Interim Condensed Consolidated Financial Statements of

ENABLENCE TECHNOLOGIES INC.

For the three and nine months ended March 31, 2017 and 2016
(in thousands of United States dollars and shares)

(Unaudited)

“Notice to Reader”

The accompanying unaudited condensed financial statements of Enablence Technologies Inc. for the three and nine months ended March 31, 2017 have been prepared by Management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company’s external auditors.

Date: May 26, 2017

_*”Evan Chen”*_______	_*”Tao Zhang*”_______
Evan Chen	Tao Zhang
CEO	CFO

ENABLENCE TECHNOLOGIES INC.
Interim Condensed Consolidated Financial Statements
March 31, 2017 and 2016
(Unaudited)

ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Balance Sheets

(Unaudited - In thousands of United States dollars)

	March 31, 2017	June 30, 2016
	$	$
Assets		
Current assets		
Cash and cash equivalents (Note 3)	**64**	654
Accounts and other receivables (Note 4)	**1,491**	647
Inventories (Note 5)	**1,390**	597
Prepaid expenses and deposits	**422**	241
	3,367	2,139
Property, plant and equipment	**1,281**	958
	4,648	3,097
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**3,700**	3,096
Current portion of notes payable (Note 6)	**3,157**	11
Deferred revenue	**840**	982
	7,697	4,089
Notes payable (Note 6)	**2,287**	1,698
Other long term liabilites	**169**	-
	10,153	5,787
Shareholders' deficiency		
Share capital (Note 7)	**102,549**	99,266
Contributed surplus	**11,511**	11,546
Accumulated other comprehensive income	**637**	523
Deficit	**(120,202)**	(114,025)
	(5,505)	(2,690)
	4,648	3,097

GOING CONCERN (Note 2 (i))

See accompanying notes to the unaudited condensed consolidated financial statements

Approved by the Board:

" Louis De Jong" — Director

"Evan Chen" — Director

ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Statements of Comprehensive Loss

For the three and nine months ended March 31, 2017 and 2016

(Unaudited - In thousands of United States dollars and shares, except per share data)

	Three months ended March 31,		Nine months ended March 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Revenues	**738**	544	**2,211**	943
Cost of revenues	**984**	791	**2,769**	2,547
Gross margin	**(246)**	(247)	**(558)**	(1,604)
Operating expenses				
Research and development	**1,027**	1,177	**3,201**	2,543
Sales and marketing	**69**	1	**82**	2
General and administration	**532**	704	**1,625**	1,555
Stock-based compensation (Note 7)	**81**	71	**247**	150
	1,709	1,953	**5,155**	4,250
Loss from operations	**(1,955)**	(2,200)	**(5,713)**	(5,854)
Other income (expense)				
Other income (expense)	**(99)**	8	**(99)**	40
Finance expense	**(118)**	(32)	**(339)**	(226)
Loss on sale of equipment	**-**	(127)	**-**	(127)
Foreign exchange loss	**(11)**	17	**(26)**	(17)
Net loss	**(2,183)**	(2,334)	**(6,177)**	(6,184)
Other comprehensive income, net of tax				
Foreign currency translation (loss) gain	**(21)**	37	**114**	220
Comprehensive loss	**(2,204)**	(2,297)	**(6,063)**	(5,964)
Net loss per share, basic and diluted (Note 8)	**($0.01)**	($0.01)	**($0.01)**	($0.01)
Weighted average number of outstanding shares				
Basic and diluted (Note 8)	**560,541**	469,858	**512,775**	437,410

See accompanying notes to the unaudited condensed consolidated financial statements

ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

For the three and nine months ended March 31, 2017 and 2016

(Unaudited - In thousands of United States dollars and shares)

	Number of shares	Share capital (Note 7)	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Equity (deficiency)
		$	$	$	$ Restated (Note 13)	$
Balance at July 1, 2015	220,263	88,652	10,586	293	(105,132)	(5,601)
Stock-based compensation (Note 7)	-	-	150	-	-	150
Issuance of common shares (Note 7)						-
July 6, 2015 private placement	11,000	435	-	-	-	435
September 2015 private placement	16,500	624	-	-	-	624
Fair value of warrants issued (Note 7)		(188)	188	-	-	-
Share issuance costs	-	(23)	-	-	-	(23)
October 5, 2015 private placement (Note 7)	47,470	1,802	-	-	-	1,802
October 5, 2015 conversion of debt to equity	16,030	605	-	-	-	605
October 23, 2015 conversion of debt to equity	70,528	2,810	-	-	-	2,810
November 24, 2015 private placement (Note 7)	36,880	1,455	-	-	-	1,455
December 7, 2015 private placement (Note 7)	1,215	48	-	-	-	48
Fair value of warrants issued (Note 7)	-	(1,116)	1,116	-	-	-
Share issuance costs	-	(107)	-	-	-	(107)
February 2, 2016 private placement	77,000	3,280				3,280
Share issuance costs		(27)				(27)
Exercise of warrants	200	11	(2)			9
Net loss	-	-	-	-	(6,184)	(6,184)
Exchange differences on translating operations	-	-	-	220	-	220
Balance at March 31, 2016	497,086	98,261	12,038	513	(111,316)	(504)
Balance at July 1, 2016	**509,050**	**99,266**	**11,546**	**523**	**(114,025)**	**(2,690)**
Stock-based compensation (Note 7)	-	-	247	-	-	247
Exercise of warrants (Note 7)	26,147	1,178	-	-	-	1,178
Fair value of warrants exercised (Note 7)	-	282	(282)	-	-	-
December 22, 2016 private placement (Note 7)	25,000	1,482	-	-	-	1,482
Share issuance costs	-	(23)	-	-	-	(23)
January 12, 2017 private placement	6,250	381				381
Share issuance costs		(17)				(17)
Net loss	-	-	-	-	(6,177)	(6,177)
Exchange differences on translating operations	-	-	-	114	-	114
Balance at March 31, 2017	**566,447**	**102,549**	**11,511**	**637**	**(120,202)**	**(5,505)**

See accompanying notes to the unaudited condensed consolidated financial statements

ENABLENCE TECHNOLOGIES INC.

Condensed Consolidated Statements of Cash Flows

For the three and nine months ended March 31, 2017 and 2016

(Unaudited - In thousands of United States dollars)

	Three months ended March 31,		Nine months ended March 31,	
	2017	2016	**2017**	2016
	$	$	**$**	$
Cash provided by (used in):				
Operating activities				
Net loss	**(2,183)**	(2,334)	**(6,177)**	(6,184)
Adjusted for the following non-cash items:				
Amortization	**189**	241	**454**	742
Stock-based compensation (Note 7)	**81**	71	**247**	150
Loss on sale of equipment	**-**	127	**-**	127
Unrealized foreign exchange gain	**-**	21	**-**	(52)
	(1,913)	(1,874)	**(5,476)**	(5,217)
Changes in non-cash working capital (Note 12)	**383**	(611)	**(1,189)**	(1,038)
Cash used in operating activities	**(1,530)**	(2,485)	**(6,665)**	(6,255)
Investing activities				
Purchase of property, plant and equipment	**(389)**	(32)	**(770)**	(85)
Cash used in investing activities	**(389)**	(32)	**(770)**	(85)
Financing activities				
Advances from long-term loans	**-**	189	**2,109**	189
Proceeds from exercise of warrants	**490**	-	**1,178**	-
Repayment of bank loans	**-**	-	**-**	(1,347)
Repayment of operating line of credit	**-**	-	**-**	(465)
(Repayment of) advances from lending consortium	**-**	(824)	**-**	419
(Repayment of) advances from bridge and short-term loans	**612**	(188)	**1,626**	182
Net proceeds from issuance of shares/units	**364**	3,262	**1,823**	7,496
Cash provided by financing activities	**1,466**	2,439	**6,736**	6,474
Effect of foreign currency translation on cash and cash equivalents	**(27)**	155	**109**	460
Increase (decrease) in cash and cash equivalents	**(480)**	77	**(590)**	594
Cash and cash equivalents, beginning of period	**544**	690	**654**	173
Cash and cash equivalents, end of period	**64**	767	**64**	767
Supplementary information				
Interest paid	**114**	30	**310**	55

See accompanying notes to the unaudited condensed consolidated financial statements

These unaudited condensed consolidated financial statements should be read in conjunction with Enablence Technologies Inc.'s annual audited financial statements approved by the Company's Board of Directors on October 28, 2016. "Enablence" and the "Company" mean either Enablence Technologies Inc. and its subsidiaries collectively or the entity Enablence Technologies Inc., as the context dictates. Amounts reported are in thousands of U.S. dollars, except where noted.

1. DESCRIPTION OF BUSINESS

Enablence Technologies Inc. ("Enablence" or the "Company") is incorporated under the Canada Business Corporations Act. The head office of Enablence is located at 390 March Road, Suite 119, Ottawa, Ontario, K2K 0G7, Canada. Enablence is a publicly traded company listed on the TSX Venture Exchange (TSXV - ENA). The Company designs, manufactures and sells optical components and subsystems for access, metro and long-haul markets to a global customer base. The Company's product lines address all three segments of optical networks: access, connecting homes and businesses to the network; metro, communication rings within large cities; and long-haul, linking cities, countries and continents.

2. BASIS OF PRESENTATION

(i) Going Concern

These Condensed Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and on a going concern basis. This assumes the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

At March 31, 2017, the Company had cash of $64, negative working capital of $4,330 and had used cash of $6,665 in its operating activities for the nine months ended March 31, 2017. The Company incurred a comprehensive loss of $6,063 for the nine months ended March 31, 2017 and as of that date had an accumulated deficit of $120,202. The Company had $3,157 of notes and debt payable that are due in the next 12 months.

These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. Subsequent to year-end, the Company has been successful in obtaining additional financing (See Subsequent Events Note 14 for further details).

The Company's ability to continue as a going concern is dependent upon its ability to generate positive cash flow and the ability to execute its business plan, including funding operating losses, and obtaining additional sources of financing.

If the going concern assumption was not appropriate for these financial statements, significant adjustments to the carrying values of assets and liabilities, reported expenses and balance sheet classifications would result. These adjustments would be material.

2. BASIS OF PRESENTATION (continued)

(ii) Statement of compliance

These Condensed Consolidated Financial Statements were prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), under International Accounting Standard ("IAS") 34 – Interim Financial Reporting, and were prepared using the same basis of presentation, accounting policies and methods of computation as outlined in Note 3 Significant Accounting Policies, in our audited consolidated financial statements for the year ended June 30, 2016. These condensed consolidated financial statements do not include all of the notes required in annual financial statements.

These condensed consolidated financial statements were authorized for issuance by the Board of Directors on May 25, 2017.

(iii) Use of estimates and judgements

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 valuation, asset impairments, and certain accruals and provisions. Actual results could differ from these estimates.

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

(iv) Accounting policy changes:

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the annual consolidated financial statements of the Corporation as at and for the year ended June 30, 2016. Accordingly, the interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2016.

IFRS 11 - Joint Arrangements (IFRS 11)

IFRS 11, was amended by the IASB on May 6, 2014. The amendments add new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments are effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments did not have an impact on the Company's consolidated financial statements.

(In thousands of United States dollars and shares)

2. BASIS OF PRESENTATION (continued)

(v) 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 been adopted by the Company.

IFRS 9 - Financial Instruments (IFRS 9)

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

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

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.

3. CASH AND CASH EQUIVALENTS

The cash and cash equivalents balance includes guaranteed investment certificates and restricted cash. Restricted cash represents cash that has been provided as security against guarantees or is otherwise not currently available for use.

	March 31, 2017	June 30, 2016
Cash	**$ 60**	$ 650
Restricted Cash	**4**	4
Total Cash and cash equivalents	**$ 64**	$ 654

(In thousands of United States dollars and shares)

4. ACCOUNTS AND OTHER RECEIVABLES

	March 31, 2017	June 30, 2016
Trade receivables	**$ 1,439**	$ 585
Allowance for doubtful accounts	**-**	-
	1,439	585
Other receivables	**52**	62
Total accounts and other receivables	**$ 1,491**	$ 647

Included in Other Receivables is an amount of $45,000 (2015 - $46,000) relating to investment tax credits receivable.

5. INVENTORIES

	March 31, 2017	June 30, 2016
Raw materials	**$ 451**	$ 357
Work-in-progress	**141**	774
Finished goods	**848**	117
Obsolescence allowance	**(50)**	(651)
Total Inventory	**$ 1,390**	$ 597

As of the third quarter of fiscal 2017, all inventory is written down to net realizable value. As a result, no valuation allowance is required at March 31, 2017 (June 30, 2016 -$509).

6. NOTES PAYABLE

		March 31, 2017	June 30, 2016
Bridge and other Short-term Loans	(a)	**1,681**	11
Loan from Export Development Canada	(b)	**3,763**	1,698
		$ 5,444	$ 1,709
Less current portion		**3,157**	11
Long term portion		**$ 2,287**	$ 1,698

(a) During the nine months ended March 31, 2017, the Company received short-term, non-interest bearing, unsecured short-term loans in the amount of CAD$3,222 from certain related and unrelated parties of which CAD$755 was received in the three months ended March 31, 2017. CAD$1,000 of the loan was repaid during the three months ended December 31, 2016, leaving an unpaid balance of CAD$2,222 or $1,670 at March 31, 2017. On April 1, 2017, the terms of the loan were changed to start accruing interest at the rate of 10% per annum. Subsequent to quarter end, it was also agreed that CAD$500 of the loan would be converted to shares and another CAD$1,500 would become a convertible debenture. The remaining CAD$222, is to be repaid from proceeds from the next round of financing. The total remaining balance of $1,681 also 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 March 31, 2017 (June 30, 2016 -12.7%). The loan facility is secured against all of the assets of the Company and is guaranteed by the Company's subsidiaries.

7. SHARE CAPITAL

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 March 31, 2017, there are 566,447 common shares and no preferred shares outstanding.

On December 8, 2016, the Company announced a non-brokered private placement financing for up to 50,000 common shares at a price of CAD$0.08 per share. The first half of the financing was completed on December 22, 2016 with the issuance of 25,000 shares for gross proceeds of $1,482 (CAN$2,000). The second tranche of the financing was completed on January 12, 2017 with the issuance of 6,250 shares for gross proceeds of $381 (CAD$500). Total net proceeds from both tranches was $1,863 (net of share issuance costs of $40) and the shares are subject to a four month hold period.

During the three months ended March 31, 2017, 10,073 warrants were exercised for gross proceeds of $490. Total warrants exercised for the nine months ended March 31, 2017 was 26,147 for gross proceeds of $1,178.

On February 2, 2016, the Company completed a non-brokered private placement with ZTE Corporation for 77,000 common shares at a price of CAD$0.06 per share amounting to gross proceeds of $3,280 (CAD$4,620).

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 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.

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. During the three months ended June 30, 2016, 3,214 of the warrants issued on conversion were exercised resulting in cash proceeds of $173 (CAD$225).

On August 21, 2015 the Company announced an overall financing and debt conversion package (the “Financing”) of up to CAD$10,000. The Financing includes three components, the first of which is a non-brokered private placement financing (the “Equity Financing”) for a minimum of CAD$4,000 at a price of $0.05 CAD per unit (“Unit), which was completed on October 5, 2015 (see details below). The second component of the Financing, which is conditional, is the provision of a loan facility for up to CAD$3,000 (the “Loan Facility”) by a senior, investment grade lender which closed in calendar 2016 (see Note 6 (b) above). . The Loan Facility was 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 in the form of a term loan with principal repayment commencing 18 months after funds are drawn. The Loan Facility is 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.

(In thousands of United States dollars and shares)

Warrants

Each warrant entitles the holder to purchase one common share of the Company. A summary of the warrants outstanding and the changes during the period is presented below:

	Three months ended				Nine months ended			
	March 31, 2017		March 31, 2016		**March 31, 2017**		March 31, 2016	
	Number of warrants	**Weighted average exercise price (Cdn $)**	Number of warrants	Weighted average exercise price (Cdn $)	**Number of warrants**	**Weighted average exercise price (Cdn $)**	Number of warrants	Weighted average exercise price (Cdn $)
Outstanding and exercisable, beginning of period	**75,749**	**$ 0.07**	108,788	$ 0.06	**96,624**	**$ 0.06**	23,300	$ 0.07
Issued	**-**	**-**	-	-	**-**	**-**	90,288	0.06
Exercised	**(10,772)**	**0.06**	(200)	0.06	**(26,147)**	**0.06**	(200)	0.06
Expired	**(4,675)**	**0.06**	-	-	**(10,175)**	**0.06**	(4,800)	0.15
Outstanding and exercisable, end of period	**60,302**	**$ 0.07**	108,588	$ 0.06	**60,302**	**$ 0.07**	108,588	$ 0.06

The following table summarizes information for warrants outstanding:

Exercise price per share (CAD$)	Issue date	Expiry date	**March 31, 2017**	March 31, 2016
$0.06	02-Apr-15	02-Oct-16	**-**	11,500
$0.06	10-Apr-15	10-Oct-16	**-**	3,500
$0.06	26-Jun-15	26-Dec-16	**-**	3,500
$0.06	06-Jul-15	06-Jan-17	**-**	5,500
$0.06	14-Sep-15	14-Mar-17	**-**	2,100
$0.06	18-Sep-15	18-Mar-17	**-**	5,950
$0.06	05-Oct-15	05-Apr-17	**18,853**	31,750
$0.07	23-Oct-15	23-Apr-17	**22,526**	25,740
$0.07	24-Nov-15	24-May-17	**18,315**	18,440
$0.07	04-Dec-15	04-Jun-17	**608**	608
			60,302	108,588

Stock option plan

The Company has established a stock option plan available for directors, officers, employees and consultants, and has authorized a stock option pool equal to 10% of the outstanding common shares. At March 31, 2017, the available unused portion of the option pool was a total of 37,556 (2016 – 30,456). The Board of Directors administers the stock option plan.

Options are granted with exercise prices equal to the fair market value of the common shares of the Company on the date of grant. Options generally vest in two or four equal annual portions starting one year after the date of grant. Options granted to directors vest over a two-year period. All options expire on the tenth anniversary of the grant. After termination of employment, unvested options are forfeited immediately and vested options expire 90 days subsequent to termination.

(In thousands of United States dollars and shares)

During the nine months ended March 31, 2017, the Company granted 2,800 stock options to certain employees at an exercise price of $0.65 vesting over a period of two years.

A summary of the Company's stock options and changes during the periods is presented below.

	Three months ended				Nine months ended			
	March 31, 2017		March 31, 2016		**March 31, 2017**		March 31, 2016	
	Number of options	**Weighted average exercise price (Cdn $)**	Number of options	Weighted average exercise price (Cdn $)	**Number of options**	**Weighted average exercise price (Cdn $)**	Number of options	Weighted average exercise price (Cdn $)
Outstanding, beginning of period	20,098	$ 0.17	10,563	$ 0.34	17,840	$ 0.24	11,404	$ 0.34
Granted	-	-	8,800	0.09	2,800	0.065	8,800	0.09
Forfeited	(175)	0.12	(80)	0.16	(500)	0.11	(267)	0.19
Expired	(25)	16.00	(30)	0.18	(242)	16.76	(684)	0.38
Outstanding, end of period	19,898	$ 0.15	19,253	$ 0.23	19,898	$ 0.15	19,253	$ 0.23
Exercisable, end of period	12,648	$ 0.19	6,008	$ 0.48	12,648	$ 0.19	6,008	$ 0.48

The following table summarizes the options outstanding and exercisable as at March 31, 2017.

Options Outstanding			Options Exercisable	
Exercise Price (Cdn $)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Exercise Price (Cdn $)
$ 0.065	2,800	9.8	-	$ 0.065
0.09	7,450	8.9	3,800	0.09
0.15	6,775	7.2	5,975	0.15
0.33	2,855	6.0	2,855	0.33
10.00	6	2.7	6	10.00
12.00	9	3.5	9	12.00
23.00	3	1.3	3	23.00
$ 0.15	19,898	8.2	12,648	$ 0.19

No options were granted during the three months ended March 31, 2017. During the three months ended December 31, 2016, the Company granted 2,800 stock options to certain employees at an exercise price of $0.65 vesting over a period of four years. The fair value of options granted is determined using the Black-Scholes options pricing model and the following assumptions were used for the options granted.

(In thousands of United States dollars and shares)

	Three months ended December 31, 2016	Three months end December 31, 20
Risk-free interest rate	0.75%	n/a
Expected life of options (years)	5	n/a
Expected annualized volatility	163%	n/a
Expected dividend yield	nil	n/a
Weighted average Black-Scholes value of each option (CDN$)	0.06	n/a

The grant date fair value of the options issued during the nine months ended March 31, 2017 was $126 (2015 – $nil). Total stock-based compensation expense for the nine months ended March 31, 2017 was $247 (2016 - $150).

8. LOSS PER SHARE

As a result of the net loss in each of the reporting periods, the potential effect of the exercise of stock options, convertible notes and warrants was anti-dilutive. Accordingly, 19,898 potentially dilutive option shares at March 31, 2017 (2016 – 19,253) and 60,302 share warrants (2016 – 108,588) have not been included in the calculation of diluted loss per common share for the three and nine months ended March 31, 2017.

9. FINANCIAL INSTRUMENTS

Credit risk
The age of trade accounts receivable is summarized as follows:

	March 31, 2017	June 30, 2016
Current or under 60 days	**$ 607**	$ 445
Past due 61 to 90 days	**183**	88
Past due more than 90 days	**649**	52
Total Trade accounts receivable	**$ 1,439**	$ 585

Management has reviewed the receivables balances in detail, and is satisfied that an allowance for uncollectible accounts is not required.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company currently settles all of its financial obligations out of cash and cash equivalents. The ability to do so relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs.

(In thousands of United States dollars and shares)

At March 31, 2017, the Company has financial liabilities which are due as follows:

	to March 31, 2018	to March 31, 2019	to March 31, 2020	Total
Accounts payable and accrued liabilities	$ 3,700	$ -	$ -	$ 3,700
Loans payable	1,480	2,283	-	3,763
Bridge and other short-term loans payable	1,681	-	-	1,681
Total	$ 6,861	$ 2,283	$ -	$ 9,144

10. SEGMENTED INFORMATION

The Company operates in one segment, Optical Components.

Property, plant and equipment is analyzed geographically as follows:

	March 31, 2017	June 30, 2016
United States	**$ 696**	$ 771
China	**575**	$ 151
Canada	**10**	36
Total	**$ 1,281**	$ 958

Revenue is analyzed geographically as follows:

	Three months ended		Nine months ended	
	March 31, 2017	**March 31, 2016**	**March 31, 2017**	**March 31, 2016**
Americas	**$ 54**	$ 60	**$ 150**	$ 156
Asia Pacific	**573**	136	**1,728**	269
Europe, Middle East and Africa	**111**	348	**333**	518
	$ 738	$ 544	**$ 2,211**	$ 943

During the nine months ended March 31, 2017, two customers accounted for 73% (64% and 9% respectively) of the Company's total revenue and for the same period of the prior year, three customers accounted for 64% (26%, 21% and 17% respectively) of the Company's total revenue.

The Company generates revenue principally from the sale of its components and subsystems products ("Product") to leading communications systems suppliers. The Company also generates revenue from non-recurring engineering ("NRE") development services for clients. A breakdown of revenues is as follows:

(In thousands of United States dollars and shares)

	Three months ended		Nine months ended	
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
Product	$ 738	$ 506	$ 2,211	$ 876
NRE	-	38	-	67
	$ 738	$ 544	$ 2,211	$ 943

11. RELATED PARTY TRANSACTIONS

At March 31, 2017 ZTE Corporation, (“ZTE”), a strategic investor held 16.8% of the issued and outstanding shares of the Company. During the three and nine months ended March 31, 2017, the Company recorded sales to ZTE of $443 and $1,417 respectively (March 31, 2016 - $32 and $41 respectively). At March 31, 2017, the Company had an accounts receivable balance with ZTE of $1,076 (June 30, 2016 - $153). In addition, at March 31, 2017, $693 is included in deferred revenue related to pre-payments received from ZTE in previous periods for the fulfilment of certain purchase orders (June 30, 2016 - $693).

As at March 31, 2017, Irixi Holding Ltd. ("Irixi"), owned 39,408 Enablence common shares, which represents approximately 7.0% 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 was to pay Irixi Photonics $150/month (“Service Fees”) over twelve months of the 2016 calendar year term. This amount of $1,800 has now been fully paid. In addition, if certain agreed upon volume production milestones were met during the twelve month period, Irixi Photonics would be also 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 was payable. The Company retains 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 months ended March 31, 2017, the Company has incurred $390 of service fees pursuant to the new agreement. Of this, $303 has been paid and $87 is included in accrued liabilities at March 31, 2017.

During the three and nine months ended March 31, 2017, the Company sold certain materials in the amounts of $68 and $99 respectively, to Suzhou Irixi Ltd. These amounts remain outstanding and are included in the Company’s accounts receivable balance at March 31, 2017. In addition, the Company has purchased certain materials from Suzhou Irixi during the three and nine months ended March 31, 2017 in the amount of $60. $40 of this amount remains unpaid and is included in accounts payable at March 31, 2017.

During the nine months ended March 31, 2017, Suzhou Irixi paid $49 in operating costs including payroll, rent and travel costs for employees of the Company’s newly completed production facility in Suzhou, China. This amount is included in the Company’s accounts payable balance at March 31, 2017. During the three and nine months ended March 31, 2017, the Company acquired $446 of capital equipment from Suzhou Irixi. Of this, $144 was paid during the three months ended March 31, 2017 and another $302 is included in accounts payable at March 31, 2017.

(In thousands of United States dollars and shares)

During the three and nine months ended March 31, 2017, the Company recorded consulting fee expenses for Todd Zhang of $30 and $90. During the three months ended March 31, 2016 consulting fee of $30 was recorded for Todd Zhang and during the nine months ended March 31, 2016 consulting fee of $48 and $20 was recorded for Todd Zhang and Evan Chen respectively. These amounts are payable to Irixi. At March 31, 2017, the total amount owing to Irixi related to consulting fee expense for Todd Zhang and Evan Chen is $402 (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 nine months ended March 31, 2017, the Company received CAD$3,222 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 ended December 31, 2016. CAD$2,222 remains outstanding at March 31, 2017 and is included in the current portion of notes payable (See Note 6(a) above).

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.

12. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Net change in non-cash operating working capital items:

	Three months ended		Nine months ended	
	March 31, 2017	**March 31, 2016**	**March 31, 2017**	**March 31, 2016**
Net inflow (outflow) of cash:				
Accounts and other receivables	**$ (28)**	$ (387)	**$ (844)**	$ (24)
Inventories	**(203)**	(278)	**(718)**	49
Prepaid expenses and deposits	**35**	(71)	**(181)**	(180)
Accounts payable and accrued liabilities	**766**	149	**696**	(1,214)
Deferred revenue	**(187)**	(24)	**(142)**	331
	$ 383	$ (611)	**$ (1,189)**	$ (1,038)

Amortization expense for the nine months ended March 31, 2017 of $454 (2016 - $742) includes the following in the Consolidated statements of comprehensive loss: a) $372 (2016 - $606) included within cost of revenues, b) $49 (2016 - $91) included within general and administration, and c) $33 (2016 - $45) included within research and development.

(In thousands of United States dollars and shares)

13. RESTATEMENT 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)

14. SUBSEQUENT EVENTS

During April 2017, 8,095 warrants were exercised for gross proceeds of CAD$486 and the Company received short-term, unsecured bridge loans in the amount of CAD$999.

On May 19, 2017 the Company closed the first tranche of the equity financing announced on April 5, 2017 (see below) in the amount of CAD$2,148 through the issuance of 30,700 Shares at CAD$0.07 per Share.

April 5, 2017 Financing announcement and termination of Esrey Energy Ltd letter of intent

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