

# EXFO Electro-Optical Engineering Inc.

## Interim Consolidated Balance Sheet

(in thousands of US dollars)

	As at August 31,	
	2009	2008
<b>Assets</b>	<b>(unaudited)</b>	
<b>Current assets</b>		
Cash	\$ 10,611	\$ 5,914
Short-term investments	59,105	81,626
Accounts receivable		
Trade	22,946	31,473
Other	2,752	4,753
Income taxes and tax credits recoverable	2,353	4,836
Inventories	30,863	34,880
Prepaid expenses	2,043	1,774
Future income taxes	5,538	9,140
	136,211	174,396
<b>Tax credits recoverable</b>	26,762	20,657
<b>Forward exchange contracts</b>	428	–
<b>Property, plant and equipment</b>	19,100	19,875
<b>Intangible assets</b>	16,859	19,945
<b>Goodwill</b>	22,478	42,653
<b>Future income taxes</b>	18,533	15,540
	\$ 240,371	\$ 293,066
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 21,650	\$ 24,713
Deferred revenue	6,481	5,079
	28,131	29,792
<b>Deferred revenue</b>	4,195	3,759
	32,326	33,551
<b>Shareholders' equity</b>		
Share capital	104,846	142,786
Contributed surplus	17,758	5,226
Retained earnings	43,909	60,494
Accumulated other comprehensive income	41,532	51,009
	208,045	259,515
	\$ 240,371	\$ 293,066

# 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 August 31, 2009</b>	<b>Twelve months ended August 31, 2009</b>	<b>Three months ended August 31, 2008</b>	<b>Twelve months ended August 31, 2008</b>
<b>Sales</b>	\$ 36,507	\$ 172,878	\$ 50,943	\$ 183,790
<b>Cost of sales</b> <sup>(1,2)</sup>	14,618	66,892	20,416	75,624
<b>Gross margin</b>	21,889	105,986	30,527	108,166
<b>Operating expenses</b>				
Selling and administrative <sup>(1)</sup>	14,185	63,808	16,993	61,153
Net research and development <sup>(1,3)</sup>	5,371	27,698	7,297	26,867
Amortization of property, plant and equipment	1,233	4,607	1,247	4,292
Amortization of intangible assets	1,147	5,067	1,402	3,871
Restructuring charges	1,171	1,171	–	–
Impairment of goodwill	–	21,713	–	–
<b>Total operating expenses</b>	23,107	124,064	26,939	96,183
<b>Earnings (loss) from operations</b>	(1,218)	(18,078)	3,588	11,983
Interest income (expense)	(86)	597	576	4,639
Foreign exchange gain	186	1,157	1,349	442
<b>Earnings (loss) before income taxes and extraordinary gain</b>	(1,118)	(16,324)	5,513	17,064
<b>Income taxes</b>				
Current	413	561	(14)	(7,094)
Future	22	72	2,213	14,094
Recognition of previously unrecognized future income tax assets	(372)	(372)	–	(5,324)
	63	261	2,199	1,676
<b>Earnings (loss) before extraordinary gain</b>	(1,181)	(16,585)	3,314	15,388
<b>Extraordinary gain</b>	–	–	–	3,036
<b>Net earnings (loss) for the period</b>	\$ (1,181)	\$ (16,585)	\$ 3,314	\$ 18,424
<b>Basic and diluted earnings (loss) before extraordinary gain per share</b>	\$ (0.02)	\$ (0.27)	\$ 0.05	\$ 0.22
<b>Basic and diluted net earnings (loss) per share</b>	\$ (0.02)	\$ (0.27)	\$ 0.05	\$ 0.27
<b>Basic weighted average number of shares outstanding (000's)</b>	59,553	61,845	68,082	68,767
<b>Diluted weighted average number of shares outstanding (000's)</b>	59,553	61,845	68,550	69,318
<b>(1) Stock-based compensation costs included in:</b>				
Cost of sales	\$ 40	\$ 137	\$ 36	\$ 148
Selling and administrative	221	858	232	830
Net research and development	118	414	100	294
	\$ 379	\$ 1,409	\$ 368	\$ 1,272

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

(3) Net research and development expenses for the three and twelve months ended August 31, 2009 include recognition of previously unrecognized research and development tax credits of \$1,902.

**EXFO Electro-Optical Engineering Inc.**  
**Interim Unaudited Consolidated Statements of Comprehensive Income (Loss)**  
**And Accumulated Other Comprehensive Income**

(in thousands of US dollars)

**Comprehensive income (loss)**

	<b>Three months ended <u>August 31, 2009</u></b>	<b>Twelve months ended <u>August 31, 2009</u></b>	<b>Three months ended <u>August 31, 2008</u></b>	<b>Twelve months ended <u>August 31, 2008</u></b>
Net earnings (loss) for the period	\$ (1,181)	\$ (16,585)	\$ 3,314	\$ 18,424
Foreign currency translation adjustment	(1,078)	(10,671)	(18,511)	(2,289)
Changes in unrealized gains (losses) on short-term investments	-	22	(9)	31
Unrealized gains (losses) on forward exchange contracts	(229)	(1,467)	(1,882)	962
Reclassification of realized gains (losses) on forward exchange contracts in net earnings (loss)	84	3,167	(770)	(3,915)
Future income taxes effect of the above items	44	(528)	822	909
Comprehensive income (loss)	<u>\$ (2,360)</u>	<u>\$ (26,062)</u>	<u>\$ (17,036)</u>	<u>\$ 14,122</u>

**Accumulated other comprehensive income**

	<b><u>Twelve months ended August 31,</u></b>	
	<b><u>2009</u></b>	<b><u>2008</u></b>
Foreign currency translation adjustment		
Cumulative effect of prior periods	\$ 51,129	\$ 53,418
Current period	<u>(10,671)</u>	<u>(2,289)</u>
	40,458	51,129
Unrealized gains (losses) on forward exchange contracts		
Cumulative effect of prior periods	(96)	1,948
Current period, net of realized gains and future income taxes	<u>1,172</u>	<u>(2,044)</u>
	1,076	(96)
Unrealized gains (losses) on short-term investments		
Cumulative effect of prior periods	(24)	(55)
Current period, net of future income taxes	<u>22</u>	<u>31</u>
	(2)	(24)
Accumulated other comprehensive income	<u>\$ 41,532</u>	<u>\$ 51,009</u>

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

(in thousands of US dollars)

**Retained earnings**

	<b>Twelve months ended August 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Balance – Beginning of period</b>	\$ 60,494	\$ 42,330
<b>Add (deduct)</b>		
Net earnings (loss) for the period	(16,585)	18,424
Premium on redemption of share capital	–	(260)
<b>Balance – End of period</b>	\$ 43,909	\$ 60,494

**Contributed surplus**

	<b>Twelve months ended August 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Balance – Beginning of period</b>	\$ 5,226	\$ 4,453
<b>Add (deduct)</b>		
Stock-based compensation costs	1,407	1,287
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	(540)	(514)
Discount on redemption of share capital	11,665	–
<b>Balance – End of period</b>	\$ 17,758	\$ 5,226

# EXFO Electro-Optical Engineering Inc.

## Interim Unaudited Consolidated Statements of Cash Flows

(in thousands of US dollars)

	<b>Three months ended August 31, 2009</b>	<b>Twelve months ended August 31, 2009</b>	<b>Three months ended August 31, 2008</b>	<b>Twelve months ended August 31, 2008</b>
<b>Cash flows from operating activities</b>				
Net earnings (loss) for the period	\$ (1,181)	\$ (16,585)	\$ 3,314	\$ 18,424
Add (deduct) items not affecting cash				
Change in discount on short-term investments	24	597	(486)	1,035
Stock-based compensation costs	379	1,409	368	1,272
Amortization	2,380	9,674	2,649	8,163
Deferred revenue	(1,539)	1,706	482	47
Loss on disposal of capital assets	–	237	–	–
Impairment of goodwill	–	21,713	–	–
Future income taxes	(350)	(300)	2,213	8,770
Extraordinary gain	–	–	–	(3,036)
Change in unrealized foreign exchange loss (gain)	(414)	(1,955)	(1,619)	(1,093)
	(701)	16,496	6,921	33,582
Change in non-cash operating items				
Accounts receivable	9,015	9,654	(4,193)	(4,338)
Income taxes and tax credits	(1,202)	(3,391)	(1,396)	(12,833)
Inventories	1,935	2,624	712	(2,166)
Prepaid expenses	(12)	(350)	379	(127)
Accounts payable and accrued liabilities	(1,870)	(2,409)	1,659	(1,416)
	7,165	22,624	4,082	12,702
<b>Cash flows from investing activities</b>				
Additions to short-term investments	(88,561)	(438,460)	(72,800)	(717,020)
Proceeds from disposal and maturity of short-term investments	82,570	456,612	73,939	760,310
Additions to capital assets	(978)	(6,945)	(1,452)	(6,508)
Business combinations, net of cash acquired	–	(2,414)	(78)	(41,016)
	(6,969)	8,793	(391)	(4,234)
<b>Cash flows from financing activities</b>				
Change in bank loan	–	–	(1,485)	–
Redemption of share capital	(793)	(26,871)	(4,675)	(8,068)
Exercise of stock options	15	56	–	61
	(778)	(26,815)	(6,160)	(8,007)
<b>Effect of foreign exchange rate changes on cash</b>	110	95	(199)	(88)
<b>Change in cash</b>	(472)	4,697	(2,668)	373
<b>Cash – Beginning of period</b>	11,083	5,914	8,582	5,541
<b>Cash – End of period</b>	\$ 10,611	\$ 10,611	\$ 5,914	\$ 5,914