

# EXFO Inc.

## Condensed Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

	As at May 31, 2021	As at August 31, 2020
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 10,913	\$ 32,818
Short-term investments	1,621	919
Accounts receivable		
Trade	55,753	56,291
Other	7,026	4,055
Income taxes and tax credits recoverable	6,858	4,203
Inventories	48,384	38,865
Prepaid expenses	5,934	5,631
Other assets	4,240	5,493
	140,729	148,275
<b>Tax credits recoverable</b>	51,438	48,812
<b>Property, plant and equipment</b>	41,302	39,722
<b>Right-of-use assets</b>	8,730	10,758
<b>Intangible assets</b>	14,177	17,616
<b>Goodwill</b>	43,051	40,290
<b>Deferred income tax assets</b>	4,122	3,633
<b>Other assets</b>	1,674	1,548
	\$ 305,223	\$ 310,654
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loan (note 7)	\$ 8,001	\$ 32,737
Accounts payable and accrued liabilities	50,902	41,348
Provisions	1,438	3,792
Income taxes payable	457	43
Deferred revenue	27,478	25,785
Other liabilities	4,126	4,032
Current portion of lease liabilities (note 8)	3,130	3,249
Current portion of long-term debt (note 9)	1,477	2,076
	97,009	113,062
<b>Provisions</b>	2,900	2,782
<b>Deferred revenue</b>	9,071	8,858
<b>Lease liabilities</b> (note 8)	5,573	7,334
<b>Long-term debt</b> (note 9)	1,419	2,144
<b>Deferred income tax liabilities</b>	2,995	3,760
<b>Other liabilities</b>	161	151
	119,128	138,091
<b>Shareholders' equity</b>		
Share capital (note 10)	95,254	94,024
Contributed surplus	21,216	19,680
Retained earnings	100,066	102,633
Accumulated other comprehensive loss	(30,441)	(43,774)
	186,095	172,563
	\$ 305,223	\$ 310,654

The accompanying notes are an integral part of these condensed unaudited interim consolidated financial statements.

# EXFO Inc.

## Condensed Unaudited Interim Consolidated Statements of Earnings

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

	Three months ended May 31, 2021	Nine months ended May 31, 2021	Three months ended May 31, 2020	Nine months ended May 31, 2020
<b>Sales</b>	\$ 72,644	\$ 213,410	\$ 66,147	\$ 195,011
Cost of sales <sup>(1)</sup>	30,298	90,590	27,948	81,985
Selling and administrative	24,986	69,485	18,898	67,705
Net research and development	14,373	39,120	9,168	33,483
Depreciation of property, plant and equipment	1,346	4,159	1,291	4,158
Depreciation of lease right-of-use assets	778	2,388	844	2,549
Amortization of intangible assets	1,774	6,310	1,698	5,025
Interest and other (income) expense (notes 3 and 11)	396	(1,607)	291	975
Foreign exchange loss	826	1,199	141	649
<b>Earnings (loss) before income taxes</b>	<u>(2,133)</u>	<u>1,766</u>	<u>5,868</u>	<u>(1,518)</u>
<b>Income taxes</b> (note 12)	<u>1,549</u>	<u>4,333</u>	<u>2,691</u>	<u>4,389</u>
<b>Net earnings (loss) for the period</b>	<u>\$ (3,682)</u>	<u>\$ (2,567)</u>	<u>\$ 3,177</u>	<u>\$ (5,907)</u>
<b>Basic and diluted net earnings (loss) per share</b>	\$ (0.07)	\$ (0.05)	\$ 0.06	\$ (0.11)
<b>Basic weighted average number of shares outstanding (000's)</b>	56,031	55,906	55,678	55,573
<b>Diluted weighted average number of shares outstanding (000's)</b> (note 13)	56,031	55,906	56,724	55,573

(1) The cost of sales is exclusive of depreciation and amortization, shown separately.

# EXFO Inc.

## Condensed Unaudited Interim Consolidated Statements of Comprehensive Income (Loss)

(in thousands of US dollars)

	Three months ended <u>May 31, 2021</u>	Nine months ended <u>May 31, 2021</u>	Three months ended <u>May 31, 2020</u>	Nine months ended <u>May 31, 2020</u>
<b>Net earnings (loss) for the period</b>	\$ (3,682)	\$ (2,567)	\$ 3,177	\$ (5,907)
Other comprehensive income (loss), net of income taxes				
Items that may be reclassified subsequently to net earnings (loss)				
Foreign currency translation adjustment	7,680	12,323	(3,317)	(4,075)
Unrealized gains/losses on forward exchange contracts	1,373	2,320	(1,052)	(1,805)
Reclassification of realized gains/losses on forward exchange contracts	(490)	(959)	251	607
Deferred income tax effect on gains/losses on forward exchange contracts	(217)	(351)	206	322
Other comprehensive income (loss)	<u>8,346</u>	<u>13,333</u>	<u>(3,912)</u>	<u>(4,951)</u>
<b>Comprehensive income (loss) for the period</b>	<u>\$ 4,664</u>	<u>\$ 10,766</u>	<u>\$ (735)</u>	<u>\$ (10,858)</u>

The accompanying notes are an integral part of these condensed unaudited interim consolidated financial statements.

# EXFO Inc.

## Condensed Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

	Nine months ended May 31, 2020				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at September 1, 2019	\$ 92,706	\$ 19,196	\$ 112,173	\$ (51,511)	\$ 172,564
Reclassification of stock-based compensation costs (note 10)	1,505	(1,505)	–	–	–
Redemption of share capital (note 10)	(212)	(13)	–	–	(225)
Stock-based compensation costs	–	1,471	–	–	1,471
Net loss for the period	–	–	(5,907)	–	(5,907)
Other comprehensive loss					
Foreign currency translation adjustment	–	–	–	(4,075)	(4,075)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$322	–	–	–	(876)	(876)
Total comprehensive income for the period					(10,858)
Balance as at May 31, 2020	<u>\$ 93,999</u>	<u>\$ 19,149</u>	<u>\$ 106,266</u>	<u>\$ (56,462)</u>	<u>\$ 162,952</u>

	Nine months ended May 31, 2021				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at September 1, 2020	\$ 94,024	\$ 19,680	\$ 102,633	\$ (43,774)	\$ 172,563
Reclassification of stock-based compensation costs (note 10)	1,395	(1,395)	–	–	–
Issuance of share capital (notes 3 and 10)	414	–	–	–	414
Share issue expenses	(14)	–	–	–	(14)
Redemption of share capital (note 10)	(565)	157	–	–	(408)
Stock-based compensation costs	–	2,774	–	–	2,774
Net loss for the period	–	–	(2,567)	–	(2,567)
Other comprehensive income					
Foreign currency translation adjustment	–	–	–	12,323	12,323
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$351	–	–	–	1,010	1,010
Total comprehensive income for the period					10,766
Balance as at May 31, 2021	<u>\$ 95,254</u>	<u>\$ 21,216</u>	<u>\$ 100,066</u>	<u>\$ (30,441)</u>	<u>\$ 186,095</u>

The accompanying notes are an integral part of these condensed unaudited interim consolidated financial statements.

# EXFO Inc.

## Condensed Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended May 31, 2021	Nine months ended May 31, 2021	Three months ended May 31, 2020	Nine months ended May 31, 2020
<b>Cash flows from operating activities</b>				
Net earnings (loss) for the period	\$ (3,682)	\$ (2,567)	\$ 3,177	\$ (5,907)
Add (deduct) items not affecting cash				
Stock-based compensation costs	1,193	2,778	523	1,446
Depreciation and amortization	3,898	12,857	3,833	11,732
Gain on disposal of capital assets	–	(17)	–	–
Write-off of capital assets	43	53	–	216
Other income (note 3)	–	(669)	–	–
Deferred revenue	(768)	(849)	(329)	(3,144)
Deferred income taxes	11	(1,608)	493	(161)
Changes in foreign exchange gain/loss	(910)	(911)	869	1,750
	<u>(215)</u>	<u>9,067</u>	<u>8,566</u>	<u>5,932</u>
Changes in non-cash operating items				
Accounts receivable	(2,366)	4,017	(25,485)	(6,874)
Income taxes and tax credits	(1,106)	(883)	44	(2,618)
Inventories	(4,236)	(4,917)	(2,282)	(6,233)
Prepaid expenses	(585)	543	(773)	215
Other assets	(252)	1,411	(256)	(712)
Accounts payable, accrued liabilities and provisions	3,854	2,601	3,253	(6,020)
Other liabilities	5	(1)	53	95
	<u>(4,901)</u>	<u>11,838</u>	<u>(16,880)</u>	<u>(16,215)</u>
<b>Cash flows from investing activities</b>				
Additions to short-term investments	(1,122)	(1,627)	(1,927)	(2,074)
Disposal of short-term investments	–	978	–	1,264
Purchases of capital assets	(2,084)	(4,367)	(1,880)	(6,066)
Business combination, net of cash acquired (note 3)	(1,099)	(300)	–	–
	<u>(4,305)</u>	<u>(5,316)</u>	<u>(3,807)</u>	<u>(6,876)</u>
<b>Cash flows from financing activities</b>				
Bank loan	(3,202)	(24,895)	19,934	28,304
Repayment of lease liabilities	(778)	(2,388)	(844)	(2,534)
Additions to long-term debt	274	274	–	–
Repayment of long-term debt	(487)	(1,646)	(292)	(1,607)
Redemption of share capital	–	(408)	–	(225)
	<u>(4,193)</u>	<u>(29,063)</u>	<u>18,798</u>	<u>23,938</u>
<b>Effect of foreign exchange rate changes on cash</b>	<u>444</u>	<u>636</u>	<u>(167)</u>	<u>(295)</u>
<b>Change in cash during the period</b>	(12,955)	(21,905)	(2,056)	552
<b>Cash – Beginning of the period</b>	23,868	32,818	19,126	16,518
<b>Cash – End of the period</b>	<u>\$ 10,913</u>	<u>\$ 10,913</u>	<u>\$ 17,070</u>	<u>\$ 17,070</u>
<b>Supplementary information</b>				
Income taxes cash outflow	\$ 927	\$ 1,932	\$ 159	\$ 1,430

As at May 31, 2020 and 2021, unpaid purchases of capital assets amounted to \$218 and \$444 respectively.

The accompanying notes are an integral part of these condensed unaudited interim consolidated financial statements.

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

### 1 Nature of Activities and Incorporation

EXFO Inc. and its subsidiaries (together “EXFO” or the “company”) develops smart test, monitoring and analytics solutions for fixed and mobile network operators, web-scale companies, and equipment manufacturers in the global communications industry.

EXFO is a company incorporated under the Canada Business Corporations Act and is domiciled in Canada. The address of its headquarters is 400 Godin Avenue, Québec City, Quebec, Canada, G1M 2K2.

These condensed unaudited interim consolidated financial statements were authorized for issue by the Board of Directors on July 14, 2021.

### 2 Basis of Presentation

These condensed unaudited interim consolidated financial statements have been prepared in accordance with *International Financial Reporting Standards* (IFRS), as issued by the International Accounting Standards Board (IASB) applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*, and using the same accounting policies and methods used in the preparation of the company’s most recent annual consolidated financial statements. Consequently, these condensed unaudited interim consolidated financial statements should be read in conjunction with the company’s most recent annual consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB.

### 3 Business Combination

On December 31, 2020, the company acquired all of the issued and outstanding shares of inOpticals Inc. (renamed EXFO Taiwan Inc.), a private Taiwan-based company that offers ultra-high-speed test instruments for the laboratory and manufacturing markets.

In consideration for the shares acquired, the company issued 128,571 subordinate voting shares valued at \$414,000, and a cash-contingent consideration earn-out to certain of EXFO Taiwan’s former owners based on certain sales volumes of EXFO Taiwan’s products over a five-year period starting December 31, 2020. The fair value of the cash-contingent consideration was estimated to \$88,110 as at the acquisition date. These considerations were increased by \$1,098,854 representing a net equity adjustment as per the term of the share purchase agreement. This adjustment was paid in cash in the third quarter of fiscal 2021 and formed part of the consideration for this business combination. The acquisition-date fair value of the total consideration transferred amounted to \$1,600,964, or \$801,646, net of cash acquired of \$799,318.

This acquisition was accounted for by applying the acquisition method as required by IFRS 3, *Business Combinations*, and the requirements of IFRS 10, *Consolidated Financial Statements*; consequently, the fair value of the total consideration was allocated to the assets acquired and liabilities assumed based on management’s estimate of their fair value as at the acquisition date. The results of operations of the acquired business have been included in the consolidated financial statements of the company since January 1, 2021.

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

The fair value of the total consideration was allocated based on the fair value of acquired net assets at the date of acquisition as follows:

Assets acquired	
Accounts receivable	\$ 546
Inventories	1,067
Core technologies	527
Other assets	174
	<hr/>
	2,314
Liabilities assumed	
Accounts payable and accrued liabilities	702
Other liabilities	36
Deferred income taxes	105
	<hr/>
Fair value of net identifiable assets acquired	\$ 1,471
Fair value of the total consideration transferred, net of cash acquired	\$ 802
Fair value of net identifiable assets acquired	<hr/>
	1,471
Excess of fair value of net identifiable assets acquired over fair value of total consideration, net of cash acquired	<hr/>
	\$ (669)

Acquired core technologies are amortized on a straight-line basis over their estimated useful life of three years.

The excess of the fair value of net identifiable assets acquired over fair value of the total consideration, net of cash acquired, in the amount of \$669,000, is recorded in the interest and other income line item in the condensed unaudited interim consolidated statement of earnings for the nine months ended May 31, 2021.

As part of this business combination, the company issued 1,424,224 subordinate voting shares valued at \$4,586,000 to certain of EXFO Taiwan's former owners, which will be released over a five-year period, contingent on certain conditions being met by these former owners over that period. This grant of shares is being accounted for under IFRS 2, *Share-Based Payment*, and therefore is not part of the consideration for the business combination.

The functional currency of EXFO Taiwan is the New Taiwan dollar (NTD) and as such it is considered a foreign operation. The financial operations of EXFO Taiwan are translated into Canadian dollars as follows: assets and liabilities are translated at the exchange rate in effect on the date of the balance sheet; revenue and expenses are translated at the monthly average exchange rate. The foreign currency translation adjustment arising from such translation is included in accumulated other comprehensive loss in shareholders' equity.

#### 4 Government Grants

The Government of Canada introduced the Canada Emergency Wage Subsidy (CEWS) to help qualifying Canadian businesses facing hardship as a result of the coronavirus pandemic. The CEWS has been covering wages up to certain limits since March 15, 2020 and extends until June 2021, provided that eligible businesses have suffered a drop in gross revenues above certain thresholds during these periods.

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

The company qualified for the CEWS for the period from August 30, 2020 to May 8, 2021, and recorded grants of \$523,000 and \$2,849,000 in the condensed unaudited interim consolidated statements of earnings for the three months and the nine months ended May 31, 2021 respectively (\$3,262,000 for the three and nine months ended May 31, 2020). The company accounted for the CEWS as a government grant under IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, and it was deducted from the condensed unaudited interim condensed consolidated statement of earnings line items in which the wages were recognized (note 11).

### 5 Restructuring Charges

In August 2018, the company implemented a restructuring plan to accelerate the integration of its acquired monitoring and analytics technologies from EXFO Solutions and simplify its cost structure and optimize resources as the company converges toward fewer sites and reduces its workforce.

The following table summarizes changes in restructuring charges payable during the three months and nine months ended May 31, 2021:

	<u>Three months ended May 31, 2021</u>	<u>Nine months ended May 31, 2021</u>
Balance – Beginning of the period	\$ 1,356	\$ 3,626
Additions <sup>(1)</sup>	108	651
Payments and reversal	(185)	(2,998)
Balance – End of the period	<u>\$ 1,279</u>	<u>\$ 1,279</u>

(1) Additions are recorded in selling and administrative expenses in the condensed interim unaudited consolidated statement of earnings.

### 6 Financial Instruments

#### *Fair Value of Financial Instruments*

The company classifies its derivative and non-derivative financial assets and liabilities measured at fair value using the fair value hierarchy as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

The company's short-term investments and forward exchange contracts are measured at fair value at each consolidated balance sheet date. The company's short-term investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets. The company's forward exchange contracts are classified within Level 2 of the fair value hierarchy because they are valued using observable prices and forward exchange rates at the consolidated balance sheet dates. The fair value of forward exchange contracts represents the amount at which they could be settled based on estimated current market rates. The cash-contingent consideration is classified within Level 3 of the fair value hierarchy because it is valued using unobservable inputs such as expected future sales of EXFO Taiwan.

The fair value of derivative and non-derivative financial assets and liabilities measured at fair value by level of fair value hierarchy is as follows:

	As at May 31, 2021			As at August 31, 2020	
	Level 1	Level 2	Level 3	Level 1	Level 2
<b>Financial assets</b>					
Short-term investments	\$ 1,621	\$ –	\$ –	\$ 919	\$ –
Forward exchange contracts	\$ –	\$ 3,481	\$ –	\$ –	\$ 1,587
<b>Financial liabilities</b>					
Forward exchange contracts	\$ –	\$ –	\$ –	\$ –	\$ 110
Cash-contingent consideration (note 3)	\$ –	\$ –	\$ 88	\$ –	\$ –

### **Derivative Financial Instruments**

The functional currency of the company is the Canadian dollar. The company is exposed to currency risk as a result of its export sales of products manufactured in Canada, China, France and Finland, the majority of which are denominated in US dollars and euros. This risk is partially hedged by forward exchange contracts and certain cost of sales and operating expenses (US dollars and euros). In addition, the company is exposed to currency risk as a result of its research and development activities in India (Indian rupees). This risk is partially hedged by forward exchange contracts. The company's forward exchange contracts, which are designated as cash flow hedging instruments, qualify for hedge accounting.

As at May 31, 2021, the company held contracts to sell US dollars for Canadian dollars and Indian rupees at various forward rates, which are summarized below:

#### *US dollars – Canadian dollars*

<u>Expiry dates</u>	<u>Contractual amounts</u>	<u>Weighted average contractual forward rates</u>
June 2021 to August 2021	\$ 7,900	1.3323
September 2021 to August 2022	18,800	1.3492
September 2022 to February 2023	3,600	1.3324
Total	<u>\$ 30,300</u>	<u>1.3428</u>

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

US dollars – Indian rupees

Expiry dates	Contractual amounts	Weighted average contractual forward rates
June 2021 to August 2021	\$ 1,500	74.99
September 2021 to March 2022	2,000	77.20
Total	\$ 3,500	76.25

The carrying amount of forward exchange contracts is equal to their fair value, which is based on the amount at which they could be settled based on estimated current market rates. The fair value of forward exchange contracts amounted to net gains of \$1,477,000 as at August 31, 2020, and \$3,481,000 as at May 31, 2021.

As at May 31, 2021, forward exchange contracts in the amount of \$3,045,000 are presented as current assets in other accounts receivable, and forward exchange contracts in the amount of \$436,000 are presented as long-term assets in other long-term assets in the consolidated balance sheet. Forward exchange contracts of \$545,000 included in other accounts receivable, for which related hedged sales are recognized, are recorded in the consolidated statement of earnings; otherwise, other forward exchange contracts are not yet recorded in the consolidated statement of earnings and are recorded in other comprehensive income.

Based on its portfolio of forward exchange contracts as at May 31, 2021, the company estimates that the portion of the net unrealized gains on these contracts as of that date, which will be realized and reclassified from accumulated other comprehensive income to net earnings (sales) over the next 12 months, amounts to \$2,500,000.

During the three months and the nine months ended May 31, 2020 and 2021, the company recognized within its sales the following foreign exchange gains or losses on forward exchange contracts:

	Three months ended May 31, 2021	Nine months ended May 31, 2021	Three months ended May 31, 2020	Nine months ended May 31, 2020
Gains (losses) on forward exchange contracts	\$ 569	\$ 974	\$ (514)	\$ (758)

### 7 Credit Facilities

In fiscal 2020, the company modified certain credit facilities, whereby revolving credit facilities, which provided advances up to CA\$70,000,000 (US\$57,990,000), were extended to CA\$90,000,000 (US\$74,559,000) until May 31, 2021 and returned to CA\$70,000,000 on June 1, 2021.

### 8 Leases

The company has operating leases for certain of its premises under various non-cancelable lease agreements. The company's operating leases have remaining lease terms ranging from 1 year to 7 years. The company's operating lease agreements do not contain any material residual value guarantees or material restrictive covenants.

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

Minimal rentals payable under operating leases are as follows as at May 31, 2021:

No later than 1 year	\$ 3,130
Later than 1 year and no later than 5 years	4,979
Later than 5 years	594
Total lease liabilities as at May 31, 2021	<u>\$ 8,703</u>

### 9 Long-term Debt

	<u>As at May 31, 2021</u>	<u>As at August 31, 2020</u>
Unsecured, non-interest-bearing loans, denominated in euros, repayable in quarterly instalments, maturing in September 2024 and September 2025	\$ 798	\$ 896
Unsecured loans, denominated in euros, repayable in monthly, quarterly or bi-annual instalments, bearing interest at annual rates of nil to 5.0%, maturing at different dates between July 2021 and September 2023	1,541	2,443
Loans, secured by the universality of the assets of a subsidiary, denominated in euros, repayable in monthly instalments, bearing interest at an annual rate of 0.7%, maturing at different dates between December 2021 and March 2023	146	295
Loans, secured by the universality of the assets of some subsidiaries, denominated in euros, repayable in monthly or bi-annual instalments, bearing interest at annual rates from 0.1% to 1.3%, maturing at different dates between June 2021 and August 2023	411	586
	<u>2,896</u>	<u>4,220</u>
Less: Current portion of long-term debt	1,477	2,076
	<u>\$ 1,419</u>	<u>\$ 2,144</u>

Principal repayments of long-term debt due over the forthcoming years are as follows:

	<u>As at May 31, 2021</u>
No later than 1 year	\$ 1,477
Later than 1 year and no later than 5 years	1,419
	<u>\$ 2,896</u>

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

### 10 Share Capital

The following tables summarize changes in share capital for the nine months ended May 31, 2020 and 2021.

	Nine months ended May 31, 2020				
	Multiple voting shares		Subordinate voting shares		Total amount
	Number	Amount	Number	Amount	
Balance as at September 1, 2019	31,643,000	\$ 1	23,703,675	\$ 92,705	\$ 92,706
Redemption of restricted share units	-	-	255,822	-	-
Redemption of share capital	-	-	(54,528)	(212)	(212)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	-	-	-	861	861
Balance as at November 30, 2019	31,643,000	1	23,904,969	93,354	93,355
Redemption of restricted share units	-	-	111,476	-	-
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	-	-	-	472	472
Balance as at February 29, 2020	31,643,000	1	24,016,445	93,826	93,827
Redemption of restricted share units	-	-	36,947	-	-
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	-	-	-	172	172
Balance as at May 31, 2020	31,643,000	\$ 1	24,053,392	\$ 93,998	\$ 93,999

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

	Nine months ended May 31, 2021				
	Multiple voting shares		Subordinate voting shares		Total amount
	Number	Amount	Number	Amount	
Balance as at September 1, 2020	31,643,000	\$ 1	24,060,766	\$ 94,023	\$ 94,024
Redemption of restricted share units	-	-	204,506	-	-
Redemption of performance share units	-	-	2,704	-	-
Redemption of share capital	-	-	(138,255)	(538)	(538)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	-	-	-	704	704
Balance as at November 30, 2020	31,643,000	1	24,129,721	94,189	94,190
Issuance of share capital (note 3)	-	-	128,571	414	414
Share issue expenses	-	-	-	(14)	(14)
Redemption of restricted share units	-	-	127,774	-	-
Redemption of share capital	-	-	(7,300)	(27)	(27)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	-	-	-	601	601
Balance as at February 28, 2021	31,643,000	1	24,378,766	95,163	95,164
Redemption of restricted share units	-	-	17,255	-	-
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	-	-	-	90	90
Balance as at May 31, 2021	<u>31,643,000</u>	<u>\$ 1</u>	<u>24,396,021</u>	<u>\$ 95,253</u>	<u>\$ 95,254</u>

On January 12, 2021, the company announced that its Board of Directors had approved a share repurchase program, by way of a normal course issuer bid on the open market of up to 2.9% of the issued and outstanding subordinate voting shares, representing 600,000 subordinate voting shares at the prevailing market price. The normal course issuer bid started on January 15, 2021 and will end on January 14, 2022 or earlier if the company repurchases the maximum number of shares permitted. All shares repurchased under the bid will be cancelled.

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

### 11 Statements of Earnings

Sales are as follows:

	Three months ended May 31, 2021	Nine months ended May 31, 2021	Three months ended May 31, 2020	Nine months ended May 31, 2020
Test and measurement	\$ 57,295	\$ 159,045	\$ 50,309	\$ 143,733
Service assurance, systems and services	14,780	53,391	16,352	52,036
Foreign exchange gains (losses) on forward exchange contracts	569	974	(514)	(758)
Total sales for the period	<u>\$ 72,644</u>	<u>\$ 213,410</u>	<u>\$ 66,147</u>	<u>\$ 195,011</u>

#### Interest and other (income) expense

During the nine months ended May 31, 2021, other income included an amount of \$2,546,000 for an insurance recovery related to the loss of assets (nil in 2020).

Net research and development expenses comprise the following:

	Three months ended May 31, 2021	Nine months ended May 31, 2021	Three months ended May 31, 2020	Nine months ended May 31, 2020
Gross research and development expenses	\$ 17,003	\$ 47,003	\$ 12,047	\$ 40,261
Tax credits and grants	(2,630)	(7,883)	(2,879)	(6,778)
Net research and development expenses for the period	<u>\$ 14,373</u>	<u>\$ 39,120</u>	<u>\$ 9,168</u>	<u>\$ 33,483</u>

For the three months and the nine months ended May 31, 2021, tax credits and grants include \$231,000 and 1,261,000 respectively for the CEWS. For the three months and the nine months ended May 31, 2020, tax credits and grants include \$1,457,000 for the CEWS.

Inventory write-down is as follows:

	Three months ended May 31, 2021	Nine months ended May 31, 2021	Three months ended May 31, 2020	Nine months ended May 31, 2020
Inventory write-down for the period	<u>\$ 663</u>	<u>\$ 1,441</u>	<u>\$ 494</u>	<u>\$ 1,739</u>

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

Depreciation and amortization expenses by functional area are as follows:

	Three months ended May 31, 2021	Nine months ended May 31, 2021	Three months ended May 31, 2020	Nine months ended May 31, 2020
Cost of sales				
Depreciation of property, plant and equipment	\$ 474	\$ 1,419	\$ 466	\$ 1,416
Depreciation of lease ROU assets	280	837	277	845
Amortization of intangible assets	1,329	5,060	1,341	4,017
	<u>2,083</u>	<u>7,316</u>	<u>2,084</u>	<u>6,278</u>
Selling and administrative expenses				
Depreciation of property, plant and equipment	265	865	247	804
Depreciation of lease ROU assets	332	1,004	370	1,113
Amortization of intangible assets	238	665	180	505
	<u>835</u>	<u>2,534</u>	<u>797</u>	<u>2,422</u>
Net research and development expenses				
Depreciation of property, plant and equipment	607	1,875	578	1,938
Depreciation of lease ROU assets	166	547	197	591
Amortization of intangible assets	207	585	177	503
	<u>980</u>	<u>3,007</u>	<u>952</u>	<u>3,032</u>
	<u>\$ 3,898</u>	<u>\$ 12,857</u>	<u>\$ 3,833</u>	<u>\$ 11,732</u>
Depreciation of property, plant and equipment	\$ 1,346	\$ 4,159	\$ 1,291	\$ 4,158
Depreciation of lease ROU assets	778	2,388	844	2,549
Amortization of intangible assets	1,774	6,310	1,698	5,025
Total depreciation and amortization expenses for the period	<u>\$ 3,898</u>	<u>\$ 12,857</u>	<u>\$ 3,833</u>	<u>\$ 11,732</u>

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

Employee compensation comprises the following:

	Three months ended May 31, 2021	Nine months ended May 31, 2021	Three months ended May 31, 2020	Nine months ended May 31, 2020
Salaries and benefits	\$ 41,211	\$ 116,090	\$ 31,853	\$ 101,762
Restructuring charges	108	651	–	–
Stock-based compensation costs	1,193	2,778	523	1,446
Grants (CEWS)	(523)	(2,849)	(3,262)	(3,262)
Total employee compensation for the period	<u>\$ 41,989</u>	<u>\$ 116,670</u>	<u>\$ 29,114</u>	<u>\$ 99,946</u>

Stock-based compensation costs by functional area are as follows:

	Three months ended May 31, 2021	Nine months ended May 31, 2021	Three months ended May 31, 2020	Nine months ended May 31, 2020
Cost of sales	\$ 19	\$ 67	\$ 34	\$ 95
Selling and administrative expenses	901	2,138	391	1,106
Net research and development expenses	273	573	98	245
Total stock-based compensation costs for the period	<u>\$ 1,193</u>	<u>\$ 2,778</u>	<u>\$ 523</u>	<u>\$ 1,446</u>

CEWS by functional area are as follows (note 4):

	Three months ended May 31, 2021	Nine months ended May 31, 2021	Three months ended May 31, 2020	Nine months ended May 31, 2020
Cost of sales	\$ (114)	\$ (644)	\$ (723)	\$ (723)
Selling and administrative expenses	(178)	(944)	(1,082)	(1,082)
Net research and development expenses	(231)	(1,261)	(1,457)	(1,457)
Total CEWS for the period	<u>\$ (523)</u>	<u>\$ (2,849)</u>	<u>\$ (3,262)</u>	<u>\$ (3,262)</u>

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

### 12 Income Taxes

For the three months and the nine months ended May 31, 2020 and 2021, the reconciliation of the income tax provision (recovery) calculated using the combined Canadian federal and provincial statutory income tax rate with the income tax provision in the unaudited interim consolidated financial statements is as follows:

	<b>Three months ended May 31, 2021</b>	<b>Nine months ended May 31, 2021</b>	<b>Three months ended May 31, 2020</b>	<b>Nine months ended May 31, 2020</b>
Income tax provision (recovery) at combined Canadian federal and provincial statutory tax rate (27%)	\$ (576)	\$ 477	\$ 1,584	\$ (410)
Increase (decrease) due to:				
Foreign income taxed at different rates	(116)	(196)	(78)	77
Non-deductible loss (non-taxable income)	(61)	(252)	(100)	219
Non-deductible expenses	494	866	171	515
Foreign exchange effect of translation of foreign subsidiaries	227	404	155	50
Recognition of previously unrecognized deferred income tax assets	–	–	–	(471)
Utilization of previously unrecognized deferred income tax assets	(5)	(914)	(2)	(16)
Unrecognized deferred income tax assets on temporary deductible differences and unused tax losses	1,063	3,871	1,144	4,021
Other	523	77	(183)	404
Income tax provision for the period	<u>\$ 1,549</u>	<u>\$ 4,333</u>	<u>\$ 2,691</u>	<u>\$ 4,389</u>

The income tax provision (recovery) consists of the following:

	<b>Three months ended May 31, 2021</b>	<b>Nine months ended May 31, 2021</b>	<b>Three months ended May 31, 2020</b>	<b>Nine months ended May 31, 2020</b>
Current	\$ 1,538	\$ 5,941	\$ 2,198	\$ 4,550
Deferred	11	(1,608)	493	(161)
	<u>\$ 1,549</u>	<u>\$ 4,333</u>	<u>\$ 2,691</u>	<u>\$ 4,389</u>

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

### 13 Earnings per Share

The following table summarizes the reconciliation of the basic weighted average number of shares outstanding to the diluted weighted average number of shares outstanding:

	<b>Three months ended May 31, 2021</b>	<b>Nine months ended May 31, 2021</b>	<b>Three months ended May 31, 2020</b>	<b>Nine months ended May 31, 2020</b>
Basic weighted average number of shares outstanding (000's)	56,031	55,906	55,678	55,573
Plus dilutive effect of (000's):				
Restricted share units	–	–	761	–
Deferred share units	–	–	285	–
Diluted weighted average number of shares outstanding (000's)	<u>56,031</u>	<u>55,906</u>	<u>56,724</u>	<u>55,573</u>
Stock awards excluded from the calculation of diluted weighted average number of shares because their exercise price was greater than the average market price of the common shares, or their inclusion would be antidilutive (000's)	<u>3,571</u>	<u>2,213</u>	<u>416</u>	<u>2,009</u>

For the three and nine months ended May 31, 2021 and the nine months ended May 31, 2020, the diluted amount per share was the same amount as the basic amount per share, since the dilutive effect of restricted share units, deferred share units and contingent issuable shares was not included in the calculation; otherwise, the effect would have been antidilutive. Accordingly, the diluted amount per share for these periods was calculated using the basic weighted average number of shares outstanding.