

EXFO Electro-Optical Engineering Inc.

Interim Consolidated Balance Sheet

(in thousands of US dollars)

	As at August 31,	
	2008	2007
Assets	(unaudited)	
Current assets		
Cash	\$ 5,914	\$ 5,541
Short-term investments	81,626	124,217
Accounts receivable		
Trade, less allowance for doubtful accounts of \$305 (2006 as at August 31, 2007)	31,473	26,699
Other	4,753	2,479
Income taxes and tax credits recoverable	4,836	6,310
Inventories	34,880	31,513
Prepaid expenses	1,774	1,391
Future income taxes	9,140	7,609
	174,396	205,759
Tax credits recoverable	20,657	–
Property, plant and equipment	19,875	18,117
Intangible assets	19,945	9,628
Goodwill	42,653	28,437
Future income taxes	15,540	17,197
	\$ 293,066	\$ 279,138
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 24,713	\$ 22,721
Deferred revenue	5,079	2,598
	29,792	25,319
Deferred revenue	3,759	3,414
Future income taxes	–	240
	33,551	28,973
Shareholders' equity		
Share capital	142,786	150,019
Contributed surplus	5,226	4,453
Retained earnings	60,494	42,275
Accumulated other comprehensive income	51,009	53,418
	259,515	250,165
	\$ 293,066	\$ 279,138

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, 2008	Twelve months ended August 31, 2008	Three months ended August 31, 2007	Twelve months ended August 31, 2007
Sales	\$ 50,943	\$ 183,790	\$ 42,975	\$ 152,934
Cost of sales ^(1,2)	20,416	75,624	18,109	65,136
Gross margin	30,527	108,166	24,866	87,798
Operating expenses				
Selling and administrative ⁽¹⁾	16,993	61,153	13,035	49,580
Net research and development ^(1,3)	7,297	26,867	2,308	16,668
Amortization of property, plant and equipment	1,247	4,292	801	2,983
Amortization of intangible assets	1,402	3,871	699	2,864
Government grants	—	—	(1,079)	(1,079)
Total operating expenses	26,939	96,183	15,764	71,016
Earnings from operations	3,588	11,983	9,102	16,782
Interest income	576	4,639	1,204	4,717
Foreign exchange gain (loss)	1,349	442	(156)	(49)
Earnings before income taxes and extraordinary gain	5,513	17,064	10,150	21,450
Income taxes				
Current	(14)	(7,094)	1,232	3,741
Future	2,213	14,094	—	—
Recognition of previously unrecognized future income tax assets	—	(5,324)	(24,566)	(24,566)
	2,199	1,676	(23,334)	(20,825)
Earnings before extraordinary gain	3,314	15,388	33,484	42,275
Extraordinary gain	—	3,036	—	—
Net earnings for the period	<u>\$ 3,314</u>	<u>\$ 18,424</u>	<u>\$ 33,484</u>	<u>\$ 42,275</u>
Basic earnings before extraordinary gain per share	\$ 0.05	\$ 0.22	\$ 0.49	\$ 0.61
Diluted earnings before extraordinary gain per share	\$ 0.05	\$ 0.22	\$ 0.48	\$ 0.61
Basic net earnings per share	\$ 0.05	\$ 0.27	\$ 0.49	\$ 0.61
Diluted net earnings per share	\$ 0.05	\$ 0.27	\$ 0.48	\$ 0.61
Basic weighted average number of shares outstanding (000's)	68,082	68,767	68,969	68,875
Diluted weighted average number of shares outstanding (000's)	68,550	69,318	69,486	69,555
(1) Stock-based compensation costs included in:				
Cost of sales	\$ 36	\$ 148	\$ 25	\$ 118
Selling and administrative	232	830	191	633
Net research and development	100	294	61	230
	<u>\$ 368</u>	<u>\$ 1,272</u>	<u>\$ 277</u>	<u>\$ 981</u>

(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 Comprehensive Income (Loss)
And Accumulated Other Comprehensive Income

(in thousands of US dollars)

Comprehensive income (loss)

	Three months ended August 31, 2008	Twelve months ended August 31, 2008	Three months ended August 31, 2007	Twelve months ended August 31, 2007
Net earnings for the period	\$ 3,314	\$ 18,424	\$ 33,484	\$ 42,275
Foreign currency translation adjustment	(18,511)	(2,289)	2,574	9,881
Changes in unrealized gains (losses) on short-term investments	(9)	31	-	-
Unrealized gains on forward exchange contracts	(1,882)	962	-	-
Reclassification of realized gains on forward exchange contracts in net earnings	(770)	(3,915)	-	-
Future income taxes effect of the above items	822	909	-	-
Comprehensive income (loss)	\$ (17,036)	\$ 14,122	\$ 36,058	\$ 52,156

Accumulated other comprehensive income

	Years ended August 31,	
	2008	2007
Foreign currency translation adjustment		
Cumulative effect of prior years	\$ 53,418	\$ 43,537
Current year	(2,289)	9,881
	<u>51,129</u>	<u>53,418</u>
Unrealized gains (losses) on forward exchange contracts		
Adjustment related to the implementation of new accounting standards	1,948	-
Current year, net of realized gains and future income taxes	(2,044)	-
	<u>(96)</u>	<u>-</u>
Unrealized gains (losses) on short-term investments		
Adjustment related to the implementation of new accounting standards	(55)	-
Current year, net of future income taxes	31	-
	<u>(24)</u>	<u>-</u>
Accumulated other comprehensive income	\$ 51,009	\$ 53,418

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

(in thousands of US dollars)

Retained earnings

	Years ended August 31,	
	2008	2007
Balance – Beginning of year	\$ 42,275	\$ –
Add (deduct)		
Adjustment related to the implementation of new accounting standards	55	–
Net earnings for the year	18,424	42,275
Premium on redemption of share capital	(260)	–
Balance – End of year	\$ 60,494	\$ 42,275

Contributed surplus

	Years ended August 31,	
	2008	2007
Balance – Beginning of year	\$ 4,453	\$ 3,776
Add (deduct)		
Stock-based compensation costs	1,287	973
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	(514)	(296)
Balance – End of year	\$ 5,226	\$ 4,453

EXFO Electro-Optical Engineering Inc.

Interim Unaudited Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended August 31, 2008	Twelve months ended August 31, 2008	Three months ended August 31, 2007	Twelve months ended August 31, 2007
Cash flows from operating activities				
Net earnings for the period	\$ 3,314	\$ 18,424	\$ 33,484	\$ 42,275
Add (deduct) items not affecting cash				
Change in discount on short-term investments	(486)	1,035	(1,062)	(404)
Stock-based compensation costs	368	1,272	277	981
Amortization	2,649	8,163	1,500	5,847
Gain on disposal of capital assets	—	—	(17)	(117)
Deferred revenue	482	47	135	1,299
Government grants	—	—	(730)	(752)
Future income taxes	2,213	8,770	(24,566)	(24,566)
Extraordinary gain	—	(3,036)	—	—
	<u>8,540</u>	<u>34,675</u>	<u>9,021</u>	<u>24,563</u>
Change in non-cash operating items				
Accounts receivable	(4,193)	(4,338)	792	(5,468)
Income taxes and tax credits	(1,396)	(12,833)	(2,006)	(3,403)
Inventories	712	(2,166)	(2,824)	(5,456)
Prepaid expenses	379	(127)	174	85
Accounts payable and accrued liabilities	1,659	(1,416)	1,564	4,105
	<u>5,701</u>	<u>13,795</u>	<u>6,721</u>	<u>14,426</u>
Cash flows from investing activities				
Additions to short-term investments	(72,800)	(717,020)	(80,267)	(807,056)
Proceeds from disposal and maturity of short-term investments	73,939	760,310	75,073	793,435
Additions to capital assets	(1,452)	(6,508)	(2,011)	(5,547)
Net proceeds from disposal of capital assets	—	—	301	3,092
Business combinations, net cash acquired	(78)	(41,016)	—	—
	<u>(391)</u>	<u>(4,234)</u>	<u>(6,904)</u>	<u>(16,076)</u>
Cash flows from financing activities				
Change in bank loan	(1,485)	—	—	—
Repayment of long-term debt	—	—	(394)	(472)
Redemption of share capital	(4,675)	(8,068)	—	—
Exercise of stock options	—	61	229	802
	<u>(6,160)</u>	<u>(8,007)</u>	<u>(165)</u>	<u>330</u>
Effect of foreign exchange rate changes on cash	<u>(1,818)</u>	<u>(1,181)</u>	<u>(119)</u>	<u>8</u>
Change in cash	<u>(2,668)</u>	<u>373</u>	<u>(467)</u>	<u>(1,312)</u>
Cash – Beginning of period	<u>8,582</u>	<u>5,541</u>	<u>6,008</u>	<u>6,853</u>
Cash – End of period	<u>\$ 5,914</u>	<u>\$ 5,914</u>	<u>\$ 5,541</u>	<u>\$ 5,541</u>