

EXFO Inc.
Condensed Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

	As at November 30, 2017	As at August 31, 2017
	<u> </u>	<u> </u>
Assets		
Current assets		
Cash	\$ 18,451	\$ 38,435
Short-term investments	1,004	775
Accounts receivable		
Trade	39,784	41,130
Other	4,082	3,907
Income taxes and tax credits recoverable	4,664	4,955
Inventories	37,164	33,832
Prepaid expenses	3,946	4,202
	<u>109,095</u>	<u>127,236</u>
Tax credits recoverable	38,245	38,111
Property, plant and equipment	41,253	40,132
Investment in an associate	9,706	–
Intangible assets	14,403	11,183
Goodwill	39,204	35,077
Deferred income tax assets	6,599	6,555
Other assets	573	947
	<u>\$ 259,078</u>	<u>\$ 259,241</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 38,444	\$ 36,776
Provisions	1,445	3,889
Income taxes payable	748	663
Deferred revenue	10,590	11,554
Current portion of long-term debt	510	–
	<u>51,737</u>	<u>52,882</u>
Deferred revenue	5,978	6,257
Long-term debt	1,595	–
Deferred income tax liabilities	4,317	3,116
Other liabilities	374	196
	<u>64,001</u>	<u>62,451</u>
Shareholders' equity		
Share capital	91,009	90,411
Contributed surplus	18,016	18,184
Retained earnings	129,839	127,160
Accumulated other comprehensive loss	(43,787)	(38,965)
	<u>195,077</u>	<u>196,790</u>
	<u>\$ 259,078</u>	<u>\$ 259,241</u>

EXFO Inc.
Condensed Unaudited Interim Consolidated Statements of Earnings

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

	Three months ended November 30,	
	2017	2016
Sales	\$ 63,391	\$ 61,785
Cost of sales ⁽¹⁾	23,289	22,813
Selling and administrative	23,193	21,595
Net research and development	11,252	11,314
Depreciation of property, plant and equipment	1,154	903
Amortization of intangible assets	1,119	427
Change in fair value of cash contingent consideration	(155)	–
Interest and other (income) expense	338	(20)
Foreign exchange gain	(1,218)	(512)
Earnings before income taxes	4,419	5,265
Income taxes	1,740	1,962
Net earnings for the period	\$ 2,679	\$ 3,303
Basic and diluted net earnings per share	\$ 0.05	\$ 0.06
Basic weighted average number of shares outstanding (000's)	54,805	53,884
Diluted weighted average number of shares outstanding (000's)	55,793	55,001

(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	
	November 30,	
	2017	2016
Net earnings for the period	\$ 2,679	\$ 3,303
Other comprehensive income (loss), net of income taxes		
Items that will not be reclassified subsequently to net earnings		
Foreign currency translation adjustment	(4,130)	(4,217)
Items that may be reclassified subsequently to net earnings		
Unrealized gains/losses on forward exchange contracts	(524)	(561)
Reclassification of realized gains/losses on forward exchange contracts		
in net earnings	(383)	181
Deferred income tax effect of gains/losses on forward exchange contracts	215	92
Other comprehensive loss	(4,822)	(4,505)
Comprehensive loss for the period	\$ (2,143)	\$ (1,202)

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

	Three months ended November 30, 2016				
	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	346	(346)	-	-	-
Stock-based compensation costs	-	214	-	-	214
Net earnings for the period	-	-	3,303	-	3,303
Other comprehensive loss					
Foreign currency translation adjustment	-	-	-	(4,217)	(4,217)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$92	-	-	-	(288)	(288)
Total comprehensive loss for the period					(1,202)
Balance as at November 30, 2016	<u>\$ 89,352</u>	<u>\$ 18,018</u>	<u>\$ 129,612</u>	<u>\$ (53,079)</u>	<u>\$ 183,903</u>
	Three months ended November 30, 2017				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	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	598	(598)	-	-	-
Stock-based compensation costs	-	430	-	-	430
Net earnings for the period	-	-	2,679	-	2,679
Other comprehensive loss					
Foreign currency translation adjustment	-	-	-	(4,130)	(4,130)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$215	-	-	-	(692)	(692)
Total comprehensive loss for the period					(2,143)
Balance as at November 30, 2017	<u>\$ 91,009</u>	<u>\$ 18,016</u>	<u>\$ 129,839</u>	<u>\$ (43,787)</u>	<u>\$ 195,077</u>

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended November 30,	
	2017	2016
Cash flows from operating activities		
Net earnings for the period	\$ 2,679	\$ 3,303
Add (deduct) items not affecting cash		
Stock-based compensation costs	402	258
Depreciation and amortization	2,273	1,330
Write-off of capital assets	124	–
Change in fair value of cash contingent consideration	(155)	–
Deferred revenue	(782)	(75)
Deferred income taxes	(240)	147
Changes in foreign exchange gain/loss	(247)	(538)
	4,054	4,425
Changes in non-cash operating items		
Accounts receivable	1,085	(2,558)
Income taxes and tax credits	59	(344)
Inventories	(1,953)	(1,248)
Prepaid expenses	318	258
Other assets	4	13
Accounts payable, accrued liabilities and provisions	(1,369)	(1,425)
Other liabilities	188	–
	2,386	(879)
Cash flows from investing activities		
Additions to short-term investments	(234)	(296)
Purchases of capital assets	(1,991)	(1,237)
Investment in an associate	(10,311)	–
Business combination, net of cash acquired	(9,540)	(5,000)
	(22,076)	(6,533)
Cash flows from financing activities		
Bank loan	2	–
Repayment of long-term debt	(70)	–
	(68)	–
Effect of foreign exchange rate changes on cash	(226)	(735)
Change in cash	(19,984)	(8,147)
Cash – Beginning of the period	38,435	43,208
Cash – End of the period	\$ 18,451	\$ 35,061
Supplementary information		
Income taxes paid	\$ 682	\$ 958