# EXFO Inc.
## Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

| | As at February 29, 2012 | As at August 31, 2011 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | $ 71,249 | $ 22,771 |
| Short-term investments | 5,144 | 47,091 |
| Accounts receivable | | |
| Trade | 42,787 | 45,151 |
| Other (note 4) | 4,449 | 6,329 |
| Income taxes and tax credits recoverable | 7,068 | 5,414 |
| Inventories | 44,327 | 52,754 |
| Prepaid expenses | 3,418 | 3,237 |
| | 178,442 | 182,747 |
| Tax credits recoverable | 33,810 | 34,120 |
| Forward exchange contracts (note 4) | 309 | 149 |
| Property, plant and equipment (note 5) | 39,545 | 32,076 |
| Intangible assets | 18,198 | 22,901 |
| Goodwill | 29,750 | 30,942 |
| Deferred income taxes | 16,471 | 17,314 |
| | $ 316,525 | $ 320,249 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Bank loan | $ – | $ 784 |
| Accounts payable and accrued liabilities | 30,313 | 30,320 |
| Provisions | 1,581 | 1,817 |
| Income taxes payable | 1,218 | 876 |
| Contingent liability (note 6) | – | 338 |
| Current portion of long-term debt | 597 | 645 |
| Deferred revenue | 9,793 | 10,590 |
| | 43,502 | 45,370 |
| **Deferred revenue** | 5,630 | 5,704 |
| **Long-term debt** | 597 | 968 |
| **Other liabilities** | 559 | 723 |
| **Deferred income taxes** | 5,402 | 4,803 |
| | 55,690 | 57,568 |
| **Shareholders' equity** | | |
| Share capital (note 7) | 111,421 | 110,341 |
| Contributed surplus | 17,345 | 18,017 |
| Retained earnings | 117,392 | 113,438 |
| Accumulated other comprehensive income | 14,677 | 20,885 |
| | 260,835 | 262,681 |
| | $ 316,525 | $ 320,249 |

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

# EXFO Inc.
## Unaudited Interim Consolidated Statements of Earnings

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

| | Three months ended February 29, 2012 | Six months ended February 29, 2012 | Three months ended February 28, 2011 | Six months ended February 28, 2011 |
|---|---|---|---|---|
| **Sales** | $ 66,917 | $ 133,305 | $ 72,046 | $ 137,699 |
| Cost of sales [(1)] (note 8) | 23,616 | 46,986 | 27,821 | 52,606 |
| Selling and administrative (note 8) | 23,676 | 48,294 | 22,235 | 42,134 |
| Net research and development (note 8) | 12,307 | 24,790 | 11,244 | 22,845 |
| Depreciation of property, plant and equipment (note 8) | 1,546 | 3,114 | 1,597 | 3,243 |
| Amortization of intangible assets (note 8) | 1,974 | 3,895 | 2,367 | 4,933 |
| Changes in fair value of cash contingent consideration (note 6) | (311) | (311) | – | – |
| **Earnings from operations** | 4,109 | 6,537 | 6,782 | 11,938 |
| Interest income | 171 | 144 | 49 | 42 |
| Foreign exchange gain (loss) | (1,471) | 193 | (2,395) | (3,508) |
| **Earnings before income taxes** | 2,809 | 6,874 | 4,436 | 8,472 |
| **Income taxes** (note 9) | 1,769 | 2,920 | 2,720 | 5,549 |
| **Net earnings from continuing operations** | 1,040 | 3,954 | 1,716 | 2,923 |
| **Net earnings from discontinued operations** | – | – | – | 12,926 |
| **Net earnings for the period** | $ 1,040 | $ 3,954 | $ 1,716 | $ 15,849 |
| **Basic net earnings from continuing operations per share** | $ 0.02 | $ 0.07 | $ 0.03 | $ 0.05 |
| **Diluted net earnings from continuing operations per share** | $ 0.02 | $ 0.06 | $ 0.03 | $ 0.05 |
| **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** | $ 0.02 | $ 0.07 | $ 0.03 | $ 0.27 |
| **Diluted net earnings per share** | $ 0.02 | $ 0.06 | $ 0.03 | $ 0.26 |
| **Basic weighted average number of shares outstanding (000's)** | 60,441 | 60,391 | 59,900 | 59,782 |
| **Diluted weighted average number of shares outstanding (000's)** (note 10) | 61,606 | 61,685 | 61,524 | 61,314 |

(1) The cost of sales is exclusive of depreciation and amortization, shown separately.

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

# EXFO Inc.
## Unaudited Interim Consolidated Statements of Comprehensive Income (Loss)

(in thousands of US dollars)

| | Three months ended February 29, 2012 | Six months ended February 29, 2012 | Three months ended February 28, 2011 | Six months ended February 28, 2011 |
|---|---|---|---|---|
| **Net earnings for the period** | $ 1,040 | $ 3,954 | $ 1,716 | $ 15,849 |
| Other comprehensive income (loss), net of income taxes | | | | |
| Foreign currency translation adjustment | 6,148 | (5,604) | 12,760 | 18,987 |
| Unrealized gains on forward exchange contracts | 963 | 144 | 1,794 | 3,238 |
| Reclassification of realized gains on forward exchange contracts in net earnings | (355) | (980) | (464) | (653) |
| Deferred income tax effect of the components of other comprehensive income (loss) | (163) | 232 | (365) | (703) |
| Other comprehensive income (loss) | 6,593 | (6,208) | 13,725 | 20,869 |
| **Comprehensive income (loss) for the period** | $ 7,633 | $ (2,254) | $ 15,441 | $ 36,718 |

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

# EXFO Inc.
## Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

| | Six months ended February 28, 2011 | | | | |
|---|---|---|---|---|---|
| | Share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive income | Total shareholders' equity |
| Balance as at September 1, 2010 | $ 106,126 | $ 18,563 | $ 91,152 | $ 1,016 | $ 216,857 |
| Exercise of stock options | 1,280 | – | – | – | 1,280 |
| Reclassification of stock-based compensation costs | 2,152 | (2,152) | – | – | – |
| Stock-based compensation costs | – | 1,210 | – | – | 1,210 |
| Net earnings for the period | – | – | 15,849 | – | 15,849 |
| Other comprehensive income | | | | | |
| Foreign currency translation adjustment | – | – | – | 18,987 | 18,987 |
| Changes in unrealized gains on forward exchange contracts, net of deferred income taxes of $703 | – | – | – | 1,882 | 1,882 |
| Total comprehensive income for the period | – | – | 15,849 | 20,869 | 36,718 |
| Balance as at February 28, 2011 | $ 109,558 | $ 17,621 | $ 107,001 | $ 21,885 | $ 256,065 |

| | Six months ended February 29, 2012 | | | | |
|---|---|---|---|---|---|
| | Share Capital | Contributed Surplus | Retained earnings | Accumulated other comprehensive income | Total shareholders' equity |
| Balance as at September 1, 2011 | $ 110,341 | $ 18,017 | $ 113,438 | $ 20,885 | $ 262,681 |
| Exercise of stock options | 78 | – | – | – | 78 |
| Redemption of share capital (note 7) | (404) | (222) | – | – | (626) |
| Reclassification of stock-based compensation costs | 1,406 | (1,406) | – | – | – |
| Stock-based compensation costs | – | 956 | – | – | 956 |
| Net earnings for the period | – | – | 3,954 | – | 3,954 |
| Other comprehensive loss | | | | | |
| Foreign currency translation adjustment | – | – | – | (5,604) | (5,604) |
| Changes in unrealized gains on forward exchange contracts, net of deferred income taxes of $232 | – | – | – | (604) | (604) |
| Total comprehensive loss for the period | – | – | 3,954 | (6,208) | (2,254) |
| Balance as at February 29, 2012 | $ 111,421 | $ 17,345 | $ 117,392 | $ 14,677 | $ 260,835 |

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

# EXFO Inc.

## Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

| | Three months ended February 29, 2012 | Six months ended February 29, 2012 | Three months ended February 28, 2011 | Six months ended February 28, 2011 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Net earnings for the period | $ 1,040 | $ 3,954 | $ 1,716 | $ 15,849 |
| Add (deduct) items not affecting cash | | | | |
| Change in discount on short-term investments | 12 | 43 | (9) | (27) |
| Stock-based compensation costs | 508 | 1,063 | 625 | 1,363 |
| Depreciation and amortization | 3,520 | 7,009 | 3,964 | 8,194 |
| Gain on disposal of discontinued operations | – | – | – | (13,212) |
| Changes in fair value of cash contingent consideration (note 6) | (311) | (311) | – | – |
| Deferred revenue | 488 | (653) | 3,250 | 679 |
| Deferred income taxes | 888 | 1,623 | 2,619 | 4,609 |
| Foreign exchange gain/loss | 175 | (1,039) | 1,054 | 1,591 |
| | 6,320 | 11,689 | 13,219 | 19,046 |
| Change in non-cash operating items | | | | |
| Accounts receivable | 5,504 | 2,607 | 9,085 | 4,605 |
| Income taxes and tax credits | (1,547) | (1,419) | (2,260) | (3,319) |
| Inventories | 7,050 | 7,643 | (2,098) | (3,460) |
| Prepaid expenses | (228) | (213) | (324) | (709) |
| Accounts payable, accrued liabilities and provisions | (3,432) | (35) | 3,074 | 1,850 |
| Other liabilities | (91) | (152) | 17 | 152 |
| | 13,576 | 20,120 | 20,713 | 18,165 |
| **Cash flows from investing activities** | | | | |
| Additions to short-term investments | (9,876) | (67,798) | (88,804) | (314,950) |
| Proceeds from disposal and maturity of short-term investments | 16,987 | 107,766 | 70,313 | 279,918 |
| Additions to capital assets | (6,691) | (11,177) | (1,316) | (3,295) |
| Net proceeds from disposal of discontinued operations | – | – | (61) | 22,063 |
| Business combination | – | – | (111) | (243) |
| | 420 | 28,791 | (19,979) | (16,507) |
| **Cash flows from financing activities** | | | | |
| Bank loan | – | (785) | – | – |
| Repayment of long-term debt | (296) | (296) | (296) | (296) |
| Exercise of stock options | 78 | 78 | 1,219 | 1,280 |
| Redemption of share capital | (263) | (626) | – | – |
| | (481) | (1,629) | 923 | 984 |
| **Effect of foreign exchange rate changes on cash** | 1,564 | 1,196 | 784 | 1,128 |
| **Change in cash** | 15,079 | 48,478 | 2,441 | 3,770 |
| **Cash – Beginning of the period** | 56,170 | 22,771 | 23,438 | 22,109 |
| **Cash – End of the period** | $ 71,249 | $ 71,249 | $ 25,879 | $ 25,879 |
| **Supplementary information** | | | | |
| Interest paid | $ 31 | $ 58 | $ 28 | $ 56 |
| Income taxes paid | $ 255 | $ 990 | $ 487 | $ 860 |

As at February 28, 2011 and February 29, 2012, unpaid purchases of capital assets amounted to $218 and $2,017 respectively.

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

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

### 1 Nature of Activities and Incorporation

EXFO Inc. and its subsidiaries (together "EXFO" or the company) designs, manufactures and markets test and service assurance solutions for wireless and wireline network operators and equipment manufacturers in the global telecommunications industry. The company offers core-to-edge solutions to assess the performance and reliability of converged Internet protocol (IP) fixed and mobile networks.

EXFO is a company incorporated under the Canada Business Corporations Act and domiciled in Canada. The address of its headquarters is 400 Godin Avenue, Quebec, Province of Quebec, Canada, G1M 2K2.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on March 27, 2012.

### 2 Basis of Presentation and Adoption of IFRS

The company used to prepare its consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) and now requires publicly accountable enterprises to apply such standards effective for fiscal years beginning on or after January 1, 2011. Accordingly, the company has commenced reporting on this basis in its 2012 condensed interim consolidated financial statements. In these condensed consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP applied before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with the IFRS applicable to the preparation of interim financial statements, including IAS 34, "*Interim Financial Reporting*", and IFRS 1, "*First-Time Adoption of International Financial Reporting Standards*".

These condensed interim consolidated financial statements do not include all disclosures that will normally be found in the company's annual consolidated financial statements. The accounting policies followed in these interim financial statements are the same as those applied in the company's interim financial statements for the three months ended November 30, 2011. Subject to certain transition elections, the company has consistently applied the same accounting policies in its consolidated opening balance sheet as at September 1, 2010, and through all periods presented, as if these accounting policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on the company's reported shareholders' equity and the consolidated statements of earnings 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. Specifically, note 3 presents a reconciliation of the consolidated statement of changes in shareholders' equity for the six months ended February 28, 2011 as well as of the consolidated statements of earnings and cash flows for the three months and the six months ended February 28, 2011.

The policies applied in these interim condensed consolidated financial statements are based on IFRS issued as of March 27, 2012, that is the date on which the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in the company's annual consolidated financial statements for the year ending August 31, 2012, could result in restatement of these condensed interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

These condensed interim consolidated financial statements should be read in conjunction with the company's most recent annual consolidated financial statements for the year ended August 31, 2011, and the company's condensed interim consolidated financial statements for the three months ended November 30, 2011, prepared in accordance with IFRS applicable to interim financial statements. These condensed interim consolidated results are not necessarily indicative of the results for the full year.

**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 impact 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 the company is currently assessing the effect of these amendments, it does not expect the amendments to have a significant impact on its 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. The company has not yet assessed the impact that this new standard is likely to have on its consolidated financial statements.

In May 2011, the *International Accounting Standard Board* (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 these new standards is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The company has not yet assessed the impact that the new standards may have on its 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 disclosure 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 amendments are effective for annual periods beginning on or after July 1, 2012. Early adoption is permitted and full retrospective application is required. The company does not expect the amendments to have a significant impact on its consolidated financial statements.

### 3 First-Time Adoption of International Financial Reporting Standards (IFRS)

For all periods up to and including the year ended August 31, 2011, the company prepared its consolidated financial statements in accordance with Canadian GAAP. The company's consolidated financial statements for the year ending August 31, 2012 will be the first annual consolidated financial statements prepared in accordance with IFRS.

These condensed interim consolidated financial statements as at and for the three months and six months ended February 29, 2012 have been prepared in conformity with IFRS.

In preparing these condensed interim consolidated financial statements, and in compliance with IFRS 1, "*First-Time Adoption of International Financial Reporting Standards*'', the company's opening IFRS balance sheet has been presented as at September 1, 2010, which is the company's date of transition to IFRS. For a detailed explanation of the IFRS adjustments to the opening balance sheet, including adjustments to shareholders' equity as at September 1, 2010, refer to the company's condensed interim consolidated financial statements for the three months ended November 30, 2011.

The following section explains the principal adjustments made by the company in transitioning from Canadian GAAP to IFRS and its impact on the previously published Canadian GAAP interim consolidated financial statements for the three months and the six months ended February 28, 2011.

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

**Reconciliation of consolidated shareholders' equity as previously reported under Canadian GAAP to IFRS as at February 28, 2011**

| | Notes | Share capital | Contributed Surplus | Retained earnings | Accumulated Other comprehensive income | Total shareholders' equity |
|---|---|---|---|---|---|---|
| **Canadian GAAP** | | $ 109,558 | $ 17,621 | $ 66,252 | $ 66,397 | $ 259,828 |
| Foreign currency translation adjustment | d) | – | | 44,186 | (44,186) | – |
| Adjustment to long-term tax credits recoverable, net of deferred income taxes | a) | – | – | (1,750) | (177) | (1,927) |
| Adjustment to the carrying value of property, plant and equipment, net of deferred income taxes | c) | – | – | 973 | 93 | 1,066 |
| Changes in the fair value of the cash contingent consideration | b) | – | – | (2,660) | (242) | (2,902) |
| **IFRS** | | $ 109,558 | $ 17,621 | $ 107,001 | $ 21,885 | $ 256,065 |

**Reconciliation of consolidated net earnings as previously reported under Canadian GAAP to IFRS for the three months and the six months ended February 28, 2011**

| | | Three months ended February 28, 2011 | | | Six months ended February 28, 2011 | | |
|---|---|---|---|---|---|---|---|
| | Notes | Canadian GAAP | Adjustments | IFRS | Canadian GAAP | Adjustments | IFRS |
| **Sales** | | $ 72,046 | $ – | $ 72,046 | $ 137,699 | $ – | $ 137,699 |
| Cost of sales | | 27,821 | – | 27,821 | 52,606 | – | 52,606 |
| Selling and administrative | | 22,235 | – | 22,235 | 42,134 | – | 42,134 |
| Net research and development | | 11,244 | – | 11,244 | 22,845 | – | 22,845 |
| Depreciation of property, plant and equipment | c) | 1,626 | (29) | 1,597 | 3,300 | (57) | 3,243 |
| Amortization of intangible assets | | 2,367 | – | 2,367 | 4,933 | – | 4,933 |
| **Earnings from operations** | | 6,753 | (29) | 6,782 | 11,881 | (57) | 11,938 |
| Interest income (expenses) | a) | (8) | 57 | 49 | (72) | 114 | 42 |
| Foreign exchange loss | | (2,395) | – | (2,395) | (3,508) | – | (3,508) |
| **Earnings before income taxes** | | 4,350 | 86 | 4,436 | 8,301 | 171 | 8,472 |
| **Income taxes** | a), c) | 2,697 | 23 | 2,720 | 5,503 | 46 | 5,549 |
| **Net earnings from continuing operations** | | 1,653 | 63 | 1,716 | 2,798 | 125 | 2,923 |
| **Net earnings from discontinued operations** | | – | – | – | 12,926 | – | 12,926 |
| **Net earnings for the period** | | $ 1,653 | $ 63 | $ 1,716 | $ 15,724 | $ 125 | $ 15,849 |

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

**Reconciliation of consolidated comprehensive income as previously reported under Canadian GAAP to IFRS for the three months and the six months ended February 28, 2011**

| | | Three months ended February 28, 2011 | | | Six months ended February 28, 2011 | | |
|---|---|---|---|---|---|---|---|
| | Notes | Canadian GAAP | Adjustments | IFRS | Canadian GAAP | Adjustments | IFRS |
| **Net earnings for the period** | | $ 1,653 | $ 63 | $ 1,716 | $ 15,724 | $ 125 | $ 15,849 |
| Other comprehensive income | | | | | | | |
| Foreign currency translation adjustment | a), b), c) | 12,974 | (214) | 12,760 | 19,313 | (326) | 18,987 |
| Unrealized gains on forward exchange contracts | | 1,794 | – | 1,794 | 3,238 | – | 3,238 |
| Reclassification of realized gains on forward exchange contracts in net earnings | | (464) | – | (464) | (653) | – | (653) |
| Deferred income tax effect of the components of other comprehensive income | | (365) | – | (365) | (703) | – | (703) |
| Other comprehensive income | | 13,939 | (214) | 13,725 | 21,195 | (326) | 20,869 |
| **Comprehensive income for the period** | | $ 15,592 | $ (151) | $ 15,441 | $ 36,919 | $ (201) | $ 36,718 |

**Statements of cash flows**

The adjustments from Canadian GAAP to IFRS had no significant effect on the reported consolidated cash flows of the company for the three months and six months ended February 28, 2011.

**Explanatory notes**

a) *Tax credits recoverable*

Under IFRS, long-term tax credits recoverable must be discounted using risk-free interest rates for the periods when the tax credits will be recovered. Under Canadian GAAP, such treatment is not required.

- At as February 28, 2011, the discounted value of the company's long-term tax credits recoverable was $2,640,000 lower than the carrying value under Canadian GAAP, and the related deferred income tax assets increased by $713,000. For the three months ended February 28, 2011, changes in the discounted value of long-term tax credits recoverable resulted in interest income of $57,000 and a related deferred income tax expense of $15,000. For the six months ended February 28, 2011, changes in the discounted value of long-term tax credits recoverable resulted in interest income of $114,000 and a related deferred income tax expense of $30,000. It also resulted in a foreign currency translation loss of $177,000 recorded in accumulated other comprehensive income in the shareholders' equity for the six months ended February 28, 2011.

b) *Business combinations*

As permitted by IFRS 1, "*First Time Adoption of International Financial Reporting Standards*", the company did not apply IFRS 3R, "*Business Combinations*", to business combinations completed before the transition date, that is, September 1, 2010. However, under IAS 37, "*Provisions, Contingent Liabilities and Contingent Assets*", the cash contingent consideration for the acquisition of NetHawk Oyj, completed before the transition date and outstanding as at September 1, 2010, had to be recorded at fair value on that date with a corresponding adjustment to opening retained earnings. Thereafter, the fair value of the cash contingent consideration was re-assessed at the end of each reporting periods and any changes in the fair value were recognized in the statements of earnings.

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

- As at February 28, 2011, there was no change in the fair value of the contingent cash consideration compared to the transition date. However, the fair value of the cash contingent consideration was translated into the US dollar (the reporting currency), which resulted in an increase of $242,000 in the carrying value and a corresponding foreign currency translation loss recorded in accumulated other comprehensive income in the shareholders' equity for the six months ended February 28, 2011.

c) *Property, plant and equipment*

Under IFRS, depreciation must be based on the allocation of the depreciable amount over the asset's estimated useful life. Depreciable amount is defined as the cost of the asset less its residual value. Residual value is defined as the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Under Canadian GAAP, the depreciable amount of an asset is the greater of the cost less salvage value over the estimated life of the asset, and the cost less residual value over the estimated useful life of the asset. Residual value is the estimated net realizable value of an item of property, plant and equipment at the end of its useful life to the company. Salvage value is the estimated net realizable value of an item of property, plant and equipment at the end of its life.

- As at February 28, 2011, this resulted in an increase in the carrying value of property, plant and equipment of $1,460,000 and a decrease in deferred income tax assets of $394,000. For the three months ended February 28, 2011, this resulted in a decrease of depreciation of property, plant and equipment of $29,000 and a deferred income tax expense of $8,000. For the six months ended February 28, 2011, this resulted in a decrease in depreciation of property, plant and equipment of $57,000 and a deferred income tax expense of $16,000. It also resulted in a foreign exchange translation gain of $93,000 recorded in accumulated other comprehensive income in the shareholders' equity for the six months ended February 28, 2011.

d) *Foreign currency translation adjustment*

In accordance with IFRS transitional provisions, the company elected to reset the foreign currency translation adjustment from the translation of consolidated financial statements in the reporting currency (US dollars) to zero as at the transition date to IFRS. Accordingly, the foreign currency translation adjustment as at September 1, 2010, in the amount of $44,186,000 was eliminated in the opening balance of retained earnings. Any foreign currency translation adjustment from the translation of the consolidated financial statements in the reporting currency arising after the transition date is recorded in accumulated other comprehensive income in the shareholders' equity in the balance sheet.

### 4 Derivative Financial Instruments

The principal functional currency of the company is the Canadian dollar. The company is exposed to a currency risk as a result of its export sales of products manufactured in Canada, China and Finland, the majority of which are denominated in US dollars and euros. This risk is partially hedged by forward exchange contracts (US dollars) and certain operating expenses (US dollars and euros). Forward exchange contracts, which are designated as cash flow hedging instruments, qualify for hedge accounting.

As at February 29, 2012, the company held contracts to sell US dollars for Canadian dollars at various forward rates, which are summarized as follows:

| Expiry dates | Contractual amounts | Weighted average contractual forward rates |
|---|---|---|
| March 2012 to August 2012 | $ 15,500 | 1.0401 |
| September 2012 to August 2013 | 19,000 | 1.0212 |
| September 2013 to August 2014 | 3,600 | 1.0439 |
| Total | $ 38,100 | 1.0310 |

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 $2,278,000 as at August 31, 2011, and $1,367,000 as at February 29, 2012.

Based on the portfolio of forward exchange contracts as at February 29, 2012, the company estimates that the portion of the net unrealized gains on these contracts as of that date, which will be realized and reclassified from accumulated other comprehensive income to net earnings over the next 12 months, amounts to $640,000.

As at February 29, 2012, forward exchange contracts in the amount of $640,000 are presented as current assets in other receivable in the balance sheet and forward exchange contracts, in the amount of $309,000, are presented as forward exchange contracts in the balance sheet. These forward exchange contracts are not yet recorded within sales.

During the three months ended February 28, 2011 and February 29, 2012, the company recognized within its sales foreign exchange gains on forward exchange contracts of $591,000 and $439,000 respectively. During the six months ended February 28, 2011 and February 29, 2012, the company recognized within its sales foreign exchange gains on forward exchange contracts of $1,051,000 and $872,000 respectively.

### 5 Property, plant and equipment

During the three months and the six months ended February 29, 2012, additions to property, plant and equipment amounted to $6,553,000 and $10,709,000, respectively , most of which relates to the construction of a new building, in Montreal, Canada.

### 6 Contingent Liability

Under the acquisition agreement of NetHawk Oyj, the company has a cash contingent consideration of up to €8,700,000 ($11,600,000) based on sales volume of certain NetHawk products over a three-year period ending on December 2012. The company records the cash contingent consideration at fair value in each balance sheet date based on actual and forecasted sales over the period of the contingent consideration. Changes in the fair value of the cash contingent consideration are recorded in the consolidated statements of earnings.

As at February 29, 2012, the fair value of the cash contingent consideration was estimated to nil based on actual and forecasted sales of certain NetHawk products over the period of the contingent consideration; the resulting change in the fair value, in the amount of $311,000, has been recorded in the consolidated statements of earnings for the three months and the six months ended February 29, 2012.

### 7 Share Capital

On November 7, 2011, the company announced that its Board of Directors had approved the renewal of its share repurchase program, by way of a normal course issuer bid on the open market of up to 2% of its issued and outstanding subordinate voting shares, representing 575,690 subordinate voting shares at the prevailing market price. The company expects to use cash, short-term investments or future cash flow from operations to fund the repurchase of shares. The normal course issuer bid started on November 10, 2011, and will end on November 9, 2012, or on an earlier date if the company repurchases the maximum number of shares permitted under the bid. The program does not require that the company repurchases 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.

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

The following tables summarize changes in share capital for the six months ended February 28, 2011 and February 29, 2012.

| | Six months ended February 28, 2011 | | | | |
|---|---|---|---|---|---|
| | **Multiple voting shares** | | **Subordinate voting shares** | | |
| | **Number** | **Amount** | **Number** | **Amount** | **Total amount** |
| Balance as at September 1, 2010 | 36,643,000 | $ 1 | 22,936,709 | $ 106,125 | $ 106,126 |
| Exercise of stock options | – | – | 11,478 | 61 | 61 |
| Redemption of restricted share units | – | – | 157,790 | – | – |
| Reclassification of stock-based compensation costs to share capital upon exercise of stock awards | – | – | – | 861 | 861 |
| Balance as at November 30, 2010 | 36,643,000 | 1 | 23,105,977 | 107,047 | 107,048 |
| Conversion of multiple voting shares into subordinate voting shares | (5,000,000) | – | 5,000,000 | – | – |
| Exercise of stock options | – | – | 263,622 | 1,219 | 1,219 |
| Redemption of restricted share units | – | – | 90,782 | – | – |
| Redemption of deferred share units | – | – | 37,491 | – | – |
| Reclassification of stock-based compensation costs to share capital upon exercise of stock awards | – | – | – | 1,291 | 1,291 |
| Balance as at February 28, 2011 | 31,643,000 | $ 1 | 28,497,872 | $ 109,557 | $ 109,558 |

| | Six months ended February 29, 2012 | | | | |
|---|---|---|---|---|---|
| | **Multiple voting shares** | | **Subordinate voting shares** | | |
| | **Number** | **Amount** | **Number** | **Amount** | **Total amount** |
| Balance as at September 1, 2011 | 31,643,000 | $ 1 | 28,621,999 | $ 110,340 | $ 110,341 |
| Redemption of restricted share units | – | – | 184,167 | – | – |
| Redemption of share capital | – | – | (63,146) | (244) | (244) |
| Reclassification of stock-based compensation costs to share capital upon exercise of stock awards | – | – | – | 848 | 848 |
| Balance as at November 30, 2011 | 31,643,000 | 1 | 28,743,020 | 110,944 | 110,945 |
| Exercise of stock options | – | – | 25,250 | 78 | 78 |
| Redemption of restricted share units | – | – | 127,632 | – | – |
| Redemption of share capital | – | – | (41,651) | (160) | (160) |
| Reclassification of stock-based compensation costs to share capital upon exercise of stock awards | – | – | – | 558 | 558 |
| Balance as at February 29, 2012 | 31,643,000 | $ 1 | 28,854,251 | $ 111,420 | $ 111,421 |

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

**8 Statements of Earnings**

Net research and development expenses comprise the following:

| | Three months ended February 29, 2012 | Six months ended February 29, 2012 | Three months ended February 28, 2011 | Six months ended February 28, 2011 |
|---|---|---|---|---|
| Gross research and development expenses | $ 14,800 | $ 29,613 | $ 13,824 | $ 27,514 |
| Research and development tax credits and grants | (2,493) | (4,823) | (2,580) | (4,669) |
| | $ 12,307 | $ 24,790 | $ 11,244 | $ 22,845 |

Depreciation and amortization expenses by functional area are as follows:

| | Three months ended February 29, 2012 | Six months ended February 29, 2012 | Three months ended February 28, 2011 | Six months ended February 28, 2011 |
|---|---|---|---|---|
| Cost of sales | | | | |
| Depreciation of property, plant and equipment | $ 524 | $ 1,052 | $ 494 | $ 998 |
| Amortization of intangible assets | 1,266 | 2,550 | 1,637 | 3,461 |
| | 1,790 | 3,602 | 2,131 | 4,459 |
| Selling and administrative expenses | | | | |
| Depreciation of property, plant and equipment | 240 | 523 | 269 | 593 |
| Amortization of intangible assets | 453 | 927 | 488 | 992 |
| | 693 | 1,450 | 757 | 1,585 |
| Net research and development expenses | | | | |
| Depreciation of property, plant and equipment | 782 | 1,539 | 834 | 1,652 |
| Amortization of intangible assets | 255 | 418 | 242 | 480 |
| | 1,037 | 1,957 | 1,076 | 2,132 |
| | $ 3,520 | $ 7,009 | $ 3,964 | $ 8,176 |
| Depreciation of property, plant and equipment for the period | $ 1,546 | $ 3,114 | $ 1,597 | $ 3,243 |
| Amortization of intangible assets for the period | 1,974 | 3,895 | 2,367 | 4,933 |
| | $ 3,520 | $ 7,009 | $ 3,964 | $ 8,176 |

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

Employee compensation comprises the following:

| | Three months ended February 29, 2012 | Six months ended February 29, 2012 | Three months ended February 28, 2011 | Six months ended February 28, 2011 |
|---|---|---|---|---|
| Salaries and benefits | $ 32,596 | $ 65,590 | $ 30,544 | $ 59,670 |
| Stock-based compensation costs | 508 | 1,063 | 625 | 1,363 |
| Total employee compensation for the period | $ 33,104 | $ 66,653 | $ 31,169 | $ 61,033 |

Stock-based compensation costs by functional area are as follows:

| | Three months ended February 29, 2012 | Six months ended February 29, 2012 | Three months ended February 28, 2011 | Six months ended February 28, 2011 |
|---|---|---|---|---|
| Cost of sales | $ 60 | $ 119 | $ 51 | $ 99 |
| Selling and administrative expenses | 328 | 705 | 433 | 755 |
| Net research and development expenses | 120 | 239 | 141 | 245 |
| Net earnings from discontinued operations | – | – | – | 264 |
| | $ 508 | $ 1,063 | $ 625 | $ 1,363 |

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

### 9 Income taxes

For the three months and the six months ended February 28, 2011 and February 29, 2012, the reconciliation of the income tax provision calculated using the combined Canadian federal and provincial statutory income tax rate with the income tax provision in the financial statements is as follows:

| | Three months ended February 29, 2012 | Six months ended February 29, 2012 | Three months ended February 28, 2011 | Six months ended February 28, 2011 |
|---|---|---|---|---|
| Income tax provision at combined Canadian federal and provincial statutory tax rate (28% in 2012 and 29% in 2011) | $ 786 | $ 1,924 | $ 1,286 | $ 2,457 |
| Increase (decrease) due to: | | | | |
| Foreign income taxed at different rates | (42) | 63 | (1) | 112 |
| Non-taxable income/loss | (126) | 681 | (1,167) | (1,825) |
| Non-deductible expenses | 217 | 682 | 277 | 537 |
| Foreign exchange effect of translation of foreign operations | (55) | (1,434) | 1,121 | 1,613 |
| Recognition of previously unrecognized deferred income tax assets | – | (557) | – | – |
| Utilization of previously unrecognized deferred income tax assets | 2 | (26) | – | (70) |
| Unrecognized deferred income tax assets on temporary deductible differences and unused tax losses and deductions | 1,120 | 1,687 | 1,555 | 3,052 |
| Other | (133) | (100) | (351) | (327) |
| | $ 1,769 | $ 2,920 | $ 2,720 | $ 5,549 |

The income tax provision consists of the following:

| | Three months ended February 29, 2012 | Six months ended February 29, 2012 | Three months ended February 28, 2011 | Six months ended February 28, 2011 |
|---|---|---|---|---|
| Current | $ 881 | $ 1,297 | $ 101 | $ 1,114 |
| Deferred | 888 | 1,623 | 2,619 | 4,435 |
| | $ 1,769 | $ 2,920 | $ 2,720 | $ 5,549 |

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

The income tax provision for the discontinued operations is as follows:

| | Three months ended February 29, 2012 | Six months ended February 29, 2012 | Three months ended February 28, 2011 | Six months ended February 28, 2011 |
|---|---|---|---|---|
| Current | $ – | $ – | $ – | $ 27 |
| Deferred | – | – | – | 174 |
| | $ – | $ – | $ – | $ 201 |

## 10 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:

| | Three months ended February 29, 2012 | Six months ended February 29, 2012 | Three months ended February 28, 2011 | Six months ended February 28, 2011 |
|---|---|---|---|---|
| Basic weighted average number of shares outstanding (000's) | 60,441 | 60,391 | 59,900 | 59,782 |
| Plus dilutive effect of (000's): | | | | |
| Stock options | 167 | 165 | 339 | 306 |
| Restricted share units | 881 | 1,016 | 1,165 | 1,098 |
| Deferred share units | 117 | 113 | 120 | 128 |
| Diluted weighted average number of shares outstanding (000's) | 61,606 | 61,685 | 61,524 | 61,314 |
| Stock awards excluded from the calculation of diluted weighted average number of shares because their exercise price was greater than the average market price of the common shares (000's) | 18 | 96 | 464 | 567 |