

# EXFO Electro-Optical Engineering Inc.

## Interim Consolidated Balance Sheet

(in thousands of US dollars)

	<u>As at May 31, 2007</u>	<u>As at August 31, 2006</u>
	(unaudited)	
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 6,008	\$ 6,853
Short-term investments	116,466	104,437
Accounts receivable		
Trade, less allowance for doubtful accounts of \$265 (\$451 as at August 31, 2006)	27,240	20,891
Other	2,293	2,792
Income taxes and tax credits recoverable	4,264	2,201
Inventories	28,325	24,623
Prepaid expenses	1,545	1,404
	186,141	163,201
<b>Income taxes recoverable</b>	–	476
<b>Property, plant and equipment</b>	17,239	17,392
<b>Intangible assets</b>	9,844	10,948
<b>Goodwill</b>	28,078	27,142
	\$ 241,302	\$ 219,159
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 20,792	\$ 17,337
Deferred revenue	2,363	1,772
Current portion of long-term debt	107	107
	23,262	19,216
<b>Deferred revenue</b>	3,438	2,632
<b>Government grants</b>	723	723
<b>Long-term debt</b>	287	354
	27,710	22,925
<b>Shareholders' Equity</b>		
Share capital	149,715	148,921
Contributed surplus	4,242	3,776
Retained earnings	8,791	–
Cumulative translation adjustment	50,844	43,537
	213,592	196,234
	\$ 241,302	\$ 219,159

# EXFO Electro-Optical Engineering Inc.

## Interim Unaudited Consolidated Statements of Earnings

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

	<b>Three months ended May 31, 2007</b>	<b>Nine months ended May 31, 2007</b>	<b>Three months ended May 31, 2006</b>	<b>Nine months ended May 31, 2006</b>
<b>Sales</b>	\$ 39,205	\$ 109,959	\$ 35,410	\$ 92,520
<b>Cost of sales</b> <sup>(1,2)</sup>	16,828	47,027	15,453	40,957
<b>Gross margin</b>	22,377	62,932	19,957	51,563
<b>Operating expenses</b>				
Selling and administrative <sup>(1)</sup>	12,819	36,545	11,080	29,441
Net research and development <sup>(1)</sup>	5,328	14,360	4,095	11,123
Amortization of property, plant and equipment	737	2,182	883	2,652
Amortization of intangible assets	653	2,165	994	3,351
Impairment of long-lived assets	-	-	604	604
Government grants	-	-	(1,307)	(1,307)
<b>Total operating expenses</b>	19,537	55,252	16,349	45,864
<b>Earnings from operations</b>	2,840	7,680	3,608	5,699
Interest and other income	1,236	3,513	796	2,179
Foreign exchange gain (loss)	(628)	107	(81)	(612)
<b>Earnings before income taxes</b>	3,448	11,300	4,323	7,266
<b>Income taxes</b>	874	2,509	819	2,041
<b>Net earnings for the period</b>	\$ 2,574	\$ 8,791	\$ 3,504	\$ 5,225
<b>Basic and diluted net earnings per share</b>	\$ 0.04	\$ 0.13	\$ 0.05	\$ 0.08
<b>Basic weighted average number of shares outstanding (000's)</b>	68,917	68,844	68,676	68,613
<b>Diluted weighted average number of shares outstanding (000's)</b>	69,590	69,507	69,543	69,252
<b>(1) Stock-based compensation costs included in:</b>				
Cost of sales	\$ 32	\$ 93	\$ 39	\$ 111
Selling and administrative	86	442	180	559
Net research and development	60	169	45	149
	\$ 178	\$ 704	\$ 264	\$ 819

(2) The cost of sales is exclusive of amortization, shown separately.

**EXFO Electro-Optical Engineering Inc.**  
**Interim Unaudited Consolidated Statements of Retained Earnings (Deficit)**  
**and Contributed Surplus**

(in thousands of US dollars)

**Retained earnings (Deficit)**

	<b>Nine months ended May 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Balance – Beginning of period</b>	\$ –	\$ (381,846)
<b>Add</b>		
Net earnings for the period	8,791	5,225
<b>Balance – End of period</b>	\$ 8,791	\$ (376,621)

**Contributed surplus**

	<b>Nine months ended May 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Balance – Beginning of period</b>	\$ 3,776	\$ 2,949
<b>Add (deduct)</b>		
Stock-based compensation costs	687	797
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	(221)	(172)
<b>Balance – End of period</b>	\$ 4,242	\$ 3,574

# EXFO Electro-Optical Engineering Inc.

## Interim Unaudited Consolidated Statements of Cash Flows

(in thousands of US dollars)

	<b>Three months ended May 31, 2007</b>	<b>Nine months ended May 31, 2007</b>	<b>Three months ended May 31, 2006</b>	<b>Nine months ended May 31, 2006</b>
<b>Cash flows from operating activities</b>				
Net earnings for the period	\$ 2,574	\$ 8,791	\$ 3,504	\$ 5,225
Add (deduct) items not affecting cash				
Discount on short-term investments	(190)	588	(98)	520
Stock-based compensation costs	178	704	264	819
Amortization	1,390	4,347	1,877	6,003
Unrealized losses on short-term investments	70	70	123	123
Impairment of long-lived assets	–	–	604	604
Gain on disposal of property, plant and equipment	(100)	(100)	–	–
Deferred revenue	(75)	1,164	148	248
Government grants	–	(22)	(1,307)	(1,307)
	<u>3,847</u>	<u>15,542</u>	<u>5,115</u>	<u>12,235</u>
Change in non-cash operating items				
Accounts receivable	(3,015)	(6,260)	(5,085)	(4,158)
Income taxes and tax credits	(466)	(1,397)	(612)	(1,361)
Inventories	(2,503)	(2,632)	(182)	(3,090)
Prepaid expenses	(224)	(89)	(153)	(181)
Accounts payable and accrued liabilities	(231)	2,541	(1,357)	615
	<u>(2,592)</u>	<u>7,705</u>	<u>(2,274)</u>	<u>4,060</u>
<b>Cash flows from investing activities</b>				
Additions to short-term investments	(236,286)	(726,789)	(227,589)	(638,634)
Proceeds from disposal and maturity of short-term investments	235,446	718,362	230,756	651,655
Additions to property, plant and equipment and intangible assets	(1,890)	(3,536)	(963)	(2,531)
Net proceeds from disposal of property, plant and equipment	1,563	2,791	–	–
Business combination	–	–	(219)	(17,716)
	<u>(1,167)</u>	<u>(9,172)</u>	<u>1,985</u>	<u>(7,226)</u>
<b>Cash flows from financing activities</b>				
Repayment of long-term debt	(27)	(78)	(84)	(158)
Exercise of stock options	90	573	347	503
	63	495	263	345
<b>Effect of foreign exchange rate changes on cash</b>				
	<u>596</u>	<u>127</u>	<u>230</u>	<u>683</u>
<b>Change in cash</b>	(3,100)	(845)	204	(2,138)
<b>Cash – Beginning of period</b>	<u>9,108</u>	<u>6,853</u>	<u>4,777</u>	<u>7,119</u>
<b>Cash – End of period</b>	<u>\$ 6,008</u>	<u>\$ 6,008</u>	<u>\$ 4,981</u>	<u>\$ 4,981</u>