	(3,077)	(2,161)	(2,632)	(2,682)	(2,305)
Add (deduct):								
Net interest and other expense	358	412	407	551	448	484	503	586
Amortization	196	196	212	121	95	87	74	51
Gain on sale of equipment	-	-	-	(62)	-	-	-	(158)
Foreign exchange (gain) loss	(5)	37	57	110	(94)	297	(110)	(96)
Stock-based compensation expense	33	33	13	3	4	3	9	5
"Adjusted EBITDA"	(1,747)	(2,028)	(1,576)	(2,354)	(1,708)	(1,761)	(2,206)	(1,917)

SUMMARY OF RESULTS FOR THE YEAR ENDED JUNE 30, 2019 COMPARED TO THE YEAR ENDED JUNE 30, 2018

The following table sets forth a summary of key earnings information from our consolidated financial statements for the years ended June 30, 2019 and 2018.

	Year ended June 30, 2019	2018	Increase (decrease)	
Revenues	**$ 1,424**	$ 3,388	$ (1,964)	*(58%)*
Cost of revenues	**3,233**	5,000	1,767	*35%*
Loss on inventory impairment	**700**	546	(154)	*(28%)*
Gross margin	**(2,509)**	(2,158)	(351)	*16%*
	(176%)	*(64%)*		
Operating expenses:				
Research and development	**2,554**	3,796	(1,242)	*(33%)*
Sales and marketing	**221**	254	(33)	*(13%)*
General and administrative	**2,615**	2,222	393	*18%*
Stock based compensation	**21**	82	(61)	*(74%)*
Total operating expenses	**5,411**	6,354	(943)	*(15%)*
Loss from operations	**(7,920)**	(8,512)	592	*(7%)*
Other income (expenses):				
Finance and other income (expense)	**74**	19	55	
Finance expense	**(2,095)**	(1,747)	(348)	
Foreign exchange gain (loss)	**3**	(199)	202	
Gain on sale of property, plant and equi[	**158**	62	96	
Net loss	**(9,780)**	(10,377)	597	*(6%)*
Other comprehensive income (net of tax):			-	
Foreign currency translation gain(loss)	**(230)**	544	(774)	
Comprehensive loss	**$ (10,010)**	$ (9,833)	$ (177)	*2%*

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 year ended June 30, 2019 in terms of the Canadian dollar equivalent of US$1 was CAD $1.3192 (2018 – CAD $1.27) and in terms of the Chinese RMB equivalent of US$1 was RMB $0.1466 (2018 – RMB $0.1538)

REVENUE

Revenue for the year ended June 30, 2019 was $1,424 as compared to $3,388 for the prior year, a decrease of $1,964 or 58%. The reduced level of revenue during the current year is due to the impact of U.S. trade restrictions placed on the Company’s major customer during the second half of calendar year 2018. These US trade restrictions were removed during fiscal year 2019 though this customer had not requested any further orders of product during fiscal 2019. The Company is qualifying new and different products with other key customers and is expecting to ramp production of these in late calendar year 2019 and 2029.

During the year ended June 30, 2019, nine customers accounted for 80% of the Company’s total revenue and during the year ended June 30, 2018, one customer accounted for 73% of the Company’s total revenue.

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

	2019	2018
	$	$
Americas	**719**	349
Europe, Middle East, Africa	**105**	466
Asia Pacific	**600**	2,573
	1,424	3,388

GROSS MARGIN

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

Gross margin for the year ended June 30, 2019 was ($2,509) as compared to ($2,158) for the prior year.

This increase in the gross margin loss for the current year compared to the prior year is primarily a result a large part of the fixed cost component of the fabrication facility being absorbed into cost of sales due to reduced sales and inventory production levels, as well as an inventory provision of $700 taken on obsolete inventory at June 30, 2019.

OPERATING EXPENSES

R&D expense for the year ended June 30, 2019 was $2,554 as compared to $3,796 for the prior year, a decrease of $1,242 or $33%. The decrease is primarily due to the impact of related party service agreement costs incurred in the prior year but not the current year, as well as lower R&D materials spending during the current year.

Sales & Marketing expense for the year ended June 30, 2019 was $221 as compared to $254 for the prior year.

General & Administration expense for the year ended June 30, 2019 was $2,615 as compared to $2,222 for the prior year, a decrease of $393 or 18%. The main reason for the increase during the year ended June 30, 2019 as compared to the prior year was due to the expensing of certain prepaid amounts for future contract manufacturing that is not expected to be utilized as a result of an asset transfer (see notes in the Finance Expense section below).

Stock-based compensation expense for the year ended June 30, 2019 was $21 as compared to $82 for the prior year, a decrease of $61 or 74%. 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 year ended June 30, 2019 was $2,095 as compared to $1,747 for the prior year, a increase of $348. 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 June 30, 2019:

	June 30 2019	June 30, 2018
	$	$
Short-term Loans (a)	**10,077**	4,369
Loan from Export Development Canada (b)	**4,420**	3,804
Loan from Irixi (c)	**260**	-
	14,757	8,173
Less current portion	**14,497**	8,173
Long-term portion	**260**	-

(a) 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, obtained non-interest bearing unsecured short term loans in the amount of $1,250, of which a fee of $125 is payable on the May 2018 maturity, and obtained non-interest bearing secured loans of $1,450. The security on the $1,450 loan is on certain receivables of the Company amounting to $354 at June 30, 2019 (2018 - $1,066), which is subordinated to the secured term loan facility with EDC. During the year ended June 30, 2019, the Company obtained 10% interest bearing unsecured short term loans in the amounts of $5,307 of which $1,588 was from related parties. As at June 30, 2019 a total amount of $10,077 (2018 - $4,369) remains owing on these loans which includes $441 (2018 - $47) of accrued interest and $125 (2018 - $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 which amounts to $3.8 million USD. 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 13.95% at June 30, 2019 (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 IFRS 9, Financial Instruments: Recognition and Measurement, the amendment was considered a modification of debt. At June 30, 2019 the principal amount drawn on the EDC term facility is $4,420 inclusive of interest. Interest accrued during the year was $615 (2018 - $502). 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. On October 28, 2019 the Company signed a forbearance agreement with EDC relating to scheduled principal and interest payments having not been made. The forbearance provides the Company until January 28, 2020 to rectify the default subject to meeting certain ongoing terms and conditions. The Company made an interest back payment of $191,000 as part of this agreement.

(c) On May 31, 2019, Enablence and Irixi, a related party, signed an Asset Transfer Agreement which resulted in Enablence Suzhou selling the majority of its assets and liabilities to Irixi including $94 of fixed assets, $173 of leasehold improvements, $47 of inventory as well as the transfer of all of the employee contracts, less Enablence Suzhou costs of $60 owed by Irixi to Enablence. As part of this agreement, Enablence's Fremont operations also sold certain fixed assets to Irixi amounting to $86. Under the Asset Transfer Agreement, Enablence and Irixi agreed that the consideration due to Enablence from Irixi from this transaction would be offset against certain debts owing to Irixi by Enablence of $720. The net remaining amount due to Irixi of $260 has been treated as a long term Note Payable with annual interest accruing at 7.5%, with the interest and principal amount payable on May 31, 2022. As at June 30, 2019, the amount owing on the Note Payable is $260.

GAIN ON SALE OF EQUIPMENT

During the year ended June 30, 2019, the Company reported a gain of $158, which related primarily to the sale of equipment for to a related party (see Related Party section).

FOREIGN EXCHANGE GAIN (LOSS)

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

During the year ended June 30, 2019, the Company recorded a foreign exchange gain of $3 as compared to a loss of $199 for the prior year.

INCOME TAXES

There were no income taxes payable or recoverable during the current or prior year ended June 30, 2019.

NET LOSS

The net loss from operations for the year ended June 30, 2019 was $9,780 as compared to a net loss of $10,377 for the prior year.

FOREIGN CURRENCY TRANSLATION GAIN

During the year ended June 30, 2019 the Company recorded a foreign exchange translation loss of $230 as compared to a gain of $544 for the prior year. This was as a result of conversion of the Company's operations that are being transacted in non-US$ currencies (Canadian dollar and Chinese Renminbi), being converted to the Company's reporting currency, which is US$.

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, 2019	Year ended June 30, 2018
Basic and diluted loss per common share:		
From continuing operations	$(0.02)	$(0.02)
Weighted Average Number of Common Shares	640,284	621,928

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

OUTLOOK

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 is 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. After completing product qualifications with a number of US-based customers the Company plans to start commercial production and expect production volumes to increase over the next four quarters. The Company believes that the above-mentioned products represent a potential sizeable revenue growth opportunity for the Company, for at least the next 3 years.

Driven by the global trend in data center construction, we are seeing a growing demand for PLC chips for use in datacenter interconnection application and 5G applications. We believe that our PLC platform and proprietary PIC technology enable cost-effective solutions to meet the rapid growth in datacenter transceiver demand. Our ability to develop low-cost data center solutions, as well as securing customer orders for data center applications is important as we seek to diversify our revenue stream and to achieve financial success in the data center marketplace.

The performance of our CWDM and LWDM multiplexer and demultiplexer products have been tested by a number of key customers and the feedback to date has been very positive. During the latter part of the fiscal year ended June 30, 2019, we received a framework order for $4 million dollars from one of these strategic customers, which is to be fulfilled over the next 12 months. We are anticipating additional orders from other key customers in the near future.

Our goal over the next 12 months is to fully utilize our fab with production orders, which we are expecting to come from PLC chip business as well as the CWDM and LWDM MUX and DEMUX products. We will focus on product qualification with the end customer and their contract manufacturers. Once our products are fully qualified, we believe customers will provide volume orders, and our goal is to increase production by the fourth calendar quarter of 2019.

Our challenges include system-level qualification at the end customer, process level qualification at the contract manufacturers, and scaling our internal production. We are confident that we can pass the customer trial qualifications. The management team at Enablence is excited about the data center interconnection and 5G opportunities. Our customers are keen to use our products and we will strive to meet their needs. Our strategic goal over the next 4 quarters is to improve the utilization of our fab and attain quarterly profitability.

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, 2019 the Company obtained short term debt financing in the amount of $5,307.

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, 2019, 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 June 30, 2019 and June 30, 2018.

	June 30, 2019	**June 30, 2018**
Cash and Cash Equivalents	**$45**	$103
Restricted cash	**4**	4
	49	107
Working capital (deficiency)	**(23,490)**	(14,812)

The working capital deficiency from operations at June 30, 2019 was $23,490 as compared to a working capital deficiency of $14,812 at June 30, 2018. This reduction in the working capital during the year ended June 30, 2019 as compared to the prior year's same period was mainly due to the cash used in operations as well as the increase in notes payable financing outstanding at the end of the current year.

The chart below highlights the Company's cash flows during the years ended June 30, 2019 and 2018.

	Year ended June 30, 2019	2018
Cash used in Operating activities	**(6,112)**	(8,370)
Investing activities		
Purchase of plant and equipment	**(183)**	(385)
Proceeds on disposal of property, plan and equipment	**3**	457
	(180)	72
Financing activities		
Advances from (repayments on) short term loans	**5,307**	3,132
Net proceeds from issuance of shares	**758**	-
	6,065	3,132
Effect of foreign currency translation	**169**	187
Net change in cash and cash equivalents	**(58)**	(4,979)

At June 30, 2019, the Company had cash available of $45 (not including $4 of restricted cash). The Company consumed $6,112 in operating activities for the year ended June 30, 2019 compared to $8,370 for the prior year.

During the year ended June 30, 2019 the Company obtained 10% interest bearing unsecured short term loans in the amounts of $5,307 of which $1,588 were from a related parties. As at June 30, 2019 a total amount of $10,077 remains owing on these loans which includes $441 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 year ended June 30, 2019, the Company recorded accretion of $916 to interest expense (2018 - $918) and $99 of amortization of the debt financing costs (2018 - $88). Of the $1,247 (2018 - $591) interest accrued since June 30, 2017, $54 (2018 - $23) has been paid and the unpaid balance of $1,194 (2018 - $568) is overdue and included in accrued interest. As at June 30, 2019, the total convertible debenture liability is $6,379 (2018 - $5,269).

Equity Financing

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

BOARD AND MANAGEMENT

At the Annual and Special Meeting of Shareholders held on February 5, 2019, Derek H. Burney, Louis De Jong, Dan Shmitt, Evan Chen and Yongxing Zhu were elected directors of the Company. Additionally, Derek H. Burney was appointed Chairman of the Board of Directors.

Also on February 5, 2019, Steve Wang was appointed as Chief Executive Officer of the Company, replacing Evan Chen who had stepped down as CEO of the Company. In addition, the Company announced that Todd Zhang, Chief Financial Officer of the Company, had also stepped down. Gerald Leahy assumed the position of Interim CFO along with his current duties as Corporate Treasurer, a position Mr. Leahy has held at the Company since 2012.

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, 2019 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 October 28, 2019 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.

As at June 30, 2019	2020	2021	2022+	Total
	$	$	$	$
Accounts payable and accrued liabilities	4,240	-	-	4,240
Notes payable	14,497	-	260	14,757
Convertible debentures	6,379	-		6,379
Total	25,116	-	260	25,376

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

During the fiscal year ended June 30, 2019, the Company had sales of $Nil to ZTE (June 30, 2018 - $2,487). At June 30, 2019, the Company had an accounts receivable balance with ZTE of $354 (June 30, 2018 - $1,066) which is included in accounts and other receivables.

As at June 30, 2019, 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 June 30, 2019, 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 previous CEO and CFO of the Company have ownership interests). Suzhou Irixi Ltd. (“Suzhou Irixi”) is a company controlled by Irixi.

On May 31, 2019, Enablence and Irixi signed an Asset Transfer Agreement which resulted in Enablence Suzhou selling the majority of its assets and liabilities to Irixi including $94 of fixed assets, $173 of leasehold improvements, $47k of inventory as well as the transfer of all of the employee contracts, less Enablence Suzhou costs of $60 owed by Irixi to Enablence. As part of this agreement, Enablence’s Fremont operations also sold certain fixed assets to Irixi amounting to $86. Under the Asset Transfer Agreement, Enablence and Irixi agreed that the consideration due to Enablence from Irixi from this transaction would be offset against certain debts owing to Irixi by Enablence of $720. The net remaining amount due to Irixi of $260 has been treated as a long term Note Payable with annual interest accruing at 7.5%, with the interest and principal amount payable on May 31, 2022. As at June 30, 2019, the amount owing on the Note Payable is $260.

The following transactions took place between Enablence and Irixi during the fiscal years ended June 30, 2019 and June 30, 2018, and any resulting amounts owing were included in the determination of the net debt owing as a result of the Asset Transfer Agreement on May 31, 2019:

- During the three months ended December 31, 2018, Suzhou Irixi provided short-term financing of $97 to Enablence Suzhou.

- During the fiscal year ended June 30, 2019, Suzhou Irixi provided employee related services and utilities to the Company of $70 (June 30, 2018 – $85) and at May 31, 2019 $126 (June 30, 2018 - $66) was outstanding.

- During the fiscal year ended June 30, 2019, Suzhou Irixi paid $ 7k (June 30, 2018 – $Nil) rental costs on behalf of ENA.

- During the fiscal year ended June 30, 2019, Suzhou Irixi paid $ 437k (June 30, 2018 – $Nil) on behalf of ENA to a third party commercial manufactory as a prepayment.

- 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 June 30, 2019.

At June 30, 2019 an amount of $612 (June 30, 2018 – $552) is included in accounts payable and accrued liabilities relating to consulting services provided by Irixi. Of this amount, $60 was incurred and recorded to consulting fee expense during the fiscal year ended June 30, 2019 (June 30, 2018 - $120) relating to services provided through Irixi by Todd Zhang, the previous CFO of the Company. At June 30, 2019 $392 (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 USA Irixi provided other consulting services and materials to Enablence. As a result, at June 30, 2019 the Company has an amount of $19k 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 previous 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 June 30, 2019, under the 2017 contract, the Company has paid Irixi Photonics $1,235 of monthly fees and has $325 recorded as an accrued liability.

During the year ended June 30, 2019, the Company received $225 in the form of a short term bridge loan from a director of the Company.

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

Year ended June 30, 2019

- The Company received $1,363 in unsecured short term bridge loans from a controlling shareholder of Paradigm (also see Subsequent Events)

Year ended June 30, 2018

- The Company received $558 in unsecured short term bridge loans from a controlling shareholder of Paradigm accruing interest at a rate of 10% amounting to $26.

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, 2019 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's financial position remains challenged in a dynamic, rapidly changing environment that involves risks and uncertainties. As a result, management expectations may not be realized. The Company continues to be dependent on additional equity financing until revenues and gross margins increase to the point that operations are profitable. Because there is no certainty that additional funding will be secured in the immediate future an investment in Enablence is speculative.

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.

<u>Estimates</u>

Expected Credit loss ("ECL")
The Company calculates ECLs for trade receivables based on the historical default rates over the expected life of the trade receivable and adjusts for forward-looking estimates, which is determined through the exercise of judgment. The Company's ECL model relies forward looking information and economic inputs, such as default rates, industry growth rate, customers etc. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays may be made as temporary adjustments using expert credit judgement. The allowance the Company records, if any, is the sum of these probability weighted outcomes.

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.

<u>Judgments</u>

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 annual period beginning on July 1, 2018:

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

This standard replaced IAS 11 Construction Contracts and IAS 18 Revenue. IFRS 15 introduces a single comprehensive model for recognizing revenues from contracts with customers. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for transferring those goods and services, applying the following five steps:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when (or as) the entity satisfies the performance obligation

The standard also provides guidance relating to the treatment of contract acquisition and fulfillment costs.

On July 1, 2018, the Company adopted the new guidance for the recognition of revenue from contracts with customers. This guidance was applied using a modified retrospective ("cumulative catch-up") approach under which there were no significant changes that had a material effect on the consolidated statement of financial position as at July 1, 2018 and there was no single adjustment to the opening balance of retained earnings. Accordingly, the Company is not required to present a third statement of financial position as at that date. The Company's accounting policy under IFRS 15 is as follows:

Revenue is recognized upon transfer of control of products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for the products or services. The Company's contracts are generally for products or non-recurring engineering services.

Non-recurring engineering services related to revenue contracts require judgment by management to determine the stage of completion, as this requires the ability to accurately estimate costs incurred and accurately estimate costs required to complete contracts (See Contract Liabilities).

Financial instruments

Effective July 1, 2018, the Company has adopted IFRS 9 Financial Instruments and applied it on a retrospective basis, replacing existing standards and interpretations, including IAS 39 Financing Instruments: Recognition and Measurement. The application of IFRS 9 has not resulted in any differences between the previous carrying amounts and the carrying amounts at the date of initial application of IFRS 9. The adoption of IFRS 9 resulted in changes in accounting policies which are described below.

Classification

On initial recognition, the Company determines the classification of financial instruments based on the following categories:

1. Measured at amortized cost
2. Measured at fair value through profit or loss (FVTPL)
3. Measured at fair value through other comprehensive income (FVOCI)

The classification under IFSR 9 is based on the business model under which a financial asset is managed and on its contractual cash flow characteristics. Assets held for the collection of contractual cash flows and for which those cash flows correspond solely to principal repayments and interest payments are measured at amortized cost. Contracts with embedded derivatives where the host is a financial instrument in the scope of the standard will be assessed as a whole for classification.

A financial asset is measured at amortized cost if both of the following criteria are met:

1. Held within a business model whose objective is to hold assets to collect contractual cash flows; and
2. Contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments held for trading are classified as FVPTL. For all other equity investments that are not held for trading, the Company may irrevocably elect, on initial recognition, to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-b-investment basis.

Financial liabilities are measured at amortized cost unless they must be measured at FVTPL (such as derivatives), or if the Company has chosen to evaluate them at FVTPL.

Management has assessed the classification and measurement of our financial instruments under IFRS 9, with reference to the former classification under IAS 39, as follows:

Financial Instrument	**Classification under IFRS 9**	**Classification under IAS 39**
Cash and cash equivalents	Amortized cost	Loans and receivables
Accounts receivable	Amortized cost	Loans and receivables
Other receivables (excluding amounts due from government agencies)	Amortized cost	Loans and receivables
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities
Notes payable	Amortized cost	Other financial liabilities
Convertible debentures	Amortized cost	Other financial liabilities

Measurement

Initial recognition- A financial asset or financial liability is initially recorded at its fair value, which is typically the transaction price, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. In the event that fair value is determined to be different from the transaction price, and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique that uses only data from observable markets, then the difference between fair value and transaction price is recognized as a gain or loss at the time of initial recognition.

Amortized cost – The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses. The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

Fair value through profit or loss – Changes in fair value after initial recognition, whether realized or not, are recognized through the consolidated statements of net loss and comprehensive loss. Income arising in the form of interest, dividends, or similar, is recognized through the consolidated statements of net loss and comprehensive loss when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

Fair value through other comprehensive income- Changes in fair value after initial recognition, whether realized or not, are recognized through other comprehensive income. Income arising in the form of interest, dividends, or similar, is recognized through the consolidated statements of net loss and comprehensive loss when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

Impairment

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Company has applied the simplified approach to recognize lifetime expected credit losses for its accounts receivable. In general, the Company anticipates that the application of the expected credit loss model of IFRS 9 results in earlier recognition of credit losses for the respective items.

Derecognition

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

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 plans to adopt the new standard on the required effective date and expects that the adoption of this standard will have no material impact on its consolidated financial statements.

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.