

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 <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>
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
	<u>(90)</u>	<u>(6,836)</u>	<u>(3,941)</u>	<u>(16,930)</u>
Other comprehensive loss				
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>