Management's Report

EXFO's management is responsible for the preparation, integrity and objectivity of the consolidated financial statements and other financial information presented in this Annual Report. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

EXFO's policy is to maintain a system of internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, accurate and reliable, and that assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board and is comprised of outside directors. The Committee meets periodically with Management and external auditors to review accounting, auditing and internal control matters. These consolidated financial statements have been reviewed and approved by the Board of Directors on the recommendation of the Audit Committee.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The external auditors have full and free access to the Audit Committee.

Germain Lamonde
Chairman, President and CEO

Pierre Plamondon, CA
Vice-President, Finance and Chief Financial Officer

Auditors' Report

To the Shareholders of EXFO Electro-Optical Engineering Inc.

We have audited the consolidated balance sheets of EXFO Electro-Optical Engineering Inc. as at August 31, 2000 and 2001 and the consolidated statements of earnings, retained earnings (deficit) and contributed surplus and cash flows for each of the years in the three-year period ended August 31, 2001. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at August 31, 2000 and 2001 and the results of its operations and its cash flows for each of the years in the three-year period ended August 31, 2001 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Quebec, Quebec, Canada
September 21, 2001

Consolidated Balance Sheets

(in thousands of US dollars)

The accompanying notes are integral part of these consolidated financial statements.

As at August 31,	2000	2001
Assets		
Current assets		
Cash and cash equivalents	$ 729	$ 7,729
Short-term investments (notes 7 and 18)	162,659	66,861
Accounts receivable (notes 7 and 18)		
Trade	18,272	24,531
Other	2,790	3,660
Income taxes receivable (note 7)	284	-
Inventories (notes 4 and 7)	18,868	44,345
Prepaid expenses	1,023	1,265
Future income taxes (note 15)	995	1,423
	205,620	149,814
Property, plant and equipment (notes 5 and 7)	8,694	27,140
Intangible assets and goodwill (notes 6 and 7)	2,320	264,242
Future income taxes (note 15)	3,089	1,381
	$ 219,723	$ 442,577
Liabilities		
Current liabilities		
Bank advances (note 7)	$ 10	$ -
Accounts payable and accrued liabilities (note 8)	10,353	16,180
Income taxes payable	-	2,623
Mandatorily redeemable preferred shares (note 9)	543	-
Deferred revenue	395	616
Current portion of long-term debt	152	106
	11,453	19,525
Deferred revenue	151	-
Deferred grants (note 13)	1,109	1,002
Long-term debt (note 10)	16	664
Future income taxes (note 15)	-	6,581
	12,729	27,772
Commitments (note 11)		
Shareholders' Equity		
Share capital (note 12)	198,459	429,995
Contributed surplus	-	1,457
Cumulative translation adjustment	1,555	(8,333)
Retained earnings (deficit)	6,980	(8,314)
	206,994	414,805
	$ 219,723	$ 442,577

On behalf of the Board:

Germain Lamonde
Chairman, President and CEO

André Tremblay
Chairman, Audit Committee

Consolidated Statements of Earnings

(in thousands of US dollars, except share and per share data)

The accompanying notes are integral part of these consolidated financial statements.

Years Ended August 31,	1999	2000	2001
Sales (note 16)	$ 42,166	$ 71,639	$ 146,013
Cost of sales	14,998	24,712	54,946
Gross margin	27,168	46,927	91,067
Operating expenses			
Selling and administrative	13,279	24,304	46,236
Net research and development (note 13)	4,315	6,402	13,601
Amortization of property, plant and equipment	857	1,451	3,559
Amortization of intangible assets	41	47	9,876
Non-recurring expenses (note 14)	-	-	3,288
Total operating expenses	18,492	32,204	76,560
Earnings from operations	8,676	14,723	14,507
Interest income, net	136	1,480	6,098
Foreign exchange gain (loss)	(506)	(684)	3,327
Earnings before income taxes and amortization of goodwill	8,306	15,519	23,932
Income taxes (note 15)	2,492	5,298	8,150
Earnings before amortization of goodwill	5,814	10,221	15,782
Amortization of goodwill	-	297	31,076
Net earnings (loss) for the year	$ 5,814	$ 9,924	$ (15,294)
Basic and diluted earnings (loss) per share			
Earnings before amortization of goodwill	$ 0.14	$ 0.26	$ 0.30
Net earnings (loss)	$ 0.14	$ 0.25	$ (0.29)
Basic weighted average number of shares outstanding (000's)	38,001	39,951	53,014
Diluted weighted average number of shares outstanding (000's) (note 17)	38,001	40,086	53,014

Consolidated Statements of Retained Earnings (Deficit) and Contributed Surplus

(in thousands of US dollars, except per share data)

The accompanying notes are integral part of these consolidated financial statements.

Retained Earnings (Deficit)

Years Ended August 31,	1999	2000	2001
Balance – Beginning of year	$ 12,044	$ 14,592	$ 6,980
Add			
Net earnings (loss) for the year	5,814	9,924	(15,294)
	17,858	24,516	(8,314)
Deduct			
Dividends			
Class A shares	2,926	17,216	-
Class C share (note 3)	340	-	-
Class F shares	-	320	-
	3,266	17,536	-
Balance – End of year	$ 14,592	$ 6,980	$ (8,314)
Dividends per share			
Class A shares	$ 0.08	$ 0.45	$ -
Class C share	$ 340	$ -	$ -
Class F shares	$ -	$ 0.45	$ -

Contributed Surplus

Years Ended August 31,	1999	2000	2001
Balance – Beginning of year	$ -	$ -	$ -
Add			
Premium on resale of share capital	-	-	1,457
Balance – End of year	$ -	$ -	$ 1,457

Consolidated Statements of Cash Flows

(in thousands of US dollars)

The accompanying notes are integral part of these consolidated financial statements.

Years Ended August 31,	1999	2000	2001
Cash flows from operating activities			
Net earnings (loss) for the year	$ 5,814	$ 9,924	$ (15,294)
Add (deduct) items not affecting cash and cash equivalents			
Amortization of discount on short-term investments	-	(807)	(594)
Amortization of property, plant and equipment	857	1,451	3,559
Amortization of intangible assets	41	47	9,876
Foreign exchange gains on disposal of short-term investments	-	-	(3,437)
Non-recurring expenses	-	-	1,083
Future income taxes	(42)	(33)	(1,779)
Amortization of goodwill	-	297	31,076
Change in non-cash operating working capital items			
Accounts receivable	(3,875)	(10,476)	447
Income taxes receivable	(381)	2,149	(2,291)
Inventories	(1,259)	(10,732)	(20,308)
Prepaid expenses	(205)	(519)	(67)
Accounts payable and accrued liabilities	1,965	3,917	(3,736)
Income taxes payable	(115)	-	4,528
Deferred revenue	327	215	100
Deferred grants	533	567	(57)
	3,660	(4,000)	3,106
Cash flows from financing activities			
Bank advances	(136)	(357)	(2,046)
Repayment of mandatorily redeemable preferred shares	-	-	(354)
Repayment of loan from a company under common control	-	(1,349)	-
Repayment of long-term debt	(20)	(812)	(3,355)
Issuance of share capital	86	209,690	-
Resale of share capital	-	-	1,490
Redemption of share capital	-	-	(33)
Share issue expenses	-	(16,743)	(331)
Dividends paid	(3,215)	(17,587)	-
	(3,285)	172,842	(4,629)
Cash flows from investing activities			
Additions to short-term investments	(33)	(519,645)	(772,808)
Proceeds from disposal of short-term investments	-	359,886	866,158
Additions to property, plant and equipment and intangible assets	(1,181)	(7,180)	(15,911)
Business combinations (note 3)	-	(2,108)	(68,255)
	(1,214)	(169,047)	9,184
Change in cash and cash equivalents	(839)	(205)	7,661
Effect of foreign exchange rate changes on cash and cash equivalents	-	511	(661)
Cash and cash equivalents – Beginning of year	1,262	423	729
Cash and cash equivalents – End of year	$ 423	$ 729	$ 7,729
Supplementary information			
Interest paid	$ (148)	$ (480)	$ (377)
Interest received	$ 98	$ 949	$ 6,046
Income taxes paid	$ (2,801)	$ (3,761)	$ (8,171)

Notes to Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

1 • Incorporation and nature of activities

The company, incorporated in 1985 under the Canada Business Corporations Act, designs, manufactures and markets a full line of fiber-optic test, measurement and automation solutions for the telecommunications industry to measure the physical characteristics of optical fiber and related hardware and to automate manufacturing processes. The company derives substantially all of its revenue from customers located in the United States, Canada, Europe, Asia and South America. The company's customers consist primarily of telecommunications carriers, optical component and system manufacturers, as well as research and development laboratories.

2 • Summary of significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. These principles conform, in all material respects, with accounting principles generally accepted in the United States, except as described in note 19. The principal accounting policies of the company, which have been consistently applied, are summarized as follows:

Accounting estimates

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

Consolidation

These consolidated financial statements include the accounts of the company and its domestic and international subsidiaries. Intercompany accounts and transactions have been eliminated.

Reporting currency

The consolidated financial statements of the company were presented in Canadian dollars up to August 31, 1999. Effective September 1, 1999, the US dollar has been adopted as the reporting currency. The functional currency continues to be the Canadian dollar. The financial statements for the year ended August 31, 1999 are presented in US dollars in accordance with a translation of convenience method using the representative exchange rate as at August 31, 1999 of US$1.00 = Cdn$1.4958. The translated amount for monetary and non-monetary items as at August 31, 1999 became the historical basis for those items in subsequent years.

The financial statements as at August 31, 2000 and 2001 and for the years then ended have been translated using the current rate method. Under this method, the financial statements are translated into the reporting currency as follows: assets and liabilities are translated at the exchange rate in effect at the date of the balance sheet and revenues and expenses are translated at the average exchange rate for the year. All gains and losses resulting from the translation of the financial statements into the reporting currency are included in the cumulative translation adjustment in shareholders' equity.

Foreign currency translation

Foreign currency transactions

Transactions denominated in currencies other than the functional currency are translated into the functional currency as follows: monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the average rate for the year. Non-monetary assets and liabilities are translated at historical rates. Gains and losses arising from such translation are reflected in the statements of earnings.

Foreign subsidiaries

The financial statements of integrated foreign operations are remeasured into the functional currency using the temporal method. Under this method, monetary assets and liabilities are remeasured at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are remeasured at historical rates. Revenues and expenses are remeasured at the average rate for the year. Gains and losses resulting from remeasurement are reflected in the statements of earnings.

The financial statements of self-sustaining operations with a functional currency other than the US dollar are remeasured into the functional currency using the current rate method. Under this method, assets and liabilities are remeasured at the exchange rates in effect at the balance sheet date and revenues and expenses are remeasured at the average rate for the year. Gains and losses resulting from remeasurement are reflected in the cumulative translation adjustment in shareholders' equity.

Forward exchange contracts

The company enters into forward exchange contracts in order to hedge against potential exchange rate fluctuations on cash flows related to anticipated future revenue streams denominated in foreign currencies. Unrealized gains and losses on these forward exchange contracts are deferred and recognized upon settlement of the related transactions. Accordingly, cash flows resulting from forward exchange contract settlements are classified as cash flows from operating activities along with the corresponding cash flows being hedged.

In 2000, the company entered into forward exchange contracts to sell Canadian dollars in exchange for US dollars. These contracts, which were speculative in nature, were carried on at fair value as at August 31, 2000. The unrealized loss on these contracts as at August 31, 2000 has been included in earnings for that year. As at August 31, 2001, the company does not hold such forward exchange contracts.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and balances with banks and all highly liquid short-term investments with original maturities of three months or less.

Short-term investments

Short-term investments are valued at the lower of cost and market value. Cost is composed of acquisition cost plus amortization of discount or less amortization of premium.

Inventories

Inventories are valued at the lower of cost and net realizable value. The cost of raw materials and work in progress is determined using the first-in, first-out method. The cost of finished goods is determined using the average cost method.

Property, plant and equipment and amortization

Property, plant and equipment are recorded at cost less related government grants and research and development tax credits. Amortization is provided on a straight-line basis over their estimated useful lives as follows:

	Term
Buildings	15 and 25 years
Equipment	2 to 7 years
Leasehold improvements	Remaining lease term including lease renewal option

The carrying value of property, plant and equipment is evaluated for impairment whenever significant events occur which may indicate an impairment in value, based upon a comparison of the carrying value to the net recoverable amount.

Intangible assets, goodwill and amortization

Intangible assets include the cost of acquired in process research and development, core technology, work force and trademark, net of accumulated amortization. Intangible assets are amortized on a straight-line basis over their estimated useful lives ranging from five to eight months for in process research and development, of five years for core technology, of one year for work force and of two years for trademark.

Goodwill, which represents the excess of the purchase price of acquired businesses over the estimated fair value of net identifiable assets acquired, is amortized on a straight-line basis over the estimated useful life of five years.

Intangible assets and goodwill are reviewed for impairment when events or circumstances indicate that costs may not be recoverable. Impairment exists when the carrying value of the asset is greater than the pre-tax undiscounted future cash flows expected to be provided by the asset. The amount of impairment loss, if any, is the excess of the carrying value over the estimated pre-tax undiscounted future cash flows. Intangible assets and goodwill are written down for any permanent impairment in value of the unamortized portion. As at August 31, 2001, there are no events or circumstances indicating that the carrying value may not be recoverable.

Revenue recognition

For products where the software is incidental, the company recognizes revenue when the products are delivered, with provisions made for estimated returns, warranties and support obligations.

For products where software is not incidental, the revenues are separated into two categories, product and customer support revenues based upon vendor-specific objective evidence of fair value. The product revenues for these sales are recognized when the products are delivered with provisions made for estimated returns and warranties. The customer support revenues are deferred and recognized ratably over the years of the support arrangement, except where provided within one year of delivery, costs of providing this support are insignificant and accrued at the time of delivery and no upgrades of software are provided.

Advertising costs

Advertising costs are expensed as incurred.

Government grants

Government grants are accrued as a receivable when there is reasonable assurance that the company has complied and will continue to comply with all the conditions related to the grant. Grants related to operating expenses are included in earnings when the related expenses are incurred. Grants related to capital expenditures are deducted from the related asset. Grants related to job creation and training programs for extended periods are deferred and amortized on a straight-line basis over the minimum period for which the created job must be maintained or training provided.

Research and development expenses

All expenses related to development activities, which do not meet generally accepted criteria for deferral, and research are expensed as incurred, net of related tax credits and government grants. Development expenses which meet generally accepted criteria for deferral are capitalized, net of related tax credits and government grants, and amortized against earnings over the estimated period of benefit.

As at August 31, 2001, the company had not deferred any development costs.

Income taxes

The company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted income tax rates expected to be in effect for the years in which the differences are expected to reverse.

The company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

Earnings (loss) per share

During the year, the company adopted the Canadian Institute of Chartered Accountants (CICA) section 3500 "Earnings per Share", which requires the use of the treasury stock method in calculating diluted earnings per share and to apply the concept of contingently issuable shares. This standard has been applied retroactively and did not result in any material change to previously reported basic and diluted earnings per share.

Basic earnings (loss) and dividends per share are determined using the weighted average number of common shares outstanding during the year, as adjusted for the effects of reorganizations of share capital in prior years.

Diluted earnings (loss) per share are determined using the weighted average number of common shares outstanding during the year, plus the effects of dilutive potential common shares outstanding during the year. This method requires that diluted earnings (loss) per share be calculated, using the treasury stock method, as if all potential common shares had been exercised at the later of the beginning of the year or the date of issuance, as the case may be, and that the funds obtained thereby be used to purchase common shares of the company at the average fair value of the common shares during the year.

Stock-based compensation plans

The company maintains stock-based compensation plans, which are described in note 12. Under accounting principles generally accepted in Canada, no compensation cost is recognized when stocks, stock options or stock awards are issued to plan participants. Any consideration received from plan participants upon the purchase of stock or the exercise of stock options or stock awards is credited to share capital. Cash amounts paid upon the exercise of stock appreciation rights are charged to earnings.

New accounting standards

On August 1, 2001, the CICA issued section 1581 "Business combinations", which supersedes section 1580, and issued section 3062 "Goodwill and Other Intangible Assets". Section 1581 requires business combinations initiated after June 30, 2001 or business combinations accounted for by the purchase method with a date of acquisition after June 30, 2001 to be accounted for using the purchase method of accounting. This section also broadens criteria for recording intangible assets separately from goodwill. Upon the adoption of section 3062, recorded goodwill and intangible assets will be evaluated against those new criteria and may result in certain intangible assets being reclassified into goodwill or, alternatively, amounts initially recorded as goodwill being separately identified and recognized apart from goodwill as intangible assets. Section 3062 requires the use of a non-amortization approach to account for purchased goodwill and indefinite-lived intangibles. Under non-amortization approach, goodwill and indefinite-lived intangibles will not be amortized, but instead they will be reviewed for impairment and written down and charged to earnings only in the periods in which the recorded value of goodwill and indefinite-lived intangibles exceeds their fair value. This section will be adopted on September 1, 2002.

The impact of adopting section 3062 will allow the company to use the non-amortization approach for goodwill and will reduce annual goodwill amortization by approximately $50,000,000. Moreover, the company will implement a new goodwill impairment methodology and any potential initial impairment losses on goodwill determined by this methodology will be charged to deficit. Any subsequent impairment losses on goodwill will be charged to earnings in the period in which it is incurred.

3 • Business combinations

Business combinations during 2001

Burleigh Instruments, Inc.

On December 20, 2000, the company acquired a 100% interest in Burleigh Instruments, Inc. ("Burleigh"), a U.S. company which manufactures precision scientific instruments used in basic and applied research, engineering and production test applications in a variety of fields, in exchange for a total consideration valued at US$189,270,000, including acquisition-related costs of US$2,461,000.

The consideration paid consisted of US$42,461,000 in cash and the issuance of 6,488,816 subordinate voting shares for an amount of US$146,809,000.

Furthermore, as part of this acquisition, the company established a restricted stock award plan for employees of Burleigh (note 12). This plan provides that in the event of an employee's departure, shares to be issued to this employee under the plan will be issued to Burleigh's former shareholders. In such circumstances, this issuance of shares will be recorded as additional goodwill.

EFOS Inc. (renamed EXFO Photonic Solutions Inc.)

On March 15, 2001, the company acquired a 100% interest in EXFO Photonic Solutions Inc. ("EXFO Photonic"), a Canadian company specializing in precision light-based adhesive spot curing technologies as well as curing process control for the global optical component manufacturing market. This acquisition was settled for a total consideration valued at US$110,146,000, including acquisition-related costs of US$194,000. The consideration paid consisted of US$25,194,000 in cash and the issuance of 3,700,000 subordinate voting shares for an amount of US$84,952,000.

These acquisitions have been accounted for using the purchase method and consequently, the net earnings of Burleigh and EXFO Photonic have been included in the consolidated statement of earnings of the company from the date of acquisition of these subsidiaries, being December 20, 2000 for Burleigh and March 15, 2001 for EXFO Photonic.

The purchase price, including acquisition-related costs, has been allocated based on the estimated fair value of net assets at the dates of acquisition as follows:

	Burleigh	EXFO Photonic
Assets acquired		
Current assets	$ 7,092	$ 9,195
Property, plant and equipment	4,457	1,054
In process research and development	1,800	972
Core technology	24,000	25,324
Work force	1,250	907
Trademark	-	421
Liabilities assumed	(9,068)	(7,169)
Future income taxes	(8,342)	(983)
Net identifiable assets acquired	21,189	29,721
Goodwill	168,081	80,425
Purchase price	189,270	110,146
Less: Subordinate voting shares issued	146,809	84,952
Cash paid	$ 42,461	$ 25,194

The fair value allocated to intangible assets acquired from Burleigh and EXFO Photonic was based upon independent valuations performed in conjunction with these acquisitions.

The existing technology that has reached technological feasibility was classified as core technology.

Acquired in process research and development represents the existing technology that has not reached technological feasibility and has no future alternative use.

The fair value of subordinate voting shares issued as part of these business combinations was determined based on the market price of the shares over a reasonable period of time before and after the dates of acquisition of the subsidiaries.

Vanguard Technical Solutions, Inc.

On March 16, 2001, the company, through one of its subsidiaries, Burleigh Automation Inc., acquired substantially all the assets of Vanguard Technical Solutions, Inc., a U.S. company specializing in the design and manufacturing of ultra-precision assembly equipment for sensitive process and critical assembly challenges on the production floor. This acquisition, which was settled for a total cash consideration of US$600,000 allocated to property and equipment, has been accounted for using the purchase method.

Business combinations during 2000

Nortech Fibronic Inc.

On February 4, 2000, the company acquired a 100% interest in Nortech Fibronic Inc. ("Nortech"), a Canadian company specializing in fiber-optic testing and temperature sensing, in exchange for total consideration valued at US$2,799,000. The consideration paid consisted of US$2,108,000 in cash, the issuance of 800,000 Class G shares which were mandatorily redeemable, for cash or subordinate voting shares at the option of the company, for an amount of US$553,000 (note 9), and a non-interest-bearing debenture in the amount of US$138,000 (note 10).

This acquisition has been accounted for using the purchase method. The estimated fair value of assets and liabilities acquired amounted to US$2,488,000 and US$2,231,000 respectively, resulting in goodwill of US$2,542,000 related to the telecommunication core business.

The net earnings of Nortech have been included in the consolidated statement of earnings of the company from the date of acquisition, being February 4, 2000.

The mandatorily redeemable preferred shares were settled during the year for US$354,000, resulting in a purchase price adjustment of US$189,000 (note 9), which has been applied against goodwill.

GAP Optique S.A.

On June 1, 2000, the company acquired the 85% interest in GAP Optique S.A. held by its parent company for a cash consideration of US$16,000. The carrying value of the net assets of GAP Optique S.A. was US$19,000 as at December 31, 1999. Since the exchange occurred between entities under common control, the exchange has been accounted for in a manner similar to a pooling of interests. The assets, liabilities and shareholders' equity of the company and GAP Optique S.A. have been combined using their respective carrying amounts, and financial statements of prior years have been restated as if the companies had always been combined.

Business combination during 1999

GEXFO Distribution Internationale Inc.

On September 1, 1998, the company acquired, from its parent company, all the issued and outstanding shares of GEXFO Distribution Internationale Inc. in exchange for 1 Class C share of the company, which was redeemed at a price of US$340,000. This holding company had two wholly-owned subsidiaries, EXFO America Inc. and EXFO Europe S.A.R.L., which market the company's products for the American and European markets.

Since the exchange was between entities under common control, the exchange has been accounted for in a manner similar to a pooling of interests. The assets, liabilities and shareholders' equity of the company and these companies have been combined using their respective carrying amounts, and financial statements of prior years have been restated as if the companies had always been combined.

4 • Inventories

As at August 31,	2000	2001
Raw materials	$ 12,057	$ 29,891
Work in progress	2,910	3,507
Finished goods	3,901	10,947
	$ 18,868	$ 44,345

5 • Property, plant and equipment

As at August 31, 2000	Cost	Accumulated amortization	Net
Land	$ 299	$ -	$ 299
Building	3,442	32	3,410
Equipment	8,451	4,158	4,293
Leasehold improvements	1,373	681	692
	$ 13,565	$ 4,871	$ 8,694

As at August 31, 2001	Cost	Accumulated amortization	Net
Land	$ 2,735	$ -	$ 2,735
Buildings	9,077	326	8,751
Equipment	23,906	9,286	14,620
Leasehold improvements	2,390	1,356	1,034
	$ 38,108	$ 10,968	$ 27,140

6 • Intangible assets and goodwill

	As at August 31, 2000	As at August 31, 2001		
	Net	Cost	Accumulated amortization	Net
In process research and development	$ -	$ 2,769	$ 2,769	$ -
Core technology	-	49,483	5,678	43,805
Work force	-	2,155	1,281	874
Other assets	68	637	246	391
	68	55,044	9,974	45,070
Goodwill	2,252	250,497	31,325	219,172
	$ 2,320	$ 305,541	$ 41,299	$ 264,242

7 • Credit facilities

The company has available credit facilities under lines of credit which provide for advances of up to Cdn$13,000,000 (US$8,400,000) and up to US$3,000,000. These facilities, which are renewable annually, bear interest at prime rate (prime rate in 2000). Accounts receivable, inventories and all tangible and intangible assets of the company have been pledged as security against these facilities. Amounts of Cdn$15,000 (US$10,000) and nil were drawn against these facilities as at August 31, 2000 and 2001, respectively.

8 • Accounts payable and accrued liabilities

As at August 31,	2000	2001
Trade	$ 6,847	$ 7,732
Salaries and social benefits	1,698	3,917
Commissions	966	1,307
Non-recurring expenses (note 14)	-	1,230
Warranty	392	901
Other	450	1,093
	$ 10,353	$ 16,180

9 • Mandatorily redeemable preferred shares

Authorized – unlimited as to number, without par value
Preferred, non-voting, ranking in priority to subordinate and multiple voting shares, each series ranking pari passu with the preferred shares of every other series, issuable in one or more series
Preferred Series 1, non-voting, redeemed on November 30, 2000.

On February 7, 2000, the company filed articles of amendment pursuant to which the Class G shares were created.

Prior to June 29, 2000, the company's authorized mandatorily redeemable preferred shares consisted of Class B, C, E and G shares.

On June 29, 2000, the company filed articles of amendment pursuant to which preferred shares issuable in series and preferred shares Series 1 were created, the 800,000 issued and outstanding Class G shares were converted into 800,000 preferred shares Series 1 and Class B, C, E and G shares were cancelled.

The following tables summarize the preferred share activity since August 31, 1998:

	Class C share		Class E shares		
	Number	Amount	Number	Amount	Total amount
Balance as at August 31, 1998	-	$ -	19,000,000	$ -	$ -
Business combination (note 3)	1	340	-	-	340
Redemption	(1)	(340)	-	-	(340)
Conversion of Class E shares into Class A shares (note 12)	-	-	(19,000,000)	-	-
Balance as at August 31, 1999, 2000 and 2001	-	$ -	-	$ -	$ -

	Class G shares		Preferred shares Series 1		
	Number	Amount	Number	Amount	Total amount
Balance as at August 31, 1998 and 1999	-	$ -	-	$ -	$ -
Business combination (note 3)	800,000	555	-	-	555
Conversion of Class G shares into preferred shares Series 1	(800,000)	(555)	800,000	555	-
Foreign currency translation adjustment	-	-	-	(12)	(12)
Balance as at August 31, 2000	-	-	800,000	543	543
Redemption	-	-	(800,000)	(354)	(354)
Purchase price adjustment (note 3)	-	-	-	(189)	(189)
Balance as at August 31, 2001	-	$ -	-	$ -	$ -

10 • Long-term debt

As at August 31,	2000	2001
Loans collateralized by equipment, bearing interest at 9.6%, repayable in monthly instalments of $13,000 including principal and interest, maturing in 2008	$ -	$ 754
Unsecured non-interest-bearing debenture, repaid during the year (note 3)	136	-
Unsecured non-interest-bearing loan repayable through July 2002	32	16
	168	770
Less: Current portion	152	106
	$ 16	$ 664

As at August 31, 2001, minimum principal repayments required in each of the next five years are $106,000 in 2002, $100,000 in 2003, $110,000 in 2004, $122,000 in 2005 and $134,000 in 2006.

11 • Commitments

The company has entered into operating leases for its premises, which expire at various dates through to 2007. Minimum rentals payable under these operating leases amount to $3,170,000 as at August 31, 2001.

For the years ended August 31, 1999, 2000 and 2001, rental expense amounted to $344,000, $579,000 and $1,580,000, respectively.

12 • Share capital

Authorized – unlimited as to number, without par value

- Subordinate voting and participating, bearing a non-cumulative dividend to be determined by the Board of Directors, ranking pari passu with multiple voting shares
- Multiple voting and participating, entitling to ten votes each, bearing a non-cumulative dividend to be determined by the Board of Directors, convertible at the holder's option into subordinate voting shares on a one-for-one basis, ranking pari passu with subordinate voting shares

Prior to June 29, 2000, the company's authorized share capital consisted of Class A, D and F shares.

On September 2, 1998, the company filed articles of amendment pursuant to which the Class A shares were split on a 190,000-to-one basis. Pursuant to articles of amendment dated September 3, 1998, the 100 issued and outstanding Class E shares (note 9) were converted into Class A shares on a 190,000-to-one basis. All references to numbers of shares and per share amounts have been restated in order to reflect the share split and conversion noted above.

On June 29, 2000, the company filed articles of amendment pursuant to which subordinate and multiple voting shares were created, the 38,000,000 issued and outstanding Class A shares were converted into 38,000,000 multiple voting shares, the 707,264 issued and outstanding Class F shares were converted into 707,264 subordinate voting shares and the Class A, D and F shares were cancelled.

The following tables summarize the share capital activity since August 31, 1998:

	Class A shares		Class F shares		
	Number	Amount	Number	Amount	Total amount
Balance as at August 31, 1998	19,000,000	$ 1	-	$ -	$ 1
Conversion of Class E shares into Class A shares (note 9)	19,000,000	-	-	-	-
Issued for cash under stock purchase plan	-	-	197,588	86	86
Balance as at August 31, 1999	38,000,000	1	197,588	86	87
Issued for cash under stock purchase plan	-	-	509,676	390	390
Conversion of Class F shares into subordinate voting shares	-	-	(707,264)	(476)	(476)
Conversion of Class A shares into multiple voting shares	(38,000,000)	(1)	-	-	(1)
Balance as at August 31, 2000 and 2001	-	$ -	-	$ -	$ -

	Multiple voting shares		Subordinate voting shares		
	Number	Amount	Number	Amount	Total amount
Balance as at August 31, 1998 and 1999	-	$ -	-	$ -	$ -
Conversion of Class F shares into subordinate voting shares	-	-	707,264	476	476
Conversion of Class A shares into multiple voting shares	38,000,000	1	-	-	1
Issued pursuant to the initial public offering	-	-	8,050,000	209,300	209,300
Share issue expenses, net of related income taxes of $5,425,000	-	-	-	(11,318)	(11,318)
Balance as at August 31, 2000	38,000,000	1	8,757,264	198,458	198,459
Business combinations (note 3)	-	-	10,188,816	231,761	231,761
Conversion of multiple voting shares into subordinate voting shares	(100,000)	-	100,000	-	-
Redemption	-	-	(43,999)	(33)	(33)
Resale	-	-	43,999	33	33
Share issue expenses, net of related income taxes of $106,000	-	-	-	(225)	(225)
Balance as at August 31, 2001	37,900,000	$ 1	19,046,080	$ 429,994	$ 429,995

Stock purchase plan

The company's stock purchase plan terminated at the time of the initial public offering, being June 29, 2000. In accordance with that plan, officers, directors and key employees could purchase Class F shares up to a maximum of 5% of all participating, issued and outstanding shares of the company. The purchase price of shares under that plan was determined as a multiple of the company's equity as at the end of the preceding fiscal year. Shares issued under that plan are restricted as to sale and transferability for a period of at least five years from the date of acquisition. Prior to its initial public offering, the company issued 707,264 Class F shares in exchange for a weighted average cash consideration of Cdn$0.98 (US$0.68) per share. As at August 31, 2001, the company has guaranteed the repayment of third party loans totalling Cdn$218,000 (US$141,000) obtained by certain employees with respect to the purchase of Class F shares.

Stock option plan

In May, 2000, the company established a stock option plan for directors, executive officers, employees and consultants and those of the company's subsidiaries, as determined by the Board of Directors.

The maximum number of subordinate voting shares issuable under the plan cannot exceed 4,470,961 shares. The maximum number of subordinate voting shares that may be granted to any individual cannot exceed 5% of the number of outstanding subordinate voting shares. The exercise price is the market price of the common shares on the date of grant. Options granted under the plan generally expire ten years from the date of grant. Options granted under the plan generally vest over a four-year period, with 25% vesting on an annual basis commencing on the first anniversary of the date of grant. Up to October 10, 2000, the number of options which ultimately would become exercisable in any given year, and in aggregate, was dependent on the degree to which the company's financial performance objectives were met. Nevertheless, on October 10, 2000, the Board of Directors of the company amended the vesting terms for options granted pursuant to the option plan to remove the financial performance criterion. Accordingly, options granted vest over the four-year period. The Board of Directors may accelerate the vesting of any or all outstanding options upon the occurrence of a change of control.

The following table summarizes the stock option activity since May 2000:

Years ended August 31,	2000		2001	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding – Beginning of year	-	$ -	609,734	$ 26
Granted	609,734	26	2,153,352	29
Forfeited	-	-	(348,855)	(29)
Outstanding – End of year	609,734	$ 26	2,414,231	$ 28
Exercisable – End of year	-	$ -	510,244	$ 26

The following table summarizes information about stock options as at August 31, 2001:

	Options outstanding as at August 31, 2001		Options exercisable as at August 31, 2001	
Exercise price	Number	Weighted average remaining contractual life	Number	Weighted average remaining contractual life
$19.19 to $29.99	1,965,551	9.3 years	510,244	8.8 years
$30.00 to $39.99	72,500	9.1 years	-	-
$40.00 to $49.99	282,550	9 years	-	-
$50.00 to $56.75	93,630	9 years	-	-
	2,414,231	9.2 years	510,244	8.8 years

Restricted stock award plan

On December 20, 2000, the company established a restricted stock award plan for employees of Burleigh. A total of 359,781 stock awards entitle employees to receive an equal aggregate number of subordinate voting shares at a purchase price of nil. Stock awards granted under the plan vest over a four-year period, with 25% vesting on an annual basis commencing on the first anniversary of the date of grant. The plan will expire on December 20, 2004.

As at August 31, 2001, none of the 359,781 outstanding stock awards were exercisable.

Stock appreciation right plan

On August 4, 2001, the company established a stock appreciation right plan for certain of its employees. Under that plan, eligible employees are entitled to receive a cash amount equivalent to the difference between the market price of the common shares on the date of exercise and the exercise price determined on the date of grant.

Stock appreciation rights granted under the plan generally expire ten years from the date of grant.

Stock appreciation rights generally vest over a four-year period, with 25% vesting on an annual basis commencing on the first anniversary of the date of grant.

During the year, the company granted 22,400 stock appreciation rights with a weighted average exercise price of US$29.72 and none of them were exercisable as at August 31, 2001.

Considering the market price of the common shares of US$12.09 as at August 31, 2001, no compensation expense has been recorded in 2001 under that plan.

13 • Other disclosures

Net research and development expenses

Net research and development expenses comprise the following:

Years Ended August 31,	1999	2000	2001
Gross research and development expenses	$ 6,390	$ 9,374	$ 17,601
Research and development tax credits	(1,935)	(2,436)	(3,369)
Government grants	(140)	(536)	(631)
	$ 4,315	$ 6,402	$ 13,601

Other grants and tax credits

During 1998, the company entered into an agreement with the Quebec Minister of Industry, Commerce, Science and Technology (the "Minister"). Pursuant to this agreement, the Minister agreed to contribute, in the form of grants, up to a maximum of Cdn$600,000 (US$388,000) towards interest costs incurred over the period from January 1, 1998 through December 31, 2002. In addition, the Minister agreed to provide grants up to a maximum of Cdn$2,220,000 (US$1,434,000) over the period from January 1, 1998 through December 31, 2002, payable based on the number of full-time jobs created during the period.

The above grants are subject to the condition that the company maintains its Canadian principal place of business within the Province of Quebec until at least December 31, 2002 and that jobs created pursuant to the agreement be maintained for a period of at least five years from the date of creation. Should these conditions not be met by the company, the Minister may enforce various recourse options, which include suspension or cancellation of the agreement or requiring the repayment of amounts received by the company. During the period from January 1, 1998 to August 31, 2001, the company recognized a total of Cdn$2,820,000 (US$1,822,000) under this program, of which Cdn$1,505,000 (US$972,000) has been credited to earnings with the balance of Cdn$1,315,000 (US$850,000) having been included in deferred grants in the balance sheet.

Furthermore, in 1999, the company entered into another agreement with the Minister. Pursuant to this agreement, the Minister agreed to provide grants up to a maximum of Cdn$3,756,000 (US$2,427,000) over the period from February 1998 to June 2002, payable based on the number of jobs created and certain specific training expenses related to such jobs. The above grant is subject to the condition that 361 jobs be created pursuant to the agreement and that the new employees continue to participate in the specific training program for a period of at least ten consecutive months. Should these conditions not be met by the company, the Minister may enforce various recourse, which include suspension or cancellation of the agreement or requiring the repayment of amounts received by the company. Since 1998, the company has recognized a total of Cdn$2,552,000 (US$1,649,000) under this program, of which Cdn$2,317,000 (US$1,497,000) has been credited to earnings with the balance of Cdn$235,000 (US$152,000) having been included in deferred grants in the balance sheet.

Should any repayments of amounts received pursuant to these agreements be required, such repayments will be charged to earnings as the amounts of any repayments become known.

Finally, since 2000, companies operating in the Quebec City area are eligible to a refundable tax credit granted by the government of the Province of Quebec. This credit is earned on the increase of production and marketing salaries incurred in the Quebec City area at a rate of 40%. Since 2000, the company has recognized a total of Cdn$3,387,000 (US$2,188,000) under this program which has been credited to earnings.

The reduction in the company's work force described in note 14 had no effect on amounts recognized under these programs.

Following is a summary of the classification of these and certain other grants and tax credits (government grants) in the statements of earnings.

Interest income for the years ended August 31, 1999, 2000 and 2001 is net of related government grants of $126,000, $196,000 and $15,000, respectively.

Cost of sales for the years ended August 31, 1999, 2000 and 2001 is net of government grants of $33,000, $915,000 and $1,742,000, respectively.

Selling and administrative expenses for the years ended August 31, 1999, 2000 and 2001 are net of government grants of $21,000, $386,000 and $260,000, respectively.

Research and development expenses for the years ended August 31, 1999, 2000 and 2001 are net of government grants of $140,000, $536,000 and $631,000, respectively.

Defined contribution plans

The company maintains separate defined contribution plans for certain eligible employees. These plans, which are accounted for on an accrual basis, are summarized as follows:

- Deferred profit sharing plan

  The company maintains a plan for eligible Canadian resident employees, that requires the company to contribute an amount equal to 1% of an employee's gross salary, provided that the employee has contributed at least 2% of gross salary to a tax-deferred registered retirement savings plan. Contributions to this plan during the years ended August 31, 1999, 2000 and 2001 amounted to Cdn$156,000 (US$104,000), Cdn$202,000 (US$137,000) and Cdn$642,000 (US$419,000), respectively.

- 401K plans

  The company maintains 401K plans for eligible U.S. resident employees. Under these plans, the company may elect to contribute an amount of up to 50% of the first 6% of an employee's current compensation, subject to certain legislated maximum contribution limits. During the years ended August 31, 1999, 2000 and 2001, the company recorded contributions totalling $21,000, $23,000 and $285,000, respectively.

14 • Non-recurring expenses

During 2001, the company implemented a structured plan to reduce costs and increase efficiency.

Under that plan, the company recorded non-recurring expenses of $3,288,000, including $844,000 in severance expenses for the 245 employees who were terminated, $1,476,000 for unused assets and $968,000 for future payments on exit leased facilities. These expenses are recorded as non-recurring expenses in the statement of earnings. As at August 31, 2001, the accrued liabilities related to this structured plan are $1,230,000, including $372,000 for severance expenses and $858,000 for future payments on exit leased facilities.

15 • Income taxes

The reconciliation of the income tax provision calculated using the combined Canadian federal and provincial statutory income tax rate to the provision for income taxes per the financial statements is as follows:

Years Ended August 31,	1999	2000	2001
Income taxes at combined Canadian federal and provincial statutory tax rate (38% in 1999 and 2000 and 37% in 2001)	$ 3,156	$ 5,897	$ 8,855
Increase (decrease) due to:			
Manufacturing and processing deduction	(519)	(645)	(1,201)
Non-taxable income	-	-	(144)
Non-deductible expenses	40	57	274
Higher rate on interest income	-	133	480
Lower rate on foreign exchange gain	-	-	(283)
Difference between combined Canadian federal and provincial statutory tax rate and foreign subsidiaries statutory tax rates	-	-	60
Effect of consolidation of subsidiaries	-	-	(276)
Tax deductions	-	-	(136)
Other	(185)	(144)	159
Change in valuation allowance	-	-	362
	$ 2,492	$ 5,298	$ 8,150

Income taxes consist of the following:			
Current	$ 2,534	$ 5,331	$ 9,929
Future	(42)	(33)	(1,779)
	$ 2,492	$ 5,298	$ 8,150

Significant components of the company's future tax assets and liabilities are as follows:

As at August 31,	2000	2001
Future tax assets		
Property, plant and equipment and intangible assets	$ -	$ 107
Provisions and accruals	266	1,208
Government grants	-	247
Deferred revenue	175	198
Share issue expenses	4,358	3,128
Non-recurring expenses	-	930
Research and development expenses	94	86
Losses carried forward	105	272
Other	(6)	39
	4,992	6,215
Valuation allowance	-	(362)
	$ 4,992	$ 5,853
Future tax liabilities		
Property, plant and equipment and intangible assets	$ (419)	$ (8,640)
Research and development tax credits	(474)	(680)
Government grants	(15)	(310)
	(908)	(9,630)
Future tax assets (liabilities), net	$ 4,084	$ (3,777)

As at August 31, 2001, a company's subsidiary has accumulated losses for income tax purposes of approximately $902,000 and research and development expenses of approximately $961,000 at the provincial level for which a valuation allowance of $362,000 has been established. These losses can be carried forward against the subsidiary's future years' taxable income until 2008. These accumulated research and development expenses can be carried forward indefinitely against the subsidiary's future years' provincial taxable income.

16 • Segment information

Management has organized the company under one operating segment, that being the development, manufacture and marketing of fiber-optic test, measurement and automation solutions.

Sales to external customers by geographic region are detailed as follows:

Years Ended August 31,	1999	2000	2001
United States	$ 20,755	$ 36,139	$ 72,604
Canada	2,973	8,006	12,531
Europe	8,721	14,503	30,568
Asia	3,199	6,486	19,059
South America	2,271	2,221	5,838
Other	4,247	4,284	5,413
	$ 42,166	$ 71,639	$ 146,013

Sales have been allocated to geographic regions based on the country of residence of the related customers.

During all years presented above, there were no customers from which 10% or more of total sales were derived.

Long-lived assets by geographic region are detailed as follows:

As at August 31,	2000	2001
United States	$ -	$ 171,450
Canada	11,014	119,932
	$ 11,014	$ 291,382

Long-lived assets consist of property, plant and equipment, intangible assets and goodwill.

17 • Earnings per share

The following table summarizes the reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding used in the diluted earnings per share calculations:

Years Ended August 31,	1999	2000	2001
Basic weighted average number of shares outstanding (000's)	38,001	39,951	53,014
Conversion of preferred shares Series 1	-	26	-
Exercise of stock options	-	109	-
Diluted weighted average number of shares outstanding (000's)	38,001	40,086	53,014

Unaudited supplementary per share information

The following supplementary per share information is calculated from net earnings before the amortization of goodwill of $31,076,000 ($297,000 in 2000 and nil in 1999), the after-tax effect of amortization of intangible assets of $6,513,000 ($31,000 in 2000 and $28,700 in 1999) and the after-tax effect of non-recurring expenses of $2,168,000 (nil in 2000 and 1999). The unaudited supplementary information may not be comparable to similarly titled measures reported by other companies because it is non-GAAP information.

Years Ended August 31,	1999	2000	2001
Net earnings before amortization of goodwill and after-tax effect of amortization of intangible assets and non-recurring expenses	$ 5,843	$ 10,252	$ 24,463
Basic and diluted per share net earnings before amortization of goodwill and after-tax effect of amortization of intangible assets and non-recurring expenses	$ 0.14	$ 0.26	$ 0.46

18 • Financial instruments

Short-term investments

Short-term investments consist of the following:

As at August 31,	2000	2001
Mutual fund denominated in Canadian dollars	$ -	$ 14,861
Commercial paper denominated in Canadian dollars, bearing interest at annual rates of 5.77% to 5.98% in 2000 and 4.35% to 4.60% in 2001, maturing on different dates between November 2000 and February 2001 in 2000 and September 2001 and November 2001 in 2001	41,872	52,000
Commercial paper denominated in US dollars, bearing interest at annual rates of 6.51% to 6.79%, matured in 2001	120,787	-
	$ 162,659	$ 66,861

Fair value

Cash and cash equivalents, accounts receivable, bank advances, accounts payable and accrued liabilities and long-term debt are financial instruments whose fair values approximate their carrying values.

The fair value of short-term investments, determined based on market value, amounted to $162,719,000 and $66,861,000 as at August 31, 2000 and 2001, respectively.

Credit risk

Financial instruments which potentially subject the company to credit risk consist principally of cash and cash equivalents, short-term investments, accounts receivable and forward exchange contracts. The company's short-term investments consist of debt instruments issued by high-credit quality financial institutions and corporations and units of a low-risk mutual fund. The company's cash and cash equivalents and forward exchange contracts are held with or issued by high-credit quality financial institutions; therefore the company considers the risk of non-performance on these instruments to be remote.

Due to the North American, European, Asian and South American distribution of the company's customers, there is no particular concentration of credit risk. Generally, the company does not require collateral or other security from customers for trade accounts receivable; however, credit is extended to customers following an evaluation of creditworthiness. In addition, the company performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts receivable when accounts are determined to be uncollectible. Allowance for doubtful accounts amounted to $149,000 and $893,000 as at August 31, 2000 and 2001, respectively.

Interest rate risk

As at August 31, 2001, the company's exposure to interest rate risk is summarized as follows:

Cash and cash equivalents	Non-interest bearing
Short-term investments	As described above
Accounts receivable	Non-interest bearing
Bank advances	Prime rate
Accounts payable and accrued liabilities	Non-interest bearing
Long-term debt	As described in note 10

Forward exchange contracts

The company is exposed to currency risks as a result of its export sales of products manufactured in Canada, substantially all of which are denominated in US dollars. These risks are partially hedged by forward exchange contracts and certain operating expenses. As at August 31, 2000 and 2001, the company held contracts to sell US dollars at various forward rates, which are summarized as follows:

	Contractual amounts	Weighted average contractual forward rates
As at August 31, 2000		
September 2000 to August 2001	$ 5,400	1.4871
September 2001 to April 2002	1,200	1.4602
As at August 31, 2001		
September 2001 to August 2002	$ 15,200	1.4969
September 2002 to February 2003	1,800	1.5184

As at August 31, 2000 and 2001, these contracts resulted in deferred unrealized losses of US$45,000 and US$533,000, respectively, which have not been reflected in the statements of earnings.

As at August 31, 2000, the company held forward exchange contracts to buy US dollars at various forward rates, which are summarized as follows:

	Contractual amount	Weighted average contractual forward rate
Maturing between November 2000 and January 2001	$ 40,500	1.4777

As at August 31, 2000, these contracts resulted in an unrealized loss of US$24,000 which has been reflected in the statement of earnings for that year.

19 • United States generally accepted accounting principles

As a registrant with the Securities and Exchange Commission in the United States, the company is required to reconcile its financial results for significant differences between generally accepted accounting principles as applied in Canada (Canadian GAAP) and those applied in the United States (U.S. GAAP).

Additional significant disclosures required under U.S. GAAP have also been provided in the accompanying financial statements and notes. The following summarizes the significant differences between Canadian and U.S. GAAP and other required disclosures under U.S. GAAP not already disclosed in the accompanying financial statements.

Reconciliation of net earnings (loss) to conform with U.S. GAAP

The following summary sets out the significant differences to the company's reported net earnings (loss) and net earnings (loss) per share which would be made to conform with U.S. GAAP:

Years Ended August 31,		1999	2000	2001
Net earnings (loss) for the year in accordance with Canadian GAAP		$ 5,814	$ 9,924	$ (15,294)
Non-cash stock-based compensation costs related to stock option plan	a)	-	(1,464)	(954)
Non-cash stock-based compensation costs related to stock purchase plan	a)	(10)	(538)	(477)
Non-cash stock-based compensation costs related to restricted stock award plan	a)	-	-	(3,481)
Change in reporting currency	b)	(44)	-	-
Unrealized gains on forward exchange contracts	c)	208	-	97
Future income taxes on forward exchange contracts	c)	(67)	-	20
Future income taxes on acquired in process research and development	d)	-	-	(936)
Amortization of goodwill	d)	-	-	(8,453)
Net earnings (loss) for the year in accordance with U.S. GAAP		5,901	7,922	(29,478)
Other comprehensive income (loss)				
Foreign currency translation adjustments	b)	606	1,555	(9,888)
Unrealized holding gains on available-for-sale securities, net of related future income taxes	e)	36	37	-
Reclassification of holding gains on available-for-sale securities included in net earnings (loss), net of related future income taxes	e)	-	(36)	(37)
Comprehensive income (loss)		$ 6,543	$ 9,478	$ (39,403)
Basic and diluted net earnings (loss) per share in accordance with U.S. GAAP	f)	$ 0.15	$ 0.20	$ (0.56)

As a result of the aforementioned adjustments to net earnings (loss), significant differences with respect to shareholders' equity under U.S. GAAP are as follows:

Share capital

As at August 31,		1999	2000	2001
Share capital in accordance with Canadian GAAP		$ 87	$ 198,459	$ 429,995
Stock-based compensation costs related to stock purchase plan	a), g)			
Current year		45	2,647	(150)
Cumulative effect of prior years		-	45	2,692
Shares issued upon business combinations	d)	-	-	65,584
Share capital in accordance with U.S. GAAP		$ 132	$ 201,151	$ 498,121

Deferred stock-based compensation costs

As at August 31,		1999	2000	2001
Deferred stock-based compensation costs in accordance with Canadian GAAP		$ -	$ -	$ -
Stock-based compensation costs related to stock-based compensation plans	a), g)			
Current year		(45)	(21,396)	(8,145)
Cumulative effect of prior years		-	(35)	(19,429)
Amortization for the year		10	2,002	4,912
Reduction of stock-based compensation costs		-	-	14,694
Deferred stock-based compensation costs in accordance with U.S. GAAP		$ (35)	$ (19,429)	$ (7,968)

Other capital

As at August 31,		1999	2000	2001
Other capital in accordance with Canadian GAAP		$ -	$ -	$ -
Stock-based compensation costs related to stock-based compensation plans	a)			
Current year		-	18,749	8,145
Cumulative effect of prior years		-	-	18,749
Reduction of stock-based compensation costs		-	-	(14,544)
Other capital in accordance with U.S. GAAP		$ -	$ 18,749	$ 12,350

Retained earnings (deficit)

As at August 31,		1999	2000	2001
Retained earnings (deficit) in accordance with Canadian GAAP		$ 14,592	$ 6,980	$ (8,314)
Stock-based compensation costs related to stock-based compensation plans	a)			
Current year		(10)	(2,002)	(4,912)
Cumulative effect of prior years		-	(10)	(2,012)
Unrealized gains on forward exchange contracts, net of related future income taxes	c)			
Current year		-	-	117
Future income taxes on acquired in process research and development	d)			
Current year		-	-	(936)
Amortization of goodwill	d)			
Current year		-	-	(8,453)
Change in reporting currency	b)			
Current year				
Net earnings		(44)	-	-
Dividends		24	-	-
Cumulative effect of prior years		1,036	1,016	1,016
Retained earnings (deficit) in accordance with U.S. GAAP		$ 15,598	$ 5,984	$ (23,494)

Accumulated other comprehensive income (loss)

Years Ended August 31,		1999	2000	2001
Foreign currency translation adjustments	b)			
Balance – Beginning of year		$ (1,622)	$ (1,016)	$ 539
Change during the year		606	1,555	(9,888)
Balance – End of year		(1,016)	539	(9,349)
Unrealized holding gains on available-for-sale securities, net of future income taxes	e)			
Balance – Beginning of year		-	36	37
Unrealized gains arising during the year, net of related future income taxes		36	37	-
Reclassification adjustment for amounts included in net earnings (loss), net of related future income taxes		-	(36)	(37)
Balance – End of year		36	37	-
Accumulated other comprehensive income (loss)		$ (980)	$ 576	$ (9,349)

Balance sheets

The following table summarizes the significant differences in balance sheet items between Canadian GAAP and U.S. GAAP:

		As at August 31, 2000		As at August 31, 2001	
		As reported	U.S. GAAP	As reported	U.S. GAAP
Goodwill	d)				
Cost		$ 2,549	$ 2,549	$ 250,497	$ 315,547
Accumulated amortization		(297)	(297)	(31,125)	(39,762)
		$ 2,252	$ 2,252	$ 219,172	$ 275,785
Shareholders' equity					
Share capital	a), d), g)	$ 198,459	$ 201,151	$ 429,995	$ 498,121
Contributed surplus		-	-	1,457	1,457
Cumulative translation adjustment	b)	1,555	-	(8,333)	-
Deferred stock-based compensation costs	a), g)	-	(19,429)	-	(7,968)
Other capital	a)	-	18,749	-	12,350
Retained earnings (deficit)	a), b), c), d)	6,980	5,984	(8,314)	(23,494)
Accumulated other comprehensive income (loss)	b), e)	-	576	-	(9,349)
		$ 206,994	$ 207,031	$ 414,805	$ 471,117

Statements of cash flows

For the years ended August 31, 1999, 2000 and 2001, there are no significant differences between the statements of cash flows under Canadian GAAP as compared to U.S. GAAP.

Reconciliation items

a) Accounting for stock-based compensation

To conform with U.S. GAAP, the company measures stock-based compensation costs using the intrinsic value method (APB 25 "Accounting for Stock Issued to Employees").

Stock purchase plan

Under APB 25, compensation cost related to the stock purchase plan is measured as the difference between the fair value of the purchased stock and the purchase price paid by plan participants. Compensation cost is amortized to expense over a period of five years, being the restriction period. This plan terminated at the time of the Initial Public Offering on June 29, 2000.

During the years ended August 31, 1999 and 2000, the weighted average fair value per share under the stock purchase plan amounted to $0.68 and $10.80, respectively. The fair value per share since inception of the plan to June 29, 2000 ranged between $0.68 and $18.00.

Stock option plan

In accordance with APB 25, the company's stock option plan was considered to be a variable plan until October 10, 2000. As a result of the amendment to the stock option plan described in note 12, the performance criterion was removed and the number of shares to be issued under the plan was fixed. Aggregate compensation cost for the period from the date of grant to August 31, 2001 amounts to $2,418,000. Accordingly, the current year reflects a net reduction of the compensation cost and deferred compensation cost previously recognized of $467,000 and $14,544,000, respectively. Compensation cost under this plan is measured as the difference between the fair value of the underlying stock at the date of grant and the exercise price of the option. Compensation cost is amortized to expense over the estimated vesting period up to a maximum of four years.

Restricted stock award plan

Under APB 25, compensation cost related to the restricted stock award plan is measured as the difference between the fair value of the underlying stock at the date of grant and the exercise price which is nil. Compensation cost is amortized to expense over the estimated vesting period up to a maximum of four years, being the acquisition period.

Under Canadian GAAP, no compensation cost is recognized for these stock-based compensation plans.

b) Change in reporting currency

As mentioned in note 2, on September 1, 1999, the company adopted the US dollar as its reporting currency. Under U.S. GAAP, the financial statements, including prior years, are translated according to the current rate method. Under Canadian GAAP, at the time of change in reporting currency, the historical financial statements are presented using a translation of convenience.

Under Canadian GAAP, the statement of earnings for the year ended August 31, 1999 was translated into US dollars using an exchange rate of US$1.00 = Cdn$1.4958. Under U.S. GAAP, revenues and expenses would be translated at exchange rates prevailing at the respective transaction dates. Average exchange rate for the year ended August 31, 1999 was US$1.00 = Cdn$1.5068. The exchange rate as at August 31, 1999 was US$1.00 = Cdn$1.4958.

c) Forward exchange contracts

On September 1, 2000, the company prospectively adopted Statement of Financial Accounting Standard No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and its amendments (SFAS 138), which requires all derivatives to be carried on the balance sheet at fair value. The forward exchange contracts used by the company have not qualified for hedging accounting treatment during the year ended August 31, 2001 and accordingly, changes in the fair value of the derivatives have been charged to earnings during the year.

Prior to the adoption of SFAS 133, forward exchange contracts held by the company were accounted for in accordance with SFAS 52 under U.S. GAAP. Accordingly, certain of the forward exchange contracts held for hedging and other purposes in 1998 and 1999, for which the underlying transactions were not firmly committed, did not qualify for hedge accounting. Consequently, unrealized gains or losses on these contracts at each balance sheet date were reflected in earnings for the corresponding year.

Under Canadian GAAP, the company's forward exchange contracts held for the purpose of hedging anticipated sales qualified for hedge accounting and any unrealized gains or losses were deferred and recognized in the statement of earnings upon settlement of the related transactions.

d) Business combinations

Under U.S. GAAP, the value of shares issued upon a business combination should be determined based on the market price of the shares over a reasonable period of time before and after the companies have reached an agreement on the purchase price, the significant terms of the agreement are known and the proposed transaction is announced.

Consequently, the measurement dates of the acquisitions of Burleigh and EXFO Photonic occurred on December 14, 2000 and March 6, 2001, respectively, the dates on which all significant terms of the agreements were known. The average market price of the shares a few days before and after those dates was $31.09 and $25.84, respectively. Considering the number of shares issued upon those acquisitions, the total consideration for U.S. GAAP purposes amounts to $244,198,000 ($189,270,000 under Canadian GAAP) for Burleigh and $120,802,000 ($110,146,000 under Canadian GAAP) for EXFO Photonic, thus increasing share capital and goodwill under U.S. GAAP.

Furthermore, under U.S. GAAP, in process research and development acquired in a business combination is written off at the time of acquisition and no future income taxes are recognized on this asset in the purchase price allocation process. Under Canadian GAAP, in process research and development acquired in a business combination is capitalized and amortized over its estimated useful life. Future income taxes are recognized on the acquisition date on that asset in the purchase price allocation process. As at August 31, 2001, in process research and development recorded under Canadian GAAP was fully amortized.

e) Short-term investments

Under U.S. GAAP, the short-term investments would be classified as "available-for-sale" securities. Consequently, these securities would be carried at fair value, with any unrealized holding gains or losses at each balance sheet date being reflected in other comprehensive income (loss) on a net-of-tax basis. Under Canadian GAAP, short-term investments are carried at the lower of cost and market value and cost is composed of acquisition cost plus amortization of discount or less amortization of premium.

f) Earnings (loss) per share

Under U.S. GAAP, the presentation of per share figures for earnings before amortization of goodwill and of any other unaudited supplementary per share non-GAAP information is not permitted. In addition, under U.S. GAAP, amortization of goodwill would be included in the computation of earnings from operations.

g) Share capital

Under Canadian GAAP, restricted shares reacquired from employees under the stock purchase plan are treated as arm's length repurchases of shares whereas under U.S. GAAP, the reacquisition of shares would be accounted for as a forfeiture by the employee, resulting in any difference between the amount originally credited to share capital and the remaining deferred compensation cost being credited to compensation expense in the current period. The subsequent resale of the shares would be treated as an issuance of shares for the proceeds received.

h) New accounting standards

On June 15, 2001, the Financial Accounting Standards Board issued SFAS 143, "Accounting for Asset Retirement Obligation", which is effective for fiscal years beginning on or after June 15, 2002. This standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The company has not yet assessed the impact of the adoption of this new standard.

On July 20, 2001, the Financial Accounting Standards Board issued SFAS 141, "Business Combinations" and SFAS 142, "Goodwill and Other Intangible Assets". SFAS 141 requires business combinations initiated after June 30, 2001 or business combinations accounted for by the purchase method with a date of acquisition after June 30, 2001 to be accounted for using the purchase method of accounting. This section also broadens criteria for recording intangible assets separately from goodwill. Upon the adoption of SFAS 142, recorded goodwill and intangible assets will be evaluated against those new criteria and may result in certain intangible assets being reclassified into goodwill or, alternatively, amounts initially recorded as goodwill being separately identified and recognized apart from goodwill as intangible assets. SFAS 142 requires the use of a non-amortization approach to account for purchased goodwill and indefinite-lived intangibles. Under non-amortization approach, goodwill and indefinite-lived intangibles will not be amortized, but instead they will be reviewed for impairment and written down and charged to earnings only in the periods in which the recorded value of goodwill and indefinite-lived intangibles exceeds their fair value. This section will be adopted on September 1, 2002.

The impact of adopting SFAS 142 will allow the company to use the non-amortization approach for goodwill and will reduce annual goodwill amortization by approximately $63,000,000. Moreover, the company will implement a new goodwill impairment methodology and any potential initial impairment losses on goodwill determined by this methodology will be charged to earnings.

Unaudited pro forma information on business combinations

Under U.S. GAAP, pro forma information must be provided as though the business combinations had occurred at the beginning of the reported periods.

The following unaudited pro forma information reflects the results of operations as if the 2001 acquisitions had been completed on September 1, 2000 and 1999, the 2000 acquisitions had been completed on September 1, 1999 and 1998, and the 1999 acquisition had been completed on September 1, 1998.

Such information is not necessarily indicative of the actual results which would have been achieved, nor is it necessarily indicative of future consolidated results of the company.

Years Ended August 31,	1999	2000	2001
Sales	$ 44,948	$ 107,262	$ 165,754
Net earnings (loss)	$ 5,689	$ (71,143)	$ (56,498)
Basic and diluted net earnings (loss) per share	$ 0.14	$ (1.42)	$ (0.99)

Accounting for stock-based compensation

Under U.S. GAAP, the company has elected to measure compensation cost related to grants of stock options and stock awards using the intrinsic value method of accounting. In this instance, however, under SFAS 123, Accounting for Stock-Based Compensation, the company is required to make pro forma disclosures of net earnings (loss), basic and diluted net earnings (loss) per share as if the fair value based method of accounting had been applied.

The fair value of options or awards granted was estimated using the Black-Scholes options pricing model with the following weighted average assumptions:

Years Ended August 31,	2000	2001
Risk-free interest rate	6.04%	5,36%
Expected volatility	75%	75%
Dividend yield	Nil	Nil
Weighted average expected life	32 months	33 months

The Black-Scholes options valuation model was developed for use in estimating the fair value of traded options and awards which have no vesting restrictions, and are fully transferable. In addition, option and award valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the company's employee stock options and stock awards have characteristics significantly different from those of traded options and awards, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options and stock awards.

If the fair value based method had been used to account for stock-based compensation costs related to stock options and stock awards issued to employees, directors and executive officers, the net earnings (loss) and related net earnings (loss) per share figures under U.S. GAAP would be as follows:

Years Ended August 31,	2000	2001
Pro forma net earnings (loss) for the year	$ 8,939	$ (39,109)
Pro forma basic and diluted net earnings (loss) per share	$ 0.22	$ (0.74)

20 • Subsequent event

Acquisition of Avantas Networks Corporation

On August 20, 2001, the company entered into an agreement to acquire a 100% interest in Avantas Networks Corporation, a Canadian company specializing in fiber-optic protocol testing. This acquisition is expected to be settled for a total consideration of approximately US$95,625,000, less cash acquired of US$28,000,000. The consideration paid will consist of US$36,000,000 in cash and the issuance of approximately 4,400,000 subordinate voting shares. The fair value of subordinate voting shares to be issued was determined based on the market price of the shares over a reasonable period of time before and after the terms of the acquisition are agreed to and announced. This acquisition will be accounted for using the purchase method according to the new CICA section 1581. The goodwill resulting from this acquisition will not be amortized according to CICA section 3062 but will be subject to an impairment test.

This acquisition is expected to be closed in the first quarter of 2002.

Quarterly Summary Financial Information (unaudited)

(in thousands of US dollars, except per share data)

	1st quarter	2nd quarter	3rd quarter	4th quarter	Years ended August 31,
2001					
Sales	$ 28,519	$ 36,293	$ 45,781	$ 35,420	$ 146,013
Cost of sales	$ 10,308	$ 12,787	$ 17,418	$ 14,433	$ 54,946
Gross margin	$ 18,211	$ 23,506	$ 28,363	$ 20,987	$ 91,067
Earnings (loss) from operations	$ 6,791	$ 6,912	$ 4,335	$ (3,531)	$ 14,507
Net earnings (loss)	$ 7,505	$ 24	$ (8,630)	$ (14,193)	$ (15,294)
Adjusted net earnings*	$ 7,638	$ 7,511	$ 6,204	$ 3,219	$ 24,463
Basic and diluted net earnings (loss) per share*	$ 0.16	$ -	$ (0.15)	$ (0.25)	$ (0.29)
Basic and diluted adjusted net earnings per share*	$ 0.16	$ 0.14	$ 0.11	$ 0.06	$ 0.46
2000					
Sales	$ 11,688	$ 17,423	$ 19,411	$ 23,117	$ 71,639
Cost of sales	$ 3,733	$ 5,876	$ 7,347	$ 7,756	$ 24,712
Gross margin	$ 7,955	$ 11,547	$ 12,064	$ 15,361	$ 46,927
Earnings from operations	$ 2,092	$ 3,640	$ 3,847	$ 5,144	$ 14,723
Net earnings	$ 1,300	$ 2,412	$ 2,748	$ 3,464	$ 9,924
Adjusted net earnings*	$ 1,306	$ 2,461	$ 2,885	$ 3,599	$ 10,252
Basic and diluted net earnings per share*	$ 0.03	$ 0.06	$ 0.07	$ 0.08	$ 0.25
Basic and diluted adjusted net earnings per share*	$ 0.03	$ 0.06	$ 0.07	$ 0.08	$ 0.26
1999					
Sales	$ 9,124	$ 9,604	$ 10,916	$ 12,522	$ 42,166
Cost of sales	$ 3,402	$ 3,619	$ 3,753	$ 4,224	$ 14,998
Gross margin	$ 5,722	$ 5,985	$ 7,163	$ 8,298	$ 27,168
Earnings from operations	$ 1,890	$ 1,640	$ 2,417	$ 2,729	$ 8,676
Net earnings	$ 1,175	$ 1,045	$ 1,623	$ 1,971	$ 5,814
Adjusted net earnings*	$ 1,182	$ 1,052	$ 1,630	$ 1,979	$ 5,843
Basic and diluted net earnings per share*	$ 0.02	$ 0.03	$ 0.04	$ 0.05	$ 0.14
Basic and diluted adjusted net earnings per share*	$ 0.02	$ 0.03	$ 0.04	$ 0.05	$ 0.14

* Adjusted net earnings and per share data are calculated independently for each of the quarters presented. Therefore, the sum of this quarterly information may not equal the corresponding annual information. Adjusted net earnings represent net earnings excluding amortization of goodwill and the after-tax effect of amortization of intangible assets and non-recurring expenses. This information may not be comparable to similarly titled measures reported by other companies because it is non-GAAP information.