ENABLENCE TECHNOLOGIES INC.

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

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2016

DATED: FEBRUARY 28, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of the financial condition of Enablence Technologies Inc. ("Enablence" or the "Company") at December 31, 2016 compared to June 30, 2016 and results of operations for the three and six months ended December 31, 2016 compared to the three and six months ended December 31, 2015.

This MD&A should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes for the three and six months ended December 31, 2016 as well as our audited consolidated financial statements and accompanying notes for the year ended June 30, 2016. References made herein to "Enablence", the "Company", "we" and "our" mean Enablence, its subsidiaries, collectively, unless the context indicates otherwise. All amounts (including numbers of common shares, options and warrants) included in the MD&A are in thousands, except per share amounts or as indicated otherwise. All financial amounts are in US$, unless stated otherwise. Other continuous disclosure filings for the Company are available on www.sedar.com

While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, several adverse conditions and events cast substantial doubt upon the validity of this assumption at this time. The Company's continued existence is dependent upon its ability to secure additional financing and to attain profitable operations. Management is active in addressing these issues although there is no assurance that they will be successful. If the going concern assumption were not appropriate for these financial statements, adjustments might be necessary in the carrying values of assets and liabilities and the balance sheet classifications.

The effective date of this MD&A is February 28, 2017.

FORWARD-LOOKING STATEMENTS

This MD&A includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements, including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect management's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Company does not undertake or accept any obligation to release publicly any updates or revisions to any forward-looking statements to reflect any change in the Company's expectations, except as prescribed by applicable securities laws.

Key assumptions made in preparing the forward-looking statements contained in this MD&A include, but are not limited to, the following:

- The Company will be able to raise sufficient financing to meet its financial obligations as they come due
- 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

HIGHLIGHTS

- During the three months ended, the Company generated revenue of $893 from the sale of its new TOSA/ROSA products
- The Company signed a letter of intent with Esrey Energy Limited (see Liquidity section)
- The Company announced a private placement financing of CAD$4M (see Liquidity section and Subsequent events)

SUBSEQUENT EVENTS

On January 12, 2017, a second tranche of the CAD$4M financing that was announced on December 8, 2016 was completed with the issuance of 6,250 common shares for gross proceeds of CAD$500 (see Liquidity section).

Subsequent to December 31, 2016, 8,797 warrants were also exercised for gross proceeds of CAD$528.

In addition, subsequent to December 31, 2016, the Company received short-term, non-interest bearing, unsecured bridge loans in the amount of CAD$455.

OVERVIEW

ENABLENCE'S BUSINESS

Enablence designs, manufactures and sells optical components and subsystems for all three segments of optical networks - access, metro and long-haul markets - to a global customer base. It utilizes its patented technologies, including planar lightware circuit ("PLC") intellectual property, know-how and trade secrets in the production of an array of photonic components. The Company's product lines address: access - connecting homes and businesses to the network; metro - communication rings within cities of different sizes; and long-haul - linking cities, countries and continents. The Company offers leading expertise in transmission, switching & routing, wavelengths management, and signal performance management for networks ranging from 1.25 to 100 gigabits per second. The Company's current product line includes multiple wavelength channel transmission and receiving optical subassembly (TOSA/ROSA), and wavelength management products. The Company is expanding its TOSA/ROSA production capacity by collaborating with a manufacturing partner. The Company also earns revenues from engineering and design services, generally for products on the Company's roadmap and retains any IP developed under such contracts.

Enablence's PLC optical chip technology enables the integration of sub-components (such as waveguides, photodetectors, lasers and trans impedance amplifiers) onto one silicon based platform, which forms a hybrid photonic integrated circuit ("PIC") chip. The Company's core technology is portable to many markets that require filtering technology to separate and multiplex various optical signals. The chip-based integration capabilities of the Enablence platform technology makes it a solution for an array of applications including telecommunications, cloud data centres and sensor systems, biomedical and aerospace applications and instrumentation.

The Company has a 49% ownership interest in a joint venture, Sunblence Technologies Co., ("Sunblence"), which is located in Foshan, China. Sunblence purpose was to develop, manufacture and sell optical power splitter chips, based primarily on Enablence's PLC technology, to the Chinese market. The balance of the 51% ownership interest is held by SUNSEA Telecommunications Co., Ltd., ("SUNSEA"). During the fiscal year ended June 30, 2014, the Company wrote off its investment in Sunblence due to the identification of certain impairment indicators at that time. There have been no changes recorded since that time.

RESULTS OF OPERATIONS

Summary of Unaudited Quarterly Results

The following table sets forth unaudited summary results of operations for the past eight quarters. The information for the fiscal period ended March 31, 2015 and subsequent quarters has been taken from our unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the unaudited consolidated financial statements for the fiscal period ended December 31, 2016.

All normal recurring adjustments necessary for a fair presentation of information presented, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the above-noted consolidated financial statements.

	31-Mar 2015	30-Jun 2015	30-Sep 2015	31-Dec 2015	31-Mar 2016	30-Jun 2016	30-Sep 2016	31-Dec 2016
Revenue	$ 428	$ 231	$ 205	$ 194	$ 544	$ 680	$ 548	$ 925
Gross Margin	(998)	(1,916)	(692)	(665)	(247)	(720)	(175)	(137)
GM %	(233.2%)	(829.4%)	(337.6%)	(342.8%)	(45.4%)	(105.9%)	(31.9%)	(14.8%)
Expenses								
Research & development	716	762	656	710	1,177	1,227	1,134	1,040
Sales & marketing	53	32	1	-	1	9	6	7
General & administration	435	691	397	454	704	509	535	558
Stock-based compensation	129	(23)	40	39	71	112	84	82
Expenses	1,333	1,462	1,094	1,203	1,953	1,857	1,759	1,687
Operating loss	(2,331)	(3,378)	(1,786)	(1,868)	(2,200)	(2,577)	(1,934)	(1,824)
Other expense	(31)	(186)	(146)	(16)	(24)	(316)	(94)	(127)
Gain on settlement of debt	-	-	-	-	-	176	-	-
Loss on sale of equipment	-	-	-	-	(127)	-	-	-
Foreign exchange (loss) gain	(21)	(14)	(37)	3	17	8	(1)	(14)
Net loss	(2,383)	(3,578)	(1,969)	(1,881)	(2,334)	(2,709)	(2,029)	(1,965)
Weighted average shares outstanding	183,264	212,220	232,881	376,962	469,858	395,085	509,071	515,707
Basic and diluted income (loss) per share								
Continuing operations	($0.01)	($0.02)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)	($0.01)
Adjusted EBITDA(1)	(1,922)	(3,170)	(1,491)	(1,583)	(1,888)	(2,406)	(1,710)	(1,617)

(1) Adjusted EBITDA does not have a standardized meaning according to IFRS and is defined and reconciled to net income (loss) below.

NON-GAAP FINANCIAL MEASURES

Management reports and analyzes its financial results and performance using a range of financial measures. Some of these measures, such as revenues, net income and cash flow from operating activities, are defined by IFRS. Other measures are not defined by IFRS.

One key non-IFRS measure used by management is "Adjusted EBITDA". The Company discloses Adjusted EBITDA as a supplemental non-GAAP financial performance measure because the Company believes it is a useful metric by which to compare the performance of our business from period to period. The Company understands that measures similar to Adjusted EBITDA are broadly used by analysts, rating agencies and investors in assessing our performance. Accordingly, we believe that the presentation of Adjusted EBITDA provides useful information to investors.

Adjusted EBITDA comprises: net income (loss) excluding the following: finance income and expense, income tax recovery and expense, depreciation, amortization, losses on write-off or sale of equipment, foreign exchange gains and losses in earnings, and stock-based compensation expense. Therefore, it may not be comparable to similar measurements presented by other companies. The reconciliation of Adjusted EBITDA with the IFRS measure of net income (loss) is as follows:

	31-Mar 2015	30-Jun 2015	30-Sep 2015	31-Dec 2015	31-Mar 2016	30-Jun 2016	30-Sep 2016	31-Dec 2016
Net loss for the period	(2,383)	(3,578)	(1,969)	(1,881)	(2,334)	(2,709)	(2,029)	(1,965)
Add (deduct):								
Net interest and other expense	31	186	146	16	24	316	94	127
Amortization	280	231	255	246	241	59	140	125
Gain on settlement of debt	-	-	-	-	-	(176)	-	-
Loss on sale of equipment	-	-	-	-	127	-	-	-
Foreign exchange (gain) loss	21	14	37	(3)	(17)	(8)	1	14
Stock-based compensation expense	129	(23)	40	39	71	112	84	82
"Adjusted EBITDA"	(1,922)	(3,170)	(1,491)	(1,583)	(1,888)	(2,406)	(1,710)	(1,617)

SUMMARY OF RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2016 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2015

The following table sets forth a summary of key earnings information from our consolidated financial statements for the three and six months ended December 31, 2016 and 2015.

	Three months ended December 31,		Increase	**Six months ended December 31,**		Increase	
	2016	**2015**	(decrease)	**2016**	**2015**	(decrease)	
Revenues	**$ 925**	$ 194	$ 731	**$ 1,473**	$ 399	$ 1,074	*269%*
Cost of revenues	**1,062**	859	203	**1,785**	1,756	29	*2%*
Gross margin	**(137)**	(665)	528	**(312)**	(1,357)	1,045	*(335%)*
	(15%)	*(343%)*		*(21%)*	*(340%)*		
Operating expenses:							
Research and development	**1,040**	710	330	**2,174**	1,366	808	*59%*
Sales and marketing	**7**	-	7	**13**	1	12	*1200%*
General and administrative	**558**	454	104	**1,093**	851	242	*28%*
Stock based compensation	**82**	39	43	**166**	79	87	*110%*
Total operating expenses	**1,687**	1,203	484	**3,446**	2,297	1,149	*50%*
Loss from operations	**(1,824)**	(1,868)	44	**(3,758)**	(3,654)	(104)	*3%*
Other income (expenses):							
Finance and other income	**-**	10	(10)	**-**	32	(32)	
Finance expense	**(127)**	(26)	(101)	**(221)**	(194)	(27)	*12%*
Foreign exchange (loss)gain	**(14)**	3	(17)	**(15)**	(34)	19	
Net loss	**(1,965)**	(1,881)	(84)	**(3,994)**	(3,850)	(144)	*4%*
Other comprehensive income (net of tax):			-			-	
Foreign currency translation gain	**120**	(44)	164	**135**	183	(48)	*(36%)*
Comprehensive loss	**$ (1,845)**	$ (1,925)	$ 80	**$ (3,859)**	$ (3,667)	$ (192)	*5%*

Enablence converts foreign currency-denominated transactions related to the statement of comprehensive loss at the average exchange rates for the periods. As such, changes in the exchange rate between the United States dollar and the Canadian dollar can have an impact on the reported results for each fiscal period. The average exchange rate for the three and six months ended December 31, 2016 in terms of the Canadian dollar equivalent of US$1 was CAD $1.33 and CAD $1.32 as compared to CAD $1.34 and CAD $1.32 for the same period of the prior year.

REVENUES

Revenue for the three months ended December 31, 2016 was $925 as compared to $194 for the same period of the prior year and revenue for the six months ended December 31, 2016 was $1,473 as compared to $399 for the same period of the prior year. The increase in the current year is primarily due to the increase in sales of the Company’s new TOSA/ROSA products in conjunction with our third party contract manufacturer.

During the six months ended December 31, 2016, one customer accounted for 61% of the Company's total revenue. Two customers accounted for 60% (36% and 24% individually) of the Company's total revenue during the six months ended December 31, 2015.

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

	Three months ended		Six months ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Americas	**$ -**	$ 58	**$ 96**	$ 96
Asia Pacific	**770**	42	**1,155**	133
Europe, Middle East and Africa	**155**	94	**222**	170
	$ 925	$ 194	**$ 1,473**	$ 399

GROSS MARGIN

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

Gross margin for the three months ended December 31, 2016 was ($137) as compared to ($665) for the same period of the prior year. Gross margin for the six months ended December 31, 2016 was ($312) as compared to ($1,357) for the same period of the prior year. This improvement in gross margin is due to an increase in revenues from the 10x10 product, lower amortization costs and less inventory write-offs when compared to the same periods in the prior year.

The quarter ended December 31, 2016 reflected the commencement of volume production of 10x10 product in conjunction with our contract manufacturer. The volumes are expected to increase going forward, in conjunction with improved cost efficiencies, as the Company and the contract manufacturer work together to improve production processes on the new 10x10 product.

OPERATING EXPENSES

R&D expenses for the three months ended December 31, 2016 were $1,040 as compared to $710 for the same period of the prior year, an increase of 46% or $330. R&D expense for the six months ended December 31, 2016 increased by $808 or 59% to $2,174 as compared to $1,366 for the same period of the prior year. The current period increase arises from payments incurred of $150 per month for R&D development services provided by Irixi, a related party, to assist in new product development. The increase arising from these payments, which commenced in January 2016, is partially offset by a decrease in staff and related compensation costs.

Sales & Marketing expenses for the three and six months ended December 31, 2016 were $7 and $13 as compared to $1 for the six months ended December 31, 2015. There were minimal sales and marketing activities undertaken as the Company focused on improving production and yields of new products.

General & Administration expenses for the three months ended December 31, 2016 were $558 as compared to $454 for the same period of the prior year. General & Administration expenses for the six months ended December 31, 2016 increased by $242 or 28% to $1,093 as compared to $851 for the same period of the prior year. The increase is primarily an increase in supply chain and finance staff during the current year as compared to the prior year.

Stock-based compensation for the three months ended December 31, 2016 was $82 as compared to $39 for the same period of the prior year. Stock-based compensation expense for the six months ended December 31, 2016 also increased by $87 or 110% to $166 from $79 in the previous year. The higher expense in the current year is mainly related to expensing of options granted in February 2016.

FINANCE EXPENSE

Interest and finance expense for the three months ended December 31, 2016 was $127 as compared to $26 for the same period of the prior year. Interest expense for the six months ended December 31, 2016 increased by $27 or 12% to $221 as compared to $194 for the same period of the prior year. The Company's interest expense is a function of the balance of debt, and applicable interest rates, and the average foreign exchange rate between the underlying currency of the debt security and the U.S. dollar.

Interest expense in the current period primarily relates to interest on long term loans. The prior periods balance included transaction fees associated with the acquisition of the secured bank debt by the Consortium on August 21, 2015 and for initiating the loan facility with EDC.

The table below sets out the Notes Payable balances outstanding:

		December 31, 2016	June 30, 2016
Bridge and other Short-term Loans	(a)	**1,108**	11
Loan from Export Development Canada	(b)	**3,724**	1,698
		$ 4,832	$ 1,709
Less current portion		**2,003**	11
Long term portion		**$ 2,829**	$ 1,698

(a) During the quarter ended December 31, 2016, the Company received short-term, non-interest bearing, unsecured short-term loans in the amount of CAD$2,467 from certain related and unrelated parties. CAD$1,000 of the loan was repaid during the three months ended December 31, 2016, leaving an unpaid balance of CAD$1,467 or $1,097. The total remaining balance of $1,108 includes a loan amount of $11 that was advanced by a related party in September 2014.

(b) On March 3, 2016, the Company closed a secured term loan facility with Export Development Canada ("EDC") of up to CAD$3 million. In August 2016, the loan facility was increased to CAD$5 million. The loan facility is designed to finance up to 85% of the value of purchase orders from a major telecommunications equipment provider, ZTE Corporation, a strategic investor in the Company. The loan facility is available in the form of a term loan for a period of 18 months from the date of draw. Repayment of principal is to commence 18 months after the first draw on the loan. Principal then is to be repaid in 17 equal monthly instalments. Interest is payable monthly at the rate of prime plus 10% resulting in a rate of 12.7% at December 31, 2016 (June 30, 2016 -12.7%). The loan facility is secured against all of the assets of the Company and is guaranteed by the Company's subsidiaries.

FOREIGN EXCHANGE GAIN (LOSS)

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

During the three and six months ended December 31, 2016 the Company recorded a foreign exchange loss of $14 and $15 as compared to a gain of $3 and a loss of $34 in the same periods of the prior year.

INCOME TAXES

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

NET LOSS

The net loss from operations for the three months ended December 31, 2016 was $1,965 and was consistent with the net loss of $1,881 for the same period of the prior year. The net loss from operations for the six months ended December 31, 2016 was $3,994 as compared to a net loss of $3,850 for the same period of the prior year. There was significant improvement in gross profit in the current period but this was offset by increased R&D and G&A costs as the Company increased resources to accelerate the development of its new products.

FOREIGN CURRENCY TRANSLATION GAIN

During the three and six months ended December 31, 2016 the Company recorded a foreign exchange translation gain of $120 and $135 as compared to a loss of $44 and a gain of $183 in the same periods of the prior year. The gains are due primarily from converting large amount of debts.

LOSS PER COMMON SHARE

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

	Three months ended December 31,		Six months ended December 31,	
	2016	**2015**	**2016**	**2015**
Basic and diluted loss per common share:				
From continuing operations	$(0.01)	$(0.01)	$(0.01)	$(0.01)
Weighted Average Number of Common Shares	515,707	376,962	509,123	304,921

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

OUTLOOK

The Company's financial position continues to remain challenged. Raising additional financing and cash conservation measures and cost saving strategies continue to be considered. In the event the Company is unable to raise the additional financing, the Company will have to look at other alternatives including the possibility of ceasing operations. The Company also continues to be highly dependent on additional equity financing in the longer term, until revenues and gross margins increase to a point at which operations become profitable. There is no certainty that additional funding in the immediate or longer term will be secured.

As reported previously, in February 2016, the Company signed an updated Business Cooperation Agreement with a Strategic Investor in conjunction with the closing of equity financing of CAD$4.6 million from the same investor. Products covered under the Agreement include advanced TOSA/ROSA products which are based on our unique hybrid integration technology. The volume requirements for products covered under this Agreement are expected to increase significantly during the next 12 months, and we are expected to meet certain milestones in connection with the Agreement. This is an important step for the Company on its roadmap to entering the high end TOSA/ROSA market which places significant reliance on our PLC integration platform and provides a growth engine for the Company in the foreseeable future.

TOSA/ROSA products currently shipping and under development using our proprietary PIC technology are expected to contribute positively to our financial status, assuming we are able to successfully ramp up capacity, increase production levels and reduce product unit costs. In this regard, as previously reported, the Company entered into an agreement with a large, well-established manufacturing partner, in order to work with them to fulfill these production objectives. During the three months ended December 31, 2016, we were able to significantly increase production and shipments of TOSA/ROSA. Our ability to continue to quickly ramp up the existing TOSA/ROSA production capacity is our top priority in both meeting our Strategic Investor's supply requirement and achieving financial success in the new emerging datacenter market.

Assuming the immediate financing requirements are achieved, we expect that during the next few quarters, our financial status will be impacted by a number of factors: 1) The pursuit of additional equity financing from potential investors. The timing and amount of funding from our investors will impact the timing of the ramp-up of our production capacity and our product delivery, which is currently constrained by limited financial resources. 2) The success of continuing with cost efficiencies and production improvement initiatives. We aim to further reduce costs and expect that our profitability on TOSA/ROSA products will improve significantly as a result of product development and capacity expansion.

During the quarter ended December 31, 2016 the Company established a legal entity in China for the purpose of building a chip test line to reduce the PLC chip cost for volume production.

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.

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. At December 31, 2016, there are 549,425 common shares and no preferred shares outstanding.

Esrey Agreement and New Financing

On December 8, 2016 the Company announced a non-brokered private placement financing for up to 50,000 common shares at a price of $0.08 per share. In addition the Company announced the signing of a non-binding Letter of Intent (the "LOI") with Esrey Energy Ltd. ("Esrey") (TSX VENTURE: EEL) that provides for a combination of the two companies (the "Business Combination"). Under the proposed terms of the LOI, Esrey shareholders will receive approximately 2 shares of Enablence for each share of Esrey owned, and will be based on the net cash remaining in Esrey at closing divided by the Issue Price. Enablence and Esrey believe that the Business Combination will result in significant benefits to the shareholders of each company, including:

- Enablence shareholders will see the benefit of an enhanced financial position with an increase in available cash of at least $6mm upon the closing of the transaction;
- Esrey shareholders would have the benefit through their ownership of Enablence shares to gain access to the rapidly growing market for optical components. Enablence is well positioned for success in the metro access telecom and data center applications;
- Esrey shareholders are expected to enjoy increased trading liquidity; and
- Esrey may dispose of its remaining oil & gas assets prior to the completion of the Transaction and may distribute the proceeds of any such disposition to its shareholders.

Pursuant to the terms of the LOI, the completion of the Business Combination is conditional upon a number of items, including without limitation, the signing of a Definitive Agreement, completion of satisfactory due diligence, approval of the shareholders of Esrey, receipt of all necessary regulatory approvals, Enablence raising a minimum $4,000,000 by way of the Private Placement and exercise of outstanding warrants, formalization of the legal structure of the transaction and no material adverse change occurring with respect to either Enablence or Esrey. The LOI included a 60 day exclusivity period and though this has expired, Enablence and Esrey continue to work together on the due diligence process and other closing conditions.

On December 22, 2016, the first half of the financing announced on December 8, 2016 was completed on with the issuance of 25,000 shares for gross proceeds of $1,482 (CDN$2,000). The shares are subject to a four month hold period expiring on April 23, 2017. A second tranche was closed subsequent to quarter end (see Liquidity and Subsequent Events sections).

During the three months ended December 31, 2016, 15,250 warrants were exercised for gross proceeds of $682 (CDN$916). During the six months ended December 31, 2016, 15,375 warrants were exercised for gross proceeds of $688 (CDN$924).

Subsequent to December 31, 2016, 8,797 warrants were exercised for gross proceeds of CAD$528. In addition, a second tranche of the financing closed on January 12, 2017 with the issuance of 6,250 shares for gross proceeds of CAD$500. The shares are subject to a four month hold period expiring on May 13, 2017.

Through a combination of the Private placements, the exercise to date of outstanding warrants, and the contemplated additional exercise of outstanding warrants, the Company has received funds and commitments that would result in it fulfilling the $4,000 financing condition that is a requirement to close the proposed business combination with Esrey Energy Ltd. as announced on December 8, 2016.

During the six months ended December 31, 2016, Enablence was successful in increasing the EDC loan facility designed to finance customer purchase orders from $3 million to $5 million. Enablence has not generated positive cash flow from operations since its inception, and has relied on cash from the issuance of shares and debt to fund its operations. The table below sets out the cash, cash equivalents, and working capital at December 31, 2016 and June 30, 2016.

	December 31, 2016	June 30, 2016
Cash and Cash Equivalents	$ **540**	$ 650
Restricted cash	**4**	4
	544	654
Working Capital deficiency	**(2,480)**	(1,950)

The working capital deficiency from operations at December 31, 2016 was $2,430 as compared to a working capital deficiency of $1,950 at June 30, 2016. The increase in deficiency is primarily due to a portion of the long-term loans becoming due and payable within the next 12 months.

The chart below highlights the Company's cash flows during the three and six months ended December 31, 2016 and 2015.

	Three months ended December 31		Six months ended December 31	
	2016	2015	2016	2015
Cash used in Operating activities	**(3,081)**	(2,039)	**(5,135)**	(3,770)
Investing activities				
Purchase of property, plant and equipment	**(18)**	(22)	**(381)**	(53)
	(18)	(22)	**(381)**	(53)
Financing activities				
Advances from long-term loans	**-**	-	**2,109**	-
Proceeds from exercise of warrants	**682**	-	**688**	-
Repayment of bank loans	**-**	-	**-**	(1,347)
Repayment of operating line of credit	**-**	-	**-**	(465)
(Repayment of) advances from lending Consortium	**-**	(406)	**-**	1,243
(Repayment of) advances from bridge and short-term loans	**1,014**	(286)	**1,014**	370
Subscriptions received in advance of financing close	**-**	(610)	**-**	-
Net proceeds from issuance of shares/units	**1,459**	3,198	**1,459**	4,234
	3,155	1,896	**5,270**	4,035
Effect of foreign currency translation	**120**	121	**136**	305
Net change in cash and cash equivalents	**176**	(44)	**(110)**	517

At December 31, 2016, the Company had cash available of $540 (not including $4 of restricted cash). The Company consumed $5,135 in operating activities for the six months ended December 31, 2016 compared to $3,770 in the same period of the prior year. The increase is mainly due to a significant increase in accounts receivable related to higher sales in December 2016 and due to an increase in inventory levels at the end of the quarter. 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.

Equity Financing during prior fiscal year

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

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

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

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

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

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

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

CAPITAL RESOURCES

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

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

See the Liquidity and Subsequent Events sections above for details on financings completed during the three and six months ended December 31, 2016 and for loans secured during and subsequent to the period. The continued equity funding will help to position Enablence to address the increased demand it is experiencing in its 100G/s components business and to focus on its customer needs and future growth opportunities.

Enablence is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There are 564,473 common shares issued and outstanding as of February 28, 2017 and no preferred shares issued and outstanding. The common shares of Enablence trade on the TSX Venture Exchange under the symbol "ENA" or "ENA.V".

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

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

	to December 31, 2017	to December 31, 2018	to December 31, 2019	Total
Accounts payable and accrued liabilities	$ 3,026	$ -	$ -	$ 3,026
Loans payable	895	2,612	217	3,724
Bridge and other short-term loans payable	1,108			1,108
Total	$ 5,029	$ 2,612	$ 217	$ 7,858

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

At December 31, 2016 ZTE Corporation, (“ZTE”), a strategic investor held 17.3% of the issued and outstanding shares of the Company. During the three and six months ended December 31, 2016, the Company recorded sales with ZTE of $893 and $966 respectively (December 31, 2015 - $nil). At December 31, 2016, the Company had an accounts receivable balance from ZTE of $1,128 (June 30, 2016 - $153). In addition, at December 31, 2016, included in deferred revenue is a balance of $693 related to pre-payments received from ZTE in previous periods for the fulfilment of certain purchase orders (June 30, 2016 - $693).

As at December 31, 2016, Irixi Holding Ltd. ("Irixi"), owned 39,408 Enablence common shares, which represents approximately 7.2% of the issued and outstanding common shares of the Company. In January 2016 the Company entered into a one year R&D Services Agreement (the “Service Agreement”) with Suzhou Irixi Ltd. and Irixi Photonics Inc. (“Irixi Photonics”). Irixi Photonics was created to carry out the operations of Irixi and is a company controlled by the CEO and Chief Financial Officer (“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 will pay Irixi Photonics $150/month (“Service Fees”) over a twelve month term. In addition, if certain agreed upon volume production milestones are met during the twelve month period, Irixi Photonics may be eligible for the payment of a success fee (“Success Fee”). The Success Fee amounts to $2 million less any Service Fees previously paid. The stated milestones were not met as of December 31, 2016 and therefore, no Success Fee is payable. During the three and six months ended, December 31, 2016, the Company paid Irixi Photonics $450 and $900 of service fees, pursuant to this agreement. The Company will retain ownership of all Intellectual Property associated with the products under the agreement. A new services agreement between Irixi and the Company is currently under negotiation for the 2017 calendar year.

During the three and six months ended December 31, 2016, the Company sold $31 of chips to Suzhou Irixi Ltd. This amount remains outstanding and is included in the accounts receivable balance at December 31, 2016. Suzhou Irixi performed testing on the chips and sold some of the tested chips back to Enablence. As the chips are purchased back from Suzhou Irixi and are part of the materials used in the production of 10x10 products ultimately sold to ZTE, these chip sales are accounted for as an offset against cost of sales. The total value of tested chips purchased from Suzhou Irixi during the three and six months ended December 31, 2016 was $8. This amount is included in accounts payable at December 31, 2016.

In addition, during the three months ended December 31, 2016, Suzhou Irixi paid certain operating costs including payroll and travel costs for employees of the Company's newly completed production facility in Suzhou, China. A total of $19 was paid by Suzhou Irixi and has been accrued by the Company at December 31, 2016. Suzhou Irixi also purchased capital equipment for $485 for use by Enablence. At December 31, 2016, the equipment was owned by Suzhou Irixi and no asset or liability has been recorded on the Company's books related to this equipment. Ownership of the equipment continues to be retained by Suzhou Irixi and it is expected that at some point during 2017, the equipment will be transferred to Enablence.

During the three and six months ended December 31, 2016, the Company recorded consulting fee expenses for Todd Zhang of $30 and $60. During the three months ended December 31, 2015 consulting fee of $9 was recorded for Todd Zhang and during the six months ended December 31, 2015 consulting fee of $18 and $20 was recorded for Todd Zhang and Evan Chen respectively. These amounts are payable to Irixi. At December 31, 2016, the total amount owing to Irixi related to consulting fee expense for Todd Zhang and Evan Chen is $372 (June 30, 2016 - $312).

Paradigm Capital Partners Limited ("PCPL') is a shareholder of Enablence and is a company controlled by close family members of a director of Enablence. During the three and six months ended December 31, 2016, the Company received CAD$2,252 in short-term, non-interest bearing, unsecured bridge loans from an individual related to PCPL. Of this amount, CAD$1,000 was repaid during the quarter. CAD$1,252 remains outstanding at December 31, 2016 and is included in the current portion of notes payable.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. During the three months ended December 31, 2016 the Company did not enter into any material transactions with related parties outside of those noted elsewhere in the MD&A.

RISKS AND UNCERTAINTIES

The Company operates in a dynamic, rapidly changing environment that involves risks and uncertainties, and as a result, management expectations may not be realized for a number of reasons. An investment in Enablence common shares is speculative and involves a high degree of risk and uncertainty. The Company is highly dependent on additional financing to continue operations and there is no certainty that it will be able to obtain such financing. The current global economic crises pose additional risks and uncertainties which may materially affect management's expectations.

Any investor should also consider carefully these risks and the risks and uncertainties that are detailed in our Annual MD&A filed October 28, 2016 and available at www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES

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

Significant estimates in the accompanying financial statements relate to the impairment of property, plant and equipment, valuation of debt and equity instruments, inventory provisions and certain accruals and provisions. Actual results could differ from these estimates.

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

RESTATEMENT OF AMORTIZATION IN PRIOR PERIODS

During the fiscal year ended June 30, 2016, the Company determined that certain errors had accumulated in its calculations of amortization for prior periods. These errors resulted in amortization being understated for prior periods. As a result the Company has restated its amortization for previous periods as follows:

Impact on equity (increase (decrease) in equity)

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

CHANGES IN ACCOUNTING POLICIES

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

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

IFRS 9, “Financial instruments”, (IFRS 9) was issued by the IASB on July 24, 2014 and will replace IAS 39, “Financial instruments: recognition and measurement” (IAS 39). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released on July 24, 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of this standard and amendments on its consolidated financial statements.

<u>IFRS 15 - Revenue from Contracts with Customers</u>

IFRS 15, “Revenue from Contracts with Customers”, (IFRS 15) was issued by the IASB on May 28, 2014, and will replace IAS 18, “Revenue”, IAS 11, “Construction contracts”, and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard. It is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

FINANCIAL AND OTHER INSTRUMENTS

Enablence's financial instruments consist of cash and cash equivalents, accounts receivable, restricted cash, accounts payable and accrued liabilities, and notes payable. Unless otherwise noted, it is the opinion of Enablence's management that Enablence is not exposed to significant interest, currency or credit risk arising from these financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

ADDITIONAL INFORMATION

Additional information related to the Company can be found on SEDAR at: www.sedar.com.