

EXFO Inc.
Condensed Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

	<u>As at May 31, 2019</u>	<u>As at August 31, 2018</u>
Assets		
Current assets		
Cash	\$ 13,623	\$ 12,758
Short-term investments	1,691	2,282
Accounts receivable		
Trade	52,876	47,273
Other	3,384	4,137
Income taxes and tax credits recoverable	2,985	4,790
Inventories	37,859	38,589
Prepaid expenses	5,492	5,291
Other assets	2,945	2,279
	<u>120,855</u>	<u>117,399</u>
Tax credits recoverable	46,271	47,677
Property, plant and equipment	40,509	44,310
Intangible assets	22,875	29,866
Goodwill	38,517	39,892
Deferred income tax assets	5,229	4,714
Other assets	911	686
	<u>\$ 275,167</u>	<u>\$ 284,544</u>
Liabilities		
Current liabilities		
Bank loan	\$ 5,000	\$ 10,692
Accounts payable and accrued liabilities	48,903	47,898
Provisions	1,181	2,954
Income taxes payable	1,040	873
Deferred revenue	24,943	16,556
Other liabilities	1,624	3,197
Current portion of long-term debt	2,579	2,921
	<u>85,270</u>	<u>85,091</u>
Provisions	2,830	2,347
Deferred revenue	9,086	6,947
Long-term debt	3,876	5,907
Deferred income tax liabilities	3,638	5,910
Other liabilities	625	421
	<u>105,325</u>	<u>106,623</u>
Shareholders' equity		
Share capital	92,889	91,937
Contributed surplus	18,734	18,428
Retained earnings	112,400	114,906
Accumulated other comprehensive loss	(54,181)	(47,350)
	<u>169,842</u>	<u>177,921</u>
	<u>\$ 275,167</u>	<u>\$ 284,544</u>

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Earnings

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

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Sales	\$ 73,587	\$ 216,715	\$ 72,217	\$ 200,330
Cost of sales ⁽¹⁾	30,458	88,417	28,963	77,578
Selling and administrative	23,761	75,610	25,957	74,066
Net research and development	11,970	39,410	16,101	40,440
Depreciation of property, plant and equipment	1,368	4,187	1,555	3,972
Amortization of intangible assets	2,072	7,142	4,210	8,385
Change in fair value of cash contingent consideration	–	–	–	(716)
Interest and other (income) expense	698	(439)	198	870
Foreign exchange (gain) loss	(146)	55	(160)	(1,386)
Share in net loss of an associate	–	–	–	2,080
Gain on the deemed disposal of the investment in an associate	–	–	–	(2,080)
Earnings (loss) before income taxes	<u>3,406</u>	<u>2,333</u>	<u>(4,607)</u>	<u>(2,879)</u>
Income taxes	<u>3,385</u>	<u>4,586</u>	<u>1,363</u>	<u>5,424</u>
Net earnings (loss) for the period	21	(2,253)	(5,970)	(8,303)
Net loss for the period attributable to non- controlling interest	<u>–</u>	<u>–</u>	<u>–</u>	<u>(352)</u>
Net earnings (loss) for the period attributable to parent interest	<u>\$ 21</u>	<u>\$ (2,253)</u>	<u>\$ (5,970)</u>	<u>\$ (7,951)</u>
Basic and diluted net earnings (loss) attributable to parent interest per share	\$ 0.00	\$ (0.04)	\$ (0.11)	\$ (0.14)
Basic weighted average number of shares outstanding (000's)	55,392	55,306	55,099	54,959
Diluted weighted average number of shares outstanding (000's)	56,437	55,306	55,099	54,959

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

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Comprehensive Loss

(in thousands of US dollars)

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Net earnings (loss) for the period	\$ 21	\$ (2,253)	\$ (5,970)	\$ (8,303)
Other comprehensive income (loss), net of income taxes				
Items that may be reclassified subsequently to net earnings				
Foreign currency translation adjustment	(4,611)	(6,160)	(3,189)	(5,033)
Unrealized gains/losses on forward exchange contracts	(1,046)	(1,237)	(486)	(971)
Reclassification of realized gains/losses on forward exchange contracts in net earnings	(91)	210	(232)	(840)
Deferred income taxes on gains/losses on forward exchange contracts	314	356	155	418
Other comprehensive loss	<u>(5,434)</u>	<u>(6,831)</u>	<u>(3,752)</u>	<u>(6,426)</u>
Comprehensive loss for the period	(5,413)	(9,084)	(9,722)	(14,729)
Comprehensive loss for the period attributable to non-controlling interest	<u>–</u>	<u>–</u>	<u>–</u>	<u>(352)</u>
Comprehensive loss for the period attributable to parent interest	<u>\$ (5,413)</u>	<u>\$ (9,084)</u>	<u>\$ (9,722)</u>	<u>\$ (14,377)</u>

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

	Nine months ended May 31, 2018					
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Non-controlling interest	Total shareholders' equity
Balance as at September 1, 2017	\$ 90,411	\$ 18,184	\$ 127,160	\$ (38,965)	\$ –	\$ 196,790
Reclassification of stock-based compensation costs	1,499	(1,499)	–	–	–	–
Stock-based compensation costs	–	1,322	–	–	–	1,322
Business combination	–	–	–	–	(3,662)	(3,662)
Acquisition of non-controlling interest	–	–	(352)	–	4,014	3,662
Net loss for the period	–	–	(7,951)	–	(352)	(8,303)
Other comprehensive loss						
Foreign currency translation adjustment	–	–	–	(5,033)	–	(5,033)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$418	–	–	–	(1,393)	–	(1,393)
Comprehensive loss for the period						(14,729)
Balance as at May 31, 2018	<u>\$ 91,910</u>	<u>\$ 18,007</u>	<u>\$ 118,857</u>	<u>\$ (45,391)</u>	<u>\$ –</u>	<u>\$ 183,383</u>

	Nine months ended May 31, 2019					
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Non-controlling interest	Total shareholders' equity
Balance as at September 1, 2018	\$ 91,937	\$ 18,428	\$ 114,906	\$ (47,350)	\$ –	\$ 177,921
Adoption of IFRS 9	–	–	(253)	–	–	(253)
Adjusted balance as at September 1, 2018	91,937	18,428	114,653	(47,350)	–	177,668
Reclassification of stock-based compensation costs	1,078	(1,078)	–	–	–	–
Redemption of share capital	(126)	21	–	–	–	(105)
Stock-based compensation costs	–	1,363	–	–	–	1,363
Net loss for the period	–	–	(2,253)	–	–	(2,253)
Other comprehensive loss						
Foreign currency translation adjustment	–	–	–	–	(6,160)	(6,160)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$356	–	–	–	–	(671)	(671)
Total comprehensive loss for the period						(9,084)
Balance as at May 31, 2019	<u>\$ 92,889</u>	<u>\$ 18,734</u>	<u>\$ 112,400</u>	<u>\$ (54,181)</u>	<u>\$ –</u>	<u>\$ 169,842</u>

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Cash flows from operating activities				
Net earnings (loss) for the period	\$ 21	\$ (2,253)	\$ (5,970)	\$ (8,303)
Add (deduct) items not affecting cash				
Stock-based compensation costs	475	1,354	440	1,280
Depreciation and amortization	3,440	11,329	5,765	12,357
Gain on disposal of capital assets	–	(1,732)	–	–
Write-off of capital assets	–	261	77	325
Change in fair value of cash contingent consideration	–	–	–	(716)
Deferred revenue	1,676	11,619	(552)	1,682
Deferred income taxes	(142)	(2,295)	389	2,533
Share in net loss of an associate	–	–	–	2,080
Gain on deemed disposal of the investment in an associate	–	–	–	(2,080)
Changes in foreign exchange gain/loss	143	(310)	(603)	(239)
	<u>5,613</u>	<u>17,973</u>	<u>(454)</u>	<u>8,919</u>
Changes in non-cash operating items				
Accounts receivable	(12,857)	(7,038)	2,353	7,693
Income taxes and tax credits	1,596	1,629	172	(2,787)
Inventories	(306)	(668)	1,162	(12)
Prepaid expenses	(585)	(380)	16	205
Other assets	(664)	(1,003)	(245)	(769)
Accounts payable, accrued liabilities and provisions	1,995	2,013	1,821	5
Other liabilities	(6)	(1,527)	(109)	101
	<u>(5,214)</u>	<u>10,999</u>	<u>4,716</u>	<u>13,355</u>
Cash flows from investing activities				
Additions to short-term investments	(286)	(578)	–	(482)
Proceeds from disposal of short-term investments	826	1,168	–	234
Purchases of capital assets	(1,639)	(6,318)	(3,431)	(7,680)
Proceeds from disposal of capital assets	–	3,318	–	–
Investment in an associate	–	–	–	(12,530)
Business combinations, net of cash acquired	–	–	–	(19,120)
	<u>(1,099)</u>	<u>(2,410)</u>	<u>(3,431)</u>	<u>(39,578)</u>
Cash flows from financing activities				
Bank loan	(3,808)	(5,052)	9,184	11,250
Repayment of long-term debt	(713)	(2,165)	(757)	(1,027)
Redemption of share capital	–	(105)	–	–
Acquisition of non-controlling interest	–	–	(3,657)	(3,657)
	<u>(4,521)</u>	<u>(7,322)</u>	<u>4,770</u>	<u>6,566</u>
Effect of foreign exchange rate changes on cash	<u>(306)</u>	<u>(402)</u>	<u>(119)</u>	<u>(289)</u>
Change in cash during the period	(11,140)	865	5,936	(19,946)
Cash – Beginning of the period	24,763	12,758	12,553	38,435
Cash – End of the period	<u>\$ 13,623</u>	<u>\$ 13,623</u>	<u>\$ 18,489</u>	<u>\$ 18,489</u>