Consolidated Financial Statements of

ENABLENCE TECHNOLOGIES INC.

For the three and nine months ended January 31, 2010 and 2009
(Unaudited)

ENABLENCE TECHNOLOGIES INC.
Consolidated Financial Statements
January 31, 2010 and 2009

ENABLENCE TECHNOLOGIES INC.
Consolidated Balance Sheets
(Unaudited)

(Cdn $ in thousands)

	January 31, 2010	April 30, 2009
CURRENT ASSETS		
Cash and cash equivalents	$ 5,868	$ 11,503
Restricted cash	1,626	111
Accounts receivable (Note 4)	9,594	11,439
Investment tax credits receivable	-	197
Inventories (Note 5)	15,173	19,941
Prepaid expenses and deposits	2,089	2,398
	34,350	45,589
PLANT AND EQUIPMENT	11,496	14,271
OTHER ASSETS	138	154
INTANGIBLE ASSETS (Note 10)	5,365	16,066
GOODWILL (Note 11)	14,786	16,496
	$ 66,135	$ 92,576
CURRENT LIABILITIES		
Operating line of credit	$ -	$ 864
Accounts payable and accrued liabilities	14,081	15,843
Deferred revenue	7,077	9,862
Current portion of note payable	1,145	1,331
	22,303	27,900
NOTE PAYABLE	1,353	2,524
CONVERTIBLE NOTE	3,208	3,579
FUTURE INCOME TAX LIABILITY	3,487	8,062
	30,351	42,065
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	143,697	131,128
Contributed surplus	9,763	8,200
Accumulated other comprehensive income	5,495	10,411
Deficit	(123,171)	(99,228)
	35,784	50,511
	$ 66,135	$ 92,576

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD

____“”____ Director

___“”___ Director

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

(Cdn $ in thousands, except share and per share data)

	Three months ended January 31,		**Nine months ended January 31,**	
	2010	2009	**2010**	2009
REVENUES	$ 12,329	$ 14,790	$ 39,798	$31,189
Cost of sales including amortization	9,313	9,242	30,058	21,845
Inventory write downs	1,748	1,002	1,970	1,140
Gross profit	1,268	4,546	7,770	8,204
Operating expenses				
Research and development	3,120	4,743	10,494	11,846
Sales and marketing	2,295	2,893	7,844	6,293
General and administration	1,870	2,438	5,403	6,930
Stock-based compensation	382	532	1,212	1,382
Amortization of plant and equipment	356	545	1,182	1,346
Amortization of intangible assets	1,523	3,309	4,702	6,967
Restructuring charges (Note 9)	141	474	500	474
	9,687	14,934	31,337	35,238
OPERATING LOSS	(8,419)	(10,388)	(23,567)	(27,034)
Other income (expense)				
Interest income	2	132	18	694
Interest expense	(65)	(92)	(210)	(208)
Gain on disposal of equipment	-	-	42	-
Impairment of intangible assets	(4,355)	(30,200)	(4,355)	(30,200)
Impairment of goodwill	-	(17,500)	-	(17,500)
Realized foreign exchange (loss) gain	(2)	188	299	725
LOSS BEFORE INCOME TAXES	(12,839)	(57,860)	(27,773)	(73,523)
RECOVERY OF FUTURE INCOME TAXES	2,448	8,410	3,830	9,509
NET LOSS	(10,391)	(49,450)	(23,943)	(64,014)
OTHER COMPREHENSIVE (LOSS) INCOME				
Unrealized (loss) gain on translating financial statements of self-sustaining foreign operations	(692)	3,045	(4,916)	10,929
	(692)	3,045	(4,916)	10,929
COMPREHENSIVE LOSS	$ (11,083)	$ (46,405)	$ (28,859)	$ (53,085)
Net loss per share (Note 7)				
Basic and diluted	$ (0.04)	$ (0.24)	$ (0.10)	$ (0.34)
Weighted average number of outstanding shares (Note 7)				
Basic and diluted	254,700,631	203,329,012	252,862,689	187,153,473

See accompanying notes to the consolidated financial statements

ENABLENCE TECHNOLOGIES INC.
Consolidated Statements of Shareholders' Equity
(Unaudited)

(Cdn $ in thousands)

	Share Capital (Note 6)	Contributed Surplus	Deficit	Accumulated other comprehensive income (loss)	Shareholders' Equity
Three months ended January 31, 2010					
Balance at October 31, 2009	$ 143,765	$ 9,381	$ (112,780)	$ 6,187	$ 46,553
Stock-based compensation	-	382	-	-	382
Cancellation of shares	(68)	-	-	-	(68)
Net loss	-	-	(10,391)	-	(10,391)
Unrealized loss on translation of self-sustaining foreign operations	-	-	-	(692)	(692)
Balance at January 31, 2010	$ 143,697	$9,763	$ (123,171)	$ 5,495	$ 35,784
Nine months ended January 31, 2010					
Balance at April 30, 2009	$ 131,128	$ 8,200	$ (99,228)	$ 10,411	$ 50,511
Stock-based compensation	-	1,212	-	-	1,212
Fair value of warrants	-	396	-	-	396
Exercise of warrants	106	(45)	-	-	61
Issuance of common shares	12,531	-	-	-	12,531
Cancellation of shares	(68)	-		-	(68)
Net loss	-	-	(23,943)	-	(23,943)
Unrealized loss on translation of self-sustaining foreign operations	-	-	-	(4,916)	(4,916)
Balance at January 31, 2010	$ 143,697	$ 9,763	$ (123,171)	$ 5,495	$ 35,784

See accompanying notes to the consolidated financial statements

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

(Cdn $ in thousands)

	Three months ended January 31,		Nine months ended January 31,	
	2010	2009	**2010**	2009
Operating activities				
Net loss	$ (10,391)	$ (49,450)	$ (23,943)	$ (64,014)
Items not affecting cash:				
Amortization of plant and equipment and intangible assets	2,298	4,458	7,159	9,848
Stock-based compensation expense	382	532	1,212	1,382
Unrealized foreign exchange gain	(38)	-	(371)	-
Gain on disposal of equipment	-	-	(42)	-
Future income tax recovery	(2,448)	(8,410)	(3,830)	(9,509)
Impairment of intangible assets	4,355	30,200	4,355	30,200
Impairment of goodwill	-	17,500	-	17,500
	(5,842)	(5,170)	(15,460)	(14,593)
Changes in non-cash operating working capital items (Note 15)	2,286	(7,198)	1,113	(6,989)
Net cash flows used in operating activities	(3,556)	(12,368)	(14,347)	(21,582)
Investing activities				
Proceeds from redemption of short-term investments	-	-	-	11,049
Increase in restricted cash	(1,524)	(25)	(1,524)	(25)
Purchase of plant and equipment	(161)	(403)	(828)	(2,277)
Proceeds from sale of equipment	-	-	49	-
Acquisitions of subsidiaries (Note 8)	-	(461)	-	(11,110)
Collection of Wave7 Optics, Inc. loan	-	-	-	1,007
Net cash flows used in investing activities	(1,685)	(889)	(2,303)	(1,356)
Financing activities				
Increase (decrease/repayment) of operating line of credit	-	(158)	(780)	318
Repayment of note payable	(283)	(308)	(863)	(404)
Proceeds from issuance of common shares, warrants and options, net of issuance costs (Note 6)	-	-	12,988	5,481
Net cash flows (used in) provided by financing activities	(283)	(466)	11,345	5,395
EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH AND CASH EQUIVALENTS	96	164	(330)	(20)
DECREASE IN CASH AND CASH EQUIVALENTS	(5,428)	(13,559)	(5,635)	(17,563)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	11,296	32,155	11,503	36,159
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 5,868	$ 18,596	$ 5,868	$ 18,596
Non cash financing activities				
Issuance of common shares on acquisition of subsidiaries (Note 8)	-	7,725	-	15,885
Supplementary information:				
Cash interest received	$ 5	$ 103	$ 18	$ 737
Cash interest paid	74	88	210	204
Cash income taxes paid	-	-	-	170
Cash	4,948	2,346	4,948	2,346
Cash equivalents	920	16,250	920	16,250
Total cash and equivalents	$ 5,868	$ 18,596	$ 5,868	$ 18,596

See accompanying notes to the consolidated financial statements

1. DESCRIPTION OF BUSINESS

Enablence Technologies Inc. ("the Company" or "Enablence") is a publicly traded company (TSX-V: ENA) 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.

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 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, 2009.

The preparation of these unaudited interim consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. In the opinion of management, these unaudited interim consolidated financial statements reflect all adjustments necessary to state fairly the results for the periods presented. Actual results could differ materially from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

Plant and equipment

Plant and equipment are recorded at cost. Due to a change in estimated useful lives, effective May 1, 2009, all assets are amortized using the straight-line method from that date forward. Amortization is calculated over the anticipated useful lives of the assets as follows:

Asset class	*Amortization term*
Machinery and equipment	3 to 12 years
Computer equipment and software	3 to 5 years
Office furniture and equipment	3 and 5 years
Leasehold improvements	Lesser of 10 years or term of lease

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets, consisting of intellectual property, customer relationships and brand names, are recorded at fair value, estimated by management based on the expected discounted future cash flows associated with the acquired intangible assets. Acquired intangible assets are amortized on a straight-line basis over three to five years based on expected life. Long-lived assets are evaluated whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Intangible assets also include patents. Patents are recorded at cost and are amortized over ten years, the expected useful life of the patents.

Goodwill

Goodwill is calculated as the excess of the fair value of consideration paid over the fair value of tangible and intangible assets acquired and liabilities assumed. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill is tested at the end of the third quarter of each fiscal year or if factors indicative of impairment are present.

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).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, carrying values of intangible assets and goodwill and purchase price allocations on acquisitions.

3. CHANGES IN ACCOUNTING POLICY

(a) Standards adopted

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", replacing Handbook Sections 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs", together with consequential changes to other Handbook sections. The new sections are applicable to the financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company adopted the new standards for its fiscal year beginning May 1, 2009. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to the initial recognition of intangible assets by profit-oriented enterprises. The adoption of this new Section did not have a material impact on the Company's consolidated financial statements.

Financial instruments

In August 2009, the CICA amended CICA Handbook section 3855, "Financial Instruments – Recognition and Measurement", which add guidance concerning the assessment of embedded derivatives upon reclassification of a financial asset out of the held-for-trading category. In addition, this section has been amended to change the categories into which a debt instrument is required or permitted to be reclassified; change the impairment model for held-to-maturity financial assets to the incurred credit loss model of impaired loans; and require reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances. These amendments apply to annual financial statements relating to fiscal years beginning on or after April 30, 2009. The adoption of this new Section did not have a material impact on the Company's consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICY (Continued)

Financial assets and financial liabilities

The Emerging Issues Committee ("EIC") issued a new abstract on January 20, 2009 concerning the measurement of financial assets and financial liabilities ("EIC-173 - Credit Risk and the Fair Value of Financial Assets and Financial Liabilities"). There has been diversity in practice as to whether an entity's own credit risk and the credit risk of the counterparty are taken into account in determining the fair value of financial instruments. The EIC reached a consensus that these risks should be taken into account in the measurement of financial assets and financial liabilities. The Abstract is effective for all financial assets and financial liabilities measured at fair value in interim and annual financial statements issued for periods ending on or after the date of issuance of the Abstract with retrospective application without restatement of prior periods. Management has concluded that this standard has no material impact on its consolidated financial statements.

(b) Future requirements

International financial reporting standards

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

Consolidated financial statements and non-controlling interests

CICA 1601, "Consolidated Financial Statements" and CICA 1602, "Non-Controlling Interests", which together replace CICA 1600, "Consolidated Financial Statements". CICA 1601 establishes standards for the preparation of consolidated financial statements. CICA 1602 established standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), "Consolidated and Separate Financial Statements". The policy applies to interim and annual consolidated financial statements relating to fiscal years beginning January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year.

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

3. CHANGES IN ACCOUNTING POLICY (Continued)

Revenue Recognition

In December 2009, the CICA issued EIC 175, "Multiple Deliverable Revenue Arrangements". This Section provides additional Canadian guidance for recognizing revenues for agreements with multiple units. The Section is effective for interim and annual financial statements beginning on January 1, 2011 and earlier adoption is permitted. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

4. ACCOUNTS RECEIVABLE

	January 31, 2010	April 30, 2009
Trade	$ 9,503	$ 11,338
Accrued	61	65
Other	30	36
	$ 9,594	$ 11,439

5. INVENTORIES

	January 31, 2010	April 30, 2009
Raw materials	$ 8,744	$ 6,645
Work-in-progress	1,125	1,406
Finished goods	5,147	8,735
Inventory at customer sites	3,882	5,564
Allowance for obsolescence	(3,725)	(2,409)
	$ 15,173	$ 19,941

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.

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

6. SHARE CAPITAL

Authorized
Unlimited number of common shares

Issued and outstanding	Number of common Shares	Amount
April 30, 2008	172,691	$ 109,575
Issued for acquisition of Wave7 Optics, Inc. (Note 8)	2,078	3,547
Issued for acquisition of assets from DuPont Photonics (Note 8)	6,848	9,724
Issued for acquisition of Pannaway Technologies Inc. (Note 8)	25,750	7,725
Exercise of broker warrants	1,000	492
Issued on exercise of options	160	65
April 30, 2009	208,527	$ 131,128
Issued for cash net of $1,269 issuance costs	46,000	12,531
Exercise of broker warrants	206	106
July 31, 2009 and October 31, 2009	254,733	$ 143,765
Cancellation of shares in escrow	(40)	(68)
January 31, 2010	254,693	$ 143,697

On May 12, 2009, the Company completed a public offering issuing an aggregate of 46,000 common shares at a price of $0.30 per share for gross proceeds of $13,800. As partial compensation for this transaction, 1,840 broker warrants were issued entitling the holder to purchase one common share per warrant at a price of $0.30 per share until 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 nine months ended January 31, 2010, 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. No warrants were exercised in the three months ended January 31, 2010.

40 shares which had been held in escrow on the acquisition of Wave7 Optics, Inc. were cancelled on November 18, 2009.

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

6. 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:

	Nine months ended January 31, 2010		2009	
	Number of Warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding and exercisable, beginning of period	-	$ -	3,580	$ 0.79
Issued	1,840	0.30	-	-
Exercised	(206)	0.30	(1,000)	$ 0.37
Outstanding and exercisable, end of period	1,634	$ 0.30	2,580	$ 0.94

The following table summarizes information for warrants outstanding:

	Expiry	January 31, 2010	January 31, 2009
$ 0.60	March 1, 2009	-	1,400
$ 1.35	April 25, 2009	-	1,180
$ 0.30	November 12, 2010	1,634	-
		1,634	2,580

Stock option plan

The Company has established a stock option plan available for directors, officers, employees and consultants, and authorized 25,467 common shares for issuance thereunder. 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 10th 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 10th 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 10th 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)

6. SHARE CAPITAL (Continued)

Stock option plan (Continued)

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

	Nine months ended January 31, 2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	17,299	$ 0.93	12,580	$ 0.91
Granted	2,550	0.50	6,147	0.96
Forfeited	(1,434)	0.79	(309)	2.12
Expired	(345)	1.15	-	-
Outstanding, end of period	18,070	$ 0.85	18,418	$ 0.91
Exercisable, end of period	11,622	$ 0.81	10,718	$ 0.66

The following table summarizes the options outstanding and exercisable as at January 31, 2010:

Options Outstanding			Options Exercisable	
Exercise Price ($)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Exercise Price ($)
$ 0.30	1,040	8.88	260	$ 0.30
0.37	3,850	6.48	3,850	0.37
0.49	1,000	9.92	-	0.49
0.50	3,837	8.11	2,290	0.50
0.80	2,640	7.10	2,640	0.80
1.15	3,203	8.51	801	1.15
1.37	375	7.19	375	1.37
1.45	100	8.27	25	1.45
2.30	1,750	8.02	1,312	2.30
2.39	275	8.13	69	2.39
$ 0.85	18,070	7.80	11,622	$ 0.81

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:

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

6. SHARE CAPITAL (Continued)

Stock option plan (Continued)

	Jan. 31, 2010	Jan. 31, 2009	Oct. 31, 2008	July 31, 2008	April 30, 2008	Jan. 31, 2008
Risk-free interest rate	1.86%	1.17%	2.89%	3.19%	3.07%	4.04%
Expected life of options (years)	4	4	4	4	4	3
Expected annualized volatility	75%	77%	77%	75%	77%	75%
Expected dividend yield	Nil	nil	nil	nil	nil	nil

No options were granted during the quarters ended July 31, 2009 and October 31, 2009. In the quarter ended January 31, 2010, 2,550 options were granted.

During the three-month period ended January 31, 2010 stock-based compensation expense was $382 (2009 - $532). During the nine-month period ended January 31, 2010, stock-based compensation expense was $1,212 (2009 - $1,382). 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 nine months ended January 31, 2010 was $866. Grant date fair value of options issued during the three months ended January 31, 2009 was $258 and the nine months ended January 31, 2009 was $3,443.

7. 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, 19,704 potentially dilutive shares at January 31, 2010 (2009 – 20,998) have not been included in the calculation of diluted loss per common share for the three and nine months ended January 31, 2010 and January 31, 2009.

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

8. ACQUISITIONS

Pannaway Technologies Incorporated ("Pannaway")

On November 19, 2008, the Company completed the acquisition of Pannaway (a company incorporated under the laws of Delaware). The operations of Pannaway have been merged with the Company's Systems Division, and results of operations included following this date

As consideration for the acquisition, the Company issued (a) 20,250 common shares of Enablence valued at $0.30 per share, of which 3,000 shares are held in escrow, (b) $250 (US$200) to Pannaway shareholders and (c) 5,500 common shares of Enablence to a Pannaway debt holder in respect to the cancellation of certain Pannaway debt. Enablence also issued ten-year convertible notes (the "Notes") with a principal value of $3,758 (US$3,000) bearing interest at 5% per annum. For the first 36 months, monthly payments of interest only will be made. Thereafter, equal monthly payments of outstanding principal and interest will be made until the maturity date of November 19, 2018. The Notes are convertible, at the option of the holder, from the third anniversary until the fifth anniversary or in the event of a default, at a conversion price equal to the greater of (i) the closing market price on the last trading day prior to the date of the conversion notice, and (ii) the conversion price of $0.365 (US$0.317) in the first two years, $0.402 (US$0.349) in the third year, $0.442 (US$0.384) in the fourth year and $0.486 (US$0.422) in the fifth year. The maximum number of shares that can be issued pursuant to the Notes is 9,464 common shares. The Company has recorded the entire value of the note as debt as the Company has determined that there was no value associated with the equity component.

The acquisition was accounted for by the purchase method, whereby the results of the operation of Pannaway are included in the consolidated statements of loss and comprehensive loss and cash flows since the acquisition date. The net purchase price of $11,964 was allocated based on the fair value of the net identifiable assets acquired.

<u>Purchase Price</u>

Cash	$ 250
Issuance of 25,750 Enablence shares	7,725
5% Convertible notes (US$3,000)	3,758
Transaction costs	231
	$ 11,964

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

8. ACQUISITIONS (Continued)

Pannaway Technologies Incorporated ("Pannaway")

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

Assets acquired:	
Cash	$ 270
Restricted cash	90
Accounts receivable	3,366
Inventory	11,667
Other current assets	75
Property and equipment	1,118
Intangible assets	11,421
Goodwill	10,185
	38,192
Liabilities assumed:	
Accounts payable and accrued liabilities	9,796
Deferred revenue	11,833
Future income tax liability	4,599
	26,228
Total purchase price consideration	$ 11,964

The value assigned to identifiable intangible assets is attributable to existing intellectual property and customer relationships. The intangible assets are amortized on a straight-line basis over a three to five-year period from the date of acquisition.

Assets of DuPont Photonics Technologies LLC ("DuPont Photonics")

On July 31, 2008, the Company acquired certain assets of DuPont Photonics, a wholly owned subsidiary of E.I. du Pont de Nemours and Company ("DuPont") for consideration of $4,613 in exchange for 3,249 common shares of Enablence, valued at $1.42 per share. Concurrent with the closing of the transaction, DuPont completed a $5,111 (US$5,000) investment in the Company, in consideration of which Enablence issued 3,599 common shares, valued at a fair value of $1.42 per share.

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

8. ACQUISITIONS (Continued)

Assets of DuPont Photonics Technologies LLC ("DuPont Photonics")

Purchase Price		
Issuance of 3,599 Enablence shares for cash	$	5,111
Issuance of 3,249 Enablence shares for assets		4,613
Transaction costs		106
	$	9,830

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

Assets acquired:		
Cash	$	5,111
Inventory		1,239
Production equipment		1,258
Intangible assets		2,222
	$	9,830

The value assigned to identifiable intangible assets is attributable to existing customer relationships and intellectual property. The intangible assets will be amortized on a straight-line basis over a three to five-year period from the date of acquisition.

Wave7 Optics, Inc. ("Wave7")

On May 5, 2008, the Company acquired all of the outstanding shares of Wave7 for consideration of $10,568 (US$10,500) in cash, 2,078 common shares valued at $1.71 per share or $3,547 plus $274 of transaction costs.

The acquisition was accounted for by the purchase method, whereby the results of the operations of Wave7 are included in the consolidated statements of loss and comprehensive loss and cash flows since the acquisition date. The net purchase price of $14,389 was allocated based on the fair value of the net identifiable assets acquired. This allocation resulted in an excess of the fair value of the net identifiable assets over the cost of the purchase, which is sometimes referred to as negative goodwill. The negative goodwill was allocated on a pro-rata basis to the fair value of the long-term tangible and intangible assets acquired.

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

8. ACQUISITIONS (Continued)

Wave7 Optics, Inc. ("Wave7")

Purchase Price

Investment of cash	$	10,568
Issuance of 2,078 Enablence shares		3,547
Transaction costs		274
	$	14,389

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

Assets acquired:		
Cash	$	288
Accounts receivable		2,595
Inventory		5,710
Prepaids and deposits		364
Property and equipment		682
Intangible assets		15,884
		25,523
Liabilities assumed:		
Accounts payable		2,055
Accrued and other liabilities		1,826
Deferred revenue		349
Future income tax liability		6,904
		11,134
Total purchase price consideration	$	14,389

The value assigned to identifiable intangible assets is attributable to existing customer relationships. The intangible assets are amortized on a straight-line basis over a three to five-year period from the date of acquisition.

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

9. RESTRUCTURING CHARGES

In response to deteriorating global economic conditions and, in light of its recent acquisitions, management conducted a review of its operations and implemented a restructuring plan in November 2008 to reduce costs and improve operating efficiencies. The restructuring charges consisted of severance and benefits related to the reduction of the Company's workforce.

During the three and nine months ended January 31, 2010, the Company identified the need to further reduce its costs to improve its operating results and incurred an additional $141 and $500 respectively in restructuring costs (three and nine months ended January 31, 2009 – $474). During the year ended April 30, 2009, the Company incurred and paid $474 in restructuring charges. $177 is included in accrued liabilities related to restructuring charges at January 31, 2010 (April 30, 2009 – $nil).

10. INTANGIBLE ASSETS

As part of the Company's policy, intangible assets are reviewed annually for impairment or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. As such, the Company performed impairment tests on its intangible assets at January 31, 2010 and recorded an impairment loss of $4,355 (January 31, 2009 - $30,200).

11. GOODWILL

	January 31, 2010	April 30, 2009
Balance, beginning of period	$ 14,960	$ 20,123
Acquisition of Pannaway Systems, Inc.	-	10,185
Impairment loss	-	(17,500)
Foreign exchange differential	(174)	3,688
	$ 14,786	$ 16,496

Goodwill is tested at the conclusion of the third quarter of each fiscal year or if factors indicative of impairment are present. The Company recorded a goodwill impairment of nil (2009 - $17,500).

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

12. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities

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

	January 31, 2010	April 30, 2009
Held-for-trading (1)	$ 7,494	$ 11,614
Loans and receivables (2)	9,594	11,636
Other financial liabilities (3)	19,787	24,141

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

Fair value

Cash and cash equivalents and short-term investments are measured at fair value with changes in fair value recorded in net income. All other financial assets and liabilities are measured at amortized cost. Due to the short-term nature of these financial assets and liabilities, their fair value approximates amortized cost.

Credit risk

Financial instruments which potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and amounts 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. As at January 31, 2010, no one customer accounted for greater than 10% of the trade accounts receivable balance (January 31, 2009 – one customer, 19%).

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.

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

12. 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 an allowance of $276, (April 30, 2009 - $267) is summarized as follows:

	January 31, 2010	April 30, 2009
Current or less than 60 days past due	$ 7,270	$ 8,840
61 to 90 days past due	266	645
Greater than 90 days past due	1,967	1,853
Total trade accounts receivable	$ 9,503	$ 11,338

Of the $2,233 of past due accounts receivable greater than 60 days at January 31, 2010, $864 has been collected after January 31, 2010. Another $825 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:

	January 31, 2010	April 30, 2009
Opening balance	$ 267	$ 165
Increase during the period	9	102
Closing balance	$ 276	$ 267

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 currently use derivative instruments to reduce its exposure to interest rate risk as the risk is considered manageable.

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

12. FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk

The Company operates internationally with subsidiaries in Switzerland and the United States and is therefore subject to foreign currency risk. The Company incurs expenses and earns revenues in U.S. dollars, Euros, Swiss francs and Japanese yen. However, the majority of the transactions are in U.S. dollars so that the major exposure is from fluctuations in the value of the Canadian dollar relative to the U.S. dollar. 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 currencies would have the opposite effect.

	Nine months ended January 31,			
	2010		2009	
	Net loss	OCI	Net loss	OCI
USD	$ 1,934	$ 2,858	$ 5,305	$ 8,339
Swiss francs (CHF)	14	211	348	360

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 January 31, 2010, the Company has two long-term financial liabilities, the payments for which are due as follows including interest:

	For the years ending					
	Remainder of period to April 30, 2010	April 30, 2011	April 30, 2012	April 30, 2013	Thereafter	Total
Note payable	$ 314	$ 1,259	$ 1,088	$ -	$ -	$ 2,661
Convertible note	40	160	388	597	2,873	4,058
Total	$ 354	$ 1,419	$ 1,476	$ 597	$ 2,873	$ 6,719

12. FINANCIAL INSTRUMENTS (Continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's net earnings or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

13. CAPITAL DISCLOSURES

The Company's objective is to maintain a strong capital base so as to maintain 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 adjust its capital structure, the Company could issue new shares, purchase shares for cancellation pursuant to normal course issuer bids 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.

Under the terms of the Note Payable, a wholly-owned subsidiary of the Company must maintain certain working capital and net worth ratios, and is in compliance.

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

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 tables:

	Three months ended January 31			
	2010		2009	
	Revenue	Net Loss	Revenue	Net Loss
Systems	$ 6,343	$ (7,215)	$ 10,758	$ (10,755)
OCS	5,986	(2,097)	4,032	(37,140)
Corporate	-	(1,079)	-	(1,555)
	$ 12,329	$ (10,391)	$ 14,790	$ (49,450)

	Nine months ended January 31			
	2010		2009	
	Revenue	Net Loss	Revenue	Net Loss
Systems	$ 23,275	$ (14,853)	$ 20,592	$ (15,839)
OCS	16,523	(6,088)	10,597	(45,172)
Corporate	-	(3,002)	-	(3,003)
	$ 39,798	$ (23,943)	$ 31,189	$ (64,014)

Intersegment revenue for the nine months ended January 31, 2010 consisted of sales of $51 from the OCS division to the Systems division (2009 - $49). All intersegment transactions were eliminated on consolidation.

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

14. SEGMENTED INFORMATION (Continued)

Assets by reportable segment are presented in the following table:

	January 31, 2010		April 30, 2009	
	Plant, equipment and other	Goodwill and intangibles	Plant, equipment and other	Goodwill and intangibles
Systems	$ 835	$ 13,049	$ 1,314	$ 21,368
OCS	10,715	7,102	13,039	11,194
Corporate	84	-	72	-
	$ 11,634	$ 20,151	$ 14,425	$ 32,562

Certain assets are analyzed geographically as follows:

	January 31, 2010	April 30, 2009	January 31, 2010	April 30, 2009
	Plant, equipment and other		Goodwill and intangibles	
United States	$ 8,290	$ 10,523	$ 19,890	$ 32,271
Canada	684	894	261	291
Switzerland	2,660	3,008	-	-
	$ 11,634	$ 14,425	$ 20,151	$ 32,562

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

14. SEGMENTED INFORMATION (Continued)

Revenue is analyzed geographically as follows:

	Three months ended January 31,		Nine months ended January 31,	
	2010	**2009**	**2010**	**2009**
United States	$ 7,373	$ 10,465	$25,089	$ 19,366
China	1,735	280	4,277	1,182
France	922	-	3,000	5
Israel	591	284	1,223	934
Germany	449	307	908	307
Japan	354	264	1,002	302
Canada	235	479	955	583
Sweden	151	149	644	307
United Kingdom	127	-	362	16
Andorra	86	1,477	1,085	4,450
Australia and New Zealand	32	45	176	649
Taiwan	1	527	252	1,037
Brazil	-	-	123	203
Denmark	-	150	156	227
Aruba	-	46	46	167
Other countries	273	317	500	1,454
	$ 12,329	$ 14,790	$ 39,798	$ 31,189

During the nine months ended January 31, 2010, one customer accounted for 12% of the Company's total revenue. During the nine months ended January 31, 2009, one customer accounted for 15% 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:

	Three months ended January 31, 2010	2009	Nine months ended January 31, 2010	2009
Accounts receivable	$ 2,365	$ (2,199)	$ 1,291	$ (4,851)
Inventories	2,970	215	2,734	99
Prepaid expenses and deposits	(22)	(209)	173	186
Accounts payable and accrued liabilities	(3,403)	(4,273)	(1,324)	(1,791)
Deferred revenue	376	(732)	(1,761)	(632)
	$ 2,286	$ (7,198)	$ 1,113	$ (6,989)

16. SUBSEQUENT EVENT

On February 4, 2010, the Company successfully completed a public offering and issued an aggregate of 71,875 common shares (including 9,375 common shares pursuant to the exercise by the Agents of the over-allotment option in full) at a price of $0.40 per share for total gross proceeds of $28,750 (the "Offering"), and net proceeds of $26,798 after the costs of the Offering.

The syndicate of agents in respect of the Offering was led by Paradigm Capital Inc., and included Raymond James Ltd. (together, the "Agents"). The Agents received a commission of $614 equal to 6% of the gross proceeds of the Offering, and compensation options entitling the Agents to purchase 2,875 common shares or 4% of the common shares sold pursuant to the Offering. Each compensation option is exercisable to acquire one common share of the Corporation at an exercise price of $0.40 per share for a period of 18 months.

17. COMPARATIVE FIGURES

Inventory write downs have been separated from cost of sales to conform to the current presentation.