

Consolidated Financial Statements of

ENABLENCE TECHNOLOGIES INC.

*For the three and six months ended October 31, 2008 and 2007
(Unaudited)*

ENABLENCE TECHNOLOGIES INC.

Consolidated Balance Sheets

	<u>October 31, 2008</u>	<u>April 30, 2008</u>
	(Unaudited)	(Audited)
CURRENT ASSETS		
Cash and cash equivalents	\$32,154,958	\$ 36,158,934
Short-term investments	-	11,049,508
Accounts receivable (Note 5)	8,556,829	2,235,526
Investment tax credits receivable	200,000	200,000
Inventories	9,914,325	1,329,641
Prepaid expenses	1,051,778	868,672
Loan receivable	-	1,007,100
	<hr/>	<hr/>
	51,877,890	52,849,381
PROPERTY, PLANT & EQUIPMENT	13,912,816	10,472,953
OTHER ASSETS	135,525	210,440
INTANGIBLE ASSETS (Note 2)	34,965,454	24,146,114
GOODWILL (Note 2)	24,064,040	20,122,292
	<hr/>	<hr/>
	\$124,955,725	\$ 107,801,180
CURRENT LIABILITIES		
Operating line of credit	\$926,550	\$ 689,397
Accounts payable and accrued liabilities	10,232,437	2,245,576
Deferred revenue	551,413	-
Current portion of note payable	1,285,373	626,982
	<hr/>	<hr/>
	12,995,773	3,561,955
NOTE PAYABLE	3,116,662	3,134,910
FUTURE INCOME TAX LIABILITY	7,063,213	7,133,609
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	\$23,175,648	\$ 13,830,474
SHAREHOLDERS' EQUITY		
Share capital	123,338,015	109,574,784
Contributed surplus	7,350,087	6,623,190
Accumulated other comprehensive income (loss)	8,061,509	177,653
Deficit	(36,969,534)	(22,404,921)
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	101,780,077	93,970,706
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	\$ 124,955,725	\$ 107,801,180

See accompanying notes to the consolidated financial statements

APPROVED BY THE BOARD

"Steve Bower" Director

"Arvind Chhatbar" Director

ENABLENCE TECHNOLOGIES INC.

Consolidated Statements of Loss and Comprehensive Loss

	Three months ended October 31		Six months ended October 31	
	2008	2007	2008	2007
Revenue	\$ 8,764,957	\$ 145,071	16,398,556	\$ 445,777
Cost of sales	7,095,764	117,145	12,741,380	242,665
Gross profit	1,669,193	27,926	3,657,176	203,112
Operating expenses				
Research and development	3,457,977	1,009,270	7,102,337	2,083,060
General and administration	2,533,107	555,488	4,488,655	1,179,384
Sales and marketing	1,804,320	74,580	3,400,609	143,764
Stock-based compensation	508,613	599,216	849,235	1,385,736
Amortization of property, plant, equipment and intangible assets	2,433,408	363,368	4,459,035	732,030
	10,737,425	2,601,922	20,299,871	5,523,974
OPERATING LOSS	(9,068,232)	(2,573,996)	(16,642,695)	(5,320,862)
Interest income	252,894	226,878	561,861	405,920
Interest expense	(65,004)	-	(115,911)	-
Foreign exchange (loss) gain	572,377	(910)	536,940	(8,177)
Loss before income taxes	(8,307,965)	(2,348,028)	(15,659,805)	(4,923,119)
Recovery of income taxes	587,368	78,433	1,095,192	159,933
NET LOSS	(7,720,597)	(2,269,595)	(14,564,613)	(4,763,186)
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	6,965,649	(337,820)	7,883,856	(782,947)
OTHER COMPREHENSIVE INCOME (LOSS)	6,965,649	(337,820)	7,883,856	(782,947)
COMPREHENSIVE LOSS	\$ (754,948)	\$ (2,607,415)	\$ (6,680,757)	\$ (5,546,133)
Net loss per share				
Basic and diluted	\$ (0.04)	\$ (0.02)	\$ (0.08)	\$ (0.04)
Weighted average number of outstanding shares				
Basic and diluted	182,617,055	120,146,388	179,065,704	118,696,787

See accompanying notes to the consolidated financial statements

ENABLENCE TECHNOLOGIES INC.

Consolidated Statement of Shareholders' Equity

(Unaudited)

	Three months ended October 31		Six months ended October 31	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
SHARE CAPITAL (Note 6)	\$123,338,015	\$ 85,862,251	\$123,338,015	\$ 85,862,251
CONTRIBUTED SURPLUS				
Balance at beginning of period	6,841,474	5,740,825	6,623,190	4,200,646
Stock-based compensation	508,613	599,216	849,235	1,385,735
Stock options exercised	-	(218,016)	-	(218,016)
Warrants issued for services	-	-	-	753,660
Warrants exercised	-	(131,821)	(122,338)	(131,821)
	7,350,087	5,990,204	7,350,087	5,990,204
DEFICIT				
Balance at beginning of period	(29,248,937)	(13,551,138)	(22,404,921)	(11,057,547)
Net loss	(7,720,597)	(2,269,595)	(14,564,613)	(4,763,186)
	(36,969,534)	(15,820,733)	(36,969,534)	(15,820,733)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)				
Balance at beginning of period	1,095,860	(745,480)	177,653	\$ (300,353)
Adjustment on translation of financial statements of self-sustaining foreign operations	6,965,649	(337,820)	7,883,856	(782,947)
	8,061,509	(1,083,300)	8,061,509	(1,083,300)
TOTAL SHAREHOLDERS' EQUITY	\$ 101,780,077	\$ 74,948,422	\$101,780,077	\$ 74,948,422

See accompanying notes to the consolidated financial statements

ENABLENCE TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

	Three months ended October 31,		Six months ended October 31	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Cash provided by (used in) operations				
Net loss	\$ (7,720,597)	\$ (2,269,595)	\$(14,564,613)	\$(4,763,186)
Items not affecting cash:				
Amortization of property, plant and equipment and Intangible assets	2,923,655	423,288	5,390,776	853,154
Stock-based compensation	508,613	599,216	849,235	1,385,736
Future income taxes	(588,967)	(78,433)	(1,098,407)	(159,933)
Changes in non-cash operating working capital items				
Amounts receivable	(1,353,700)	(104,176)	(2,652,715)	(266,457)
Investment tax credits receivable	-	(50,000)	-	71,283
Inventories	(1,047,244)	43,432	(115,803)	(71,950)
Prepaid expenses	324,749	96,603	395,287	(28,153)
Operating line of credit	(110,997)	-	476,262	-
Accounts payable and accrued liabilities	2,900,519	(93,506)	2,482,434	16,037
Deferred revenues	89,656	-	100,121	-
Cash used in operating activities	(4,074,313)	(1,433,171)	(8,737,423)	(2,963,469)
Cash flows from (used in) investing activities:				
Redemption (purchase) of short term investments	11,049,508	(15,936,520)	11,049,508	(15,936,520)
Purchase of property, plant and equipment and other assets	(1,158,403)	(171,861)	(1,873,279)	(224,150)
Loan to Wave7 Optics, Inc.	-	-	1,007,100	-
Acquisitions (Note 8)	(55,332)	-	(10,649,647)	-
Cash used in investing activities	9,835,773	(16,108,381)	(466,318)	(16,160,670)
Cash flows from financing activities:				
Payment of term loans	(96,772)	-	(96,772)	-
Net proceeds from issuance of common shares, warrants and options, net of costs	-	54,377,433	5,480,500	54,377,433
Cash (used in) provided by financing activities	(96,772)	54,377,433	5,383,728	54,377,433
Effect of foreign currency translation on cash	(155,874)	5,491	(183,963)	(13,554)
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,508,814	36,841,372	(4,003,976)	35,239,740
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	26,646,144	14,748,966	36,158,934	16,350,598
CASH AND CASH EQUIVALENTS, END OF PERIOD	32,154,958	\$ 51,590,338	\$32,154,958	\$51,590,338
Non-cash financing activities				
Issuance of common shares for acquisitions (Note 8)	8,160,395	-	8,160,395	-
Supplementary information:				
Interest received	\$ 491,809	\$ 169,700	\$ 634,159	\$ 247,500
Interest paid	\$ 65,004	-	\$ 115,911	-
Taxes paid	\$ 73,375	-	\$ 170,375	-
Cash	4,130,444	1,237,558	4,130,444	1,237,558
Cash equivalents	28,024,154	50,352,780	28,024,154	50,352,780
Total cash and cash equivalents	\$ 32,154,958	\$ 51,590,338	\$ 32,154,958	\$51,590,338

See accompanying notes to the consolidated financial statements

ENABLENCE TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements

Three months and six months ended October 31, 2008 and 2007
(Unaudited)

1. DESCRIPTION OF BUSINESS

Enablence Technologies Inc. (“the Company”) designs manufactures and sells optical components, subsystems and systems to a global customer base. 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. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles in Canada (“GAAP”) for the preparation of interim financial statements. These consolidated financial statements do not include all of the information and notes required by GAAP for annual financial statements. These interim financial statements are based upon accounting principles consistent with those used in the annual consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the financial statements and notes thereto for the year ended April 30, 2008.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Principles of consolidation

The consolidated financial statements include the accounts of Enablence Technologies Inc., and its wholly owned subsidiaries comprised of the FTTx Networks division which includes Enablence USA FTTx Networks, Inc. (“FTTx Networks”) and the Optical Components and Subsystems division which includes Enablence Switzerland AG (“Switzerland”), Enablence USA Components Inc. (“Components”), Enablence Technologies USA Inc. (“Wilmington”) and Enablence Canada Inc. Enablence Holdings LLC which was dissolved on May 8, 2007 is also included in the consolidated statements for the year ended April 30, 2008.

ENABLENCE TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
Three months and six months ended October 31, 2008 and 2007
(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of 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 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 include 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

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.

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.

ENABLENCE TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
Three months and six months ended October 31, 2008 and 2007
(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment tax credits

Investment tax credits are recorded as a reduction of the related research and development expense or as a reduction of the cost of the related capital asset. The benefits are recognized when the Company has complied with the terms and conditions of applicable tax legislation provided there is 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 and tooling	3 years straight-line
Office furniture and equipment	3 years straight-line and 7-10 years diminishing balance
Manufacturing and test equipment	5 years straight-line
Software	2 years straight-line and 3 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 names, are recorded at fair value, estimated by management based on the expected discounted future cash flows associated with the acquired intangible assets. 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. 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.

Impairment of long-lived assets

Long-lived assets are evaluated 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 the current year.

ENABLENCE TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
Three months and six months ended October 31, 2008 and 2007
(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued).

Research and development costs

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

Stock-based compensation

Stock options are measured and recognized using a fair value based method.

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 earnings for the period.

Enablence Holdings LLC, was 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 the end of the period and the resulting gains or losses are recorded in earnings. Enablence Holdings LLC was dissolved and a certificate of cancellation was issued on May 8, 2007.

All other subsidiaries 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.

Financial instruments

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*.

ENABLENCE TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
Three months and six months ended October 31, 2008 and 2007
(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company classifies 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.

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.

ENABLENCE TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
Three months and six months ended October 31, 2008 and 2007
(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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. A statement of comprehensive loss has been included in the financial statements.

ENABLENCE TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
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(Unaudited)

3. 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 earnings or other comprehensive income. The new disclosures pursuant to these Sections are included in Note 9.

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. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

4. FUTURE ACCOUNTING CHANGES

International Financial Reporting Standards

The Canadian Accounting Standards Board has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit oriented enterprises that are responsible to large or diverse groups of stakeholders. The official change-over date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company is currently evaluating the impact of adopting IFRS.

ENABLENCE TECHNOLOGIES INC.
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4. FUTURE ACCOUNTING CHANGES (Continued)

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.

5. ACCOUNTS RECEIVABLE

	October 31, 2008	April 30, 2008
Trade	\$ 8,443,699	\$ 1,895,137
Other	84,603	233,416
Accrued	28,527	106,973
	<u>\$ 8,556,829</u>	<u>\$ 2,235,526</u>

ENABLENCE TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
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6. SHARE CAPITAL

Authorized

Unlimited number of common shares

<u>Issued and outstanding</u>	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		(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.	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. (Note 8)	2,078,385	3,547,250
Issued for acquisition of Dupont Photonics (Note 8)	6,847,638	9,723,645
July 31, 2008	182,617,055	\$123,338,015
October 31, 2008	182,617,055	\$123,338,015

Warrants

Each warrant entitles the holder to purchase one common share of the Company. A summary of the warrants outstanding and the changes during the periods is presented below:

ENABLENCE TECHNOLOGIES INC.
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(Unaudited)

6. SHARE CAPITAL (Continued)

	Three months ended October 31,		2007	
	2008			
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of period	2,579,570	\$0.94	4,039,858	\$ 0.47
Issued	-	-	1,277,779	\$ 1.35
Exercised	-	-	(175,000)	\$ 0.60
Outstanding, end of period	2,579,570	\$ 0.94	5,142,637	\$ 0.68
Exercisable, end of period	2,579,570	\$ 0.94	5,142,637	\$ 0.68

	Six months ended October 31,		2007	
	2008			
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of period	3,579,570	\$0.79	4,039,858	\$ 0.47
Issued	-	-	1,277,779	\$ 1.35
Exercised	(1,000,000)	\$0.37	(175,000)	\$ 0.60
Outstanding, end of period	2,579,570	\$ 0.94	5,142,637	\$ 0.68
Exercisable, end of period	2,579,570	\$ 0.94	5,142,637	\$ 0.68

The following table summarizes information for warrants outstanding:

	Expiry	October 31, 2008	October 31, 2007
\$ 0.37	May 24, 2008	-	2,289,858
\$ 0.60	March 1, 2009	1,400,000	1,575,000
\$ 1.35	April 25, 2009	1,179,570	1,277,779
		2,579,570	5,142,637

ENABLENCE TECHNOLOGIES INC.
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6. 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 vested in four equal portions during the first year and expire on the earlier of the 10th anniversary of the grant date or termination of employment. Options granted after September 7, 2007 and before March 18, 2008 generally vested in four equal portions during the first eighteen months and expire on the earlier of the 10th anniversary of the grant date or termination of employment. Options granted on or after March 18, 2008 generally vest in four equal annual 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:

	Three months ended October 31,		2007	
	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	12,880,000	\$0.92	12,308,000	\$ 0.56
Granted	4,347,000	\$1.15	-	-
Exercised	-	-	(1,458,000)	\$ 0.37
Outstanding, end of period	17,227,000	\$ 0.98	10,850,000	\$ 0.59
Exercisable, end of period	10,767,500	\$ 0.67	8,250,000	\$ 0.53

	Six months ended October 31,		2007	
	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of Period	12,580,000	\$0.91	12,208,000	\$ 0.56
Granted	4,647,000	\$1.18	100,000	\$ 1.37
Exercised	-	-	(1,458,000)	\$ 0.37
Outstanding, end of period	17,227,000	\$ 0.98	10,850,000	\$ 0.59
Exercisable, end of period	10,767,500	\$ 0.67	8,250,000	\$ 0.53

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6. SHARE CAPITAL (Continued)

The following table summarizes the options outstanding and exercisable as at October 31, 2008:

Options Outstanding			Options Exercisable	
Exercise Price (\$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Exercise Price (\$)
\$ 0.37	4,010,000	7.73	4,010,000	\$ 0.37
0.50	2,640,000	8.13	2,640,000	0.50
0.80	2,955,000	8.35	2,955,000	0.80
1.37	675,000	8.42	675,000	1.37
2.30	1,950,000	9.27	487,500	2.30
2.39	350,000	9.38	-	2.39
1.45	100,000	9.52	-	1.45
1.59	200,000	9.67	-	1.59
1.15	4,347,000	9.76	-	1.15
\$ 0.98	17,227,000	8.68	10,767,500	\$ 0.67

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:

	Oct. 31, 2008	July 31, 2008	April 30, 2008	Jan. 31, 2008	Oct. 31, 2007	July 31, 2007	April 30, 2007	Jan. 31, 2007
Risk-free interest Rate	2.89%	3.19%	3.07%	4.04%	4.00%	4.66%	3.98%	3.95%
Expected life of Options(years)	4	4	4	3	3	3	3	3
Expected annualized volatility	77%	75%	77%	75%	75%	80%	80%	50%
Expected dividend Yield	-%	-%	-%	-%	-%	-%	-%	-%

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6. SHARE CAPITAL (Continued)

Stock option plan (Continued)

During the three-month period ended October 31, 2008 stock-based compensation expense was \$508,613 (2007 - \$599,216). During the six-month period ended October 31, 2008, stock-based compensation expense was \$849,235 (2007-\$1,385,736). Stock-based compensation is recorded as an increase to contributed surplus.

7. 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 three-month and six-month periods ended October 31, 2008 and October 31, 2007.

8. ACQUISITIONS

Wave7 Optics, Inc. (“Wave7”)

On May 5, 2008, the Company acquired all of the outstanding shares of Wave7 for consideration of \$10,568,290 (US\$10,500,000) in cash, 2,078,385 common shares valued at \$1.71 per share or \$3,547,250 plus \$264,905 of transaction costs. Wave7 is a global provider of Fiber to the Premises (“FTTP”) systems that deliver voice, video, and data services.

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 \$14,380,445 was allocated based on the fair value of the net identifiable assets acquired. This allocation resulted in an excess of 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.

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8. ACQUISITIONS (Continued)

Purchase Price

Investment of cash	\$ 10,568,290
Issuance of 2,078,385 Enablence shares	3,547,250
Transaction costs	<u>264,905</u>
	<u>\$ 14,380,445</u>

The following table summarizes the net assets acquired 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	540,516
Intangible assets	9,122,818
	<u>18,601,478</u>

Liabilities assumed:	
Accounts payable and accrued liabilities	2,050,592
Loans	1,822,152
Deferred revenue	348,289
	<u>4,221,033</u>

Total purchase price consideration	<u>\$ 14,380,445</u>
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The preliminary value assigned to identifiable intangible assets is attributable to existing customer relationships. The intangible assets are amortized on a straight-line basis over a 5 year period from the date of acquisition.

DuPont Photonics Technologies LLC (“DuPont Photonics”)

On July 31, 2008, the Company acquired certain assets of 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 per share. Concurrent with the closing of the transaction, DuPont completed a \$5,110,500 (US\$5,000,000) investment in the Company, in consideration of which Enablence issued 3,598,944 common shares, valued at \$1.42 per share.

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8. ACQUISITIONS (Continued)

<u>Purchase Price</u>	
Issuance of 3,598,944 Enablence shares for cash	\$ 5,110,500
Issuance of 3,248,694 Enablence shares for assets	4,613,145
Transaction costs	<u>103,902</u>
	<u>\$ 9,827,547</u>

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	<u>2,220,047</u>
	<u>\$ 9,827,547</u>

The preliminary value assigned to identifiable intangible assets is attributable to existing customer relationships and intellectual property. 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.

9. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities

Financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity, available-for-sale, loans and receivables and other financial liabilities. The following table summarizes information regarding the carrying values of the Company's financial instruments

	<u>October 31, 2008</u>	<u>April 30, 2008</u>
Held-for-trading (1)	\$ 32,154,958	\$ 47,208,442
Loans and receivables (2)	\$ 8,802,912	\$ 3,442,626
Other financial liabilities (3)	\$ 11,080,066	\$ 2,934,373

(1) Includes cash and cash equivalents and short-term investments

(2) Includes accounts, loan and investment tax credits receivable

(3) Includes accounts payable and accrued liabilities but not note payable included in liquidity risk

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9. FINANCIAL INSTRUMENTS (Continued)

Fair value

Cash and cash equivalents and short-term investments are measured at fair value with changes in fair value recorded in net income. All other financial assets and liabilities are measured at amortized cost. Due to the short-term nature of these financial assets and liabilities, their fair value approximates amortized cost.

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. As at October 31, 2008, one customer accounted for 31% of the trade accounts receivable balance.

The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its trade receivables in order to mitigate any possible credit losses.

The allowance for doubtful accounts provision and past due receivables are reviewed by management at each balance sheet reporting date. The Company updates its estimate of the allowance for doubtful accounts based on an examination of the aged accounts receivable listing, considering such factors as customer payment history and the current financial condition of the customers. Accounts receivable are written off once determined not to be collectable.

The ageing of trade accounts receivable (net of an allowance of \$199,286) is summarized as follows:

	October 31, 2008
Current	\$6,999,826
61 to 90 days	419,086
91 days and over	1,024,787
Total trade accounts receivable	\$8,443,699

Of the \$1,024,787 of accounts receivable outstanding for 91 days or more at October 31, 2008, \$404,054 has since been collected. The Company agreed to extended payment terms with one customer. All amounts due under these extended payment terms have been received within the terms of this agreement.

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9. FINANCIAL INSTRUMENTS (Continued)

Interest rate risk

The Company has some interest rate risk as its U.S. dollar denominated long-term debt has a variable interest rate based on the Wall Street Journal prime rate. The Company does not use derivative instruments to reduce its exposure to interest rate risk as the risk is considered manageable.

Foreign 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 U.S. dollars, Euros, Swiss francs and Japanese yen. However, the majority of the transactions are in U.S. dollars so that the major exposure is from fluctuations in the value of the Canadian dollar relative to the U.S. dollar. To date the Company has not used foreign currency forward contracts or other hedging strategies to manage its foreign currency exposure.

A 10% strengthening of the following currencies against the Canadian dollar would have increased losses from operations by the amounts shown below:

	October 31, 2008
USD	\$955,500
Swiss francs (CHF)	48,800

Liquidity Risk

Liquidity risk is the risk that Company will not be able to meet its financial obligations as they come due. The Company currently settles all of its financial obligations out of cash and cash equivalents. The ability to do so relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs.

At October 31, 2008, the Company has one long-term financial liability, payment of which is due as follows including interest:

	Remainder of fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Total
Note payable	\$ 868,254	1,417,741	1,417,741	1,299,596	\$5,003,332

Management monitors cash flow, in detail, on a regular basis. Based on the financial liabilities due and noted above, the Company expects to have sufficient cash and cash equivalents exceeding the amounts due.

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10. CAPITAL DISCLOSURES

The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business through organic growth and selective acquisitions.

Management defines capital as the Company's total shareholders' equity and long term debt. In order to maintain or adjust its capital structure, the Company could issue new shares, purchase shares for cancellation pursuant to normal course issuer bids or raise debt. To date, no dividends have been paid to the Company's shareholders and none are planned.

There were no changes in the Company's approach to capital management during the period. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

11. SEGMENTED INFORMATION

The Company has two reportable segments: FTTx Networks and Optical Components and Subsystems.

The Company's reportable segments are strategic business units comprised of different products and services. The Company uses these segments as a primary basis of internal reporting, planning, performance analysis and decision making. The products and services of each reportable segment require different technology and marketing strategies. Revenue and gross profit by reportable segment is presented in the following table:

	Three months ended October 31				Six months ended October 31			
	2008		2007		2008		2007	
	Revenue	Gross Profit	Revenue	Gross Profit	Revenue	Gross Profit	Revenue	Gross Profit
	(000's)		(000's)		(000's)		(000's)	
Segment:								
FTTx Networks	\$4,908	\$1,364	\$ -	\$ -	\$ 9,863	\$ 2,731	\$ -	\$ -
Optical Components and Subsystems	3,857	305	145	28	6,716	\$ 926	\$ 446	\$ 203
	\$ 8,765	\$ 1,669	\$ 145	\$ 28	\$ 16,399	\$ 3,657	\$ 446	\$ 203

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11. SEGMENTED INFORMATION (Continued)

Property and equipment, intangible assets and goodwill by reportable segment is presented in the following table:

	October 31, 2008	April 30, 2008
Segment:		
FTTx Networks	\$ 10,494,979	\$ -
Optical Components and Subsystems	62,582,857	51,951,799
	\$ 73,077,836	\$ 54,951,799

Revenue and certain assets are segregated geographically as follows:

Revenue by geographic area:

	For the three months ended		For the six months ended	
	October 31, 2008	October 31, 2007	October 31, 2008	October 31, 2007
The Americas	\$ 5,109,815	\$ 59,479	\$ 9,441,318	\$ 182,769
Asia Pacific	1,611,914	37,718	3,168,556	115,902
Europe	2,043,228	47,874	3,788,682	147,106
	\$ 8,764,957	\$ 145,071	\$ 16,398,556	\$ 445,777

Revenues are attributed to geographical location based on customer.

Property and equipment, intangible assets and goodwill by geographic area:

	October 31, 2008	April 30, 2008
North America	\$ 66,250,042	\$ 47,466,468
Asia Pacific	-	-
Europe	6,827,794	7,485,331
	\$ 73,077,836	\$ 54,951,799

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12. SUBSEQUENT EVENTS

On November 19, 2008, the Company completed the acquisition of Pannaway Technologies Incorporated ("Pannaway"). The operations of Pannaway have been merged with the Company's FTTX Networks Division.

As consideration for the acquisition, the Company issued an aggregate of 20,250,000 common shares of Enablence, of which 3,000,000 shares will be held in escrow, and US\$200,000 to Pannaway shareholders and 5,500,000 common shares of Enablence to a Pannaway debt holder in respect to the cancellation of certain Pannaway debt. Enablence will also issue 10-year convertible notes (the "Notes") in the aggregate of US\$3,000,000 bearing interest at 5% per annum to four debtholders. The Notes are convertible, at the option of the holder, from the third anniversary until the fifth anniversary or in the event of a default, at a conversion price equal to the greater of (i) the closing market price on the last trading day prior to the date of the conversion notice, and (ii) the conversion price of US\$0.317 (CAD\$0.365) in the first two years, US\$0.349 (CAD\$0.402) in the third year, US\$0.384 (CAD\$0.442) in the fourth year and US\$0.422 (CAD\$0.486) in the fifth year. The maximum number of shares that can be issued pursuant to the Notes is 9,463,722 shares.

13. COMPARATIVE FIGURES

General and administration and sales and marketing comparative figures have been reclassified to conform to the current presentation.