ENABLENCE TECHNOLOGIES INC.

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

FOR THE THREE AND NINE MONTHS ENDED JANUARY 31, 2010

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The MD&A is for the three and nine months ended January 31, 2010 (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, "FQ3 2010" refers to the three months ending January 31, 2010 (fiscal third quarter), 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 nine months ended January 31, 2010, which are the first three 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 March 29, 2010. 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 January 31, 2010 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 FQ3 2010 (QUARTER ENDING JANUARY 31, 2010)

During FQ3 2010 the Company:

- received new orders from Tutor in France and Alaskan Telecom;
- had one of its 10G photodiodes accepted by Intel for use in Intel's Light Peak product; and
- saw 48% growth in Optical Components and Subsystems division revenues.

During FQ3 2010, the quarter ended January 31, 2010, operating losses, after adjusting for increases in inventory valuation reserves, declined for the fourth consecutive quarter, from $6.9 million FQ2 2010 to $6.7 million in FQ3 2010, in spite of a 17% drop in revenue. Contributing to this improvement in operating performance was an 8% decrease in operating expenses, representing the fourth consecutive quarter of reductions in this important operating metric. The Company also recorded an impairment charge on its intangible assets of $4.4 million during FQ3 2010.

The 17% decline in revenues from the previous quarter is largely attributable to product and supply chain challenges in our Systems division. Although the supply chain challenges led to a reduction in revenues, Systems division gross margins remained flat, after adjusting for increases in inventory valuation reserves. Revenues for the Optical Components and Subsystems division continues to show strong growth, with FQ3 2010 at 48% above the division's revenues in FQ3 2009.The division also showed significant improvements in its gross margin, leading to a significant reduction of the division's operating cash flows loss, which is trending towards cash flow positive status in the following quarter. Overall, consolidated gross margins rose by 1% point, to 25%, after adjusting for the increase in inventory valuation reserves.

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. 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 and will be in a position to collect the comparative IFRS information in time for its FQ1-2011, which starts on May 1, 2010. Management believes that the highest priority areas that IFRS will impact the Company's financial statements are:

- share based payments
- presentation of financial statements
- the effects of changes in foreign exchange rate
- impairment of assets; and
- provisions, contingent liabilities and contingent assets.

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 nine months ended January 31, 2010 are effective to provide reasonable assurance that material information related to Enablence is made known to them.

RESULTS OF OPERATIONS

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 January 31, 2010 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	**January 31, 2010**	**October 31, 2009**	July 31, 2009	April 30, 2009	**January 31, 2009**	October 31, 2008	July 31, 2008	April, 30, 2008
	FQ3/10	**FQ2/10**	FQ1/10	FQ4/09	FQ3/09	FQ2/09	FQ1/09	FQ4/08
Revenue	**$12,329**	**$ 14,883**	$12,586	$14,049	**$14,790**	$8,765	$7,634	$2,445
Gross Profit	**1,268**	**3,470**	3,032	2,923	**4,547**	1,669	1,988	828
Expenses								
Research & Development	**3,120**	**3,387**	3,987	4,959	**4,743**	3,458	3,644	2,205
Sales, General & Administrative	**4,165**	**4,312**	4,770	5,618	**5,331**	4,337	3,552	1,867
Stock-based Compensation	**382**	**438**	391	324	**532**	509	341	500
Amortization	**1,879**	**2,172**	1,834	1,337	**3,854**	2,433	2,025	1,667
Restructuring Charges	**141**	**226**	132	-	**474**	-	-	-
Operating Loss	**(8,419)**	**(7,065)**	(8,082)	(9,315)	**(10,388)**	(9,068)	(7,574)	(5,410)
Impairment of Intangible Assets and Goodwill	**(4,355)**	**-**	-	-	**(47,700)**	-	-	-
Net Loss for the Period	**$ (10,391)**	**$ (6,669)**	$(6,883)	$(12,808)	**$(49,450)**	$(7,721)	$(6,844)	$(5,216)
Weighted Average Shares Outstanding	**254,701**	**254,733**	249,155	208,486	**203,329**	182,617	175,514	171,828
Basic and Diluted Loss Per Share	**$ (0.04)**	**$ (0.03)**	$ (0.03)	$ (0.06)	**$(0.24)**	$(0.04)	$(0.04)	$ (0.03)

SUMMARY OF RESULTS FOR THE THREE MONTHS ENDED JANUARY 31, 2010, OCTOBER 31, 2009 AND JANUARY 31, 2009

The Company operates two divisions. The Optical Components 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 FQ3 2010, FQ2 2010 and FQ3 2009.

	FQ3 2010	FQ2 2010	FQ3 2009	Increase (Decrease) FQ3 10 to FQ2 10		Increase (Decrease) FQ3 10 to FQ3 09	
				$	%	$	%
Revenues							
Systems	$ 6,343	$8,815	$10,758	$ (2,472)	-28%	$(4,415)	-41%
Optical Components & Subsystems	5,986	6,068	4,032	(82)	-1%	1,954	49%
	12,329	14,883	14,790	(2,554)	-17%	(2,461)	-17%
Cost of Revenues							
Variable Costs	8,524	10,389	8,497	(1,865)	-18%	$27	- %
Facility Overhead	370	441	219	(71)	-16%	151	69%
Amortization	419	419	526	-	-	(107)	-20%
	9,313	11,249	9,242	(1,936)	-17%	71	1%
Write down of inventory	1,748	164	1,002	1,584	966%	746	75%
Total Cost of Revenues	11,061	11,413	10,244	(352)	-3%	817	8%
Gross Profit	$ 1,268	$3,470	$ 4,546	$(2,202)	-63%	$(3,278)	-72%
Gross Margin – Actual	10.3%	23.3%	30.7%		-13% pts		-20% pts
Gross Margin – excluding inventory write-downs	24.5%	24.4%	37.5%		0.1% pts		-13% pts

Our financial statements are presented in Canadian dollars. However, our revenues are predominantly denominated in United States ("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 1.0536 during FQ3 2010, as compared to 1.0755 during FQ2 2010 and 1.1112 during FQ3 2009.

Segmented Information

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

Revenues

	FQ3 2010	FQ2 2010	FQ3 2009
Americas	$7,729	$8,695	$10,975
Asia Pacific	2,750	2,913	1,612
Europe	1,850	3,275	2,203
Total	**$12,329**	**$14,883**	**$14,790**

During FQ3 2010, one customer accounted for 24% of the Company's total revenue and no one customer accounted for greater than 10% of the accounts receivable balance at January 31, 2010. 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 FQ3 2009 no one customer accounted for greater than 10% of the Company's total revenue while one customer accounted for 19% of the accounts receivable balance at January 31, 2009.

REVENUES AND COST OF REVENUES

Revenues: Systems division revenues were $2,472 (28%) lower during FQ3 2010 as compared to FQ2 2010, or down US$2,176 (27%) when measured in the currency in which the revenues were originally denominated. Changes in the US dollar to Canadian dollar exchange rate affect the Canadian dollar revenues we report. There are two major elements to the decline in FQ3 2010 revenues when compared to FQ2 2010 revenues: (i) supply chain challenges during the latter part of Q3 2010 resulted in reduced production by our contract manufacturers, leaving a backlog of orders for delivery in FQ4 2010; and (ii) a reduction in the conversion of accounts from deferred revenue to revenue. The supply chain challenges are being addressed and are expected to be fully functional by the end of FQ4 2010.

When compared to FQ3 2009, FQ3 2010 revenues for the Systems division were down $4,415 (41%) lower than the revenues of FQ3 2009, or US$3,187 (35%). The 35% reduction in US dollar denominated revenues from FQ3 2010 as compared to FQ3 2009 is a combination of the supply chain challenges that affected FQ3 2010 revenues and a reflection of the profound decline in the US economy over the 12 month period.

The Optical Components and Subsystems division (“OCSD”) revenues decreased $82 (1%) from FQ2 2010 to FQ3 2010, or up US$25 (0%) when measured in the currency in which the vast majority of the revenues were originally denominated in. The OCSD’s revenues are denominated predominantly in US dollars, This increase in revenues in their base currency is comprised of a slight decrease in the Company’s design services revenues and a continued increase in the demand for its optical components and subsystems.

When compared to FQ3 2009, FQ3 2010 revenues for the OCSD are up $1,954 (49%), or US$2,377 (72%). This increase is a reflection of the continued growth in demand for the Company’s products, as the global economic conditions stabilized and then grew during the last year.

Cost of Revenues: Cost of revenues decreased by $352 (3%), from $11,413 in FQ2 2010 to $11,061 in FQ3 2010. Included in cost of revenues for FQ3 2010 was an increase in the inventory valuation reserve of $1,748, as compared to $164 during FQ2 2010. The reduction in cost of revenues is a primarily a function of the related reduction in revenues, with variable costs falling $1,865 (18%). As a percentage of revenues, the Company’s variable cost of revenues was 69% during FQ3 2010, as contrasted with 70% during FQ2 2010. Facility overhead fell $71 (16%) during FQ3 2010 as compared to FQ2 2010. This reduction is a reflection of improved operating efficiencies.

Management reviews the carrying value of its inventory on a quarterly basis. The objective of this review is to determine whether the cost of the inventory is reflective of its net realizable value. The Systems division holds in its finished goods inventory products that it has sold in the past, but no longer offers for sale. These products are held in support of customers that have deployed the units, in the event that the customers need to replace units that are no longer functioning properly. Similarly, the Systems division also holds components required to repair products that have been sold and are deployed by its customers in the field. One of the methods used to determine the net realizable value of the inventory is to compare the number of units on hand to the number of units sold and/or used during the last 12 months. As a result of this review, management determined that the number of units on hand, and their related value, exceeded the number of units required to meet expected demand, and increased the

Company's inventory valuation reserve by $1,748 to reflect the reduction in the net realizable value of its inventory.

After adjusting for the inventory write downs, the gross margins remained steady at 24%, quarter over quarter. However, while gross margins remained steady at a consolidated level, there was a slight decrease in gross margins from our Systems division offset by improved gross margins for our OCSD. The improved gross margins of the OCSD are a combination of reductions in the material costs relative to the related selling prices of the products, and the continued higher margin design services revenue stream.

Cost of revenues increased by $817 (8%), from $10,244 during FQ3 2009 to $11,061 during FQ3, 2010. During FQ3 2010 the Company increased its inventory valuation reserve by $1,748, as compared to an increase of $1,002 during FQ3 2009. The largest factor in the decrease in gross margins between FQ3 2009 and FQ3 2010 is the variable costs. As a percentage of revenues, variable cost of revenues during FQ3 2009 was 57%, as contrasted with 69% during FQ3 2010. This is mostly the result of price erosion as the competitive environment focused on price reductions to win business during the economic downturn.

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 and beyond.

OPERATING EXPENSES

Operating expenses decreased by $848 (8%) from $10,535 during FQ2 2010 to $9,687 during FQ3 2010. The following table presents the operating expenses of the Company on a summary comparative basis for FQ3 2010, FQ2 2010 and FQ3 2009.

	FQ3 2010		**FQ2 2010**		**FQ3 2009**	
	$	**% of Rev**	**$**	**% of Rev**	**$**	**% of Rev**
Research & Development	$3,120	25.3%	$3,387	22.8%	$4,743	32.1%
Sales & Marketing	2,295	18.6%	2,605	17.5%	2,893	19.6%
General and Administration	1,870	15.2%	1,707	11.5%	2,438	16.5%
Stock-based Compensation	382	3.1%	438	2.9%	532	3.6%
Amortization	1,879	15.2%	2,172	14.6%	3,854	26.1%
Restructuring Charges	141	1.1%	226	1.5%	474	3.2%
Total	**$9,687**	**78.5%**	**$10,535**	**70.8%**	**$14,934**	101.1%

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

	FQ3 2010		FQ2 2010		FQ3 2009		Increase (decrease) FQ3 10 to FQ2 10		Increase (decrease) FQ3 10 to FQ3 09	
	$	% of Exp	$	% of Exp	$	% of Exp	$	%	$	%
Research & Development										
Compensation	$1,969	63%	$2,312	68%	$3,313	70%	$(343)	-15%	$(1,344)	-41%
Other R&D Expenses	1,151	37%	1,075	32%	1,430	30%	76	7%	(279)	-20%
Total R&D Expense	$3,120	100%	$3,387	100%	$4,743	100%	$(267)	-8%	$(1,623)	-34%
R&D Staff	61		61		94		-	-%	(33)	-35%
Sales & Marketing										
Compensation	$1,481	65%	$1,549	60%	$1,760	61%	$(68)	-4%	$(279)	-16%
Other S&M Expenses	814	35%	1,056	40%	1,133	39%	(242)	-23%	(319)	-28%
Total S&M Expense	$2,295	100%	$2,605	100%	$2,893	100%	$(310)	-12%	$(598)	-21%
S&M Staff	43		47		54		(4)	-9%	(11)	-20%
General and Administration										
Compensation	$905	48%	$814	48%	$1,108	45%	$91	11%	$(203)	-18%
Other G&A Expenses	965	52%	893	52%	1,331	55%	72	8%	(366)	-28%
Total G&A Expense	$1,870	100%	$1,707	100%	$2,439	100%	$163	10%	(569)	-23%
G&A Staff	33		31		32		2	7%	1	3%
Stock-based Compensation	$382		$438		$532		$(56)	-13%	$(150)	-28%
Amortization										
In G&A										
PP&E	$356		$386		$545		$(30)	-8%	$(189)	-35%
Intangibles	1,523		1,786		3,309		(263)	-15%	(1,786)	-54%
	1,879		2,172		3,854		(293)	-14%	(1,975)	-51%
In Cost of Revenues	419		419		526		-	-	(107)	-20%
Total Amortization	$2,298		$2,591		$4,380		$(293)	-11%	(2,082)	-91%
Restructuring charges	$141		$226		$474		$(85)	-38%	$(333)	-70%
Impairment charges										
Impairment of goodwill	$ -		$ -		$17,500		$ -	- %	$(17,500)	-100%
Impairment of intangible assets	4,355		-		30,200		4,355	100%	(25,845)	-86%
Future income tax recovery	(1,755)		-		(7,400)		(1,755)	100%	(5,645)	-76%
	$2,600		$ -		$40,300		$2,600	100%	$(37,700)	-94%

Research and Development "(R&D") Expenses: Enablence's total R&D expenses decreased by $267 (8%), from $3,387 during FQ2 2010 to $3,120 during FQ3 2010. Of this amount, compensation expense fell $343 (15%), primarily as a result of the re-allocation of the cost of R&D personnel from internally funded R&D initiatives to externally funded design services. This cost element is now accounted for as part of Cost of Revenues. Other R&D expenses increased by $76 (7%), due to an increase in the resources directed at the software maintenance and test functions performed by an offshore supplier. The Company expects R&D expense to stabilize in FQ4 2010.

The Company's R&D expenses decreased by $1,623 (34%) from $4,743 during FQ3 2009 to $3,120 during FQ3 2010. The largest element of this decrease is in compensation ($1,344), with an overall reduction of staffing from 94 during FQ3 2009 to 61 during FQ3 2010 being the largest contributor to these savings. The re-allocation of R&D personnel from internally funded R&D initiatives to externally funded design services was also a significant contributor to this

significant operating expense reduction.

Sales and Marketing Expenses: Sales and marketing expenses fell by $310 (12%) from $2,605 during FQ2 2010 to $2,295 during FQ3 2010. Of this amount, $68 (4%) relates to lower compensation, a reflection of a net reduction of four people and reduced commissions on lower revenues. The decrease of $242 (23%) in other sales and marketing expenses incurred during FQ3 2010 as compared to FQ2 2010 is a normal fluctuation in operating activities, particularly the number of trade shows attended. The Company expects its sales and marketing expenses to increase in absolute dollars in subsequent periods as the sales force is increased, but to decrease as a percentage of revenues as revenues increase.

General and Administrative ("G&A") Expenses: The Company's 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 increased by $163, (10%) from $1,707 during FQ2 2010 to $1,870 during FQ3 2010. Compensation expense was the largest contributor to this increase ($91) as we added two people to our staff levels. In addition, we incurred $72 more in other G&A expenses, most of which was an adjustment to our recurring accruals for annual expenses such as audit, tax compliance and legal fees and insurance. It is anticipated that G&A expenses will remain relatively level throughout the remainder of F2010.

Stock Based Compensation: Stock based compensation for FQ3 2010 was $382, as compared to $438 in FQ2 2010. This $56 (13%) decrease is a result of forfeitures of stock options that occurred in FQ3 2010, as staff levels were reduced during FQ2 2010 and FQ3 2010.

Amortization Expense: 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, at the beginning of FY2010.

INTEREST INCOME

Enablence invests cash and cash equivalents in short-term investments with a Canadian chartered bank.

INCOME TAXES

Future income tax recovery is due to the amortization and impairment 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 FQ3 2010 the Company recorded $2,448 of future income tax recoveries, as compared to $461 during FQ2 2010 and $8,410 in FQ3 2009. Future tax recovery amounts in FQ3 2010 and FQ3 2009 include recovery amounts related to the write down of intangibles of $1,755 and $7,400 respectively.

NET LOSS

The net loss for FQ3 2010 is $10,391, as compared to $6,669 for FQ2 2010 and $49,450 for FQ3 2009. Included in the net loss for FQ3 2010 is $2,600 related to the write down on intangibles net of taxes while the net loss for FQ3 2009 includes $ 40,300 related to the write down of intangibles.

LOSS PER COMMON SHARE

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

	FQ3 2010	**FQ2 2010**	**FQ3 2009**
Basic and Diluted Loss per Common Share	$0.04	$0.03	$0.24
Weighted Average Number of Common Shares	254,701	254,733	203,329

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, net of any changes in inventory write-downs.

The term Operating Cash Flows does not have any standardized meaning according to 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 property and equipment, 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.

	FQ3 2010	FQ2 2010	FQ3 2009
Net cash flows used in operating activities	$(3,556)	$(2,789)	$(12,368)
Net changes in working capital	(2,286)	971	7,198
Inventory write down	1,748	164	1,002
Operating Cash Flows	$(4,094)	$(3,924)	$(4,168)

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 subsidiaries. The Company repaid the operating line of credit of one of its 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.

On February 4, 2010 the Company completed its public offering of common shares, raising $28,750 in gross proceeds (approximately $26,800, net of costs to be settled with cash) in consideration of which, it issued 71,875 common shares.

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. 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 inventory management performance.

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.

	FQ3 2010	FQ2 2010	FQ3 2009
Cash and Cash Equivalents	$5,868	$11,296	$18,596
Working Capital, including cash and cash equivalents	$12,047	$18,704	$25,472

During FQ3 2010, the Company used $3,556 of cash in operating activities compared to $2,789 during FQ2 2010 and $12,368 during FQ3 2009. The $767 increase in use of cash from FQ2 2010 to FQ3 2010 was primarily the result of weaker operating results during FQ3 2010. In addition, the Company invested $161 in plant and equipment and $283 was used in partial repayment of a term loan assumed on the acquisition of ANDevices Inc. The net decrease in cash and cash equivalents, including an increase in restricted cash of $1,524, during FQ3 2010 was $5,428.

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	$5,883	$1,812	$2,115	$884	$1,072

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. 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 FQ4 2010 and beyond:

- 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 and the first two quarters of FY2011. 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) are 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 be sufficient, notwithstanding the above reservations, to cover the Company's anticipated operating costs beyond January 31, 2011.

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

On February 4, 2010 the Company completed its public offering of common shares, raising $28,750 in gross proceeds (approximately $26,800, net of costs to be settled with cash) in consideration of which, it issued 71,875 common shares.

SHARE CAPITAL

COMMON SHARES

Enablence is authorized to issue an unlimited number of common shares of which 254,693 common shares are issued and outstanding as of January 31, 2010. 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 $3,849 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 Issuance Costs	46,000	12,531
Exercise of Broker Warrants	206	106
October 31, 2009	**254,733**	**$143,765**
Cancellation of shares in escrow	(40)	(68)
January 31, 2010	**254,693**	**$143,697**
Issued for Cash, Net of $1,950 issuance costs	71,875	26,800
Exercise of stock options	75	22
March 29, 2010	326,643	$170,519

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 Short Form Prospectus filed on January 27, 2010, 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.

ADDITIONAL INFORMATION

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