Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, and we intend that such forward-looking statements be subject to the safe harbors created thereby. Forward-looking statements are statements other than historical information or statements of current condition. Words such as may, will, expect, believe, anticipate, intend, could, estimate, continue, or the negative or comparable terminology are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events and circumstances are considered forward-looking statements. They are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in forward-looking statements due to various factors including economic uncertainty (including our ability to quickly adapt cost structures with anticipated levels of business and our ability to manage inventory levels with market demand); future economic, competitive, financial and market condition; capital spending levels in the telecommunications industry; limited visibility with regards to customer orders and the timing of such orders; fluctuating exchange rates; our ability to successfully integrate our acquired and to-be-acquired businesses; consolidation in the global telecommunications test and service assurance industry and increased competition among vendors; concentration of sales; market acceptance of our new products and other upcoming products; our ability to successfully expand international operations; and the retention of key technical and management personnel. Assumptions relating to the foregoing involve judgments and risks, all of which are difficult or impossible to predict and many of which are beyond our control. Other risk factors that may affect our future performance and operations are detailed in our Annual Report, on Form 20-F, and our other filings with the U.S. Securities and Exchange Commission and the Canadian securities commissions. We believe that the expectations reflected in the forward-looking statements are reasonable based on information currently available to us, but we cannot assure you that the expectations will prove to have been correct. Accordingly, you should not place undue reliance on these forward-looking statements. These statements speak only as of the date of this document. Unless required by law or applicable regulations, we undertake no obligation to revise or update any of them to reflect events or circumstances that occur after the date of this document.

The following discussion and analysis of financial condition and results of operations is dated January 11, 2012.

All dollar amounts are expressed in US dollars, except as otherwise noted.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

On September 1, 2011, we adopted International Financial Reporting Standards (IFRS). Our condensed interim consolidated financial statements for the three months ended November 30, 2011 have been prepared in accordance with IFRS 1, "*First-Time Adoption of International Financial Reporting Standards*", and with IAS 34, "*Interim Financial Reporting*", as issued by the International Accounting Standard Board (IASB). Previously, we prepared our consolidated financial statements in accordance with Canadian generally accepted accounting principles, in effect prior to September 1, 2011 (previous GAAP). Comparative information for the three months ended November 30, 2010 has been restated to comply with IFRS. Note 3 to our condensed interim consolidated financial statements discloses the impact of the transition to IFRS on our reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in our consolidated financial statements for the year ended August 31, 2011 under previous GAAP. Specifically, note 3 presents a reconciliation of the consolidated statements of earnings and cash flows for the three months ended November 30, 2010 and for the year ended August 31, 2011, as well as a reconciliation of the consolidated balance sheets and shareholders' equity as at September 1, 2010, November 30, 2010 and August 31, 2011.

INDUSTRY OVERVIEW

Market conditions in the telecommunications industry remain tenuous based on weak global economic growth and unresolved sovereign debt issues in Europe. Despite this economic uncertainty, the fundamental drivers toward broadband deployments and fixed-mobile IP (Internet protocol) network convergence are entrenched in the telecommunications industry. Although network operators did not necessarily increase capital expenditures in calendar 2011, they spent more in select, high-growth areas to accommodate bandwidth-intensive broadband applications and to facilitate the migration to more flexible and cost-effective fixed and mobile IP networks.

According to Cisco's Visual Networking Index, global IP traffic will quadruple from 2010 to 2015, reaching 966 exabytes per year in 2015. (An exabyte is equal to 1 billion gigabytes or 250 million DVDs). Global mobile traffic, a subset of this larger group, is expected to increase 26-fold during the same period. This explosive growth is being driven by a proliferation of media-rich communication devices (smartphones and tablets), a growing number of Internet users, faster broadband speeds and increased video usage.

To support such bandwidth growth, wireline networks are being transformed into next-generation IP-based infrastructures. Legacy SONET/SDH networks, which were established in the mid-1980s, do not have the flexibility to seamlessly mix and transport voice, data and video services. These networks are not capable of efficiently carrying triple-play services because they were designed for point-to-point voice communication. As a result, new optical transport network (OTN) standards, which are at the very heart of what the industry is labeling next-generation IP networks, have been defined to carry IP applications over Ethernet. Network operators are increasingly turning to such next-generation, IP-based networks in order to offer customers higher-margin triple-play services while lowering their operating costs.

Fiber-to-the-home (FTTH) has also become the access network architecture of choice for wireline operators wishing to provide a superior user experience for a combined voice, data and video offering. This architecture allows operators to meet heightened bandwidth requirements and future-proof their access networks as residential bandwidth demands grow from 1 to 5 Mbit/s (megabits per second) to 30 to 100 Mbit/s required for the long term. Hybrid architectures, combining copper and fiber (fiber-to-the-curb, or FTTC, and fiber-to-the-node, or FTTN), will also increase in the short term, since they are less expensive methods to increase bandwidth and can be mass-deployed quickly.

As bandwidth growth in access networks continues to increase, it has begun placing a strain on metro rings and core networks. It is also driving the need for higher-speed technologies. For example, 43 Gbit/s (gigabits per second) SONET/SDH is becoming mainstream, while commercial deployments of 100 Gbit/s Ethernet networks are beginning to take place. In the long run, these solutions will offer a more economical way to add capacity to saturated network links, especially if trenches need to be dug in order to deploy new fiber in metro and long-distance routes.

On the wireless side, operators are also faced with major investments to meet soaring bandwidth demand. Wireless operators are accelerating deployments of 3G networks, fast-tracking 4G/LTE (long-term evolution) adoption, and investing in mobile backhaul networks in order to increase transmission rates for bandwidth-hungry consumers to approach wireline speeds. Furthermore, as these consumers expect wireline and wireless networks to transport any content to any device at any time, both fixed and mobile networks are converging to a common IP-based infrastructure supported by IMS (IP multimedia subsystem) for seamless network interoperability.

These market dynamics affected telecom test and service assurance suppliers in the first quarter of fiscal 2012.

COMPANY OVERVIEW

We reported sales of $66.4 million in the first quarter of fiscal 2012, which represents an increase of 1.1% compared to the same period last year. We also reported bookings of $71.4 million in the first quarter of fiscal 2012, for a book-to-bill ratio of 1.08, compared to record-high bookings of $89.8 million for the same period last year.

We generated net earnings from continuing operations of $2.9 million, or $0.05 per diluted share, in the first quarter of fiscal 2012, compared to $1.2 million, or $0.02 per diluted share, for the same period last year. Net earnings from continuing operations for the first quarter of fiscal 2012 included $1.9 million in after-tax amortization of intangible assets and $555,000 in stock-based compensation costs. Earnings from operations amounted to $2.4 million, or 3.6% of sales in the first quarter of fiscal 2012 compared to $5.2 million, or 7.8% of sales for the same period last year. Net earnings for the first quarter of fiscal 2012 amounted to $2.9 million, or $0.05 per diluted share, compared to $14.1 million, or $0.23 per diluted share, in the same period last year. Net earnings for the first quarter of fiscal 2011 included net earnings from discontinued operations of $12.9 million.

Adjusted EBITDA (net earnings before interest, income taxes, depreciation of property, plant and equipment, amortization of intangible assets and gain from disposal of discontinued operations) reached $7.6 million, or 11.4% of global sales in the first quarter of fiscal 2012, compared to $8.2 million, or 12.1% of global sales for the same period last year. Adjusted EBIDTA for the first quarter of fiscal 2012 included a foreign exchange gain of $1.7 million, compared to a foreign exchange loss of $1.1 million for the same period last year. See further in this document for a complete reconciliation of adjusted EBITDA to IFRS net earnings.

On November 7, 2011 we announced that our Board of Directors had approved the renewal of our share repurchase program, by way of a normal course issuer bid on the open market of up to 2% of the issued and outstanding subordinate voting shares, representing 575,690 subordinate voting shares at the prevailing market price. We expect to use cash, short-term investments or future cash flow from operations to fund the repurchase of shares. The normal course issuer started on November 10, 2011, and will end on November 9, 2012, or on an earlier date if we repurchase the maximum number of shares permitted under the bid. The program does not require that we repurchase any specific number of shares, and it may be modified, suspended or terminated at any time and without prior notice. All shares repurchased under the bid will be cancelled.

In terms of market-driven innovation, we launched five new products in the first quarter of fiscal 2012, including our BrixHawk Distributed Analyzer for live mobile network troubleshooting, network service optimization and acceleration of 3G and 4G/LTE rollouts; added functionality for the FTB Ecosystem with 3G and VPN connectivity available on the FTB-1, FTB-200 and FTB-500 platforms, as well as a geo-location function for better asset management and enhanced data reporting; and a multi-rate, multi-service test solution for characterizing high-speed networks reaching 100G.

OUR STRATEGY, KEY PERFORMANCE INDICATORS AND CAPABILITY TO DELIVER RESULTS

For a complete description of our strategy and the related key performance indicators, as well as our capability to deliver results in fiscal 2012, please refer to the corresponding sections in our most recent Annual Report, filed with the securities commissions.

However, given the sales level reached in the first quarter of fiscal 2012 of $66.4 million, the sales forecast for the second quarter of 2012 and the ongoing difficult macro-economic environment, we no longer believe that we can organically achieve our corporate objective to increase our sales by a compound annual growth rate (CAGR) of at least 25% for fiscal 2010 to 2012. Nevertheless, we remain confident that we will grow faster than our end-markets during this period.

RESULTS OF OPERATIONS
(in thousands of US dollars, except per share data, and as a percentage of sales for the periods indicated)

	Three months ended November 30,		Three months ended November 30,	
	2011	**2010**	**2011**	**2010**
Sales	**$ 66,388**	$ 65,653	**100.0 %**	100.0 %
Cost of sales (1)	**23,370**	24,785	**35.2**	37.8
Selling and administrative	**24,618**	19,899	**37.1**	30.3
Net research and development	**12,483**	11,601	**18.8**	17.7
Depreciation of property, plant and equipment	**1,568**	1,646	**2.4**	2.5
Amortization of intangible assets	**1,921**	2,566	**2.9**	3.9
Earnings from operations	**2,428**	5,156	**3.6**	7.8
Interest expenses	**(27)**	(7)	–	–
Foreign exchange gain (loss)	**1,664**	(1,113)	**2.5**	(1.7)
Earnings before income taxes	**4,065**	4,036	**6.1**	6.1
Income taxes	**1,151**	2,829	**1.7**	4.3
Net earnings from continuing operations	**2,914**	1,207	**4.4 %**	1.8 %
Net earnings from discontinued operations	–	12,926		
Net earnings for the period	**$ 2,914**	$ 14,133		
Basic and diluted net earnings from continuing operations per share	**$ 0.05**	$ 0.02		
Basic net earnings from discontinued operations per share	**$ –**	$ 0.22		
Diluted net earnings from discontinued operations per share	**$ –**	$ 0.21		
Basic net earnings per share	**$ 0.05**	$ 0.24		
Diluted net earnings per share	**$ 0.05**	$ 0.23		

Other selected information:

Gross margin (2)	**$ 43,018**	$ 40,868	**64.8 %**	62.2 %
Research and development:				
Gross research and development	**$ 14,813**	$ 13,690	**22.3 %**	20.9 %
Net research and development	**$ 12,483**	$ 11,601	**18.8 %**	17.7 %
Adjusted EBITDA (2)	**$ 7,581**	$ 8,188	**11.4 %**	12.1 %

(1) The cost of sales is exclusive of depreciation and amortization, shown separately.
(2) Refer to page 17 for non-IFRS measures.

RESULTS FROM CONTINUING OPERATIONS (formerly the Telecom Division)

SALES

For the three months ended November 30, 2011, our sales increased 1.1% to $66.4 million, compared to $65.7 million for the same period last year.

In the first quarter of fiscal 2012, we reported a modest sales growth compared to the same period last year. Network operators and equipment manufacturers are increasingly scrutinizing their capital expenditures and even delaying some purchasing decisions considering global economic conditions. . Namely, in the first quarter of fiscal 2012, we did not benefit from the same level of calendar year-end budget spending from some of our customers compared to the same period last year.

However, despite these current challenging market conditions on a global basis in the first quarter of fiscal 2012, we delivered double-digit sales growth for our protocol products year-over-year, which were positively affected by the sales increase of our SONET/SDH and Ethernet test equipment and the increased traction gained in the high-growth wireless market as well as in the service assurance space. In addition, in the first quarter of fiscal 2012, we witnessed a single-digit sales growth of our optical products year-over-year.

Also, it should be remembered that in the first quarter of fiscal 2011, we received significant orders in excess of $6 million from a tier-1 European operator for our AXS-200/635 triple-play tester (copper-access), and recognized $5.7 million from that order. We did not have such single large order in the first quarter of fiscal 2012, which significantly reduced our growth rate year-over-year.

Bookings

For the three months ended November 30, 2011, our bookings decreased 20.5% to $71.4 million, compared to a record-high $89.8 million for the same period last year, for a book-to-bill ratio of 1.08. However, this is our second-highest bookings level in company history and the third consecutive sequential increase of our quarterly bookings since the second quarter of fiscal 2011.

Market conditions in the telecommunications industry remain tenuous based on weak global economic growth, and as mentioned earlier, network operators and equipment manufacturers are increasingly scrutinizing their capital expenditures and even delaying some purchasing decisions; this resulted in lower bookings in the first quarter of fiscal 2012 compared to the same period last year. Namely, in the first quarter of fiscal 2012, we did not reach the significant level of calendar year-end budget spending reported in the first quarter of 2011.

Bookings for the first quarter of fiscal 2011 were exceptionally high with, among others, large orders totaling more than $8 million from two tier-1 network operators, for our AXS-200/635 triple-play tester. We did not have such large orders in this quarter for our copper-access product line.

Geographic distribution

In the first quarter of fiscal 2012, sales to the Americas, Europe, Middle-East and Africa (EMEA) and Asia-Pacific (APAC) accounted for 55%, 27% and 18% of sales respectively, compared to 53%, 30% and 17% for the same period last year respectively.

Customer concentration

We sell our products to a broad range of customers, including network service providers, network equipment manufacturers, wireless operators and cable TV operators. In the first quarter of fiscal 2012, no customer accounted for more than 10% of our sales, and our top three customers accounted for 10.2% of our sales. In the corresponding period last year, no customer accounted for more than 10% of our sales, and our top three customers accounted for 24.4% of our sales.

GROSS MARGIN (non-IFRS measure – refer to page 17 of this document)

Gross margin reached 64.8% of sales for the three months ended November 30, 2011, compared to 62.2% for the same period last year.

The increase in our gross margin in the first quarter of fiscal 2012, compared to the same period last year, can be explained by the following factors.

In the first quarter of fiscal 2011, our gross margin was negatively affected by the shift in product mix in favor of our copper-access test solutions. In fact, sales of these products, which typically deliver lower margins than our other test solutions, were much higher last year compared to the same period this year and we granted larger volume discounts on a significant part of these sales. In the opposition, in the first quarter of fiscal 2012, we had larger sales volume of high-margin protocol products compared to the same period last year, which had a positive impact on our gross margin year-over-year.

In addition, in the first quarter of fiscal 2012, there has been a more favorable wireless product mix compared to the same period last year, which resulted in a higher gross margin year-over-year.

Finally, in the first quarter of fiscal 2012, a larger portion of our sales came from products manufactured in our facilities in China compared to the same period last year; those products have a lower cost of goods than those manufactured in our facilities in Canada, thus resulting in an improvement in our gross margin year-over-year.

Considering the expected sales growth in fiscal 2012, the expected increase in sales of protocol products as well as software-intensive products and services, the cost-effective design of our products, our increased manufacturing activities in China and our tight control on operating costs, we expect our gross margin to continue to improve in the future. However, our gross margin may fluctuate quarter-over-quarter as our sales may fluctuate. Furthermore, our gross margin can be negatively affected by increased competitive pricing pressure, customer concentration and/or consolidation, increased obsolescence and warranty costs, shifts in customer and product mix, under-absorption of fixed manufacturing costs and increases in product offerings by other suppliers in our industry. Finally, any increase in the strength of the Canadian dollar, compared to the US dollar, may have a negative impact on our gross margin in fiscal 2012 and beyond.

SELLING AND ADMINISTRATIVE EXPENSES

For the three months ended November 30, 2011, selling and administrative expenses were $24.6 million, or 37.1% of sales, compared to $19.9 million, or 30.3% of sales for the same period last year.

In the first quarter of fiscal 2012, considering our goal of becoming the leading player in the telecom test and service assurance space, we continued intensifying our sales and marketing efforts, both domestic and international, which caused our expenses to increase year-over-year.

In addition, in the first quarter of fiscal 2012, we had larger commission expenses compared to the same period last year due to the shift in product and territory mix.

For fiscal 2012, we expect our selling and administrative expenses to increase in dollars and range between 32% and 34% of sales. In addition, in fiscal 2012, we expect our commission expenses to increase as the sales volume increases. Furthermore, considering our goal of becoming the leading player in the telecom test and service assurance space and to deliver the synergies expected from our recent acquisition, we plan to continue intensifying our sales and marketing efforts, both domestic and international, which will also cause our expenses to rise. Finally, any increase in the strength of the Canadian dollar and the euro versus the US dollar would also cause our selling and administrative expenses to increase, as a portion of these expenses are incurred in Canadian dollars and euros.

RESEARCH AND DEVELOPMENT EXPENSES

Gross research and development expenses

For the three months ended November 30, 2011, gross research and development expenses totaled $14.8 million, or 22.3% of sales, compared to $13.7 million, or 20.9% of sales for the same period last year.

During the first quarter of fiscal 2012, we intensified our research and development activities across our research and development expertise centers around the world, which resulted in increased gross research and development expenses during that period compared to the same period last year.

In addition, in the first quarter of fiscal 2012, a shift in the mix of research and development projects resulted in increased gross research and development expenses compared to the same period last year.

Tax credits and grants

We are entitled to tax credits from the Canadian federal and provincial governments for eligible research and development activities conducted in Canada. We are also eligible to grants by a Finnish technology organization on certain research and development projects conducted in Finland.

For the three months ended November 30, 2011, tax credits and grants for research and development activities were $2.3 million, or 15.7% of gross research and development expenses, compared to $2.1 million, or 15.3% of gross research and development expenses for the same period last year.

In the first quarter of fiscal 2012, the year-over-year increase of research and development activities in Canada and Finland, where we are entitled to tax credits and grants, resulted in increased tax credits and grants during that period.

For fiscal 2012, we expect our net research and development expenses to increase in dollars, and range between 17% and 19% of sales, given our focus on innovation, the addition of software features in our products, our desire to gain market share and our goal to exceed customer needs and expectations. Finally, any increase in the strength of the Canadian dollar and euro versus the US dollar in the upcoming quarters would also cause our net research and development expenses to increase, as a significant portion of these expenses are incurred in Canadian dollars and euros.

AMORTIZATION OF INTANGIBLE ASSETS

For the three months ended November 30, 2011, amortization of intangible assets was $1.9 million, compared to $2.6 million for the same period last year.

The decrease in amortization expenses during the first quarter of fiscal 2012, compared to the same period last year comes from the fact that core technologies related to the acquisition of Consultronics Limited became fully amortized during the second quarter of fiscal 2011.

FOREIGN EXCHANGE GAIN (LOSS)

Foreign exchange gains and losses are mainly the result of the translation of operating activities denominated in currencies other than our functional currency, which is the Canadian dollar. We manage our exposure to currency risks with forward exchange contracts. In addition, some of our entities' operating activities are denominated in US dollars, euros, or other currencies, which further hedges these risks. However, we remain exposed to currency risks and any increase in the value of the Canadian dollar, compared to the US dollar and euro, would have a negative impact on our operating results.

For the three months ended November 30, 2011, we recorded a foreign exchange gain of $1.7 million compared to a foreign exchange loss of $1.1 million for the same period last year.

During the first quarter of fiscal 2012, the period-end value of the Canadian dollar decreased versus the US dollar, compared to the previous quarter, which resulted in a significant foreign exchange gain during that period. In fact, the period-end value of the Canadian dollar decreased 4.0% to CA$1.0197 = US$1.00 in the first quarter of fiscal 2012, compared to CA$0.9784 = US$1.00 at the end of the previous quarter.

During the first quarter of fiscal 2011, the period-end value of the Canadian dollar increased versus the US dollar, compared to the previous quarter, which resulted in a significant foreign exchange loss during that period. The period-end value of the Canadian dollar increased 3.9% to CA$1.0264 = US$1.00 in the first quarter of fiscal 2011, compared to CA$1.0665 = US$1.00 at the end of the previous quarter.

INCOME TAXES

For the three months ended November 30, 2011, our income tax expenses totaled $1.2 million compared to $2.8 million for the same period last year.

For the three months ended November 30, 2011, we reported income tax expenses of $1.2 million on earnings before income taxes of $4.1 million, for an effective income tax rate of 28.3%; this compares to our combined Canadian and provincial statutory tax rate of 28%. Although our effective tax rate for the quarter is close to our statutory tax rate, we had some offsetting elements during the quarter. First, a significant portion of our foreign exchange gain is created by the translation of financial statements of our foreign subsidiaries, and is therefore non-taxable. In addition, during the quarter, we recognized previously unrecognized deferred income tax assets of one of our subsidiary, which resulted in a one-time income tax recovery. However, one of our subsidiaries, which incurred an operating loss during the quarter, is a non-taxable entity; therefore this operating loss could not offset the tax expenses incurred in other profitable entities, thus increasing our income tax expenses for the period. In addition, we did not recognized deferred income taxes for some of our subsidiaries at loss and we have some non-deductible expenses, such as stock-based compensation costs.

During the first quarter of fiscal 2012, based on available positive and negative evidence as well as the level and the nature of cumulative and expected profits of one of our subsidiaries located in Asia, we concluded that it was probable that deferred income tax assets of that subsidiary would be realizable. Consequently, we recognized deferred income tax assets in the amount of $557,000 during the first quarter of fiscal 2012. These deferred income tax assets are mainly comprised of operating losses carried forward.

For the three months ended November 30, 2010, we reported income tax expenses of $2.8 million on earnings before income taxes of $4.0 million, for an effective income tax rate of 70.0%. Our combined Canadian and provincial statutory tax rate is 29%. This situation mainly results from the fact that a significant portion of our foreign exchange loss is created by the translation of financial statements of our foreign subsidiaries, and is therefore non-deductible. In addition, we did not recognized deferred income taxes for some of our subsidiaries at loss and we have some non-deductible expenses, such as stock-based compensation costs. Otherwise, the actual tax rate would have been closer to the statutory tax rate.

Please refer to note 9 to our condensed interim consolidated financial statements for a full reconciliation of our income tax provision.

RESULTS OF DISCONTINUED OPERATIONS (formerly the Life Sciences and Industrial Division)

On October 1, 2010, we completed the sale of our Life Sciences and Industrial Division and that Division contributed one month to our results of the first quarter of fiscal 2011. Results from operations for that Division for the first quarter of fiscal 2011 were included in net earnings from discontinued operations along with the gain on the sale of the Division.

SALES

For the first quarter of fiscal 2011, sales of the discontinued operations (one-month contribution) amounted to $2.0 million.

NET EARNINGS

During the first quarter of fiscal 2011, we reported net earnings from discontinued operations of $12.9 million, which included a gain on disposal of discontinued operations of $13.2 million and $264,000 in stock-based compensation costs.

LIQUIDITY AND CAPITAL RESOURCES

Cash requirements and capital resources (from continuing operations)

As at November 30, 2011, cash and short-term investments totalled $68.3 million, while our working capital was at $133.2 million. Our cash and short-term investments decreased $1.6 million in the first quarter of fiscal 2012, compared to the previous quarter. During the first quarter of fiscal 2012, we made cash payments of $4.5 million for the purchase of capital assets, mainly for our new building in Montreal, Canada, as well as cash payments of $785,000 and $363,000 for the reimbursement of our bank loan and the redemption of share capital pursuant to our share repurchase program respectively. In addition, we recorded an unrealized foreign exchange loss on our cash and short-term investments of $2.4 million. This unrealized foreign exchange loss resulted from the translation, in US dollars, of our Canadian-dollar-denominated cash and short-term investments and was included in the accumulated other comprehensive income in the balance sheet. However, operating activities generated $6.5 million in cash during the first quarter of fiscal 2012, which mitigated the sequential decrease in our cash position.

Our short-term investments consist of commercial paper and banker acceptances issued by three (twelve as at August 31, 2011) high-credit quality corporations and trusts; therefore, we consider the risk of non-performance of these financial instruments to be limited. None of these debt instruments are expected to be affected by a significant liquidity risk. For the purpose of managing our cash position, we have established a cash management policy, which we follow and monitor on a regular basis. Our cash and short-term investments will be used for working capital and other general corporate purposes, any other potential acquisition, the construction of our new building in Montreal, Canada as well as our share repurchase program. As at November 30, 2011, cash balances included an amount of $35.7 million that bear interests at a rate of 1.3%.

We believe that our cash balances and short-term investments will be sufficient to meet our liquidity and capital requirements for the foreseeable future, including the remaining construction costs, over the next six months, of our new building in Montreal, Canada, as well as the effect of our normal course issuer bid. In addition to these assets, we have unused available lines of credit totaling $15.7 million for working capital and other general corporate purposes and unused lines of credit of $14.7 million for foreign currency exposure related to forward exchange contracts. However, possible operating losses and/or possible investments in or acquisitions of complementary businesses, products or technologies may require additional financing. There can be no assurance that additional debt or equity financing will be available when required or, if available, that it can be secured on satisfactory terms.

Sources and uses of cash

We finance our operations and meet our capital expenditure requirements mainly through cash flows from operating activities, the use of our cash and short-term investments as well as the issuance of subordinate voting shares.

Operating activities (including discontinued operations)

Cash flows provided by operating activities were $6.5 million for the three months ended November 30, 2011, compared to cash flows used of $2.6 million for the same period last year.

Cash flows provided by operating activities in the first quarter of fiscal 2012 were mainly attributable to the net earnings after items not affecting cash of $5.4 million and the positive net change in non-cash operating items of $1.1 million; this was mainly due to the positive effect on cash of the increase of $3.4 million in our accounts payable, accrued liabilities and provisions due to timing of purchases and payments during the quarter, and the positive effect on cash of the decrease of $593,000 in our inventories. These positive effects on cash were offset in part by the negative effect on cash of the increase of $2.9 million in our accounts receivable due to the increase and the timing of sales.

Cash flows used by operating activities in the first quarter of fiscal 2011 were mainly attributable to the net earnings after items not affecting cash of $5.8 million, offset by the negative net change in non-cash operating items of $8.4 million; this was mainly due to the negative effect on cash of the increase of $4.5 million in our accounts receivable (increase and timing of sales), the increase of $1.0 million in our income taxes and tax credits recoverable (mainly tax credits earned during the quarter and not yet recovered), the increase of $1.4 million in our inventories, to sustain increased sales activities and the decrease of $1.2 million in our accounts payable, accrued liabilities and provisions due to timing of purchases and payments during the quarter.

Investing activities (including discontinued operations)

Cash flows provided by investing activities were $28.4 million for the three months ended November 30, 2011, compared to $3.5 million for the same period last year. In the first quarter of fiscal 2012, we disposed (net of acquisitions) of $32.9 million worth of short-term investments but we paid $4.5 million for the purchase of capital assets, mainly for our new building in Montreal, Canada.

For the corresponding period last year, we received $22.1 million from the disposal of discontinued operations, but we acquired (net of disposal) $16.5 million worth of short-term investments and paid $2.0 million for the purchase of capital assets and $132,000 in relation to the acquisition of NetHawk.

Financing activities (including discontinued operations)

Cash flows used by financing activities were $1.1 million for the three months ended November 30, 2011, compared to cash flows provided of $61,000 for the same period last year. In the first quarter of fiscal 2012, we reimbursed our bank loan of $785,000 and redeemed share capital for a cash consideration of $363,000.

For the corresponding period last year, we received $61,000 from the exercise of stock options.

FORWARD EXCHANGE CONTRACTS

We utilize forward exchange contracts to manage our foreign currency exposure. Our policy is not to utilize those derivative financial instruments for trading or speculative purposes.

Our forward exchange contracts, which are used to hedge anticipated US-dollar-denominated sales, qualify for hedge accounting; therefore, realized foreign exchange translation gains and losses on these contracts are recognized as an adjustment of the revenues when the corresponding sales are recorded.

As at November 30, 2011, we held forward exchange contracts to sell US dollars at various forward rates, which are summarized as follows:

Expiry dates	**Contractual amounts**	**Weighted average contractual forward rates**
December 2011 to August 2012	$ 24,500,000	1.0469
September 2012 to August 2013	19,000,000	1.0212
September 2013 to August 2014	3,600,000	1.0439
Total	$ 47,100,000	1.0363

The carrying amount of forward exchange contracts is equal to fair value, which is based on the amount at which they could be settled based on estimated current market rates.The fair value of forward exchange contracts amounted to net gains of $2.3 million as at August 31, 2011 and $550,000 as at November 30, 2011. The quarter-end exchange rate was CA$1.0197 = US$1.00 as at November 30, 2011.

CONTINGENCY

On November 27, 2001, a class action suit was filed in the United States District Court for the Southern District of New York against EXFO, four of the underwriters of our Initial Public Offering and some of its executive officers pursuant to the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and Sections 11, 12 and 16 of the Securities Act of 1933. This class action alleges that EXFO’s registration statement and prospectus filed with the Securities and Exchange Commission on June 29, 2000, contained material misrepresentations and/or omissions resulting from (i) the underwriters allegedly soliciting and receiving additional, excessive and undisclosed commissions from certain investors in exchange for which they allocated material portions of the shares issued in connection with EXFO’s Initial Public Offering; and (ii) the underwriters allegedly entering into agreements with customers whereby shares issued in connection with EXFO’s Initial Public Offering would be allocated to those customers in exchange for which customers agreed to purchase additional amounts of shares in the after-market at predetermined prices.

On April 19, 2002, the plaintiffs filed an amended complaint containing master allegations against all of the defendants in all of the 310 cases included in this class action and also filed an amended complaint containing allegations specific to four of EXFO’s underwriters, EXFO and two of our executive officers. In addition to the allegations mentioned above, the amended complaint alleges that the underwriters (i) used their analysts to manipulate the stock market; and (ii) implemented schemes that allowed issuer insiders to sell their shares rapidly after an initial public offering and benefit from high market prices. As concerns EXFO and our two executive officers in particular, the amended complaint alleges that (i) EXFO’s registration statement was materially false and misleading because it failed to disclose the additional commissions and compensation to be received by underwriters; (ii) the two named executive officers learned of or recklessly disregarded the alleged misconduct of the underwriters; (iii) the two named executive officers had motive and opportunity to engage in alleged wrongful conduct due to personal holdings of EXFO’s stock and the fact that an alleged artificially inflated stock price could be used as currency for acquisitions; and (iv) the two named executive officers, by virtue of their positions with EXFO, controlled the company and the contents of the registration statement and had the ability to prevent its issuance or cause it to be corrected. The plaintiffs in this suit seek an unspecified amount for damages suffered.

In July 2002, the issuers filed a motion to dismiss the plaintiffs’ amended complaint and a decision was rendered on February 19, 2003. Only one of the claims against EXFO was dismissed. On October 8, 2002, the claims against our officers were dismissed, without prejudice, pursuant to the terms of Reservation of Rights and Tolling Agreements entered into with the plaintiffs (the “Tolling Agreements”). Subsequent addenda to the Tolling Agreements extended the tolling period through August 27, 2010.

In June 2004, an agreement of partial settlement was submitted to the court for preliminary approval. The proposed partial settlement was between the plaintiffs, the issuer defendants in the consolidated actions, the issuer officers and directors named as defendants, and the issuers’ insurance companies. The court granted the preliminary approval motion on February 15, 2005, subject to certain modifications. On August 31, 2005, the court issued a preliminary order further approving the modifications to the settlement and certifying the settlement classes. The court also appointed the notice administrator for the settlement and ordered that notice of the settlement be distributed to all settlement class members by January 15, 2006. The settlement fairness hearing occurred on April 24, 2006, and the court reserved decision at that time.

While the partial settlement was pending approval, the plaintiffs continued to litigate against the underwriter defendants. The district court directed that the litigation proceed within a number of “focus cases” rather than in all of the 310 cases that have been consolidated. EXFO's case is not one of these focus cases. On October 13, 2004, the district court certified the focus cases as class actions. The underwriter defendants appealed that ruling, and on December 5, 2006, the Court of Appeals for the Second Circuit reversed the district court’s class certification decision.

On April 6, 2007, the Second Circuit denied the plaintiffs' petition for rehearing of that decision and, on May 18, 2007, the Second Circuit denied the plaintiffs' petition for rehearing *en banc*. In light of the Second Circuit's opinion, liaison counsel for all issuer defendants, including EXFO, informed the court that this settlement cannot be approved, because the defined settlement class, like the litigation class, cannot be certified. On June 25, 2007, the district court entered an order terminating the settlement agreement. On August 14, 2007, the plaintiffs filed their second consolidated amended class action complaints against the focus cases and, on September 27, 2007, again moved for class certification. On November 12, 2007, certain defendants in the focus cases moved to dismiss the second consolidated amended class action complaints. On March 26, 2008, the district court denied the motions to dismiss, except as to Section 11 claims raised by those plaintiffs who sold their securities for a price in excess of the initial offering price and those who purchased outside of the previously certified class period. Briefing on the class certification motion was completed in May 2008. That motion was withdrawn without prejudice on October 10, 2008.

On April 2, 2009, a stipulation and agreement of settlement between the plaintiffs, issuer defendants and underwriter defendants was submitted to the Court for preliminary approval. The Court granted the plaintiffs' motion for preliminary approval and preliminarily certified the settlement classes on June 10, 2009. The settlement fairness hearing was held on September 10, 2009. On October 6, 2009, the Court entered an opinion granting final approval to the settlement and directing that the Clerk of the Court close these actions. On August 26, 2010, based on the expiration of the tolling period stated in the Tolling Agreements, the plaintiffs filed a Notice of Termination of Tolling Agreement and Recommencement of Litigation against the two named executive officers. The plaintiffs stated to the Court that they do not intend to take any further action against the named executive officers at this time. Appeals of the opinion granting final approval were filed, all of which were disposed of except the appeals filed by one objector were remanded to the district court to determine standing to appeal. On August 25, 2011, the district court issued an order holding that the final objector had no standing to appeal. The objector has appealed that decision. Given that the district court's August 25, 2011 judgment remains subject to appeal, the ultimate outcome of the contingency is uncertain. However, based on the settlement approved on October 6, 2009, and the related insurance against such claims, we have determined the impact to our financial position and results of operations as at and for the three months ended November 30, 2011 to be immaterial.

SHARE CAPITAL

Share capital

As at January 11, 2012, EXFO had 31,643,000 multiple voting shares outstanding, entitling to 10 votes each and 28,744,002 subordinate voting shares outstanding. The multiple voting shares and the subordinate voting shares are unlimited as to number and without par value.

OFF-BALANCE SHEET ARRANGEMENTS

As at November 30, 2011, our off-balance sheet arrangements consisted of letters of guarantee amounting to $5.1 million; these letters of guarantee expire at various dates through fiscal 2017. From this amount, we had $0.7 million worth of letters of guarantee for our own selling and purchasing requirements, which were for the most part reserved from one of our lines of credit. The remainder, in the amount of $4.4 million, was used to secure our line of credit in CNY (Chinese currency) of $4.0 million. This line of credit was unused as at November 30, 2011.

SPECIAL PURPOSES ENTITIES

As at November 30, 2011, we did not have interests in any special purposes entities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our condensed interim consolidated financial statements have been prepared in accordance with IFRS 1, "*First-Time Adoption of International Financial Reporting Standards (IFRS)*", and IFRS applicable to the preparation of interim financial statements, IAS 34, "*Interim Financial Reporting*". Note 2 of our condensed interim consolidated financial statements for the three months ended November 30, 2011 details accounting policies that we adopted under IFRS. In addition, note 3 to our condensed interim consolidated financial statements discloses the impact of the transition to IFRS on our reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the company's consolidated financial statements for the year ended August 31, 2011 under Canadian GAAP (previous GAAP).

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosures of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, we evaluate these estimates and assumptions, including those related to the fair value of financial instruments, the allowance for doubtful accounts receivable, the amount and timing of recovery of tax credits recoverable, the provision for excess and obsolete inventories, the estimated useful lives of capital assets, the valuation of long-lived assets, the impairment of goodwill, the recoverable amount of deferred income tax assets, the amount of certain accrued liabilities, provisions and deferred revenue as well as stock-based compensation costs. We base our estimates and assumptions on historical experience and on other factors that we believe to be reasonable under the circumstances, the result of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates and assumptions.

The following summarizes our critical accounting policies as well as other policies that require the most significant judgment and estimates in the preparation of our consolidated financial statements.

(a) Inventories

We state our inventories at the lower of cost, determined on an average cost basis, and net realizable value, and provide reserves for excess and obsolete inventories. We determine our reserves for excess and obsolete inventories based on the quantities on hand at the reporting dates compared to foreseeable needs over the next twelve months, taking into account changes in demand, technology or market. It is possible that additional inventory reserves may occur if future sales are less than our forecasts or if there is a significant shift in product mix compared to our forecasts, which could adversely affect our future results.

(b) Income taxes

We are subject to income tax laws and regulations in several jurisdictions. Under these laws and regulations, uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. We maintain provisions for uncertain tax position that we believe appropriately reflect our risk based on our interpretation of laws and regulations. In addition, we make reasonable estimates and assumptions to determine the amount of deferred tax assets that can be recognized in our consolidated financial statements, based upon the likely timing and level of anticipated future taxable income together with tax planning strategies. The ultimate realization of our deferred income tax assets is dependent upon the generation of sufficient future taxable income during the periods in which those assets are expected to be realized.

As at November 30, 2011, our net deferred income tax assets recognized in the balance sheet amounted to $12.1 million, and our non-refundable research and development tax credits amounted to $36.3 million. In order to realize these deferred income tax assets and non-refundable research and development tax credits, we need to generate approximately $238 million (CA$243 million) in pretax earnings at the Canadian federal level, approximately $11 million at the Canadian provincial levels, approximately $32 million at the United States federal level, and approximately $3 million in Singapore.

(c) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or group of assets (cash generating unit (CGU)) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. In the calculation of recoverable amount of a CGU, we base our calculations on discounted cash flows. These calculations require the use of estimates, including management's expectations of future revenue growth, operating costs and profit margins as well as discount rates for each CGU.

i) Growth rates

The assumptions used are based on historical growth, our internal budget, expectations of future revenue growth as well as industry and market trends. We projected revenues, operating margins and cash flows for periods of five years, and applied a perpetual long-term growth rate thereafter.

ii) Discount rate

We use a discount rate to calculate the present value of estimated future cash flows, which represents our weighted average cost of capital (WACC).

NEW IFRS PRONOUNCEMENTS AND AMENDMENTS NOT YET ADOPTED

Financial Instruments – Disclosure

IFRS 7, "*Financial Instruments: Disclosures*", has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted. While we are currently assessing the impact of this new standard, we do not expect the standard to have a significant impact on our consolidated financial statements.

Financial Instruments

IFRS 9, "*Financial Instruments*", was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, "*Financial Instruments – Recognition and Measurement*", for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. This standard is effective for annual periods beginning on or after January 1, 2015. We have not yet assessed the impact that this new standard is likely to have on our consolidated financial statements.

In May 2011, the IASB issued the following standards: IFRS 10, "*Consolidated Financial Statements*", IFRS 11, "*Joint Arrangements*", IFRS 12, "*Disclosure of Interests in Other Entities*", and IFRS 13, "*Fair Value Measurement*". Each of the new standards is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. We have not yet assessed the impact that the new and amended standards may have on our consolidated financial statements or whether or not to early adopt any of these new requirements.

The following is a brief summary of these new standards:

Consolidation

IFRS 10, "*Consolidated Financial Statements*", requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when a company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee ("SIC") 12, "*Consolidation – Special Purpose Entities*" and parts of IAS 27, "*Consolidated and Separate Financial Statements*".

Joint Arrangements

IFRS 11, "*Joint Arrangements*", requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operations. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 replaces IAS 31, "*Interests in Joint Ventures*", and SIC 13, "*Jointly Controlled Entities-Non-Monetary Contributions by Venturers*".

Disclosure of Interests in Other Entities

IFRS 12, "*Disclosure of Interests in Other Entities*", establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance-sheet vehicles. This standard carries forward existing disclosures and also introduces significant additional disclosures requirements that address the nature of, and risks associated with, an entity's interests in other entities.

Fair Value Measurement

IFRS 13, "*Fair Value Measurement*", is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Financial Statement Presentation

In June 2011, the IASB amended IAS 1, "*Financial Statement Presentation*". The amendments to IAS 1 requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to the statement of earnings in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future, such as unrealized gains and losses on cash flows hedges. The amendment is effective for annual periods beginning on or after July 1, 2012. Early adoption is permitted and full retrospective application is required. We do not expect the standard to have a significant impact on our consolidated financial statements.

RISKS AND UNCERTAINTIES

Over the past several years, we have managed our business in a difficult environment; focused on research and development programs for new and innovative solutions aimed at expected growth pockets in our sector; continued the development of our domestic and international markets; and made strategic acquisitions. However, we operate in a highly competitive and complex sector that is in constant evolution and, as a result, we encounter various risks and uncertainties that must be given appropriate consideration in our strategic management plans and policies.

Also, our business is subject to the effects of general economic conditions in North America and throughout the world and, more particularly, market conditions in the telecommunications industry. In the past, our operating results were adversely affected by reduced telecom capital spending in North America, Europe and Asia and by unfavorable general economic conditions. In particular, sales to network service providers in North America were significantly and adversely affected by a downturn in 2001 in the telecommunications industry and by the global economic recession in 2009. These recession and downturn affected our key geographic regions or markets. In the event of another recession or slowdown in key geographic regions or markets, we may experience a material adverse impact on our business, operating results and financial conditions.

In addition, we are exposed to currency risks due to the export of our products manufactured in Canada, China and Finland; the large majority of these sales are denominated in US dollars and euros. These risks are partially hedged by operating expenses denominated in US dollars and euros, the purchase of raw materials in US dollars as well as forward exchange contracts. Any decrease in the value of the US dollar compared to the Canadian dollar and the euro in the coming months would negatively affect our results of operations.

While strategic acquisitions, like the recent acquisition of NetHawk, those we have made in the past and possibly others in the future, are essential to our long-term growth, they also expose us to certain risks and uncertainties related to the rapid and effective integration of these businesses, their products, technologies and personnel as well as key personnel retention. Finally, integration of new acquisitions will require the dedication of management resources, which may detract their attention from our day-to-day business and operations.

Furthermore, risks and uncertainties related to the telecommunications test and service assurance industry involve the rapid development of new products that may have short lifecycles and require extensive research and development; the difficulty of adequately predicting market size and trends; the difficulty of retaining highly skilled employees; and the ability to quickly adapt our cost structure to changing market conditions in order to achieve profitability.

Also, given our strategic goals for growth and competitive positioning in our industry, we are continuously expanding into international markets, which requires certain actions, such as the operation of our manufacturing facilities in China and software development centers in India. This exposes us to certain risks and uncertainties, namely changes in local laws and regulations, multiple technological standards, protective legislation, pricing pressure, cultural differences and the management of operations in China and India.

The economic environment of our industry could also result in some of our customers experiencing difficulties, which, consequently, could have a negative effect on our results, especially in terms of future sales and recoverability of accounts receivable. However, the sectorial and geographic diversity of our customer base provides us with a reasonable level of protection in this area. Finally, other financial instruments, which potentially subject us to credit risks, consist mainly of cash, short-term investments and forward exchange contracts. Our short-term investments consist of debt instruments issued by high-credit quality corporations and trusts. Our cash and forward exchange contracts are held with or issued by high-credit quality financial institutions; therefore, we consider the risk of non-performance on these instruments to be limited.

We depend on a limited number of suppliers for some of the parts used to manufacture our products for which alternative sources may not be readily available. In addition, all our orders are placed through individual purchase orders and, therefore, our suppliers may experience difficulties, suffer from natural disasters, delays or stop supplying parts to us at any time. The reliance on a single source or limited number of suppliers could result in increased costs, delivery problems and reduced control over product pricing and quality. Any interruption or delay in the supply of any of these parts could significantly harm our ability to meet scheduled product deliveries to our customers and cause us to lose sales. Furthermore, the process of qualifying a new manufacturer for complex parts designed to our specifications, such as our optical, electronic or mechanical parts, is lengthy and would consume a substantial amount of time for our technical personnel and management. If we were required to change a supplier in a short period of time, our business would be disrupted. In addition, we may be unsuccessful in identifying a new supplier capable of meeting and willing to meet our needs on terms that we would find acceptable.

For a more complete understanding of risk factors that may affect us, please refer to the risk factors set forth in our disclosure documents published with securities commissions at www.EXFO.com, or at www.sedar.com in Canada or www.sec.gov/edgar.shtml in the U.S.

NON-IFRS FINANCIAL MEASURES

We provide non-IFRS financial measures (gross margin*, EBITDA** and adjusted EBITDA**) as supplemental information regarding our operational performance. We use these measures for the purposes of evaluating our historical and prospective financial performance, as well as our performance relative to our competitors. These measures also help us to plan and forecast future periods as well as to make operational and strategic decisions. We believe that providing this information to our investors, in addition to the IFRS measures, allows them to see the company's results through the eyes of management, and to better understand our historical and future financial performance.

The presentation of this additional information is not prepared in accordance with IFRS. Therefore, the information may not necessarily be comparable to that of other companies and should be considered as a supplement to, not a substitute for, the corresponding measures calculated in accordance with IFRS.

* Gross margin represents sales less cost of sales, excluding depreciation and amortization.

** EBITDA is defined as net earnings before interest, income taxes, depreciation of property, plant and equipment and amortization of intangible assets. Adjusted EBITDA represents EBITDA excluding the gain from the disposal of discontinued operations.

The following tables summarize the reconciliation of EBITDA and adjusted EBITDA to IFRS net earnings and additional information, in thousands of US dollars:

EBITDA and adjusted EBITDA *(including discontinued operations)*

	Three months ended November 30,	
	2011	**2010**
IFRS net earnings for the period	$ 2,914	$ 14,133
Add (deduct):		
Depreciation of property, plant and equipment		
Continuing operations	1,568	1,646
Discontinued operations	–	14
Amortization of intangible assets		
Continuing operations	1,921	2,566
Discontinued operations	–	4
Interest expenses		
Continuing operations	27	7
Income taxes		
Continuing operations	1,151	2,829
Discontinued operations	–	201
EBITDA for the period	7,581	21,400
Gain on disposal of discontinued operations	–	(13,212)
Adjusted EBITDA for the period	$ 7,581	$ 8,188
Adjusted EBITDA in percentage of total sales	11.4 %	12.1 %

Additional information

	Three months ended November 30, 2011	Three months ended November 30, 2010
Sales from continued operations	$ 66,388	$ 65,653
Sales from discontinued operations	–	1,991
Total sales	$ 66,388	$ 67,644

QUARTERLY SUMMARY FINANCIAL INFORMATION (unaudited)
(tabular amounts in thousands of US dollars, except per share data)

	Quarters ended			
	November 30, 2011	**August 31, 2011**	**May 31, 2011**	**February 28, 2011**
Sales	$ 66,388	$ 64,414	$ 67,630	$ 72,046
Cost of sales (1)	$ 23,370	$ 23,447	$ 24,243	$ 27,821
Earnings from operations	$ 2,428	$ 5,878	$ 3,489	$ 6,782
Net earnings from continuing operations	$ 2,914	$ 4,638	$ 1,798	$ 1,716
Basic and diluted net earnings per share	$ 0.05	$ 0.08	$ 0.03	$ 0.03

	Quarters ended			
	November 30, 2010	**August 31, 2010 (2)**	**May 31, 2010 (2)**	**February 28, 2010 (2)**
Sales	$ 65,653	$ 58,583	$ 55,930	$ 47,951
Cost of sales (1)	$ 24,785	$ 20,629	$ 20,421	$ 18,818
Earnings from operations	$ 5,156	$ 4,414	$ 1,840	$ 2,657
Net earnings (loss) from continuing operations	$ 1,208	$ 4,124	$ (600)	$ (256)
Net earnings	$ 14,133	$ 4,962	$ 169	$ 1,154
Basic and diluted net earnings (loss) from continuing operations per share	$ 0.02	$ 0.07	$ (0.01)	$ 0.00
Basic net earnings per share	$ 0.24	$ 0.08	$ 0.00	$ 0.02
Diluted net earnings per share	$ 0.23	$ 0.08	$ 0.00	$ 0.02

(1) The cost of sales is exclusive of depreciation and amortization.
(2) Quarterly data for fiscal 2010 has not been adjusted to reflect new standards under IFRS.