

EXFO Inc.
Condensed Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

	<u>As at February 28, 2019</u>	<u>As at August 31, 2018</u>
Assets		
Current assets		
Cash	\$ 24,763	\$ 12,758
Short-term investments	2,238	2,282
Accounts receivable		
Trade	41,227	47,273
Other	3,490	4,137
Income taxes and tax credits recoverable	5,124	4,790
Inventories	38,598	38,589
Prepaid expenses	5,049	5,291
Other assets	2,583	2,279
	<u>123,072</u>	<u>117,399</u>
Tax credits recoverable	46,727	47,677
Property, plant and equipment	42,036	44,310
Intangible assets	24,904	29,866
Goodwill	39,707	39,892
Deferred income tax assets	5,708	4,714
Other assets	828	686
	<u>\$ 282,982</u>	<u>\$ 284,544</u>
Liabilities		
Current liabilities		
Bank loan	\$ 9,001	\$ 10,692
Accounts payable and accrued liabilities	47,560	47,898
Provisions	1,314	2,954
Income taxes payable	687	873
Deferred revenue	23,914	16,556
Other liabilities	1,656	3,197
Current portion of long-term debt	2,724	2,921
	<u>86,856</u>	<u>85,091</u>
Provisions	2,517	2,347
Deferred revenue	9,345	6,947
Long-term debt	4,578	5,907
Deferred income tax liabilities	4,572	5,910
Other liabilities	327	421
	<u>108,195</u>	<u>106,623</u>
Shareholders' equity		
Share capital	92,878	91,937
Contributed surplus	18,277	18,428
Retained earnings	112,379	114,906
Accumulated other comprehensive loss	(48,747)	(47,350)
	<u>174,787</u>	<u>177,921</u>
	<u>\$ 282,982</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 February 28, 2019	Six months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2018
Sales	\$ 73,927	\$ 143,128	\$ 64,722	\$ 128,113
Cost of sales ⁽¹⁾	29,062	57,959	25,326	48,615
Selling and administrative	25,474	51,849	24,916	48,109
Net research and development	12,216	27,440	13,087	24,339
Depreciation of property, plant and equipment	1,390	2,819	1,263	2,417
Amortization of intangible assets	2,130	5,070	3,056	4,175
Change in fair value of cash contingent consideration	–	–	(561)	(716)
Interest and other (income) expense	(1,514)	(1,137)	334	672
Foreign exchange (gain) loss	416	201	(8)	(1,226)
Share in net loss of an associate	–	–	2,080	2,080
Gain on the deemed disposal of the investment in an associate	–	–	(2,080)	(2,080)
Earnings (loss) before income taxes	<u>4,753</u>	<u>(1,073)</u>	<u>(2,691)</u>	<u>1,728</u>
Income taxes	<u>(440)</u>	<u>1,201</u>	<u>2,321</u>	<u>4,061</u>
Net earnings (loss) for the period	5,193	(2,274)	(5,012)	(2,333)
Net loss for the period attributable to non- controlling interest	<u>–</u>	<u>–</u>	<u>(352)</u>	<u>(352)</u>
Net earnings (loss) for the period attributable to parent interest	<u>\$ 5,193</u>	<u>\$ (2,274)</u>	<u>\$ (4,660)</u>	<u>\$ (1,981)</u>
Basic and diluted net earnings (loss) attributable to parent interest per share	\$ 0.09	\$ (0.04)	\$ (0.08)	\$ (0.04)
Basic weighted average number of shares outstanding (000's)	55,343	55,263	54,975	54,890
Diluted weighted average number of shares outstanding (000's)	56,160	55,263	54,975	54,890

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

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Comprehensive Income (Loss)

(in thousands of US dollars)

	Three months ended February 28, 2019	Six months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2018
Net earnings (loss) for the period	\$ 5,193	\$ (2,274)	\$ (5,012)	\$ (2,333)
Other comprehensive income (loss), net of income taxes				
Items that may be reclassified subsequently to net earnings				
Foreign currency translation adjustment	1,807	(1,549)	2,286	(1,844)
Unrealized gains/losses on forward exchange contracts	496	(191)	39	(485)
Reclassification of realized gains/losses on forward exchange contracts in net earnings	210	301	(225)	(608)
Deferred income taxes on gains/losses on forward exchange contracts	(167)	42	48	263
Other comprehensive income (loss)	<u>2,346</u>	<u>(1,397)</u>	<u>2,148</u>	<u>(2,674)</u>
Comprehensive income (loss) for the period	7,539	(3,671)	(2,864)	(5,007)
Comprehensive loss for the period attributable to non-controlling interest	<u>–</u>	<u>–</u>	<u>(352)</u>	<u>(352)</u>
Comprehensive income (loss) for the period attributable to parent interest	<u>\$ 7,539</u>	<u>\$ (3,671)</u>	<u>\$ (2,512)</u>	<u>\$ (4,655)</u>

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

	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>

	Six months ended February 28, 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	1,067	(1,067)	–	–	–	–
Redemption of share capital	(126)	21	–	–	–	(105)
Stock-based compensation costs	–	895	–	–	–	895
Net loss for the period	–	–	(2,274)	–	–	(2,274)
Other comprehensive income (loss)						
Foreign currency translation adjustment	–	–	–	(1,549)	–	(1,549)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$42	–	–	–	152	–	152
Total comprehensive loss for the period						(3,671)
Balance as at February 28, 2019	<u>\$ 92,878</u>	<u>\$ 18,277</u>	<u>\$ 112,379</u>	<u>\$ (48,747)</u>	<u>\$ –</u>	<u>\$ 174,787</u>

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended February 28, 2019	Six months ended February 28, 2019	Three months ended February 28, 2018	Six months ended February 28, 2018
Cash flows from operating activities				
Net earnings (loss) for the period	\$ 5,193	\$ (2,274)	\$ (5,012)	\$ (2,333)
Add (deduct) items not affecting cash				
Stock-based compensation costs	461	879	438	840
Depreciation and amortization	3,520	7,889	4,319	6,592
Gain on disposal of capital assets	(1,732)	(1,732)	–	–
Write-off of capital assets	261	261	124	248
Change in fair value of cash contingent consideration	–	–	(561)	(716)
Deferred revenue	6,021	9,943	3,016	2,234
Deferred income taxes	(2,124)	(2,153)	2,384	2,144
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	76	(453)	611	364
	<u>11,676</u>	<u>12,360</u>	<u>5,319</u>	<u>9,373</u>
Changes in non-cash operating items				
Accounts receivable	9,871	5,819	4,255	5,340
Income taxes and tax credits	1,031	33	(3,018)	(2,959)
Inventories	999	(362)	779	(1,174)
Prepaid expenses	22	205	(129)	189
Other assets	(327)	(339)	(528)	(524)
Accounts payable, accrued liabilities and provisions	(3,114)	18	(447)	(1,816)
Other liabilities	(1,470)	(1,521)	22	210
	<u>18,688</u>	<u>16,213</u>	<u>6,253</u>	<u>8,639</u>
Cash flows from investing activities				
Additions to short-term investments	(292)	(292)	(248)	(482)
Proceeds from disposal of short-term investments	–	342	234	234
Purchases of capital assets	(1,797)	(4,679)	(2,258)	(4,249)
Proceeds from disposal of capital assets	3,318	3,318	–	–
Investment in an associate	–	–	(2,219)	(12,530)
Business combinations, net of cash acquired	–	–	(9,580)	(19,120)
	<u>1,229</u>	<u>(1,311)</u>	<u>(14,071)</u>	<u>(36,147)</u>
Cash flows from financing activities				
Bank loan	(12,501)	(1,244)	2,064	2,066
Repayment of long-term debt	(735)	(1,452)	(200)	(270)
Redemption of share capital	(105)	(105)	–	–
	<u>(13,341)</u>	<u>(2,801)</u>	<u>1,864</u>	<u>1,796</u>
Effect of foreign exchange rate changes on cash	<u>100</u>	<u>(96)</u>	<u>56</u>	<u>(170)</u>
Change in cash during the period	6,676	12,005	(5,898)	(25,882)
Cash – Beginning of the period	18,087	12,758	18,451	38,435
Cash – End of the period	<u>\$ 24,763</u>	<u>\$ 24,763</u>	<u>\$ 12,553</u>	<u>\$ 12,553</u>