

EXFO Inc.
Condensed Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

| | As at February 28, 2013 | As at August 31, 2012 |
|--|--|--------------------------------------|
| | <u> </u> | <u> </u> |
| Assets | | |
| Current assets | | |
| Cash | \$ 51,425 | \$ 58,868 |
| Short-term investments | 4,952 | 8,236 |
| Accounts receivable | | |
| Trade | 42,715 | 37,643 |
| Other | 2,643 | 4,283 |
| Income taxes and tax credits recoverable | 8,375 | 9,024 |
| Inventories | 38,331 | 41,212 |
| Prepaid expenses | 3,685 | 3,800 |
| | <u>152,126</u> | <u>163,066</u> |
| Tax credits recoverable | 40,368 | 38,397 |
| Property, plant and equipment | 46,593 | 49,848 |
| Intangible assets | 10,111 | 14,132 |
| Goodwill | 27,885 | 29,160 |
| Deferred income taxes | 11,266 | 12,080 |
| | <u>\$ 288,349</u> | <u>\$ 306,683</u> |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 29,420 | \$ 32,392 |
| Provisions | 742 | 952 |
| Income taxes payable | 1,225 | 917 |
| Current portion of long-term debt | 584 | 565 |
| Deferred revenue | 9,069 | 10,583 |
| | <u>41,040</u> | <u>45,409</u> |
| Deferred revenue | 4,481 | 4,997 |
| Long-term debt | – | 282 |
| Other liabilities | 383 | 609 |
| Deferred income taxes | 2,628 | 2,105 |
| | <u>48,532</u> | <u>53,402</u> |
| Shareholders' equity | | |
| Share capital (note 4) | 111,400 | 110,965 |
| Contributed surplus | 16,688 | 17,298 |
| Retained earnings | 109,912 | 111,511 |
| Accumulated other comprehensive income | 1,817 | 13,507 |
| | <u>239,817</u> | <u>253,281</u> |
| | <u>\$ 288,349</u> | <u>\$ 306,683</u> |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

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, 2013 | Six months ended February 28, 2013 | Three months ended February 29, 2012 | Six months ended February 29, 2012 |
|---|---|---|---|---|
| Sales | \$ 62,576 | \$ 122,397 | \$ 66,917 | \$ 133,305 |
| Cost of sales ⁽¹⁾ (note 5) | 23,664 | 47,321 | 23,616 | 46,986 |
| Selling and administrative (note 5) | 23,074 | 45,364 | 23,676 | 48,294 |
| Net research and development (note 5) | 11,960 | 23,562 | 12,307 | 24,790 |
| Depreciation of property, plant and equipment (note 5) | 1,504 | 3,109 | 1,546 | 3,114 |
| Amortization of intangible assets (note 5) | 1,922 | 3,884 | 1,974 | 3,895 |
| Change in fair value of cash contingent consideration | - | - | (311) | (311) |
| Earnings (loss) from operations | 452 | (843) | 4,109 | 6,537 |
| Interest income (expenses) | (25) | 8 | 54 | (17) |
| Foreign exchange gain (loss) | 1,700 | 2,456 | (1,471) | 193 |
| Earnings before income taxes | 2,127 | 1,621 | 2,692 | 6,713 |
| Income taxes (note 6) | 2,088 | 3,220 | 1,738 | 2,872 |
| Net earnings (loss) for the period | \$ 39 | \$ (1,599) | \$ 954 | \$ 3,841 |
| Basic and diluted net earnings (loss) per share | \$ 0.00 | \$ (0.03) | \$ 0.02 | \$ 0.06 |
| Basic weighted average number of shares outstanding (000's) | 60,392 | 60,391 | 60,441 | 60,391 |
| Diluted weighted average number of shares outstanding (000's) (note 7) | 61,175 | 61,195 | 61,606 | 61,685 |

(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, 2013 | Six months ended February 28, 2013 | Three months ended February 29, 2012 | Six months ended February 29, 2012 |
|---|---|---|---|---|
| Net earnings (loss) for the period | \$ 39 | \$ (1,599) | \$ 954 | \$ 3,841 |
| Other comprehensive income (loss), net of income taxes | | | | |
| Items that will not be reclassified subsequently to net earnings | | | | |
| Foreign currency translation adjustment | (9,184) | (10,892) | 6,200 | (5,627) |
| Items that may be reclassified subsequently to net earnings | | | | |
| Unrealized gains/losses on forward exchange contracts | (679) | (762) | 963 | 144 |
| Reclassification of realized gains on forward exchange contracts in net earnings (loss) | (130) | (329) | (355) | (980) |
| Deferred income tax effect of gains/losses on forward exchange contracts | 217 | 293 | (163) | 232 |
| Other comprehensive income (loss) | (9,776) | (11,690) | 6,645 | (6,231) |
| Comprehensive income (loss) for the period | <u>\$ (9,737)</u> | <u>\$ (13,289)</u> | <u>\$ 7,599</u> | <u>\$ (2,390)</u> |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

| | Six months ended February 29, 2012 | | | | |
|--|------------------------------------|---------------------|-------------------|--|----------------------------|
| | Share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive income | Total shareholders' equity |
| Balance as at September 1, 2011 | \$ 110,341 | \$ 18,017 | \$ 115,104 | \$ 21,049 | \$ 264,511 |
| Exercise of stock options (note 4) | 78 | - | - | - | 78 |
| Redemption of share capital (note 4) | (404) | (222) | - | - | (626) |
| Reclassification of stock-based compensation costs (note 4) | 1,406 | (1,406) | - | - | - |
| Stock-based compensation costs | - | 956 | - | - | 956 |
| Net earnings for the period | - | - | 3,841 | - | 3,841 |
| Other comprehensive loss | | | | | |
| Foreign currency translation adjustment | - | - | - | (5,627) | (5,627) |
| Changes in unrealized gains on forward exchange contracts, net of deferred income taxes of \$232 | - | - | - | (604) | (604) |
| Total other comprehensive income (loss) for the period | - | - | 3,841 | (6,231) | (2,390) |
| Balance as at February 29, 2012 | <u>\$ 111,421</u> | <u>\$ 17,345</u> | <u>\$ 118,945</u> | <u>\$ 14,818</u> | <u>\$ 262,529</u> |

| | Six months ended February 28, 2013 | | | | |
|---|------------------------------------|---------------------|-------------------|--|----------------------------|
| | Share capital | Contributed surplus | Retained earnings | Accumulated other comprehensive income | Total shareholders' equity |
| Balance as at September 1, 2012 | \$ 110,965 | \$ 17,298 | \$ 111,511 | \$ 13,507 | \$ 253,281 |
| Exercise of stock options (note 4) | 87 | - | - | - | 87 |
| Redemption of share capital (note 4) | (913) | (227) | - | - | (1,140) |
| Reclassification of stock-based compensation costs (note 4) | 1,261 | (1,261) | - | - | - |
| Stock-based compensation costs | - | 878 | - | - | 878 |
| Net loss for the period | - | - | (1,599) | - | (1,599) |
| Other comprehensive loss | | | | | |
| Foreign currency translation adjustment | - | - | - | (10,892) | (10,892) |
| Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$293 | - | - | - | (798) | (798) |
| Total other comprehensive loss for the period | - | - | (1,599) | (11,690) | (13,289) |
| Balance as at February 28, 2013 | <u>\$ 111,400</u> | <u>\$ 16,688</u> | <u>\$ 109,912</u> | <u>\$ 1,817</u> | <u>\$ 239,817</u> |

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

| | Three months ended February 28, 2013 | Six months ended February 28, 2013 | Three months ended February 29, 2012 | Six months ended February 29, 2012 |
|---|---|---|---|---|
| Cash flows from operating activities | | | | |
| Net earnings (loss) for the period | \$ 39 | \$ (1,599) | \$ 954 | \$ 3,841 |
| Add (deduct) items not affecting cash | | | | |
| Change in discount on short-term investments | (3) | (1) | 12 | 43 |
| Stock-based compensation costs | 468 | 916 | 508 | 1,063 |
| Depreciation and amortization | 3,426 | 6,993 | 3,520 | 7,009 |
| Change in fair value of cash contingent consideration | – | – | (311) | (311) |
| Deferred revenue | 111 | (1,420) | 488 | (653) |
| Deferred income taxes | 988 | 1,721 | 857 | 1,575 |
| Change in foreign exchange gain/loss | (775) | (798) | 175 | (1,039) |
| | <u>4,254</u> | <u>5,812</u> | <u>6,203</u> | <u>11,528</u> |
| Change in non-cash operating items | | | | |
| Accounts receivable | 2,016 | (6,088) | 5,504 | 2,607 |
| Income taxes and tax credits | (1,313) | (3,186) | (1,430) | (1,258) |
| Inventories | 1,213 | 1,053 | 7,050 | 7,643 |
| Prepaid expenses | (414) | (55) | (228) | (213) |
| Accounts payable, accrued liabilities and provisions | (3,687) | (50) | (3,432) | (35) |
| Other liabilities | (15) | (210) | (91) | (152) |
| | <u>2,054</u> | <u>(2,724)</u> | <u>13,576</u> | <u>20,120</u> |
| Cash flows from investing activities | | | | |
| Additions to short-term investments | (10,236) | (34,769) | (9,876) | (67,798) |
| Proceeds from disposal and maturity of short-term investments | 13,283 | 37,810 | 16,987 | 107,766 |
| Additions to capital assets | (2,504) | (4,493) | (6,691) | (11,177) |
| | <u>543</u> | <u>(1,452)</u> | <u>420</u> | <u>28,791</u> |
| Cash flows from financing activities | | | | |
| Bank loan | – | – | – | (785) |
| Repayment of long-term debt | (293) | (293) | (296) | (296) |
| Exercise of stock options | 36 | 87 | 78 | 78 |
| Redemption of share capital | (167) | (1,140) | (263) | (626) |
| | <u>(424)</u> | <u>(1,346)</u> | <u>(481)</u> | <u>(1,629)</u> |
| Effect of foreign exchange rate changes on cash | | | | |
| | <u>(1,566)</u> | <u>(1,921)</u> | <u>1,564</u> | <u>1,196</u> |
| Change in cash | 607 | (7,443) | 15,079 | 48,478 |
| Cash – Beginning of the period | 50,818 | 58,868 | 56,170 | 22,771 |
| Cash – End of the period | <u>\$ 51,425</u> | <u>\$ 51,425</u> | <u>\$ 71,249</u> | <u>\$ 71,249</u> |
| Supplementary information | | | | |
| Interest paid | \$ 17 | \$ 26 | \$ 31 | \$ 58 |
| Income taxes paid | \$ 552 | \$ 937 | \$ 255 | \$ 990 |

As at February 29, 2012 and February 28, 2013, unpaid purchases of capital assets amounted to \$2,017 and \$677 respectively.

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

EXFO Inc.

Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

1 Nature of Activities and Incorporation

EXFO Inc. and its subsidiaries (together "EXFO" or the company) design, manufacture and market test and service assurance solutions for wireless and wireline network operators and equipment manufacturers in the global telecommunications industry. The company offers core-to-edge solutions to assess the performance and reliability of converged Internet protocol (IP) fixed and mobile networks.

EXFO is a company incorporated under the Canada Business Corporations Act and domiciled in Canada. The address of its headquarters is 400 Godin Avenue, Quebec, Province of Quebec, Canada, G1M 2K2.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on March 27, 2013.

2 Basis of Presentation

These condensed interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the *International Accounting Standards Board* (IASB) applicable to the preparation of interim financial statements, including IAS 34, "*Interim Financial Reporting*", and using the same accounting policies and methods used in the preparation of the company's most recent annual consolidated financial statements. Consequently, these condensed interim consolidated financial statements should be read in conjunction with the company's most recent annual consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB.

New Accounting Standard

Financial statement presentation

The IASB amended IAS 1, "*Financial Statement Presentation*". The amendments to IAS 1 require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to the statement of earnings in the future. Items that will not be reclassified will be presented separately from items that may be reclassified in the future, such as unrealized gains and losses on cash-flow hedges. The amendments are effective for annual periods beginning on or after July 1, 2012. The company adopted this new standard on September 1, 2012 and classified items of other comprehensive income accordingly.

3 Derivative Financial Instruments

The functional currency of the company is the Canadian dollar. The company is exposed to a currency risk as a result of its export sales of products manufactured in Canada, China and Finland, the majority of which are denominated in US dollars and euros. This risk is partially hedged by forward exchange contracts (US dollars) and certain operating expenses (US dollars and euros). Forward exchange contracts, which are designated as cash flow hedging instruments, qualify for hedge accounting.

EXFO Inc.

Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

As at February 28, 2013, the company held contracts to sell US dollars for Canadian dollars at various forward rates, which are summarized as follows:

| <u>Expiry dates</u> | <u>Contractual amounts</u> | <u>Weighted average contractual forward rates</u> |
|---------------------------------|----------------------------|---|
| March 2013 to August 2013 | \$ 11,400 | 1.0256 |
| September 2013 to August 2014 | 18,600 | 1.0243 |
| September 2014 to February 2015 | 6,600 | 1.0401 |
| Total | <u>\$ 36,600</u> | <u>1.0275</u> |

The carrying amount of forward exchange contracts is equal to fair value, which is based on the amount at which they could be settled based on estimated current market rates. The fair value of forward exchange contracts amounted to net gains of \$932,000 as at August 31, 2012 and net losses of \$364,000 as at February 28, 2013.

Based on the portfolio of forward exchange contracts as at February 28, 2013, the company estimates that the portion of the net unrealized losses on these contracts as of that date, which will be realized and reclassified from accumulated other comprehensive income to net earnings over the next 12 months, amounts to \$318,000.

As at February 28, 2013, forward exchange contracts in the amount of \$318,000 are presented as current liabilities in accounts payable and accrued liabilities in the balance sheet. These forward exchange contracts are not yet recorded within sales.

During the three months ended February 29, 2012 and February 28, 2013, the company recognized within its sales foreign exchange gains on forward exchange contracts of \$439,000 and \$153,000 respectively. During the six months ended February 29, 2012 and February 28, 2013, the company recognized within its sales foreign exchange gains on forward exchange contracts of \$872,000 and \$355,000 respectively.

4 Share Capital

On November 7, 2012, the company announced that its Board of Directors approved the renewal of its share repurchase program, by way of a normal course issuer bid on the open market of up to 10% of the issued and outstanding subordinate voting shares, representing 2,072,721 subordinate voting shares at the prevailing market price. The company expects to use cash, short-term investments or future cash flow from operations to fund the repurchase of shares. The normal course issuer bid started on November 12, 2012, and will end on November 11, 2013, or on an earlier date if the company repurchases the maximum number of shares permitted under the bid. The program does not require that the company repurchases any specific number of shares, and it may be modified, suspended or terminated at any time and without prior notice. All shares repurchased under the bid will be cancelled.

EXFO Inc.

Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

The following tables summarize changes in share capital for the six months ended February 29, 2012 and February 28, 2013.

| | Six months ended February 29, 2012 | | | | |
|---|---|---------------|----------------------------------|-------------------|---------------------|
| | Multiple voting shares | | Subordinate voting shares | | Total amount |
| | Number | Amount | Number | Amount | |
| Balance as at September 1, 2011 | 31,643,000 | \$ 1 | 28,621,999 | \$ 110,340 | \$ 110,341 |
| Redemption of restricted share units | - | - | 184,167 | - | - |
| Redemption of share capital | - | - | (63,146) | (244) | (244) |
| Reclassification of stock-based compensation costs to share capital upon exercise of stock awards | - | - | - | 848 | 848 |
| Balance as at November 30, 2011 | 31,643,000 | 1 | 28,743,020 | 110,944 | 110,945 |
| Exercise of stock options | - | - | 25,250 | 78 | 78 |
| Redemption of restricted share units | - | - | 127,632 | - | - |
| Redemption of share capital | - | - | (41,651) | (160) | (160) |
| Reclassification of stock-based compensation costs to share capital upon exercise of stock awards | - | - | - | 558 | 558 |
| Balance as at February 29, 2012 | <u>31,643,000</u> | <u>\$ 1</u> | <u>28,854,251</u> | <u>\$ 111,420</u> | <u>\$ 111,421</u> |

EXFO Inc.

Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

| | Six months ended February 28, 2013 | | | | |
|---|------------------------------------|-------------|---------------------------|-------------------|-------------------|
| | Multiple voting shares | | Subordinate voting shares | | Total Amount |
| | Number | Amount | Number | Amount | |
| Balance as at September 1, 2012 | 31,643,000 | \$ 1 | 28,710,891 | \$ 110,964 | \$ 110,965 |
| Exercise of stock options | - | - | 23,275 | 51 | 51 |
| Redemption of restricted share units | - | - | 127,949 | - | - |
| Redemption of share capital | - | - | (205,123) | (793) | (793) |
| Reclassification of stock-based compensation costs to share capital upon exercise of stock awards | - | - | - | 612 | 612 |
| Balance as at November 30, 2012 | 31,643,000 | 1 | 28,656,992 | 110,834 | 110,835 |
| Exercise of stock options | - | - | 7,400 | 36 | 36 |
| Redemption of restricted share units | - | - | 141,725 | - | - |
| Redemption of deferred share units | - | - | 37,054 | - | - |
| Redemption of share capital | - | - | (31,210) | (120) | (120) |
| Reclassification of stock-based compensation costs to share capital upon exercise of stock awards | - | - | - | 649 | 649 |
| Balance as at February 28, 2013 | <u>31,643,000</u> | <u>\$ 1</u> | <u>28,811,961</u> | <u>\$ 111,399</u> | <u>\$ 111,400</u> |

5 Statements of Earnings

Net research and development expenses comprise the following:

| | Three months ended February 28, 2013 | Six months ended February 28, 2013 | Three months ended February 29, 2012 | Six months ended February 29, 2012 |
|---|---|---|---|---|
| Gross research and development expenses | \$ 14,126 | \$ 28,024 | \$ 14,800 | \$ 29,613 |
| Research and development tax credits and grants | (2,166) | (4,462) | (2,493) | (4,823) |
| | <u>\$ 11,960</u> | <u>\$ 23,562</u> | <u>\$ 12,307</u> | <u>\$ 24,790</u> |

Gross research and development expenses for the three months and the six months ended February 28, 2013 include \$89,000 in restructuring charges (nil in fiscal 2012).

EXFO Inc.

Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

Depreciation and amortization expenses by functional area are as follows:

| | Three months ended February 28, 2013 | Six months ended February 28, 2013 | Three months ended February 29, 2012 | Six months ended February 29, 2012 |
|---|---|---|---|---|
| Cost of sales | | | | |
| Depreciation of property, plant and equipment | \$ 422 | \$ 867 | \$ 524 | \$ 1,052 |
| Amortization of intangible assets | <u>1,257</u> | <u>2,531</u> | <u>1,266</u> | <u>2,550</u> |
| | 1,679 | 3,398 | 1,790 | 3,602 |
| Selling and administrative expenses | | | | |
| Depreciation of property, plant and equipment | 275 | 572 | 240 | 523 |
| Amortization of intangible assets | <u>432</u> | <u>874</u> | <u>453</u> | <u>927</u> |
| | 707 | 1,446 | 693 | 1,450 |
| Net research and development expenses | | | | |
| Depreciation of property, plant and equipment | 807 | 1,670 | 782 | 1,539 |
| Amortization of intangible assets | <u>233</u> | <u>479</u> | <u>255</u> | <u>418</u> |
| | 1,040 | 2,149 | 1,037 | 1,957 |
| | <u>\$ 3,426</u> | <u>\$ 6,993</u> | <u>\$ 3,520</u> | <u>\$ 7,009</u> |
| Depreciation of property, plant and equipment | \$ 1,504 | \$ 3,109 | \$ 1,546 | \$ 3,114 |
| Amortization of intangible assets | <u>1,922</u> | <u>3,884</u> | <u>1,974</u> | <u>3,895</u> |
| | <u>\$ 3,426</u> | <u>\$ 6,993</u> | <u>\$ 3,520</u> | <u>\$ 7,009</u> |

Employee compensation comprises the following:

| | Three months ended February 28, 2013 | Six months ended February 28, 2013 | Three months ended February 29, 2012 | Six months ended February 29, 2012 |
|--|---|---|---|---|
| Salaries and benefits | \$ 32,183 | \$ 63,230 | \$ 32,596 | \$ 65,590 |
| Stock-based compensation costs | <u>468</u> | <u>916</u> | <u>508</u> | <u>1,063</u> |
| Total employee compensation for the period | <u>\$ 32,651</u> | <u>\$ 64,146</u> | <u>\$ 33,104</u> | <u>\$ 66,653</u> |

EXFO Inc.

Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

Stock-based compensation costs by functional area are as follows:

| | Three months ended February 28, 2013 | Six months ended February 28, 2013 | Three months ended February 29, 2012 | Six months ended February 29, 2012 |
|---------------------------------------|---|---|---|---|
| Cost of sales | \$ 57 | \$ 112 | \$ 60 | \$ 119 |
| Selling and administrative expenses | 310 | 623 | 328 | 705 |
| Net research and development expenses | 101 | 181 | 120 | 239 |
| | <u>\$ 468</u> | <u>\$ 916</u> | <u>\$ 508</u> | <u>\$ 1,063</u> |

6 Income taxes

For the three months and the six months ended February 29, 2012 and February 28, 2013, the reconciliation of the income tax provision calculated using the combined Canadian federal and provincial statutory income tax rate with the income tax provision in the financial statements is as follows:

| | Three months ended February 28, 2013 | Six months ended February 28, 2013 | Three months ended February 29, 2012 | Six months ended February 29, 2012 |
|--|---|---|---|---|
| Income tax provision at combined Canadian federal and provincial statutory tax rate (27% in 2013 and 28% in 2012) | \$ 574 | \$ 437 | \$ 754 | \$ 1,880 |
| Increase (decrease) due to: | | | | |
| Foreign income taxed at different rates | (97) | (278) | (42) | 63 |
| Non-taxable (income)/loss | (372) | (1,164) | (224) | 483 |
| Non-deductible expenses | 222 | 423 | 217 | 682 |
| Foreign exchange effect of translation of foreign operations | (74) | 284 | (55) | (1,434) |
| Recognition of previously unrecognized deferred income tax assets | - | - | - | (557) |
| Unrecognized deferred income tax assets on temporary deductible differences and unused tax losses | 1,062 | 2,694 | 1,122 | 1,661 |
| Other | 773 | 824 | (34) | 94 |
| | <u>\$ 2,088</u> | <u>\$ 3,220</u> | <u>\$ 1,738</u> | <u>\$ 2,872</u> |

EXFO Inc.

Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

The income tax provision consists of the following:

| | Three months ended February 28, 2013 | Six months ended February 28, 2013 | Three months ended February 29, 2012 | Six months ended February 29, 2012 |
|----------|---|---|---|---|
| Current | \$ 1,100 | \$ 1,499 | \$ 881 | \$ 1,297 |
| Deferred | 988 | 1,721 | 857 | 1,575 |
| | <u>\$ 2,088</u> | <u>\$ 3,220</u> | <u>\$ 1,738</u> | <u>\$ 2,872</u> |

7 Earnings per Share

The following table summarizes the reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding:

| | Three months ended February 28, 2013 | Six months ended February 28, 2013 | Three months ended February 29, 2012 | Six months ended February 29, 2012 |
|--|---|---|---|---|
| Basic weighted average number of shares outstanding (000's) | 60,392 | 60,391 | 60,441 | 60,391 |
| Plus dilutive effect of (000's): | | | | |
| Stock options | 33 | 32 | 167 | 165 |
| Restricted share units | 641 | 651 | 881 | 1,016 |
| Deferred share units | 109 | 121 | 117 | 113 |
| | <u>61,175</u> | <u>61,195</u> | <u>61,606</u> | <u>61,685</u> |
| Diluted weighted average number of shares outstanding (000's) | | | | |
| Stock awards excluded from the calculation of diluted weighted average number of shares because their exercise price was greater than the average market price of the common shares (000's) | <u>84</u> | <u>102</u> | <u>18</u> | <u>96</u> |

For the six months ended February 28, 2013, the diluted amount per share was the same amount as the basic amount per share since the dilutive effect of stock options, restricted share units and deferred share units was not included in the calculation; otherwise, the effect would have been antidilutive. Accordingly, the diluted amount per share for this period was calculated using the basic weighted average number of shares outstanding.