

EXFO Inc.

Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

	<u>As at August 31, 2012</u>	<u>As at August 31, 2011</u>	<u>As at September 1, 2010</u>
Assets			
Current assets			
Cash	\$ 58,868	\$ 22,771	\$ 21,440
Short-term investments	8,236	47,091	10,379
Accounts receivable			
Trade	37,643	45,151	50,190
Other	4,283	6,329	5,217
Income taxes and tax credits recoverable	9,024	5,414	2,604
Inventories	41,212	52,754	40,328
Prepaid expenses	3,800	3,237	2,816
Current assets held for sale	–	–	3,769
	<u>163,066</u>	<u>182,747</u>	<u>136,743</u>
Tax credits recoverable	38,397	36,627	29,397
Forward exchange contracts	–	149	–
Property, plant and equipment	49,848	32,076	24,730
Intangible assets	14,132	22,901	27,947
Goodwill	29,160	30,942	29,355
Deferred income taxes	12,080	16,913	18,730
Long-term assets held for sale	–	–	7,530
	<u>\$ 306,683</u>	<u>\$ 322,355</u>	<u>\$ 274,432</u>
Liabilities			
Current liabilities			
Bank loan	\$ –	\$ 784	\$ –
Accounts payable and accrued liabilities	32,392	30,320	29,943
Provisions	952	1,817	927
Income taxes payable	917	876	426
Contingent liability	–	338	–
Current portion of long-term debt	565	645	568
Deferred revenue	10,583	10,590	10,354
Current liabilities related to assets held for sale	–	–	2,531
	<u>45,409</u>	<u>45,370</u>	<u>44,749</u>
Deferred revenue	4,997	5,704	5,775
Long-term debt	282	968	1,419
Contingent liability	–	–	2,660
Other liabilities	609	723	603
Deferred income taxes	2,105	5,079	–
Long-term liabilities related to assets held for sale	–	–	537
	<u>53,402</u>	<u>57,844</u>	<u>55,743</u>
Shareholders' equity			
Share capital	110,965	110,341	106,126
Contributed surplus	17,298	18,017	18,563
Retained earnings	111,511	115,104	92,984
Accumulated other comprehensive income	13,507	21,049	1,016
	<u>253,281</u>	<u>264,511</u>	<u>218,689</u>
	<u>\$ 306,683</u>	<u>\$ 322,355</u>	<u>\$ 274,432</u>

EXFO Inc.

Unaudited Interim Consolidated Statements of Earnings

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

	Three months ended August 31, 2012	Twelve months ended August 31, 2012	Three months ended August 31, 2011	Twelve months ended August 31, 2011
Sales	\$ 57,156	\$ 249,966	\$ 64,414	\$ 269,743
Cost of sales ^(1, 2)	21,257	91,792	23,447	100,296
Selling and administrative ⁽²⁾	22,220	94,139	21,846	87,062
Net research and development ⁽²⁾	11,891	49,854	12,139	47,927
Depreciation of property, plant and equipment	1,535	6,169	1,667	6,655
Amortization of intangible assets	1,931	7,819	2,122	9,183
Changes in fair value of cash contingent consideration	–	(311)	(2,685)	(2,685)
Earnings (loss) from operations	(1,678)	504	5,878	21,305
Interest and other income (expenses)	63	131	21	511
Foreign exchange loss	(1,940)	(657)	(57)	(3,808)
Earnings (loss) before income taxes	(3,555)	(22)	5,842	18,008
Income taxes	159	3,571	1,245	8,814
Net earnings (loss) from continuing operations	(3,714)	(3,593)	4,597	9,194
Net earnings from discontinued operations	–	–	–	12,926
Net earnings (loss) for the period	\$ (3,714)	\$ (3,593)	\$ 4,597	\$ 22,120
Basic net earnings (loss) from continuing operations per share	\$ (0.06)	\$ (0.06)	\$ 0.08	\$ 0.15
Diluted net earnings (loss) from continuing operations per share	\$ (0.06)	\$ (0.06)	\$ 0.07	\$ 0.15
Basic net earnings from discontinued operations per share	\$ –	\$ –	\$ –	\$ 0.22
Diluted net earnings from discontinued operations per share	\$ –	\$ –	\$ –	\$ 0.21
Basic net earnings (loss) per share	\$ (0.06)	\$ (0.06)	\$ 0.08	\$ 0.37
Diluted net earnings (loss) per share	\$ (0.06)	\$ (0.06)	\$ 0.07	\$ 0.36
Basic weighted average number of shares outstanding (000's)	60,491	60,453	60,253	60,000
Diluted weighted average number of shares outstanding (000's)	60,491	60,453	61,607	61,488
(1) The cost of sales is exclusive of depreciation and amortization, shown separately.				
(2) Restructuring charges included in:				
Cost of sales	\$ 264	\$ 264	\$ –	\$ –
Selling and administrative	1,181	1,181	–	–
Net research and development	884	884	–	–
	\$ 2,329	\$ 2,329	\$ –	\$ –

EXFO Inc.

Unaudited Interim Consolidated Statements of Comprehensive Income (Loss)

(in thousands of US dollars)

	Three months ended <u>August 31, 2012</u>	Twelve months ended <u>August 31, 2012</u>	Three months ended <u>August 31, 2011</u>	Twelve months ended <u>August 31, 2011</u>
Net earnings (loss) for the period	\$ (3,714)	\$ (3,593)	\$ 4,597	\$ 22,120
Other comprehensive income (loss), net of income taxes				
Foreign currency translation adjustment	10,956	(6,875)	(1,703)	19,123
Reclassification of realized losses on short-term investments in net earnings	-	-	2	2
Unrealized gains on forward exchange contracts	1,107	185	(13)	3,413
Reclassification of realized gains on 11 forward exchange contracts in net earnings (loss)	157	(1,108)	(746)	(2,191)
Deferred income tax effect of the components of other comprehensive income (loss)	(338)	256	217	(314)
Other comprehensive income (loss)	<u>11,882</u>	<u>(7,542)</u>	<u>(2,243)</u>	<u>20,033</u>
Comprehensive income (loss) for the period	<u>\$ 8,168</u>	<u>\$ (11,135)</u>	<u>\$ 2,354</u>	<u>\$ 42,153</u>

EXFO Inc.

Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

	Year ended August 31, 2011				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance as at September 1, 2010	\$ 106,126	\$ 18,563	\$ 92,984	\$ 1,016	\$ 218,689
Exercise of stock options	1,452	–	–	–	1,452
Reclassification of stock-based compensation costs	2,763	(2,763)	–	–	–
Stock-based compensation costs	–	2,217	–	–	2,217
Net earnings for the year	–	–	22,120	–	22,120
Other comprehensive income					
Foreign currency translation adjustment	–	–	–	19,123	19,123
Changes in unrealized losses on short-term investments	–	–	–	2	2
Changes in unrealized gains on forward exchange contracts, net of deferred income taxes of \$314	–	–	–	908	908
Total comprehensive income for the year	–	–	22,120	20,033	42,153
Balance as at August 31, 2011	<u>\$ 110,341</u>	<u>\$ 18,017</u>	<u>\$ 115,104</u>	<u>\$ 21,049</u>	<u>\$ 264,511</u>

	Year ended August 31, 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	310	–	–	–	310
Redemption of share capital	(1,696)	(540)	–	–	(2,236)
Reclassification of stock-based compensation costs	2,010	(2,010)	–	–	–
Stock-based compensation costs	–	1,831	–	–	1,831
Net loss for the year	–	–	(3,593)	–	(3,593)
Other comprehensive loss					
Foreign currency translation adjustment	–	–	–	(6,875)	(6,875)
Changes in unrealized gains on forward exchange contracts, net of deferred income taxes of \$256	–	–	–	(667)	(667)
Total comprehensive loss for the year	–	–	(3,593)	(7,542)	(11,135)
Balance as at August 31, 2012	<u>\$ 110,965</u>	<u>\$ 17,298</u>	<u>\$ 111,511</u>	<u>\$ 13,507</u>	<u>\$ 253,281</u>

EXFO Inc.

Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended August 31, 2012	Twelve months ended August 31, 2012	Three months ended August 31, 2011	Twelve months ended August 31, 2011
Cash flows from operating activities				
Net earnings (loss) for the period	\$ (3,714)	\$ (3,593)	\$ 4,597	\$ 22,120
Add (deduct) items not affecting cash				
Change in discount on short-term investments	2	45	4	(42)
Stock-based compensation costs	429	1,862	461	2,256
Depreciation and amortization	3,466	13,988	3,789	15,856
Gain on disposal of discontinued operations	–	–	–	(13,212)
Gain on disposal of capital assets	–	–	–	(568)
Changes in fair value of cash contingent consideration	–	(311)	(2,685)	(2,685)
Deferred revenue	(2,482)	(506)	(3,543)	(1,262)
Deferred income taxes	33	2,050	782	7,063
Changes in foreign exchange gain/loss	617	(1,510)	113	2,130
	<u>(1,649)</u>	<u>12,025</u>	<u>3,518</u>	<u>31,656</u>
Change in non-cash operating items				
Accounts receivable	7,706	7,974	3,891	10,066
Income taxes and tax credits	(2,004)	(5,570)	(1,714)	(6,714)
Inventories	1,306	10,879	200	(8,751)
Prepaid expenses	(138)	(589)	600	(232)
Accounts payable and accrued liabilities and provisions	(2,800)	643	(4,506)	(2,775)
Other liabilities	(116)	(105)	(187)	60
	<u>2,305</u>	<u>25,257</u>	<u>1,802</u>	<u>23,310</u>
Cash flows from investing activities				
Additions to short-term investments	(23,918)	(115,886)	(95,023)	(516,674)
Proceeds from disposal and maturity of short-term investments	23,896	152,797	100,613	481,945
Additions to capital assets	(5,846)	(23,849)	(5,079)	(12,164)
Proceeds from disposal of capital assets	–	–	–	568
Net proceeds from disposal of discontinued operations	–	–	–	22,063
Business combination	–	–	(289)	(1,049)
	<u>(5,868)</u>	<u>13,062</u>	<u>222</u>	<u>(25,311)</u>
Cash flows from financing activities				
Bank loan	–	(782)	–	772
Repayment of long-term debt	(281)	(577)	(323)	(619)
Exercise of stock options	192	310	5	1,452
Redemption of share capital	(1,610)	(2,236)	–	–
	<u>(1,699)</u>	<u>(3,285)</u>	<u>(318)</u>	<u>1,605</u>
Effect of foreign exchange rate changes on cash	<u>2,221</u>	<u>1,063</u>	<u>(76)</u>	<u>1,058</u>
Change in cash	(3,041)	36,097	1,630	662
Cash – Beginning of period	61,909	22,771	21,141	22,109
Cash – End of period	<u>\$ 58,868</u>	<u>\$ 58,868</u>	<u>\$ 22,771</u>	<u>\$ 22,771</u>