

EXFO Electro-Optical Engineering Inc.

Interim Consolidated Balance Sheet

(in thousands of US dollars)

	<u>As at August 31, 2007</u>	<u>As at August 31, 2006</u>
	(unaudited)	
Assets		
Current assets		
Cash	\$ 5,541	\$ 6,853
Short-term investments	124,217	104,437
Accounts receivable		
Trade, less allowance for doubtful accounts of \$206 ((\$451 as at August 31, 2006))	26,699	20,891
Other	2,479	2,792
Income taxes and tax credits recoverable	6,310	2,201
Inventories	31,513	24,623
Prepaid expenses	1,391	1,404
Future income taxes	7,609	—
	<u>205,759</u>	<u>163,201</u>
Income taxes recoverable	—	476
Property, plant and equipment	18,117	17,392
Intangible assets	9,628	10,948
Goodwill	28,437	27,142
Future income taxes	17,197	—
	<u>\$ 279,138</u>	<u>\$ 219,159</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 22,721	\$ 17,337
Deferred revenue	2,598	1,772
Current portion of long-term debt	—	107
	<u>25,319</u>	<u>19,216</u>
Deferred revenue	3,414	2,632
Government grants	—	723
Long-term debt	—	354
Future income taxes	240	—
	<u>28,973</u>	<u>22,925</u>
Shareholders' Equity		
Share capital	150,019	148,921
Contributed surplus	4,453	3,776
Retained earnings	42,275	—
Cumulative translation adjustment	53,418	43,537
	<u>250,165</u>	<u>196,234</u>
	<u>\$ 279,138</u>	<u>\$ 219,159</u>

EXFO Electro-Optical Engineering Inc.

Interim Unaudited Consolidated Statements of Earnings

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

	Three months ended August 31, 2007	Twelve months ended August 31, 2007	Three months ended August 31, 2006	Twelve months ended August 31, 2006
Sales	\$ 42,975	\$ 152,934	\$ 35,733	\$ 128,253
Cost of sales ^(1,2)	18,109	65,136	16,318	57,275
Gross margin	24,866	87,798	19,415	70,978
Operating expenses				
Selling and administrative ⁽¹⁾	13,035	49,580	10,857	40,298
Net research and development ^(1,3)	2,308	16,668	4,281	15,404
Amortization of property, plant and equipment	801	2,983	871	3,523
Amortization of intangible assets	699	2,864	1,043	4,394
Impairment of long-lived assets	-	-	-	604
Government grants	(1,079)	(1,079)	-	(1,307)
Total operating expenses	15,764	71,016	17,052	62,916
Earnings from operations	9,102	16,782	2,363	8,062
Interest and other income	1,204	4,717	1,074	3,253
Foreign exchange gain (loss)	(156)	(49)	17	(595)
Earnings before income taxes	10,150	21,450	3,454	10,720
Income taxes				
Current	1,232	3,741	544	2,585
Recognition of previously unrecognized future income tax assets	(24,566)	(24,566)	-	-
	(23,334)	(20,825)	544	2,585
Net earnings for the period	\$ 33,484	\$ 42,275	\$ 2,910	\$ 8,135
Basic net earnings per share	\$ 0.49	\$ 0.61	\$ 0.04	\$ 0.12
Diluted net earnings per share	\$ 0.48	\$ 0.61	\$ 0.04	\$ 0.12
Basic weighted average number of shares outstanding (000's)	68,969	68,875	68,735	68,643
Diluted weighted average number of shares outstanding (000's)	69,486	69,555	69,346	69,275
(1) Stock-based compensation costs included in:				
Cost of sales	\$ 25	\$ 118	\$ 16	\$ 127
Selling and administrative	191	633	142	701
Net research and development	61	230	55	204
	\$ 277	\$ 981	\$ 213	\$ 1,032

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

(3) Net research and development expenses for the periods ended August 31, 2007 include recognition of unrecognized research and development tax credits of \$3,162.

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

(in thousands of US dollars)

Retained earnings (Deficit)

	Twelve months ended August 31,	
	2007	2006
	(unaudited)	
Balance – Beginning of period	\$ –	\$ (381,846)
Add		
Net earnings for the period	42,275	8,135
Elimination of deficit by reduction of share capital	–	373,711
Balance – End of period	\$ 42,275	\$ –

Contributed surplus

	Twelve months ended August 31,	
	2007	2006
	(unaudited)	
Balance – Beginning of period	\$ 3,776	\$ 2,949
Add (deduct)		
Stock-based compensation costs	973	1,027
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	(296)	(200)
Balance – End of period	\$ 4,453	\$ 3,776

EXFO Electro-Optical Engineering Inc.
Interim Unaudited Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended August 31, 2007	Twelve months ended August 31, 2007	Three months ended August 31, 2006	Twelve months ended August 31, 2006
Cash flows from operating activities				
Net earnings for the period	\$ 33,484	\$ 42,275	\$ 2,910	\$ 8,135
Add (deduct) items not affecting cash				
Discount on short-term investments	(1,062)	(404)	(872)	(229)
Stock-based compensation costs	277	981	213	1,032
Amortization	1,500	5,847	1,914	7,917
Impairment of long-lived assets	—	—	—	604
Gain on disposal of capital assets	(17)	(117)	—	—
Future income taxes	(24,566)	(24,566)	—	—
Deferred revenue	135	1,299	538	786
Government grants	(730)	(752)	—	(1,307)
	<u>9,021</u>	<u>24,563</u>	<u>4,703</u>	<u>16,938</u>
Change in non-cash operating items				
Accounts receivable	792	(5,468)	1,521	(2,637)
Income taxes and tax credits	(2,006)	(3,403)	1,690	329
Inventories	(2,824)	(5,456)	803	(2,287)
Prepaid expenses	174	85	260	79
Accounts payable and accrued liabilities	1,564	4,105	(759)	(144)
	<u>6,721</u>	<u>14,426</u>	<u>8,218</u>	<u>12,278</u>
Cash flows from investing activities				
Additions to short-term investments	(80,267)	(807,056)	(34,655)	(673,289)
Proceeds from disposal and maturity of short-term investments	75,073	793,435	29,845	681,500
Additions to capital assets	(2,011)	(5,547)	(847)	(3,378)
Net proceeds from disposal of capital assets	301	3,092	—	—
Business combination, net cash acquired	—	—	(338)	(18,054)
	<u>(6,904)</u>	<u>(16,076)</u>	<u>(5,995)</u>	<u>(13,221)</u>
Cash flows from financing activities				
Repayment of long-term debt	(394)	(472)	(257)	(415)
Exercise of stock options	229	802	54	557
	<u>(165)</u>	<u>330</u>	<u>(203)</u>	<u>142</u>
Effect of foreign exchange rate changes on cash	<u>(119)</u>	<u>8</u>	<u>(148)</u>	<u>535</u>
Change in cash	<u>(467)</u>	<u>(1,312)</u>	<u>1,872</u>	<u>(266)</u>
Cash – Beginning of period	<u>6,008</u>	<u>6,853</u>	<u>4,981</u>	<u>7,119</u>
Cash – End of period	<u>\$ 5,541</u>	<u>\$ 5,541</u>	<u>\$ 6,853</u>	<u>\$ 6,853</u>