*Consolidated Financial Statements of*

# ENABLENCE TECHNOLOGIES INC.

*For the two months ended June 30, 2010 and the three months ended July 31, 2009*
*(Unaudited)*

# ENABLENCE TECHNOLOGIES INC.
## Consolidated Financial Statements
**June 30, 2010 and July 31, 2009**

# ENABLENCE TECHNOLOGIES INC.
## Consolidated Balance Sheets
## (Unaudited)

**($ in thousands)**

| | **June 30, 2010** | **April 30, 2010** |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 6,854 | $ 23,407 |
| Restricted cash (Note 4) | 7,594 | 1,546 |
| Accounts receivable (Note 5) | 25,745 | 11,707 |
| Inventories (Note 6) | 20,018 | 13,754 |
| Prepaid expenses and deposits | 3,847 | 2,317 |
| | 64,058 | 52,731 |
| PROPERTY, PLANT AND EQUIPMENT | 11,628 | 10,582 |
| INTANGIBLE ASSETS AND OTHER ASSETS | 4,343 | 4,727 |
| GOODWILL | 14,721 | 14,046 |
| UNALLOCATED PURCHASE PRICE (Note 11) | 57,637 | - |
| | $ 152,387 | $ 82,086 |
| **CURRENT LIABILITIES** | | |
| Operating line of credit (Note 4) | $ 3,077 | $ - |
| Accounts payable and accrued liabilities | 37,245 | 14,244 |
| Deferred revenue | 8,388 | 6,148 |
| Current portion of notes payable | 1,166 | 1,102 |
| | 49,876 | 21,494 |
| NOTES PAYABLE (Note 7) | 14,674 | 4,040 |
| EMPLOYEE FUTURE BENEFITS (Note 8) | 1,486 | - |
| FUTURE INCOME TAX LIABILITY | 3,787 | 3,788 |
| | 69,823 | 29,322 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 9) | 201,562 | 170,269 |
| Contributed surplus | 10,363 | 10,399 |
| Accumulated other comprehensive income | 6,749 | 3,898 |
| Deficit | (136,110) | (131,802) |
| | 82,564 | 52,764 |
| | $ 152,387 | $ 82,086 |

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD

"R. Stephen Bower" Director

"Arvind Chhatbar" Director

# ENABLENCE TECHNOLOGIES INC.
## Consolidated Statements of Loss, Other Comprehensive Loss and Comprehensive Loss
## (Unaudited)

**($ in thousands, except per share data)**

| | **2 months ended June 30, 2010** | Three months ended July 31, 2009 |
|---|---|---|
| Revenue | $ 9,798 | $ 12,586 |
| Cost of sales including amortization of $280 (2009 - $436) | 7,113 | 9,554 |
| Gross profit | 2,685 | 3,032 |
| Operating expenses | | |
| Research and development | 2,405 | 3,987 |
| Sales and marketing | 2,202 | 2,944 |
| General and administration | 1,467 | 1,826 |
| Stock-based compensation | 122 | 391 |
| Amortization of plant and equipment | 222 | 441 |
| Amortization of intangible assets | 552 | 1,393 |
| Restructuring charges | - | 132 |
| | 6,970 | 11,114 |
| OPERATING LOSS | (4,285) | (8,082) |
| Other income (expense) | | |
| Interest income | 8 | 3 |
| Interest expense | (51) | (77) |
| Gain on disposal of equipment | - | 42 |
| Foreign exchange (loss) gain | (149) | 311 |
| LOSS BEFORE INCOME TAXES | (4,477) | (7,803) |
| RECOVERY OF FUTURE INCOME TAXES | 169 | 920 |
| NET LOSS | (4,308) | (6,883) |
| OTHER COMPREHENSIVE LOSS | | |
| Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations | 2,851 | (5,019) |
| OTHER COMPREHENSIVE LOSS | 2,851 | (5,019) |
| COMPREHENSIVE LOSS | $ (1,457) | $ (11,902) |
| Net loss per share (Note 10) | | |
| Basic and diluted | $ (0.01) | $ (0.03) |
| Weighted average number of outstanding shares (Note 10) | | |
| Basic and diluted | 333,983 | 249,155 |

See accompanying notes to the consolidated financial statements

# ENABLENCE TECHNOLOGIES INC.

## Consolidated Statements of Shareholders’ Equity

### For 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 | Deficit | Accumulated other comprehensive income (loss) | Shareholders’ equity |
|---|---|---|---|---|---|---|
| Balance at April 30, 2009 | 208,527 | $ 131,128 | $ 8,200 | $ (99,228) | $ 10,411 | $ 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 | $ (131,802) | $ 3,898 | $ 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 9) | 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 | $ (136,110) | $ 6,749 | $ 82,564 |

See accompanying notes to the consolidated financial statements

# ENABLENCE TECHNOLOGIES INC.
## Consolidated Statement of Cash Flows
## (Unaudited)

**($ in thousands)**

| | **For the two months ended June 30, 2010** | For the three months ended July 31, 2009 |
|---|---|---|
| **Operating activities** | | |
| Net loss | $ (4,308) | $ (6,883) |
| Items not affecting cash: | | |
| Amortization of property, plant and equipment and intangible assets | 1,054 | 2,270 |
| Stock-based compensation | 122 | 391 |
| Unrealized foreign exchange gain | 408 | (346) |
| Gain on disposal of equipment | - | (42) |
| Future income taxes | (169) | (920) |
| | (2,893) | (5,530) |
| Changes in non-cash operating working capital items (Note 15) | (11) | (2,473) |
| Cash used in operating activities | (2,904) | (8,003) |
| **Investing activities** | | |
| Increase in restricted cash | (3,902) | - |
| Purchase of property, plant and equipment and software | (217) | (216) |
| Acquisition of Teledata Networks Ltd. (Note 11) | (9,247) | - |
| Proceeds from sale of equipment | - | 49 |
| Cash used in investing activities | (13,366) | (167) |
| **Financing activities** | | |
| Change in operating line of credit | (18) | (780) |
| Repayment of notes payable | (196) | (288) |
| Net proceeds from issuance of common shares, warrants and options, net of issuance costs (Note 9) | 23 | 12,988 |
| Cash (used in) provided by financing activities | (191) | 11,920 |
| EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH | (92) | (301) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (16,553) | 3,449 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 23,407 | 11,503 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 6,854 | $ 14,952 |
| Non-cash financing activities | | |
| Issuance of common shares on acquisition of subsidiaries (Note 11) | $ 30,762 | $ - |
| Supplementary information: | | |
| Interest received | $ 8 | $ 3 |
| Interest paid | 51 | 69 |
| **Cash** | 5,934 | 4,124 |
| Cash equivalents | 920 | 10,828 |
| Total cash and cash equivalents | $ 6,854 | $ 14,952 |

See accompanying notes to the financial statements

### 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 June 30, 2010 and the results of its operations and cash flows for the week ending June 30, 2010 since control was acquired. As described in Note 11, the allocation of the purchase price has not been completed, and the unallocated purchase price is reported as such on the consolidated balance sheet. The Company will finalize the allocation of the purchase price as soon as practicable.

### 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 notes required by GAAP for annual financial statements. They are based upon accounting principles consistent with those used in the annual consolidated financial statements with the exception of new accounting policies described in Note 3. 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 will report its results for the following five periods in its fiscal 2011 year: two months ending June 30, 2010; quarters ending September 30,2010, December 31, 2010 and March 31, 2011, and the year ending June 30, 2011. The change it Enablence' year end was due, in part, to the fiscal year of Teledata.

### 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 the 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. 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, and did not apply the standard to its acquisition of Teledata.

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

## 3. 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 provided to support letters of credit outstanding, and to support certain of the Company's operating lines of credit totalling US$5,600. There are three separate lines of credit, each of which bear interest based on the Israeli prime rate.

## 5. ACCOUNTS RECEIVABLE

| | **June 30, 2010** | April 30, 2010 |
|---|---|---|
| Trade | $ 26,326 | $ 11,863 |
| Accrued | 47 | 63 |
| Other | 193 | 40 |
| Allowance for doubtful accounts | (821) | (259) |
| | $ 25,745 | $ 11,707 |

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

## 6. INVENTORIES

| | **June 30, 2010** | April 30, 2010 |
|---|---|---|
| Raw materials | $ 8,554 | $ 6,343 |
| Work-in-progress | 1,778 | 1,172 |
| Finished goods | 8,479 | 5,196 |
| Inventory at customer sites | 3,521 | 3,365 |
| Allowance for obsolescence | (2,314) | (2,322) |
| | $ 20,018 | $ 13,754 |

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

## 7. NOTES PAYABLE

| | **June 30, 2010** | April 30, 2010 |
|---|---|---|
| Secured note | $ 2,000 | $ 2,095 |
| Subordinated notes | 10,646 | - |
| Convertible notes | 3,194 | 3,047 |
| | 15,840 | 5,142 |
| Current portion | (1,166) | (1,102) |
| Net long-term portion | $ 14,674 | $ 4,040 |

The Secured note of $2,000 has a maturity date of March 30, 2012. The interest rate, based on the Wall Street Journal prime rate plus 0.25%, resulted in an interest rate of 5.50% at June 30, 2010. The note was repaid on July 16, 2010.

Subordinated notes are US$10,000, secured by a subordinated lien on the Company's North American based assets. The notes have a maturity date of June 23, 2012 and an interest rate of 5%.

Convertible notes are US$3,000, bearing interest at a rate of 5% and maturing on November 19, 2018. The notes were issued on November 19, 2008. For the first 36 months, monthly payments of interest only are made. The 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.

## 8. EMPLOYEE FUTURE BENEFITS

The Company has a liability for severance pay with respect to statutory obligations for the Israeli employees of its subsidiary, Teledata Networks Ltd. The liability is calculated pursuant to Israeli Severance Pay Law and employee agreements based on the most recent salary of the employees multiplied by 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 provided for by monthly deposits with insurance companies' pension funds and by an accrual. The accrued severance pay liability on the balance sheet is net of the value of the accrued liabilities and the funds on deposit with the insurance companies' pension funds.

## 9. 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. During the three months ended July 31, 2009, 206 broker warrants with a fair value of $44 were exercised. The exercise of the warrants resulted in cash proceeds of $62 and a total increase to share capital of $106.

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. During the year ended April 30, 2010, 287 broker warrants with a fair value of $53 were exercised. The exercise of the warrants resulted in cash proceeds of $115 and a total increase to share capital of $168.

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.

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

## 9. 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:

| | Two months ended June 30, 2010 | | Three months ended July 31, 2009 | |
|---|---|---|---|---|
| | Number of Warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| Outstanding, beginning of period | 3,977 | $ 0.37 | - | $ - |
| Issued | - | - | 1,840 | 0.30 |
| Exercised | (74) | 0.30 | (206) | 0.30 |
| Outstanding, and exercisable end of period | 3,903 | $ 0.37 | 1,634 | $ 0.30 |

The following table summarizes information for warrants outstanding:

| | Expiry | June 30, 2010 | July 31, 2009 |
|---|---|---|---|
| $ 0.30 | November 12, 2010 | 1,316 | 1,634 |
| $ 0.40 | August 4, 2011 | 2,587 | - |
| | | 3,903 | 1,634 |

*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 June 30, 2010, the option pool was 38,313. 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 September 7, 2007 generally vested in four equal portions during the first year and expire on the earlier of the 10$^{th}$ anniversary of the grant date or 90 days after termination of employment. Options granted on or after September 7, 2007 and before March 18, 2008 generally vested in four equal portions during the first eighteen months and expire on the earlier of the 10$^{th}$ anniversary of the grant date or termination of employment. Options granted on or after March 18, 2008 generally vest in four equal annual portions starting one year after the date of grant and expire on the 10$^{th}$ anniversary of the grant or 90 days after termination of employment. Options granted to directors vest over a two year period.

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

### 9. SHARE CAPITAL (Continued)

*Stock option plan*

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

| | Two months ended June 30, 2010 | | Three months ended July 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 |
| Exercised | (950) | 0.37 | - | - |
| Forfeited | (299) | 0.91 | (645) | 1.08 |
| Expired | - | - | (301) | 1.37 |
| Outstanding, end of period | 17,964 | $ 0.86 | 16,353 | $ 0.92 |
| Exercisable, end of period | 11,060 | $ 0.92 | 10,024 | $ 0.59 |

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

| Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|
| Exercise Price ($) | Number Outstanding | Weighted Average Remaining Contractual Life (years) | Number Exercisable | Exercise Price ($) |
| $ 0.30 | 898 | 8.47 | 224 | $ 0.30 |
| 0.37 | 2,904 | 6.07 | 2,904 | 0.37 |
| 0.49 | 1,000 | 9.51 | - | 0.49 |
| 0.50 | 2,290 | 6.45 | 2,290 | 0.50 |
| 0.50 | 1,477 | 9.48 | - | 0.50 |
| 0.72 | 1,500 | 9.81 | - | 0.72 |
| 0.80 | 2,640 | 6.69 | 2,640 | 0.80 |
| 1.15 | 2,755 | 8.11 | 689 | 1.15 |
| 1.37 | 375 | 6.77 | 375 | 1.37 |
| 1.45 | 100 | 7.84 | 50 | 1.45 |
| 2.30 | 1,750 | 7.61 | 1,750 | 2.30 |
| 2.39 | 275 | 7.72 | 137 | 2.39 |
| $ 0.86 | 17,964 | 7.63 | 11,060 | $ 0.92 |

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

## 9. 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:

| | April 30, 2010 | Jan 31, 2010 | Jan. 31, 2009 | Oct. 31, 2008 | July 31, 2008 | April 30, 2008 |
|---|---|---|---|---|---|---|
| Risk-free interest rate | 2.56% | 1.86% | 1.17% | 2.89% | 3.19% | 3.07% |
| Expected life of options (years) | 5 | 5 | 4 | 4 | 4 | 4 |
| Expected annualized volatility | 94% | 96% | 77% | 77% | 75% | 77% |
| Expected dividend yield | Nil | Nil | nil | nil | nil | nil |

During the two months ended June 30, 2010 stock-based compensation expense was $122 (three months ended July 31, 2009 - $391). Stock-based compensation is recorded as an increase to contributed surplus and transferred to share capital when the underlying options are exercised. There were no options granted during the two months ended June 30, 2010 or the three months ended July 31, 2009.

## 10. 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, 21,867 potentially dilutive shares at June 30, 2010 (July 31, 2009 – 17,987) have not been included in the calculation of diluted loss per common share for the two months ended June 30, 2010 and the three months ended July 31, 2009.

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

### 11. BUSINESS ACQUISITION

**Teledata Networks Ltd. ("Teledata")**

On June 23, 2010, the Company completed its merger with Teledata, a high-speed broadband equipment provider based in Israel. The acquisition was accounted for by the purchase method, whereby the results of the operation 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 $51,870 was allocated based on the fair value of the net identifiable assets acquired. US dollar amounts were converted to Canadian dollars using the exchange rate as at June 23, 2010. As a result, the unallocated purchase price was converted at 1.0384 at June 23, 2010 and at 1.0646 at June 30, 2010.

Purchase Price

| | |
|---|---|
| Cash | $ 10,384 |
| Issuance of 54,932 common shares | 30,762 |
| U.S. $10,000 of 5% subordinated secured notes | 10,384 |
| Estimated transaction costs incurred to date | 340 |
| | $ 51,870 |

The preliminary allocation of the purchase price was:

| | |
|---|---|
| Cash | $ 1,477 |
| Accounts receivable | 9,724 |
| Inventory | 5,165 |
| Prepaid expenses and deposits | 11,755 |
| Other current assets | 4,084 |
| Accounts payable and accrued liabilities | (39,611) |
| Other payable | (3,738) |
| Net working capital acquired | (11,144) |
| Property and equipment | 967 |
| Restricted cash | 5,828 |
| Net identifiable assets | (4,349) |
| Excess of purchase price unallocated (1) | 56,219 |
| Total purchase price consideration | $ 51,870 |

(1) The excess of the purchase price over the values of the net assets acquired has been presented as "unallocated purchase price." The fair value of all identifiable assets and liabilities acquired and any goodwill arising from the acquisition will be determined by an independent valuation.

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

## 11. BUSINESS ACQUISITION (Continued)

The allocation of the purchase price has not been finalized. In accordance with CICA Section 1581*, Business Combinations*, the Company has up to one year from the date of the acquisition to finalize the purchase price allocation.

## 12. 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.

| | **June 30, 2010** | April 30, 2010 |
|---|---|---|
| Held-for-trading (1) | $ 14,448 | $ 24,953 |
| Loans and receivables (2) | 25,745 | 11,707 |
| Other financial liabilities (3) | 56,162 | 19,386 |

(1) Includes cash and cash equivalents and restricted cash
(2) Includes accounts receivable
(3) Includes accounts payable and accrued liabilities, operating line of credit, notes payable and convertible notes

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:

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.

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

### 12. FINANCIAL INSTRUMENTS (Continued)

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 | $ 6,854 | $ - | $ - | $ 6,854 |
| Restricted cash | 7,594 | - | - | 7,594 |
| Total financial assets | $ 14,448 | $ - | $ - | $ 14,448 |
| Financial liabilities | | | | |
| Notes payable | - | 12,646 | - | 12,646 |
| Convertible notes | - | 3,194 | - | 3,194 |
| Total financial liabilities | $ - | $ 15,840 | $ - | $ 15,840 |

The carrying amounts of accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short term maturity of these 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 18% of the accounts receivable balance at June 30, 2010 (July 31, 2009 – one customer for approximately 17%).

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.

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.

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

## 12. FINANCIAL INSTRUMENTS (Continued)

The ageing of trade accounts receivable (net of the allowance of $821 at June 30, 2010 and $259 at April 30, 2010) is summarized as follows:

| | **June 30, 2010** | April 30, 2010 |
|---|---|---|
| Current or under 60 days | $ 20,543 | $ 8,763 |
| Past due 61 to 90 days | 3,259 | 687 |
| Past due greater than 90 days | 1,703 | 2,154 |
| Total trade accounts receivable | $ 25,505 | $ 11,604 |

Of the $4,962 of past due accounts receivable greater than 60 and 90 days at June 30 2010, $3,472 has been collected after June 30, 2010 through August 24, 2010. Of the $1,703 of past due accounts receivable greater than 90 days, $567 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:

| | **June 30, 2010** | April 30, 2010 |
|---|---|---|
| Balance, beginning of year | $ 259 | $ 267 |
| Increase during the period | 11 | 139 |
| Acquired with Teledata | 551 | - |
| Bad debts written off during the year | - | (147) |
| Balance, end of year | $ 821 | $ 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.

*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 on 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.

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

## 12. FINANCIAL INSTRUMENTS (Continued)

*Foreign currency risk (Continued)*

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.

| | Two months ended June 30, 2010 | | Three months ended July 31, 2009 | |
|---|---|---|---|---|
| | Net loss | OCI | Net loss | OCI |
| US$ | $ 269 | $ 2,741 | $ 627 | $ 3,569 |
| Swiss francs (CHF) | (20) | 225 | 6 | 400 |
| Israeli shekel | 50 | 653 | - | - |

*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 June 30, 2010, the Company has three long-term financial liabilities, payment of which is due as follows including interest:

(000's)

| | to June 30, 2011 | June 30, 2012 | June 30, 2013 | June 30, 2014 | Beyond June 30, 2014 | Total |
|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 37,245 | $ - | $ - | $ - | $ - | $ 37,245 |
| Secured Notes | 1,264 | 12,576 | - | - | - | $ 13,840 |
| Convertible debt | 160 | 460 | 590 | 567 | 2,196 | 3,973 |
| Total | $ 38,669 | $ 13,036 | $ 590 | $ 567 | $ 2,196 | $ 55,058 |

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

## 13. 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.

## 14. SEGMENTED INFORMATION

The Company has three reportable segments: Systems and Optical Components and Subsystems ("OCS") and Corporate as determined by the President and 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 table. The Corporate segment comprises expenses for sales and marketing, general and administrative, stock based compensation, amortization, restructuring charges and interest expense.

| **Two months ended June 30, 2010** | Revenue | Net Loss |
|---|---|---|
| Systems | $ 5,401 | $ (2,229) |
| OCS | 4,397 | (1,090) |
| Corporate | - | (989) |
| | $ 9,798 | $ (4,308) |

| **Three months ended July 31, 2009** | Revenue | Net Loss |
|---|---|---|
| Systems | $ 8,117 | $ (4,419) |
| OCS | 4,469 | (2,166) |
| Corporate | - | (298) |
| | $ 12,586 | $ (6,883) |

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

## 14. SEGMENTED INFORMATION (Continued)

Intersegment revenue for the two months ended June 30, 2010 consisted of sales of $6 from the OCS division to the Systems division (three months ended July 31, 2009 - $17). All intersegment transactions were eliminated on consolidation.

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

| | June 30, 2010 | | | April 30, 2010 | | |
|---|---|---|---|---|---|---|
| | Goodwill | Intangible and other assets | Unallocated purchase price | Goodwill | Intangible and other assets | Unallocated purchase price |
| Systems | $ 8,656 | $ 3,397 | $ 57,637 | $ 8,259 | $ 3,677 | $ - |
| OCS | 6,065 | 791 | - | 5,787 | 898 | - |
| Corporate | - | 155 | - | - | 152 | - |
| | $ 14,721 | $ 4,343 | $ 57,637 | $ 14,046 | $ 4,727 | $ - |

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

### 14. SEGMENTED INFORMATION (Continued)

Revenue and certain assets are analyzed geographically as follows:

| | Revenue | | Property and equipment | | Goodwill, intangibles and other assets | |
|---|---|---|---|---|---|---|
| | Two months ended June 30, 2010 | Three months ended July 31, 2009 | As at June 30, 2010 | As at April 30, 2010 | As at June 30, 2010 | As at April 30, 2010 |
| United States | $ 4,110 | $ 9,412 | $ 7,329 | $ 7,281 | $ 18,659 | $ 18,363 |
| Costa Rica | 1,371 | - | - | - | - | - |
| Kazakhstan | 1,304 | - | - | - | - | - |
| China | 762 | 713 | - | - | - | - |
| Germany | 559 | 279 | - | - | - | - |
| Japan | 408 | - | - | - | - | - |
| France | 228 | 301 | - | - | - | - |
| Canada | 287 | 384 | 527 | 598 | 405 | 410 |
| Israel | 121 | 291 | 903 | - | - | - |
| United Kingdom | 128 | 103 | - | - | - | - |
| Australia and New Zealand | 83 | 81 | - | - | - | - |
| Andorra | 81 | 214 | - | - | - | - |
| Sweden | 59 | 238 | - | - | - | - |
| Brazil | 52 | 92 | 88 | - | - | - |
| Switzerland | - | - | 2,781 | 2,703 | - | - |
| Taiwan | 18 | 175 | - | - | - | - |
| Denmark | - | 143 | - | - | - | - |
| Other countries | 227 | 160 | - | - | - | - |
| | $ 9,798 | $ 12,586 | $ 11,628 | $ 10,582 | $ 19,064 | $ 18,773 |

During the two months ended June 30, 2010, three customers accounted for 39% of the Company's total revenue (individually 14%, 13% and 12%). During the three months ended July 31, 2009, no one customer accounted for greater than 10% of the Company's total revenue.

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

### 15. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Net change in non-cash operating working capital items:

| | Two months ended June 30, 2010 | Three months ended July 31, 2009 |
|---|---|---|
| Accounts receivable | $ (748) | $ 687 |
| Inventories | (322) | (984) |
| Prepaid expenses | 243 | 85 |
| Accounts payable and accrued liabilities | 1,574 | (787) |
| Deferred revenue | (758) | (1,474) |
| | $ (11) | $ (2,473) |

### 16. SUBSEQUENT EVENTS

**Notes Payable**

On July 16, 2010, a notes payable, with a principal of US$1,879 at time of redemption, was repaid from the proceeds of a new US$5,000 notes payable with a different bank. As a result, the Company received net cash proceeds of US$3,121.

**Exercise of broker warrants**

On July 16, 2010, 1,288 broker warrants with an exercise price of $0.30 were exercised, resulting in cash proceeds of $386.