

*Consolidated Financial Statements of*

**ENABLENCE TECHNOLOGIES INC.**

*April 30, 2008 and 2007*



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## Auditors' Report

To the shareholders of  
Enablence Technologies Inc.

We have audited the consolidated balance sheets of Enablence Technologies Inc. as at April 30, 2008 and 2007 and the consolidated statements of loss and comprehensive loss and shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2008 and 2007 and the results of its operations for the years then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte + Touche LLP*

Chartered Accountants  
Licensed Public Accountants

July 24, 2008

Member of  
**Deloitte Touche Tohmatsu**

**ENABLENCE TECHNOLOGIES INC.**  
**Consolidated Financial Statements**  
**April 30, 2008 and 2007**

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**ENABLENCE TECHNOLOGIES INC.**  
**Consolidated Balance Sheets**  
**as at April 30, 2008 and 2007**

	2008	2007
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 36,158,934	\$ 16,350,597
Short-term investments (Note 4)	11,049,508	-
Accounts receivable (Note 5)	2,235,526	270,930
Investment tax credits receivable (Note 8)	200,000	321,283
Inventories (Note 6)	1,329,641	158,391
Prepaid expenses	868,672	227,070
Loan receivable (Note 7)	1,007,100	-
	52,849,381	17,328,271
PROPERTY, PLANT & EQUIPMENT (Note 9)	10,472,953	3,841,233
OTHER ASSETS (Note 11)	210,440	70,847
INTANGIBLE ASSETS (Note 10)	24,146,114	5,613,578
GOODWILL (Note 15)	20,122,292	-
	\$ 107,801,180	\$ 26,853,929
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 2,934,973	\$ 556,542
Current portion of note payable (Note 12)	626,982	-
	3,561,955	556,542
NOTE PAYABLE (Note 12)	3,134,910	-
FUTURE INCOME TAX LIABILITY (Note 8)	7,133,609	1,566,000
	\$ 13,830,474	\$ 2,122,542
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 13)	109,574,784	31,888,641
Contributed surplus	6,623,190	4,200,646
Accumulated other comprehensive income (loss)	177,653	(300,353)
Deficit	(22,404,921)	(11,057,547)
	93,970,706	24,731,387
	\$ 107,801,180	\$ 26,853,929

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD

\_\_\_\_\_  
**"John Ryan III"** Director

\_\_\_\_\_  
**"Arvind Chhatbar"** Director

**ENABLENCE TECHNOLOGIES INC.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**For the years ended April 30, 2008 and 2007**

	2008	2007
Revenue	\$ 3,152,593	\$ 71,750
Cost of sales	1,969,378	66,448
Gross profit	1,183,215	5,302
Operating expenses		
Research and development (net of investment tax credits of \$234,439 (2007-\$414,192))	5,701,555	2,199,035
General and administration	4,540,410	2,519,557
Stock-based compensation (Note 13)	2,424,301	2,802,239
Amortization of property, plant and equipment and intangible assets	2,795,933	551,186
	15,462,199	8,072,017
OPERATING LOSS	(14,278,984)	(8,066,715)
INTEREST INCOME	1,734,777	460,550
INTEREST EXPENSE	(76,371)	-
LOSS BEFORE INCOME TAXES	(12,620,578)	(7,606,165)
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Current	14,796	-
Future	(1,288,000)	(87,000)
	(1,273,204)	(87,000)
NET LOSS	(11,347,374)	(7,519,165)
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	478,006	(300,353)
OTHER COMPREHENSIVE INCOME (LOSS)	478,006	(300,353)
COMPREHENSIVE LOSS	\$ (10,869,368)	\$ (7,819,518)
Net Loss per share (Note 14)		
Basic and diluted	\$ (0.08)	\$ (0.09)
Weighted average number of outstanding shares (Note 14)		
Basic and diluted	142,534,676	84,993,339

See accompanying notes to the consolidated financial statements

**ENABLENCE TECHNOLOGIES INC.**  
**Consolidated Statement of Shareholders' Equity**  
**For the years ended April 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
SHARE CAPITAL (Note 13)	\$ 109,574,784	\$ 31,888,641
CONTRIBUTED SURPLUS		
Balance at beginning of year	4,200,646	\$ 416,000
Stock options value recognized in year for services provided	2,424,301	2,802,239
Warrants value recognized in year for services provided	753,660	982,407
Options exercised	(344,487)	-
Warrants exercised	(410,930)	-
	<u>6,623,190</u>	<u>4,200,646</u>
DEFICIT		
Balance at beginning of year	(11,057,547)	(3,538,382)
Net loss	(11,347,374)	(7,519,165)
	<u>(22,404,921)</u>	<u>(11,057,547)</u>
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance at beginning of year	(300,353)	-
Adjustment on translation of financial statements of self-sustaining foreign operations	478,006	(300,353)
	<u>177,653</u>	<u>(300,353)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$ 93,970,706</b>	<b>\$ 24,731,387</b>

See accompanying notes to the consolidated financial statements

**ENABLENCE TECHNOLOGIES INC.**  
**Consolidated Statements of Cash Flows**  
**For the years ended April 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
Cash provided by (used in) operations		
Net loss	(11,347,374)	(7,519,165)
Items not affecting cash:		
Amortization of property, plant and equipment and intangible assets	3,077,653	551,186
Stock-based compensation	2,424,301	2,802,239
Future income taxes	(1,288,000)	(87,000)
Current income taxes	14,796	-
Changes in non-cash operating working capital items		
Amounts receivable	(862,896)	(15,145)
Investment tax credits receivable	121,283	115,717
Inventories	(283,231)	3,644
Prepaid expenses	(539,580)	(198,623)
Accounts payable and accrued liabilities	(1,113,240)	232,457
Cash used in operating activities	(9,796,288)	(4,114,690)
Cash flows from (used in) investing activities:		
Purchase of short term investments	(11,049,508)	-
Purchase of property, plant and equipment	(1,009,633)	(1,047,289)
Purchase of other assets	(15,224)	-
Purchase of patents	-	(196,152)
Loan to Wave7 Optics, Inc. (Note 8)	(1,007,100)	-
Acquisition of subsidiary (Note 15)	(12,636,145)	(4,881,146)
Cash used in investing activities	(25,717,610)	(6,124,587)
Cash flows from financing activities:		
Cash acquired on reverse take-over of Pacific Northwest Partners Limited	-	1,500,010
Repayment of loan	-	(508,501)
Net proceeds from issuance of common shares, warrants and options, net of costs	55,281,052	23,900,486
Cash provided by financing activities	55,281,052	24,891,995
EFFECT OF FOREIGN CURRENCY TRANSLATION ON CASH	41,183	4,012
NET INCREASE IN CASH AND CASH EQUIVALENTS	19,808,337	14,656,730
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16,350,597	1,693,867
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 36,158,934	\$ 16,350,597
Non-cash financing activities		
Issuance of common shares on acquisition of subsidiary (Note 15)	22,403,334	2,078,655
Supplementary information:		
Interest received	1,646,846	422,049
Taxes paid	26,885	282
Cash	1,156,628	878,975
Cash equivalents	35,002,306	15,471,622
Total cash and cash equivalents	\$ 36,158,934	\$ 16,350,597

See accompanying notes to the consolidated financial statements

# ENABLENCE TECHNOLOGIES INC.

## Notes to the Consolidated Financial Statements

For the year ended April 30, 2008 and 2007

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### 1. DESCRIPTION OF BUSINESS

Enablence Technologies Inc. (“the Company”) designs and develops integrated photonic chips and solutions for telecommunications and other applications. Enablence Technologies Inc. (formerly Pacific Northwest Partners Ltd.) was acquired through a reverse takeover by Enablence Inc. on July 24, 2006. Enablence Inc. was incorporated on December 23, 2003 under the Canada Business Corporations Act.

### 2. FUTURE ACCOUNTING CHANGES

#### *Inventories*

In June 2007, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3031, *Inventories*, replacing Section 3030, *Inventories*. The new Section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning May 1, 2008. It provides more guidance on the measurement and disclosure requirements for inventories. The Company is currently evaluating the impact of the adoption of this new Section on its financial statements.

#### *Financial Instruments*

In December 2006, the CICA issued Section 3862, *Financial Instruments – Disclosures*; Section 3863, *Financial Instruments – Presentation*; and Section 1535, *Capital Disclosures*. All three Sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2007. Accordingly, the Company will adopt the new standards for its fiscal year beginning May 1, 2008. Section 3862 on financial instruments disclosures requires the disclosure of information about: a) the significance of financial instruments for the entity’s financial position and performance; and b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861. Section 1535 on capital disclosures requires the disclosure of information about an entity’s objectives, policies and processes for managing capital. The Company is currently evaluating the impact of the adoption of these new Sections on its financial statements.

**ENABLENCE TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended April 30, 2008 and 2007**

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**2. FUTURE ACCOUNTING CHANGES (Continued)**

*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. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company is currently evaluating the impact of adopting IFRS.

*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*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new section will be applicable to the financial statements relating to fiscal years beginning October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning May 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition of intangible assets by profit-oriented enterprises. The company is currently evaluating the impact of Section 3064 on its financial statements.

# **ENABLENCE TECHNOLOGIES INC.**

## **Notes to the Consolidated Financial Statements**

### **For the year ended April 30, 2008 and 2007**

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### **3. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

#### *Principles of consolidation*

The consolidated financial statements include the accounts of Enablence Technologies Inc., its wholly owned subsidiaries, Enablence Inc., Enablence Holdings LLC, Albis Optoelectronics AG, and ANDevices Inc. These financial statements have been prepared in accordance with CICA Handbook Emerging Issues Committee Abstract No.10 ("EIC-10") - *Accounting for Reverse Takeovers* and represent a continuation of the financial statements of Enablence Inc. (the legal subsidiary) and not of Enablence Technologies Inc. (the legal parent - formerly Pacific Northwest Partners Ltd.)

#### *Revenue recognition*

The Company records revenue from product sales to customers at time of shipment, when all significant contractual obligations have been satisfied, when the price to the customer is fixed and determinable and collection is reasonably assured. Amounts billed or paid in excess of revenue recognized are recorded as deferred revenue.

#### *Cash and cash equivalents*

The Company considers all highly liquid investments with original maturity of three months or less at time of acquisition to be cash equivalents.

#### *Short-term investments*

Short-term investments consist of liquid investments with original maturity dates of between three months and one year at time of acquisition.

#### *Inventories*

Finished goods are valued at the lower of cost and net realizable value. Work in process and raw materials are valued at the lower of cost and replacement cost. Cost is determined on a first in, first out basis. The Company assesses the valuation on a quarterly basis and writes down the value for estimated excess and obsolete inventory based upon estimates of future demand.

# ENABLENCE TECHNOLOGIES INC.

## Notes to the Consolidated Financial Statements

For the year ended April 30, 2008 and 2007

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Income taxes*

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the carrying amounts and the tax basis of assets and liabilities, and are measured using the substantively enacted tax rates and laws. Future income tax assets are recognized only to the extent that it is more likely than not, in the opinion of management, that the future tax assets will be realized in the future.

#### *Investment tax credits*

Investment tax credits are recorded as a reduction of the related expense or as a reduction of the cost of the related asset. The benefits are recognized when the Company has complied with the terms and conditions of applicable tax legislation provided there was reasonable assurance of realization.

#### *Property, plant and equipment*

Property, plant and equipment are recorded at cost. Amortization is calculated over the anticipated useful lives of the assets at the following rates:

Machinery and equipment	12 years straight-line and 7 years diminishing balance
Lab equipment	3 years straight-line
Office furniture and equipment	3 years straight-line and 7-10 years diminishing balance
Software	2 years straight-line
Photomasks	3-5 years diminishing balance
Leasehold Improvements	10 years or term of lease

#### *Intangible assets*

Intangible assets, consisting of intellectual property, customer relationships and brand name, resulting from the acquisition of Albis Optoelectronics AG ("Albis") and ANDevices, Inc. ("AND") are recorded at fair value, estimated by management based on the expected discounted future cash flows associated with the acquired intangible assets (see Note 15). Acquired intangible assets are amortized on a straight-line basis over five years based on expected future life.

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

#### *Goodwill*

Goodwill is calculated as the excess of the fair value of consideration paid over the fair value of tangible and intangible assets acquired and liabilities assumed. As there is only one reporting unit, goodwill is allocated to the Company as a whole. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill is tested in the fourth quarter of each fiscal year.

**ENABLENCE TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended April 30, 2008 and 2007**

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Impairment of long-lived assets*

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. There is no impairment in 2008 or 2007.

*Research and development costs*

Current research costs are expensed as incurred. Expenditures for research and development equipment, net of related investment tax credits, are capitalized. Development costs are deferred and amortized when the criteria for deferral under generally accepted accounting principles are met, or otherwise, are expensed as incurred. To date, no development costs have been deferred.

*Use of accounting estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from those estimates. Significant estimates in the accompanying financial statements relate to 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, intangible assets and goodwill.

*Stock-based compensation plans*

The Company follows the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments*, which establishes standards for the recognition, measurement and disclosure of stock-based compensation. Under this section, stock options are measured and recognized using a fair value based method.

Prior to the reverse takeover, all outstanding options were cancelled and replaced by shares. The number of shares issued was determined by the "in-the-money" value of the options at the time of the reverse takeover. As a result, the fair value of the shares issued less any remaining deferred stock-based compensation related to these options was expensed in the year ended April 30, 2007.

**ENABLENCE TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended April 30, 2008 and 2007**

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Foreign currency translation*

The Company has entered into certain transactions in foreign currencies. These transactions are converted to Canadian dollars at the exchange rate in effect at the time the transaction occurs. Monetary assets and liabilities, which are denominated in currencies other than Canadian dollars, are translated to Canadian dollars at period-end exchange rates. Exchange gains and losses resulting from the translation of these amounts are included in the determination of net loss. During the year ended April 30, 2008, the Company recorded a \$84,537 foreign exchange loss included in general and administrative expenses (2007- \$37,907 foreign exchange gain).

Enablence Holdings LLC, is considered to be an integrated foreign operation and as a result the financial statements of this subsidiary are translated into Canadian dollars using the temporal method of foreign currency translation. Under this method, monetary assets and liabilities are translated at the rate of exchange in effect at year-end and resulting gains or losses are recorded in the statement of loss. Enablence Holdings LLC was dissolved and a certificate of cancellation was issued on May 8, 2007.

Albis and AND are considered to be self-sustaining foreign operations and as a result the financial statements of these subsidiaries are translated into Canadian dollars using the current rate method of foreign currency translation. Under this method assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date and revenues and expenses are translated at the average rate of exchange for the period. Gains and losses resulting from translation of the accounts are recorded in equity as accumulated other comprehensive income or loss.

*Changes in accounting policy*

Effective May 1, 2007, the Company adopted CICA Handbook Section 1530, *Comprehensive Income*; Section 3251, *Equity*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation*; and Section 3865, *Hedges*.

The adoption of the new standards requires classifying all financial assets and liabilities into categories that have prescribed accounting treatments. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments.

**ENABLENCE TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended April 30, 2008 and 2007**

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Changes in accounting policy (continued)*

Held-for-trading

Held-for-trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held-for-trading. They are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in other income. The Company has designated its cash and cash equivalents and short-term investments as held-for-trading.

Financial liabilities designated as held-for-trading are those non-derivative financial liabilities that the Company elects to designate on initial recognition as instruments that it will measure at fair value recorded as other interest expense. These are accounted for in the same manner as held-for-trading assets. The Company has not designated any non-derivative financial liabilities as held-for-trading.

Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and a fixed maturity, other than loans and receivables, that an entity has the positive intention and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest rate method. The Company has not designated any financial assets as held-to-maturity.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or held-for-trading investments. Except as mentioned below, available-for-sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to other income. Available-for-sale financial assets that do not have quoted market prices in an active market are recorded at cost. The Company has not designated any of its financial assets as available-for-sale.

Loans and receivables

Loans and receivables are accounted for at amortized cost using the effective interest rate method. The Company has designated its accounts receivable and loans receivable as loans and receivables.

**ENABLENCE TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
**For the year ended April 30, 2008 and 2007**

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**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Changes in accounting policy (continued)*

Other financial liabilities

Other financial liabilities are recorded at amortized cost using the effective interest rate method and include all financial liabilities, other than derivative instruments. The Company has designated its accounts payable, accrued liabilities and note payable as other financial liabilities.

Transaction Costs

Transaction costs related to held-for-trading financial assets are expensed as incurred. Transaction costs related to available-for-sale financial assets, held-to-maturity financial assets, other financial liabilities and loans and receivables are netted against the carrying value of the asset or liability and are then recognized over the expected life of the instrument using the effective interest rate method.

Effective interest rate method

The Company uses the effective interest rate method to recognize interest income or expense which includes transactions costs or fees, premiums or discounts earned or incurred for financial instruments.

Comprehensive Income

The new standards also introduce a new measurement of results called comprehensive income. Comprehensive income is the change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-shareholder sources. It includes all changes in equity during a period except those resulting from investments by shareholders and distributions to shareholders. Comprehensive income includes net earnings and other comprehensive income (OCI). OCI refers to changes in net assets from certain transactions and other events and circumstances, other than transactions with shareholders. These changes are recorded directly as a separate component of shareholders' equity and excluded from net earnings. OCI includes the unrealized gain or loss on translating the financial statements of self-sustaining foreign operations. At April 30, 2007, \$300,353 of cumulative translation adjustment was reclassified from cumulative translation adjustment to accumulated other comprehensive loss. A new statement of comprehensive loss has been added to the financial statements.

**ENABLENCE TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
For the year ended April 30, 2008 and 2007

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**4. SHORT-TERM INVESTMENTS**

Investments are limited to low risk money market securities with maturities of 12 months or less. The investments are made with the intention of holding securities to maturity and will be timed, where possible, to account for cash flow projections, capital tax and/or to take advantage of yield opportunities. As at April 30 2008, short term investments consist of \$11,049,508 in low risk fixed income certificates with maturity dates ranging from September 5, 2008 to September 22, 2008. Short term investments are recorded at fair value.

**5. ACCOUNTS RECEIVABLE**

	2008	2007
Trade	\$ 1,895,137	\$ 112,984
Other	233,416	119,444
Accrued	106,973	38,502
	\$ 2,235,526	\$ 270,930

**6. INVENTORIES**

	2008	2007
Raw materials	\$ 849,513	\$ 71,977
Work-in-progress	480,128	86,414
	\$ 1,329,641	\$ 158,391

**7. LOAN RECEIVABLE**

Loan receivable consists of a loan advanced to Wave7 Optics Inc. pursuant to an agreement dated April 14, 2008 in the amount of US\$1,000,000 at an interest rate of 10% per annum. On May 5, 2008, Wave7 Optics, Inc. was acquired by the Company. The loan was repaid on May 28, 2008 (Note 19).

**ENABLENCE TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
For the year ended April 30, 2008 and 2007

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**8. INCOME TAXES AND INVESTMENT TAX CREDITS**

A reconciliation of the expected income tax recovery to the actual income tax recovery reported in the consolidated statements of loss and comprehensive loss is as follows:

	2008	2007
Loss before income taxes	\$ (12,620,578)	\$ (7,606,165)
Statutory rate	35.25%	36.12%
Expected tax recovery	\$ (4,448,000)	\$ (2,747,000)
Permanent differences	848,000	866,000
Decrease in tax rates	790,000	91,000
Change in opening balances	129,000	-
Changes in foreign exchange rates	81,000	-
Foreign tax rate differential and other	38,000	54,000
Losses not tax-effected	1,518,000	1,091,000
Change in valuation allowance	(244,000)	558,000
Future income tax recovery	(1,288,000)	(87,000)
Corporate minimum tax payable	14,796	-
Income tax recovery	\$ (1,273,204)	\$ (87,000)
<b><u>Future income tax assets (liabilities)</u></b>		
Loss carryforwards	\$ 6,813,233	\$ 2,217,000
Research and development expenditures	2,254,365	1,410,000
Deductible share issuance costs	1,526,255	728,000
Other accruals	211,873	-
	10,805,726	4,355,000
Less: valuation allowance	(6,566,341)	(3,935,000)
Future tax assets	\$4,239,385	\$420,000
Net book value of property, plant and equipment and intangible assets in excess of tax cost base	\$ (11,372,994)	\$ (1,986,000)
Net future tax liability	\$ (7,133,609)	\$ (1,566,000)

**ENABLENCE TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
For the year ended April 30, 2008 and 2007

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**8. INCOME TAXES AND INVESTMENT TAX CREDITS (Continued)**

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The realization of future tax assets is dependant upon the generation of future taxable income during the periods in which those temporary differences are deductible and before tax losses expire. The amount of the future tax asset considered realizable could change materially in the near term, based on future taxable income during the carry-forward period.

At April 30, 2008, the Company had unused non-capital tax losses and Scientific Research and Experimental Development ("SR&ED") expenditures available to be carried forward to offset future taxable income and investment tax credits available to offset future tax payable in Canada, as follows:

Expiry	Canadian Operating Tax Losses	Foreign Operating Tax Losses	Canadian Investment Tax Credits	Canadian Federal SR&ED Deductions	Canadian Provincial SR&ED Deductions
2009	\$ 84,363				
2010	20,071				
2011	1,273,766				
2013	-	\$ 515,090			
2014	-	336,289			
2015	1,242,080	303,106			
2023	-	1,734,341			
2024	-	1,796,867			
2025	-	1,708,948			
2026	831,351	680,362	\$ 759		
2027	2,553,918	1,642,143	618,162		
2028	4,306,148	886,269	674,254		
Indefinite carry-forward				\$ 7,170,827	\$ 7,907,373
	\$10,311,697	\$ 9,603,415	\$1,293,175	\$ 7,170,827	\$ 7,907,373

Effective the first fiscal year ending after December 31, 2008, all tax balances in Canada will convert to the federal balance. As the Company's provincial tax balances exceed the federal tax balances, the difference will generate a non-refundable tax credit that can be applied against Ontario provincial corporate taxes over the subsequent five year period.

**ENABLENCE TECHNOLOGIES INC.**  
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**9. PROPERTY, PLANT AND EQUIPMENT**

	<b>April 30, 2008</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Machinery and equipment	\$ 10,581,050	\$ 1,649,975	\$ 8,931,075
Lab equipment	1,807,342	827,873	979,469
Photomasks	298,821	19,260	279,561
Office furniture and equipment	243,410	54,251	189,159
Leasehold improvements	91,456	12,935	78,521
Software	37,593	22,425	15,168
	<b>\$ 13,059,672</b>	<b>\$ 2,586,719</b>	<b>\$ 10,472,953</b>

	<b>April 30, 2007</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Machinery and equipment	\$ 3,073,448	\$ 42,929	\$ 3,030,519
Lab equipment	1,161,182	389,642	771,540
Office furniture and equipment	49,738	19,014	30,724
Software	18,271	9,821	8,450
	<b>\$ 4,302,639</b>	<b>\$ 461,406</b>	<b>\$ 3,841,233</b>

**10. INTANGIBLE ASSETS**

	<b>April 30, 2008</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Intellectual property	\$ 14,078,575	\$ 1,656,171	\$ 12,422,404
Customer relationships and contracts	10,223,584	464,964	9,758,620
Brand	1,712,240	77,872	1,634,368
Patents	398,912	68,190	330,722
	<b>\$ 26,413,311</b>	<b>\$ 2,267,197</b>	<b>\$ 24,146,114</b>

	<b>April 30, 2007</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Patents	\$ 398,912	\$ 28,299	\$ 370,613
Intellectual property	5,417,392	174,427	5,242,965
	<b>\$ 5,816,304</b>	<b>\$ 202,726</b>	<b>\$ 5,613,578</b>

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**11. OTHER ASSETS**

	<b>April 30, 2008</b>		
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Technical license fee	\$ 75,540	\$ 20,405	\$ 55,135
Security deposit	67,119	-	67,119
Long term deposits	74,252	-	74,251
Other	15,246	1,312	13,934
	<u>\$ 232,157</u>	<u>\$ 21,717</u>	<u>\$ 210,440</u>

As at April 30, 2007, the only Other Asset was a long term deposit of \$70,847.

**12. NOTE PAYABLE**

Note payable is to a Chartered bank for US\$3,735,000, maturing March 30, 2012 at an interest rate based on the Wall Street Journal prime rate plus a margin of 0.25 percentage points, resulting in an initial interest rate of 5.50%. The loan is repayable in six monthly consecutive interest payments beginning April 30, 2008 and forty-one monthly consecutive principal and interest payments in the initial amount of US\$98,086 each beginning October 30, 2008 and one final payment of US\$98,086 on March 30, 2012. The fair value of the note is \$3,761,892.

The principal repayment schedule as of April 30, 2008 is as follows:

2009	\$ 626,982
2010	1,074,826
2011	1,074,826
2012	<u>985,258</u>
	<u>\$ 3,761,892</u>

**13. SHARE CAPITAL**

On July 24, 2006, the Company entered into a reverse take over transaction with Pacific Northwest Partners Ltd. In legal form, Enablence Inc. became a wholly owned subsidiary of Pacific Northwest Partners on that date, however, the effect of the transaction was such that the existing shareholders of Enablence Inc. have become the majority owners of Pacific Northwest Partners Ltd., giving rise to a reverse take over. Pacific Northwest Partners Ltd. subsequently changed its name to Enablence Technologies Inc. (the Company). At the time of the transaction, Pacific Northwest Partners Ltd. had cash of \$1,500,010. This transaction was accounted for as a reverse takeover not constituting a business combination.

The share capital schedule below is that of the legal parent (the Company) subsequent to April 30, 2006 and that of the legal subsidiary (Enablence Inc.) on April 30, 2006 and all previous dates. The "Adjustment" reflects this event and allows for the mathematical continuation of the schedule.

**ENABLENCE TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
For the year ended April 30, 2008 and 2007

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**13. SHARE CAPITAL (Continued)**

Authorized

Unlimited number of common shares

<u>Issued</u>	<u>Number of common Shares</u>	<u>Amount</u>
<b>April 30, 2006</b>	16,539,569	\$ 5,391,900
Adjustment (see explanation above)	(16,539,569)	-
Issued to shareholders of Enablence Inc. on Conversion	53,101,977	-
Issued for cash, net of \$1,785,725 issuance costs	30,588,554	9,880,613
Fair value of broker warrants issued, recorded as issuance costs	-	(348,573)
Previously existing outstanding shares of Enablence Technologies Inc. (formerly Pacific Northwest Partners Ltd.)	6,107,553	1,500,010
Exercise of broker warrants	559,417	206,984
Issued for cash, net of \$1,187,114 issuance costs	25,000,000	13,812,886
Fair value of broker warrants issued, recorded as issuance costs		(633,834)
Issued for acquisition of Albis Optoelectronics AG (Note 15)	1,889,686	2,078,655
<b>April 30, 2007</b>	117,247,187	\$ 31,888,641
Issued for cash, net of \$3,848,788 issuance costs	42,592,665	53,651,212
Fair value of broker warrants issued, recorded as Issuance costs		(753,660)
Issued on exercise of options	2,028,000	1,185,997
Issuance costs	-	(31,500)
Exercise of broker warrants	1,738,067	1,230,761
Issued for acquisition of ANDevices, Inc. (Note 15)	9,085,113	22,403,333
<b>April 30, 2008</b>	172,691,032	\$109,574,784

**ENABLENCE TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
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**13. SHARE CAPITAL (Continued)**

Common shares of the Company were issued to existing Enablence Inc. shareholders at a conversion rate of approximately 2.916 shares for every Enablence Inc. share resulting in the issuance of 48,229,383 common shares. An additional 4,872,594 common shares were issued to holders of 2,167,875 Enablence Inc. options at the same conversion rate of 2.916 for in-the-money options. An additional 30,588,554 shares were issued for net proceeds of \$9,880,613. As partial compensation for the reverse takeover transaction and financing, 2,849,275 broker warrants were issued entitling the holder to purchase one common share at a price per share of \$0.37 to May 24, 2008. The warrants have been valued at \$348,573 at the time of issuance and have been recorded as an issuance cost. The fair value was determined using the Black-Scholes pricing model. 1,289,858 broker warrants were exercised during the year ended April 30, 2008, resulting in cash proceeds of \$477,247. During the year ended April 30, 2007, 559,417 broker warrants were exercised resulting in cash proceeds of \$206,984.

On March 1, 2007, the Company completed a private placement of 25,000,000 common shares at a price of \$0.60 per share for gross proceeds of \$15 million. As partial compensation for this transaction 1,750,000 broker warrants were issued entitling the holder to purchase one common share at a price of \$0.60 per share to March 1, 2009. The warrants have been valued at \$633,833 at the time of issuance and have been recorded as an issuance cost. The fair value was determined using the Black-Scholes pricing model. 350,000 broker warrants were exercised during the year ended April 30, 2008 resulting in cash proceeds of \$210,000. None of these warrants were exercised during the year ended April 30, 2007.

On October 25, 2007, the Company completed a public offering issuing an aggregate of 42,592,665 common shares at a price of \$1.35 per share for gross proceeds of \$57,500,000. As partial compensation for this transaction, 1,277,779 broker warrants were issued entitling the holder to purchase one common share at a price of \$1.35 per share to April 25, 2009. The warrants have been valued at \$753,660 and have been recorded as an issuance cost. The fair value was determined using the Black-Scholes pricing model. 98,209 broker warrants were exercised during the year ended April 30, 2008 resulting in cash proceeds of \$132,582.

*Outstanding Warrants*

	2008	2007
Balance, beginning of year	4,039,858	-
Warrants issued	1,277,779	4,599,275
Warrants exercised	(1,738,067)	(559,417)
<b>Balance, end of year</b>	<b>3,579,570</b>	<b>4,039,858</b>

**ENABLENCE TECHNOLOGIES INC.**  
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**13. SHARE CAPITAL (Continued)**

*Stock option plan*

The Company has established a stock option plan applicable to directors, officers, employees, and consultants and authorized 23,400,000 common shares for issuance thereunder. The options are granted with exercise prices equal to the fair market value of the common shares of the Company on the date of grant. Options granted prior to September 7, 2007 generally vest in four equal portions during the first year and expire on the earlier of the 10<sup>th</sup> anniversary of the grant date or termination of employment. Options granted after September 7, 2007 and before March 18, 2008 generally vest in four equal portions during the first eighteen months and expire on the earlier of the 10<sup>th</sup> anniversary of the grant date or termination of employment. Options granted on or after March 18, 2008 generally vest in four equal portions starting one year after the date of grant.

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

	<u>Options</u>	<u>Weighted Average Exercise Price</u>
Options outstanding, April 30, 2006	2,167,875	\$ 0.22 US
Options cancelled as a result of the reverse takeover	(2,167,875)	\$ 0.22 US
Options granted (post reverse takeover)	12,208,000	\$ 0.56 CDN
Options outstanding, April 30, 2007	12,208,000	\$ 0.56 CDN
Granted	2,550,000	\$ 2.24 CDN
Exercised	(2,028,000)	\$ 0.42 CDN
Forfeited	(150,000)	\$ 1.65 CDN
Options outstanding, April 30, 2008	<u>12,580,000</u>	<u>\$ 0.91 CDN</u>

**ENABLENCE TECHNOLOGIES INC.**  
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**13. SHARE CAPITAL (Continued)**

*Stock option plan (Continued)*

The following table summarizes the options outstanding and exercisable as at April 30, 2008:

Options Outstanding			Options Exercisable	
Exercise Price (\$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Exercise Price (\$)
\$ 0.37	4,010,000	8.23	4,010,000	\$ 0.37
0.50	2,640,000	8.63	2,640,000	0.50
0.80	2,955,000	8.85	2,955,000	0.80
1.37	675,000	8.92	650,000	1.37
2.30	1,950,000	9.77	-	2.30
2.39	350,000	9.88	-	2.39
<b>\$ 0.91</b>	<b>12,580,000</b>	<b>8.78</b>	<b>10,255,000</b>	<b>\$ 0.59</b>

Under the fair value method, the Company calculates the fair value of stock option grants at the date of granting, and amortizes that fair value as compensation expense over the vesting period of those grants and awards. The fair value is determined using the Black-Scholes option pricing model and the following assumptions used during the year:

	April 30, 2008	Jan. 31, 2008	Oct. 31, 2007	July 31, 2007	April 30, 2007	Jan. 31, 2007	Oct. 31, 2006	July 31, 2006
Risk-free interest rate	3.07%	4.04%	4.00%	4.66%	3.98%	3.95%	4.00%	4.00%
Expected life of options(years)	4	3	3	3	3	3	3	3
Expected annualized volatility	77%	75%	75%	80%	80%	50%	55%	55%
Expected dividend yield	-%	-%	-%	-%	-%	-%	-%	-%

During the year ended April 30, 2008 stock-based compensation expense was \$2,424,301 (2007 - \$2,802,239). Stock-based compensation is recorded as an increase to contributed surplus.

**ENABLENCE TECHNOLOGIES INC.**  
**Notes to the Consolidated Financial Statements**  
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**14. LOSS PER SHARE**

Basic loss per common share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted loss per common share is calculated by dividing the net loss by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the period. As result of the net losses in each of the reporting periods, the potential effect of the exercise of stock options was anti-dilutive; therefore, potentially dilutive shares have not been included in the calculation of diluted loss per common share for the years ended April 30, 2008 or April 30, 2007.

**15. ACQUISITIONS**

**ANDevices, Inc.**

On February 7, 2008, the Company acquired all of the outstanding shares of AND for consideration of US\$13,500,000 or \$13,571,902 in cash and 9,085,113 common shares valued at \$2.47 per share or \$22,403,333 plus \$264,296 of transaction costs. AND is a supplier of Planar Lightwave Circuit (PLC) based photonic devices for the growing access, metro and long-haul communication markets.

In addition, the Company granted 1,950,000 options to acquire common shares in the Corporation at \$2.30 per share to certain employees of AND. These options will vest in four equal semi-annual installments over a two year period. These options are not part of the purchase price.

The acquisition was accounted for by the purchase method, whereby the results of operation of the acquired company are included in the consolidated statements of earnings and cash flows since the acquisition date and the related identifiable assets acquired and liabilities assumed are recorded at their fair values on the date of acquisition.

**ENABLENCE TECHNOLOGIES INC.**  
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15. **ACQUISITIONS (Continued)**

**ANDevices, Inc (Continued)**

Purchase Price

Investment of cash	\$ 13,571,902
Issuance of 9,085,113 Enablence shares	22,403,333
Transaction costs	<u>264,296</u>
	<u>\$ 36,239,531</u>

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

Assets acquired:

Cash	1,210,501
Accounts receivable	1,129,746
Inventory	878,237
Prepays and deposits	226,209
Property and equipment	6,520,035
Intangible assets	20,273,418
Future income tax assets	3,078,419
Goodwill	<u>20,100,317</u>
	<u>53,416,882</u>

Liabilities assumed:

Accounts payable and accrued liabilities	3,386,412
Loans	3,858,394
Future income tax liability	<u>9,932,545</u>
	<u>17,177,351</u>

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Total purchase price consideration	<u>\$ 36,239,531</u>
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The \$20,273,418 value assigned to identifiable intangible assets is attributable to existing technology and intellectual property, customer relationships and brand value. Existing technology and intellectual property carry a value of \$8,350,630, customer relationships carry a value of \$10,212,418 and brand value carries a value of \$1,710,370. The intangible assets will be amortized on a straight-line basis over a 5 year period from the date of acquisition.

**ENABLENCE TECHNOLOGIES INC.**  
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**15. ACQUISITIONS (Continued)**

**Albis Optoelectronics AG**

On March 21, 2007, the Company acquired all of the outstanding shares of Albis for consideration of US\$4,127,028 or \$4,853,385 in cash and 1,889,686 common shares valued at \$1.10 per share or \$2,078,655 plus \$43,902 of transaction costs. Albis is an ISO9001:2000 certified designer, developer and manufacturer of high-speed single channel and array photodiode chips for fiber optic datacom and telecom applications.

The acquisition was accounted for by the purchase method, whereby the results of operation of the acquired company are included in the consolidated statements of earnings and cash flows since the acquisition date and the related identifiable assets acquired and liabilities assumed are recorded at their fair values on the date of acquisition.

Purchase Price

Investment of cash	\$ 4,853,385
Issuance of 1,889,686 Enablence shares	2,078,655
Transaction costs	<u>43,902</u>
	<b>\$ 6,975,942</b>

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

Assets acquired:	
Cash	\$ 16,820
Accounts receivable	231,979
Inventory	168,855
Prepaid expenses and deposits	72,597
Property and equipment	3,202,799
Intellectual property	5,638,821
Future income tax assets	<u>143,000</u>
	9,474,871
Liabilities assumed:	
Accounts payable and accrued liabilities	137,969
Loans	501,960
Future income tax liability	<u>1,859,000</u>
	2,498,929
<hr/>	
Total purchase price consideration	<b>\$ 6,975,942</b>

**ENABLENCE TECHNOLOGIES INC.**  
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**16. SEGMENTED INFORMATION**

The Company operates in one reportable segment. All of the Company's activities are considered to be carried on in the development and marketing of integrated photonic chips and solutions.

Revenue and assets are segregated geographically as follows:

	Revenue		Property, plant and equipment and goodwill	
	2008	2007	2008	2007
North America	\$ 2,225,592	\$ -	\$ 27,552,754	\$ 810,714
Asia Pacific	709,102	-	-	-
Europe	217,899	71,750	3,042,491	3,030,519
	<u>\$ 3,152,593</u>	<u>\$ 71,750</u>	<u>\$ 30,595,245</u>	<u>\$ 3,841,233</u>

Revenues are attributed to geographical location based on customer.

During the year ended, April 30, 2008, two customers accounted for 36% (2007 - nil) of the Company's total revenue and one customer accounted for 31% (2007 - nil) of the accounts receivable balance at April 30, 2008.

**17. FINANCIAL INSTRUMENTS**

*Currency risk*

The Company operates internationally with subsidiaries in Switzerland and the United States and is therefore subject to foreign currency risk. The Company incurs expenses and earns revenues in US dollars, Euros, Swiss francs and Japanese yen.

*Credit risk*

Financial instruments which potentially subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and amounts receivable. The Company primarily invests its excess cash in high quality financial instruments. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks.

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**18. COMMITMENTS**

The Company leases office space and certain capital assets under operating leases. Minimum lease payments due under these leases for the next six years are as follows:

2009	511,000
2010	233,000
2011	148,000
2012	148,000
2013	148,000
2014	<u>62,000</u>
	<u>\$ 1,250,000</u>

**19. SUBSEQUENT EVENTS**

On May 5, 2008, the Company completed the acquisition of U.S. based Wave7 Optics, Inc, ("Wave7"), a global provider of Fiber to the Home ("FTTH") systems that deliver voice, video, and data services. Pursuant to an agreement and plan of merger, Enablence's wholly owned subsidiary W7 Acquisition Corp. was merged into Wave7, which is now a wholly-owned subsidiary of Enablence. The aggregate acquisition price was US\$10.5 million cash and 2,078,385 common shares of Enablence valued at \$1.69 per share. A portion of the shares are subject to an escrow arrangement and the shares are subject to certain statutory hold periods and contractual selling limits. \$87,636 of transaction costs incurred prior to the completion of the acquisition have been included in prepaid expenses at year end.

**ENABLENCE TECHNOLOGIES INC.**  
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**19. SUBSEQUENT EVENTS (Continued)**

The preliminary fair values of the assets and liabilities and the preliminary allocation of the purchase consideration are as follows:

<b>Preliminary purchase price</b>	
Original investment in Wave7	\$ 10,539,900
Issuance of 2,078,385 Enablence shares	3,513,300
Transaction costs	<u>123,861</u>
	<u>14,177,061</u>
<b>Preliminary value of assets acquired</b>	
Cash	712,698
Accounts receivable	4,299,275
Inventory	4,599,412
Property and equipment	1,281,853
Other assets	457,733
Intangible assets	<u>8,316,876</u>
	19,667,847
<b>Less preliminary value of liabilities assumed</b>	
Current portion of long-term debt	680,576
Accounts payable	1,641,213
Accrued expenses and other liabilities	<u>3,168,997</u>
	5,490,786
<b>Preliminary value of net assets assumed</b>	<u>\$ 14,177,061</u>

In accordance with CICA Section 1581, *Business Combinations*, the Company has one year to make adjustments to the purchase price allocation at which time the purchase price will be finalized.

On July 10, 2008, the Company, announced that it has signed a definitive Asset Purchase Agreement with DuPont Photonics Technologies LLC ("DuPont Photonics"), a wholly owned subsidiary of E.I. du Pont de Nemours and Company ("DuPont") (NYSE: DD) to acquire certain assets of DuPont Photonics, subject to certain approvals, conditions and consents. Concurrent with the agreement, DuPont will make a cash investment in the Corporation. Under the terms of the Agreement Enablence will issue common shares equivalent to US\$9.5M based on a 30 day average share price prior to the closing of the transaction for the assets and the investment. Subsequently the Company will perform the purchase price allocation and assign values to tangible and intangible assets.