

EXFO Inc.

Unaudited Condensed Interim Consolidated Balance Sheets

(in thousands of US dollars)

	As at May 31, 2018	As at August 31, 2017
Assets		
Current assets		
Cash	\$ 18,489	\$ 38,435
Short-term investments	990	775
Accounts receivable		
Trade	46,756	41,130
Other	4,997	3,907
Income taxes and tax credits recoverable	8,401	4,955
Inventories	37,883	33,832
Prepaid expenses	5,185	4,202
Other assets	1,776	–
	124,477	127,236
Tax credits recoverable	47,988	38,111
Property, plant and equipment	44,661	40,132
Intangible assets	27,775	11,183
Goodwill	41,021	35,077
Deferred income tax assets	4,615	6,555
Other assets	666	947
	\$ 291,203	\$ 259,241
Liabilities		
Current liabilities		
Bank loan	\$ 10,982	\$ –
Accounts payable and accrued liabilities	50,702	36,776
Provisions	471	3,889
Income taxes payable	968	663
Deferred revenue	17,142	11,554
Other liabilities	4,651	–
Current portion of long-term debt	2,938	–
	87,854	52,882
Provisions	1,510	–
Deferred revenue	6,235	6,257
Long-term debt	6,579	–
Deferred income tax liabilities	5,074	3,116
Other liabilities	568	196
	107,820	62,451
Shareholders' equity		
Share capital	91,910	90,411
Contributed surplus	18,007	18,184
Retained earnings	118,857	127,160
Accumulated other comprehensive loss	(45,391)	(38,965)
	183,383	196,790
	\$ 291,203	\$ 259,241

EXFO Inc.

Unaudited Condensed Interim Consolidated Statements of Earnings

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

	Three months ended May 31, 2018	Nine months ended May 31, 2018	Three months ended May 31, 2017	Nine months ended May 31, 2017
Sales	\$ 72,217	\$ 200,330	\$ 58,505	\$ 180,320
Cost of sales ⁽¹⁾	28,963	77,578	24,555	70,357
Selling and administrative	25,957	74,066	22,572	65,422
Net research and development	16,101	40,440	13,263	35,841
Depreciation of property, plant and equipment	1,555	3,972	1,029	2,894
Amortization of intangible assets	4,210	8,385	1,046	2,241
Change in fair value of cash contingent consideration	-	(716)	-	-
Interest and other expense	198	870	57	28
Foreign exchange gain	(160)	(1,386)	(1,725)	(1,965)
Share in net loss of an associate	-	2,080	-	-
Gain on deemed disposal of the investment in an associate	-	(2,080)	-	-
Earnings (loss) before income taxes	<u>(4,607)</u>	<u>(2,879)</u>	<u>(2,292)</u>	<u>5,502</u>
Income taxes	<u>1,363</u>	<u>5,424</u>	<u>2,012</u>	<u>5,495</u>
Net earnings (loss) for the period	(5,970)	(8,303)	(4,304)	7
Net loss for the period attributable to non- controlling interest	<u>-</u>	<u>(352)</u>	<u>-</u>	<u>-</u>
Net earnings (loss) for the period attributable to parent interest	<u>\$ (5,970)</u>	<u>\$ (7,951)</u>	<u>\$ (4,304)</u>	<u>\$ 7</u>
Basic and diluted net earnings (loss) attributable to parent interest per share	\$ (0.11)	\$ (0.14)	\$ (0.08)	\$ 0.00
Basic weighted average number of shares outstanding (000's)	55,099	54,959	54,593	54,328
Diluted weighted average number of shares outstanding (000's)	55,099	54,959	54,593	55,479

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

EXFO Inc.

Unaudited Condensed Interim Consolidated Statements of Comprehensive Loss

(in thousands of US dollars)

	Three months ended May 31, 2018	Nine months ended May 31, 2018	Three months ended May 31, 2017	Nine months ended May 31, 2017
Net earnings (loss) for the period	\$ (5,970)	\$ (8,303)	\$ (4,304)	\$ 7
Other comprehensive income (loss), net of income taxes				
Items that may be reclassified subsequently to net earnings				
Foreign currency translation adjustment	(3,189)	(5,033)	(2,568)	(4,766)
Unrealized gains/losses on forward exchange contracts	(486)	(971)	(127)	(362)
Reclassification of realized gains/losses on forward exchange contracts in net earnings	(232)	(840)	39	359
Deferred income taxes on gains/losses on forward exchange contracts	155	418	39	31
Other comprehensive loss	<u>(3,752)</u>	<u>(6,426)</u>	<u>(2,617)</u>	<u>(4,738)</u>
Comprehensive loss for the period	(9,722)	(14,729)	(6,921)	(4,731)
Comprehensive loss for the period attributable to non-controlling interest	<u>-</u>	<u>(352)</u>	<u>-</u>	<u>-</u>
Comprehensive loss for the period attributable to parent interest	<u>\$ (9,722)</u>	<u>\$ (14,377)</u>	<u>\$ (6,921)</u>	<u>\$ (4,731)</u>

EXFO Inc.

Unaudited Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

	Nine months ended May 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	1,370	(1,370)	-	-	-
Stock-based compensation costs	-	941	-	-	941
Net earnings for the period	-	-	7	-	7
Other comprehensive income (loss)					
Foreign currency translation adjustment	-	-	-	(4,766)	(4,766)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$31	-	-	-	28	28
Total comprehensive loss for the period					(4,731)
Balance as at May 31, 2017	<u>\$ 90,376</u>	<u>\$ 17,721</u>	<u>\$ 126,316</u>	<u>\$ (53,312)</u>	<u>\$ 181,101</u>

	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>

EXFO Inc.

Unaudited Condensed Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended May 31, 2018	Nine months ended May 31, 2018	Three months ended May 31, 2017	Nine months ended May 31, 2017
Cash flows from operating activities				
Net earnings (loss) for the period	\$ (5,970)	\$ (8,303)	\$ (4,304)	\$ 7
Add (deduct) items not affecting cash				
Stock-based compensation costs	440	1,280	372	983
Depreciation and amortization	5,765	12,357	2,075	5,135
Write-off of capital assets	77	325	–	–
Change in fair value of cash contingent consideration	–	(716)	–	–
Deferred revenue	(552)	1,682	79	3,026
Deferred income taxes	389	2,533	704	1,163
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	(603)	(239)	(524)	(955)
	(454)	8,919	(1,598)	9,359
Changes in non-cash operating items				
Accounts receivable	2,353	7,693	(901)	1,701
Income taxes and tax credits	172	(2,787)	(842)	(1,232)
Inventories	1,162	(12)	315	(9)
Prepaid expenses	16	205	(863)	(761)
Other assets	(245)	(769)	(103)	(127)
Accounts payable, accrued liabilities and provisions	1,821	5	1,169	1,756
Other liabilities	(109)	101	–	–
	4,716	13,355	(2,823)	10,687
Cash flows from investing activities				
Additions to short-term investments	–	(482)	(2,571)	(2,887)
Proceeds from disposal and maturity of short-term investments	–	234	3,298	3,596
Purchases of capital assets	(3,431)	(7,680)	(2,555)	(5,448)
Investment in an associate	–	(12,530)	–	–
Business combinations, net of cash acquired	–	(19,120)	(7,479)	(12,479)
	(3,431)	(39,578)	(9,307)	(17,218)
Cash flows from financing activities				
Bank loan	9,184	11,250	–	–
Repayment of long-term debt	(757)	(1,027)	(1,480)	(1,480)
Acquisition of non-controlling interest	(3,657)	(3,657)	–	–
	4,770	6,566	(1,480)	(1,480)
Effect of foreign exchange rate changes on cash	(119)	(289)	(360)	(824)
Change in cash during the period	5,936	(19,946)	(13,970)	(8,835)
Cash – Beginning of the period	12,553	38,435	48,343	43,208
Cash – End of the period	\$ 18,489	\$ 18,489	\$ 34,373	\$ 34,373
Supplementary information				
Income taxes paid	\$ 426	\$ 1,695	\$ 627	\$ 2,188
Additions to capital assets	\$ 3,371	\$ 8,959	\$ 1,779	\$ 5,441