ENABLENCE TECHNOLOGIES INC.

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

FOR THE THREE MONTHS ENDED JULY 31, 2009

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The MD&A is for the three months ended July 31, 2009 (thousands of Canadian Dollars, except per share amounts or unless specified otherwise). Enablence's fiscal year ends April 30. In this MD&A, quarterly references relate to the Company's fiscal year so, "FQ1 2010" refers to the three months ending July 31, 2009 (fiscal first quarter), respectively and similarly for other periods.

The following is a discussion and analysis of the unaudited consolidated financial statements of Enablence Technologies Inc. ("Enablence", or the "Company") for the three months ended July 31, 2009, which is the first quarter of the Company's fiscal 2010 year, and should be read in conjunction with the Company's Annual Information Form, audited annual financial statements and MD&A and other securities filings available on www.sedar.com. The effective date of this MD&A is September 18, 2009. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All figures are presented in Canadian currency unless specified otherwise. The financial statements include all of the assets and liabilities and expenses of Enablence Technologies Inc. and its subsidiaries. References made herein to "Enablence", "the Company", "we" and "our" mean Enablence Technologies Inc. Management has evaluated the effectiveness of the Company's disclosure controls and procedures as of July 31, 2009 and has concluded that these are effective in providing reasonable assurance that material information relating to the Company has been appropriately disclosed

FORWARD LOOKING STATEMENTS

This discussion includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements, including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to the Company or its management. The forward looking statements are not historical facts, but reflect the Company's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Company does not undertake or accept any obligation to release publicly any updates or revisions to any forward-looking statements to reflect any change in the Company's expectations, except as prescribed by applicable securities laws.

FQ1 2010 (PERIOD ENDING JULY 31, 2009) HIGHLIGHTS

The major operating highlight during the first quarter of fiscal 2010 were new business wins, including those in Egypt, France and the United States (U.S.). Revenues resulting from these announcements, however, generally appear in one or two quarters following the announcement, due to lead times for production and delivery. In the current quarter, management took a number of measures aimed at streamlining operations with a view to longer term cost reduction in each of the divisions. Thus, the results of FQ1 2010 reflect a mix of the impact of these activities.

In FQ1 2010, the Company continued the process of strengthening its financial capabilities by reducing costs and strengthening its cash resources. As part of this process, it successfully completed on May 12, 2009 raising $13.8 million in a common share offering.

Our operations continue to show improvement. This quarter, relative to the previous quarter, has shown a reduction in our net loss from $12.8 million in the previous quarter to $6.9 million this quarter. The full impact of the reductions initiated in the previous and current quarters are still to be fully realized. Nonetheless, this quarter has already shown a reduction in absolute dollars in all of the key cost categories: sales and marketing, R&D and G&A. This trend will likely continue in subsequent quarter as a result of additional actions taken to reduce R&D and G&A expenditures.

The gross margin picture has shown slight improvement mainly due to the actions taken on our Components side where the margins have shown substantial improvements. The overall gross margin still requires further improvement and measures taken to consolidate contract manufacturing activities in the current and following quarter will help in this direction, although the full impact of it will not show until the third and fourth quarters due to lead times on contract manufacturing and existing contractual obligations.

Had the sales picture improved in the current quarter, the operating loss would have been much smaller. It is the Company's expectation that the deliveries which are scheduled for the second fiscal quarter will show improvements in the overall revenue picture – assuming all other conditions remain the same.

CHANGES IN ACCOUNTING POLICY

(a) Current changes

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 section did not have an impact on the Company's consolidated financial statements.

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"). The Company has concluded that this standard has no material impact on its consolidated financial statements.

(b) Future changes

International financial reporting standards

The Canadian Accounting Standards Board has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit oriented enterprises that are responsible to large or diverse groups of stakeholders. The official change-over date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, the Company will adopt this new standard for the fiscal year beginning May 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. During FQ2 2010 the Company will start the review of its accounting policies to identify which will be affected by adoption of IFRS and will develop a plan to implement the changes necessary to adapt to IFRS.

DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. Enablence's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the quarterly filings that the Company's disclosure controls and procedures for the three months ended July 31, 2009 are effective to provide reasonable assurance that material information related to Enablence is made known to them.

RESULTS OF OPERATIONS

The nature and size of Enablence's business has changed significantly during the last 12 months. During the year ended April 30, 2008, the Company had operations in Ottawa, Canada, Zurich, Switzerland and, for the period February 7 through April 30, 2008, in Fremont, California. During the year ended April 30, 2009, the Company acquired Wave7 Optics, Inc. (May 5, 2008), the assets of the DuPont Photonics business unit (July 31, 2008) and Pannaway Technologies, Inc. (November 18, 2008). As a consequence of these acquisitions, the results of operations for FQ1 2010 are not reasonably comparable to those of FQ1 2009. However, the results of operations are comparable between FQ1 2010 and FQ4 2009 and are analyzed below.

SUMMARY OF UNAUDITED QUARTERLY RESULTS

The following table sets forth unaudited summary results of operations for the past eight (8) quarters. The information has been taken from our unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited financial statements for the last eight quarters ended July 31, 2009 and includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of information presented. The table and ensuing discussion and analysis presents the information in thousands of Canadian dollars except share and per share related data.

Generally Accepted Accounting Principles (GAAP) requires that, for self sustaining foreign operations, we convert foreign currency denominated transactions related to the statement of loss at the average exchange rate for the year to date period. The amounts we report for each quarter during our fiscal year are the difference between the year to date amounts derived by multiplying the local currency by the average exchange rate between the Canadian dollar and the local currency dollar for the same period. Since this is the first fiscal quarter of FY2010 differences arising from the foreign exchanges rates during the fiscal year are not applicable. However, the results of operations for the second, third and fourth fiscal quarters of each of the prior fiscal years are affected by this policy.

	FY 2010	FY 2009				FY 2008		
Quarter Ended	July 31, 2009	April 30, 2009	January 31, 2009	October 31, 2008	July 31, 2008	April, 30, 2008	January 31, 2008	October 31, 2007
Revenue	$12,586	$14,049	$14,790	$8,765	$7,634	$2,445	$261	$145
Gross Profit	3,032	2,923	4,547	1,669	1,988	828	171	28
Expenses								
Research & Development	3,987	4,959	4,743	3,458	3,644	2,205	1,457	1,009
Sales, General & Administrative	4,770	5,618	5,331	4,337	3,552	1,867	1,317	631
Stock Based Compensation	391	324	532	509	341	500	539	599
Amortization	1,834	1,337	3,854	2,433	2,025	1,667	397	363
Restructuring Charge	132	-	474	-	-	-	-	-
Operating Loss	(8,082)	(9,315)	(10,388)	(9,068)	(7,574)	(5,410)	(3,540)	(2,575)
Impairment of Intangible Assets and Goodwill	-	-	(47,700)	-	-	-	-	-
Net Loss for the Period	(6,883)	(12,808)	$(49,450)	$(7,721)	$(6,844)	$(5,216)	$(2,642)	$(2,270)
Weighted Average Shares Outstanding	249,154,631	208,485,707	203,329,012	182,617,055	175,514,353	171,827,815	161,553,851	120,146,388
Basic and Diluted Loss Per Share	$ (0.03)	$ (0.06)	$(0.24)	$(0.04)	$(0.04)	$ (0.03)	$ (0.02)	$ (0.02)

SUMMARY OF RESULTS FOR THE THREE MONTHS ENDED JULY 31, 2009 AND THE THREE MONTHS ENDED APRIL 30, 2009

REVENUES AND COST OF REVENUES

The Company operates two divisions. The Optical Component and Subsystems division develops and sells integrated photonic chips and solutions. The Systems division develops and sells systems that deliver very high speed, high capacity voice, data and video services to the premises. The table below sets out, on a comparative basis, the divisional revenues and the elements of the Company's cost of revenues, for FQ1 2010 and FQ4 2009.

	FQ1 2010	FQ4 2009	Change	% Change
Revenues				
Systems	$8,117	$10,191	$(2,074)	(20.4)%
Optical Components & Subsystems	4,469	3,858	611	15.8%
	12,586	14,049	(1,463)	(10.4)%
Cost of Revenues				
Variable Costs	8,385	9,788	(1,403)	(14.3)%
Facility Overhead	709	807	(98)	(12.1)%
Amortization	460	531	(71)	(13.4)%
	9,554	11,126	(1,572)	(14.1)%
Gross Profit	$3,032	$2,923	$109	3.7%
Gross Margin – Actual	24.1%	20.8%		3.3% pts
Gross Margin – Excluding Amortization	27.7%	24.6%		3.1% pts

Revenues

Systems division revenues were $2,074 (20.4%) lower during FQ1 2010 as compared to FQ4 2009. All of the Systems division revenues are denominated in US dollars. Changes in the US dollar to Canadian dollar exchange rate affect the Canadian dollar revenues we report. This lower volume of revenues is a combination a US$1,204 (14%) decline in US dollar denominated revenues, mainly attributable to the timing gap between receipt of orders late in the quarter for international sales, and deliveries occurring in the following quarter with the remainder the result of lower average US dollar to Canadian dollar foreign exchange rates applicable during the comparable periods.

The Optical Components and Subsystems division revenues increased $611 (15.8%) from FQ4 09 to FQ1 2010. The Optical Components and Subsystems division's revenues are denominated in US dollars, Euros, Swiss Francs and Japanese Yen. The impact of changes in the foreign exchange rates between these currencies and the Canadian dollar during FQ4 2009 and FQ1 2010 offset each other for the most part, leading to changes in the foreign exchange rates having no material impact on the revenues of the division.

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

	Revenues ($000)		Property, Plant, Equipment and Intangible Assets ($000)	
	FQ1 2010	**FQ4 2009**	**Jul 31 2009**	**Apr 30 2009**
Americas	$9,952	$9,766	$37,814	$43,825
Asia Pacific	1,242	1,305	--	--
Europe	1,392	2,978	2,820	3,008
Total	**$12,586**	**$14,049**	**$40,634**	**$46,833**

During FQ1 2010, no one customer accounted for greater than 10% of the Company's total revenue and one customer accounted for 17% of the accounts receivable balance at July 31, 2009. During FQ4 2009, one customer accounted for 11% of the Company's total revenue and one customer accounted for 31% of the accounts receivable balance at April 30, 2009.

The table below provides a comparison of the total assets for the two divisions for the past five fiscal quarters reflecting the acquisitions, operating performance and FQ3 2009 write down of intangible assets and goodwill of the businesses.

	Property, Plant, Equipment, Intangible Assets and Goodwill ($000)				
	July 31 2009	**Apr 30 2009**	**Jan 31 2009**	**Oct 31 2008**	**Jul 31 2008**
Optical Components	$21,462	$24,144	$25,116	$62,583	$57,767
Systems	19,172	22,689	27,400	10,495	9,406
Total	**$40,634**	**$46,833**	**$52,516**	**$73,078**	**$67,173**

Cost of Revenues

Cost of revenues decreased from $11,126 in FQ4 2009 to $9,554 in FQ1 2010, a decrease of $1,572 (14.1%). During the same period, our gross margins increased from 21% to 24%.

These changes are predominantly a reflection of differences in our product mix between FQ4 2009 and FQ1 2010. The revenues from our Systems division were oriented more towards the lower margin ONT products during FQ1 2010 than was the case for FQ4 2009, when our Systems division revenues were more heavily weighted towards our higher margin OLT products. This variance in product mix is normal for Systems division's sales. At the early stage of a new contract, the higher margin OLT's are supplied and as the customer builds its subscriber base it requires ONT's for the end user which have a lower margin. The current quarter had more sales of ONTs than OLTs thus reflecting a change in margins. With the announcements of new contracts obtained during FQ1 2010, we expect to see an increase in the OLTs delivered in FQ2 2010 and FQ3 2010.

Our Optical Components and Subsystems division has improved its margins significantly during FQ1 2010 as compared to the lower margins arising from the legacy of existing low margin customer obligations that endured during FQ4 2009. These improved margins are the result of increases in prices on key components, a product mix that is moving in the direction of higher margin products and the re-negotiation of the cost of higher volume materials used in production of components and subsystems.

The Company continues to take steps to improve the variable costs of production through further integration of its operations, including shifting low volume, high unit cost production from a contract manufacturer to use of internal facilities to improve facility overhead utilization; consolidation of its contract manufacturing activities that are presently spread among various manufacturers due to different relationships established by acquired companies; seeking quotes from contract manufacturers in lower cost locations, while offering higher volumes through consolidated and integrated operations; and evaluating whether to stop producing low margin products, the impacts of which will likely appear throughout the remainder of FY 2010.

OPERATING EXPENSES

The following table presents the operating expenses of the Company on a summary comparative basis for FQ1 2010 and FQ4 2009.

	FQ1 2010		FQ4 2009		Change	
	$000	% of Rev	$000	% of Rev	$000	% Change
Research & Development	$3,987	31.7%	$4,959	35.3%	$(972)	(3.6)% pts
Sales & Marketing	2,944	23.4%	3,440	24.5%	(496)	(1.1)% pts
General and Administration	1,826	14.5%	2,178	15.5%	(352)	(1.0)% pts
Stock-based Compensation	391	3.1%	324	2.3%	67	(0.8)% pts
Amortization	1,834	14.6%	1,337	9.5%	497	5.1% pts
Restructuring Charges	132	1.0%	-	-	132	1.0% pts
Total	**$11,114**	**88.3%**	**$12,238**	**87.1%**	**($1,124)**	**1.2% pts**

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

	FQ12010		FQ42009		Change	
	$000	% of Exp	$000	% of Exp	$000	% Change
Research & Development						
Compensation	$3,121	78%	$3,681	70%	$ (560)	(15.2)%
Other R&D Expenses	866	22%	1,278	30%	(412)	(32.2)%
Total R&D Expense	$3,987	100%	$4,959	100%	$ (972)	(19.6)%
R&D Staff	91		97		-6	(6.2)%
Sales & Marketing						
Compensation	$1,951	66%	$2,109	61%	$(158)	(7.5)%
Other S&M Expenses	993	34%	1,331	39%	(338)	(25.4)%
Total S&M Expense	$2,944	100%	$3,440	100%	$(496)	(14.4)%
S&M Staff	48		50		-2	(4.0)%
General and Administration						
Compensation	$808	44%	$1,100	45%	$(292)	(26.5)%
Other G&A Expenses	1,018	56%	1,078	55%	(60)	(5.6)%
Total G&A Expense	$1,826	100%	$2,178	100%	$(352)	(16.2)%
G&A Staff	32		29		3	10.3%
Stock-based Compensation	$391		$324		$67	20.7%
Amortization						
In G&A						
PP&E	$441		$626		$(185)	(29.6)%
Intangibles	1,393		711		682	95.9%
	1,834		1,337		497	37.17%
In Cost of Revenues	436		531		(95)	(17.9)%
Total Amortization	$2,270		$1,868		$402	21.5%

Enablence's total research and development ("R&D"), expenses decreased by $972 (20%), from FQ4 2009 to FQ1 2010. Of this amount, compensation expense fell $560 (15%), as the reductions in staffing arising from the transition of the Pannaway and Enablence product development teams was completed during FQ4 2009. Other R&D expenses dropped by $412 (32%) as a result of a reduction in materials used in R&D projects and less reliance on third party services during FQ1 2010,as compared to FQ4 2009. The Company expects R&D expense to fall in FQ2 2010 as a result of the decision to shift software code development and maintenance to a lower cost location, and as third party design contract revenues increase, with the consequent shift of the related compensation expense to cost of revenues.

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

Sales and marketing expenses fell by $496 (14%) from FQ4 2009 to FQ1 2010. Of this amount, $158 (7%) relates to lower compensation, a reflection of the lower commissions on lower revenues and reorganization of this functional area. The $338 (25%) less in other sales and marketing expenses incurred during FQ1 2010 as compared to FQ4 2009, is a combination of normal fluctuations in operating activities, such as the number of trade shows attended, and a concerted effort to better control our variable expenses, such as advertising and travel.

Sales and marketing expenses during FQ1 2010, as a percentage of revenues are down 1% point from FQ4 2009. The Company expects these expenses to fall marginally as a percentage of revenue from an overall increase in corporate revenues. The Company plans to continue its expanded corporate marketing function and to streamline and strengthen its sales function with a view to increasing revenues with higher margins, broader market share and global market reach. Opportunities exist to cross sell optical components and network systems to a larger number of customers. In addition, steps are being taken to structure the sales teams to make better use of the varying levels of experience and compensation. The Company will review its activities, especially in the Systems division, between domestic North American operations and international activities largely due to the differences in standards and the breadth and scope of its international customer base. The Company does not expect its sales and marketing expenses to decline in absolute dollars in subsequent periods but the Company does expect the percentage of sales and marketing expenses as compared with revenues to decline as we rationalize our compensation arrangements and as revenues increase.

The Company's general and administration ("G&A") expenses include administration staff compensation, professional fees, insurance, payments made to register Intellectual Property (IP) in various jurisdictions (translation & filing fees), and information technology (IT) services. G&A expenses decreased by $352 (16%) from FQ4 2009 to FQ1 2010, of which $292 (26%) relates to reduced compensation expense.

G&A expenses during FQ1 2010, as a percentage of revenues, are down 1% from FQ4 2009. It is anticipated that this expenditure as a percentage of sales will decline as the full benefits of integration are realized and as revenues rise, as expected.

Stock based compensation for FQ1 2010 was $391, as compared to $324 in FQ4 2009. This $67 (21%) increase is a consequence of the reductions in FQ4 2009 stock based compensation arising from the restructuring undertaken in FQ3 2009, and the subsequent forfeitures of stock options that occurred in FQ4 2009.

Amortization expenses comprise two major elements: amortization of property, plant and equipment over their useful lives; and amortization of intangible assets over their estimated useful lives, commencing on the date of acquisition. The increase in amortization of intangible assets during FQ1 2010 is due to a change in estimate of the useful life of the intangible assets from five years to three years.

The economic stimulus policies being implemented by countries around the world are expected to have a positive impact on the demand for improved broadband services by end users and on the availability of capital to our customers. This should, in turn, improve the revenue potential of the Company and therefore improve the future operating results of the Company. The Company expects that its own vertical integration strategy and consolidation efforts will also improve its gross margins above that of general industry gross margins.

INTEREST INCOME

Enablence invests cash and cash equivalents in short-term investments with a Canadian chartered bank. As of Q1 2010, Enablence no longer holds any short-term investments. All excess funds are held in an interest bearing account with a Canadian chartered bank. During FQ1 2010, Enablence earned interest of $3 as compared to $32 in FQ4 2009. This decrease in interest income in each quarter is the result of holding lower average cash and cash equivalents balances during FQ1 2010 than in FQ4 2009 and generally lower interest rates and yields on interest bearing deposits.

INCOME TAXES

Future income tax recovery is due to the amortization of the intangible assets recognized on acquisitions and the related future tax liability that was accrued at that time. The liability is drawn down as that portion of the asset value is amortized. No other future tax recovery on losses is recorded in earnings and will not be until, in the opinion of management, it is more likely than not that the future tax assets will be realized.

NET LOSS

The net loss for FQ1 2010 was $6,883, as compared to $12,808 for FQ4 2009. Of the $12,808 net loss for FQ4 2009, $3,300 relates to an increase in the provision for future tax liability related to intangible assets. After adjusting for this provision, the net loss for FQ4 2009 was $9,508, which was $2,625 more than the net loss for FQ1 2010. The decrease in net loss is attributable to the reasons set out above.

LOSS PER COMMON SHARE

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

	FQ1 2010	**FQ4 2009**	**FQ1 2009**
Basic and Diluted Loss per Common Share	$0.03	$0.06	$0.04
Weighted Average Number of Common Shares	249,155	208,486	175,514

LIQUIDITY AND CAPITAL RESOURCES

Enablence has historically financed its operations primarily through the issuance of common shares. The Company has assumed long-term debt when it acquired some of its wholly owned subsidiaries. The Company repaid the operating line of credit of one of its wholly owned subsidiaries in May 2009 and the credit facility was then cancelled. The note payable of $3,098 remains outstanding under the existing terms and conditions with a maturity date of March 31, 2012. Part of the consideration provided by the Company when it acquired Pannaway was a US$3,000 convertible note payable.

The Company expects that its current level of cash and cash equivalents will be sufficient to meet its operations and capital expenditures for more than the next 12 months, based on its 2010 operating forecasts. These forecasts include assumptions regarding:

- revenue growth as the global economic conditions improve and the economic stimulus packages in the U.S. and elsewhere are accessed by the Company's customer base;
- the increase in design contracts on behalf of key optical component customers;
- improved gross margins as a result of the consolidation of our contract manufacturing are completed and the improvements to the cost elements of our optical components and subsystems;
- the changes we have made to our R&D costs arising from the shift of some of our non-core engineering initiatives to lower cost centers; and
- improvements in accounts receivable collections and inventory management.

However, if economic conditions deteriorate, thus preventing the Company from achieving its operating objectives or if the current financial crisis results in financial institutions requiring the Company to provide additional cash collateral in support of its credit facilities or if its lenders seek early repayment of the Company's obligations due to failure to maintain current ratio and tangible net worth covenants, the Company may not have sufficient cash and cash equivalents to meet its operations and capital expenditures for the next 12 months. Enablence may receive nominal cash proceeds on the issue of additional common shares on the exercise of options and warrants depending in part on the market price for its shares. The Company periodically evaluates the opportunity to raise additional funds through either the public or private placement of equity capital to strengthen its financial position and facilitate possible investments and to provide sufficient cash reserves to protect itself from the effects of the current unpredictable economic conditions.

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

	FQ1 2010	**FQ4 2009**
Cash, Cash Equivalents and Short-term Investments	$14,952	$11,503
Working Capital	$23,195	$17,689

During FQ1 2010, the Company used $8,003 of cash in operating activities, including a decrease of $2,473 in non cash working capital, and invested a net $167 in plant and equipment. $288 was used in partial repayment of a term loan assumed on the acquisition of ANDevices and a further $780 was used to repay the operating line of credit. The Company successfully completed a public offering and raised $12,988 net proceeds from the issuance of shares and exercise of warrants related to the offering. The net increase in cash and cash equivalents during FQ1 2010 was $3,449.

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

OFF BALANCE SHEET ARRANGEMENTS

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

FINANCIAL AND OTHER INSTRUMENTS

Enablence's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, note payable and convertible notes. Unless otherwise noted, it is the opinion of Enablence's Management that Enablence is not exposed to significant interest, currency or credit risk arising from these financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term maturity or capacity of prompt liquidation.

TRANSACTIONS WITH RELATED PARTIES

None

SUMMARY OF CONTRACTUAL OBLIGATIONS

The table below presents the Company's contractual obligations.

	Total	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Facilities Leases	$6,155	$1,629	$2,269	$1,081	$1,176

CAPITAL RESOURCE REQUIREMENTS

The Company expects to invest up to $330 during the next year on component manufacturing equipment to improve manufacturing processes with the ultimate objective of improving gross margins and product offerings, and on design and test equipment for the Systems division. The Company is implementing a vertical integration strategy involving the replacement of components acquired from third parties with comparable components manufactured within the consolidated enterprise. The objective of this vertical integration strategy is to improve the Company's supply chain logistics and to improve gross margins by adding higher value products in its product portfolio. The Company is unable to specify its capital resources requirements for this purpose at this time.

OUTLOOK

The primary challenges facing the Company are the need to increase revenues, while improving gross margins in the difficult economic and highly competitive environment, particularly in the U.S., and to better manage its operating expenses. A review of the Company's sales mix, product costs, sales and marketing, R&D, and administrative efforts has been completed and specific actions have been implemented to address the recent trend of weaker gross margins and to continue the efforts to control operating expenses. Management continues to monitor the Company's progress and further actions may be taken if results do not meet the targets that have been set.

Management will continue to focus on five key goals for FY2010:

- improving revenues from the Company's expanding portfolio of optical components and subsystems to its customer base, and focusing on winnable bids for broadband systems;
- improving gross margins by reducing the cost of materials by seeking better pricing from suppliers as a result of larger purchasing volumes, further integration of internally produced components, and improving yields;
- controlling R&D costs by outsourcing some of our activities with a view to reduce costs and increasing NRE revenues;
- rationalization of our sales and marketing expenses and commissions structure;
- reducing G&A costs through further integration of activities and programs.

The Company expects these improvements to continue throughout FY2010, with a good measure of the benefits being realized in the second half of FY2010. Management believes that, based on its present assessment, once these efforts are completed as anticipated, the Company will be on the track towards profitability by the end of FY2010. The Company expects that the financial results of following quarters will show inconsistent outcomes due to the impact of a mix of these measures and partial outcomes.

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

Cash flow from operations is expected to continue to be negative until the full impact of the Company's vertical integration strategy is realized and all measures in reducing costs and increasing revenues are achieved. The Company anticipates that these results, barring the unpredictable impact of the economic conditions, will be visible starting from the third quarter leading to cash flow positive status towards the end of the current fiscal year ending April 30, 2010.

It is not possible to predict the impacts of the general global economic slowdown and the state of the U.S. economy, and therefore there is no guarantee that these results will be achieved. The U.S. market remains an important source of the Company's revenues, therefore the prolongation of the recessionary situation may have an unfavourable influence on the Company achieving its goals and objectives as well as delayed disbursements of funds under the Stimulus package. The Company's ability to reach profitability is dependent on achieving higher volumes and increased gross margins. There are no assurances that Enablence will gain adequate market acceptance, nor are there any guarantees that the Company will achieve higher gross margins, even though the Company is able to hold a relatively steady sales picture in the current conditions, nor is the Company presently able to fully assess any negative impact of the current global economic conditions on its operations or financial condition. The Company has not yet earned operating profits and expects to incur further operating losses before realizing profits. The Company believes that the existing working capital coupled with revenues will, with the above reservations, be sufficient to cover the Company's anticipated operating costs beyond April 30, 2010.

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

CURRENCY RISK

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

PROPOSED TRANSACTIONS

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

SUBSEQUENT EVENTS

None.

SHARE CAPITAL

COMMON SHARES

Enablence is authorized to issue an unlimited number of common shares of which 254,733 common shares are issued and outstanding as of July 31, 2009. The following table details the issued and outstanding shares of the company (in thousands):

	Number of Common Shares	Amount
April 30, 2007	117,247	$ 31,889
Issued for Cash, Net of $3,848,788 Issuance Costs	42,593	53,651
Fair Value of Broker Warrants Issued		(754)
Issued on Exercise of Options	2,028	1,187
Issuance Costs	-	(31)
Redemption of Broker Warrants	1,738	1,231
Issued for Acquisition of ANDevices, Inc.	9,085	22,403
April 30, 2008	172,691	$109,575
Exercise of Broker Warrants	1,000	492
Issued for Acquisition of Wave7 Optics, Inc.	2,078	3,547
Issued for Acquisition of Assets from DuPont Photonics	6,848	9,724
Issued for Acquisition of Pannaway Technologies Inc.	25,750	7,725
Issued on Exercise of Options	160	65
April 30, 2009	208,527	$131,128
Issued for Cash, Net of $1,268,004 Issuance Costs	46,000	12,531
Exercise of Broker Warrants	206	106
July 31 and September 17, 2009	**254,733**	**$143,765**

RISKS AND UNCERTAINTIES

The Company operates in a dynamic, rapidly changing environment that involves risks and uncertainties and Management expectations may not be realized for a number of reasons. An investment in Enablence common shares is speculative and involves a high degree of risk and uncertainty. The current global economic crises pose additional risks and uncertainties which may materially affect Management's expectations. Any investor should also consider carefully these risks and the risks and uncertainties that are detailed in our Annual Information Form filed on August 11, 2009, and available at: www.sedar.com.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amount of revenue and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates include, but are not limited to, investment tax credits, allowance for doubtful accounts, inventory provisions, inventory valuation, asset impairments, accruals, stock-based compensation, the estimated useful lives and valuation of property, plant and equipment, future income taxes, carrying value of intangible assets and goodwill.

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

ADDITIONAL INFORMATION

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