

EXFO Inc.

Condensed Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

| | As at August 31, | |
|--|------------------|------------|
| | 2016 | 2015 |
| Assets | | |
| Current assets | | |
| Cash | \$ 43,208 | \$ 25,864 |
| Short-term investments | 4,087 | 1,487 |
| Accounts receivable | | |
| Trade | 42,993 | 45,985 |
| Other | 2,474 | 2,384 |
| Income taxes and tax credits recoverable | 4,208 | 3,855 |
| Inventories | 33,004 | 27,951 |
| Prepaid expenses | 3,099 | 2,801 |
| | 133,073 | 110,327 |
| Tax credits recoverable | 34,594 | 35,625 |
| Property, plant and equipment | 35,978 | 35,695 |
| Intangible assets | 3,391 | 4,096 |
| Goodwill | 21,928 | 21,860 |
| Deferred income tax assets | 8,240 | 9,459 |
| Other assets | 589 | 416 |
| | \$ 237,793 | \$ 217,478 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 37,174 | \$ 34,126 |
| Provisions | 299 | 427 |
| Income taxes payable | 971 | 779 |
| Deferred revenue | 9,486 | 7,647 |
| | 47,930 | 42,979 |
| Deferred revenue | 5,530 | 2,957 |
| Deferred income tax liabilities | 2,857 | 1,524 |
| Other liabilities | 75 | 791 |
| | 56,392 | 48,251 |
| Shareholders' equity | | |
| Share capital | 85,516 | 86,045 |
| Contributed surplus | 18,150 | 17,778 |
| Retained earnings | 126,309 | 117,409 |
| Accumulated other comprehensive loss | (48,574) | (52,005) |
| | 181,401 | 169,227 |
| | \$ 237,793 | \$ 217,478 |

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Earnings

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

| | Three months ended <u>August 31, 2016</u> | Twelve months ended <u>August 31, 2016</u> | Three months ended <u>August 31, 2015</u> | Twelve months ended <u>August 31, 2015</u> |
|---|---|--|---|--|
| Sales | \$ 62,858 | \$ 232,583 | \$ 56,594 | \$ 222,089 |
| Cost of sales ^(1,3) | 24,145 | 87,066 | 21,975 | 85,039 |
| Selling and administrative ^(2, 3) | 21,554 | 82,169 | 20,511 | 82,200 |
| Net research and development ⁽³⁾ | 11,289 | 42,687 | 10,916 | 44,003 |
| Depreciation of property, plant and equipment | 957 | 3,814 | 1,171 | 4,835 |
| Amortization of intangible assets | 292 | 1,172 | 322 | 2,883 |
| Interest and other (income) expense | (112) | (828) | 61 | (155) |
| Foreign exchange (gain) loss | 293 | (161) | (2,425) | (7,212) |
| Unusual charge | - | - | 603 | 603 |
| Earnings before income taxes | <u>4,440</u> | <u>16,664</u> | <u>3,460</u> | <u>9,893</u> |
| Income taxes | <u>2,188</u> | <u>7,764</u> | <u>1,578</u> | <u>5,036</u> |
| Net earnings for the period | <u>\$ 2,252</u> | <u>\$ 8,900</u> | <u>\$ 1,882</u> | <u>\$ 4,857</u> |
| Basic net earnings per share | \$ 0.04 | \$ 0.17 | \$ 0.03 | \$ 0.09 |
| Diluted net earnings per share | \$ 0.04 | \$ 0.16 | \$ 0.03 | \$ 0.08 |
| Basic weighted average number of shares outstanding (000's) | 53,769 | 53,863 | 53,806 | 56,804 |
| Diluted weighted average number of shares outstanding (000's) | 54,709 | 54,669 | 54,473 | 57,457 |
| <p>(1) The cost of sales is exclusive of depreciation and amortization, shown separately. (2) Selling and administrative is exclusive of unusual charge, which represents bad debt expenses. (3) Restructuring charges included in:</p> | | | | |
| Cost of sales | \$ - | \$ - | \$ 290 | \$ 290 |
| Selling and administrative | - | - | 586 | 586 |
| Net research and development | - | - | 761 | 761 |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,637</u> | <u>\$ 1,637</u> |

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Comprehensive Income (Loss)

(in thousands of US dollars)

| | Three months ended <u>August 31, 2016</u> | Twelve months ended <u>August 31, 2016</u> | Three months ended <u>August 31, 2015</u> | Twelve months ended <u>August 31, 2015</u> |
|---|--|---|--|---|
| Net earnings for the period | \$ 2,252 | \$ 8,900 | \$ 1,882 | \$ 4,857 |
| Other comprehensive income (loss), net of income taxes | | | | |
| Items that will not be reclassified subsequently to net earnings | | | | |
| Foreign currency translation adjustment | (68) | 707 | (9,676) | (39,175) |
| Items that may be reclassified subsequently to net earnings | | | | |
| Unrealized gains/losses on forward exchange contracts | 37 | 862 | (1,419) | (5,583) |
| Reclassification of realized gains/losses on forward exchange contracts in net earnings | 414 | 2,797 | 669 | 2,107 |
| Deferred income tax effect of gains/losses on forward exchange contracts | (111) | (935) | 180 | 905 |
| Other comprehensive income (loss) | <u>272</u> | <u>3,431</u> | <u>(10,246)</u> | <u>(41,746)</u> |
| Comprehensive income (loss) for the period | <u>\$ 2,524</u> | <u>\$ 12,331</u> | <u>\$ (8,364)</u> | <u>\$ (36,889)</u> |

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

| | Twelve months ended August 31, 2015 | | | | |
|---|-------------------------------------|---------------------|-------------------|--------------------------------------|----------------------------|
| | Share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive loss | Total shareholders' equity |
| Balance as at September 1, 2014 | \$ 111,491 | \$ 16,503 | \$ 112,552 | \$ (10,259) | \$ 230,287 |
| Redemption of share capital | (26,827) | 1,333 | - | - | (25,494) |
| Reclassification of stock-based compensation costs | 1,381 | (1,381) | - | - | - |
| Stock-based compensation costs | - | 1,323 | - | - | 1,323 |
| Net earnings for the year | - | - | 4,857 | - | 4,857 |
| Other comprehensive loss | | | | | |
| Foreign currency translation adjustment | - | - | - | (39,175) | (39,175) |
| Changes in unrealized losses on forward exchange contracts, net of deferred income taxes of \$905 | - | - | - | (2,571) | (2,571) |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>(2,571)</u> | <u>(2,571)</u> |
| Total comprehensive loss for the year | | | | | <u>(36,889)</u> |
| Balance as at August 31, 2015 | <u>\$ 86,045</u> | <u>\$ 17,778</u> | <u>\$ 117,409</u> | <u>\$ (52,005)</u> | <u>\$ 169,227</u> |

| | Twelve months ended August 31, 2016 | | | | |
|---|-------------------------------------|---------------------|-------------------|--------------------------------------|----------------------------|
| | Share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive loss | Total shareholders' equity |
| Balance as at September 1, 2015 | \$ 86,045 | \$ 17,778 | \$ 117,409 | \$ (52,005) | \$ 169,227 |
| Redemption of share capital | (1,768) | 217 | - | - | (1,551) |
| Reclassification of stock-based compensation costs | 1,239 | (1,239) | - | - | - |
| Stock-based compensation costs | - | 1,394 | - | - | 1,394 |
| Net earnings for the year | - | - | 8,900 | - | 8,900 |
| Other comprehensive income | | | | | |
| Foreign currency translation adjustment | - | - | - | 707 | 707 |
| Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$935 | - | - | - | 2,724 | 2,724 |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,724</u> | <u>2,724</u> |
| Total comprehensive income for the year | | | | | <u>12,331</u> |
| Balance as at August 31, 2016 | <u>\$ 85,516</u> | <u>\$ 18,150</u> | <u>\$ 126,309</u> | <u>\$ (48,574)</u> | <u>\$ 181,401</u> |

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

| | Three months ended August 31, 2016 | Twelve months ended August 31, 2016 | Three months ended August 31, 2015 | Twelve months ended August 31, 2015 |
|--|---|--|---|--|
| Cash flows from operating activities | | | | |
| Net earnings for the period | \$ 2,252 | \$ 8,900 | \$ 1,882 | \$ 4,857 |
| Add (deduct) items not affecting cash | | | | |
| Stock-based compensation costs | 302 | 1,378 | 133 | 1,295 |
| Depreciation and amortization | 1,249 | 4,986 | 1,493 | 7,718 |
| Unusual charge | – | – | 603 | 603 |
| Deferred revenue | (638) | 4,238 | (962) | 396 |
| Deferred income taxes | 293 | 1,578 | 204 | 403 |
| Changes in foreign exchange gain/loss | 1 | (332) | (967) | (3,842) |
| | <u>3,459</u> | <u>20,748</u> | <u>2,386</u> | <u>11,430</u> |
| Changes in non-cash operating items | | | | |
| Accounts receivable | (712) | 2,682 | (3,017) | (10,828) |
| Income taxes and tax credits | 307 | 939 | (98) | (2,062) |
| Inventories | 1,914 | (4,713) | 1,803 | 820 |
| Prepaid expenses | 138 | (280) | (107) | (982) |
| Other assets | (33) | 170 | 32 | 61 |
| Accounts payable, accrued liabilities and provisions | (1,524) | 4,882 | (862) | 8,132 |
| Other liabilities | (6) | (65) | (25) | (87) |
| | <u>3,543</u> | <u>24,363</u> | <u>112</u> | <u>6,484</u> |
| Cash flows from investing activities | | | | |
| Additions to short-term investments | (416) | (3,546) | (558) | (20,067) |
| Proceeds from disposal and maturity of short-term investments | 372 | 873 | – | 23,685 |
| Additions to capital assets | (982) | (4,356) | (1,308) | (5,933) |
| | <u>(1,026)</u> | <u>(7,029)</u> | <u>(1,866)</u> | <u>(2,315)</u> |
| Cash flows from financing activities | | | | |
| Bank loan | (468) | – | – | – |
| Redemption of share capital | (1,149) | (1,551) | (320) | (25,494) |
| | <u>(1,617)</u> | <u>(1,551)</u> | <u>(320)</u> | <u>(25,494)</u> |
| Effect of foreign exchange rate changes on cash | <u>35</u> | <u>1,561</u> | <u>(957)</u> | <u>(6,932)</u> |
| Change in cash | 935 | 17,344 | (3,031) | (28,257) |
| Cash – Beginning of the period | <u>42,273</u> | <u>25,864</u> | <u>28,895</u> | <u>54,121</u> |
| Cash – End of the period | <u>\$ 43,208</u> | <u>\$ 43,208</u> | <u>\$ 25,864</u> | <u>\$ 25,864</u> |