

EXFO Inc.

Unaudited Condensed Interim Consolidated Balance Sheets

(in thousands of US dollars)

	<u>As at February 28, 2018</u>	<u>As at August 31, 2017</u>
Assets		
Current assets		
Cash	\$ 12,553	\$ 38,435
Short-term investments	1,022	775
Accounts receivable		
Trade	49,837	41,130
Other	5,173	3,907
Income taxes and tax credits recoverable	9,261	4,955
Inventories	39,439	33,832
Prepaid expenses	5,253	4,202
Other assets	1,512	–
	<u>124,050</u>	<u>127,236</u>
Tax credits recoverable	47,615	38,111
Property, plant and equipment	44,182	40,132
Intangible assets	32,567	11,183
Goodwill	41,725	35,077
Deferred income tax assets	4,754	6,555
Other assets	852	947
	<u>\$ 295,745</u>	<u>\$ 259,241</u>
Liabilities		
Current liabilities		
Bank loan	\$ 2,000	\$ –
Accounts payable and accrued liabilities	52,946	36,776
Provisions	466	3,889
Income taxes payable	689	663
Deferred revenue	18,626	11,554
Other liabilities	4,860	–
Current portion of long-term debt	3,021	–
	<u>82,608</u>	<u>52,882</u>
Provisions	1,579	–
Deferred revenue	5,544	6,257
Long-term debt	7,675	–
Deferred income tax liabilities	5,156	3,116
Other liabilities	544	196
	<u>103,106</u>	<u>62,451</u>
Shareholders' equity		
Share capital	91,684	90,411
Contributed surplus	17,767	18,184
Retained earnings	124,827	127,160
Accumulated other comprehensive loss	(41,639)	(38,965)
	<u>192,639</u>	<u>196,790</u>
	<u>\$ 295,745</u>	<u>\$ 259,241</u>

EXFO Inc.

Unaudited Condensed Interim Consolidated Statements of Earnings

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

	Three months ended February 28, 2018	Six months ended February 28, 2018	Three months ended February 28, 2017	Six months ended February 28, 2017
Sales	\$ 64,722	\$ 128,113	\$ 60,030	\$ 121,815
Cost of sales ⁽¹⁾	25,326	48,615	22,989	45,802
Selling and administrative	24,916	48,109	21,255	42,850
Net research and development	13,087	24,339	11,264	22,578
Depreciation of property, plant and equipment	1,263	2,417	962	1,865
Amortization of intangible assets	3,056	4,175	768	1,195
Change in fair value of cash contingent consideration	(561)	(716)	–	–
Interest and other (income) expense	334	672	(9)	(29)
Foreign exchange (gain) loss	(8)	(1,226)	272	(240)
Share in net loss of an associate	2,080	2,080	–	–
Gain on deemed disposal of the investment in an associate	(2,080)	(2,080)	–	–
Earnings (loss) before income taxes	<u>(2,691)</u>	<u>1,728</u>	<u>2,529</u>	<u>7,794</u>
Income taxes	<u>2,321</u>	<u>4,061</u>	<u>1,521</u>	<u>3,483</u>
Net earnings (loss) for the period	(5,012)	(2,333)	1,008	4,311
Net loss for the period attributable to non- controlling interest	<u>(352)</u>	<u>(352)</u>	<u>–</u>	<u>–</u>
Net earnings (loss) for the period attributable to parent interest	<u>\$ (4,660)</u>	<u>\$ (1,981)</u>	<u>\$ 1,008</u>	<u>\$ 4,311</u>
Basic and diluted net earnings (loss) attributable to parent interest per share	\$ (0.08)	\$ (0.04)	\$ 0.02	\$ 0.08
Basic weighted average number of shares outstanding (000's)	54,975	54,890	54,506	54,195
Diluted weighted average number of shares outstanding (000's)	54,975	54,890	55,681	55,341

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

EXFO Inc.

Unaudited Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

(in thousands of US dollars)

	Three months ended February 28, 2018	Six months ended February 28, 2018	Three months ended February 28, 2017	Six months ended February 28, 2017
Net earnings (loss) for the period	\$ (5,012)	\$ (2,333)	\$ 1,008	\$ 4,311
Other comprehensive income (loss), net of income taxes				
Items that may be reclassified subsequently to net earnings				
Foreign currency translation adjustment	2,286	(1,844)	2,019	(2,198)
Unrealized gains/losses on forward exchange contracts	39	(485)	326	(235)
Reclassification of realized gains/losses on forward exchange contracts in net earnings	(225)	(608)	139	320
Deferred income taxes on gains/losses on forward exchange contracts	48	263	(100)	(8)
Other comprehensive income (loss)	<u>2,148</u>	<u>(2,674)</u>	<u>2,384</u>	<u>(2,121)</u>
Comprehensive income (loss) for the period	(2,864)	(5,007)	3,392	2,190
Comprehensive loss for the period attributable to non-controlling interest	<u>(352)</u>	<u>(352)</u>	<u>–</u>	<u>–</u>
Comprehensive income (loss) for the period attributable to parent interest	<u>\$ (2,512)</u>	<u>\$ (4,655)</u>	<u>\$ 3,392</u>	<u>\$ 2,190</u>

EXFO Inc.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

	Six months ended February 28, 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	835	(835)	–	–	–
Stock-based compensation costs	–	528	–	–	528
Net earnings for the period	–	–	4,311	–	4,311
Other comprehensive income (loss)					
Foreign currency translation adjustment	–	–	–	(2,198)	(2,198)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$8	–	–	–	77	77
Comprehensive income for the period					2,190
Balance as at February 28, 2017	<u>\$ 89,841</u>	<u>\$ 17,843</u>	<u>\$ 130,620</u>	<u>\$ (50,695)</u>	<u>\$ 187,609</u>

	Six months ended February 28, 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	1,273	(1,273)	–	–	–	–
Stock-based compensation costs	–	856	–	–	–	856
Business combination	–	–	–	–	(3,662)	(3,662)
Acquisition of non-controlling interest	–	–	(352)	–	4,014	3,662
Net loss for the period	–	–	(1,981)	–	(352)	(2,333)
Other comprehensive loss						
Foreign currency translation adjustment	–	–	–	(1,844)	–	(1,844)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$263	–	–	–	(830)	–	(830)
Comprehensive loss for the period						(5,007)
Balance as at February 28, 2018	<u>\$ 91,684</u>	<u>\$ 17,767</u>	<u>\$ 124,827</u>	<u>\$ (41,639)</u>	<u>\$ –</u>	<u>\$ 192,639</u>

EXFO Inc.

Unaudited Condensed Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended February 28, 2018	Six months ended February 28, 2018	Three months ended February 28, 2017	Six months ended February 28, 2017
Cash flows from operating activities				
Net earnings (loss) for the period	\$ (5,012)	\$ (2,333)	\$ 1,008	\$ 4,311
Add (deduct) items not affecting cash				
Stock-based compensation costs	438	840	353	611
Depreciation and amortization	4,319	6,592	1,730	3,060
Write-off of capital assets	124	248	–	–
Change in fair value of cash contingent consideration	(561)	(716)	–	–
Deferred revenue	3,016	2,234	3,022	2,947
Deferred income taxes	2,384	2,144	312	459
Share in net loss of an associate	2,080	2,080	–	–
Gain on deemed disposal of the investment in an associate	(2,080)	(2,080)	–	–
Changes in foreign exchange gain/loss	611	364	107	(431)
	<u>5,319</u>	<u>9,373</u>	<u>6,532</u>	<u>10,957</u>
Changes in non-cash operating items				
Accounts receivable	4,255	5,340	5,160	2,602
Income taxes and tax credits	(3,018)	(2,959)	(46)	(390)
Inventories	779	(1,174)	924	(324)
Prepaid expenses	(129)	189	(156)	102
Other assets	(528)	(524)	(37)	(24)
Accounts payable, accrued liabilities and provisions	(447)	(1,816)	2,011	586
Other liabilities	22	210	1	1
	<u>6,253</u>	<u>8,639</u>	<u>14,389</u>	<u>13,510</u>
Cash flows from investing activities				
Additions to short-term investments	(248)	(482)	(20)	(316)
Proceeds from disposal and maturity of short-term investments	234	234	298	298
Purchases of capital assets	(2,258)	(4,249)	(1,656)	(2,893)
Investment in an associate	(2,219)	(12,530)	–	–
Business combinations, net of cash acquired	(9,580)	(19,120)	–	(5,000)
	<u>(14,071)</u>	<u>(36,147)</u>	<u>(1,378)</u>	<u>(7,911)</u>
Cash flows from financing activities				
Bank loan	2,064	2,066	–	–
Repayment of long-term debt	(200)	(270)	–	–
	<u>1,864</u>	<u>1,796</u>	<u>–</u>	<u>–</u>
Effect of foreign exchange rate changes on cash	<u>56</u>	<u>(170)</u>	<u>271</u>	<u>(464)</u>
Change in cash during the period	<u>(5,898)</u>	<u>(25,882)</u>	<u>13,282</u>	<u>5,135</u>
Cash – Beginning of the period	<u>18,451</u>	<u>38,435</u>	<u>35,061</u>	<u>43,208</u>
Cash – End of the period	<u>\$ 12,553</u>	<u>\$ 12,553</u>	<u>\$ 48,343</u>	<u>\$ 48,343</u>
Supplementary information				
Income taxes paid	\$ 587	\$ 1,269	\$ 603	\$ 1,561
Additions to capital assets	\$ 2,699	\$ 5,588	\$ 2,483	\$ 3,662