

Results of Operations

The following table sets forth certain Canadian GAAP consolidated statements of earnings data in thousands of US dollars, except per share data, and as a percentage of sales for the years indicated:

Years Ended August 31,	1999	2000	2001	1999	2000	2001
Sales	\$ 42,166	\$ 71,639	\$ 146,013	100.0 %	100.0 %	100.0 %
Cost of sales	14,998	24,712	54,946	35.6	34.5	37.6
Gross margin	27,168	46,927	91,067	64.4	65.5	62.4
Operating expenses						
Selling and administrative	13,279	24,304	46,236	31.5	33.9	31.7
Net research and development	4,315	6,402	13,601	10.2	8.9	9.3
Amortization of property, plant and equipment	857	1,451	3,559	2.0	2.0	2.4
Amortization of intangible assets	41	47	9,876	0.1	0.1	6.8
Non-recurring expenses	-	-	3,288	-	-	2.3
Earnings from operations	8,676	14,723	14,507	20.6	20.6	9.9
Interest income, net	136	1,480	6,098	0.3	2.1	4.2
Foreign exchange gain (loss)	(506)	(684)	3,327	(1.2)	(1.0)	2.3
Earnings before income taxes and amortization of goodwill	8,306	15,519	23,932	19.7	21.7	16.4
Income taxes	2,492	5,298	8,150	5.9	7.4	5.6
Earnings before amortization of goodwill	5,814	10,221	15,782	13.8	14.3	10.8
Amortization of goodwill	-	297	31,076	-	0.4	21.3
Net earnings (loss) for the year	\$ 5,814	\$ 9,924	\$ (15,294)	13.8 %	13.9 %	(10.5)%
Basic and diluted net earnings (loss) per share	\$ 0.14	\$ 0.25	\$ (0.29)			
Research and development data:						
Gross research and development	\$ 6,390	\$ 9,374	\$ 17,601	15.2 %	13.1 %	12.1 %
Net research and development	\$ 4,315	\$ 6,402	\$ 13,601	10.2 %	8.9 %	9.3 %
Other data (unaudited):						
Adjusted net earnings*	\$ 5,843	\$ 10,252	\$ 24,463	13.9 %	14.3 %	16.8 %
Basic and diluted adjusted net earnings per share*	\$ 0.14	\$ 0.26	\$ 0.46			

* 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.

Sales

Sales totalled \$146.0 million, \$71.6 million and \$42.2 million in fiscal 2001, 2000 and 1999, respectively. Sales increased 104% in fiscal 2001 compared to 2000 due to increased demand for our Industrial and Scientific products as well as our Portable and Monitoring products, market acceptance of several products launched in 2001 and the impact of the Burleigh Instruments and EXFO Photonic Solutions acquisitions completed during the year. In addition, the increase in sales of our Industrial and Scientific products significantly affected our top line because these products have a higher average selling price than Portable and Monitoring products.

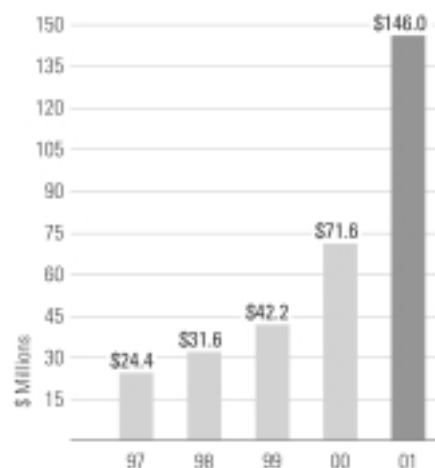
Altogether, Industrial and Scientific products accounted for almost 50% of our sales in fiscal 2001 compared to just over 30% in 2000. In fiscal 2002, we expect our Portable and Monitoring products to regain a larger share of our total sales due to continued carrier spending and the impact of the Avantas acquisition in the second half of the year. Although telecommunication carriers have lowered their capital expenditures for network deployment, they are upgrading networks by adding DWDM channels and increasing data transmission rates. As a result, they still need to purchase test and measurement equipment to ensure network reliability. The Avantas acquisition will initially benefit the Portable and Monitoring Division, but it should eventually increase sales in the Industrial and Scientific Division.

Accepted orders increased 53% to \$132.1 million in fiscal 2001 from \$86.2 million for 2000. Our book-to-bill ratio, however, decreased 25% to 0.90 in fiscal 2001 compared to 1.20 in 2000. The decrease in our book-to-bill ratio reflects the downturn in the telecommunications industry, which began impacting our booking in the third quarter of 2001.

In fiscal 2000, sales increased 70% compared to 1999. Growth in sales was mainly due to increased demand for our Industrial and Scientific products as well as a general sales increase in our other products.

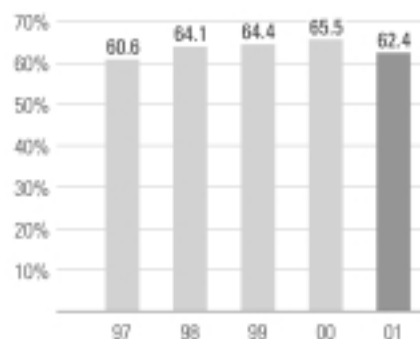
North American sales accounted for 58.3%, 61.6% and 56.3% of global sales in fiscal 2001, 2000 and 1999, respectively. International sales represented 41.7%, 38.4% and 43.7% of global sales in fiscal 2001, 2000 and 1999, respectively. The increase in international sales in fiscal 2001 compared to 2000 mainly reflects our sustained efforts to develop the Asian market. We almost tripled our sales in this region and added service centers in Beijing and Singapore to better serve our customers. The jump in North American sales in fiscal 2000 compared to 1999 was the result of our ability to exploit a robust economy in that region during that period.

We sell our products to a broad range of customers including telecommunication carriers, optical component and system manufacturers as well as research and development laboratories. No customer accounted for more than 6.4%, 5.8% and 6.8% of sales in fiscal 2001, 2000 and 1999, respectively.



Gross Margin

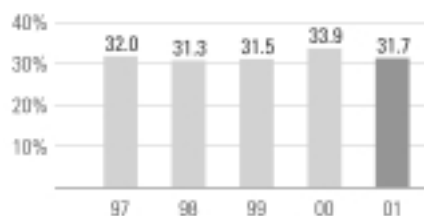
Gross margin amounted to 62.4%, 65.5% and 64.4% of sales for fiscal 2001, 2000 and 1999, respectively. Despite the increase in sales of Industrial and Scientific products, which tend to be slightly higher-margin products, gross margin decreased in fiscal 2001 compared to 2000 due to a number of reasons. First of all, we significantly increased our manufacturing capacity as well as hired and trained related manufacturing employees to face current and future demand for our products. Secondly, we re-engineered our manufacturing processes to be more cost-effective and to better mitigate the impact of potential pricing pressure in the future. Thirdly, we acquired EXFO Photonic Solutions, which operates in a market that has relatively lower-margin products. Finally, the slowdown in the telecommunications industry, which affected us mostly in the last quarter of fiscal 2001, prevented us from a better absorption of our fixed costs.



The improvement in gross margin in fiscal 2000 compared to 1999 reflects the increase in government grants earned in 2000, increased sales of higher-margin products and our cost-reduction manufacturing programs.

Gross margin can be negatively affected by competitive pricing pressure, increases in component costs and obsolescence costs, shifts in product mix, reductions in government grants, under-absorption of manufacturing fixed costs and increases in product offerings by other suppliers in the fiber-optic test, measurement and automation industry.

Selling and Administrative



Selling and administrative expenses reached \$46.2 million, \$24.3 million and \$13.3 million for fiscal 2001, 2000 and 1999, respectively. As a percentage of sales, selling and administrative expenses amounted to 31.7%, 33.9% and 31.5% for fiscal 2001, 2000 and 1999, respectively. The dollar increase for fiscal 2001 compared to 2000 is directly related to higher commissions resulting from increased sales activity, increased promotional and marketing expenses, expenses to consolidate our sales force in Asia, expenses related to running a public company and the impact of the Burleigh Instruments and EXFO Photonic Solutions acquisitions. The percentage decrease is mainly due to a better absorption of these expenses because sales are increasing at a faster rate than selling and administrative expenses.

The increase in selling and administrative expenses in fiscal 2000 compared to 1999 reflects increased personnel expenses for sales and marketing staff, increased expenses related to customer support, increased sales commissions related to higher sales, increased promotional and marketing expenses as well as the expenses related to running a public company since June 2000.

Considering current market conditions, efforts will be undertaken to maintain our selling and administrative expenses at an acceptable level without impeding our efforts to strategically position our company, improve our sales, marketing and customer service teams, integrate our acquired companies and satisfy our customers.

Research and Development



Gross R&D expenses totalled \$17.6 million, \$9.4 million and \$6.4 million for fiscal 2001, 2000 and 1999, respectively. As a percentage of sales, gross R&D expenses were 12.1%, 13.1% and 15.2% for fiscal 2001, 2000 and 1999, respectively. The increase in gross R&D dollars in fiscal 2001 compared to 2000 reflects our commitment to innovation by hiring additional R&D personnel as well as by the acquisitions of Burleigh Instruments and EXFO Photonic Solutions. Taking into account these acquisitions, we added 95 employees to our R&D departments in fiscal 2001, supporting our continued focus on innovative product development. Our sustained efforts in R&D allowed us to launch more than 20 new products in 2001. Altogether, 46% of our sales in fiscal 2001 originated from products that have been on the market for two years or less. This figure confirms our dedication to innovation and our anticipation of customers' needs and expectations.

The decrease, as percentage of sales, in fiscal 2001 compared to 2000 is mainly due to the fact that sales increased at a faster rate than R&D expenses during this period.

The increase in R&D dollars in fiscal 2000 compared to 1999 reflects the hiring of additional personnel to develop new products and enhance current ones. During fiscal 2000, we added 45 employees to our R&D Department.

Tax credits and grants from federal, provincial and state governments for R&D activities were \$4.0 million, \$3.0 million and \$2.1 million for fiscal 2001, 2000 and 1999, respectively. The increase in tax credits and grants in fiscal 2001 compared to 2000 is directly related to the hiring of additional R&D personnel as well as the impact of the EXFO Photonic Solutions acquisition. The increase in tax credits and grants in fiscal 2000 compared to 1999 is the result of hiring additional R&D personnel.

Tax credits and grants, as a percentage of gross R&D expenses, were 22.7%, 31.7% and 32.5% for fiscal 2001, 2000 and 1999, respectively. The decrease in fiscal 2001 compared to 2000 is related to a reduction in the effective tax credit rate and grants on R&D carried out in Canada. It should be noted that R&D carried out by US-based Burleigh Instruments is not eligible for tax credits. As a result, the gross R&D percentage was further reduced in fiscal 2001.

In terms of net R&D expenses, they amounted to 9.3%, 8.9% and 10.2% of sales for fiscal 2001, 2000 and 1999, respectively. We expect to continue investing heavily in R&D in the upcoming year, reflecting our focus on innovation and our desire to exceed our customers' needs and expectations.

Amortization of Intangible Assets

In conjunction with the acquisitions of Burleigh Instruments and EXFO Photonic Solutions, we recorded \$54.7 million in intangible assets primarily consisting of core technology. These intangible assets, which are amortized over periods from five months to five years, resulted in an amortization expense of \$9.9 million in fiscal 2001.

Non-Recurring Expenses

In June 2001, we implemented a structured plan to reduce costs and increase efficiency in order to align our cost structure to market conditions and be better positioned amidst a challenging environment.

Under this plan, we incurred non-recurring expenses of \$3.3 million, including \$0.8 million in severance expenses for the 245 employees who were terminated and \$2.5 million in unused facilities and assets. No such expenses were incurred in fiscal 2000 and 1999.

This plan should enable us to reduce our operating expenses by approximately \$8 million in fiscal 2002.

Interest Income, Net

Interest income amounted to \$6.1 million, \$1.5 million and \$0.1 million for fiscal 2001, 2000 and 1999, respectively. The increase in our interest income results solely from short-term investments of the remaining net proceeds of our Initial Public Offering on June 29, 2000. The increase in interest income is somewhat offset by interest expenses and bank charges related to borrowings under our lines of credit. Our interest income will decrease in fiscal 2002 because we used short-term investments to pay for cash considerations in recent acquisitions and because interest rates may continue to drop.

Foreign Exchange Gain (Loss)

Foreign exchange gain amounted to \$3.3 million in fiscal 2001 compared to foreign exchange losses of \$0.7 million in 2000 and \$0.5 million in 1999.

The foreign exchange gain in fiscal 2001 can be mostly attributed to the disposal of short-term investments denominated in US dollars and to the foreign exchange impact on operating activities of Canadian entities denominated in currencies other than the Canadian dollar. Foreign exchange losses incurred in fiscal 2000 and 1999 are solely due to the foreign exchange impact on operating activities of Canadian entities denominated in currencies other than the Canadian dollar.

Income Taxes

Our effective income tax rates were 34.1%, 34.1% and 30.0% for fiscal 2001, 2000 and 1999, respectively. Our effective income tax rate was flat in fiscal 2001 compared to 2000. The increase from fiscal 1999 to 2000 can be attributed to a decrease in our manufacturing and processing deduction.

Amortization of Goodwill

In conjunction with the acquisitions of Burleigh Instruments and EXFO Photonic Solutions, we recorded \$248.5 million in goodwill. Goodwill, which is amortized over five years, resulted in an amortization expense of \$31.1 million in fiscal 2001.

Net Earnings (Loss)

Net loss amounted to \$15.3 million in fiscal 2001 compared to net earnings of \$9.9 million in 2000 and \$5.8 million in 1999. In terms of per share amounts, we recorded a net loss of \$0.29 in fiscal 2001 compared to net earnings of \$0.25 in 2000 and \$0.14 in 1999.

Adjusted Net Earnings

As a measure to assess financial performance, we use adjusted net earnings and adjusted net earnings per share. Adjusted net earnings represent net earnings excluding amortization of goodwill and the after-tax effect of amortization of intangible assets and non-recurring expenses.

Adjusted net earnings amounted to \$24.5 million, \$10.3 million and \$5.8 million in fiscal 2001, 2000 and 1999, respectively. In terms of adjusted net earnings per share, it reached \$0.46, \$0.26 and \$0.14 in fiscal 2001, 2000 and 1999, respectively.

Liquidity and Capital Resources

Prior to our Initial Public Offering, we had financed operations and met our capital expenditure requirements mainly through cash flows from operations, research and development tax credits and government grants. On June 29, 2000, we closed our Initial Public Offering of 8,050,000 subordinate voting shares at a price of US\$26.00 per share in the United States and Cdn\$38.55 per share in Canada. Total proceeds, including the over-allotment option exercised by the underwriters, were approximately US\$209 million.

Cash Position and Short-Term Investments

As at August 31, 2001, cash and cash equivalents as well as short-term investments consisted of \$74.6 million. Our working capital was at \$130.3 million. The announced acquisition of Avantas Networks Corporation will be partially financed with \$8.0 million of cash on hand.

Operating Activities

Cash flows provided by operating activities were \$3.1 million in fiscal 2001 compared to cash flows used of \$4.0 million in 2000 and cash flows provided of \$3.7 million in 1999. Cash flows provided by operating activities in fiscal 2001 were primarily due to net earnings after items not affecting cash and cash equivalents of \$24.5 million. This figure was mainly offset by an increase of \$20.3 million in inventories required to ensure minimal manufacturing and delivery lead times.

Cash flows used in operating activities in fiscal 2000 were primarily due to net earnings after items not affecting cash and cash equivalents of \$10.9 million. This figure was mainly offset by an increase of \$10.5 million in accounts receivable, resulting from higher volumes of sales and \$10.7 million in inventories that were required to ensure minimal manufacturing and delivery lead times.

The major items not affecting cash and cash equivalents consisted of net amortization expenses of \$43.9 million for fiscal 2001 and \$1.0 million for 2000.

Financing Activities

Cash flows used in financing activities were \$4.6 million in fiscal 2001 compared to cash flows provided of \$172.9 million in 2000 and cash flows used of \$3.3 million in 1999. Cash flows used in financing activities in fiscal 2001 were mainly due to the repayment of bank advances and long-term debt of \$5.4 million. Considering these repayments, we have available credit facilities as at August 31, 2001 that provide for advances of up to \$11.4 million under lines of credit. These lines of credit bear interest at prime rate.

Cash flows provided by financing activities in fiscal 2000 were the result of the net proceeds of our Initial Public Offering of \$192.9 million less the dividends paid of \$17.6 million. Cash flows used in financing activities in fiscal 1999 were due to the payment of \$3.2 million in dividends that were declared that year. We do not foresee payments of additional dividends during the next three fiscal years.

Investing Activities

Cash flows provided by investing activities were \$9.2 million in fiscal 2001 compared to cash flows used of \$169.0 million in 2000 and \$1.2 million in 1999.

In fiscal 2001, we disposed of \$93.4 million in short-term investments to finance the \$15.9 million purchase of property, plant and equipment as well as to pay the cash consideration of \$68.3 million for the Burleigh Instruments and EXFO Photonic Solutions acquisitions. Despite these investments, the disposal of short-term investments generated net cash flows of \$9.2 million in fiscal 2001.

The purchases of \$159.8 million in short-term investments from the net proceeds of our Initial Public Offering and of \$7.2 million in property, plant and equipment explain the use of cash flows for investing activities in fiscal 2000. In fiscal 1999, the purchase of \$1.2 million in property, plant and equipment explain the use of cash flows in investing activities. As at August 31, 2001, property, plant and equipment amounted to \$27.1 million, while intangible assets and goodwill related to the acquisitions of Burleigh Instruments and EXFO Photonic Solutions totalled \$264.2 million, net of related accumulated amortization.

Outlook

We believe that our existing cash balances and short-term investments, together with cash flows from operations and available credit facilities, will be sufficient to meet our expected liquidity and capital requirements for the upcoming year, taking into account the cash consideration to be paid for the previously announced acquisition of Avantas Networks. However, possible investments in or acquisitions of complementary businesses, products or technologies may require additional financing prior to such time. There can be no assurance that additional debt or equity financing will be available when required or, if available, it can be secured on terms satisfactory to us.