

Consolidated Financial Statements of

ENABLENCE TECHNOLOGIES INC.

*For the three and five months ended September 30, 2010 and the three and six
months ended October 31, 2009
(Unaudited)*

ENABLENCE TECHNOLOGIES INC.
Consolidated Financial Statements
September 30, 2010

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ENABLENCE TECHNOLOGIES INC.

Consolidated Balance Sheets

(Unaudited)

(\$ in thousands)

	September 30, 2010	April 30, 2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,052	\$ 23,407
Accounts receivable (Note 5)	24,436	11,707
Inventories (Note 6)	20,248	13,754
Prepaid expenses and deposits	3,448	2,317
Restricted cash (Note 4)	4,091	1,546
	58,275	52,731
PROPERTY, PLANT AND EQUIPMENT	11,447	10,582
INTANGIBLE ASSETS AND OTHER ASSETS (Note 7)	33,868	4,727
GOODWILL (Note 8)	44,123	14,046
	\$ 147,713	\$ 82,086
CURRENT LIABILITIES		
Operating line of credit (Note 4)	\$ 70	\$ -
Accounts payable and accrued liabilities	39,201	14,244
Current portion of notes payable (Note 9)	1,259	1,102
Deferred revenue	5,298	6,148
	45,828	21,494
NOTES PAYABLE (Note 9)	17,263	4,040
EMPLOYEE FUTURE BENEFITS (Note 10)	1,445	-
FUTURE INCOME TAX LIABILITY (Note 11)	10,863	3,788
	75,399	29,322
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	202,231	170,269
Contributed surplus	10,355	10,399
Accumulated other comprehensive income	4,226	3,898
Deficit	(144,498)	(131,802)
	72,314	52,764
	\$ 147,713	\$ 82,086

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD

_____" Director

_____" Director

ENABLENCE TECHNOLOGIES INC.

Consolidated Statements of Loss, Other Comprehensive (Loss) Income and Comprehensive Loss

(Unaudited)

(in thousands, except per share data)

	Three months ended September 30, 2010	Three months ended October 31, 2009	Five months ended September 30, 2010	Six months ended October 31, 2009
REVENUES	\$ 28,059	\$ 14,883	\$ 37,858	\$ 27,469
Cost of sales	19,166	11,413	26,280	20,967
Gross profit	8,893	3,470	11,578	6,502
Operating expenses				
Research and development	5,359	3,387	7,764	7,374
Sales and marketing	4,941	2,605	7,143	5,549
General and administration	2,874	1,707	4,342	3,533
Stock-based compensation	272	438	394	829
Amortization of property, plant and equipment	411	386	633	826
Amortization of intangible assets	3,698	1,786	4,250	3,179
Restructuring charges (Note 15)	827	226	827	359
	18,382	10,535	25,353	21,649
OPERATING LOSS	(9,489)	(7,065)	(13,775)	(15,147)
Other income (expense)				
Interest and other income	-	13	2	16
Interest expense	(306)	(68)	(350)	(145)
Gain on disposal of equipment	-	-	-	42
Realized foreign exchange gain (loss)	227	(10)	78	300
LOSS BEFORE INCOME TAXES	(9,568)	(7,130)	(14,045)	(14,934)
RECOVERY OF FUTURE INCOME TAXES	1,180	461	1,349	1,382
NET LOSS	(8,388)	(6,669)	(12,696)	(13,552)
OTHER COMPREHENSIVE (LOSS) INCOME				
Unrealized (loss) gain on translating financial statements of self-sustaining foreign operations	(2,523)	795	328	(4,224)
OTHER COMPREHENSIVE (LOSS) INCOME	(2,523)	795	328	(4,224)
COMPREHENSIVE LOSS	\$ (10,911)	\$ (5,874)	\$ (12,368)	\$ (17,776)
Net loss per share (Note 13)				
Basic and diluted	\$ (0.02)	\$ (0.03)	\$ (0.04)	\$ (0.05)
Weighted average number of outstanding shares (Note 13)				
Basic and diluted	384,196	254,733	364,308	251,944

See accompanying notes to the consolidated financial statements

ENABLENCE TECHNOLOGIES INC.
Consolidated Statements of Shareholders' Equity
For the three months ended September 30, 2010 the two months ended June 30, 2010
and the year ended April 30, 2010
(Unaudited)

(in thousands)

	Number of shares	Share capital (Note 9)	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Shareholders' equity
Balance at April 30, 2009	208,527	\$ 131,128	\$ 8,200	\$10,411	\$ (99,228)	\$ 50,511
Stock-based compensation	-	-	1,436	-	-	1,436
Exercise of options	74	35	(12)	-	-	23
Exercise of warrants	738	400	(150)	-	-	250
Fair value of warrants issued	-	-	925	-	-	925
Issuance of common shares	117,875	38,774	-	-	-	38,774
Cancellation of shares held in escrow	(40)	(68)	-	-	-	(68)
Net loss	-	-	-	-	(32,574)	(32,574)
Unrealized loss on translation of self-sustaining foreign operations	-	-	-	(6,513)	-	(6,513)
Balance at April 30, 2010	327,174	\$ 170,269	\$ 10,399	\$ 3,898	\$ (131,802)	\$ 52,764
Stock-based compensation	-	-	122	-	-	122
Exercise of options	950	493	(142)	-	-	351
Exercise of warrants	74	38	(16)	-	-	22
Issuance of common shares on acquisition of Teledata Networks Ltd. (Note 12)	54,932	30,762	-	-	-	30,762
Net loss	-	-	-	-	(4,308)	(4,308)
Unrealized gain on translation of self-sustaining foreign operations	-	-	-	2,851	-	2,851
Balance at June 30, 2010	383,130	\$ 201,562	\$10,363	\$ 6,749	\$ (136,110)	\$ 82,564
Stock-based compensation	-	-	272	-	-	272
Exercise of options	-	-	-	-	-	-
Exercise of warrants	1,298	669	(280)	-	-	389
Net loss	-	-	-	-	(8,388)	(8,388)
Unrealized loss on translation of self-sustaining foreign operations	-	-	-	(2,523)	-	(2,523)
Balance at September 30, 2010	384,428	\$ 202,231	\$ 10,355	\$ 4,226	\$ (144,498)	\$ 72,314

See accompanying notes to the consolidated financial statements

ENABLENCE TECHNOLOGIES INC.
Consolidated Statements of Cash Flows
(Unaudited)

(\$ in thousands)

	Three months ended September 30, 2010	Three months ended October 31, 2009	Five months ended September 30, 2010	Six months ended October 31, 2009
Operating activities				
Net loss	\$ (8,388)	\$ (6,669)	\$ (12,696)	\$ (13,552)
Items not affecting cash:				
Amortization of plant and equipment and intangible assets	4,559	2,591	5,613	4,861
Stock-based compensation	272	438	394	829
Unrealized foreign exchange (gain) loss	(463)	13	(54)	(333)
Gain on disposal of equipment	-	-	-	(42)
Future income tax recovery	(1,180)	(461)	(1,349)	(1,382)
	(5,200)	(4,088)	(8,092)	(9,619)
Changes in non-cash working capital items (Note 19)	1,431	1,299	1,419	(1,174)
Cash used in operating activities	(3,769)	(2,789)	(6,673)	(10,793)
Investing activities				
Decrease (Increase) in restricted cash	3,429	-	(473)	-
Purchase of property, plant and equipment and software	(304)	(450)	(521)	(667)
Proceeds from sale of equipment	-	-	-	49
Acquisitions of subsidiaries (Note 14)	(227)	-	(9,474)	-
Cash provided by (used in) investing activities	2,898	(450)	(10,468)	(618)
Financing activities				
Net repayment of operating line of credit	(2,903)	-	(2,921)	(780)
Advance from (repayment of) note payable	3,218	(292)	3,022	(580)
Proceeds from issuance of common shares, warrants and options, net of issuance costs (Note 12)	389	-	413	12,988
Cash provided by (used in) financing activities	704	(292)	514	11,628
EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	(635)	(125)	(728)	(424)
DECREASE IN CASH AND CASH EQUIVALENTS	(802)	(3,656)	(17,355)	(207)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	6,854	14,952	23,407	11,503
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 6,052	\$ 11,296	\$ 6,052	\$ 11,296
Non cash financing activities				
Issuance of common shares on acquisition of subsidiaries (Note 14)	-	-	\$ 30,762	-
Supplementary information:				
Cash interest received	\$ 7	\$ 10	\$ 15	\$ 13
Cash interest paid	138	68	189	136
Cash	6,032	7,276	6,032	7,276
Cash equivalents	20	4,020	20	4,020
Total cash and equivalents	\$ 6,052	\$ 11,296	\$ 6,052	\$ 11,296

See accompanying notes to the consolidated financial statements

ENABLENCE TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements

For the three and five months ended September 30, 2010 and the three and six months ended October 31, 2009

(Unaudited)

(In thousands of Canadian dollars and shares except per share data and except as otherwise indicated)

1. DESCRIPTION OF BUSINESS

Enablence Technologies Inc. (“the Company” or “Enablence”) is a publicly traded company that designs, manufactures and sells 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.

On June 23, 2010, the Company acquired Teledata Networks Ltd. (“Teledata”). Teledata, headquartered in Israel, offers high speed broadband equipment to customers in emerging markets. The consolidated financial statements of Enablence include the financial position of Teledata at September 30, 2010 and the results of its operations and cash flows for the period from June 23, 2010 to September 30, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) for the preparation of interim financial statements. These unaudited interim consolidated financial statements do not include all of the information and note disclosures required by GAAP for annual financial statements. They are based upon accounting principles consistent with those used in the annual consolidated financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended April 30, 2010.

Change in year end

Effective May 1, 2010, the Company changed its fiscal year end from April 30 to June 30. The current fiscal year of the Company covers the fourteen month period from May 1, 2010 to June 30, 2011. The Company reports its results for the following five periods in its fiscal 2011 year: two months ended June 30, 2010, quarter ended September 30 2010; quarters ending December 31, 2010 and March 31, 2011, and the year ending June 30, 2011. The change in Enablence’s year end was due, in part, to align to the fiscal year of Teledata.

ENABLENCE TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements

For the three and five months ended September 30, 2010 and the three and six months ended October 31, 2009

(Unaudited)

(In thousands of Canadian dollars and shares except per share data and except as otherwise indicated)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation

The Company enters into certain transactions in foreign currencies. These transactions are converted to Canadian dollars at the exchange rate in effect at the time the transaction occurs. Monetary assets and liabilities which are denominated in currencies other than Canadian dollars are translated to Canadian dollars at period-end exchange rates. Exchange gains and losses resulting from the translation of these amounts are included in earnings for the period.

All subsidiaries are considered to be self-sustaining foreign operations and as a result the financial statements of these subsidiaries are translated into Canadian dollars using the current rate method of foreign currency translation. Under this method, assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date and revenues and expenses are translated at the average rate of exchange for the period. Gains and losses resulting from translation of the accounts are recorded in equity as part of accumulated other comprehensive income (loss).

Use of accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from those estimates. Significant estimates in the accompanying financial statements relate to allowance for doubtful accounts, inventory provisions and valuation, asset impairments, accruals, deferred revenue, stock-based compensation, the estimated useful lives and valuation of property, plant and equipment, future income taxes, the carrying values of intangible assets and goodwill and purchase price allocations on acquisitions.

3. FUTURE CHANGES IN ACCOUNTING POLICY

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*. This section will impact any potential business combinations the Company enters into after the date of adoption. The Company is assessing the impact of the new standard on its consolidated financial statements. The standard was not applied to its acquisition of Teledata.

ENABLENCE TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements

For the three and five months ended September 30, 2010 and the three and six months ended October 31, 2009

(Unaudited)

(In thousands of Canadian dollars and shares except per share data and except as otherwise indicated)

3. FUTURE CHANGES IN ACCOUNTING POLICY (Continued)

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 consolidated financial statements.

International Financial Reporting Standards ("IFRS")

On February 13, 2008, the Accounting Standards Board confirmed that the use of IFRS will be required for fiscal years beginning on or after January 1, 2011, for publicly accountable profit orientated enterprises. After that date, IFRS will replace Canadian GAAP for those enterprises. While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences with respect to recognition, measurement and disclosure. The Company is in the process of developing a changeover plan for the implementation of IFRS, including assessing the impact of the differences in accounting standards on the Company's consolidated financial statements; on internal control over financial reporting; on the Company's information and data systems; and, on other related matters.

4. RESTRICTED CASH AND OPERATING LINE OF CREDIT

Restricted cash represents cash that has been provided as security against guarantees, letters of credit outstanding and the Company's operating line of credit totalling US\$70. The line of credit bears interest based on the Israeli prime rate.

5. ACCOUNTS RECEIVABLE

	<u>September 30, 2010</u>	<u>April 30, 2010</u>
Trade	\$ 24,537	\$ 11,863
Accrued	7	63
Other	200	40
Allowance for doubtful accounts	(308)	(259)
	<u>\$ 24,436</u>	<u>\$ 11,707</u>

ENABLENCE TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements

For the three and five months ended September 30, 2010 and the three and six months ended October 31, 2009

(Unaudited)

(In thousands of Canadian dollars and shares except per share data and except as otherwise indicated)

6. INVENTORIES

	<u>September 30, 2010</u>	<u>April 30, 2010</u>
Raw materials	\$ 9,009	\$ 6,343
Work-in-progress	1,865	1,172
Finished goods	8,717	5,196
Inventory at customer sites	2,802	3,365
Allowance for obsolescence	(2,145)	(2,322)
	<u>\$ 20,248</u>	<u>\$ 13,754</u>

Inventory at customer sites arises when inventory has been received by the customer but revenue has not been recognized until all elements have been delivered and accepted by the customer as stipulated by the terms of the contract.

7. INTANGIBLE ASSETS AND OTHER ASSETS

	<u>Five months ending September 30, 2010</u>	<u>Year ending April 30, 2010</u>
Balance, beginning of period	\$ 4,727	\$ 16,545
Increase on acquisition of Teledata (Note 14)	33,635	-
Amortization during the period	(4,250)	(5,528)
Impairment	-	(4,355)
Impact of changes in foreign exchange rates	(244)	(1,935)
	<u>\$ 33,868</u>	<u>\$ 4,727</u>

8. GOODWILL

	<u>Five months ending September 30, 2010</u>	<u>Year ending April 30, 2010</u>
Balance, beginning of period	\$ 14,046	\$ 16,496
Goodwill on acquisition of Teledata (Note 14)	30,167	-
Impact of changes in foreign exchange rates	(90)	(2,450)
	<u>\$ 44,123</u>	<u>\$ 14,046</u>

ENABLENCE TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements

For the three and five months ended September 30, 2010 and the three and six months ended October 31, 2009

(Unaudited)

(In thousands of Canadian dollars and shares except per share data and except as otherwise indicated)

9. NOTES PAYABLE

	<u>September 30, 2010</u>	<u>April 30, 2010</u>
Secured notes (a)	\$ 5,145	\$ 2,095
Subordinated notes (b)	10,290	-
Convertible notes (c)	3,087	3,047
	<u>18,522</u>	<u>5,142</u>
Current portion	<u>(1,259)</u>	<u>(1,102)</u>
Net long-term portion	<u>\$ 17,263</u>	<u>\$ 4,040</u>

- (a) On July 16, 2010, a secured note payable, with a principal of US\$1,879 at the time of redemption, was repaid from the proceeds of a new US\$5,000 secured note. The new secured note of US\$5,000 has a maturity date of July 20, 2013. The interest rate, based on the Wall Street Journal prime rate plus 1.50%, resulted in an interest rate of 4.75% at September 30, 2010. The note is repayable as interest only for the first six months, then monthly payments of US\$181 per month for interest and principal thereafter. The note 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 the subsidiary.
- (b) Subordinated notes, with a principal amount of US\$10,000, are secured by a subordinated lien on the Company's North American assets. The notes have a maturity date of June 23, 2012 and an interest rate of 5%.
- (c) Convertible notes, with a principal amount of US\$3,000, are unsecured and bear interest at a rate of 5% and mature on November 19, 2018. The notes were issued on November 19, 2008. For the first 36 months, monthly payments of interest only are made. These notes are convertible at the option of the holder, from the third anniversary until the fifth anniversary at an escalating conversion price. The notes can also be converted in the event of a default of payment.

10. EMPLOYEE FUTURE BENEFITS

The Company has a liability for severance pay with respect to statutory obligations for the Israeli employees of its subsidiary, Teledata. The liability is determined pursuant to Israeli Severance Pay Law and employee agreements based on the most recent salary of the employees and the number of years of employment, as of the balance sheet date. On departure from the Company, Israel based employees are entitled to one month's salary for each full or partial year of employment. The liability is funded by monthly deposits with insurance companies' and the cost is accrued in Enablence's in financial statements. The accrued severance pay liability on the balance sheet is net of the value of the accrued liabilities and the funds held by the insurance companies.

ENABLENCE TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements

For the three and five months ended September 30, 2010 and the three and six months ended October 31, 2009

(Unaudited)

(In thousands of Canadian dollars and shares except per share data and except as otherwise indicated)

11. FUTURE INCOME TAX LIABILITY

	Five months ending September 30, 2010	Year ending April 30, 2010
Balance, beginning of period	\$ 3,788	\$ 8,062
Increase on acquisition of Teledata (Note 14)	8,408	-
Recovery of future income taxes	(1,180)	(3,137)
Impact of changes in foreign exchange rates	(153)	(1,137)
	<hr/>	<hr/>
Balance, end of period	\$ 10,863	\$ 3,788

The increase in the future tax liability on the acquisition of Teledata Networks Ltd., is due to the difference in the accounting value and tax value of the intangible assets acquired.

12. SHARE CAPITAL

On May 12, 2009, Enablence completed a public offering of 46,000 common shares at a price of \$0.30 per share for gross proceeds of \$13,800 (net cash proceeds of \$12,988). As partial compensation for this transaction, 1,840 broker warrants were issued entitling the holder to purchase one common share at a price of \$0.30 per share to November 12, 2010. The warrants were valued at \$396 and recorded as a non-cash issuance cost. The fair value was determined using the Black-Scholes pricing model.

On February 4, 2010, the Company completed a public offering of 71,875 common shares at a price of \$0.40 per share for gross proceeds of \$28,750 (net proceeds of \$26,772). As partial compensation for this transaction, 2,875 broker warrants were issued entitling the holder to purchase one common share per warrant at a price of \$0.40 per share until August 4, 2011. The warrants were valued at \$529 and recorded as a non-cash issuance cost. The fair value was determined using the Black-Scholes pricing model.

ENABLENCE TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements

For the three and five months ended September 30, 2010 and the three and six months ended October 31, 2009

(Unaudited)

(In thousands of Canadian dollars and shares except per share data and except as otherwise indicated)

12. SHARE CAPITAL (Continued)

Warrants

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

	Five months ended September 30, 2010		Six months ended October 31, 2009	
	Number of Warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding and exercisable, beginning of period	3,977	\$ 0.37	-	\$ -
Issued	-	-	1,840	0.30
Exercised	(1,372)	0.30	(206)	0.30
Outstanding, and exercisable end of period	2,605	\$ 0.40	1,634	\$ 0.30

The following table summarizes information for warrants outstanding:

	Expiry	June 30, 2010	October 31, 2009
\$ 0.30	November 12, 2010	18	1,634
\$ 0.40	August 4, 2011	2,587	-
		2,605	1,634

Escrow shares

40 shares which had been held in escrow on the acquisition of Wave7 Optics, Inc. were cancelled on November 18, 2009 as certain terms of the escrow agreement had not been met.

Stock option plan

The Company has established a stock option plan available for directors, officers, employees and consultants, and authorized a stock option pool equal to 10% of the outstanding common shares, thereunder. As at September 30, 2010, the option pool was 38,443. The options are granted with exercise prices equal to the fair market value of the common shares of the Company on the date of grant. Options granted prior to March 18, 2008 all vested prior to September 30, 2009 in accordance with the terms of their grant. Options granted on or after March 18, 2008 generally vest in four equal annual portions starting one year after the date of grant. All options expire on the 10th anniversary of the grant or 90 days after termination of employment. Options granted to directors vest over a two year period.

ENABLENCE TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements

For the three and five months ended September 30, 2010 and the three and six months ended October 31, 2009

(Unaudited)

(In thousands of Canadian dollars and shares except per share data and except as otherwise indicated)

12. SHARE CAPITAL (Continued)

Stock option plan (Continued)

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

	Five months ended September 30, 2010		Six months ended October 31, 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	19,213	\$ 0.84	17,299	\$ 0.93
Granted	13,215	0.60		
Exercised	(950)	0.37	-	-
Forfeited	(559)	0.98	(793)	1.07
Expired	(72)	1.08	(303)	1.37
Outstanding, end of period	30,847	\$ 0.75	16,203	\$ 0.92
Exercisable, end of period	11,633	\$ 0.93	10,953	\$ 0.79

The following table summarizes the options outstanding and exercisable as at September 30, 2010:

Options Outstanding			Options Exercisable	
Exercise Price (\$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Exercise Price (\$)
\$ 0.30	864	8.22	216	\$ 0.30
0.37	2,904	5.82	2,904	0.37
0.49	1,000	9.26	-	0.49
0.50	2,290	6.20	2,290	0.50
0.50	1,444	9.23	-	0.50
0.60	13,215	9.95	-	0.60
0.72	1,500	9.56	-	0.72
0.80	2,640	6.44	2,640	0.80
1.15	2,540	7.86	1,270	1.15
1.37	375	6.52	375	1.37
1.45	50	7.59	50	1.45
2.30	1,750	7.36	1,750	2.30
2.39	275	7.47	138	2.39
\$ 0.75	30,847	8.47	11,633	\$ 0.93

ENABLENCE TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements

For the three and five months ended September 30, 2010 and the three and six months ended October 31, 2009

(Unaudited)

(In thousands of Canadian dollars and shares except per share data and except as otherwise indicated)

ENABLENCE TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements

For the three and five months ended September 30, 2010 and the three and six months ended October 31, 2009

(Unaudited)

(In thousands of Canadian dollars and shares except per share data and except as otherwise indicated)

12. SHARE CAPITAL (Continued)

Stock option plan

Under the fair value method, the Company calculates the fair value of stock option grants at the date of granting, and amortizes that fair value as compensation expense over the vesting period of those grants and awards. The fair value is determined using the Black-Scholes option pricing model with the following assumptions updated quarterly for the following grant periods:

	Sep. 30, 2010	April 30, 2010	Jan. 31, 2010
Risk-free interest rate	1.99%	2.56%	1.86%
Expected life of options (years)	5	5	5
Expected annualized volatility	99%	94%	96%
Expected dividend yield	nil	nil	Nil

During the three-month period ended September 30, 2010 stock-based compensation expense was \$272 (October 31, 2009 - \$438). During the five-month period ended September 30, 2010, stock-based compensation expense was \$394 (six months ended October 31, 2009 - \$829). Stock-based compensation is recorded as an increase to contributed surplus and transferred to share capital when the underlying options are exercised. Grant date fair value of options issued during the three and five months ended September 30, 2010 was \$5,905. There were no options granted during the three and six months ended October 31, 2009.

13. LOSS PER SHARE

Basic loss per common share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted loss per common share is calculated by dividing the net loss by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period. As result of the net losses in each of the reporting periods, the potential effect of the exercise of stock options and warrants was anti-dilutive; therefore, 33,452 potentially dilutive shares at September 30, 2010 (October 31, 2009 – 17,837) have not been included in the calculation of diluted loss per common share for the three and five months ended September 30, 2010 and the three and six months ended October 31, 2009.

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14. ACQUISITION

Teledata Networks Ltd. (“Teledata”)

On June 23, 2010, the Company completed its acquisition of all the shares of Teledata, a high-speed broadband equipment provider based in Israel. The acquisition was accounted for by the purchase method, whereby the results of the operations of Teledata are included in the consolidated statements of loss and comprehensive loss and cash flows since the acquisition date. The net purchase price of \$52,097 was allocated based on the estimated fair values of the identifiable assets and liabilities acquired. US dollar amounts were converted to Canadian dollars using the exchange rate of 1.0384 as at June 23, 2010.

Purchase Price

Cash	\$ 10,384
Issuance of 54,932 common shares	30,762
U.S. \$10,000 of 5% subordinated secured notes (Note 9)	10,384
Estimated transaction costs incurred to date	567
	<hr/>
	\$ 52,097

The allocation of the purchase price was:

Cash	\$ 1,477
Accounts receivable	9,724
Inventory	5,165
Prepaid expenses and deposits	2,066
Accounts payable and accrued liabilities	(24,786)
Other payable	(3,738)
	<hr/>
Net working capital acquired	(10,092)
Property and equipment	967
Restricted cash	5,828
Intangible assets	
Customer relationships	15,970
Technology	14,915
Trade name	2,595
Non compete agreement	155
	<hr/>
	33,635
Goodwill	33,635
Future tax liability	30,167
	<hr/>
	(8,408)
	<hr/>
Total purchase price consideration	\$ 52,097

The intangible assets are being amortized on a straight-line basis over a three year period from the date of acquisition.

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15. RESTRUCTURING CHARGES

During the three months ended September 30, 2010, the Company continued its restructuring activities in an effort to reduce costs and improve operating efficiencies. The restructuring charges consist of severance and benefits related to the reduction of the Company's workforce and the relocation of its Wilmington facility to Fremont, expected to take place in February 2011.

During the three and five months ended September 30, 2010, the Company recorded \$827 in restructuring costs (three and six months ended October 31, 2009 – \$226 and \$359 respectively). \$528 is included in accrued liabilities related to restructuring charges at September 30, 2010 (April 30, 2010 – \$1,750).

16. FINANCIAL INSTRUMENTS

Carrying values and fair values

Financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity, available-for-sale, loans and receivables and other financial liabilities. The following table summarizes information regarding the carrying values of the Company's financial instruments.

	<u>September 30, 2010</u>	<u>April 30, 2010</u>
Held for trading assets (1)	\$ 10,143	\$ 24,953
Loans and receivables (2)	24,453	11,707
Held for trading liabilities (3)	39,274	14,244
Other financial liabilities (4)	18,522	5,142

(1) Includes cash and cash equivalents and restricted cash

(2) Includes accounts receivable

(3) Includes accounts payable and accrued liabilities and operating line of credit

(4) Includes notes payable and convertible notes at amortized cost

CICA Section 3862 Financial Instruments - Disclosures require an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value.

The financial assets and liabilities measured at fair value on the balance sheet consist of items classified as current and are amounts that are generally expected to be settled within one year. There are three levels of the fair value hierarchy as follows:

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16. FINANCIAL INSTRUMENTS (Continued)

Carrying values and fair values (continued)

Level 1: Values based upon unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based upon quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based upon prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The following table presents the financial instruments recorded at fair value in the Consolidated Balance Sheet, classified using the fair value hierarchy described above:

	Level 1	Level 2	Level 3	Total financial assets and liabilities at fair value
Financial assets				
Cash and cash equivalents	\$ 6,052	\$ -	\$ -	\$ 6,052
Restricted cash	4,091	-	-	4,091
Total financial assets	\$ 10,143	\$ -	\$ -	\$ 10,143

The carrying amounts of accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short term maturity of these financial instruments.

Credit risk

Financial instruments which potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents, restricted cash and accounts receivable. The Company primarily invests its excess cash in high quality financial instruments. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks. Two customers each accounted for approximately 39% of the accounts receivable balance at September 30, 2010 (October 31, 2009 – one customer for approximately 15%).

The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its trade receivables in order to mitigate any possible credit losses.

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16. FINANCIAL INSTRUMENTS (Continued)

Credit risk (continued)

The allowance for doubtful accounts provision and past due receivables are reviewed by management at each balance sheet reporting date. The Company updates its estimate of the allowance for doubtful accounts based on an examination of the aged accounts receivable listing, considering such factors as customer payment history and the current financial condition of the customers. Accounts receivable are written off once determined to be not collectible.

The ageing of trade accounts receivable (net of the allowance of \$308 at September 30, 2010 and \$259 at April 30, 2010) is summarized as follows:

	September 30, 2010	April 30, 2010
Current or under 60 days	\$ 22,451	\$ 8,763
Past due 61 to 90 days	857	687
Past due greater than 90 days	921	2,154
Total trade accounts receivable	\$ 24,229	\$ 11,604

Of the \$1,778 of past due accounts receivable greater than 60 and 90 days at September 30 2010, \$398 has been collected between September 30, 2010 and October 29, 2010. Of the \$921 of past due accounts receivable greater than 90 days, \$229 is contractually held back pending completion of certain customer terms and conditions. All of these holdback amounts are included in deferred revenue.

The continuity of the allowance for doubtful accounts is as follows:

	September 30, 2010	April 30, 2010
Balance, beginning of period	\$ 259	\$ 267
Increase during the period	49	139
Accounts written off during the period	-	(147)
Balance, end of period	\$ 308	\$ 259

Interest rate risk

The Company is exposed to interest rate risk as its U.S. dollar denominated note payable has a variable interest rate based on the Wall Street Journal prime rate. The Company does not use derivative instruments to reduce its exposure to interest rate risk as the risk is considered manageable.

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16. FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk

The Company operates internationally with subsidiaries in the United States, Israel and Switzerland and is therefore subject to foreign currency risk. Enablence reports its financial results in Canadian dollars. Most of the Company's revenues are based in U.S. currency, and the Company incurs expenses in U.S. dollars, the Israeli shekel and, to a lesser extent, the Swiss franc. To date, the Company has not used foreign currency forward contracts or other hedging strategies to manage its foreign currency exposure.

A 10% strengthening of the following currencies against the Canadian dollar would have increased net losses from operations and increased other comprehensive income ("OCI") by the amounts shown below. A weakening of the following currencies would have the opposite effect.

	Five months ended September 30, 2010		Six months ended October 31, 2009	
	Net loss	OCI	Net loss	OCI
US\$	\$ 573	\$ 7,744	\$ 905	\$ 4,595
Swiss francs (CHF)	(34)	251	13	420
Israeli shekel	423	-	-	-

Liquidity risk

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

At September 30, 2010, the Company has four long-term financial liabilities, payment of which is due as follows including interest:

	To Sep. 30, 2011	To Sep. 30, 2012	To Sep. 30, 2013	To Sep. 30, 2014	Beyond Sep. 30, 2014	Total
Accounts payable and accrued liabilities	\$39,201	\$ -	\$ -	\$ -	\$ -	\$39,201
Secured notes	1,489	2,233	1,861	-	-	5,583
Subordinated notes	-	11,319	-	-	-	11,319
Convertible debt	155	551	565	543	1,988	3,802
Total	\$40,845	\$14,103	\$2,426	\$ 543	\$1,988	\$59,905

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17. CAPITAL MANAGEMENT

The Company's objective is to maintain a strong capital base so as to maintain customer, investor, creditor, and market confidence and to sustain future development of the business through organic growth and selective acquisitions.

Management defines capital as the Company's total shareholders' equity and long-term debt. In order to maintain or strengthen its capital structure, the Company could issue new shares or raise new debt. To date, no dividends have been paid to the Company's shareholders and none are planned.

There were no changes in the Company's approach to capital management during the period.

18. SEGMENTED INFORMATION

The Company has three reportable segments: Systems, Optical Components and Subsystems ("OCS") and Corporate as determined by the Chief Executive Officer who is the chief operating decision maker.

The Company's reportable segments are strategic business units comprised of different products and services. The Company uses these segments as a primary basis of internal reporting, planning, performance analysis and decision making. The products and services of each reportable segment require different technology and marketing strategies.

Revenue and net loss by reportable segment is presented in the following tables:

	Three months ended September 30, 2010		Three months ended October 31, 2009	
	Revenue	Net Loss	Revenue	Net Loss
Systems	\$ 19,622	\$ (6,408)	\$ 8,815	\$ (3,220)
OCS	8,437	(610)	6,068	(1,824)
Corporate	-	(1,370)	-	(1,625)
	\$ 28,059	\$ (8,388)	\$ 14,883	\$ (6,669)

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18. SEGMENTED INFORMATION (Continued)

	Five months ended September 30, 2010		Six months ended October 31, 2009	
	Revenue	Net Loss	Revenue	Net Loss
Systems	\$ 25,023	\$ (8,637)	\$ 16,932	\$ (7,639)
OCS	12,835	(1,700)	10,537	(3,990)
Corporate	-	(2,359)	-	(1,923)
	\$ 37,858	\$ (12,696)	\$ 27,469	\$ (13,552)

Intersegment revenue for the five months ended September 30, 2010 consisted of sales of \$17 from the OCS division to the Systems division (six months ended October 31 2009 - \$38). All intersegment transactions are eliminated on consolidation and are excluded from the above chart.

Certain assets by reportable segment are presented in the following table:

	September 30, 2010		April 30, 2010	
	Goodwill	Intangible and other assets	Goodwill	Intangible and other assets
Systems	\$ 38,262	\$ 33,127	\$ 8,259	\$ 3,677
OCS	5,861	578	5,787	898
Corporate	-	163	-	152
	\$ 44,123	\$ 33,868	\$ 14,046	\$ 4,727

Certain assets are analyzed geographically as follows:

	September 30, 2010		April 30, 2010	
	Property, plant and equipment	Goodwill, intangible and other assets	Property, plant and equipment	Goodwill, intangible and other assets
United States	\$ 6,806	\$ 17,209	\$ 7,281	\$ 18,363
Israel	918	60,380	-	-
Canada	837	402	598	410
Switzerland	2,886	-	2,703	-

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	\$ 11,447	\$ 77,991	\$ 10,582	\$ 18,773
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18. SEGMENTED INFORMATION (Continued)

Revenue is analyzed geographically as follows:

	Three months ended September 30, 2010	Three months ended October 31, 2009	Five months ended September 30, 2010	Six months ended October 31, 2009
North America	\$ 9,017	\$ 8,595	\$ 13,415	\$ 18,391
Central and Latin America	3,645	100	4,999	256
Asia Pacific	8,905	2,913	10,497	4,155
Europe, Middle East and Africa	6,492	3,275	8,947	4,667
	<u>\$ 28,059</u>	<u>\$ 14,883</u>	<u>\$ 37,858</u>	<u>\$ 27,469</u>

During the five months ended September 30, 2010, two customers accounted for 26% of the Company's total revenue (16% and 10% individually) while during the six months ended October 31, 2009, no one customer accounted for greater than 10% of the Company's total revenue.

19. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Net change in non-cash operating working capital items:

	Three months ended September 30, 2010	Three months ended October 31, 2009	Five months ended September 30, 2010	Six months ended October 31, 2009
Accounts receivable	\$ (225)	\$ (1,761)	\$ (973)	\$ (1,074)
Inventories	(837)	748	(1,160)	(235)
Prepaid expenses and deposits	(119)	110	125	194
Accounts payable and accrued liabilities	4,679	2,866	6,253	2,078
Deferred revenue	(2,067)	(664)	(2,826)	(2,137)
	<u>\$ 1,431</u>	<u>\$ 1,299</u>	<u>\$ 1,419</u>	<u>\$ (1,174)</u>