



ENABLENCE TECHNOLOGIES INC.

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

FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2008

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

FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2008 (THOUSANDS OF CANADIAN DOLLARS,
EXCEPT PER SHARE AMOUNTS OR UNLESS SPECIFIED OTHERWISE)

The following is a discussion and analysis of the unaudited consolidated financial statements of Enablence Technologies Inc. ("Enablence", or the "Company") for the three and six months ended October 31, 2008, which are the first two quarters of the Company's fiscal 2009 year, and should be read in conjunction with the Company's Annual Information Form, audited annual financial statements and MD&A and other securities filings available on www.sedar.com. The effective date of this MD&A is December 12, 2008. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All figures are presented in Canadian currency unless specified otherwise. The financial statements include all of the assets and liabilities and expenses of Enablence Technologies Inc. and its subsidiaries. References herein to "Enablence", "the Company", "we" and "our" mean Enablence Technologies Inc. Management has evaluated the effectiveness of the Company's disclosure controls and procedures as of October 31, 2008 and has concluded that these are effective in providing reasonable assurance that material information relating to the Company has been appropriately disclosed.

FORWARD-LOOKING STATEMENTS

This discussion 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 the Company'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.

Enablence's fiscal year ends April 30. In this MD&A, quarterly references relate to the Company's fiscal year so "FYTD 2009" and "FQ2 2009" refers to the six months and fiscal second quarter ending October 31, 2008, respectively and similarly for other periods.

OVERVIEW

HIGHLIGHTS AND SUMMARY

Enablence continues to grow organically and through acquisitions. The Company has been organized along two divisions: Fibre-to-the-Home/Business ("FTTx") Networks and Optical Components & Subsystems. This structure was determined to be optimal for the exploitation of markets and customer opportunities, and to maximize the synergies and efficiencies among our subsidiaries.

Fibre optic deployments in the access and metro markets continue to grow despite the economic slowdown and Enablence management believes that greater emphasis will be placed in improved telecommunications infrastructure based on FTTH as part of various international stimulus packages. If this occurs, it would lead to increased demand and offset likely impacts of the economic slowdown. Enablence plans to continue to execute on its vertical integration strategy and take advantage of potential consolidation opportunities to position itself to become a leader in integrated photonic solutions and FTTx systems worldwide.

The company continues to receive increased interest among its peers and believes that it will continue experience sales growth however modest in FY2009 (ending April 30, 2009) as it plans to roll out new integrated products based on arrayed waveguide gratings, introduce new optical transceiver product lines integrated with Optical Network Terminals (“ONTs”) and, together with Optical Line Terminals (“OLTs”), provide end-to-end FTTx solutions for worldwide Fibre-to-the-Home (“FTTH”) deployments.

FQ2 2009 highlights include:

- substantial growth in revenues to \$8.7 million compared to \$145,000 in FQ2 2008;
- substantial increase in total assets to \$125.1 million compared to \$76.8 million at the end of FQ2 2008;
- the completion of the integration of the Company’s planar lightwave circuit (“PLC”) based transceiver optical block into the Optical Network Terminal (ONT) ready for commercial deployments.

Subsequent to FQ2 2009 – Acquisition of Pannaway Technologies Incorporated

On November 19, 2008 the Company acquired all of the outstanding shares of Pannaway Technologies Incorporated (“Pannaway”) and merged it into the FTTx Networks division. Pannaway offers an integrated DSL and FTTH solution to its North American customer base. Pannaway’s technology solutions are complementary to the Company’s existing FTTx solutions. The consideration of this acquisition and merger is more fully described in the Subsequent Events section of this MD&A.

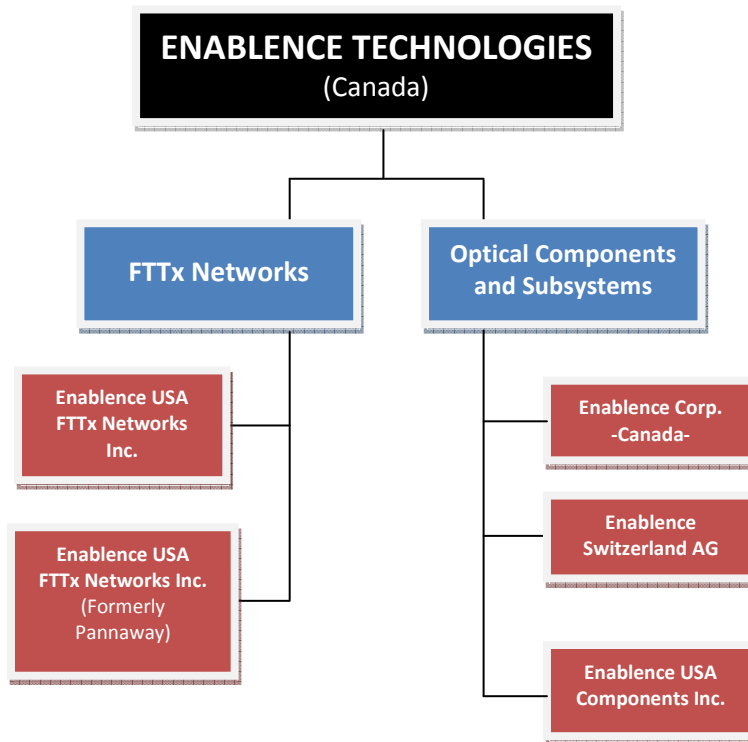
ENABLENCE TECHNOLOGIES BUSINESS

Enablence has, at its core, the vision to create value for its shareholders by becoming a leading global supplier of end-to-end FTTx solutions and for optical components and subsystems. To accomplish this goal the company is continuing to strengthen its technological, product and market position through a combination of organic growth and a series of vertical integration activities to maintain and consolidate its leadership position in integrated photonics solutions and FTTx systems worldwide.

Enablence has evolved significantly from its initial PLC-based transceiver research and development activity and single product line to a complete suite of products for the long-haul, metro loop and FTTH or access networks with the Company’s proprietary PLC technology as a base technology for most products consistent with its vertical integration strategy adopted in the fall of last year.

As a result of the success of these efforts, Enablence is now organized into two divisions: the Optical Components and Subsystems Division and the FTTx Networks Division. The Optical Components and Subsystems division has a broad portfolio of products that allows the Company to supply high value-added products to its customers. The FTTx Networks Division provides complete FTTx system solution to allow for FTTx deployments worldwide with Enablence's products. These two divisions are complementary to each other and form part of the same value chain. This growth and expansion is in line with its business plan and vision through its vertical integration strategy.

The corporate organization chart below depicts the corporate organization at October 31, 2008, except for Enablence USA Networks Inc., which was acquired on November 19, 2008.



Enablence Optical Components and Subsystems Division (OCSD)

The Optical Components and Subsystems Division has four core competencies, namely:

- design and integration of optical transceivers and custom integrated solutions, an activity led by the team in Ottawa, Canada;
- production of arrayed waveguide grating based devices, using the silica on silicon fab at the Company's facilities in Fremont, California;
- production of proprietary PLC-based reconfigurable switching devices (ROADMs) using silica-on-silicon technology from Fremont and polymer PLC from our production facilities in Wilmington, Massachusetts; and
- advanced photodiode production, which takes place in our gallium arsenide and indium phosphide fabrication facility in Zurich, Switzerland.

With these capabilities at the Optical Components and Subsystem Division, Enablence is the only company known to possess all three capabilities to process optical wafers in the key optical material groups, namely silica-on-silicon, polymer and indium phosphide with commercially available products using all three substrates.

Enablence's PLC optical chip technology enables the integration of sub-components (waveguides, photodetectors, lasers and transimpedance amplifiers) onto one platform. The optical performance, the level of assembly automation, and the suitability for mass-production associated with this technology are believed by management to rival or surpass that of competitive alternatives.

Enablence's core technology is portable to numerous markets including metro area fibre optic networks that require filtering technology to separate and multiplex various wavelengths. This filtering feature of the Enablence technology makes it a platform technology that is also suitable for an array of biomedical and aerospace applications.

Enablence FTTx Network Division (FND)

On May 5, 2008, the Company acquired Wave7 Optics, Inc. (subsequently renamed Enablence USA FTTx Networks, Inc.). Enablence USA FTTx Networks is a global provider of FTTH systems that deliver voice, video and data services over fibre optic lines. Today, the company produces ONTs for the home or business markets and the OLT (Optical Line Terminal) at the central office for the various service providers. This division has established relationships with more than 100 customers on six continents. The Company's patented technology handles multiple protocols (EPON, GPON & PT-to-PT Ethernet). The Company's ONTs rely on optical transceivers at their core.

Subsequent to the end of FQ2 2009, on November 19, 2008, the Company acquired Pannaway Technologies Inc. ("Pannaway"). Pannaway has established relationships with over 300 customers in the USA and Canada, delivering solutions that allow customers to leverage their existing DSL networks while introducing FTTH to selected elements of their market from the same technology platform.

The addition of these network capabilities has transformed Enablence into a company that is able to provide a system solution for FTTH networks and therefore, has increased its addressable market, its competitive position and ability to directly deal with carriers deploying networks worldwide and provide complete product solutions to meet customer needs.

The Enablence FTTx Network Division has installed FTTH solutions at over 400 customers, in the USA and in 60 other nations. Irrespective of which OLT is deployed (Trident 7, Magnum or Magnum FX) at a customer's central office, a single ONT, incorporating a transceiver, is used at each end user's location, allowing the Company to leverage its ONT technology across a significantly larger customer base.

The Company uses contract manufacturers in the United States, Canada, and Japan to assist in the production of its various product lines. Management will continue to review these agreements to ensure that they are cost effective and meet the on-going needs and requirements consistent with market and competitive circumstances. The Company

plans to consolidate its manufacturing operations to take advantage of volume, cost and integration in the regular course of business.

GROWTH STRATEGY

A number of product development objectives are planned for the next 12 months, including the further customized integration of the optical chips into the FTTx platform, moving to high-value added products from traditional transceiver to ONT sales, continued integration and the introduction of full Reconfigurable Optical Add/Drop Module (“ROADM”) subcomponents and similar high value products for the metro and long haul markets.

During the next 12 months, Enablence plans to increase its production capacity of ONTs and OLTs by consolidating its contract manufacturing operations and bringing the majority of its transceiver production in house to meet its internal ONT needs.

Enablence intends to continue to pursue product strategies directed primarily at the access, metro area fibre optic networks, long-haul networks, and datacom and later in the biophotonic solutions, aerospace and defence sectors.

CHANGES IN ACCOUNTING POLICIES

Inventories

Effective May 1, 2008, the Company adopted CICA Handbook Section 3031, *Inventories*. This section provides more guidance on the measurement and disclosure requirements for inventories. The adoption of this standard did not have a material impact on the Company’s consolidated financial statements.

Financial Instruments

Effective May 1, 2008, the Company adopted two new CICA standards, Handbook Section 3862, *Financial Instruments Disclosures*, and Section 3863, *Financial Instruments Presentation*, which replaces Handbook Section 3861, *Financial Instruments Disclosure and Presentation*. The new presentation standards carry forward the former presentation requirements and increase the emphasis on the disclosure of risks associated with both recognized and unrecognized financial instruments and how those risks are managed.

The adoption of these new Handbook sections did not have a material impact on the Company’s consolidated financial statements. The new disclosures pursuant to these Sections are included in Note 9 of the October 31, 2008 financial statements.

Capital Disclosures

Effective May 1, 2008, the Company adopted the new CICA standard, Handbook Section 1535, *Capital Disclosures*. This section establishes standards for disclosing information about a company’s capital and how it is managed. The required disclosure of information about the Company’s objectives, policies and processes for managing capital is included in Note 10 of the October 31, 2008 financial statements.

International Financial Reporting Standards (IFRS)

On February 13, 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company is currently in the process of developing a conversion implementation plan and assessing the impacts of the conversion on the consolidated financial statements and disclosures of the Company.

DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The CEO and CFO have evaluated the effectiveness of the Company's disclosure controls and procedures and assessed the design of its internal control over financial reporting as of October 31, 2008, pursuant to the requirements of Multilateral Instrument 52-109. The CEO and CFO have concluded, based on this evaluation, that the company's disclosure controls and procedures are effective, and that the design of internal control over financial reporting provides reasonable assurance regarding the reliability of the company's financial reporting and the preparation of the company's financial statements for external purposes in accordance with (Canadian) GAAP.

On July 25, 2007, the officers, directors and employees in receipt of options granted on December 12, 2006 and March 7, 2007 agreed voluntarily to refrain from exercising these options while the OSC conducted an investigation into the trading activities of Enablence shares and related corporate events. Enablence cooperated fully with this investigation. Enablence also conducted an independent investigation of all of its internal procedures. This third party investigation confirmed management's view of there being no impropriety in the decision that led to these grants. This hold was lifted in December 2007 for all non-management staff and on February 23, 2008 for management in order to allow employees the benefits afforded by these options. There are currently no voluntary vested stock options that are being withheld from being exercised for any employee – management or non-management.

RESULTS OF OPERATIONS

SUMMARY OF UNAUDITED QUARTERLY RESULTS

The following table sets forth unaudited summary results of operations for the past 8 quarters. The information has been taken from our unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited financial statements for the last eight quarters ended October 31, 2008 and includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of information presented. The table and ensuing discussion and analysis presents the information in thousands of Canadian dollars.

Period ended	October 31, 2008 (3 months)	July 31, 2008 (3 months)	April, 30, 2008 (3 months)	January 31, 2008 (3 months)	October 31, 2007 (3 months)	July 31, 2007 (3months)	April 30, 2007 (3months)	January 31, 2007 (3 months)
Revenue	\$8,765	\$7,634	\$2,445	\$261	\$145	\$301	\$ 72	-
Gross Profit	1,669	1,988	828	171	28	156	5	-
Expenses								
Research & Development	3,458	3,644	2,205	1,457	1,009	1,030	391	677
Sales, General & Administrative	4,337	3,552	1,867	1,317	631	725	867	603
Stock Based Compensation	509	341	500	539	599	787	845	130
Amortization	2,433	2,025	1,667	397	363	369	326	115
Operating Loss	10,737	(7,574)	(5,410)	(3,540)	(2,575)	(2,754)	(2,423)	(1,525)
Net Loss for the Period	\$(7,721)	\$(6,844)	\$(5,216)	\$(2,642)	\$(2,270)	\$(2,494)	\$(2,170)	\$(1,428)
Weighted Average Shares Outstanding	182,617,055	175,514,353	171,827,815	161,553,851	120,146,388	117,247,187	108,145,645	89,856,780
Basic and Diluted Loss Per Share	\$(0.04)	\$(0.04)	\$(0.03)	\$(0.02)	\$(0.02)	\$(0.02)	\$(0.02)	\$(0.02)

SUMMARY OF RESULTS FOR THE THREE MONTHS ENDED OCTOBER 31, 2008 AND THE THREE MONTHS ENDED JULY 31, 2008

The following table sets forth a summary of key operating and other information from our consolidated financial statements for the most recent reporting periods as prepared in accordance with Canadian GAAP. The information has been derived from our audited consolidated financial statements.

The nature and size of our business has changed significantly during the last 12 months. During the FYTD 2008 (the six months ended October 31, 2007) we had operations in Ottawa, Canada and Zurich, Switzerland. During the first week of FQ4 2008 (the quarter ended April 30, 2008) we acquired ANDevices Inc. (now called Enablence USA Components, Inc.). During the first week of FQ1 2009 (the quarter ended July 31, 2008) we acquired Wave7 Optics, Inc. Finally, on the last day of FQ1 2009 we acquired the assets of the DuPont Photonics division. As a consequence of these acquisitions, the

results of operations for each of FQ2 2009 and FYTD 2009 are not reasonably comparable to those of FQ2 2008 and FYTD 2008, respectively. However, the results of operations are comparable between FQ2 2009 and FQ1 2009 and are analyzed below.

The table below sets out, on a comparative basis, the divisional revenues and the elements of the Company's cost of revenues, for FQ2 2009 and FQ1 2009.

	(\$,000)			
	FQ2 2009	FQ1 2009	Change	% Change
Revenues				
FTTx Networks	\$4,908	\$4,724	\$184	3.9%
Optical components & subsystems	<u>3,857</u>	<u>2,910</u>	<u>947</u>	32.5%
	<u>8,765</u>	<u>7,634</u>	<u>1,131</u>	14.8%
Cost of revenues				
Variable costs	5,866	5,068	798	15.8%
Facility overhead	596	415	181	43.6%
Amortization	<u>634</u>	<u>163</u>	<u>471</u>	289%
	<u>7,096</u>	<u>5,646</u>	<u>1,450</u>	25.7%
Gross Profit	<u>\$1,669</u>	<u>\$1,988</u>	<u>\$(329)</u>	-16.5%
Gross Margin – actual	19.0%	26.0%		5.1% pts
Gross Margin – excluding amortization	26.3%	28.2%		1.9% pts

REVENUES

The Company operates two divisions. The Optical Component and Subsystems division develops and sells integrated photonic chips and solutions. The FTTx Networks division develops and sells systems that deliver very high speed, high capacity voice, video and data services to the premises.

Revenues increased by \$1,131 (15%) from \$7,634 during FQ1 2009 to \$8,765 in FQ2 2009. Of this \$1,131 increase, \$948 was from the polymer PLC switching business that was acquired from DuPont Photonics on July 31, 2008.

The table below provides a comparison of the assets for the two divisions for the three quarters at issue.

	Property, plant, equipment and intangible assets (\$,000)	
	Oct 31 2008	Jul 31 2008
Optical Components	\$62,583	\$57,767
FTTx Networks	<u>10,495</u>	<u>9,406</u>
	\$73,078	\$67,173

Revenue (based on ship-to location of the customer) and assets (where located) are segregated geographically as follows:

	Revenues (\$,000)		Property, plant, equipment and intangible assets (\$,000)	
	FQ2 2009	FQ1 2009	Oct 31 2008	Jul 31 2008
North America	\$4,976	\$4,332	\$66,250	\$59,981
Asia Pacific	1,673	1,557	--	--
Europe	<u>2,116</u>	<u>1,745</u>	<u>6,828</u>	<u>7,192</u>
	\$8,765	\$7,634	\$73,078	\$67,173

During FQ2 2009 one customer accounted for 17% of the Company's total revenue and one customer accounted for 31% of the accounts receivable balance at October 31, 2008. During FQ1 2009 one customer accounted for 19% of the Company's total revenue and one customer accounted for 31% of the accounts receivable balance at July 31, 2008.

Cost of revenues rose from \$5,646 in FQ1 2009 to \$7,096 in FQ2 2009. This increase of \$1,450 (26%) is comprised of increases of \$653 in variable product costs, \$181 of facility overhead costs and \$471 in the amortization of property, plant and equipment, largely a result of sales of polymer PLC switching devices.

Gross margins fell from 26% to 19%, most of which is attributable to the increase in amortization expenses. Gross margins excluding amortization fell from 28% to 26%. The Company sells a wide range of products which, in turn, have a wide range of gross margins. Depending on the product mix sold during the period the Company's gross margin will vary and the 2% point decline from FQ1 2009 to FQ2 2009 is within the normal range of variance.

The Company is taking steps to improve the variable costs of production through further integration of its operations, including shifting low volume, high unit cost production from a contract manufacturer to use of internal facilities to improve facility overhead utilization; consolidation of its contract manufacturing activities that are presently spread among various manufacturers due to different relationships established by acquired companies; and seeking quotes from contract manufacturers in lower cost locations, while offering higher volumes through consolidated and integrated operations. The results of some of these efforts will be reflected in subsequent quarters.

OPERATING EXPENSES

The following table presents the operating expenses of the Company on a summary comparative basis for FQ2 2009 and FQ1 2009.

	FQ2 2009		FQ1 2009		Change	
	\$,000	% of Rev	\$,000	% of Rev	\$,000	% Change
R&D	\$3,458	39.5%	\$3,644	47.7%	\$(186)	-8.2% pts
Sales & Marketing	1,804	20.6%	1,596	20.1%	208	0.5% pts
G&A	2,533	28.9%	1,956	25.6%	577	3.3% pts
Stock based compensation	509	5.8%	341	4.5%	168	1.3% pts
Amortization	<u>2,433</u>	27.8%	<u>2,025</u>	26.5%	<u>408</u>	1.3% pts
	<u>\$10,737</u>	122.5%	<u>\$9,562</u>	125.3%	<u>\$1,175</u>	-2.8% pts

The following table sets out in detail the key elements of each category of our operating expenses.

	<u>FQ2 2009</u>		<u>FQ1 2009</u>		<u>Change</u>	
	<u>\$,000</u>	<u>% of Exp</u>	<u>\$,000</u>	<u>% of Exp</u>	<u>\$,000</u>	<u>% Change</u>
R&D						
Compensation	\$2,289	66%	\$1,928	53%	\$361	18.7% pts
Other R&D expenses	<u>1,168</u>	34%	<u>1,736</u>	47%	<u>(568)</u>	-32.7 % pts
Total R&D expense	<u>\$3,457</u>	100%	<u>\$3,664</u>	100%	<u>\$(207)</u>	-5.6% pts
R&D staff	72		69		+3	
Sales & Marketing						
Compensation	\$1,028	57%	\$961	60%	\$67	7.0 % pts
Other S&M expenses	<u>776</u>	43%	<u>635</u>	40%	<u>141</u>	22.2% pts
Total S&M expense	<u>\$1,804</u>	100%	<u>\$1,596</u>	100%	<u>\$208</u>	13.0% pts
S&M staff	23		29		-6	
G&A						
Compensation	\$817	32%	\$844	43%	\$(27)	-3.2% pts
Other S&M expenses	<u>1,716</u>	68%	<u>1,112</u>	57%	<u>604</u>	54.3% pts
Total S&M expense	<u>\$2,533</u>	100%	<u>\$1,956</u>	100%	<u>\$577</u>	29.5% pts
S&M staff	17		18		-1	
Stock-based compensation	\$509		\$341		\$168	49.3% pts
Amortization						
In G&A						
PP&E	\$420		\$381		\$39	10.2% pts
Intangibles	<u>1,870</u>		<u>1,710</u>		<u>160</u>	9.4% pts
	2,290		2,091		199	9.5% pts
In cost of revenues	<u>634</u>		<u>376</u>		<u>258</u>	68.6% pts
Total amortization	<u>\$2,924</u>		<u>\$2,467</u>		<u>\$457</u>	18.5% pts

R&D expenses decreased by \$207 (6%) from FQ1 2009 to FQ2 2009. This is comprised of a \$344 increase related to the polymer PLC switching device business unit (\$282 in compensation and \$52 of other expenses) that was acquired from DuPont Photonics on July 31, 2008, offset by reductions of \$541 from other Enablence business units that were comparable during FQ1 2009 and FQ2 2009.

The Company's accelerated efforts to commercialize its core components technology and FTTx systems are now starting to show results and the Company expects these costs to decline as commercial revenues increase on products as they move from the R&D phase to full commercialization mode. The company is transitioning from a predominantly R&D stage company to one that is focused on the marketing and sales of its products. As this transition takes place, the Company anticipates that R&D expenditures will decline as a percentage of revenues over time and be in line with general industry practices in terms of percentage of revenues.

However, the overall R&D expenditures may from time to time be affected by any new acquisitions activity. For example, as a consequence of the acquisition of Pannaway subsequent to the end of FQ2 2009 the Company expects its overall R&D costs to rise during FQ3 2009. Once the cost reduction measures are fully implemented and the integration of the acquired business units is completed these costs are expected to decline.

Sales and marketing expenses increased by \$208 (13%) from FQ1 2009 to FQ2 2009. This is a reflection of the Company's efforts to develop a common 'Enablence' brand across all the various acquired units since inception. The Company plans to expand its corporate marketing function and to streamline and strengthen its sales function with a view to increasing revenues with higher margins, broader market share and global market reach. Opportunities exist to cross sell optical components and network systems to a larger number of customers. In addition, steps are being taken to structure the sales teams to make better use of the varying levels of experience and compensation.

As a consequence of the acquisition of Pannaway subsequent to the end of FQ2 2009, the Company expects the sales and marketing costs to rise during FQ3 2009, primarily as a result of the addition of the Pannaway North America sales network.

G&A expenses increased by \$577 (29%) from FQ1 2009 to FQ2 2009, largely due to the continued growth of the company and its workforce and operations. It is anticipated that this expenditure as a percentage of sales will decline as the full benefits of integration are realized with the results shown in the annual fiscal year end results. G&A expenses include professional fees, insurance, payments made to register Intellectual Property (IP) in various jurisdictions (translation & filing fees) as well as increases in staffing and bonus payments.

As a consequence of the acquisition of Pannaway subsequent to the end of FQ2 2009, the Company expects the general and administrative expenses to rise during FQ3 2009, primarily as a result of the addition of the costs associated with the Pannaway facilities in Portsmouth, New Hampshire, but declining thereafter in the absence of any new acquisition activity.

As a result of the issuance of 4,432,000 options during FQ2 2009 stock-based compensation expense increased by \$168 (49%). The Company's stock-based compensation expense will continue at this increased level as the fair value of these stock options is amortized over the four year vesting period.

Amortization expenses are comprised of two major elements: amortization of property, plant and equipment over their useful lives; and amortization of intangible assets over a five year period from the date of acquisition. The increases from quarter to quarter are primarily a reflection of the successive acquisitions made during the last 12 months. Since the assets for the polymer PLC switching devices were acquired on the last day of FQ1 2009 the Company did not report any amortization expense related to these assets for FQ1 2009.

INTEREST INCOME

Enablence invests cash and cash equivalents in short-term investments with a Canadian chartered bank. During Q2 2009 Enablence earned interest income on these investments of \$252, as compared to \$309 during FQ1 2009 and \$253 during FQ2 2008. This \$57 decrease in interest income is the result of holding lower average cash and cash equivalents in short-term investments balances during FQ2 2009 than in FQ1 2009 and generally lower interest rates and yields on interest bearing deposits.

INCOME TAXES

In FQ2 2009, there was a recovery of income taxes of \$587 compared to \$508 during FQ1 2009. The future income tax recovery is due to the amortization of the intangible assets recognized on acquisitions and the related future tax liability that was accrued at that time. The liability is drawn down as that portion of the asset value is amortized. No other future tax recovery on losses is recorded in earnings and will not be until, in the opinion of management, it is more likely than not that the future tax assets will be realized.

NET LOSS

The net loss for FQ2 2009 was \$7,721 compared to \$6,844 during FQ1 2009. The increase in net loss is attributable to the reasons set out above.

LOSS PER COMMON SHARE

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

	FQ2 2009	FQ1 2009
Basic and diluted loss per common share	\$0.04	\$0.04
Weighted average number of common shares	182,617,055	175,514,513

LIQUIDITY AND CAPITAL RESOURCES

Enableness has historically financed its operations through the issuance of shares. Debt and borrowings were assumed on acquisition the acquisition of ANDevices, Inc. The Company expects that its current level of cash and short-term investments will be sufficient to meet its operations and capital expenditures for more than the next 12 months. Other than for possible partial consideration for acquisitions, Enableness expects to issue additional common shares only on the exercise of options and warrants for which it expects to receive nominal cash proceeds.

The table below sets out the cash, cash equivalents and short-term investments and working capital at the end of each of the comparative quarters, (in \$,000).

	FQ2 2009	FQ1 2009
Cash, cash equivalents and short-term investments	\$32,155	\$37,696
Working capital	\$38,882	\$44,332

During FQ2 2009, the Company consumed \$4,074 of cash in operating activities and invested \$1,158 in property, plant and equipment and a further \$55 in acquisition related costs. A further \$97 was used in partial repayment of a term loan assumed on the acquisition of ANDevices. The net decrease in cash, cash equivalents and short-term investments during FQ2 2009 was \$5,541.

The common shares of Enableness commenced trading on the TSX Venture Exchange on July 28, 2006 under the symbol "ENA" or "ENA.V".

OFF BALANCE SHEET ARRANGEMENTS

Enableness has not entered into any 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.

FINANCIAL AND OTHER INSTRUMENTS

Enableness's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. Unless otherwise noted, it is the opinion of Enableness's Management that Enableness 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.

TRANSACTIONS WITH RELATED PARTIES

None.

SUMMARY OF CONTRACTUAL OBLIGATIONS

The table below presents the Company's contractual obligations (in \$,000s)

	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Facilities leases	\$4,175	\$1,307	\$2,528	\$340	\$ --

CAPITAL RESOURCE REQUIREMENTS

The Company expects to invest up to \$3 million during the next year on component manufacturing equipment to improve manufacturing processes with the ultimate objective of improving gross margins and product offerings. The Company is implementing a vertical integration strategy involving the replacement of components acquired from third parties with comparable components manufactured within the consolidated enterprise. The objective of this vertical integration strategy is to improve the Company's supply chain logistics and to improve gross margins by adding higher value products in its product portfolio. The Company is unable to specify its known capital resources requirements for this purpose at this time.

OUTLOOK

The primary development challenge for the Optical Component and Subsystems Division will be to ensure that the supply of the optical components does not suffer from increased pricing pressures by taking advantage of our competitive position in the marketplace so that favourable gross margins are achieved. A rigorous review of the Division's costs and marketing and sales efforts will be critical to achieving this. In addition, the division will need to avoid producing products that have low profit margins unless they lead to significant strategic or competitive advantages.

Management is focusing on seven goals for the remainder of FY2009:

- increasing sales by building our direct sales team and improving our distribution channels; improving our gross margins through further integration of internally produced components;
- reducing our manufacturing costs by consolidating our manufacturing operations and using our increased purchasing leverage arising from increased volumes;
- strengthening our sales teams in each of the Divisions with clear sales targets aimed at improving the bottom line while enhancing the Corporate marketing function to support divisional activities including improving global recognition of the Enablence name and of our comprehensive suite of products;
- improving our product development processes, by streamlining research and development activities with defined commercial objectives;
- transitioning away from a pre-dominance of R&D activities towards commercial production and sales as new products enter the marketing and commercialization phase;
- integrating the administrative groups within the Company; and
- taking full advantage of the benefits of an integrated company and its technological and product competitiveness.

These initiatives started in the latter part of FQ1 2009 and are likely to yield initial results by the end of the fiscal year, with the full benefits being realized in the first half of F2010. Management believes that once these efforts are completed as anticipated, the company will have significantly reduced the operating losses incurred in F2009 and be on the track towards profitability in F2010.

Management remains committed to a number of additional key initiatives that it believes will positively affect the metrics that drive the business namely: protection of intellectual property, continued R&D, vertical integration, security of supply and committed manufacturing partners.

Increased revenues and reduced costs may not be sufficient in F2009 to cover the operating expenses. The Company does not anticipate profitability until such time as it achieves higher volume sales. There are no assurances that Enablence will gain adequate market acceptance, nor are there any guarantees that the Company will achieve profitability, even though it is experiencing sales growth, nor is the Company able to presently assess any negative impact of the current global economic crises. The Company has not yet earned operating profits and expects to incur further significant operating losses before realizing profits. The Company believes that the existing working capital coupled with revenues will, with the above reservations, be sufficient to cover the Company's anticipated operating costs throughout F2010.

FINANCIAL INSTRUMENTS

The Company is exposed to currency risk as an increasingly significant volume of its transactions are denominated in U.S. dollars, Euros, Yen and Swiss Francs. The Company has not entered into forward, swap or option contracts to manage its exposures to fluctuations in foreign exchange rates, interest rates, or changes in share price. Enablence intends to adopt a strategy to manage these fluctuations as revenues increase.

PROPOSED TRANSACTIONS

As noted above under "Capital Resources", the Company will continue to review opportunities to enhance shareholder value through strategic vertical integration strategies. There are currently no material proposed asset or business acquisitions or dispositions that have been approved by the board of directors of Enablence Technologies Inc.

SUBSEQUENT EVENTS

On November 19, 2008, the Company completed the acquisition of Pannaway. The operations of Pannaway were merged with the Company's FTTX Networks Division.

As consideration for the acquisition, the Company issued an aggregate of 20,250,000 common shares of Enablence, of which 3,000,000 shares will be held in escrow, and US\$200,000 to Pannaway shareholders and 5,500,000 common shares of Enablence to a Pannaway debt holder in respect to the cancellation of certain Pannaway debt. Enablence will also issue 10-year convertible notes (the "Notes") in the aggregate of US\$3,000,000 bearing interest at 5% per annum to four debt holders. The Notes are convertible, at the option of the holder, from the third anniversary until the fifth anniversary or in the event of a default, at a conversion price equal to the greater of (i) the closing market price on the last trading day prior to the date of the conversion notice, and (ii) the conversion price of US\$0.317 (CAD\$0.365) in the first two years, US\$0.349 (CAD\$0.402) in the third year, US\$0.384 (CAD\$0.442) in the fourth year and US\$0.422 (CAD\$0.486) in the fifth year. The maximum number of shares that can be issued pursuant to the Notes is 9,463,722 shares.

SHARE CAPITAL

COMMON SHARES

Enablence is authorized to issue an unlimited number of common shares of which 182,617,055 common shares are issued and outstanding as of October 31, 2008. The following table details the issued and outstanding shares of the company:

	Number of common Shares	Amount
April 30, 2007	117,247,187	\$ 31,889
Issued for cash, net of \$3,848,788 issuance costs	42,592,665	53,651
Fair value of broker warrants issued		(754)
Issued on exercise of options	2,028,000	1,187
Issuance costs	-	(31)
Redemption of broker warrants	1,738,067	1,231
Issued for acquisition of ANDevices, Inc. (Note 15)	9,085,113	22,403
April 30, 2008	172,691,032	\$109,575
Exercise of broker warrants	1,000,000	492
Issued for acquisition of Wave7 Optics, Inc.	2,078,385	3,547
Issued for acquisition of assets of DuPont Photonics Tech. LLC	6,847,638	9,724
July 31, 2008	182,617,055	\$123,338
October 31, 2008	182,617,055	\$123,338

As a result of the acquisition of Pannaway Technologies Incorporated on November 19, 2008, an additional 25,750,000 common shares were issued. The total common shares outstanding as of that date were 208,367,055.

The share capital schedule above is that of the legal parent (the Company) subsequent to April 30, 2007 and that of the legal subsidiary (Enablence Inc.) on April 30, 2007.

On July 24, 2006, the Company entered into a reverse takeover transaction with Pacific Northwest Partners Ltd. In legal form, Enablence Inc. became a wholly owned subsidiary of Pacific Northwest Partners on that date; however, the effect of the transaction was such that the existing shareholders of Enablence Inc. have become the majority owners of Pacific Northwest Partners Ltd., giving rise to a reverse takeover. Pacific Northwest Partners Ltd. subsequently changed its name to Enablence Technologies Inc. (the Company).

On October 25, 2007, the Company completed a public offering issuing an aggregate of 42,592,665 common shares at a price of \$1.35 per share for gross proceeds of \$57,500,000. As partial compensation for this transaction, 1,277,779 broker warrants were issued entitling the holder to purchase one common share at a price of \$1.35 per share to April 25, 2009. The warrants have been valued at \$753,660 and have been recorded as an issuance cost. The fair value was determined using the Black-Scholes pricing model. 98,209 broker warrants were exercised during the year ended April 30, 2008 resulting in cash proceeds of \$132,582.

On February 7, 2008, the Company acquired all of the outstanding shares of ANDevices for consideration of \$13,571,902 (US\$13,500,000) in cash and 9,085,113 common shares valued at \$2.47 per share or \$22,403,333 plus \$264,296 of transaction costs. ANDevices is a supplier of Planar Lightwave Circuit (PLC) based photonic devices for the growing access, metro and long-haul communication markets.

In addition, the Company granted 1,950,000 options to acquire common shares in the Corporation at \$2.30 per share to certain employees of ANDevices. These options will vest in four equal semi-annual installments over a two year period. These options are not part of the purchase price.

The following table summarizes the purchase price based on estimated fair values, (in \$,000s)

Assets acquired:	
Cash	\$ 1,211
Accounts receivable	1,130
Inventory	878
Prepays and deposits	226
Property and equipment	6,520
Intangible assets	20,273
Future income tax assets	3,079
Goodwill	20,100
	53,417
Liabilities assumed:	
Accounts payable and accrued liabilities	3,386
Loans	3,858
Future income tax liability	9,933
	17,177
Total purchase price consideration	\$ 36,240

The \$20,273,418 value assigned to identifiable intangible assets is attributable to existing technology and intellectual property, customer relationships and brand value. Existing technology and intellectual property carry a value of \$8,350,630, customer relationships carry a value of \$10,212,418 and brand value carries a value of \$1,710,370. The intangible assets will be amortized on a straight-line basis over a 5 year period from the date of acquisition.

Goodwill, which represents the excess of the purchase price over the fair value of tangible and identified intangible assets acquired, reflects the competitive advantages the Company expects to realize from ANDevices existing product lines and developing new markets.

On May 5, 2008, the Company acquired all of the outstanding shares of Wave7 Optics, Inc. for consideration of US\$10,500,000 or \$10,568,290 in cash and 2,078,385 common shares valued at \$1.69 per share or \$3,547,250 at time of closing plus \$264,905 of transactions costs. Wave7 Optics, Inc. was renamed Enablence USA FTTx Networks, Inc. It is a global provider of Fibre to the Home ("FTTH") systems that deliver voice, video, and data services.

The property and equipment is comprised of a fully operational facility located in Alpharetta, Georgia. The intangible assets associated with the acquisition are mainly the customer relationships developed by FTTx Networks. The fair value of the customer relationships was determined using a discounted cash flow methodology taking into consideration anticipated market demand of both current and future customers. The acquisition was accounted for by the purchase method, whereby the results of operation of the acquired company are included in the consolidated statements of earnings and cash flows since the acquisition date. The net purchase price of \$14,350,602 was allocated based on the fair value of the net identifiable assets over the cost of the purchase, which is sometimes referred to as negative goodwill. The negative goodwill was allocated on a pro-rata basis to the fair value of the long-term tangible and

intangible assets acquired. The intangible assets will be amortized on a straight-line basis over a 5 year period from the date of acquisition.

The following table summarizes the purchase price based on estimated fair values.

Assets acquired:	
Cash	\$ 287
Accounts receivable	2,590
Inventory	5,698
Prepays and deposits	363
Property and equipment	540
Intangible assets	9,123
	<hr/> 18,601
Liabilities assumed:	
Accounts payable and accrued liabilities	2,051
Loans	1,822
Deferred revenue	348
	<hr/> 4,221
Total purchase price consideration	<hr/> \$ 14,380

On July 31, 2008, the Company acquired certain assets of DuPont Photonics Technologies LLC (“DuPont Photonics”), a wholly owned subsidiary of E.I. du Pont de Nemours and Company (“DuPont”) valued at \$4,613,145 in exchange for 3,248,694 common shares of Enablence valued at \$1.42. Concurrent with the closing of the transaction, DuPont completed a US\$5 million or \$5,110,500 investment in the Company to acquire 3,598,944 common shares of the Company valued at \$1.42.

The following table summarizes the assets acquired based on estimated fair values.

Assets acquired:	
Inventory	\$1,258
Production equipment	1,239
Intangible assets	2,220
Total purchase price consideration	<hr/> \$ 4,717

The value assigned to identifiable intangibles assets was attributed to existing customer relationships. The intangible assets are being amortized on a straight-line basis over a 5 year period from the date of acquisition.

The Company estimates the fair values of assets acquired and liabilities assumed for each of its acquisitions and plans to finalize all estimates within one year of each acquisition.

RISKS AND UNCERTAINTIES

The Company operates in a dynamic, rapidly changing environment that involves risks and uncertainties and that 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 recent global economic crises pose additional risks and uncertainties which may materially affect Management’s expectations. Any investor should also consider

carefully the risks and uncertainties that are detailed in our Annual Information Form filed on July 24, 2008, and available at: www.SEDAR.ca.

The current economic conditions in which the Company operates present certain risks and uncertainties which could affect the results of operations and the Company's financial condition.

The Company's customers may not have access to the necessary capital to fund their purchases of our products and services. Furthermore, the customers of the Company's customers may not have the operating funds or access to capital to fund their purchases. In either event, the revenues of the Company could be negatively impacted.

There is a risk that the Company's customers may not have the funds to pay the Company the amounts currently owed for products delivered or services rendered, or for products delivered or services rendered in the future. The failure to collect these amounts could negatively impact the Company's financial condition.

There is a risk that the suppliers of critical parts and components to the Company may not be able to deliver these parts and components due to the suppliers' lack of operating capital or their inability to access capital to fund operations. In the event that the Company's suppliers cannot deliver critical parts and components on time the Company may not be able to produce its products on a timely basis or not at all and, as a consequence the Company's revenues will be negatively impacted and consequently its financial condition may deteriorate.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amount of revenue and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates include, but are not limited to investment tax credits, estimated useful lives of capital assets, patents and other intangible assets, purchase price allocations on acquisitions, valuation of shares issued on acquisitions and the valuation of stock based compensation.

The Company has adopted the accounting recommendations contained in the CICA Handbook Section 3870 - "*Stock-based Compensation and Other Stock-based Payments*". This Section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services, and applies to transactions, including non-reciprocal transactions, in which an enterprise grants shares of common stock or other equity instruments, or incurs liabilities based on the price of common stock or other equity instruments. The Company uses the fair-value based method to account for all stock-based payments to employees and non-employees by measuring the compensation cost of the stock-based payments using the Black-Sholes option-pricing model. The fair value of the stock-based compensation is recorded as a charge to operations (or share issuance costs for broker warrants) over the vesting period with a credit to contributed surplus

ADDITIONAL INFORMATION

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