ENABLENCE TECHNOLOGIES INC.

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

FOR THE THREE AND SIX MONTHS ENDED OCTOBER 31, 2009

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The MD&A is for the three and six months ended October 31, 2009 (in 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, "FQ2 2010" refers to the three months ending October 31, 2009 (fiscal second quarter), respectively and similarly for other periods. Unless stated otherwise, all dollar amounts in this MD&A are expressed in thousands of Canadian dollars and other amounts are also expressed in thousands, except per share amounts.

The following is a discussion and analysis of the unaudited consolidated financial statements of Enablence Technologies Inc. ("Enablence", or the "Company") for the three and six months ended October 31, 2009, which are the first two quarters 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 December 11, 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 October 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.

HIGHLIGHTS FQ2 2010 (QUARTER ENDING OCTOBER 31, 2009)

Highlights for FQ2 2010 (the quarter ending October 31, 2009) were as follows:

- Revenues grew by 18% in FQ2 2010 compared to FQ1 2010, to a record high of $14.9 million
- Operating expenses were reduced by 12% ($1,058) in the quarter from FQ1 2010;
- Reduction in cash used in operating activities, from $8.0 million during FQ1 2010 to $2.8 million during FQ2 2010;
- Diversified the revenue portfolio with an increase in revenue from international operations;
- Signed key contracts with customers for next generation optical networks including with a Tier 1 player;
- Continued to streamline operations and management with a view to further cost reductions in future quarters with the goal of achieving cash flow positive status in April 2010 as previously indicated.

CHANGES IN ACCOUNTING POLICY

(a) Current accounting standards changes

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.

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”). Management 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. 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 completed 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.

Management has identified the accounting standards that will likely have the greatest impact on the Company's financial reports due to the magnitude of the related account balance, the significance of the IFRS and Canadian GAAP differences or due to the complexity of the standard. Management has started the process of selecting the IFRS accounting policies that will best reflect the nature of the Company's assets, liabilities, and business operations.

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 and six months ended October 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. On November 18, 2008 the Company acquired Pannaway Technologies, Inc. As a consequence of these acquisitions, the results of operations for FQ2 2010 are not reasonably comparable to those of FQ2 2009. However, the results of operations are comparable between FQ2 2010 and FQ1 2010, and they are analyzed below.

SUMMARY OF UNAUDITED QUARTERLY RESULTS

The following table sets forth unaudited summary results of operations for the past eight 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 October 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 per share related data.

	FY 2010	FY 2009						
Quarter Ended	October 31, 2009	July 31, 2009	April 30, 2009	January 31, 2009	October 31, 2008	July 31, 2008	April, 30, 2008	January 31, 2008
Revenue	$ 14,883	$12,586	$14,049	$14,790	$8,765	$7,634	$2,445	$261
Gross Profit	3,470	3,032	2,923	4,547	1,669	1,988	828	171
Expenses								
Research & Development	3,387	3,987	4,959	4,743	3,458	3,644	2,205	1,457
Sales, General & Administrative	4,312	4,770	5,618	5,331	4,337	3,552	1,867	1,317
Stock Based Compensation	438	391	324	532	509	341	500	539
Amortization	2,172	1,834	1,337	3,854	2,433	2,025	1,667	397
Restructuring Charge	226	132	-	474	-	-	-	-
Operating Loss	(7,065)	(8,082)	(9,315)	(10,388)	(9,068)	(7,574)	(5,410)	(3,540)
Impairment of Intangible Assets and Goodwill	-	-	-	(47,700)	-	-	-	-
Net Loss for the Period	$ (6,669)	$(6,883)	$(12,808)	$(49,450)	$(7,721)	$(6,844)	$(5,216)	$(2,642)
Weighted Average Shares Outstanding	254,733	249,155	208,486	203,329	182,617	175,514	171,828	161,554
Basic and Diluted Loss Per Share	$ (0.03)	$ (0.03)	$ (0.06)	$(0.24)	$(0.04)	$(0.04)	$ (0.03)	$ (0.02)

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

The Company operates two divisions. The Optical Component and Subsystems division develops and sells integrated photonic chips and modules. 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 FQ2 2010 and FQ1 2010.

	FQ2 2010	**FQ1 2010**	**Increase (Decrease) $**	**%**
Revenues				
Systems	$8,815	$8,117	$698	8.6%
Optical Components & Subsystems	6,068	4,469	1,599	35.8%
	14,883	12,586	2,297	18.3%
Cost of Revenues				
Variable Costs	9,739	8,385	1,354	16.2%
Facility Overhead	1,279	709	570	80.4%
Amortization	395	460	(65)	(14.1)%
	11,413	9,554	1,859	19.5%
Gross Profit	$3,470	$3,032	$438	14.4%
Gross Margin – Actual	23.3%	24.1%		(0.8)% pts
Gross Margin – Excluding Amortization	26.0%	27.7%		(1.7)% pts

Our financial statements are presented in Canadian dollars. However, our revenues are predominantly denominated in U.S. dollars, while our cost of revenues and operating expenses are incurred in U.S. dollars, Canadian dollars and Swiss Francs. As such, changes in the average exchange rates have an impact on our operating results. The average exchange rate between the Canadian dollar and the U.S. dollar was 1.0755 during FQ2 2010, as compared to 1.1324 during FQ1 2010.

Segmented Information

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

	Revenues		**Plant, Equipment and Intangible Assets**	
	FQ2 2010	**FQ1 2010**	**Oct 31 2009**	**Jul 31 2009**
Americas	$8,695	$9,952	$35,898	$37,814
Asia Pacific	2,913	1,242	--	--
Europe	3,275	1,392	2,851	2,820
Total	**$14,883**	**$12,586**	**$38,749**	**$40,634**

During FQ2 2010, no one customer accounted for greater than 10% of the Company's total revenue and one customer accounted for 15% of the accounts receivable balance at October 31, 2009. 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.

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.

Plant, Equipment, Intangible Assets and Goodwill

	October 31 2009	July 31 2009	Apr 30 2009	Jan 31 2009	Oct 31 2008
Optical Components	$20,686	$21,602	$24,298	$25,116	$62,583
Systems	18,203	19,172	22,689	27,400	10,495
Total	**$38,889**	**$40,774**	**$46,987**	**$52,516**	**$73,078**

REVENUES AND COST OF REVENUES

Revenues

Systems division revenues were $698 (8.6%) higher during FQ2 2010 as compared to FQ1 2010. 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 8.6% increase in revenues is a combination of US$1,028 (14%) increase in US dollar denominated revenues offset by a lower average US dollar to Canadian dollar exchange rate during the quarter. The 14% increase in our U.S. dollar denominated revenues is the result of an increase in the demand for our products and the delivery of a higher volume of product against purchase orders that were received during FQ4 2009, FQ1 2010, and FQ2 2010.

The Optical Components and Subsystems division revenues increased $1,599 (35.8%) from FQ1 2010 to FQ2 2010. The Optical Components and Subsystems division's revenues are denominated predominantly in US dollars, with a limited volume of business denominated in Euros, Swiss Francs and Japanese Yen. The Optical Components and Subsystems division's revenues, when measured in US dollars were up US$2,144, or 53%. In addition to an increase in the demand for our products, there was an increase in revenue from design services as well. The decline in the value of the US dollar as compared to the Canadian dollar during FQ2 2010 offset this significant increase in demand for our products and design services.

Cost of Revenues

Cost of revenues increased from $9,554 in FQ1 2010 to $11,413 in FQ2 2010, an increase of $1,859 (19.5%). During the same period, our gross margins decreased from 24% to 23%.

The minor decline in our gross margin is a combination of relatively steady gross margins from our Systems division, and slightly lower gross margins for our Optical Components and Subsystems division as a result of an increase in the use of contract manufacturers for selected components, offset partially by the introduction of a high gross margin design services revenue stream.

The Company continues to take steps to improve the variable costs of production through the following initiatives:

- 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 contract manufacturing activities that are presently spread among various manufacturers due to different relationships established by acquired companies;
- assessing the implications of discontinuing production and sale of low margin products.

The impacts of these initiatives 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 FQ2 2010 and FQ1 2010.

	FQ2 2010		FQ1 2010		Increase (Decrease)	
	$	% of Rev	$	% of Rev	$	%
Research & Development	$3,387	22.8%	$3,987	31.7%	$(600)	(8.9)% pts
Sales & Marketing	2,605	17.5%	2,944	23.4%	(339)	(5.9)% pts
General and Administration	1,707	11.5%	1,826	14.5%	(119)	(3.0)% pts
Stock-based Compensation	438	2.9%	391	3.1%	47	(0.2)% pts
Amortization	2,172	14.6%	1,834	14.6%	338	-% pts
Restructuring Charges	226	1.5%	132	1.0%	94	0.5% pts
Total	**$10,535**	**70.8%**	**$11,114**	**88.3%**	**$(579)**	**(17.5)% pts**

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

	FQ2 2010		FQ1 2010		Increase (Decrease)	
	$	% of Exp	$	% of Exp	$	%
Research & Development						
Compensation	$2,312	68%	$3,121	78%	$ (809)	(25.9)%
Other R&D Expenses	1,075	32%	866	22%	209	24.1%%
Total R&D Expense	$3,387	100%	$3,987	100%	$ (600)	(15.0)%
R&D Staff	61		91		-30	(33.0)%
Sales & Marketing						
Compensation	$1,549	60%	$1,951	66%	$(402)	(20.6)%
Other S&M Expenses	1,056	40%	993	34%	63	6.3%
Total S&M Expense	$2,605	100%	$2,944	100%	$(339)	(11.5)%
S&M Staff	47		48		-1	(2.1)%
General and Administration						
Compensation	$814	48%	$808	44%	$ 6	0.7 %
Other G&A Expenses	893	52%	1,018	56%	(125)	(12.3)%
Total G&A Expense	$1,707	100%	$1,826	100%	$(119)	(6.5)%
G&A Staff	31		32		-1	(3.1)%
Stock-based Compensation	$438		$391		$47	12.0%
Amortization						
In G&A						
PP&E	$386		$441		$(55)	(12.5)%

Intangibles	1,786	1,393	393	28.2%
	2,172	1,834	338	18.4%
In Cost of Revenues	419	436	(17)	(4.0)%
Total Amortization	$2,591	$2,270	$321	14.1%

Enablence's total research and development ("R&D"), expenses decreased by $600 (15%), from FQ1 2010 to FQ2 2010. Of this amount, compensation expense fell $809 (26%). This is a combination of the reductions in staffing arising from the transition of the Systems division's software maintenance and product testing teams to an offshore supplier, effected at the end of FQ1 2010, and the use of personnel previously accounted for as an R&D cost to provide the design services. The latter cost element is now accounted for as part of Cost of Revenues. Other R&D expenses increased by $209 (24%), as a result of the shift of software maintenance and test functions to an offshore supplier. The Company expects R&D expense to continue to fall in the second half of F2010 as third party design contract revenues increase, with the consequent shift of the related compensation expense to cost of revenues.

Sales and marketing expenses fell by $339 (12%) from FQ1 2010 to FQ2 2010. Of this amount, $402 (21%) relates to lower compensation, a reflection of the reorganization of this functional area. The increase of $63 (6%) in other sales and marketing expenses incurred during FQ2 2010 as compared to FQ1 2010, is a normal fluctuation in operating activities, particularly the number of trade shows attended.

The Company expects its sales and marketing expenses to decline in absolute dollars in subsequent periods and as a percentage of revenues as further rationalization of sales and marketing activities are undertaken with a view to increased gross margins and diversification of the portfolio.

The Company's general and administration ("G&A") expenses include administration staff compensation, professional fees, insurance, third party costs to document and file patents in various jurisdictions (translation & filing fees), and information technology (IT) services. G&A expenses decreased by $119 (7%) from FQ1 2010 to FQ2 2010. It is anticipated that this expenditure as a percentage of revenues will decline further as we realize the benefits of consolidating the administration of our intellectual property portfolio.

Stock based compensation for FQ2 2010 was $438, as compared to $391 in FQ1 2010. This $47 (12%) 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 and FQ1 2010.

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 FQ2 2010 is due to a change in estimate of the useful life of the intangible assets from five years to three years.

INTEREST INCOME

Enablence invests cash and cash equivalents in short-term investments with a Canadian chartered bank. To date in FY 2010 all excess funds are held in an interest bearing account with a Canadian chartered bank. During FQ2 2010, Enablence earned interest of $13 as compared to $3 in FQ1 2010.

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. During FQ2 2010 the Company recorded $461 of future income tax recoveries, as compared to $921 during FQ1 2010.

NET LOSS

The net loss for FQ2 2010 was $6,669, as compared to $6,883 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.

	FQ2 2010	FQ1 2010	FQ2 2009
Basic and Diluted Loss per Common Share	$0.03	$0.03	$0.04
Weighted Average Number of Common Shares	254,733	249,155	182,617

NON-GAAP FINANCIAL MEASURES

Non-GAAP Financial Measures

This section describes the non-GAAP financial measures we use in the MD&A to explain our financial results. It also provides reconciliations of the non-GAAP financial measures to the most comparable Canadian GAAP financial measures.

Operating Cash Flows

We define Operating Cash Flows as the sum of Net Cash Flows from (used in) Operating Activities and the net changes to working capital.

The term Operating Cash Flows does not have any standardized meaning according to Canadian generally accepted accounting principles (GAAP). Therefore it may not be readily comparable to data that may be presented by other companies. Operating Cash Flows, however, are presented on a consistent basis in our Financial Statements from period to period.

We use Operating Cash Flows, among other measures, to assess the operating performance of our ongoing businesses without the effects of amortization expense, stock based compensation and other expenses not affecting cash. We exclude amortization expense and stock based compensation because they largely depend on the accounting methods and assumptions a company uses, as well as non-operating factors such as the historical cost of capital assets and intangible assets

Operating Cash Flows allows us to compare our operating performance on a consistent basis. We believe that certain investors and analysts use Operating Cash Flows to measure a company's ability to fund operations, working capital, capital expenditures and repayment of debt obligations. As such, it serves as a useful measure.

The table below is a reconciliation of Net cash flows from (used in) operating activities to Operating Cash Flows.

	FQ2 2010	FQ1 2010	FQ2 2009
Net cash flows used in operating activities	$(2,789)	$(8,003)	$(4,074)
Add back net changes in working capital	1,135	(2,473)	803
Operating Cash Flows	$(3,924)	$(5,530)	$(4,877)

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 US$2,819 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 is sufficient to fund its operations, working capital and capital expenditures for more than the next 12 months, based on its 2010 and 2011 operating forecasts. Management also expects that cash flow from operations will turn positive in FQ1 2011 (the quarter ended July 31, 2011). 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;
- an increase in design services revenues and margins from key optical component customers;
- improved gross margins as a result of the completion of the consolidation of our contract manufacturing, and cost reduction in our optical components and subsystems; and
- improvements in accounts receivable collections and inventory management performance.

However, if economic conditions do not stabilize or improve significantly, 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 of the borrowing subsidiary 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. If that occurred, the Company would have to seek additional financing from either debt or equity sources. 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.

	FQ2 2010	**FQ1 2010**
Cash and Cash Equivalents	$11,296	$14,952
Working Capital, including cash and cash equivalents	$18,704	$23,195

During FQ2 2010, the Company used $2,789 of cash in operating activities compared to $8,003 during FQ1 2010. This decrease in cash use for the quarter was a result of a $1,017 reduction in the quarterly operating loss, primarily the result of a decrease a 12% reduction in operating expenses, and an increase of $1,135 in non cash working capital. In addition, the Company invested a net $450 in plant and equipment and $292 was used in partial repayment of a term loan assumed on the acquisition of ANDevices. The net decrease in cash and cash equivalents during FQ2 2010 was $3,656.

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	\$6,211	\$1,827	\$2,319	\$922	\$1,143

CAPITAL RESOURCE REQUIREMENTS

The Company expects to invest up to \$500 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 a 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 will be necessary if results do not meet the targets that have been set.

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 vertical integration strategy and consolidation efforts will also improve its gross margins above that of general industry gross margins.

Management will continue to focus on five key objectives 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 opportunities;
- 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 most of the benefits being realized at the end of FY2010. Management believes that, based on its present assessment, once these efforts are successfully completed, the Company will be on track towards profitability in the new fiscal year after achieving its cash flow positive goals. 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.

Operating Cash Flows (see Non-GAAP Financial Measures above) 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 once the objectives set out above are successfully completed, positive Operating Cash Flows will also be realized.

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 October 31, 2010.

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

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 October 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
October 31, 2009	**254,733**	**$143,765**

As at December 11, 2009, there were 254,693 shares outstanding.

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, revenue recognition, 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.