



EXFO Reports Fourth-Quarter and Fiscal 2014 Results

Q4 2014

- **Sales total US\$59.7 million with gross margin reaching 63.0%**
- **Bookings attain US\$57.3 million, up 6.3% year-over-year**
- **Adjusted EBITDA amounts to US\$5.8 million, 9.6% of sales**

Fiscal 2014

- **Sales total US\$230.8 million, while bookings attain US\$240.4 million**
- **Adjusted EBITDA amounts to US\$14.4 million, 6.2% of sales**
- **Operating expenses decrease US\$6.2 million year-over-year**

QUEBEC CITY, CANADA, October 8, 2014 — EXFO Inc. (NASDAQ: EXFO) (TSX: EXF) announced today financial results for the fourth quarter and fiscal year ended August 31, 2014.

Sales in the fourth quarter of fiscal 2014 reached US\$59.7 million compared to US\$63.9 million in the third quarter of 2014 and US\$60.9 million in the fourth quarter of 2013. Annual sales decreased 4.7% to US\$230.8 million in fiscal 2014 from US\$242.2 million in 2013.

Bookings totaled US\$57.3 million for a book-to-bill ratio of 0.96 in the fourth quarter of fiscal 2014 compared to US\$66.5 million in the third quarter of 2014 and US\$54.0 million in the fourth quarter of 2013. Overall for fiscal 2014, bookings increased 3.0% to US\$240.4 million for a book-to-bill ratio of 1.04 from US\$233.5 million in 2013.

Gross margin before depreciation and amortization* attained 63.0% of sales in the fourth quarter of fiscal 2014 compared to 63.3% in the third quarter of 2014 and 62.9% in the fourth quarter of 2013. In fiscal 2014, gross margin improved to 62.4% of sales compared to 61.8% in 2013.

In the fourth quarter of fiscal 2014, IFRS net earnings amounted to US\$1.2 million, or US\$0.02 per diluted share, including US\$1.1 million in after-tax amortization of intangible assets, US\$0.4 million in stock-based compensation costs and a foreign exchange loss of US\$0.3 million.

In the third quarter of 2014, IFRS net earnings totaled US\$1.7 million, or US\$0.03 per diluted share, including US\$1.0 million in after-tax amortization of intangible assets, US\$0.4 million in stock-based compensation costs and a foreign exchange loss of US\$1.1 million.

In the fourth quarter of 2013, IFRS net earnings amounted to US\$3.8 million, or US\$0.06 per diluted share, including US\$1.1 million in after-tax amortization of intangible assets, US\$0.4 million in stock-based compensation costs and a foreign exchange gain of US\$1.3 million.

In fiscal 2014, IFRS net earnings totaled US\$0.8 million, or US\$0.01 per diluted share, including US\$4.1 million in after-tax amortization of intangible assets, US\$1.7 million in stock-based compensation costs and a foreign exchange gain of US\$1.6 million.

In 2013, IFRS net earnings totaled US\$1.3 million, or US\$0.02 per diluted share, including US\$6.4 million in after-tax amortization of intangible assets, US\$1.8 million in stock-based compensation costs, US\$0.1 million in after-tax restructuring charges and a foreign exchange gain of US\$4.1 million.

Adjusted EBITDA** totaled US\$5.8 million, or 9.6% of sales, in the fourth quarter of fiscal 2014 compared to US\$7.3 million, or 11.5% of sales, in the third quarter of 2014 and US\$7.1 million, or 11.6% of sales, in the fourth quarter of 2013. Adjusted EBITDA amounted to US\$14.4 million, or 6.2% of sales, in fiscal 2014 compared to US\$17.3 million, or 7.2% of sales in 2013.

Cash and short-term investments increased by US\$9.6 million to US\$59.8 million in fiscal 2014, despite US\$7.9 million in additions to capital assets, including the asset acquisitions of ByteSphere and Aito Technologies.

“After a challenging first quarter, EXFO delivered bookings growth of 6% to 10% year-over-year in each of the last three quarters to close fiscal 2014 with a bookings increase of 3% and a book-to-bill ratio of 1.04 compared to 0.96 in a more difficult 2013,” said Germain Lamonde, EXFO’s Chairman, President and CEO. “This bookings trend demonstrates we have passed an inflection point on the strength of several new products and solutions that are starting to have a consistent market impact. EXFO has significantly transformed itself in 2014 by bringing to market end-to-end solutions related to key challenges faced by fixed and mobile network operators such as increasing network capacity, assuring quality of experience, enhancing productivity, or introducing new strategic technologies like VoLTE, NFV and SDN.”

“Given our continued flow of innovative solutions, recent contract wins with tier-1 wireless operators and two strategic technology acquisitions, I am confident our bookings momentum will persist and allow EXFO to deliver revenue and earnings growth,” Mr. Lamonde added. “Based on cost savings of US\$6 million in 2014, we are also entering 2015 with strong earnings leverage as reflected in the second half of 2014 in which we increased sales and bookings 3.2% and 6.9% year-over-year while generating adjusted EBITDA of US\$13.1 million, or 10.6% of sales. With impending sales growth and continued cost controls, our 15% adjusted EBITDA margin target is clearly achievable in a not-too-distant future.”

Selected Financial Information (unaudited)

(In thousands of US dollars)

| | Q4 2014 | Q3 2014 | Q4 2013 | FY 2014 | FY 2013 |
|--|-----------|------------|-----------|------------|------------|
| Sales | \$ 59,742 | \$ 63,882 | \$ 60,888 | \$ 230,806 | \$ 242,150 |
| Bookings | \$ 57,335 | \$ 66,508 | \$ 53,960 | \$ 240,405 | \$ 233,480 |
| Book-to-bill ratio | 0.96 | 1.04 | 0.89 | 1.04 | 0.96 |
| Gross margin before depreciation and amortization* | \$ 37,633 | \$ 40,413 | \$ 38,314 | \$ 143,970 | \$ 149,681 |
| | 63.0% | 63.3% | 62.9% | 62.4% | 61.8% |
| Other selected information: | | | | | |
| Net earnings | \$ 1,204 | \$ 1,665 | \$ 3,802 | \$ 783 | \$ 1,341 |
| Amortization of intangible assets | \$ 1,117 | \$ 1,025 | \$ 1,173 | \$ 4,398 | \$ 6,643 |
| Stock-based compensation costs | \$ 424 | \$ 407 | \$ 437 | \$ 1,696 | \$ 1,768 |
| Restructuring charges | \$ - | \$ - | \$ - | \$ - | \$ 89 |
| Net income tax effect of the above items | \$ (62) | \$ (63) | \$ (64) | \$ (256) | \$ (294) |
| Foreign exchange gain (loss) | \$ (334) | \$ (1,126) | \$ 1,312 | \$ 1,634 | \$ 4,082 |
| Adjusted EBITDA** | \$ 5,756 | \$ 7,345 | \$ 7,052 | \$ 14,391 | \$ 17,338 |

Operating Expenses

Selling and administrative expenses totaled US\$21.5 million, or 35.9% of sales, in the fourth quarter of fiscal 2014 compared to US\$21.7 million, or 34.0% of sales, in the third quarter of 2014 and US\$21.4 million, or 35.1% of sales, in the fourth quarter of 2013. In fiscal 2014, selling and administrative expenses amounted to US\$86.4 million, or 37.4% of sales, compared to US\$88.8 million, or 36.6% of sales, in 2013.

Gross R&D expenses attained US\$12.5 million, or 20.8% of sales, in the fourth quarter of fiscal 2014 compared to US\$13.6 million, or 21.3% of sales, in the previous quarter and US\$12.5 million, or 20.6% of sales, in the fourth quarter of 2013. In fiscal 2014, gross R&D expenses reached US\$52.4 million, or 22.7% of sales, compared to US\$54.3 million, or 22.4% of sales, in 2013.

Net R&D expenses amounted to US\$10.8 million, or 18.2% of sales, in the fourth quarter of fiscal 2014 compared to US\$11.7 million, or 18.4% of sales, in the third quarter of 2014 and US\$10.3 million, or 16.9% of sales, in the fourth quarter of 2013. In fiscal 2014, net R&D expenses totaled US\$44.8 million, or 19.4% of sales, compared to US\$45.4 million, or 18.8% of sales, in 2013.

FY 2014 Highlights

- **Sales.** Sales of Physical-Layer solutions (Optical and Copper Access) decreased 6.3% year-over-year, while bookings increased 3.0% during the same period. Sales of Protocol-Layer solutions (Transport & Datacom, Wireless and Service Assurance) decreased 1.2% year-over-year while bookings increased 3.0%.

Sales to wireless customers improved to an estimated 30% to 32% of total sales in fiscal 2014 from 26% to 28% in 2013 due to increased market focus and new product introductions.

EXFO announced three major wireless contract wins in 2014, including two with tier-1 mobile network operators for integrated end-to-end solutions involving productivity enhancements, improved quality of experience and heightened network visibility and analytics. These two orders should start to be recognized into revenue in the second quarter of 2015.

Sales decreased 4.9% year-over-year to US\$121.8 million in the Americas, 4.5% to US\$64.0 million in Europe, Middle East and Africa, and 4.3% to US\$45.0 million in Asia-Pacific, while bookings increased year-over-year in all three regions.

EXFO's largest customer accounted for 6.1% of sales in fiscal 2014, while the company's top-three customers represented 11.6%. In comparison, EXFO's largest customer accounted for 6.1% of sales in 2013, while the company's top-three customers represented 13.5%.

- **Profitability.** EXFO generated adjusted EBITDA of US\$14.4 million, or 6.2% of sales, in fiscal 2014 compared to US\$17.3 million, or 7.2% of sales, in 2013. Selling and administrative expenses (US\$2.3 million), net R&D expenses (US\$0.6 million) as well as depreciation and amortization expenses (US\$3.3 million) decreased by a total of US\$6.2 million in fiscal 2014.
- **Innovation.** EXFO launched 24 new products or major enhancements in fiscal 2014, including five in the fourth quarter. Key new product introductions during 2014 included, among others, an all-in-one optical and Ethernet test module that accelerates the deployment and troubleshooting of wireless backhaul, small cell or Ethernet networks; FTB-2, the industry's smallest platform for high-speed, multi-technology field testing; a tablet-based OTDR series that simplifies and reduces testing time on fixed and mobile networks; and a fully automated fiber inspection probe that eliminates error risks and reduces fiber connector inspection time by more than 50%.
- **Transformation.** EXFO accelerated its focus on solutions that help network operators enhance quality of experience, reduce operating costs and increase network visibility. In 2014, the company released a monitoring solution, featuring the highest polling capabilities for millions of distributed network elements, to provide end-to-end network infrastructure performance; and a service assurance solution that enables mobile operators to proactively monitor and assure quality of experience of voice-over-LTE (VoLTE) deployments. EXFO also acquired the assets of ByteSphere (network element polling) and Aito Technologies (customer experience assurance and analytics software).

Business Outlook

EXFO forecasts sales between US\$58.0 million and US\$63.0 million for the first quarter of fiscal 2015, while IFRS net results are expected to range between a loss of US\$0.01 per share and earnings of US\$0.03 per share. IFRS net loss/earnings include US\$0.02 per share in after-tax amortization of intangible assets and stock-based compensation costs.

This guidance was established by management based on existing backlog as of the date of this press release, seasonality, expected bookings for the remaining of the quarter, as well as exchange rates as of the day of this press release.

Conference Call and Webcast

EXFO will host a conference call today at 5 p.m. (Eastern time) to review its financial results for the fourth quarter of fiscal 2014. To listen to the conference call and participate in the question period via telephone, dial 1-416-359-3130. Germain Lamonde, Chairman, President and CEO, and Pierre Plamondon, CPA, CA, Vice-President of Finance and Chief Financial Officer, will participate in the call. An audio replay of the conference call will be available one hour after the event until 7 p.m. on October 15, 2014. The replay number is 1-402-977-9141 and the reservation number is 21732154. The audio Webcast and replay of the conference call will also be available on EXFO's Website at www.EXFO.com, under the Investors section.

About EXFO

Listed on the NASDAQ and TSX stock exchanges, EXFO is a leading provider of next-generation test, service assurance and end-to-end quality of experience solutions for mobile and fixed network operators and equipment manufacturers in the global telecommunications industry. EXFO's intelligent solutions with contextually relevant analytics improve end-user quality of experience, enhance network performance and drive operational efficiencies throughout the network and service delivery lifecycle. Key technologies supported include 3G, 4G/LTE, VoLTE, IMS, video, Ethernet/IP, SNMP, OTN, FTTx, xDSL and various optical technologies accounting for more than 38% of the global portable fiber-optic test market. EXFO has a staff of approximately 1600 people in 25 countries, supporting more than 2000 customers worldwide. For more information, visit www.EXFO.com and follow us on the [EXFO Blog](#), [Twitter](#), [LinkedIn](#), [Facebook](#), [Google+](#) and [YouTube](#).

Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, and we intend that such forward-looking statements be subject to the safe harbors created thereby. Forward-looking statements are statements other than historical information or statements of current condition. Words such as may, expect, believe, plan, anticipate, intend, could, estimate, continue, or similar expressions or the negative of such expressions are intended to identify forward-looking statements. In addition, any statement that refers to expectations, projections or other characterizations of future events and circumstances are considered forward-looking statements. They are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in forward-looking statements due to various factors including, but not limited to, macroeconomic uncertainty as well as capital spending and network deployment levels in the telecommunications industry (including our ability to quickly adapt cost structures with anticipated levels of business and our ability to manage inventory levels with market demand); future economic, competitive, financial and market conditions; consolidation in the global telecommunications test and service assurance industry and increased competition among vendors; capacity to adapt our future product offering to future technological changes; limited visibility with regards to customer orders and the timing of such orders; fluctuating exchange rates; concentration of sales; timely release and market acceptance of our new products and other upcoming products; our ability to successfully expand international operations; our ability to successfully integrate businesses that we acquire; and the retention of key technical and management personnel. Assumptions relating to the foregoing involve judgments and risks, all of which are difficult or impossible to predict and many of which are beyond our control. Other risk factors that may affect our future performance and operations are detailed in our Annual Report, on Form 20-F, and our other filings with the U.S. Securities and Exchange Commission and the Canadian securities commissions. We believe that the expectations reflected in the forward-looking statements are reasonable based on information currently available to us, but we cannot assure

that the expectations will prove to have been correct. Accordingly, you should not place undue reliance on these forward-looking statements. These statements speak only as of the date of this document. Unless required by law or applicable regulations, we undertake no obligation to revise or update any of them to reflect events or circumstances that occur after the date of this document.

NON-IFRS MEASURES

EXFO provides non-IFRS measures (gross margin before depreciation and amortization* and adjusted EBITDA**) as supplemental information regarding its operational performance. The company uses these measures for the purpose of evaluating historical and prospective financial performance, as well as its performance relative to competitors. These measures also help the company to plan and forecast future periods as well as to make operational and strategic decisions. EXFO believes that providing this information, in addition to IFRS measures, allows investors to see the company's results through the eyes of management, and to better understand its historical and future financial performance.

The presentation of this additional information is not prepared in accordance with IFRS. Therefore, the information may not necessarily be comparable to that of other companies and should be considered as a supplement to, not a substitute for, the corresponding measures calculated in accordance with IFRS.

* Gross margin before depreciation and amortization represents sales less cost of sales, excluding depreciation and amortization.

** Adjusted EBITDA represents net earnings before interest, income taxes, depreciation and amortization, restructuring charges, stock-based compensation costs and foreign exchange gain or loss.

The following tables summarize the reconciliation of adjusted EBITDA to IFRS net earnings, in thousands of US dollars:

Adjusted EBITDA (unaudited)

| | <u>Q4 2014</u> | <u>Q3 2014</u> | <u>Q4 2013</u> | <u>FY 2014</u> | <u>FY 2013</u> |
|---|-----------------|-----------------|-----------------|------------------|------------------|
| IFRS net earnings for the period | \$ 1,204 | \$ 1,665 | \$ 3,802 | \$ 783 | \$ 1,341 |
| Add (deduct): | | | | | |
| Depreciation of property, plant and equipment | 1,258 | 1,219 | 1,446 | 4,995 | 6,028 |
| Amortization of intangible assets | 1,117 | 1,025 | 1,173 | 4,398 | 6,643 |
| Interest and other income | (30) | (220) | (37) | (326) | (113) |
| Income taxes | 1,449 | 2,123 | 1,543 | 4,479 | 5,664 |
| Restructuring charges | - | - | - | - | 89 |
| Stock-based compensation costs | 424 | 407 | 437 | 1,696 | 1,768 |
| Foreign exchange (gain) loss | 334 | 1,126 | (1,312) | (1,634) | (4,082) |
| Adjusted EBITDA for the period | <u>\$ 5,756</u> | <u>\$ 7,345</u> | <u>\$ 7,052</u> | <u>\$ 14,391</u> | <u>\$ 17,338</u> |
| Adjusted EBITDA in percentage of sales | <u>9.6%</u> | <u>11.5%</u> | <u>11.6%</u> | <u>6.2%</u> | <u>7.2%</u> |

For more information

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EXFO Inc.

Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

| | As at August 31, | |
|--|------------------|------------|
| | 2014 | 2013 |
| Assets | | |
| Current assets | | |
| Cash | \$ 54,121 | \$ 45,386 |
| Short-term investments | 5,726 | 4,868 |
| Accounts receivable | | |
| Trade | 46,031 | 50,117 |
| Other | 2,001 | 2,778 |
| Income taxes and tax credits recoverable | 3,796 | 6,525 |
| Inventories | 35,232 | 35,705 |
| Prepaid expenses | 2,281 | 2,561 |
| | 149,188 | 147,940 |
| Tax credits recoverable | 41,745 | 41,719 |
| Property, plant and equipment | 42,780 | 45,523 |
| Intangible assets | 7,293 | 7,543 |
| Goodwill | 26,488 | 27,313 |
| Deferred income tax assets | 9,816 | 10,807 |
| Other assets | 721 | 693 |
| | \$ 278,031 | \$ 281,538 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 29,553 | \$ 26,253 |
| Provisions | 532 | 756 |
| Income taxes payable | 840 | 679 |
| Current portion of long-term debt | — | 296 |
| Deferred revenue | 8,990 | 9,467 |
| | 39,915 | 37,451 |
| Deferred revenue | 3,319 | 3,932 |
| Deferred income tax liabilities | 3,087 | 3,226 |
| Other liabilities | 340 | 477 |
| | 46,661 | 45,086 |
| Shareholders' equity | | |
| Share capital | 111,491 | 109,837 |
| Contributed surplus | 16,503 | 17,186 |
| Retained earnings | 113,635 | 112,852 |
| Accumulated other comprehensive loss | (10,259) | (3,423) |
| | 231,370 | 236,452 |
| | \$ 278,031 | \$ 281,538 |

EXFO Inc.

Unaudited Interim Consolidated Statements of Earnings

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

| | Three months ended August 31, 2014 | Twelve months ended August 31, 2014 | Three months ended August 31, 2013 | Twelve months ended August 31, 2013 |
|--|---|--|---|--|
| Sales | \$ 59,742 | \$ 230,806 | \$ 60,888 | \$ 242,150 |
| Cost of sales ⁽¹⁾ | 22,109 | 86,836 | 22,574 | 92,469 |
| Selling and administrative | 21,454 | 86,429 | 21,390 | 88,756 |
| Net research and development | 10,847 | 44,846 | 10,309 | 45,444 |
| Depreciation of property, plant and equipment | 1,258 | 4,995 | 1,446 | 6,028 |
| Amortization of intangible assets | 1,117 | 4,398 | 1,173 | 6,643 |
| Interest and other income | (30) | (326) | (37) | (113) |
| Foreign exchange (gain) loss | 334 | (1,634) | (1,312) | (4,082) |
| Earnings before income taxes | 2,653 | 5,262 | 5,345 | 7,005 |
| Income taxes | 1,449 | 4,479 | 1,543 | 5,664 |
| Net earnings for the period | <u>\$ 1,204</u> | <u>\$ 783</u> | <u>\$ 3,802</u> | <u>\$ 1,341</u> |
| Basic and diluted net earnings per share | \$ 0.02 | \$ 0.01 | \$ 0.06 | \$ 0.02 |
| Basic weighted average number of shares outstanding (000's) | 60,347 | 60,329 | 60,132 | 60,323 |
| Diluted weighted average number of shares outstanding (000's) | 61,043 | 61,015 | 60,929 | 61,110 |

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

EXFO Inc.

Unaudited Interim Consolidated Statements of Comprehensive Income (Loss)

(in thousands of US dollars)

| | Three months ended <u>August 31, 2014</u> | Twelve months ended <u>August 31, 2014</u> | Three months ended <u>August 31, 2013</u> | Twelve months ended <u>August 31, 2013</u> |
|---|---|--|---|--|
| Net earnings for the period | \$ 1,204 | \$ 783 | \$ 3,802 | \$ 1,341 |
| Other comprehensive income (loss), net of income taxes | | | | |
| Items that will not be reclassified subsequently to net earnings | | | | |
| Foreign currency translation adjustment | (294) | (7,086) | (3,686) | (15,830) |
| Items that may be reclassified subsequently to net earnings | | | | |
| Unrealized gains/losses on forward exchange contracts | 76 | (618) | (382) | (1,256) |
| Reclassification of realized gains/losses on forward exchange contracts in net earnings | 203 | 959 | 34 | (247) |
| Deferred income tax effect of gains/losses on forward exchange contracts | (75) | (91) | 93 | 403 |
| Other comprehensive loss | (90) | (6,836) | (3,941) | (16,930) |
| Comprehensive income (loss) for the period | <u>\$ 1,114</u> | <u>\$ (6,053)</u> | <u>\$ (139)</u> | <u>\$ (15,589)</u> |

EXFO Inc.

Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

| | Year ended August 31, 2013 | | | | |
|---|----------------------------|---------------------|-------------------|---|----------------------------|
| | Share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive income (loss) | Total shareholders' equity |
| Balance as at September 1, 2012 | \$ 110,965 | \$ 17,298 | \$ 111,511 | \$ 13,507 | \$ 253,281 |
| Exercise of stock options | 87 | – | – | – | 87 |
| Redemption of share capital | (2,565) | (531) | – | – | (3,096) |
| Reclassification of stock-based compensation costs | 1,350 | (1,350) | – | – | – |
| Stock-based compensation costs | – | 1,769 | – | – | 1,769 |
| Net earnings for the year | – | – | 1,341 | – | 1,341 |
| Other comprehensive loss | | | | | |
| Foreign currency translation adjustment | – | – | – | (15,830) | (15,830) |
| Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$403 | – | – | – | (1,100) | (1,100) |
| Total comprehensive income (loss) for the year | – | – | 1,341 | (16,930) | (15,589) |
| Balance as at August 31, 2013 | <u>\$ 109,837</u> | <u>\$ 17,186</u> | <u>\$ 112,852</u> | <u>\$ (3,423)</u> | <u>\$ 236,452</u> |
| | Year ended August 31, 2014 | | | | |
| | Share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive loss | Total shareholders' equity |
| Balance as at September 1, 2013 | \$ 109,837 | \$ 17,186 | \$ 112,852 | \$ (3,423) | \$ 236,452 |
| Exercise of stock options | 225 | – | – | – | 225 |
| Redemption of share capital | (831) | (106) | – | – | (937) |
| Reclassification of stock-based compensation costs | 2,260 | (2,260) | – | – | – |
| Stock-based compensation costs | – | 1,683 | – | – | 1,683 |
| Net earnings for the year | – | – | 783 | – | 783 |
| Other comprehensive income (loss) | | | | | |
| Foreign currency translation adjustment | – | – | – | (7,086) | (7,086) |
| Changes in unrealized losses on forward exchange contracts, net of deferred income taxes of \$91 | – | – | – | 250 | 250 |
| Total comprehensive income (loss) for the year | – | – | 783 | (6,836) | (6,053) |
| Balance as at August 31, 2014 | <u>\$ 111,491</u> | <u>\$ 16,503</u> | <u>\$ 113,635</u> | <u>\$ (10,259)</u> | <u>\$ 231,370</u> |

EXFO Inc.

Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

| | Three months ended August 31, 2014 | Twelve months ended August 31, 2014 | Three months ended August 31, 2013 | Twelve months ended August 31, 2013 |
|--|---|--|---|--|
| Cash flows from operating activities | | | | |
| Net earnings for the period | \$ 1,204 | \$ 783 | \$ 3,802 | \$ 1,341 |
| Add (deduct) items not affecting cash | | | | |
| Stock-based compensation costs | 424 | 1,696 | 437 | 1,768 |
| Depreciation and amortization | 2,375 | 9,393 | 2,619 | 12,671 |
| Deferred revenue | (285) | (804) | (1,507) | (1,266) |
| Deferred income taxes | (557) | 891 | 967 | 2,951 |
| Changes in foreign exchange gain/loss | 32 | (491) | (215) | (1,091) |
| | <u>3,193</u> | <u>11,468</u> | <u>6,103</u> | <u>16,374</u> |
| Changes in non-cash operating items | | | | |
| Accounts receivable | 7,261 | 3,578 | (4,108) | (14,765) |
| Income taxes and tax credits | 3,149 | 1,447 | (2,004) | (4,205) |
| Inventories | 2,072 | (734) | 2,125 | 2,916 |
| Prepaid expenses | 334 | 210 | 1,852 | 993 |
| Other assets | 73 | 92 | (703) | (703) |
| Accounts payable and accrued liabilities and provisions | (6,124) | 3,832 | (3,876) | (2,373) |
| Other liabilities | (29) | (107) | (23) | (258) |
| | <u>9,929</u> | <u>19,786</u> | <u>(634)</u> | <u>(2,021)</u> |
| Cash flows from investing activities | | | | |
| Additions to short-term investments | (9,830) | (34,222) | (9,786) | (54,489) |
| Proceeds from disposal and maturity of short-term investments | 9,402 | 33,208 | 9,783 | 57,514 |
| Additions to capital assets | (2,785) | (7,931) | (2,074) | (8,026) |
| | <u>(3,213)</u> | <u>(8,945)</u> | <u>(2,077)</u> | <u>(5,001)</u> |
| Cash flows from financing activities | | | | |
| Repayment of long-term debt | - | (307) | (296) | (589) |
| Exercise of stock options | - | 225 | - | 87 |
| Redemption of share capital | - | (937) | (795) | (3,096) |
| | <u>-</u> | <u>(1,019)</u> | <u>(1,091)</u> | <u>(3,598)</u> |
| Effect of foreign exchange rate changes on cash | | | | |
| | <u>(18)</u> | <u>(1,087)</u> | <u>(670)</u> | <u>(2,862)</u> |
| Change in cash | 6,698 | 8,735 | (4,472) | (13,482) |
| Cash – Beginning of period | 47,423 | 45,386 | 49,858 | 58,868 |
| Cash – End of period | <u>\$ 54,121</u> | <u>\$ 54,121</u> | <u>\$ 45,386</u> | <u>\$ 45,386</u> |