ENABLENCE TECHNOLOGIES INC.

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

FOR THE THREE AND EIGHT MONTHS ENDED DECEMBER 31, 2010 AND THE THREE AND NINE MONTHS ENDED JANUARY 31, 2010

DATED: FEBRUARY 8, 2011

ENABLENCE TECHNOLOGIES INC.

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

The following is a discussion and analysis of the unaudited consolidated financial statements of Enablence Technologies Inc. ("Enablence") for the three and eight months ended December 31, 2010, and should be read in conjunction with other securities filings available on www.sedar.com. The effective date of management's discussion and analysis is February [8], 2011. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The financial statements include the assets, liabilities, revenues and expenses of Enablence and its subsidiaries, including those of Teledata Networks Ltd. ("Teledata") from the June 23, 2010 acquisition date. References made herein to "Enablence", "the Company", "we" and "our" mean Enablence and its subsidiaries, collectively, unless the context indicates otherwise. Management has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2010 and has concluded that these are effective in providing reasonable assurance that material information relating to the Company has been appropriately disclosed.

All amounts included in the MD&A are in thousands, except per share amounts or as indicated otherwise. All financial amounts are in Canadian dollars, unless otherwise stated.

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.

OVERVIEW

ENABLENCE'S BUSINESS

Enablence designs, manufactures and sells fiber-to-the-home (FTTH) equipment and multi-service access platforms for triple-play residential and business services and optical components and subsystems for access, metro and long-haul markets, optical components, subsystems and systems to a global customer base. Enablence delivers a key portion of the infrastructure for next generation telecommunication systems. 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 and continents. It utilizes its patented technologies including planar lightwave circuit ("PLC") intellectual property, know-how and trade secrets in the production of an array of photonics components and broadband equipment. The Company's Access solutions enable voice, data, video, and Internet communications across both copper and fiber based network infrastructures. Enablence is organized in two divisions - the Optical Components and Subsystems division ("OCS") and the Systems division ("Systems").

OCS has a broad portfolio of products using the PLC technology that allows the Company to supply high value-added products to its customers. Systems provide a complete broadband system solution to allow for increased broadband deployments worldwide using Enablence's products.

HIGHLIGHTS

During the three months ended December 31, 2010, Enablence:

- generated $34.6 million in revenue, the highest in the Company's history
  - Optical Components and Subsystems division ("OCS") generated record revenues of $8.8 million;
  - Systems division ("Systems") generated record revenues of $25.7 million including the Company's largest ever sale of over $12 million to a customer in Central Asia
- continued to improve gross margins with 31.7% gross margin in the quarter, up from 27.5% in the three months ending September 30, 2010 (as adjusted – see below)
- entered into a joint venture agreement with Sunsea Telecommunications Co. Ltd. ("Sunsea") in China, expected to commence operations in fiscal 2012 (subject to regulatory approvals)
- completed a public offering of 36,600 common shares at a price of $0.58 per share for gross proceeds of $21,228 (net cash proceeds of $19,707)
- reduced Adjusted EBITDA (as defined below) loss to $1.1 million for the quarter
- developed an initial cost reduction program to remove between $1 -2 million of costs per quarter

The Company has changed its fiscal year end to June 30 from April 30. As a result, the current fiscal year will comprise 14 months ending June 30, 2011. During this transition fiscal year, the Company will report on 5 periods. The 2011 fiscal period includes the two months of May and June 2010 (the "Stub 2011"), and the four quarters ending September 30, 2010, December 31, 2010, March 31, 2011 and June 30, 2011. This MD&A covers the results for the three- and eight-month periods ending December 31, 2010 compared with the three- and nine-month periods ending January 31, 2010.

On June 23, 2010, Enablence acquired Teledata , operating from Tel Aviv, Israel. Teledata designs, manufactures and sells high-speed multi-service broadband equipment to customers in emerging markets. With the acquisition of Teledata, the Company will offer its full range of products to all customers. Teledata's operating results and financial position have been included in Enablence's consolidated results since the date of acquisition on June 23, 2010. Teledata is reported as part of the Systems division.

RESULTS OF OPERATIONS

SUMMARY OF UNAUDITED QUARTERLY RESULTS

The following table sets forth unaudited summary results of operations for the past eight (8) fiscal periods. 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 fiscal periods ended December 31, 2010 and includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of information presented. As a result of a change in the Company's year end from April 30 to June 30, 2011 the fiscal period ended June 30, 2010 covers only two months, rather than the conventional three months for all other fiscal periods presented. The operating results and cash flows for the two month period ended June 30, 2010 are not readily comparable to the other three month fiscal periods. The table and ensuing discussion and analysis presents the information in thousands of Canadian dollars except share and per share related data.

Fiscal Period Ended	**3 months Dec 31, 2010**	3 months Sept 30, 2010	2 months June 30, 2010	3 months April 30, 2010	3 months Jan 31, 2010	3 months Oct 31, 2009	3 months July 31, 2009	3 months April 30, 2009
Revenues	**$ 34,567**	$ 28,059	$ 9,798	$ 14,094	$ 12,329	$ 14,883	$ 12,586	$ 14,049
Gross margin	**10,965**	7,716**	2,168**	3,671	1,268	3,470	3,032	2,923
Gross margin %	***31.7%***	*27.5%*	*22.1%*	*26.0%*	*10.3%*	*23.3%*	*24.1%*	*20.8%*
Expenses								
Research & development	**5,497**	5,359	2,405	3,540	3,120	3,387	3,987	4,959
Sales & marketing	**3,974**	3,764**	1,685**	2,314	2,295	2,605	2,944	3,441
General & administrative	**3,066**	2,874	1,467	2,346	1,870	1,707	1,826	2,177
Stock based compensation	**661**	272	122	225	382	438	391	324
Amortization	**3,966**	4,109	774	1,148	1,879	2,172	1,834	1,337
Restructuring charges	**84**	827	-	1,788	141	226	132	-
Operating loss	**(6,283)**	(9,489)	(4,285)	(7,690)	(8,419)	(7,065)	(8,082)	(9,315)
Impairment of intangible assets	**-**	-	-	-	(4,355)	-	-	-
Other income (expense)	**(104)**	(79)	(192)	(248)	(65)	(65)	279	48
Recovery of future income taxes	**1,038**	1,180	169	(693)	2,448	461	920	(3,541)
Net loss for the period	**(5,349)**	(8,388)	(4,308)	(8,631)	(10,391)	(6,669)	(6,883)	(12,808)
Weighted average shares outstanding	**394,387**	384,196	333,983	270,084	254,701	254,733	249,155	208,486
Basic & diluted loss per share	**$ (0.01)**	$ (0.02)	$ (0.01)	$ (0.02)	$ (0.04)	$ (0.03)	$ (0.03)	$ (0.06)
Adjusted EBITDA*	**$ (1,122)**	$ (3,831)	$ (3,109)	$ (4,111)	$ (5,598)	$ (3,810)	$ (5,289)	$ (7,337)

* Adjusted EBITDA does not have any standardized meaning according to GAAP and is defined below.

** During the three months ended December 31, 2010, the Company reclassified certain third party costs from sales & marketing expense to cost of revenues to provide more relevant information on the financial statements. The reclassifications of $1,177 and $517 have been made for the three months ending Sept 30, 2010 and the two months ending June 30, 2010 respectively, reducing sales and marketing expenses, and increasing cost of revenues. See also "Change in Accounting Policy" below.

Non-GAAP Financial Measures

The Company's management reports and analyzes its financial results and performance using a range of financial measures. Some of these measures, such as revenues, net loss and cash flow from operating activities, are defined by GAAP. Other measures are not defined by GAAP.

One non-GAAP measure used by management is "Adjusted EBITDA". Adjusted EBITDA comprises: Net loss excluding the following – interest income and expense, income tax recovery and expense, depreciation and amortization, asset impairment charges, stock-based compensation expense and restructuring charges. Adjusted EBITDA does not have any standardized meaning according to GAAP. It is therefore unlikely to be comparable to similar measures presented by other companies. The reconciliation of Adjusted EBITDA with the GAAP measure of Net loss is as follows:

Fiscal Period Ended	**3 months Dec 31, 2010**	3 months Sept 30, 2010	2 months June 30, 2010	3 months April 30, 2010	3 months Jan 31, 2010	3 months Oct 31, 2009	3 months July 31, 2009	3 months April 30, 2009
Net loss for the period	**(5,349)**	(8,388)	(4,308)	(8,631)	(10,391)	(6,669)	(6,883)	(12,808)
Net interest expense (income)	**290**	306	43	51	63	55	74	59
Amortization (note1)	**4,416**	4,559	1,054	1,567	2,298	2,591	2,270	1,654
Impairment of intangible assets and goodwill	**-**	-	-	-	4,355	-	-	-
Recovery of future income taxes	**(1,038)**	(1,180)	(169)	693	(2,448)	(461)	(920)	3,541
``EBITDA``	**(1,681)**	(4,703)	(3,380)	(6,320)	(6,123)	(4,484)	(5,459)	(7,554)
gain on disposal of equipment	**-**	-	-	-	-	-	(42)	-
Realized foreign exchange (gain) loss	**(186)**	(227)	149	198	2	10	(311)	(106)
Stock-based compensation	**661**	272	122	224	382	438	391	323
Restructuring charges	**84**	827	-	1,787	141	226	132	-
``Adjusted EBITDA``	**$ (1,122)**	$ (3,831)	$ (3,109)	$ (4,111)	$ (5,598)	$ (3,810)	$ (5,289)	$ (7,337)

note 1 – Amortization includes amounts that are recorded as part of cost of revenues and therefore does not equal the amount on the face of the Consolidated Statements of Loss, Other Comprehensive Loss and Comprehensive Loss. Instead the Amortization figure used above is found in the Consolidated Statements of Cash Flows, which includes all amortization.

The Company uses Adjusted EBITDA as one financial metric to evaluate the profitability and potential recurring cash flows of its business, and continues to take actions to improve this operational metric as outlined in the Outlook section below.

SUMMARY OF RESULTS FOR THE THREE AND EIGHT MONTHS ENDED DECEMBER 31, 2010 COMPARED TO THE THREE AND NINE MONTHS ENDED JANUARY 31, 2010

The following tables set 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.

In accordance with GAAP, Enablence converts foreign currency-denominated transactions related to the statement of loss at the average exchange rate for the periods. As such, changes in the exchange rate between the United States dollar, Israeli shekel and the Canadian dollar can have an impact on the variances for each fiscal period. For the three months ended December 31, 2010, the average exchange rate was 1.0013 Canadian dollars per U.S. dollar compared to 1.0536 for the three months ended January 31, 2010. Comparative financial information does not have transactions denominated in the Israeli shekel, therefore changes in the shekel are not meaningful for comparison this period.

	Three months ended		Increase (decrease)		Eight months ended	Nine months ended	Increase (decrease)	
	December 31, 2010	January 31, 2010	$	%	December 31, 2010	January 31, 2010	$	%
Revenue								
Systems	$ 25,739	$ 6,343	$19,396	306%	$ 50,762	$ 23,275	$ 27,487	118%
OCS	8,828	5,986	2,842	47%	21,663	16,523	5,140	31%
	34,567	12,329	22,238	180%	72,425	39,798	32,627	82%
Cost of revenue	23,602	11,061	12,541	113%	51,576	32,028	19,548	61%
Gross margin	10,965	1,268	9,697		20,849	7,770	13,079	
Gross margin %	31.7%	10.3%		21.4%	28.8%	19.5%		9.3%
Operating Expenses								
Sales and marketing	3,974	2,295	1,679	73%	9,423	7,844	1,579	20%
Research and development	5,497	3,120	2,377	76%	13,261	10,494	2,767	26%
General and administration	3,066	1,870	1,196	64%	7,408	5,403	2,005	37%
Stock-based compensation	661	382	279	73%	1,055	1,212	(157)	-13%
Amortization	3,966	1,879	2,087	111%	8,851	5,884	2,967	50%
Restructuring charges	84	141	(57)	-40%	909	500	409	82%
Operating loss	(6,283)	(8,419)	2,136	-25%	(20,058)	(23,567)	3,509	-15%
Interest income	10	2	8	400%	13	18	(5)	-28%
Interest expense	(300)	(65)	(235)	362%	(652)	(210)	(442)	210%
Gain on disposal of equipment	-	-	-	n/m	-	42	(42)	-100%
Impairment of intangible assets	-	(4,355)	4,355	-100%	-	(4,355)	4,355	-100%
Foreign exchange gain (loss)	186	(2)	188	n/m	263	299	(36)	-12%
Loss before income taxes	(6,387)	(12,839)	6,452	-50%	(20,434)	(27,773)	7,339	-26%
Recovery of future income taxes	1,038	2,448	(1,410)	-58%	2,387	3,830	(1,443)	-38%
Net loss	$ (5,349)	$ (10,391)	$ 5,042	-49%	$ (18,047)	$ (23,943)	$ 5,896	-25%

SUMMARY OF RESULTS FOR THE THREE MONTHS ENDED DECEMBER 31, 2010 COMPARED TO THE THREE MONTHS ENDED JANUARY 31, 2010

Revenues

Revenue in OCS increased 47% (53% excluding the impacts of the US dollar weakening as compared to the Canadian dollar) for the three months ended December 31, 2010 over the prior year period driven by market demand for its products used in high-speed networks.

Systems division revenues for the three months ended December 31, 2010 increased by $19.4 million compared to the prior year period primarily due to the acquisition of Teledata. Organically, revenue in Systems increased by approximately 29% (34% excluding the impacts of the US dollar weakening as compared to the Canadian dollar) over the prior year period due to growth in North American shipments.

Revenue (based on ship-to location of the customer) is split by region as follows:

	Three months ended				Eight months ended		Nine months ended	
Region	Dec 31, 2010		Jan 31, 2010		Dec 31, 2010		Jan 31, 2010	
	$	%	$	%	$	%	$	%
North America	10,113	29%	7,608	62%	23,528	32%	26,046	66%
Central and Latin America	1,603	5%	121	1%	6,602	9%	379	1%
Asia Pacific	18,950	55%	2,750	22%	29,447	41%	6,840	17%
Europe, Middle East and Africa	3,901	11%	1,850	15%	12,848	18%	6,533	16%
	$ 34,567	100%	$ 12,329	100%	$ 72,425	100%	$ 39,798	100%

The shift in revenue from North America to other regions is driven by the acquisition of Teledata, whose customers are almost entirely outside of North America. This regional revenue mix may change quarterly due to large individual projects, however it is expected to remain significant outside North America.

During the three months ended December 31, 2010, one customer accounted for 39% of the Company's total revenue. One customer accounted for 26% of the accounts receivable balance at December 31, 2010. During the three months ended January 31, 2010, one customer accounted for 24% of the Company's total revenue, and no one customer accounted for greater than 10% of the accounts receivable balance at January 31, 2010.

During the eight months ended December 31, 2010, two customers accounted for 29% of the Company's total revenue (17% and 12% individually) while one customer accounted for 12% of the Company's total revenue during the nine months ended January 31, 2010.

Cost of revenues

The Company's cost of revenues is comprised of a number of elements, some of which vary with revenues, such as cost of products manufactured by third parties, and some of which do not vary significantly with revenues, such as compensation of operations staff and facilities costs. Cost of revenues include the costs of distribution and other third party contractors who provide a variety of customer and sales support services and whose costs are linked directly to revenues. Gross margins improved by 21.4 points to 31.7% compared with 10.3% in the prior year period.

The increase in gross margin was driven by four key factors:

- decrease in inventory valuation reserves recorded. The prior year period includes $1,748 of inventory valuation reserves compared to $357 recorded in the current year period. During the prior year, decreased revenues lead to larger reserves for obsolescence being required;
- favourable gross margins in the Teledata products ;
- increased revenues in the OCS business, where gross margins improve with higher volumes over which to spread the fixed costs; and
- initial success in management's gross margin improvement initiatives, including the replacement of certain contract manufacturing suppliers and shipments of cost-reduced optical network terminal ("ONT") products.

Excluding the impacts of the Teledata acquisition and the inventory valuation reserves, gross margins improved by approximately 4 points from 24% to 28%.

Management is continuing its detailed product cost and supply chain review to identify and implement opportunities to further improve gross margins, and expects to see continued margin improvement for the remainder of fiscal 2011 in the business excluding Teledata.

Operating expenses

Sales & Marketing expenses for the three months ended December 31, 2010 increased by $1,679 (or 73%) compared to the three months ended January 31, 2010, while revenues increased by 180%. The expense increase was due to certain distribution costs incurred during the quarter, which are directly linked to revenue. Excluding the Teledata acquisition, Sales & Marketing expenses increased by approximately 9% due to the increase in revenue and the addition of resources to support OCS and Systems, offset by the impact of foreign exchange.

Research & Development expenses for the three months ended December 31, 2010 increased by $2,377 (or 76%) compared to the three months ended January 31, 2010. The increase was predominantly driven by the acquisition of Teledata, while spending increased organically by approximately 10% including the impact of foreign exchange.

General & Administration expenses for the three months ended December 31, 2010 increased by $1,196 (or 64%) compared to the three months ended January 31, 2010. The increase was driven by the acquisition of Teledata, as well as certain consulting fees, offset partially by the impact of foreign exchange.

Amortization for the three months ended December 31, 2010 increased by $2,087 (or 111%) compared to the three months ended January 31, 2010. The increase was driven by the acquisition of Teledata and related amortization of intangible assets of $2,837 offset by a decrease in amortization as a result of the asset impairment charge recorded in the prior year.

Stock-based compensation for the three months ended December 31, 2010 increased by $279 (or 73%) compared to the three months ended January 31, 2010. The increase resulted from the increase in options outstanding compared to the prior year period. The Company granted 13,915 options in September and October 2010. The increase in stock-based compensation is the result of a full quarter expense for these options.

Restructuring charges for the three months ended December 31, 2010 of $84 are comprised of costs for relocating the Company's corporate office from Ottawa, Ontario to Toronto, Ontario. Also included are costs associated with relocating the Company's polymer-based production from its Wilmington, Massachusetts fabrication facility to its Fremont, California fabrication facility. The expenses are primarily employee -related termination costs. The remaining Wilmington relocation cost is expected to be approximately $500 and is expected to be incurred in the 6 months ending June 30, 2011.

Interest Income

Enablence invests cash and cash equivalents in short-term investments with a Canadian chartered bank. During the three months ended December 31, 2010, Enablence earned interest income on these investments of $10, as compared to $2 during the three months ended January 31, 2010. Interest income is a function of prevailing interest rates and the amount of funds invested.

Interest expense

Interest expense during the three months ended December 31, 2010 was $300, compared to $65 during the three months ended January 31, 2010. The increase in the current year quarter was due mainly to the issue of US$10,000 of 5% subordinated notes as part of the financing of the acquisition of Teledata as well as an increase in the total of secured notes payable. The Company's interest expense is a function of the balance of debt, the prevailing interest rates, and the average foreign exchange rate between the underlying currency of the debt security and the Canadian dollar. The table below sets out the balances outstanding at the end of each period, and the US$ equivalent of the total outstanding:

	December 31, 2010	April 30, 2010	January 31, 2010
Secured note payable	$4,975	$2,095	$2,498
Convertible notes payable	2,985	3,047	3,208
Subordinated notes payable	9,950	-	-
Total in C$	$17,910	$5,142	$5,706
Total in US$	$18,000	$5,063	$5,336

The secured note payable was issued on July 16, 2010 and has an interest rate based on the Wall Street Journal prime rate plus 1.50%, resulting in an interest rate of 4.75% at December 31, 2010. The interest rate on the convertible notes and subordinated notes is 5%.

Foreign exchange gain (loss)

Foreign exchange gains and losses 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 balance sheet date and realized gains or losses arising from the settlement of these balances during the period. During the three months ended December 31, 2010 the Company recorded a foreign exchange gain of $186 mainly due to the strengthening of the Canadian dollar, as compared to foreign exchange loss of $2 during the three months ended January 31, 2010.

Income taxes

Future income tax recovery is due to the amortization of the intangible assets recognized on acquisitions and the related future tax liabilities that were recorded at that time. The future tax liability is drawn down in line with the amortization of the related asset. No other future tax asset has been recorded, and none will be recorded until, in the opinion of management, it is more likely than not that the future tax assets will be realized, in accordance with current Canadian GAAP.

During the three months ended December 31, 2010, the Company recorded a future income tax recovery of $1,038 as compared to a recovery of $2,448 during the three months ended January 31, 2010. The decrease in the recovery is due to the impairment of intangible assets recorded in the prior year period, offset by an increase in intangible assets and the related future income tax liability as a result of the Teledata acquisition.

Net loss

The net loss for the three months ended December 31, 2010 was $5,349, compared to $10,391 during the three months ended January 31, 2010 due to the factors described above.

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, 2010	Three months ended January 31, 2010
Basic and Diluted Loss per Common Share	$0.01	$0.04
Weighted Average Number of Common Shares	394,387	254,701

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

SUMMARY OF RESULTS FOR THE EIGHT MONTHS ENDED DECEMBER 31, 2010 COMPARED TO THE NINE MONTHS ENDED JANUARY 31, 2010

As a result of a change in the Company's year end from April 30 to June 30, the fiscal year to data period ended December 31, 2010 covers eight months ("Current YTD"), while the prior fiscal year to date period covers nine months ("Prior YTD"). This, combined with the acquisition of Teledata, make year-to-date comparisons less meaningful.

Revenues

Revenue in OCS increased 31% (38% excluding the impacts of the US dollar weakening as compared to the Canadian dollar) over the prior year period driven by market demand for its products used in high-speed networks, offset by the shorter fiscal period.

Systems division revenues for the eight months ended December 31, 2010 increased by $27.5 million compared to the prior year period primarily due to the acquisition of Teledata. Organically, revenue in Systems decreased by approximately 17% (12% excluding the impacts of the US dollar weakening as compared to the Canadian dollar) over the prior year period due to the shorter fiscal period.

Gross margin improved from 19.5% to 28.8%. The increase in gross margin was driven by four key factors:

- decrease in inventory valuation reserves recorded. The prior year period includes $1,748 of inventory valuation reserves compared to $357 recorded in the current year period. During the prior year, decreased revenues lead to larger reserves for obsolescence being required;
- favourable gross margins in the Teledata products ;
- increased revenues in the OCS business, where gross margins improve with higher volumes over which to spread the fixed costs; and
- initial success in management's gross margin improvement initiatives, including the replacement of certain contract manufacturing suppliers and shipments of cost-reduced optical network terminal ("ONT") products.

Operating Expenses

Operating expenses increased as a result of the Teledata acquisition, offset by the impacts of the US dollar weakening as compared to the Canadian dollar, and the shorter fiscal period.

OUTLOOK

The Company believes the markets in which it participates are growing and are expected to continue to grow.

The primary focus areas for the Company are:

- growing revenues;
- improving gross margins;
- optimizing cash flows, including working capital management; and
- implementing quality and process improvement programs across the business.

The Company's initiatives to drive revenue growth include:

- leveraging Teledata's BroadAccess products in the North American market;
- leveraging the sale of Trident 7 optical products into Teledata's markets;
- Adding Gigibyte Passive Optical Network (`GPON`) capability to the BroadAccess products;
- strengthening our overall sales effort through improved staffing and marketing efforts to identify new areas to target our products; and
- completing the joint venture with Sunsea to provide higher volumes and access to the Chinese market for optical components based on Enablence's proprietary Planar Lightwave Circuit (PLC) technology.

The Company's initiatives to drive gross margin improvement include:

- continuing new product development and portfolio evolution;
- consolidating the OCS operations in Fremont, California;
- reducing the cost of manufacturing by continued migration of production to new lower cost suppliers;
- optimizing our customer service assets;
- continuing to shift the mix of the Company's ONT volume to lower cost models; and
- higher volumes will improve gross margins by spreading fixed costs over more revenue.

The Company's initiatives to manage working capital and cash flow include:

- continuing to work closely with our key vendors and customers to maximize cash flow;
- exploring opportunities for establishing banking relationships to provide access to debt facilities; and
- continuing to evaluate opportunities to generate capital and strengthen the Company's balance sheet to accelerate growth.

A number of product developments are planned and being implemented in fiscal year 2011, including:

- integration of higher speed capabilities across our product offering;
- integration of the Company's optical capability across our product offering;
- integration of multi-channel traffic management tools into the Company's OLT's, to offer a higher value solution to our customers in the high-speed broadband access markets; and
- development of multi-channel 100 gigabyte optical components, aimed at the long haul and metro loop optical fibre markets.

These development programs will be funded by a combination of third party funded design contracts, where Enablence retains its rights to the intellectual property developed, and internal resources.

The Company will continue to evaluate and assess growth opportunities that will allow it to rapidly expand into new markets, expand its customer base and increase gross margins and any need for additional capital for growth.

The Company had previously provided guidance for the three months ending December 31, 2010 of revenue between $40-45 million, and positive Adjusted EBITDA* for the same period. Actual results were revenue of $34.5 million of revenue, and negative Adjusted EBITDA* of ($1.1million). The shortfall in revenues from management's expectations was largely due to delays in certain orders that were anticipated to be recognized as revenue in December, 2010. Specifically, two orders totaling approximately $6 million were not realized in the quarter, and are expected to be closed and recognized as revenue in the quarter ending March 31, 2011.

The Company also provided guidance for the four quarters ending June 30, 2011 in its previous MD&A, targeting revenue of between $140-150 million and positive Adjusted EBITDA* for the second half of the year. As a result of the continued reliance on large transactions, and the difficulty in predicting the size and timing of these transactions, management believes it will not achieve the four quarters ending June 30, 2011 revenue guidance, and as a result will not achieve the Adjusted EBITDA* guidance.

Management expects revenue to be lower in the quarter ending March 31, 2011 than it was in the quarter ending December 31, 2010 as a result of the $12 million sale in the December quarter, and expects revenues to increase from the March quarter to the quarter ending June 30, 2010. Due to the difficulty in predicting the probability, size and timing of larger transactions, management is not able to provide more specific guidance at this stage of the Company's growth and development.

With the reduced visibility and increased dependence on larger transactions, management is initiating a cost reduction program in order to reduce the revenue level required to generate positive Adjusted EBITDA*. This program will target synergies between Teledata and the Company's existing Systems business with an effort to reduce costs. The objective of this program will be to remove $1-2 million of costs per quarter from the business. Target areas in addition to the initiatives to improve gross margins discussed above include:

- Exiting certain consulting and outsourcing arrangements;
- Targeted staff reductions;
- Evaluation of facility rationalization or reducing facility costs.

It is expected that the Company will reduce its staff by approximately 25-30, and that costs to implement will be between $1 million and $2 million. These actions are expected to be completed by the end of calendar 2011.

The decision to close the Wilmington fabrication facility will result in approximately $1,000 in restructuring charges. $550 of these charges have been reported in the eight months ended December 31, 2010, and the remaining estimated $450 will be reported in the next two quarters, when the actions contemplated are expected to be completed. The cost savings, once the transition of the polymer product fabrication is completed during the fiscal year, are expected to be approximately $250 per quarter.

The Company believes that the existing working capital coupled with revenues based on operating forecasts will be sufficient to cover the Company's anticipated operating costs beyond December 31, 2011. The Company's ability to reach profitability is dependent on implementing its cost reduction plans without impacting the ability to achieve higher volumes and increased gross margins. There are no assurances that Enablence will gain adequate market acceptance, nor are there any guarantees that the Company will achieve higher gross margins, even though the Company is able to identify specific actions to reduce its cost of sales in the current conditions. The Company has not yet earned operating profits.

Despite the uncertainty above, management's longer term business model has not changed, which are to achieve 40% gross margin and 10% Adjusted EBITDA*.

LIQUIDITY

The table below sets out the cash, cash equivalents and short-term investments and working capital at the end of each of the comparative fiscal periods.

	December 31, 2010	April 30, 2010	January 31, 2010
Cash and Cash Equivalents	$17,491	$23,407	$5,868
Working Capital	$28,000	$31,237	$12,047

The chart below highlights the cash flows during the three and eight months ended December 31, 2010, and three and nine months ended January 31, 2010.

	Three months ended December 31, 2010	**Three months ended January 31, 2010**	**Eight months ended December 31, 2010**	**Nine months ended January 31, 2010**
Net cash flows used in operating activities	(7,343)	(3,556)	(14,018)	(14,437)
Investing activities				
Decrease (Increase) in restricted cash (note 1)	1,067	(1,524)	595	(1,524)
Purchase of property, plant, equipment and software	(1,042)	(161)	(1,563)	(828)
Proceeds from sale of equipment	-	-	-	49
Acquisitions of subsidiaries (note 2)	(45)	-	(9,520)	-
Net cash flows from (used in) investing activities	(20)	(1,685)	(10,488)	(2,303)
Financing activities				
Decrease/repayment of operating line of credit (note 1)	98	-	(2,823)	(780)
Advance from (repayment of) note payable (note 3)	(100)	(283)	2,922	(863)
Proceeds from issuance of common shares, warrants and options, net of issuance costs	19,677	-	20,089	12,988
Net cash flows provided by (used in) financing activities	19,675	(283)	20,188	11,345

Note 1 – The Company increased restricted cash during the two months ended June 30, 2010 to secure a line of credit. This cash was then used during the three months ended September 30, 2010 to pay down the operating line of credit it was secured against.

Note 2 – The Company invested $9,247 (net of cash of $1,476) to acquire Teledata during the two months ended June 30, 2010, and incurred an additional $227 in closing costs during the quarter ended September 30, 2010

Note 3 – During the three months ended September 30, 2010, the Company repaid a note payable of USD$1,879 from the proceeds of a US$5,000 note payable with a different bank. As a result the Company received net proceeds of $3,218. Payments shown in the prior year periods relate to principal repayments of the note.

The Company expects that its current level of cash and cash equivalents is sufficient to fund its operations, working capital and capital expenditures for more than the next 12 months, based upon its operating forecasts. These forecasts include assumptions regarding:

- revenue growth as the global economic conditions improve and the economic stimulus packages in the U.S. and elsewhere are accessed by the Company's customers;
- revenue growth from the acceptance of the Company's new products;
- an increase in design services revenue and margins from key optical component customers;
- improved gross margins from the transfer of polymer fabrication capacity and key personnel, and subsequent closing of the Wilmington, Massachusetts facility;
- improvements in supply chain and inventory management performance; and
- improved treasury management, particularly as it relates to accounts receivable.

The Company expects to invest up to $1,000 during the next 12 months on component manufacturing equipment to improve manufacturing processes with the ultimate objective of improving gross margins and product offerings, and on design and test equipment. The Company also expects to invest $3,500 into the joint venture with Sunsea during the next six months.

CAPITAL RESOURCES

Enablence finances its operations through the issuance of common shares and certain notes payable.

On December 6, 2010, Enablence completed a public offering of 36,600 common shares at a price of $0.58 per share for gross proceeds of $21,228 (net cash proceeds of $19,707). As partial compensation for this transaction, 1,464 broker warrants were issued entitling the holder to purchase one common share at a price of $0.58 per share to June 5, 2011. The warrants were valued at $404 and recorded as a non-cash issuance cost. The fair value was determined using the Black-Scholes pricing model.

With the acquisition of ANDevices, Inc. in February 2008, the Company assumed a US$3,735 note payable. On July 16, 2010 the note payable, with a principal of USD$1,879 was repaid from the proceeds of a new US$5,000 note payable with a different lending institution. This US$5,000 note payable:

- matures on July 20, 2013;
- bears interest at 1.5 % over the prime rate as published in the Wall Street Journal;
- is repayable as interest only for the first six months, then monthly payments of US$181 per month for interest and principal thereafter;
- is secured by the assets of one of the subsidiaries of the Company; and
- is subject to certain financial performance and asset coverage covenants of one of the Company's subsidiaries.

As a result, the Company received, after payment of loan placement costs and fees, net cash proceeds of US$3,090.

On June 23, 2010 the Company acquired Teledata. In consideration for acquiring 100% of the outstanding shares of Teledata, the Company:

- issued subordinated secured 5% notes payable totaling $10,384 (US$10,000), with a maturity date of June 23, 2012;

- issued 54,932 common shares, representing $30,762 (US$30,000) at market value; and
- paid $10,384 (US$10,000) of cash.

Enablence may 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.

Subsequent to the end of Q2 2011, the Company established a US$ 1 million revolving line of credit. This line of credit is subject to certain limitations, including the amount and age of certain of the Company's accounts receivable. Interest on the line of credit is calculated at 1.5% over the prime rate as published in the Wall Street Journal.

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 current unpredictable economic conditions.

Enablence is authorized to issue an unlimited number of common shares of which 421,046 common shares are issued and outstanding as of February 8, 2011. The common shares of Enablence trade on the TSX Venture Exchange under the symbol "ENA" or "ENA.V".

OFF BALANCE SHEET ARRANGEMENTS

A Canadian chartered bank has issued a letter of guarantee in the amount of US$500 on behalf of the Company, to secure a performance guarantee of US$2,850. This letter of guarantee has been secured with a cash deposit in that bank. This cash deposit is recorded as restricted cash on the Company's balance sheet. In addition, the same Canadian chartered bank has issued a letter of guarantee on behalf of the Company to secure a performance bond. This letter of guarantee is secured by a guarantee by a third party, which, in turn, is indemnified by the Company.

The table below presents the Company's contractual obligations.

	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Secured note payable	$ 5,398	$ 1,979	$ 3,419	$ -	$ -
Subordinated notes payable	10,945	-	10,945	-	-
Convertible notes payable	3,638	220	1,104	1,018	1,296
Facilities leases	7,165	4,765	1,002	746	652
Automobile leases	965	708	257	-	-
	$28,111	$7,672	$16,727	$1,764	$1,948

The Company is exposed to currency risk as a significant volume of its transactions are denominated in U.S. dollars, Swiss francs and Israeli shekels. Management is evaluating foreign exchange risk management strategies. However, the Company has not entered into forward, swap or option contracts to manage its exposures to fluctuations in foreign exchange rates.

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

TRANSACTIONS WITH RELATED PARTIES

During the three months ended April 30, 2010 the Company entered into an agreement to terminate the employment of an executive. In accordance with the terms of his employment agreement, the Company agreed to pay $1,750 in termination costs to this individual. The Company subsequently entered into a one year consulting contract at a value of $300. At December 31, 2010, all but $100 of these obligations had been expensed and paid in cash.

TRANSACTION IN PROGRESS

In December 2010, the Company announced it is entering into a joint venture with China's SUNSEA Telecommunications Co. Ltd. ("Sunsea"), a move that will strategically position Enablence's Optical Components and Subsystems Division to capitalize on the vast opportunity presented by the Chinese market for broadband telecommunications equipment.

The joint venture, to be called Foshan Sunsea-Enablence Optoelectronics Technology Co., Ltd, will be established in Foshan, China, with operations expected to commence July 2011 subject to regulatory approvals in China and other customary requirements. Its initial focus will be on producing components based on Enablence's proprietary Planar Lightwave Circuit ("PLC") platform in high volumes. Its product lines will further expand into PLC based modules and transceivers.

Sunsea-Enablence Optoelectronics will be created with an initial capital investment of US$18 million. Enablence will contribute US$3.5 million in cash and US$1 million in equipment, as well as its market-leading expertise in developing and manufacturing optical components based on its PLC technology. SUNSEA will contribute US$9.2 million of cash. Enablence is expected to hold a 49-percent ownership stake in the joint venture.

In the first year of operation (expected to be July 2011 through to June 2012), Enablence and SUNSEA expect the joint venture to generate revenues of approximately US$8 - $10 million. This is expected to rise significantly in the second and subsequent years of operation. The partners expect the venture to be profitable and accretive to Enablence' Adjusted EBITDA (as defined)within the first year of operations.

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 the Company.

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 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 Information Form filed on August 26, 2010, and available at: www.sedar.com.

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, allowance for doubtful accounts, inventory provisions, inventory valuation, asset impairments, accruals, stock-based compensation, the estimated useful lives and valuation of property, plant and equipment, future income taxes, carrying value of intangible assets and goodwill.

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.

FUTURE ACCOUNTING PRONOUNCEMENTS

Business Combinations

In January 2009, the CICA issued Handbook Section 1582, *Business Combinations*, which will replace Handbook Section 1581, *Business Combinations*. The new standard is effective for acquisitions in fiscal years beginning on or after January 1, 2011 but with earlier adoption permitted and provides the Canadian equivalent to IFRS 3, *Business Combinations*. The Company is assessing the impact of the new standard on its consolidated financial statements.

Consolidated financial statements and non-controlling interests

In January 2009, the CICA issued Handbook sections 1601, *Consolidated Financial Statements*, and 1602, *Non-Controlling Interests*, which will replace Handbook Section 1600, *Consolidated Financial Statements*. These new standards are effective for interim and annual consolidated statements for fiscal years beginning on or after January 1, 2011 but with earlier adoption permitted and provide the Canadian equivalent to IFRS IAS 27, *Consolidated and Separate Financial Statements*. The new standards are not expected to have a material effect on the Company's current consolidated financial statements, but will have an impact on the recognition and measurement of the SUNSEA joint venture, when that transaction is completed.

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. The official change-over date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will adopt this new standard for the fiscal year beginning July 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year.

Management has identified the accounting standards that will likely have the greatest impact on the Company's financial reports due to the magnitude of the related account balance, the significance of the IFRS and Canadian GAAP differences or the complexity of the standard. Management is selecting the IFRS accounting policies that will best reflect the nature of the Company's assets, liabilities, and business operations and will be in a position to collect the requisite IFRS information for presentation of comparative information with its first fiscal quarter of 2011, starting on July 1, 2011.

Management believes that the highest priority areas that IFRS will impact the Company's financial statements are:

- presentation of financial statements;
- share-based payments;
- the effects of changes in foreign exchange rate;
- accounting for government grants and related royalty payments;
- impairment of assets;
- provisions, contingent liabilities and contingent assets; and
- consolidation and business combinations

Management has not yet finalized the estimated impact of these potential changes on its results or financial position.

The calculation of share-based payments, such as stock options, under Canadian GAAP, involves making certain estimates, such as the volatility rate and risk free rate of return, at the time of issuance, then amortizing the cost derived from these estimates over the vesting period of the stock options. Under IFRS, the cost of the stock options, which s a non-cash charge to earnings, reflects higher costs during the initial vesting periods, decreasing over the successive vesting periods.

Financial statement presentation under IFRS differs, at times materially, from financial statement presentation under Canadian GAAP. As an example, the balance sheet may include changes in the classification of assets and liabilities between current and long-term.

Under Canadian GAAP, the Company has determined that its foreign subsidiaries are self-sustaining and therefore translates their foreign currency denominated balance sheet accounts at the relevant period end exchange rate. Under IFRS the Company must assess what the functional currency of each operation, which may result in a conclusion that is different than the one determined under Canadian GAAP's self-sustaining operations guidelines.

Government grants are recorded as a reduction of the expenses they relate to, and reports any royalties paid against these grants as a cost of revenues, under Canadian GAAP. Under IFRS, the government grants are treated as a liability and the related royalties as a payment of interest and principal on the debt.

At such time as the Company records an impairment of an intangible asset that charge is a permanent reduction of the intangible asset, under Canadian GAAP. Under IFRS the Company can elect to reverse the impairment charges, if circumstances indicate that the value of the intangible asset has recovered.

Under Canadian GAAP, the threshold for determining whether a contingent liability should be recorded in the financial statements is higher than the threshold under IFRS. As a result, under IFRS the Company may have higher total liabilities than it would under Canadian GAAP.

The Company has prepared a project plan outlining the areas where changes have to be implemented and the expected completion of each of the areas.

CHANGE IN ACCOUNTING POLICY

During the three months ended December 31, 2010, the Company changed its accounting policy for the classification on certain third party costs. The Company has reclassified these costs from sales & marketing expense to cost of revenues to provide more relevant information on the financial statements. The reclassifications of $1,177 and $517 have been made for the three months ending Sept 30, 2010 and the two months ending June 30, 2010 respectively, reducing sales and marketing expenses, and increasing cost of revenues. These reclassifications had no effect on the prior year financials statements, nor on previously reported revenue, net loss, Statements of Shareholders' Equity or Consolidated Balance Sheets for the current year.

Disclosure Controls and Internal Control over Financial Reporting

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. Enablence's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings that the Company's disclosure controls and procedures for the three and eight months ended December 31, 2010 are effective to provide reasonable assurance that material information related to Enablence is made known to them.

FINANCIAL AND OTHER INSTRUMENTS

Enablence's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, notes payable and convertible notes. 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.