

EXFO Inc.

Condensed Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

	As at August 31,	
	2017	2016
Assets		
Current assets		
Cash	\$ 38,435	\$ 43,208
Short-term investments	775	4,087
Accounts receivable		
Trade	41,130	42,993
Other	3,907	2,474
Income taxes and tax credits recoverable	4,955	4,208
Inventories	33,832	33,004
Prepaid expenses	4,202	3,099
	127,236	133,073
Tax credits recoverable	38,111	34,594
Property, plant and equipment	40,132	35,978
Intangible assets	11,183	3,391
Goodwill	35,077	21,928
Deferred income tax assets	6,555	8,240
Other assets	947	589
	\$ 259,241	\$ 237,793
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 36,776	\$ 37,174
Provisions	3,889	299
Income taxes payable	663	971
Deferred revenue	11,554	9,486
	52,882	47,930
Deferred revenue	6,257	5,530
Deferred income tax liabilities	3,116	2,857
Other liabilities	196	75
	62,451	56,392
Shareholders' equity		
Share capital	90,411	85,516
Contributed surplus	18,184	18,150
Retained earnings	127,160	126,309
Accumulated other comprehensive loss	(38,965)	(48,574)
	196,790	181,401
	\$ 259,241	\$ 237,793

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Earnings

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

	Three months ended August 31, 2017	Twelve months ended August 31, 2017	Three months ended August 31, 2016	Twelve months ended August 31, 2016
Sales	\$ 62,981	\$ 243,301	\$ 62,858	\$ 232,583
Cost of sales ^(1,2)	23,972	94,329	24,145	87,066
Selling and administrative ⁽²⁾	20,834	86,256	21,554	82,169
Net research and development ⁽²⁾	11,327	47,168	11,289	42,687
Depreciation of property, plant and equipment	1,008	3,902	957	3,814
Amortization of intangible assets	1,048	3,289	292	1,172
Change in fair value of cash contingent consideration	(383)	(383)	-	-
Interest and other (income) expense	275	303	(112)	(828)
Foreign exchange (gain) loss	2,943	978	293	(161)
Earnings before income taxes	<u>1,957</u>	<u>7,459</u>	<u>4,440</u>	<u>16,664</u>
Income taxes	<u>1,113</u>	<u>6,608</u>	<u>2,188</u>	<u>7,764</u>
Net earnings for the period	<u>\$ 844</u>	<u>\$ 851</u>	<u>\$ 2,252</u>	<u>\$ 8,900</u>
Basic net earnings per share	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.17
Diluted net earnings per share	\$ 0.02	\$ 0.02	\$ 0.04	\$ 0.16
Basic weighted average number of shares outstanding (000's)	54,708	54,423	53,769	53,863
Diluted weighted average number of shares outstanding (000's)	55,784	55,555	54,709	54,669
 (1) The cost of sales is exclusive of depreciation and amortization, shown separately.				
(2) Restructuring charges included in:				
Cost of sales	\$ 115	\$ 1,697	\$ -	\$ -
Selling and administrative	231	1,150	-	-
Net research and development	920	2,232	-	-
	<u>\$ 1,266</u>	<u>\$ 5,079</u>	<u>\$ -</u>	<u>\$ -</u>

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Comprehensive Income

(in thousands of US dollars)

	Three months ended August 31, 2017	Twelve months ended August 31, 2017	Three months ended August 31, 2016	Twelve months ended August 31, 2016
Net earnings for the period	\$ 844	\$ 851	\$ 2,252	\$ 8,900
Other comprehensive income (loss), net of income taxes				
Items that will not be reclassified subsequently to net earnings				
Foreign currency translation adjustment	13,028	8,262	(68)	707
Items that may be reclassified subsequently to net earnings				
Unrealized gains/losses on forward exchange contracts	1,765	1,403	37	862
Reclassification of realized gains/losses on forward exchange contracts in net earnings	64	423	414	2,797
Deferred income tax effect of gains/losses on forward exchange contracts	(510)	(479)	(111)	(935)
Other comprehensive income	<u>14,347</u>	<u>9,609</u>	<u>272</u>	<u>3,431</u>
Comprehensive income for the period	<u>\$ 15,191</u>	<u>\$ 10,460</u>	<u>\$ 2,524</u>	<u>\$ 12,331</u>

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

	Year ended August 31, 2016				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at September 1, 2015	\$ 86,045	\$ 17,778	\$ 117,409	\$ (52,005)	\$ 169,227
Redemption of share capital	(1,768)	217	–	–	(1,551)
Reclassification of stock-based compensation costs	1,239	(1,239)	–	–	–
Stock-based compensation costs	–	1,394	–	–	1,394
Net earnings for the year	–	–	8,900	–	8,900
Other comprehensive income					
Foreign currency translation adjustment	–	–	–	707	707
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$935	–	–	–	2,724	2,724
Total comprehensive income for the year					12,331
Balance as at August 31, 2016	<u>\$ 85,516</u>	<u>\$ 18,150</u>	<u>\$ 126,309</u>	<u>\$ (48,574)</u>	<u>\$ 181,401</u>

	Year ended August 31, 2017				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at September 1, 2016	\$ 85,516	\$ 18,150	\$ 126,309	\$ (48,574)	\$ 181,401
Issuance of share capital	3,490	–	–	–	3,490
Reclassification of stock-based compensation costs	1,405	(1,405)	–	–	–
Stock-based compensation costs	–	1,439	–	–	1,439
Net earnings for the year	–	–	851	–	851
Other comprehensive income					
Foreign currency translation adjustment	–	–	–	8,262	8,262
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$479	–	–	–	1,347	1,347
Total comprehensive income for the year					10,460
Balance as at August 31, 2017	<u>\$ 90,411</u>	<u>\$ 18,184</u>	<u>\$ 127,160</u>	<u>\$ (38,965)</u>	<u>\$ 196,790</u>

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended August 31, 2017	Twelve months ended August 31, 2017	Three months ended August 31, 2016	Twelve months ended August 31, 2016
Cash flows from operating activities				
Net earnings for the period	\$ 844	\$ 851	\$ 2,252	\$ 8,900
Add (deduct) items not affecting cash				
Stock-based compensation costs	494	1,477	302	1,378
Depreciation and amortization	2,056	7,191	1,249	4,986
Change in fair value of cash contingent consideration	(383)	(383)	–	–
Deferred revenue	(1,303)	1,723	(638)	4,238
Deferred income taxes	(109)	1,054	293	1,578
Changes in foreign exchange gain/loss	2,051	1,096	1	(332)
	<u>3,650</u>	<u>13,009</u>	<u>3,459</u>	<u>20,748</u>
Changes in non-cash operating items				
Accounts receivable	2,254	3,955	(712)	2,682
Income taxes and tax credits	(1,154)	(2,386)	307	939
Inventories	920	911	1,914	(4,713)
Prepaid expenses	(157)	(918)	138	(280)
Other assets	6	(121)	(33)	170
Accounts payable, accrued liabilities and provisions	(3,501)	(1,745)	(1,524)	4,882
Other liabilities	165	165	(6)	(65)
	<u>2,183</u>	<u>12,870</u>	<u>3,543</u>	<u>24,363</u>
Cash flows from investing activities				
Additions to short-term investments	(23)	(2,910)	(416)	(3,546)
Proceeds from disposal and maturity of short-term investments	2,778	6,374	372	873
Purchases of capital assets	(1,727)	(7,175)	(982)	(4,356)
Business combinations, net of cash acquired	(313)	(12,792)	–	–
	<u>715</u>	<u>(16,503)</u>	<u>(1,026)</u>	<u>(7,029)</u>
Cash flows from financing activities				
Bank loan	–	–	(468)	–
Repayment of long-term debt	–	(1,480)	–	–
Redemption of share capital	–	–	(1,149)	(1,551)
	<u>–</u>	<u>(1,480)</u>	<u>(1,617)</u>	<u>(1,551)</u>
Effect of foreign exchange rate changes on cash				
	<u>1,164</u>	<u>340</u>	<u>35</u>	<u>1,561</u>
Change in cash	4,062	(4,773)	935	17,344
Cash – Beginning of the period	<u>34,373</u>	<u>43,208</u>	<u>42,273</u>	<u>25,864</u>
Cash – End of the period	<u>\$ 38,435</u>	<u>\$ 38,435</u>	<u>\$ 43,208</u>	<u>\$ 43,208</u>