



ENABLENCE TECHNOLOGIES INC.

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

FOR THE FIRST QUARTER ENDED JULY 31, 2008

**ENABLENCE TECHNOLOGIES INC.
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AND RESULTS OF OPERATIONS ("MD&A")**

FIRST QUARTER ENDED JULY 31, 2008 (THOUSANDS OF CANADIAN DOLLARS, UNLESS OTHERWISE SPECIFIED)

The following is a discussion and analysis of the unaudited consolidated financial statements of Enablence Technologies Inc. ("Enablence", or the "Company") for the three months ended July 31, 2008, which is the first quarter of the Company's fiscal 2009 year, and should be read in conjunction with the Company's Annual Information Form, audited financial statements and Management's Discussion and Analysis and other securities filings available on www.sedar.com. The effective date of management's discussion and analysis is September 19, 2008. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All figures are presented in Canadian dollars. The financial statements include all of the assets and liabilities and expenses of Enablence Technologies Inc. and its wholly-owned subsidiaries, Enablence Inc., Enablence Holdings LLC, Albis Optoelectronics AG, Enablence USA Components, Inc. (formerly ANDevices Inc.) and Enablence USA FTTx Networks, Inc. (formerly Wave7 Optics Inc.). References 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 April 30, 2008 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.

Enablence's fiscal year ends April 30. In this MD&A, quarterly references relate to the Company's fiscal year so "FQ1 2009" refers to the fiscal first quarter ending July 31, 2008, and similarly for other quarters.

OVERVIEW

HIGHLIGHTS AND SUMMARY

Enablence continues to grow organically and through acquisitions. The Company has been organized along two divisions: Fibre-to-the-Home/Business (“FTTx”) Networks and Optical Components & Subsystems. This structure was determined to be optimal for the exploitation of markets and customer opportunities, and to maximize the synergies and efficiencies among our subsidiaries.

Fibre optic deployments in the access and metro markets continue to grow at unprecedented rates and Enablence management believes that by executing its strategic growth plans it will achieve its position as a leader in integrated photonic solutions and FTTx systems.

The company continues to receive increased interest among its peers and believes it is poised for strong growth in FY2009 (ending April 30, 2009) as it plans to roll out new integrated products based on arrayed waveguide gratings, introduce new optical transceiver product lines integrated with Optical Network Terminals (“ONTs”) and, together with Optical Line Terminals (“OLTs”), provide end-to-end FTTx solutions for worldwide Fibre-to-the-Home (“FTTH”) deployments.

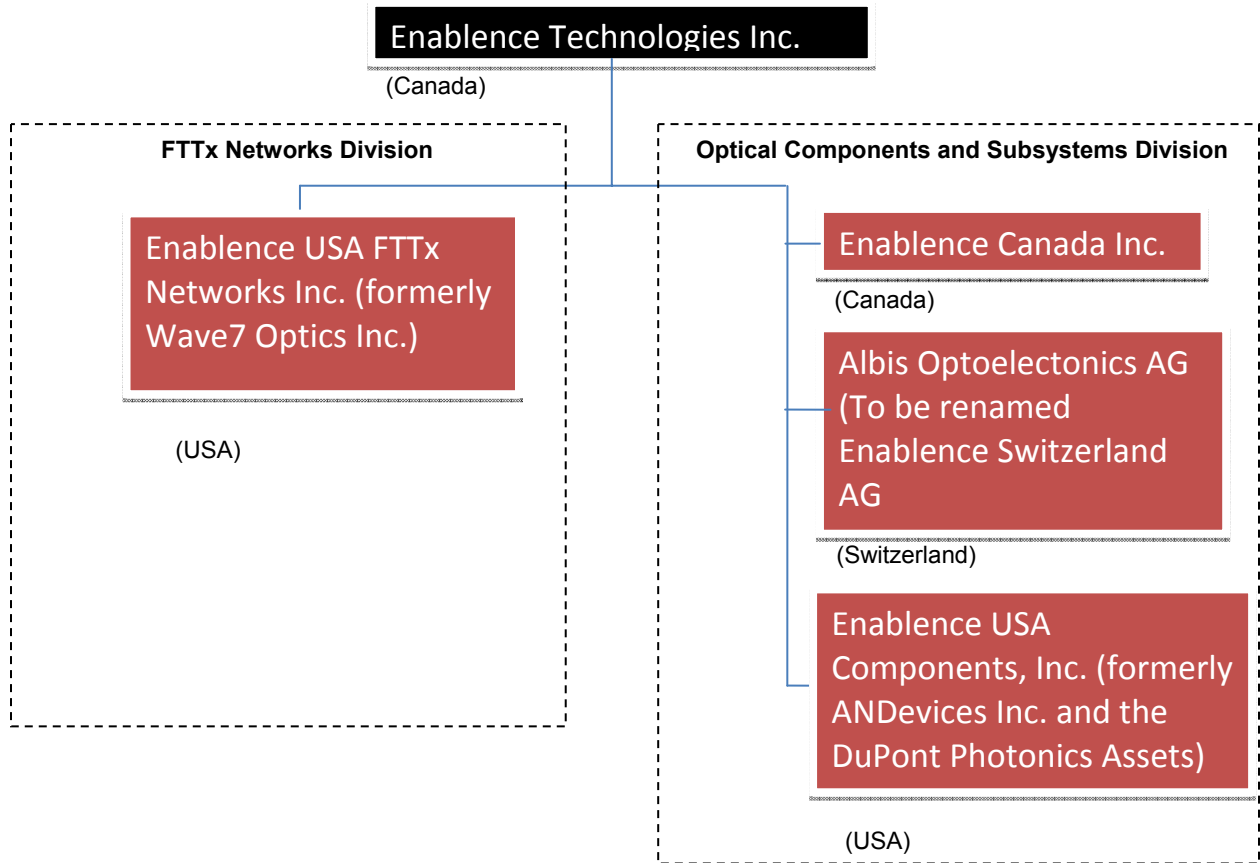
FQ1 2009 highlights include:

- substantial growth in revenues to \$7.6 million compared to \$301,000 in FQ1 2008;
- substantial increase in cash and equivalents of \$37.7 million compared to \$14.7 million at the end of FQ1 2008;
- substantial increase in working capital of \$44.3 million compared to \$13.9 million at the end of FQ1 2008;
- substantial increase in total assets of \$120.2 million compared to \$24.8 million at the end of FQ1 2008;
- the acquisition of Wave7 Optics, Inc. (now Enablence USA FTTx Networks, Inc.), a global provider of Fibre FTTH systems that deliver voice, video and data services;
- the completion of an 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 the assets of DuPont Photonics. Concurrent with the agreement, DuPont made a \$5.1 million cash investment in the Corporation;
- the integration of the planar lightwave circuit (“PLC”) based transceiver optical block into the ONT produced by our FTTx Division, with delivery to customer and deployment scheduled for FQ2 2009.

ENABLENCE TECHNOLOGIES BUSINESS

Enablence has, at its core, the vision to create value for its shareholders by becoming the world's leader in integrated photonics solutions and provision of end-to-end FTTx solutions for global markets. To accomplish this goal the company is continuing to strengthen its technological, product and market position through a combination of organic growth and a series of vertical integration activities to maintain and consolidate its leadership position in integrated photonics solutions and FTTx systems worldwide.

Enablence has evolved significantly from its initial PLC-based transceiver development and single product line to a complete suite of products for the FTTH or access networks with the Company's proprietary PLC technology as a base technology for most products. As a result of this growth and transformation of the company into a multi-product company capable of delivering state-of-the art products for the growing FTTH market, and metro and long haul optical networks, Enablence is now organized into two distinct divisions: the Optical Components and Subsystems Division and the FTTx Networks Division. The Optical Components and Subsystems division provides access, metro and long haul optical products derived using PLC. The FTTx Networks Division provides complete FTTx system solution to allow for FTTx deployments worldwide with Enablence's products. These divisions are complementary to each other and form part of the same value chain. The company also has an expanded and broad portfolio of products that allows the company to supply high value added products and prevent the marginalization of its original transceiver product through commoditization. This growth and expansion is consistent with its business plan and vision through its vertical integration strategy. In summary, the company has re-positioned itself as an integrated photonics components and subsystem supplier leveraging the PLC technology in FTTx, access, metro, and long-haul markets.



Enableness Optical Components and Subsystems Division

The Optical Components and Subsystems Division has four core competencies, namely:

- design and integration of optical transceivers, an activity led by the group in Ottawa, Canada;
- arrayed waveguide grating production, using the silica on silicon fab at the Company's facilities in Fremont, California;
- the production of proprietary PLC-based reconfigurable switching devices (ROADMs) using silica-on-silicon technology from Fremont and polymer PLC from our production facilities in Wilmington, Massachusetts (Enableness USA Components Inc.), and
- advanced photodiode production, which takes place in our Gallium Arsenide and Indium Phosphide fabrication facility in Zurich, Switzerland (Albis Optoelectric AG, to be renamed Enableness Switzerland AG).

With these capabilities at the Optical Components and Subsystem Division, Enableness is the only company known to have all of the three optical wafer manufacturing facilities – silica-on-silicon, polymer and indium phosphide based products.

Enableness's PLC optical chip technology enables the integration of sub-components (waveguides, photodetectors, lasers and transimpedance amplifiers) onto one platform. The optical performance, the level of assembly automation, and the suitability for mass-production associated with this technology are believed by management to rival or surpass that of competitive alternatives.

Enablence's core technology is portable to numerous markets including metro area fibre optic networks that require filtering technology to separate and multiplex various wavelengths. This filtering feature of the Enablence technology makes it a platform technology that is also suitable for an array of biomedical and aerospace applications.

Enablence FTTx Network Division

On May 5, 2008, the Company acquired Wave7 Optics, Inc. (subsequently renamed Enablence USA FTTx Networks, Inc.). Enablence USA FTTx Networks is a global provider of FTTH systems that deliver voice, video and data services over fibre optic lines. Today the company produces both the ONT for the home or business and the OLT at the central office for the various service providers we supply. This division has established relationships with more than 100 customers on six continents. Our patented technology handles multiple protocols (EPON, GPON & PT-to-PT). The Company's ONTs rely on optical transceivers at their core.

The transaction allowed the Company to migrate to a high-value product and enhance the Company's ability to provide a competitive product without significant erosion of its margins over time. The transaction has several other advantages as well, including acquiring a strong customer base, immediate ability to integrate the transceiver into the ONT and having them deployed, acquiring a product and technology that was already considered to be one of the best in the market, synergies in human capital competencies, access to field testing for rapid deployment of future products, economics of the deal and a strong management team.

The Company has integrated our first transceiver products within the division's ONT deployments and will continue to scale our production in anticipation of additional orders. The Company uses contract manufacturers in the United States, Canada and Japan to assist in the production of its various product lines. Management will continue to review these agreements to ensure that they are cost effective and meet the on-going needs and requirements consistent with market and competitive circumstances. The Company plans to consolidate its manufacturing operations to take advantage of volume, cost and integration.

The addition of these network capabilities has transformed Enablence into a company that is able to provide every element of the FTTH network and, therefore, has increased its addressable market, its competitive position and ability to directly deal with carriers deploying networks worldwide and provide complete product solutions to the customers.

GROWTH STRATEGY

A number of product development objectives are planned for the next 12 months. The further customized integration of the optical chips into the FTTx platform, moving to high-value added products from traditional transceiver to ONT sales,, continued integration and the introduction of full Reconfigurable Optical Add/Drop Module ("ROADM") subcomponents and similar high value products for the metro and long haul markets.

During the next 12 months, Enablence plans to increase its production capacity of ONTs and OLTs by consolidating its contract manufacturing operations.

Enablence intends to continue to pursue product strategies directed primarily at the access, metro area fibre optic networks, long-haul networks, and datacom and later in the biophotonic solutions, aerospace and defence sectors.

CHANGES IN ACCOUNTING POLICIES

Inventories

Effective May 1, 2008, the Company adopted CICA Handbook Section 3031, *Inventories*. This section provides more guidance on the measurement and disclosure requirements for inventories. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Financial Instruments

Effective May 1, 2008, the Company adopted two new CICA standards, Handbook Section 3862, *Financial Instruments Disclosures*, and Section 3863, *Financial Instruments Presentation*, which replaces Handbook Section 3861, *Financial Instruments Disclosure and Presentation*. The new presentation standards carry forward the former presentation requirements and increase the emphasis on the disclosure of risks associated with both recognized and unrecognized financial instruments and how those risks are managed.

The adoption of these new Handbook sections did not have a material impact on the Company's consolidated financial statements. The new disclosures pursuant to these Sections are included in Note 9 of the July 31, 2008 financial statements.

Capital Disclosures

Effective May 1, 2008, the Company adopted the new CICA standard, Handbook Section 1535, *Capital Disclosures*. This section establishes standards for disclosing information about a company's capital and how it is managed. The required disclosure of information about the Company's objectives, policies and processes for managing capital is included in Note 10 of the July 31, 2008 financial statements.

International Financial Reporting Standards (IFRS)

On February 13, 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company is currently in the process of developing a conversion implementation plan and assessing the impacts of the conversion on the consolidated financial statements and disclosures of the Company.

DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The CEO and CFO have evaluated the effectiveness of the Company's disclosure controls and procedures and assessed the design of its internal control over financial reporting as of July 31, 2008, pursuant to the requirements of Multilateral Instrument 52-109. The CEO and CFO have concluded, based on this evaluation, that the company's disclosure controls and procedures are effective, and that the design of internal control over financial reporting provides reasonable assurance regarding the reliability of the company's financial reporting and the preparation of the company's financial statements for external purposes in accordance with (Canadian) GAAP.

On July 25, 2007, the officers, directors and employees in receipt of options granted on December 12, 2006 and March 7, 2007 agreed voluntarily to refrain from exercising these options while the OSC conducted an investigation into the trading activities of Enablence shares and related corporate events. Enablence cooperated fully with this investigation. Enablence also conducted an independent investigation of all of its internal procedures. This third party investigation confirmed management's view of there being no impropriety in the decision that led to these grants. This hold was lifted in December 2007 for all non-management staff and on February 23, 2008 for management in order to allow employees the benefits afforded by these options. There are currently no voluntary vested stock options that are being withheld from being exercised for any employee – management or non-management.

RESULTS OF OPERATIONS

SUMMARY OF UNAUDITED QUARTERLY RESULTS

The following table sets forth unaudited summary results of operations for the past 8 quarters. The information has been taken from our unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited financial statements for the last eight quarters ended July 31, 2008 and includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of information presented. The table presents the information in thousands of Canadian dollars.

Period ended	July 31, 2008 (3 months)	April, 30, 2008 (3 months)	January 31, 2008 (3 months)	October 31, 2007 (3 months)	July 31, 2007 (3months)	April 30, 2007 (3months)	January 31, 2007 (3 months)	October 31, 2006 (3 months)
Revenue	\$7,634	\$2,445	\$261	\$145	\$301	\$ 72	-	-
Gross Profit	1,988	828	171	28	156	5	-	-
Expenses								
Research & Development	3,644	2,205	1,457	1,009	1,030	391	677	481
Sales, General & Administrative	3,552	1,867	1,317	631	725	867	603	539
Stock Based Compensation	341	500	539	599	787	845	130	106
Amortization	2,025	1,667	397	363	369	326	115	78
Operating Loss	(7,574)	(5,410)	(3,540)	(2,575)	(2,754)	(2,423)	(1,525)	(1,204)
Net Loss for the Period	\$(6,844)	\$(5,216)	\$(2,642)	\$(2,270)	\$(2,494)	\$(2,170)	\$(1,428)	\$(1,091)
Weighted Average Shares Outstanding	175,514,353	171,827,815	161,553,851	120,146,388	117,247,187	108,145,645	89,856,780	89,798,084
Basic and Diluted Loss Per Share	\$(0.04)	\$(0.03)	\$(0.02)	\$(0.02)	\$(0.02)	\$(0.02)	\$(0.02)	\$(0.01)

SUMMARY OF RESULTS FOR THE THREE MONTHS ENDED JULY 31, 2008, APRIL 30, 2008 AND JULY 31, 2007

The following table sets forth a summary of key operating and other information from our consolidated financial statements for the most recent reporting periods as prepared in accordance with Canadian GAAP. The information has been derived from our audited consolidated financial statements.

The nature and size of our business has changed significantly during the last 12 months. During the FQ1 2008 (the quarter ended July 31, 2007) we had operations in Ottawa, Canada and Zurich, Switzerland. During the first week of FQ4 2008 (the quarter ended April 30, 2008) we acquired ANDevices Inc. (now called Enablence USA Components, Inc.). During the first week of FQ1 2009 (the quarter ended July 31, 2008) we acquired Wave7 Optics, Inc. Finally, on the

last day of FQ1 2009 we acquired the assets of the DuPont Photonics division. There is no effect on our FQ1 2009 results of operations arising from DuPont Photonics asset purchase because it was acquired on the last day of our quarter. The fair value of the assets acquired is reflected in our balance sheet accounts. As a consequence of these acquisitions, the results of operations for each of the quarters at issue are not reasonably comparable.

REVENUES

The Company operates in two reportable segments. The Optical Component and Subsystems division develops and sells integrated photonic chips and solutions. The FTTx Networks division develops and sells systems that deliver very high speed, high capacity voice, video and data services to the premises.

Revenues increased to \$7,634,000 in FQ1 2009 compared to \$2,445,000 in FQ4 2008 and \$301,000 in FQ1 2008. The table below provides a comparison of the revenues and assets for the two divisions for the three quarters at issue.

	Revenue (\$,000) 3 months ended			Property, plant, equipment and intangible assets (\$,000)		
	July 31, 2008	April 30, 2008	July 31, 2007	July 31, 2008	April 30, 2008	July 31, 2007
Optical Components	\$2,910	\$2,445	\$301	\$57,767	\$54,741	\$3,608,
FTTx Networks	<u>4,724</u>	<u>—</u>	<u>—</u>	<u>9,406</u>	<u>—</u>	<u>—</u>
	<u>\$ 7,634</u>	<u>\$2,445</u>	<u>\$ 301</u>	<u>\$67,173</u>	<u>\$54,741</u>	<u>\$3,608</u>

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

	Revenue (\$,000) 3 months ended			Property, plant, equipment and intangible assets (\$,000)		
	July 31, 2008	April 30, 2008	July 31, 2007	July 31, 2008	April 30, 2008	July 31, 2007
North America	\$4,332	\$1,814	\$221	\$59,981	\$46,925	\$763
Asia Pacific	1,557	519	38	--	--	--
Europe	<u>1,745</u>	<u>112</u>	<u>42</u>	<u>7,192</u>	<u>7,486</u>	<u>2,845</u>
	<u>\$7,634</u>	<u>\$2,445</u>	<u>\$301</u>	<u>\$67,173</u>	<u>\$54,741</u>	<u>\$3,608</u>

During FQ1 2009 one customer accounted for 19% of the Company's total revenue and one customer accounted for 31% of the accounts receivable balance at July 31, 2008. During the FQ4 2008 two customers accounted for 36% of the Company's total revenue and one customer accounted for 31% of the accounts receivable balance at April 30, 2008. At July 31, 2007 one customer accounted for 25% of the accounts receivable balance.

EXPENSES

Research and development expenses for the quarters at issue are set out in the table below, in \$, 000. The growth in this expense is a reflection of the acquisitions that have taken place during the last 12 months. The increase in

research and development spending is due the successive acquisitions made during FQ4 2008 and FQ1 2009. The Company has accelerated its efforts to commercialize the Company's core components technology and FTTx systems. Management expects these costs to begin to decline as commercial sales and revenues increase on products as they move from the development phase to full commercialization mode. The number of employees engaged in research and development increased

	FQ1 2009	FQ4 2008	FQ1 2007
Compensation	\$1,928	\$1,081	\$322
Other	<u>1,736</u>	<u>1,124</u>	<u>708</u>
Total	<u>\$3,664</u>	<u>\$2,205</u>	<u>\$1,030</u>
Full Time Equivalent staff (FTE)	69	37	15

Sales and marketing expenses for the quarters at issue are set out in the table below, in \$,000. The growth in these expenses is a reflection of the acquisitions that have taken place during the last 12 months. The increase in sales and marketing expenses and FTE's from FQ1 2008 to FQ4 2008 was mainly due the acquisitions of ANDevices Inc. during February 2008. The increase in sales and marketing expenses and FTE's from FQ4 2008 to FQ1 2009 is primarily associated with the acquisition of the FTTx division, with additional costs incurred as the Company worked on conforming its brand across the various acquisitions. The Company plans to expand its corporate marketing function and to streamline and strengthen its sales function with a view to increasing revenues with higher margins and broader market share and market reach. Opportunities exist to cross sell optical components and network systems to the same customer base. In addition, steps are being taken to structure the sales teams to make better use of the varying levels of experience and compensation.

	FQ1 2009	FQ4 2008	FQ1 2007
Compensation	\$961	\$167	\$50
Other	<u>635</u>	<u>145</u>	<u>9</u>
Total	<u>\$1,596</u>	<u>\$312</u>	<u>\$59</u>
Full Time Equivalent staff (FTE)	26	5	1

General and administrative expenses for the quarters at issue are set out in the table below, in \$,000. The growth in these expenses is a combination of the incremental costs of the acquisitions and to the increased cost of managing a larger company but prior to the full benefit of integration which the Company expects to realize before the end of the fiscal year. General and administration expenses include professional fees, insurance, payments made to register IP in various jurisdictions (translation & filing fees) as well as increases in staffing and bonus payments.

	FQ1 2009	FQ4 2008	FQ1 2007
Compensation	\$844	\$486	\$313
Other	<u>1,112</u>	<u>1,069</u>	<u>345</u>
Total	<u>\$1,956</u>	<u>\$1,555</u>	<u>\$658</u>
Full Time Equivalent staff (FTE)	18	13	7

Stock-based compensation expense has declined during the quarters at issue, as set out in the table below. This decrease in stock-based compensation is a reflection of the number of options that vested through FQ3 2008. The Company anticipates that stock-based compensation expense will increase in FQ2 2009 and beyond, reflecting the 4,432,000 options granted to new and existing staff in August 2008,

FQ1 2009	FQ4 2008	FQ1 2007
\$341	\$500	\$787

Amortization expenses are comprised of three major elements, as set out in the table below. The increases from quarter to quarter primarily a reflection of the successive acquisitions made during the last 12 months. The Company amortizes its property plant and equipment over their useful lives. The intangible assets are amortized over a five year period from the date of acquisition. Since the DuPont Photonics assets were acquired on the last day of the quarter the Company did not report any amortization expense related to these assets.

	FQ1 2009	FQ4 2008	FQ1 2007
Amortization in Cost of sales	\$376	\$112	\$43
Amortization of property, plant and equipment	381	488	110
Amortization of intangible assets	1,710	1,158	277
	\$2,467	\$1,758	\$430

INTEREST INCOME

Enablence invests cash and cash equivalents in short-term investments with a Canadian chartered bank. During Q1 2009 Enablence earned interest income on these investments of \$309,000, as compared to \$525,000 during FQ4 2008 and \$179,000 during FQ1 2008. These increases in interest income are the result of holding larger average cash and cash equivalents in short-term investments balances throughout the last two quarters, as contrasted with the comparable balances during Q1 2008. The larger average cash and cash equivalent in short-term investments balances during 2008 arose as a result of the private placement of \$53,651,000, net of related placement costs, in October 2007.

INCOME TAXES

In FQ1 2009, there was a recovery of income taxes of \$508,000 compared to \$1,019,000 during FQ4 2008 and \$82,000 in FQ1 2008. In FQ1 2009 and 2008, the future income tax recovery is related to the amortization of the liability recognized on the increase in fair value over net book value of tangible and intangible assets of Albis and Enablence USA Components when acquired by the Company. The liability is drawn down as that portion of the asset value is amortized. The amount in FQ4 2008 is high as it also accounts for differences in

tax and accounting values of assets acquired from Enablence USA Components Inc.

NET LOSS

The net loss for FQ1 2009 was \$6,844,000 compared to \$5,216,000 during FQ4 2008 and \$2,494,000 in FQ1 2008. The increase in net loss is attributable to the reasons set out above.

LOSS PER COMMON SHARE

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

	FQ1 2009	FQ4 2008	FQ1 2008
Basic and diluted loss per common share	\$0.04	\$0.03	\$0.02
Weighted average number of common shares	175,514,513	171,827,815	117,247,118

LIQUIDITY AND FINANCIAL RESOURCES

Enablence has historically financed its operations through the issuance of shares. Debt and borrowings were assumed on acquisition the acquisition of ANDevices, Inc. The Company expects that its current level of cash and short-term investments will be sufficient to meet its operations and capital expenditures for more than the next 12 months. Other than for possible partial consideration for acquisitions, Enablence expects to issue additional common shares only on the exercise of options and warrants for which it expects to receive nominal cash proceeds.

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

	FQ1 2009	FQ4 2008	FQ1 2008
Cash, cash equivalents and short-term investments	\$37,696	\$47,208	\$14,749
Working capital	\$44,332	\$49,287	\$15,339

During FQ1 2009, the Company consumed \$4.6M of cash in operating activities and invested \$10,594,000 in the acquisition of Wave7 Optics, Inc. and \$715,000 in property, plant and equipment. Cash from share issuances amounted to \$5,480,000, including a \$5,110,500 investment by DuPont at the time of the acquisition of the DuPont Photonics assets. \$1,007,000 was received from Wave7 Optics, Inc. as repayment of a short-term loan at the time of the acquisition. The net decrease in cash, cash equivalents and short-term investments FQ1 2009 was \$9,513,000.

5,327,000 shares were issued as non-cash consideration for acquisitions, and 3,599,000 shares issued to DuPont for cash consideration of \$5,110,500. See "Share Capital" for a detailed explanation of the acquisition of Wave7 Optics and the acquisition of the assets of DuPont Photonics.

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

OFF BALANCE SHEET ARRANGEMENTS

Enableness 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

Enableness's financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. Unless otherwise noted, it is the opinion of Enableness's Management that Enableness 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

	Total	Payments due by period			
		Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Facilities Rental Enableness	\$114,000	\$114,000	-	-	-
Facilities Rental Components	\$1,482,000	\$4392,000	\$782,000	\$261,000	-
Facilities and equipment rental – FTTx Networks	\$1,975,000	\$617,000	\$1,357,000	-	-
Facilities Rental Albis	\$744,000	\$144,000	\$432,000	\$168,000	-
Total Contractual Obligations	\$4,315,000	\$1,314,000	\$2,572,000	\$429,000	-

CAPITAL RESOURCE REQUIREMENTS

The Company expects to invest up to \$6 million during the next year on component manufacturing equipment to improve manufacturing processes with the ultimate objective of improving gross margins. 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. The Company is unable to quantify its known capital resources requirements for this purpose at this time. No other significant capital expenditures are contemplated at this time.

OUTLOOK

The primary development challenge for the Optical Component and Subsystems Division will be to ensure that the supply of the optical components does not suffer from increased pricing pressures by taking advantage of our competitive position in the marketplace so that favourable gross margins are achieved. A rigorous review of the Division's costs and marketing and sales efforts will be critical to achieving this. In addition, the division will need to avoid producing products that have low profit margins unless they lead to significant strategic or competitive advantages.

Management is focusing on seven goals for the remainder of FY2009:

- increasing sales by building our direct sales team and improving our distribution channels;
- improving our gross margins through further integration of internally produced components;
- reducing our manufacturing costs by consolidating our manufacturing operations and using our increased leverage arising from increased volumes;
- strengthening our sales teams in each of the Divisions with clear sales targets aimed at improving the bottom line while enhancing the Corporate marketing function to support divisional activities including improving global recognition of the Enablence name and of our comprehensive suite of products;
- improving our product development processes, by streamlining research and development activities with defined commercial objectives;
- integrating the administrative groups within the Company; and
- taking full advantage of the benefits of an integrated company and its technological and product competitiveness.

These initiatives started in the latter part of FQ1 2009 and are likely to yield some results by the end of the fiscal year, with the full benefits being realized in the first half of F2010. Management believes that once these efforts are completed as anticipated, the company will have significantly reduced the operating losses incurred in F2009 and be on the track towards profitability in F2010.

Management remains committed to a number of additional key initiatives that it believes will positively affect the metrics that drive the business namely: protection of intellectual property, continued research & development, vertical integration, security of supply and committed manufacturing partners.

Increased revenues and reduced costs may not be sufficient in F2009 to cover the operating expenses. The Company does not anticipate profitability until such time as it achieves volume sales. There are no assurances that Enablence will gain adequate market acceptance, nor are there any guarantees that the Company will achieve profitability, even though it is experiencing sales growth. The Company has not yet earned operating profits and expects to incur further significant operating losses before realizing profits. The Company believes that the existing working capital coupled with revenues will be sufficient to cover the Company's anticipated operating costs beyond F2009.

FINANCIAL INSTRUMENTS

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

There were no reportable events subsequent to July 31, 2008.

SHARE CAPITAL

COMMON SHARES

Enablence is authorized to issue an unlimited number of common shares of which 182,617,055 common shares are issued and outstanding as of July 31, 2008. The following table details the issued and outstanding shares of the company:

	Number of common Shares	Amount
April 30, 2007	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)
Redemption of broker warrants	1,738,067	1,230,761
Issued for acquisition of ANDevices, Inc. (Note 15)	9,085,113	22,403,333
April 30, 2008	172,691,032	\$109,574,784
Exercise of broker warrants	1,000,000	492,336
Issued for acquisition of Wave7 Optics, Inc.	2,078,385	3,547,250
Issued for acquisition of assets of DuPont Photonics Tech. LLC	6,847,638	9,723,645
July 31, 2008	182,617,055	\$123,338,015

The share capital schedule above is that of the legal parent (the Company) subsequent to April 30, 2007 and that of the legal subsidiary (Enablence Inc.) on April 30, 2007.

On July 24, 2006, the Company entered into a reverse takeover 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 takeover. Pacific Northwest Partners Ltd. subsequently changed its name to Enablence Technologies Inc. (the Company).

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.

On February 7, 2008, the Company acquired all of the outstanding shares of ANDevices for consideration of \$13,571,902 (US\$13,500,000) in cash and 9,085,113 common shares valued at \$2.47 per share or \$22,403,333 plus \$264,296 of transaction costs. ANDevices 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 ANDevices. 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 following table summarizes the purchase price 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	20,100,317
	<hr/> 53,416,882
Liabilities assumed:	
Accounts payable and accrued liabilities	3,386,412
Loans	3,858,394
Future income tax liability	9,932,545
	<hr/> 17,177,351
<hr/>	
Total purchase price consideration	<hr/> \$ 36,239,531 <hr/>

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.

Goodwill, which represents the excess of the purchase price over the fair value of tangible and identified intangible assets acquired, reflects the competitive advantages the Company expects to realize from ANDevices existing product lines and developing new markets.

On May 5, 2008, the Company acquired all of the outstanding shares of Wave7 Optics, Inc. for consideration of US\$10,500,000 or \$10,568,290 in cash and 2,078,385 common shares valued at \$1.69 per share or \$3,547,250 at time of closing plus \$235,062 of transactions costs. Wave7 Optics, Inc. was renamed Enablence USA FTTx Networks, Inc. It is a global provider of Fibre to the Home (“FTTH”) systems that deliver voice, video, and data services.

The property and equipment is comprised of a fully operational facility located in Alpharetta, Georgia. The intangible assets associated with the acquisition are mainly the customer relationships developed by FTTx Networks. The fair value of the customer relationships was determined using a discounted cash flow methodology taking into consideration anticipated market demand of both current and future customers. 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. The net purchase price of \$14,350,602 was allocated based on the fair value of the net identifiable assets over the cost of the purchase, which is sometimes referred to as negative goodwill. The negative goodwill was allocated on a pro-rata basis to the fair value of the long-term tangible and intangible assets acquired. The intangible assets will be amortized on a straight-line basis over a 5 year period from the date of acquisition.

The following table summarizes the purchase price based on estimated fair values.

Assets acquired:	
Cash	\$ 287,448
Accounts receivable	2,590,139
Inventory	5,697,639
Prepays and deposits	362,918
Property and equipment	538,856
Intangible assets	9,094,635
	18,571,635
Liabilities assumed:	
Accounts payable and accrued liabilities	2,050,592
Loans	1,822,152
Deferred revenue	348,289
	4,221,033
Total purchase price consideration	\$ 14,350,602

On July 31, 2008, the Company acquired certain assets of DuPont Photonics Technologies LLC (“DuPont Photonics”), a wholly owned subsidiary of E.I. du Pont de Nemours and Company (“DuPont”) valued at \$4,613,145 in exchange for 3,248,694 common shares of Enablence valued at \$1.42. Concurrent with the closing of the transaction, DuPont completed a US\$5 million or \$5,110,500 investment in the

Company, in consideration of which Enablence issued 3,598,944 common shares valued at \$1.42.

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

Assets acquired:	
Cash	\$ 5,110,500
Inventory	1,258,000
Production equipment	1,239,000
Intangible assets	2,194,556
<u>Total purchase price consideration</u>	<u>\$ 9,802,056</u>

The value assigned to identifiable intangibles assets is attributable to existing customer relationships. The intangible assets will be amortized on a straight-line basis over a 5 year period from the date of acquisition.

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

RISKS AND UNCERTAINTIES

The Company operates in a dynamic, rapidly changing environment that involves risks and uncertainties and that 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. Any investor should consider carefully the risks and uncertainties that are detailed in our Annual Information Form filed on July 24, 2008, and available at: www/SEDAR.ca.

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, estimated useful lives of capital assets, patents and other intangible assets, purchase price allocations on acquisitions, valuation of shares issued on acquisitions and the valuation of stock based compensation.

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

issuance costs for broker warrants) over the vesting period with a credit to contributed surplus

ADDITIONAL INFORMATION

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