

Consolidated Financial Statements of

ENABLENCE TECHNOLOGIES INC.

*For the three and nine months ended January 31, 2009 and 2008
(Unaudited)*

The attached consolidated financial statements have been prepared by the management of Enablence Technologies In. and have not been reviewed by an external auditor at the date of filing.

ENABLENCE TECHNOLOGIES INC.

Consolidated Balance Sheets

(Unaudited)

	January 31, 2009	April 30, 2008
CURRENT ASSETS		
Cash and cash equivalents	\$18,596,532	\$ 36,158,934
Restricted cash (Note 5)	113,339	-
Short-term investments	-	11,049,508
Accounts receivable (Note 6)	14,175,953	2,235,526
Investment tax credits receivable	200,000	200,000
Inventories	21,042,127	1,329,641
Prepaid expenses	1,381,518	868,672
Loan receivable	-	1,007,100
	55,509,469	52,849,381
PROPERTY, PLANT & EQUIPMENT	14,409,351	10,472,953
OTHER ASSETS	160,695	210,440
INTANGIBLE ASSETS	30,942,260	24,146,114
GOODWILL	7,003,566	20,122,292
	\$ 108,025,341	\$ 107,801,180
CURRENT LIABILITIES		
Operating line of credit	\$ 943,473	\$ 689,397
Accounts payable and accrued liabilities	16,371,029	2,245,576
Deferred revenue	11,413,862	-
Current portion of note payable	1,308,851	626,982
	30,037,215	3,561,955
NOTE PAYABLE	2,867,844	3,134,910
CONVERTIBLE NOTE (Note 7)	3,679,500	-
FUTURE INCOME TAX LIABILITY	7,808,144	7,133,609
	44,392,703	13,830,474
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	131,063,015	109,574,784
Contributed surplus	7,882,530	6,623,190
Accumulated other comprehensive income	11,106,240	177,653
Deficit	(86,419,147)	(22,404,921)
	63,632,638	93,970,706
	\$ 108,025,341	\$ 107,801,180

See the 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
(unaudited)

	<u>Three months ended January 31</u>		<u>Nine months ended January 31</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Revenue	\$ 14,790,174	\$ 261,409	\$ 31,188,730	\$ 707,186
Cost of sales	10,243,646	90,850	22,985,026	333,515
Gross profit	4,546,528	170,559	8,203,704	373,671
Operating expenses				
Research and development	4,743,312	1,457,371	11,845,650	3,540,432
Sales and marketing	2,892,793	72,986	6,293,402	216,750
General and administration	2,438,528	1,221,095	6,930,199	2,400,478
Stock-based compensation	532,443	538,814	1,381,678	1,924,549
Amortization of property, plant, equipment and intangible assets	3,853,506	396,784	8,312,541	1,128,814
Restructuring charges (Note 11)	473,916	-	473,916	-
	14,934,498	3,687,050	35,237,386	9,211,023
OPERATING LOSS	(10,387,970)	(3,516,491)	(27,033,682)	(8,837,352)
Other income(expense)				
Interest income	132,538	804,223	694,400	1,210,143
Interest expense	(92,287)	-	(208,197)	-
Impairment of intangible assets (Note 12)	(30,200,000)	-	(30,200,000)	-
Impairment of goodwill (Note 13)	(17,500,000)	-	(17,500,000)	-
Foreign exchange gain(loss)	187,727	(23,183)	724,667	(31,360)
Loss before income taxes	(57,859,992)	(2,735,451)	(73,522,812)	(7,658,569)
Recovery of future income taxes	8,410,379	93,841	9,508,586	253,774
NET LOSS	(49,449,613)	(2,641,610)	(64,014,226)	(7,404,795)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD				
Unrealized gain (loss) on translating financial statements of self-sustaining foreign operations	3,044,731	751,766	10,928,587	(31,181)
OTHER COMPREHENSIVE INCOME (LOSS)	3,044,731	751,766	10,928,587	(31,181)
TOTAL COMPREHENSIVE LOSS	\$ (46,404,882)	\$ (1,889,844)	\$ (53,085,639)	\$ (7,435,976)
Net loss per share				
Basic and diluted	\$ (0.24)	\$ (0.02)	\$ (0.34)	\$ (0.06)
Weighted average number of outstanding shares				
Basic and diluted	203,329,012	161,553,851	187,153,473	132,982,475

See accompanying notes to the consolidated financial statements

ENABLENCE TECHNOLOGIES INC.

Consolidated Statement of Shareholders' Equity

(Unaudited)

	Three months ended January 31		Nine months ended January 31	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
SHARE CAPITAL (Note 8)	\$ 131,063,015	\$86,780,131	\$131,063,015	\$86,780,131
CONTRIBUTED SURPLUS				
Balance at beginning of period	7,350,087	5,990,204	6,623,190	4,200,646
Stock-based compensation	532,443	538,814	1,381,678	1,924,549
Stock options exercised	-	(2,809)	-	(220,825)
Warrants issued	-	-	-	753,660
Warrants exercised	-	(277,708)	(122,338)	(409,529)
	7,882,530	6,248,501	7,882,530	6,248,501
DEFICIT				
Balance at beginning of period	(36,969,534)	(15,820,732)	(22,404,921)	(11,057,547)
Net loss	(49,449,613)	(2,641,610)	(64,014,226)	(7,404,795)
	(86,419,147)	(18,462,342)	(86,419,147)	(18,462,342)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)				
Balance at beginning of period	8,061,509	(1,083,300)	177,653	(300,353)
Unrealized gain(loss) on translation of financial statements of self-sustaining foreign operations	3,044,731	751,766	10,928,587	(31,181)
	11,106,240	(331,534)	11,106,240	(331,534)
TOTAL SHAREHOLDERS' EQUITY	\$63,632,638	\$74,234,756	\$63,632,638	\$74,234,756

See the accompanying notes to the consolidated financial statements

ENABLENCE TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

	Three months ended January 31,		Nine months ended January 31	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Operating activities				
Net loss	\$ (49,449,613)	\$ (2,641,610)	\$ (64,014,226)	\$ (7,404,795)
Items not affecting cash:				
Amortization of property, plant and equipment and intangible assets	4,457,768	458,714	9,848,545	1,311,868
Stock-based compensation	532,443	538,814	1,381,678	1,924,549
Future income tax recovery	(8,410,379)	(93,841)	(9,508,786)	(253,774)
Impairment of intangible assets	30,200,000	-	30,200,000	-
Impairment of goodwill	17,500,000	-	17,500,000	-
Changes in non-cash operating working capital items				
Amounts receivable	(2,198,710)	(293,579)	(4,851,425)	(564,228)
Investment tax credits receivable	-	100,000	-	171,283
Inventories	214,984	(40,697)	99,180	(121,830)
Prepaid expenses	(209,615)	(149,097)	185,672	(445,298)
Accounts payable and accrued liabilities	(4,272,886)	136,590	(1,790,452)	437,398
Deferred revenue	(732,016)	-	(631,895)	-
	(12,368,024)	(1,984,706)	(21,581,709)	(4,944,827)
Investing activities				
Redemption (purchase) of short-term investments	-	-	11,049,508	(15,936,520)
Increase in restricted cash balance	(25,000)	-	(25,000)	-
Purchase of property, plant and equipment and other assets	(403,564)	(385,617)	(2,276,843)	(609,766)
Loan to Wave7 Optics, Inc.	-	-	1,007,100	-
Acquisitions (Note 10)	(460,848)	-	(11,110,495)	-
	(889,412)	(385,617)	(1,355,730)	(16,546,286)
Financing activities				
Operating line of credit	(157,945)	-	318,317	-
Payment of note payable	(307,511)	-	(404,283)	-
Net proceeds from issuance of common shares, warrants and options, net of costs	-	637,362	5,480,500	55,014,796
	(465,456)	637,362	5,394,534	55,014,796
Effect of foreign currency translation on cash	164,467	30,887	(19,497)	14,190
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(13,558,425)	(1,702,074)	(17,562,402)	33,537,873
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	32,154,957	51,590,545	36,158,934	16,350,598
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 18,596,532	\$ 49,888,471	\$ 18,596,532	\$49,888,471
Comprised of				
Cash	\$ 2,346,432	\$ 722,049	\$ 2,346,432	\$ 722,049
Cash equivalents	16,250,100	49,166,422	16,250,100	49,166,422
	\$ 18,596,532	\$ 49,888,471	\$ 18,596,532	\$49,888,471
Non-cash financing activities				
Issuance of common shares for acquisitions (Note 10)	15,885,395	-	7,725,000	-
Supplementary information:				
Cash interest received	\$ 102,932	\$ 298,025	\$ 737,091	\$ 545,525
Cash interest paid	87,894	-	203,805	-
Cash taxes paid	-	-	170,375	-

ENABLENCE TECHNOLOGIES INC.

Notes to the Consolidated Financial Statements

Three months and nine months ended January 31, 2009 and 2008
(Unaudited)

1. DESCRIPTION OF BUSINESS

Enablence Technologies Inc. (the "Company") designs, manufactures and sells optical components, subsystems and systems to a global customer base. The Company (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 with the exception of new accounting principles described in Note 3. 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.

Principles of consolidation

The consolidated financial statements include the accounts of Enablence Technologies Inc., and its wholly owned subsidiaries comprised of the Systems division which includes Enablence USA FTTx Networks, Inc. ("FTTx Networks") and Enablence Systems Inc. ("Systems") 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.

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, valuation of intangible assets and goodwill.

ENABLENCE TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
Three months and nine months ended January 31, 2009 and 2008
(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

The Company records revenue when persuasive evidence of sales arrangements exist, delivery has occurred or services have been rendered, the buyer's price is fixed or determinable and collection is reasonably assured.

The Company enters into transactions that represent multiple-element arrangements, which may include training and post-sales technical support and maintenance to our customers as needed to assist them in installation or use of our products. and make provisions for these costs in the periods of sale. Multiple-element arrangements are assessed to determine whether they can be separated into more than one unit of accounting. Revenues and costs from multiple-element arrangement are separated into more than one unit of accounting if all of the following criteria are met:

- the delivered item(s) has value to the customer on a stand-alone basis;
- there is objective and reliable evidence of the fair value of the undelivered item(s); and
- the arrangement includes a general right of return relative to the delivered item(s) and delivery or performance of the undelivered item(s) is considered probable and substantially in our control.

If these criteria are not met, then revenue is deferred until such criteria are met or until the period(s) over which the last element is delivered. If there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting based on each unit's relative fair value.

Inventories

Effective May 1, 2008, the Company implemented the new CICA Handbook Section 3031, "Inventories", which is effective for fiscal years beginning on or after January 1, 2008. This new standard provides guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. It provides further guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value and circumstances for their subsequent reversal. It also provides more restrictive guidance on the cost methodologies that are used to assign costs to inventories and describes additional disclosure requirements. The adoption of this standard has had no impact on the Corporation's consolidated financial statements.

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:

ENABLENCE TECHNOLOGIES INC.
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Three months and nine months ended January 31, 2009 and 2008
(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued).

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	- Lesser of 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 three to 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.

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.

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 or if factors indicative of impairment are present.

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 TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
Three months and nine months ended January 31, 2009 and 2008
(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued).

Enablence Holdings LLC, was considered to be an integrated foreign operation and as a result the financial statements of this subsidiary were 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

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.

ENABLENCE TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, note payable and convertible note 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.

ENABLENCE TECHNOLOGIES INC.
Notes to the Consolidated Financial Statements
Three months and nine months ended January 31, 2009 and 2008
(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

3. CHANGES IN ACCOUNTING POLICIES

Inventories

Effective May 1, 2008, the Company adopted CICA Handbook Section 3031, *Inventories*. This section provides 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 14.

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

ENABLENCE TECHNOLOGIES INC.
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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.

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 on or after 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. RESTRICTED CASH

The Company has deposited \$88,339 (US\$72,025) (2007-nil) as collateral for performance bonds. In addition, \$25,000 is held as cash collateral against corporate credit cards.

6. ACCOUNTS RECEIVABLE

	January 31, 2009	April 30, 2008
Trade	\$14,080,319	\$ 1,895,137
Other	71,524	233,416
Accrued	24,110	106,973
	<u>\$ 14,175,953</u>	<u>\$ 2,235,526</u>

ENABLENCE TECHNOLOGIES INC.
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7. CONVERTIBLE NOTE

On November 19, 2008, Enablence acquired Pannaway Technologies Inc. As partial consideration for the acquisition, Enablence issued 10-year convertible notes (the "Notes") with a principal value of US\$3,000,000 bearing interest at 5% per annum. For the first 36 months, monthly payments of interest will be made. Thereafter, equal monthly payments of outstanding principal and interest will be made until the maturity date of November 19, 2018. 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 \$0.365 (US\$0.317) in the first two years, \$0.402 (US\$0.349) in the third year, \$0.442 (US\$0.384) in the fourth year and \$0.486 (US\$0.422) in the fifth year. The maximum number of shares that can be issued pursuant to the Notes is 9,463,722 shares.

8. 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 10)	2,078,385	3,547,250
Issued for acquisition of assets from DuPont Photonics (Note 10)	6,847,638	9,723,645
July 31, 2008 and October 31, 2008	182,617,055	\$123,338,015
Issued for acquisition of Pannaway Technologies Inc. (Note 10)	25,750,000	7,725,000
January 31, 2009	208,367,055	\$131,063,015

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8. SHARE CAPITAL (Continued)

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:

	Nine months ended January 31,			
	2009	Weighted average exercise price	2008	Weighted average exercise price
	Number of warrants		Number of warrants	
Outstanding, beginning of period	3,579,570	\$0.78	4,039,858	\$ 0.47
Issued	-	-	1,277,779	\$ 1.35
Exercised	(1,000,000)	\$0.37	(1,735,692)	\$ 0.47
Outstanding, and exercisable end of period	2,579,570	\$ 0.94	3,581,945	\$ 0.78

The following table summarizes information for warrants outstanding:

	Expiry	January 31, 2009	January 31, 2008
\$ 0.37	May 24, 2008	-	1,000,000
\$ 0.60	March 1, 2009	1,400,000	1,400,000
\$ 1.35	April 25, 2009	1,179,570	1,181,945
		2,579,570	3,581,945

Stock option plan

The Company has established a stock option plan available for directors, officers, employees, and consultants and authorized 23,400,000 common shares for issuance there under. 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 90 days after 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 and expire on the 10th anniversary of the grant or 90 days after termination of employment. No options have been granted to non-executive investors.

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8. SHARE CAPITAL (Continued)

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

	Nine months ended January 31,		2008	
	2009	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	6,147,000	\$ 0.96	250,000	\$ 1.54
Forfeited	(309,000)	\$ 2.12	(112,500)	\$ 1.65
Exercised	-	-	(1,473,000)	\$ 0.37
Outstanding, end of period	18,418,000	\$ 0.91	10,872,500	\$ 0.59
Exercisable, end of period	10,717,500	\$ 0.66	9,922,500	\$ 0.56

The following table summarizes the options outstanding and exercisable as at January 31, 2009:

Options Outstanding			Options Exercisable	
Exercise Price (\$)	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Exercise Price (\$)
\$ 0.30	1,500,000	9.88	-	\$ 0.30
0.37	4,010,000	7.48	4,010,000	0.37
0.50	2,640,000	7.88	2,640,000	0.50
0.80	2,955,000	8.10	2,955,000	0.80
1.15	4,293,000	9.51	-	1.15
1.37	675,000	8.17	675,000	1.37
1.45	100,000	9.27	-	1.45
1.59	200,000	9.42	-	1.59
2.30	1,750,000	9.02	437,500	2.30
2.39	295,000	9.13	-	2.39
\$ 0.91	18,418,000	7.73	10,717,500	\$ 0.66

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:

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8. SHARE CAPITAL (Continued)

	Jan. 31, 2009	Oct. 31, 2008	July 31, 2008	April 30, 2008	Jan. 31, 2008	Oct. 31, 2007	July 31, 2007	April 30, 2007
Risk-free interest Rate	1.17%	2.89%	3.19%	3.07%	4.04%	4.00%	4.66%	3.98%
Expected life of Options(years)	4	4	4	4	3	3	3	3
Expected annualized volatility	77%	77%	75%	77%	75%	75%	80%	80%
Expected dividend Yield	nil	nil	nil	nil	nil	nil	nil	Nil

During the three-month period ended January 31, 2009 stock-based compensation expense was \$532,443 (2008 - \$538,814). During the nine-month period ended January 31, 2009, stock-based compensation expense was \$1,381,678 (2008 - \$1,924,549). Stock-based compensation is recorded as an increase to contributed surplus. During the nine-month period ended January 31, 2009, grant date fair value of options issued was \$3,443,245 (2008 -\$109,680)

9. 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 nine-month periods ended January 31, 2009 and January 31, 2008.

10. ACQUISITIONS

Pannaway Technologies Incorporated (“Pannaway”)

On November 19, 2008, the Company completed the acquisition of Pannaway (a company incorporated under the laws of Delaware). The operations of Pannaway have been merged with the Company’s Systems Division, and results of operations included following this date

As consideration for the acquisition, the Company issued (a) 20,250,000 common shares of Enablence, of which 3,000,000 shares are held in escrow, (b) \$250,520 (US\$200,000) to Pannaway shareholders and (c) 5,500,000 common shares of Enablence to a Pannaway debt holder in respect to the cancellation of certain Pannaway debt. Enablence also issued 10-year convertible notes (the "Notes") with a principal value of \$3,757,800 (US\$3,000,000) bearing interest at 5% per annum to four debt holders. 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

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conversion notice, and (ii) the conversion price of \$0.365 (US\$0.317) in the first two years, \$0.402 (US\$0.349) in the third year, \$0.442 (US\$0.384) in the fourth year and \$0.486 (US\$0.422) in the fifth year. The maximum number of shares that can be issued pursuant to the Notes is 9,463,722 shares.

The acquisition was accounted for by the purchase method, whereby the results of operation of Pannaway are included in the consolidated statements of loss and comprehensive loss and cash flows since the acquisition date. The net purchase price of \$11,950,622 was allocated based on the fair value of the net identifiable assets acquired.

Purchase Price

Cash	\$ 250,520
Issuance of 25,750,000 Enablence shares	7,725,000
5% Convertible notes (US\$3,000,000)	3,757,800
Transaction costs	<u>217,302</u>
	<u>\$ 11,950,622</u>

The following table summarizes the net assets acquired based on a preliminary estimate of fair values.

Assets acquired:	
Cash	250,520
Restricted cash	90,219
Accounts receivable	3,366,597
Inventory	11,547,020
Other current assets	74,466
Property and equipment	1,118,396
Intangible assets and goodwill	<u>25,715,739</u>
	42,162,957
Liabilities assumed:	
Accounts payable and accrued liabilities	11,032,204
Deferred revenue	11,832,777
Future income tax liability	<u>7,347,354</u>
	30,212,335
Total purchase price consideration	<u>\$ 11,950,622</u>

The preliminary value assigned to identifiable intangible assets is attributable to existing intellectual property and customer relationships. The intangible assets are amortized on a straight-line basis over a three to five year period from the date of acquisition.

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10. ACQUISITIONS (Continued)

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.

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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10. ACQUISITIONS (Continued)

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 three to five year period from the date of acquisition.

Assets of 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 Enableness, 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 Enableness issued 3,598,944 common shares, valued at a fair value of \$1.42 per share.

<u>Purchase Price</u>	
Issuance of 3,598,944 Enableness shares for cash	\$ 5,110,500
Issuance of 3,248,694 Enableness 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 three to five year period from the date of acquisition.

In accordance with CICA Section 1581, *Business Combinations*, the Company has one year to finalize the purchase price allocations at which time the purchase prices will be finalized for each of Pannaway, Wave7 and DuPont.

11. RESTRUCTURING CHARGES

In response to the deteriorating economic conditions and, in light of its recent acquisitions, management conducted a review of its operations and implemented a restructuring plan in November 2008 to reduce costs and improve operating efficiencies. The restructuring charges consisted of severance and benefits related to the reduction of the Company's workforce.

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12. INTANGIBLE ASSETS

As part of the Company's policy, long-lived assets are reviewed annually for impairment or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The current economic conditions represent a material change in the Company's operating environment in evaluating the carrying value of intangible assets during the quarter ended January 31, 2009. The Company determined that there was a \$30,200,000 reduction in value at January 31, 2009 and recorded an impairment charge of \$30,200,000.

13. GOODWILL

Goodwill is tested in the fourth quarter of each fiscal year or if factors indicative of impairment are present. Due to the current economic conditions, the Company conducted a review of the carrying value of goodwill and concluded that the carrying value of goodwill was impaired and as such took a charge of \$17,500,000 in the third quarter of fiscal 2009.

14. 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>January 31, 2009</u>	<u>April 30, 2008</u>
Held-for-trading (1)	\$ 18,596,532	\$ 47,208,442
Loans and receivables (2)	14,375,953	3,442,626
Other financial liabilities (3)	17,314,502	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 and operating line of credit but not note payable included in liquidity risk

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.

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14. FINANCIAL INSTRUMENTS (Continued)

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 January 31, 2009, one customer accounted for 19% 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 \$317,823) is summarized as follows:

	January 31, 2009
Current	\$9,396,987
61 to 90 days	1,313,654
91 days and over	3,369,678
Total trade accounts receivable	\$14,080,319

Of the \$3,696,678 of accounts receivable outstanding for 91 days or more at January 31, 2009, \$1,636,611 has since been collected. Of the \$14,080,319 of accounts receivable \$548,505 is contractually held back pending completion of all the terms and conditions in the Rural Utility Service ("RUS") funded transactions. All of these holdback amounts are included in deferred revenue.

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.

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14. FINANCIAL INSTRUMENTS (Continued)

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:

January 31, 2009	
USD	\$ 1,749,000
Swiss francs (CHF)	71,000

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 January 31, 2009, the Company has two long-term financial liabilities, payment of which is due as follows including interest:

(000's)	Remainder of fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Beyond Fiscal 2012	Total
Note payable	\$ 403	\$1,444	\$1,444	\$1,323	\$ -	\$ 4,614
Convertible debt	45	184	184	367	4,109	4,889
Total	\$ 448	\$1,628	\$1,628	\$ 1,690	\$ 4,109	\$ 9,503

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 subject to certain operations targets being met.

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15. 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.

16. SEGMENTED INFORMATION

The Company has two reportable segments: Systems 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 January 31				Nine months ended January 31			
	2009		2008		2009		2008	
(000's)	Revenue	Net Loss	Revenue	Net Loss	Revenue	Net Loss	Revenue	Net Loss
Segment:								
Systems	\$10,758	\$ (5,057)	\$ -	\$ -	\$ 20,592	\$ (16,057)	\$ -	\$ -
Optical Components and Subsystems	4,032	(44,393)	261	(2,642)	10,597	(47,957)	707	7,405
	\$ 14,790	\$ (49,450)	\$ 261	\$ (2,642)	\$ 31,189	\$ (64,014)	\$ 707	\$ 7,405

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16. SEGMENTED INFORMATION (Continued)

Total assets by reportable segment are presented in the following table:

(000's)	Optical components and subsystems		Systems		Optical components and subsystems		Systems	
	January 31, 2009				April 30, 2008			
Current assets	\$	26,010	\$	29,500	\$	52,849	\$	-
Property, plant and equipment		13,116		1,293		10,473		-
Intangible and other assets before impairment charge		27,695		33,607		24,357		-
Impairment charge		(22,700)		(7,500)		-		-
Net intangible assets		4,995		26,107		24,357		-
Goodwill before impairment charge		24,504		-		20,122		-
Impairment charge		(17,500)		-		-		-
Goodwill after impairment		7,004		-		20,122		-
Total assets	\$	51,125	\$	56,900	\$	107,801	\$	-

Revenue and certain assets are segregated geographically as follows:

Revenue by geographic area:

	For the three months ended		For the nine months ended	
	January 31, 2009	January 31, 2008	January 31, 2009	January 31, 2008
The Americas	\$10,975,032	\$ 167,302	\$ 20,234,308	\$ 452,599
Asia Pacific	1,612,628	60,124	4,895,449	162,653
Europe	2,202,514	33,983	6,058,973	91,934
	\$ 14,790,174	\$ 261,409	\$ 31,188,730	\$ 707,186

Revenues are attributed to geographical location based on customer.

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

	January 31, 2009	April 30, 2008
North America	\$ 49,387,615	\$ 47,466,468
Europe	3,128,258	7,485,331
	\$ 52,515,873	\$ 54,951,799

17. COMPARATIVE FIGURES

Sales and marketing has been separated from general and administration to conform to the current presentation.