EXFO INC.
Form 6-K
January 13, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer Pursuant to Rule 13a-16 or 15d-16
Under the Securities Exchange Act of 1934

For the month of January 2012

EXFO Inc.
(Translation of registrant's name into English)

400 Godin Avenue, Quebec, Quebec, Canada G1M 2K2
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F þForm 40-F o

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes oNo þ

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-______.

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On January 11, 2012, EXFO Inc., a Canadian corporation, reported its results of operations for the first fiscal quarter ended November 30, 2011. This report on Form 6-K sets forth the news release relating to EXFO's announcement and certain information relating to EXFO's financial condition and results of operations for the first fiscal quarter of the 2012 fiscal year. This press release and information relating to EXFO's financial condition and results of operations for the first fiscal quarter of the 2012 fiscal year are hereby incorporated as a document by reference to Form F-3 (Registration Statement under the Securities Act of 1933) declared effective as of July 30, 2001 and to Form F-3 (Registration Statement under the Securities Act of 1933) declared effective as of March 11, 2002 and to amend certain material information as set forth in these two Form F-3 documents.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EXFO INC.

By: /s/ Germain Lamonde
Name: Germain Lamonde
Title: President and Chief Executive Officer

Date: January 13, 2012

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EXFO Reports First-Quarter Results for Fiscal 2012

- § Sales reach US$66.4 M and bookings US$71.4 M for book-to-bill ratio of 1.08
- § Gross margin* improves to 64.8% on increased sales year-over-year of Protocol solutions
- § Adjusted EBITDA** amounts to US$7.6 M, or 11.4% of sales

QUEBEC CITY, CANADA, January 11, 2012 — EXFO Inc. (NASDAQ: EXFO; TSX: EXF) reported today financial results for the first quarter ended November 30, 2011.

Sales reached US$66.4 million in the first quarter of fiscal 2012 compared to US$65.7 million in the first quarter of 2011 and US$64.4 million in the fourth quarter of 2011.

Bookings attained US$71.4 million in the first quarter of fiscal 2012 compared to US$89.8 million in the same period last year and US$62.5 million in the fourth quarter of 2011. The company's book-to-bill ratio was 1.08 in the first quarter of 2012.

Gross margin* improved to 64.8% of sales in the first quarter of fiscal 2012 from 62.2% in the first quarter of 2011 and 63.6% in the fourth quarter of 2011.

IFRS net earnings in the first quarter of fiscal 2012 totaled US$2.9 million, or US$0.05 per diluted share, compared to US$14.1 million, or US$0.23 per diluted share, in the same period last year and US$4.6 million, or US$0.08 per diluted share, in the fourth quarter of 2011. It should be noted that EXFO recorded an after-tax gain of US$13.1 million, or US$0.21 per diluted share, from the disposal of discontinued operations (Life Sciences and Industrial Division) in the first quarter of 2011. Net earnings in the first quarter of 2012 included US$1.9 million in after-tax amortization of intangible assets and US$0.6 million in stock-based compensation costs.

Adjusted EBITDA** amounted to US$7.6 million, or 11.4% of sales, in the first quarter of fiscal 2012 compared to US$8.2 million, or 12.1% of sales, in the first quarter of 2011 and US$6.9 million, or 10.8% of sales, in the fourth quarter of 2011. EXFO benefited from a foreign exchange gain of US$1.7 million in the first quarter of 2012.

"I am pleased with our second-highest bookings level in company history," said Germain Lamonde, EXFO's Chairman, President and CEO. "We also raised our gross margin close to our target of 65% on higher sales of software-intensive Protocol solutions and increased year-over-year sales across our main product groups with the exception of Copper Access which had benefited from a multi-million dollar, lower-margin order last year. These data points combined to generate healthy profitability in the first quarter of 2012 despite an uncertain global economic environment. I believe that our strategy to push ahead with game-changing solutions and a more aggressive access to key markets will pay off in the second half of the fiscal year, which is typically our strongest."

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Selected Financial Information
(In thousands of US dollars)

	Q1 2012	Q4 2011	Q1 2011
Sales:			
Continuing operations (formerly Telecom Div.)	$66,388	$64,414	$65,653
Discontinued operations (formerly Life Sciences & Industrial Div.)	–	–	1,991
Total	$66,388	$64,414	$67,644
Gross margin*:			
Continuing operations	$43,018	$40,967	$40,868
	64.8 %	63.6 %	62.2 %
Discontinued operations	$–	$–	$989
	– %	– %	49.7 %
Total	$43,018	$40,967	$41,857
	64.8 %	63.6 %	61.9 %
Other selected information:			
IFRS net earnings	$2,914	$4,638	$14,133
Amortization of intangible assets	$1,921	$2,122	$2,570
Stock-based compensation costs	$555	$461	$738
Changes in the fair value of the cash contingent consideration	$–	$(2,685)	$–
Net income tax effect of the above items	$(30)	$(60)	$(192)
After-tax gain on the disposal of discontinued operations	$–	$–	$(13,071)
Foreign exchange gain (loss)	$1,664	$(57)	$(1,113)
Adjusted EBITDA**	$7,581	$6,925	$8,188

Operating Expenses
Selling and administrative expenses totaled US$24.6 million, or 37.1% of sales, in the first quarter of fiscal 2012 compared to US$19.9 million, or 30.3% of sales, in the same period last year and US$21.8 million, or 33.9% of sales, in the fourth quarter of 2011.

Gross research and development expenses amounted to US$14.8 million, or 22.3.% of sales, in the first quarter of fiscal 2012 compared to US$13.7 million, or 20.9% of sales, in the first quarter of 2011 and US$14.3 million, or 22.3% of sales, in the fourth quarter of 2011.

Net R&D expenses totaled US$12.5 million, or 18.8% of sales, in the first quarter of fiscal 2012 compared to US$11.6 million, or 17.7% of sales, in the same period last year and US$12.1 million, or 18.8% of sales, in the fourth quarter of 2011.

First-Quarter Business Highlights
§ EXFO achieved its second-highest bookings level (US$71.4 million) in company history based on strong results from the Protocol and Optical product lines especially in the Americas. The company obtained multiple contract wins for 4G/LTE simulators, analyzers and service assurance solutions, including the announced win with Finnish network operator DNA for the BrixHawk Service Assurance solution that combines Brix and NetHawk's

technologies to deliver unique monitoring and reporting capabilities. Also, shortly after the quarter-end, EXFO received a follow-on order in excess of US$1.8 million from a Tier-1 North American network operator for the AXS-200/635 Triple-Play Tester.

§ EXFO's top customer accounted for 4.3% of sales in the first quarter, while the top three represented 10.2%. Global sales were diversified with 55% originating from the Americas, 27% from Europe, Middle East and Africa (EMEA), and 18% from Asia-Pacific.

§ EXFO launched five new products in the first quarter, including the BrixHawk Distributed Analyzer for live mobile network troubleshooting and service optimization; key enhancements to the FTB Ecosystem (FTB-1, FTB-200 and FTB-500) with expanded software capabilities like 3G and GPS as well as improved functionalities for EXFO Connect; and the release of the FTB-85100G Packet Blazer, a multi-rate, multi-service test solution for characterizing high-speed networks reaching 100G.

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Profitable Growth
EXFO generated adjusted EBITDA** of US$7.6 million (11.4% of sales) in the first quarter of fiscal 2012 on revenue of US$66.4 million. Foreign exchange losses or gains are included in adjusted EBITDA**. See the section below entitled "Non-IFRS Financial Measures" for a reconciliation of adjusted EBITDA** to IFRS net earnings.

Business Outlook
EXFO forecasts sales between US$65.0 million and US$70.0 million for the second quarter of fiscal 2012, while net earnings are expected to range between US$0.00 and US$0.04 per diluted share. Net earnings include US$0.04 per share in after-tax amortization of intangible assets and stock-based compensation costs.

This guidance was established by management based on existing backlog as of the date of this press release, seasonality, expected bookings for the remaining of the quarter, as well as exchange rates as of the day of this press release.

Conference Call and Webcast
EXFO will host a conference call today at 5 p.m. (Eastern time) to review its financial results for the first quarter of fiscal 2012. To listen to the conference call and participate in the question period via telephone, dial 1-416-981-9072. Germain Lamonde, Chairman, President and CEO, and Pierre Plamondon, CA, Vice-President of Finance and Chief Financial Officer, will participate in the call. An audio replay of the conference call will be available one hour after the event until 7 p.m. on January 18, 2012. The replay number is 1-402-977-9141 and the reservation number is 21562094. The audio Webcast and replay of the conference call will also be available on EXFO's Website at www.EXFO.com, under the Investors section.

About EXFO
Listed on the NASDAQ and TSX stock exchanges, EXFO is among the leading providers of next-generation test and service assurance solutions for wireless and wireline network operators and equipment manufacturers in the global telecommunications industry. The company offers innovative solutions for the development, installation, management and maintenance of converged, IP fixed and mobile networks — from the core to the edge. Key technologies supported include 3G, 4G/LTE, IMS, Ethernet, OTN, FTTx, and various optical technologies (accounting for an estimated 35% of the portable fiber-optic test market). EXFO has a staff of approximately 1800 people in 25 countries, supporting more than 2000 telecom customers worldwide. For more information, visit www.EXFO.com.

Forward-Looking Statements
This press release contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and we intend that such forward-looking statements be subject to the safe harbors created thereby. Forward-looking statements are statements other than historical information or statements of current condition. Words such as may, will, expect, believe, anticipate, intend, could, estimate, continue, or the negative or comparable terminology are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events and circumstances are considered forward-looking statements. They are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in our forward-looking statements due to various factors including economic uncertainty (including our ability to quickly adapt cost structures with anticipated levels of business, ability to manage inventory levels with market demand); future economic, competitive, financial and market conditions; capital spending levels in the telecommunications industry; limited visibility with regards to customer orders and the timing of such orders; fluctuating exchange rates; our ability to successfully integrate our acquired and to-be-acquired businesses; consolidation in the global telecommunications test and service assurance industry and increased competition among

vendors; concentration of sales; market acceptance of our new products and other upcoming products; our ability to successfully expand international operations; and the retention of key technical and management personnel. Assumptions relating to the foregoing involve judgments and risks, all of which are difficult or impossible to predict and many of which are beyond our control. Other risk factors that may affect our future performance and operations are detailed in our Annual Report, on Form 20-F, and our other filings with the U.S. Securities and Exchange Commission and Canadian securities commissions. We believe that the expectations reflected in the forward-looking statements are reasonable based on information currently available to us, but we cannot assure you that the expectations will prove to have been correct. Accordingly, you should not place undue reliance on these forward-looking statements. These statements speak only as of the date of this press release. Unless required by law or applicable regulations, we undertake no obligation to revise or update any of them to reflect events or circumstances that occur after the date of this document.

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Non-IFRS Financial Measures

EXFO provides non-IFRS financial measures (gross margin*, EBITDA** and adjusted EBITDA**) as supplemental information regarding its operational performance. The company uses these measures for the purpose of evaluating its historical and prospective financial performance as well as its performance relative to competitors. These measures also help the company to plan and forecast for future periods as well as to make operational and strategic decisions. EXFO believes that providing this information to investors, in addition to IFRS measures, allows them to see the company's results through the eyes of management, and to better understand its historical and future financial performance.

The presentation of this additional information is not prepared in accordance with IFRS. Therefore, the information may not necessarily be comparable to that of other companies and should be considered as a supplement to, not a substitute for, the corresponding measures calculated in accordance with IFRS.

* Gross margin represents sales less cost of sales, excluding depreciation and amortization.

** EBITDA is defined as net earnings before interest, income taxes, depreciation of property, plant and equipment, and amortization of intangible assets. Adjusted EBITDA represents EBITDA excluding changes in the fair value of the cash contingent consideration and the gain from the disposal of discontinued operations.

The following table summarizes the reconciliation of EBITDA and adjusted EBITDA to IFRS net earnings in thousands of US dollars:

EBITDA and adjusted EBITDA (including discontinued operations)

	Three months ended November 30, 2011	Three months ended August 31, 2011	Three months ended November 30, 2010
IFRS net earnings for the period	$2,914	$4,638	$14,133
Add (deduct):			
Depreciation of property, plant and equipment			
Continuing operations	1,568	1,667	1,646
Discontinued operations	–	–	14
Amortization of intangible assets			
Continuing operations	1,921	2,122	2,566
Discontinued operations	–	–	4
Interest expenses (income)			
Continuing operations	27	(77)	7
Income taxes			
Continuing operations	1,151	1,260	2,829

Discontinued operations	–	–	201
EBITDA for the period	7,581	9,610	21,400
Change in the fair value of the cash contingent consideration (continuing operations)	–	(2,685)	–
Gain on disposal of discontinued operations	–	–	(13,212)
Adjusted EBITDA for the period	$7,581	$6,925	$8,188
Adjusted EDITDA in percentage of total sales	11.4 %	10.8 %	12.1 %

For more information
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EXFO Inc.
Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

	As at November 30, 2011	As at August 31, 2011	As at September 1, 2010
Assets			
Current assets			
Cash	$56,170	$22,771	$21,440
Short-term investments	12,123	47,091	10,379
Accounts receivable			
Trade	46,444	45,151	50,190
Other	5,080	6,329	5,217
Income taxes and tax credits recoverable	5,930	5,414	2,604
Inventories	50,001	52,754	40,328
Prepaid expenses	3,084	3,237	2,816
Current assets held for sale	–	–	3,769
	178,832	182,747	136,743
Tax credits recoverable	31,835	34,120	26,887
Forward exchange contracts (note 4)	–	149	–
Property, plant and equipment	33,523	32,076	24,730
Intangible assets	19,817	22,901	27,947
Goodwill	29,353	30,942	29,355
Deferred income taxes	16,977	17,314	19,408
Long-term assets held for sale	–	–	7,530
	$310,337	$320,249	$272,600
Liabilities			
Current liabilities			
Bank loan	$–	$784	$–
Accounts payable and accrued liabilities	32,960	30,320	29,943
Provisions	1,829	1,817	927
Income taxes payable	821	876	426
Contingent liability (note 5)	316	338	–
Current portion of long-term debt	603	645	568
Deferred revenue	9,087	10,590	10,354
Current liabilities related to assets held for sale	–	–	2,531
	45,616	45,370	44,749
Deferred revenue	5,409	5,704	5,775
Long-term debt	904	968	1,419
Contingent liability (note 5)	–	–	2,660

Other liabilities	632	723	603
Deferred income taxes	4,856	4,803	–
Long-term liabilities related to assets held for sale	–	–	537
	57,417	57,568	55,743
Contingency (note 6)			
Shareholders' equity			
Share capital (note 7)	110,945	110,341	106,126
Contributed surplus	17,658	18,017	18,563
Retained earnings	116,233	113,438	91,152
Accumulated other comprehensive income	8,084	20,885	1,016
	252,920	262,681	216,857
	$310,337	$320,249	$272,600

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

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EXFO Inc.
Unaudited Interim Consolidated Statements of Earnings

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

	Three months ended November 30,	
	2011	2010
Sales	$66,388	$65,653
Cost of sales (1) (note 8)	23,370	24,785
Selling and administrative (note 8)	24,618	19,899
Net research and development (note 8)	12,483	11,601
Depreciation of property, plant and equipment (note 8)	1,568	1,646
Amortization of intangible assets (note 8)	1,921	2,566
Earnings from operations	2,428	5,156
Interest expenses	(27)	(7)
Foreign exchange gain (loss)	1,664	(1,113)
Earnings before income taxes	4,065	4,036
Income taxes (note 9)	1,151	2,829
Net earnings from continuing operations	2,914	1,207
Net earnings from discontinued operations	–	12,926
Net earnings for the period	$2,914	$14,133
Basic and diluted net earnings from continuing operations per share	$0.05	$0.02
Basic net earnings from discontinued operations per share	$–	$0.22
Diluted net earnings from discontinued operations per share	$–	$0.21
Basic net earnings per share	$0.05	$0.24
Diluted net earnings per share	$0.05	$0.23
Basic weighted average number of shares outstanding (000's)	60,341	59,665
Diluted weighted average number of shares outstanding (000's) (note 10)	61,763	61,106

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

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

EXFO Inc.
Unaudited Interim Consolidated Statements of Comprehensive Income (Loss)

(in thousands of US dollars)

	Three months ended November 30,	
	2011	2010
Net earnings for the period	$2,914	$14,133
Other comprehensive income (loss), net of income taxes		
Foreign currency translation adjustment	(11,752)	6,227
Unrealized gains on forward exchange contracts	(819)	1,444
Reclassification of realized gains on forward exchange contracts in net earnings	(625)	(189)
Deferred income tax effect of the components of other comprehensive income (loss)	395	(338)
Other comprehensive income (loss)	(12,801)	7,144
Comprehensive income (loss) for the period	$(9,887)	$21,277

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

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EXFO Inc.
Unaudited Interim Consolidated Statement of Changes in Equity

(in thousands of US dollars)

	Three months ended November 30, 2010				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance as at September 1, 2010	$106,126	$18,563	$91,152	$ 1,016	$216,857
Exercise of stock options	61	–	–	–	61
Reclassification of stock-based compensation costs	861	(861)	–	–	–
Stock-based compensation costs	–	725	–	–	725
Net earnings for the period	–	–	14,133	–	14,133
Other comprehensive income					
Foreign currency translation adjustment	–	–	–	6,227	6,227
Changes in unrealized gains on forward exchange contracts, net of deferred income taxes of $338	–	–	–	917	917
Total comprehensive income for the period	–	–	–	7,144	7,144
Balance as at November 30, 2010	$107,048	$18,427	$105,285	$ 8,160	$238,920

	Three months ended November 30, 2011				
	Share Capital	Contributed Surplus	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance as at September 1, 2011	$110,341	$18,017	$113,438	$ 20,885	$262,681
Reclassification of stock-based compensation costs	848	(848)	–	–	–
Redemption of share capital (note 7)	(244)	–	(119)	–	(363)
Stock-based compensation costs	–	489	–	–	489
Net earnings for the period	–	–	2,914	–	2,914
Other comprehensive loss					
Foreign currency translation adjustment	–	–	–	(11,752)	(11,752)
Changes in unrealized gains on forward exchange contracts, net of deferred income taxes of $395	–	–	–	(1,049)	(1,049)
Total comprehensive loss for the period	–	–	–	(12,801)	(12,801)

Balance as at November 30, 2011	$ 110,945	$ 17,658	$ 116,233	$ 8,084	$ 252,920

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

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EXFO Inc.
Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended November 30,	
	2011	2010
Cash flows from operating activities		
Net earnings for the period	$2,914	$14,133
Add (deduct) items not affecting cash		
Change in discount on short-term investments	31	(18)
Stock-based compensation costs	555	738
Depreciation and amortization	3,489	4,230
Gain on disposal of discontinued operations	–	(13,212)
Deferred revenue	(1,141)	(2,571)
Deferred income taxes	735	1,990
Foreign exchange gain/loss	(1,214)	537
	5,369	5,827
Change in non-cash operating items		
Accounts receivable	(2,897)	(4,480)
Income taxes and tax credits	128	(1,059)
Inventories	593	(1,362)
Prepaid expenses	15	(385)
Accounts payable, accrued liabilities and provisions	3,397	(1,224)
Other liabilities	(61)	135
	6,544	(2,548)
Cash flows from investing activities		
Additions to short-term investments	(57,922)	(226,146)
Proceeds from disposal and maturity of short-term investments	90,779	209,605
Additions to capital assets	(4,486)	(1,979)
Net proceeds from disposal of discontinued operations	–	22,124
Business combination	–	(132)
	28,371	3,472
Cash flows from financing activities		
Bank loan	(785)	–
Exercise of stock options	–	61
Redemption of share capital	(363)	–
	(1,148)	61
Effect of foreign exchange rate changes on cash	(368)	344
Change in cash	33,399	1,329
Cash – Beginning of the period	22,771	22,109
Cash – End of the period	$56,170	$23,438

Supplementary information		
Interest paid	$27	$28
Income taxes paid	$735	$373

As at November 30, 2010 and 2011, unpaid purchases of capital assets amounted to $257 and $1,941 respectively.

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

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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) designs, manufactures and markets test and service assurance solutions for wireless and wireline network operators and equipment manufacturers in the global telecommunications industry. The company offers core-to-edge solutions to assess the performance and reliability of converged Internet protocol (IP) fixed and mobile networks.

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

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on January 11, 2012.

2 Basis of Presentation and Adoption of IFRS

The company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the company has commenced reporting on this basis in these condensed interim consolidated financial statements for the three- month period ended November 30, 2011. In these condensed consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP applied before the adoption of IFRS.

These condensed interim consolidated financial statements have been prepared in accordance with the IFRS applicable to the preparation of interim financial statements, including IAS 34, "Interim Financial Reporting", and IFRS 1, "First-Time Adoption of International Financial Reporting Standards".

These condensed interim consolidated financial statements do not include all disclosures that will normally be found in the company's annual consolidated financial statements. Subject to certain transition elections disclosed in note 3, the company has consistently applied the same accounting policies in its consolidated opening balance sheet as at September 1, 2010 and through all periods presented, as if these accounting policies had always been in effect. Note 3 discloses the impact of the transition to IFRS on the company's reported consolidated balance sheets, consolidated statements of earnings and cash flows, including the nature and effect of significant changes in accounting policies from those used in the company's consolidated financial statements for the year ended August 31, 2011. Specifically, note 3 presents a reconciliation of the consolidated statements of earnings and cash flows for the three months ended November 30, 2010 and for the year ended August 31, 2011, as well as a reconciliation of the consolidated balance sheets and shareholders' equity as at September 1, 2010, November 30, 2010 and August 31, 2011.

The policies applied in these interim condensed consolidated financial statements are based on IFRS issued as of January 11, 2012, the date the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in the company's annual consolidated financial statements for the year ending August 31, 2012 could result in restatement of these condensed interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

These condensed interim consolidated financial statements should be read in conjunction with the company's most recent annual consolidated financial statements for the year ended August 31, 2011. These condensed interim consolidated results are not necessarily indicative of the results for the full year.

These IFRS condensed interim consolidated financial statements have been prepared based on the following accounting policies:

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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)

Basis of measurement

These condensed interim consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities, including derivative instruments and available-for-sale investments.

Consolidation

These condensed interim consolidated financial statements include the accounts of the company and its domestic and international subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Critical accounting estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those judgments, assumptions and estimates.

The estimates, assumptions and judgment that have a significant risk of resulting in a material adjustment to the carrying value of assets and liabilities within the next fiscal year are as follows:

a) Inventories

The company states its inventories at the lower of cost, determined on an average cost basis, and net realizable value, and provides reserves for excess and obsolete inventories. The company determines its reserves for excess and obsolete inventories based on the quantities on hand at the reporting dates compared to foreseeable needs over the next twelve months taking into account changes in demand, technology or market.

b) Income taxes

The company is subject to income tax laws and regulations in several jurisdictions. Under these laws and regulations, uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Management has made reasonable estimates and assumptions to determine the amount of deferred tax assets that can be recognized in the consolidated financial statements, based upon the likely timing and level of anticipated future taxable income together with tax planning strategies. The ultimate realization of the company's deferred income tax assets is dependent upon the generation of sufficient future taxable income during the periods in which those assets are expected to be realized.

c) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or group of assets (cash-generating unit (CGU)) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset.

In the calculation of recoverable amount of a CGU, the company bases its calculations on discounted cash flows. These calculations require the use of estimates, including management's expectations of future revenue growth, operating costs and profit margins as well as discount rates for each CGU.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of business.

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)

Sales of goods

Revenue from the sales of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually upon delivery of the goods. Revenue is recorded based on the price specified in the sales arrangement.

Maintenance contracts

Maintenance contracts are usually offered to customers for periods of twelve to thirty-six months. They generally include the right to unspecified upgrades and enhancements on a when-and-if-available basis as well as customer service. Revenue from these contracts is recognized ratably over the terms of the maintenance contracts on a straight-line basis.

Extended warranties

Extended warranties are usually offered to customers for periods of twelve to forty-eight months. Revenue from these extended warranties is recognized ratably over the warranty period on a straight-line basis.

Multiple-component arrangements

When a sales arrangement includes multiple separately identifiable components such as goods, extended warranties, maintenance contracts and installation, the revenue recognition criteria are applied to each separately identifiable component. A component is considered separately identifiable if the delivered item has value to the customer on a stand-alone basis and the fair value associated with the component can be measured reliably. The company allocates the selling price of a multiple-component arrangement to each component based on the fair value of each component in relation to the fair value of the arrangement as a whole.

Sales arrangements may include acceptance clauses. When a sales arrangement does include an acceptance provision, acceptance occurs upon the earliest of receipt of a written customer acceptance or expiration of the acceptance period. For these sales arrangements, the sale is recognized when acceptance occurs.

Reporting currency

The functional currency of the company is the Canadian dollar. The company has adopted the US dollar as its reporting currency. The consolidated financial statements are translated into the reporting currency as follows: assets and liabilities are translated at the exchange rate in effect on the date of the balance sheet, while revenues and expenses are translated at the monthly average exchange rate. The cumulative foreign currency translation adjustment arising from such translation is included in accumulated other comprehensive income in shareholders' equity.

Foreign currency translation

a) Foreign currency transactions

Transactions denominated in currencies other than the functional currency are translated into the relevant functional currency as follows: monetary assets and liabilities are translated at the exchange rate in effect on the date of the balance sheet, and revenues and expenses are translated at the exchange rate in effect on the date of the transaction. Non-monetary assets and liabilities measured at historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined. Foreign exchange gains and losses arising from such translation are reflected in the consolidated statements of earnings.

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b) Foreign operations

Each foreign operation determines its own functional currency and items included in the financial statements of each foreign operation are measured using that functional currency. The financial statements of each foreign operation that have a functional currency different from the company 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; revenues and expenses are translated at the monthly average exchange rate. Foreign exchange gains and losses arising from such translation are reflected in accumulated other comprehensive income in the shareholders' equity.

Financial Instruments

The classification of financial instruments depends on the intended purpose when the financial instruments have been acquired or issued, as well as on their characteristics and their designation by the company.

Classification

Financial assets

Cash	Loans and receivables
Short-term investments	Available for sale
Accounts receivable	Loans and receivables

Financial liabilities

Bank loan	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities
Contingent consideration	Other financial liabilities
Other liabilities	Other financial liabilities

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale, or are not classified in any of the other categories. They are initially recognized at fair value plus transaction costs and they are subsequently measured at fair value. After their initial recognition, any changes in their fair value are reflected in other comprehensive income.

Interest on available-for-sale financial assets, calculated using the effective interest method, is recognized in the consolidated statements of earnings.

Loans and receivables

Loans and receivables are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market. After their initial measurement at fair value plus transaction costs, they are carried at amortized cost, using the effective interest rate method, which generally corresponds to the nominal amount due to their short-term maturity.

Other financial liabilities

Other financial liabilities are initially measured at fair value plus transaction costs and they are subsequently carried at amortized cost, using the effective interest rate method. For the company, that value corresponds to the nominal amount for accounts payable and accrued liabilities as a result of their short-term maturity.

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Derivative Financial Instruments and Hedging Activities

Forward exchange contracts are utilized by the company to manage its foreign currency exposure. Forward exchange contracts are entered into by the company to hedge anticipated US-dollar-denominated sales and the related accounts receivable. The company's policy is not to utilize those derivative financial instruments for trading or speculative purposes.

The company's forward exchange contracts, which are designated as cash flow hedging instruments, qualify for hedge accounting.

The company's forward exchange contracts are initially recorded at fair value plus transaction costs and they are subsequently measured at fair value. After initial recognition, the effective portion of changes in their fair value is reflected in other comprehensive income. Any ineffective portion is recognized immediately in the consolidated statements of earnings. Upon the recognition of related hedged sales, accumulated changes in fair value are reclassified in sales in the consolidated statements of earnings.

At the inception of a hedge relationship, the company formally designates and documents the hedge relationship to which the company wishes to apply hedge accounting, the risk management objectives, the hedging instrument, the hedged item and the method used to test effectiveness. The company assesses effectiveness of the hedge relationship at inception and on an ongoing basis. The company uses the dollar-offset method to assess the effectiveness of its cash flow hedging instruments.

Fair value hierarchy

The company's cash, short-term investments and forward exchange contracts are measured at fair value at each 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 cash and forward exchange contracts are classified within level 2 of the hierarchy because they are valued using quoted prices and forward foreign exchange rates at the balance sheet date.

Short-term investments

All investments with original terms to maturity of three months or less and that are not required for the purposes of meeting short-term cash requirements are classified as short-term investments. Short-term investments are classified as available-for-sale securities; therefore, they are carried at fair value in the balance sheet, and any changes in their fair value are reflected in other comprehensive income. Upon the disposal or maturity of these assets, accumulated changes in their fair value are reclassified in the consolidated statements of earnings.

Inventories

Inventories are valued on an average cost basis, at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

The cost of work in progress and finished goods includes material, labor and an allocation of manufacturing overhead.

Property, plant and equipment and depreciation

Property, plant and equipment are recorded at cost, net of accumulated depreciation and accumulated impairment losses. Such cost is reduced by related research and development tax credits.

Depreciation is provided on a straight-line basis over the estimated useful lives of the asset as follows:

	Term
Land improvements	5 years
Buildings	20 to 25 years
Equipment	2 to 10 years
Leasehold improvements	The lesser of useful life and remaining lease term

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The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Intangible assets, goodwill and amortization

Intangible assets

Intangible assets with finite useful lives primarily include the cost of core technology, customer relationships and software. The cost of intangible assets acquired in a business combination is the fair value of the assets as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is provided on a straight-line basis over the estimated useful lives of five years for core technology and customer relationships, and four and ten years for software. None of the company's intangible assets was developed internally.

Goodwill

Goodwill represents the excess of the consideration transferred of acquired businesses over the estimated fair value of net identifiable assets acquired, and is allocated to each CGU or group of CGUs that are expected to benefit from the related business combination. A group of CGUs represents the lowest level within the company at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment. Goodwill is not amortized but must be tested for impairment on an annual basis or more frequently if events or circumstances indicate that it might be impaired.

Research and development

All expenses related to research, as well as development activities incurred until the technological feasibility of the product has been established in accordance with the provision of IAS 38, "Intangible Assets'', are expensed as incurred, net of related tax credits and grants. After technological feasibility is established, additional costs are capitalized, net of related tax credits and grants, and amortized on a straight-line basis over the estimated benefit period. Technological feasibility occurs when a working model is completed. Research and development expenses are mainly comprised of salaries and related expenses, material costs as well as fees paid to third-party consultants. As at September 1, 2010, and as at November 30, 2010 and 2011, the company had not capitalized any development costs.

Long-term research and development tax credits recoverable must be discounted using risk-free interest rates for the periods when tax credits will be recovered. Adjustments to the carrying value related to the passage of time are considered as interest income in the consolidated statements of earnings.

The company elected to present non-refundable research and development tax credits against gross research and development expenses in the consolidated statements of earnings.

Impairment of non-financial assets

The company assesses at each reporting date whether there is an indication that the carrying amount of property, plant and equipment and finite-life intangible assets may not be recoverable. Non-financial assets that are not amortized (such as goodwill) are subject to an annual impairment test. If any indication exists, or when annual impairment testing is required, the company estimates the asset or asset group's recoverable amount. For the purposes of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). The recoverable amount is the higher of an asset or CGUs' fair value less costs to sell and its value in use. Where the carrying value of an asset or CGU exceeds its recoverable amount, the asset or the CGU is considered impaired and is written down to its recoverable amount, which is the higher amount between discounted future cash flows expected to be provided by the asset or group of assets (value in use) or its fair value less costs to sell. The company performs its annual goodwill impairment test in the third quarter of each fiscal year.

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For property, plant and equipment and finite-life intangibles, the reversal of impairment is limited so that the carrying value of the asset does not exceed its recoverable amount, nor exceed the carrying value that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior periods. Impairment losses on goodwill are not reversed.

Leases

Operating leases are leases where the company does not assume substantially all the risks and rewards of ownership of the asset. Operating lease rentals are charged to the consolidated statements of earnings on a straight-line basis over the lease term.

As at September 1, 2010, as well as November 30, 2010 and 2011, significant leases of the company were classified as operating leases.

Government grants

Grants related to operating expenses are included in earnings when the related expenses are incurred. Grants related to capital expenditures are deducted from the related assets. Grants are included in earnings or deducted from the related assets, provided there is reasonable assurance that the company has complied and will comply with all the conditions related to the grant.

Warranty

The company offers its customers warranties of one to three years, depending on the specific products and terms of the purchase agreement. The company’s typical warranties require it to repair or replace defective products during the warranty period at no cost to the customer. Costs related to original warranties are accrued at the time of shipment, based upon estimates of expected rework and warranty costs to be incurred. Costs associated with separately priced extended warranties are expensed as incurred.

Income taxes

Income taxes comprise current and deferred income taxes.

Current income taxes

The current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The income tax rates used to calculate the amount are those that are enacted or substantively enacted at the balance sheet date in the tax jurisdiction where the company and its subsidiaries generate taxable income/loss.

Deferred income taxes

The company provides for deferred income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities as well as the carryforward of unused tax losses and deductions, using enacted or substantively enacted income tax rates expected to be in effect for the years in which the assets are expected to be realized or the liabilities to be settled.

Deferred income tax assets are recognized only to the extent that it is probable that they will be recovered.

Deferred tax liabilities are generally recognized for all taxable temporary differences and for taxable temporary differences arising on investments in subsidiaries, except where the reversal of the temporary differences can be controlled and it is probable that the differences will not reverse in the foreseeable future.

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Deferred income tax assets and liabilities are presented as non-current in the consolidated balance sheet.

Income taxes for interim periods are calculated using the tax rates that would be applicable to the annual taxable income.

Uncertain tax positions

The company is subject to taxation in numerous jurisdictions. There are many transactions and calculations during the course of business for which the ultimate tax determination is uncertain. The company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date, liabilities in excess of the company's provisions could result from audits by, or litigation with, the relevant taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Earnings per share

Basic earnings per share are calculated by dividing net earnings attributable to common equity holders of the company by the weighted average number of common shares outstanding during the period.

Diluted earnings per share are calculated by dividing net earnings attributable to common equity holders of the company by the weighted average number of common shares outstanding during the period, plus the effect of dilutive potential common shares outstanding during the period. This method requires that diluted earnings per share be calculated (using the treasury stock method) as if all dilutive potential common shares had been exercised at the latest at the beginning of the period or on the date of issuance, as the case may be, and that the funds obtained thereby (plus an amount equivalent to the unamortized portion of related stock-based compensation costs) be used to purchase common shares of the company at the average market price of the common shares during the period.

Share-based payment

Equity-settled awards

The company's stock options, restricted share units and deferred share units are equity-settled awards. The company accounts for stock-based compensation costs on equity-settled awards using the Black-Scholes option valuation model. The fair value of equity-settled awards is measured at the date of grant. Stock-based compensation costs are amortized to expense over the vesting periods together with a corresponding change in contributed surplus in the shareholders' equity. For equity-settled awards with graded vesting, each tranche is considered a separate grant with a different vesting date and fair value, and each tranche is accounted for separately.

Cash-settled awards

The company's stock appreciation rights are cash-settled awards. The company accounts for stock-based compensation costs on cash-settled awards using the Black-Scholes option valuation model. The fair value of the cash-settled awards is remeasured at the end of each reporting period, with any changes in the fair value recognized in the consolidated statements of earnings for the period.

New IFRS pronouncements and amendments not yet adopted

Financial Instruments – Disclosure

IFRS 7, "Financial Instruments: Disclosures", has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted. While the company is currently assessing the impact of these amendments, it does not expect the amendments to have a significant impact on its consolidated financial statements.

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Financial Instruments

IFRS 9, “Financial Instruments”, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, “Financial Instruments – Recognition and Measurement”, for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. This standard is effective for annual periods beginning on or after January 1, 2015. The company has not yet assessed the impact that this new standard is likely to have on its consolidated financial statements.

In May 2011, the IASB issued the following standards: IFRS 10, “Consolidated Financial Statements”, IFRS 11, “Joint Arrangements”, IFRS 12, “Disclosure of Interests in Other Entities”, and IFRS 13, “Fair Value Measurement”. Each of the new standards is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The company has not yet assessed the impact the new and amended standards may have on its consolidated financial statements or whether or not to early adopt any of these new requirements.

The following is a brief summary of these new standards:

Consolidation

IFRS 10, “Consolidated Financial Statements”, requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when a company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee (“SIC”) 12, “Consolidation - Special Purpose Entities”, and parts of IAS 27, “Consolidated and Separate Financial Statements”.

Joint Arrangements

IFRS 11, “Joint Arrangements”, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operations. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 replaces IAS 31, “Interests in Joint Ventures” and SIC 13, “Jointly Controlled Entities-Non-Monetary Contributions by Venturers”.

Disclosure of Interests in Other Entities

IFRS 12, “Disclosure of Interests in Other Entities”, establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance-sheet vehicles. This standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

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Fair Value Measurement

IFRS 13, "Fair Value Measurement", is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Financial Statement Presentation

In June 2011, the IASB amended IAS 1, "Financial Statement Presentation". The amendments to IAS 1 requires entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to the statement of earnings in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future, such as unrealized gains and losses on cash flows hedges. The amendment is effective for annual periods beginning on or after July 1, 2012. Early adoption is permitted and full retrospective application is required. The company does not expect the standard to have a significant impact on its consolidated financial statements.

3 First-Time Adoption of International Financial Reporting Standards (IFRS)

For all periods up to and including the year ended August 31, 2011, the company prepared its consolidated financial statements in accordance with Canadian GAAP. The company's consolidated financial statements for the year ending August 31, 2012 will be the first annual consolidated financial statements prepared in accordance with IFRS.

These condensed interim consolidated financial statements as at and for the three months ended November 30, 2011 have been prepared in conformity with the accounting policies and the basis of presentation described in note 2.

In preparing these condensed interim consolidated financial statements, and in compliance with IFRS 1, "First-Time Adoption of International Financial Reporting Standards'', the company's opening IFRS balance sheet has been presented as at September 1, 2010; being the company's date of transition to IFRS. The following section explains the principal adjustments made by the company in transitioning from Canadian GAAP to IFRS and its impact on the opening IFRS balance sheet as at September 1, 2010 as well as the previously published Canadian GAAP consolidated financial statements for the three months ended November 30, 2010 and the annual year ended August 31, 2011.

Transition exemptions applied

IFRS 1, "First-Time Adoption of International Financial Reporting Standards'', allows first-time adopters certain transition exemptions from the general requirement to retrospectively apply all IFRS as effective for the year ending August 31, 2012.

The company has applied the following transition exemptions:

- The company has elected not to apply IFRS 3R, “Business combinations’’, to business combinations that occurred before the date of transition (September 1, 2010);

- The company elected to deem the cumulative translation adjustment from the translation of consolidated financial statements in the reporting currency (US dollars) to be zero as at the transition date to IFRS. Accordingly, the cumulative translation adjustment as at September 1, 2010 was eliminated in the opening balance of retained earnings. Any cumulative translation adjustment from the translation of consolidated financial statements in the reporting currency arising after the transition date is recorded in accumulated other comprehensive income in the shareholders’ equity in the balance sheet.

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Reconciliation of the consolidated balance sheet as previously reported under Canadian GAAP to IFRS as at September 1, 2010

Description under GAAP	Notes	Canadian GAAP	Adjustments	Reclassification	IFRS	Description under IFRS
Assets						Assets
Current assets						Current assets
Cash		$ 21,440	$ –	$ –	$ 21,440	Cash
Short-term investments		10,379	–	–	10,379	Short-term investments
Accounts receivable						Accounts receivable
Trade		50,190	–	–	50,190	Trade
Other		5,217	–	–	5,217	Other
Income taxes and tax credits recoverable		2,604	–	–	2,604	Income taxes and tax credits recoverable
Inventories		40,328	–	–	40,328	Inventories
Prepaid expenses		2,816	–	–	2,816	Prepaid expenses
Future income taxes	a)	6,191	–	(6,191)	–	Deferred income taxes
Current assets held for sale	a)	3,991	–	(222)	3,769	Current assets held for sale
		143,156	–	(6,413)	136,743	
Tax credits recoverable	b)	29,397	(2,510)	–	26,887	Tax credits recoverable
Property, plant and equipment	d)	23,455	1,275	–	24,730	Property, plant and equipment
Intangible assets		27,947	–	–	27,947	Intangible assets
Goodwill		29,355	–	–	29,355	Goodwill
Future income taxes	a), b), d)	12,884	333	6,191	19,408	Deferred income taxes
Long-term assets held for sale	a)	7,308	–	222	7,530	Long-term assets held for sale
		$ 273,502	$ (902)	$ –	$ 272,600	
Liabilities						Liabilities
Current liabilities						Current liabilities
Accounts payable and accrued liabilities	f)	$ 30,870	$ –	$ (927)	$ 29,943	Accounts payable and accrued liabilities
	f)	–	–	927	927	Provisions

Income taxes payable		426	–	–	426	Income taxes payable
Current portion of long-term debt		568	–	–	568	Current portion of long-term debt
Deferred revenue		10,354	–	–	10,354	Deferred revenue
Current liabilities related to assets held for sale		2,531	–	–	2,531	Current liabilities related to assets held for sale
		44,749	–	–	44,749	
Deferred revenue		5,775	–	–	5,775	Deferred revenue
Long-term debt		1,419	–	–	1,419	Long-term debt
	c)	–	2,660	–	2,660	Contingent liability
Other liabilities		603	–	–	603	Other liabilities
Long-term liabilities related to assets held for sale		537	–	–	537	Long-term liabilities related to assets held for sale
		53,083	2,660	–	55,743	
Shareholders' equity						Shareholders' equity
Share capital		106,126	–	–	106,126	Share capital
Contributed surplus		18,563	–	–	18,563	Contributed surplus
Retained earnings	b), c), d), e)	50,528	(3,562)	44,186	91,152	Retained earnings
Accumulated other comprehensive income	d), e)	45,202	–	(44,186)	1,016	Accumulated other comprehensive income
		220,419	(3,562)	–	216,857	
		$ 273,502	$ (902)	$ –	$ 272,600	

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Reconciliation of the consolidated balance sheet as previously reported under Canadian GAAP to IFRS as at November 30, 2010

	Notes	Canadian GAAP	Adjustments	Reclassification	IFRS
Assets					
Current assets					
Cash		$ 23,438	$ –	$ –	$ 23,438
Short-term investments		27,186	–	–	27,186
Accounts receivable					
Trade		55,384	–	–	55,384
Other		7,190	–	–	7,190
Income taxes and tax credits recoverable		3,307	–	–	3,307
Inventories		43,311	–	–	43,311
Prepaid expenses		3,229	–	–	3,229
Deferred income taxes	a)	5,687	–	(5,687)	–
		168,732	–	(5,687)	163,045
Tax credits recoverable	b)	31,549	(2,553)	–	28,996
Forward exchange contracts		415	–	–	415
Property, plant and equipment	d)	23,707	1,353	–	25,060
Intangible assets		26,303	–	–	26,303
Goodwill		29,690	–	–	29,690
Deferred income taxes	a), b), d)	12,669	192	5,687	18,548
		$ 293,065	$ (1,008)	$ –	$ 292,057
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	f)	$ 31,195	$ –	$ (966)	$ 30,229
Provisions	f)	–	–	966	966
Income taxes payable		1,066	–	–	1,066
Current portion of long-term debt		584	–	–	584
Deferred revenue		8,431	–	–	8,431
		41,276	–	–	41,276
Deferred revenue		5,779	–	–	5,779
Long-term debt		1,460	–	–	1,460
Contingent liability	c)	–	2,736	–	2,736
Other liabilities		760	–	–	760

Deferred income taxes	b), d)	1,258	(132)	–	1,126
		50,533	2,604	–	53,137
Shareholders' equity					
Share capital		107,048	–	–	107,048
Contributed surplus		18,427	–	–	18,427
Retained earnings	b), c), d), e)	64,599	(3,500)	44,186	105,285
Accumulated other comprehensive income	b), c), d), e)	52,458	(112)	(44,186)	8,160
		242,532	(3,612)	–	238,920
		$ 293,065	$ (1,008)	$ –	$ 292,057

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	Notes	Canadian GAAP	Adjustments	Reclassification	IFRS
Assets					
Current assets					
Cash		$ 22,771	$ –	$ –	$ 22,771
Short-term investments		47,091	–	–	47,091
Accounts receivable					
Trade		45,151	–	–	45,151
Other		6,329	–	–	6,329
Income taxes and tax credits recoverable		5,414	–	–	5,414
Inventories		52,754	–	–	52,754
Prepaid expenses		3,237	–	–	3,237
Deferred income taxes	a)	6,130	–	(6,130)	–
		188,877	–	(6,130)	182,747
Tax credits recoverable	b)	36,627	(2,507)	–	34,120
Forward exchange contracts		149	–	–	149
Property, plant and equipment	d)	30,566	1,510	–	32,076
Intangible assets		22,901	–	–	22,901
Goodwill		30,942	–	–	30,942
Deferred income taxes	a), b), d)	11,024	160	6,130	17,314
		$ 321,086	$ (837)	$ –	$ 320,249
Liabilities					
Current liabilities					
Bank loan		$ 784	$ –	$ –	$ 784
Accounts payable and accrued liabilities	f)	32,137	–	(1,817)	30,320
Provisions	f)	–	–	1,817	1,817
Income taxes payable		876	–	–	876
Contingent liability	c)	–	338	–	338
Current portion of long-term debt		645	–	–	645
Deferred revenue		10,590	–	–	10,590
		45,032	338	–	45,370
Deferred revenue		5,704	–	–	5,704
Long-term debt		968	–	–	968

Other liabilities		723	–	–	723
Deferred income taxes	b), d)	4,913	(110)	–	4,803
		57,340	228	–	57,568
Shareholders' equity					
Share capital		110,341	–	–	110,341
Contributed surplus		18,017	–	–	18,017
Retained earnings	b), c), d), e)	69,877	(625)	44,186	113,438
Accumulated other comprehensive income	b), c), d), e)	65,511	(440)	(44,186)	20,885
		263,746	(1,065)	–	262,681
		$ 321,086	$ (837)	$ –	$ 320,249

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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)

Reconciliation of consolidated shareholders' equity as previously reported under Canadian GAAP to IFRS as at September 1, 2010

	Notes	Share capital	Contributed Surplus	Retained earnings	Accumulated other comprehensive income	Total Shareholders' equity
Canadian GAAP		$ 106,126	$ 18,563	$ 50,528	$ 45,202	$ 220,419
Foreign currency translation adjustment	e)	–	–	44,186	(44,186)	–
Adjustment to long-term tax credits recoverable, net of deferred income taxes	b)	–	–	(1,832)	–	(1,832)
Adjustment to the carrying value of property, plant and equipment, net of deferred income taxes	d)	–	–	930	–	930
Adjustment related to the fair value of the cash contingent consideration	c)	–	–	(2,660)	–	(2,660)
IFRS		$ 106,126	$ 18,563	$ 91,152	$ 1,016	$ 216,857

Reconciliation of consolidated shareholders' equity as previously reported under Canadian GAAP to IFRS as at November 30, 2010

	Notes	Share capital	Contributed Surplus	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Canadian GAAP		$ 107,048	$ 18,427	$ 64,599	$ 52,458	$ 242,532
Foreign currency translation adjustment	e)	–		44,186	(44,186)	–
Adjustment to long-term tax credits recoverable, net of deferred income taxes	b)	–	–	(1,792)	(72)	(1,864)
Adjustment to the carrying value of property, plant and equipment, net of deferred income taxes	d)	–	–	952	36	988
	c)	–	–	(2,660)	(76)	(2,736)

Changes in the fair value of the cash contingent consideration						
IFRS		$ 107,048	$ 18,427	$ 105,285	$ 8,160	$ 238,920

Reconciliation of consolidated shareholders' equity as previously reported under Canadian GAAP to IFRS as at August 31, 2011

	Notes	Share capital	Contributed Surplus	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Canadian GAAP		$ 110,341	$ 18,017	$ 69,877	$ 65,511	$ 263,746
Foreign currency translation adjustment						