

EXFO INC.  
Form 6-K  
November 24, 2017

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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 November 2017

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

400 Godin Avenue, Quebec City, 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   Form 40-F

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   No

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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In November 2017, EXFO Inc., a Canadian corporation, issued its annual audited financial statements and management's discussion and analysis thereof for its fiscal year ended August 31, 2017. At the same time, it also issued a cover letter, its notice of its annual and special shareholders' meeting, its form of proxy and its management proxy circular. This report of Form 6-K sets forth said documents.

The Form 6-K containing the Corporation's annual audited financial statements and management's discussion and analysis for its fiscal year ended August 31, 2017, a cover letter, its notice of annual and special shareholders' meeting, its form of proxy and its management proxy circular are hereby incorporated as documents 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/ Philippe Morin  
Name: Philippe Morin  
Title: Chief Executive Officer

Date: November 24, 2017

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Independent Auditor's Report

To the Shareholders of  
EXFO Inc.

We have completed integrated audits of EXFO Inc.'s and its subsidiaries' 2017, 2016 and 2015 consolidated financial statements and their internal control over financial reporting as at August 31, 2017. Our opinions, based on our audits, are presented below.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of EXFO Inc. and its subsidiaries, which comprise the consolidated balance sheets as at August 31, 2017 and August 31, 2016 and the consolidated statements of earnings, comprehensive income (loss), changes in shareholder's equity and cash flows for each of the three years in the period ended August 31, 2017, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.  
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"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.



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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of EXFO Inc. and its subsidiaries as at August 31, 2017 and August 31, 2016 and their financial performance and their cash flows for each of the three years in the period ended August 31, 2017 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on internal control over financial reporting

We have also audited EXFO Inc.'s and its subsidiaries' internal control over financial reporting as at August 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibility for internal control over financial reporting

Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in "Management's Annual Report on Internal Control over Financial Reporting" included in Item 15b) of the Annual Report on Form 20-F for the fiscal year ended August 31, 2017.

Auditor's responsibility

Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the company's internal control over financial reporting.

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Definition of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Inherent limitations

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

As described in the Management's Annual Report on Internal Control over Financial Reporting, management has excluded Ontology Partners Limited from its assessment of internal control over financial reporting as of August 31, 2017, because it was acquired by the company in a purchase business combination during 2017. We have also excluded Ontology Partners Limited from our audit of internal control over financial reporting. Ontology Partners Limited is a wholly-owned subsidiary whose total assets and total revenues represent 6% and 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended August 31, 2017.

Opinion

In our opinion, EXFO Inc. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as at August 31, 2017, based on criteria established in Internal Control – Integrated Framework (2013) issued by COSO.

Montréal, Quebec  
November 24, 2017

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<sup>1</sup> CPA auditor, CA, public accountancy permit No. A119427



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Consolidated Balance Sheets

(in thousands of US dollars)

	As at August 31,	
	2017	2016
Assets		
Current assets		
Cash	\$38,435	\$43,208
Short-term investments (note 6)	775	4,087
Accounts receivable (note 6)		
Trade	41,130	42,993
Other	3,907	2,474
Income taxes and tax credits recoverable (note 19)	4,955	4,208
Inventories (note 7)	33,832	33,004
Prepaid expenses	4,202	3,099
	127,236	133,073
Tax credits recoverable (note 19)	38,111	34,594
Property, plant and equipment (notes 8 and 21)	40,132	35,978
Intangible assets (notes 9 and 21)	11,183	3,391
Goodwill (notes 9 and 21)	35,077	21,928
Deferred income tax assets (note 19)	6,555	8,240
Other assets	947	589
	\$259,241	\$237,793
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	\$36,776	\$37,174
Provisions (note 11)	3,889	299
Income taxes payable	663	971
Deferred revenue	11,554	9,486
	52,882	47,930
Deferred revenue	6,257	5,530
Deferred income tax liabilities (note 19)	3,116	2,857
Other liabilities	196	75
	62,451	56,392
Commitments (notes 12 and 22)		
Shareholders' equity		
Share capital (note 13)	90,411	85,516

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Contributed surplus	18,184	18,150
Retained earnings	127,160	126,309
Accumulated other comprehensive loss (note 14)	(38,965 )	(48,574 )
	196,790	181,401
	\$259,241	\$237,793

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

On behalf of the Board

<u>/s/ Philippe Morin</u>	<u>/s/ Claude Séguin</u>
PHILIPPE MORIN	CLAUDE SÉGUIN
Chief Executive Officer	Chairman, Audit Committee

Table of ContentsEXFO Inc.  
Consolidated Statements of Earnings

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

	Years ended August 31,		
	2017	2016	2015
Sales (note 21)	\$243,301	\$232,583	\$222,089
Cost of sales <sup>(1)</sup> (note 17)	94,329	87,066	85,039
Selling and administrative <sup>(2)</sup> (note 17)	86,256	82,169	82,200
Net research and development (note 17)	47,168	42,687	44,003
Depreciation of property, plant and equipment (note 17)	3,902	3,814	4,835
Amortization of intangible assets (note 17)	3,289	1,172	2,883
Change in fair value of cash contingent consideration (note 3)	(383 )	–	–
Interest and other (income) expense	303	(828 )	(155 )
Foreign exchange (gain) loss	978	(161 )	(7,212 )
Unusual charge	–	–	603
Earnings before income taxes	7,459	16,664	9,893
Income taxes (note 19)	6,608	7,764	5,036
Net earnings for the year	\$851	\$8,900	\$4,857
Basic net earnings per share	\$0.02	\$0.17	\$0.09
Diluted net earnings per share	\$0.02	\$0.16	\$0.08
Basic weighted average number of shares outstanding (000's)	54,423	53,863	56,804
Diluted weighted average number of shares outstanding (000's) (note 20)	55,555	54,669	57,457

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

(2)Selling and administrative is exclusive of a one-time charge relating to an unusual bad debt expense in fiscal 2015.

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

Table of ContentsEXFO Inc.  
Consolidated Statements of Comprehensive Income (Loss)

(in thousands of US dollars)

	Years ended August 31,		
	2017	2016	2015
Net earnings for the year	\$851	\$8,900	\$4,857
Other comprehensive income (loss), net of income taxes			
Items that will not be reclassified subsequently to net earnings			
Foreign currency translation adjustment	8,262	707	(39,175)
Items that may be reclassified subsequently to net earnings			
Unrealized gains/losses on forward exchange contracts	1,403	862	(5,583 )
Reclassification of realized gains/losses on forward exchange contracts in net earnings	423	2,797	2,107
Deferred income tax effect of gains/losses on forward exchange contracts	(479 )	(935 )	905
Other comprehensive income (loss)	9,609	3,431	(41,746)
Comprehensive income (loss) for the year	\$10,460	\$12,331	\$(36,889)

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

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EXFO Inc.

Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

	Year ended August 31, 2015			Accumulated other comprehensive loss	Total shareholders' equity
	Share capital	Contributed surplus	Retained earnings		
Balance as at September 1, 2014	\$ 111,491	\$ 16,503	\$ 112,552	\$ (10,259)	) \$ 230,287
Redemption of share capital (note 13)	(26,827)	1,333	–	–	(25,494)
Reclassification of stock-based compensation costs (note 13)	1,381	(1,381)	–	–	–
Stock-based compensation costs	–	1,323	–	–	1,323
Net earnings for the year	–	–	4,857	–	4,857
Other comprehensive loss					
Foreign currency translation adjustment	–	–	–	(39,175)	(39,175)
Changes in unrealized losses on forward exchange contracts, net of deferred income taxes of \$905	–	–	–	(2,571)	(2,571)
Total comprehensive loss for the year					(36,889)
Balance as at August 31, 2015	\$ 86,045	\$ 17,778	\$ 117,409	\$ (52,005)	) \$ 169,227
	Year ended August 31, 2016			Accumulated other comprehensive loss	Total shareholders' equity
	Share capital	Contributed surplus	Retained earnings		
Balance as at September 1, 2015	\$ 86,045	\$ 17,778	\$ 117,409	\$ (52,005)	) \$ 169,227
Redemption of share capital (note 13)	(1,768)	217	–	–	(1,551)
Reclassification of stock-based compensation costs (note 13)	1,239	(1,239)	–	–	–
Stock-based compensation costs	–	1,394	–	–	1,394
Net earnings for the year	–	–	8,900	–	8,900
Other comprehensive income					
Foreign currency translation adjustment	–	–	–	707	707
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$935	–	–	–	2,724	2,724
Total comprehensive income for the year					12,331
Balance as at August 31, 2016	\$ 85,516	\$ 18,150	\$ 126,309	\$ (48,574)	) \$ 181,401

	Year ended August 31, 2017				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at September 1, 2016	\$85,516	\$ 18,150	\$126,309	\$ (48,574 )	\$ 181,401
Issuance of share capital (note 13)	3,490	–	–	–	3,490
Reclassification of stock-based compensation costs (note 13)	1,405	(1,405 )	–	–	–
Stock-based compensation costs	–	1,439	–	–	1,439
Net earnings for the year	–	–	851	–	851
Other comprehensive income					
Foreign currency translation adjustment	–	–	–	8,262	8,262
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$479	–	–	–	1,347	1,347
Total comprehensive income for the year					10,460
Balance as at August 31, 2017	\$90,411	\$ 18,184	\$127,160	\$ (38,965 )	\$ 196,790

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

Table of ContentsEXFO Inc.  
Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Years ended August 31,		
	2017	2016	2015
Cash flows from operating activities			
Net earnings for the year	\$851	\$8,900	\$4,857
Add (deduct) items not affecting cash			
Stock-based compensation costs	1,477	1,378	1,295
Depreciation and amortization	7,191	4,986	7,718
Change in fair value of cash contingent consideration	(383 )	–	–
Unusual charge	–	–	603
Deferred revenue	1,723	4,238	396
Deferred income taxes	1,054	1,578	403
Changes in foreign exchange gain/loss	1,096	(332 )	(3,842 )
	13,009	20,748	11,430
Changes in non-cash operating items			
Accounts receivable	3,955	2,682	(10,828)
Income taxes and tax credits	(2,386 )	939	(2,062 )
Inventories	911	(4,713 )	820
Prepaid expenses	(918 )	(280 )	(982 )
Other assets	(121 )	170	61
Accounts payable and accrued liabilities and provisions	(1,745 )	4,882	8,132
Other liabilities	165	(65 )	(87 )
	12,870	24,363	6,484
Cash flows from investing activities			
Additions to short-term investments	(2,910 )	(3,546 )	(20,067)
Proceeds from disposal and maturity of short-term investments	6,374	873	23,685
Purchases of capital assets (notes 8 and 9)	(7,175 )	(4,356 )	(5,933 )
Business combinations, net of cash acquired (note 3)	(12,792)	–	–
	(16,503)	(7,029)	(2,315 )
Cash flows from financing activities			
Repayment of long-term debt (note 3)	(1,480 )		
Redemption of share capital (note 13)	–	(1,551 )	(25,494)
	(1,480 )	(1,551 )	(25,494)
Effect of foreign exchange rate changes on cash	340	1,561	(6,932 )
Change in cash	(4,773 )	17,344	(28,257)
Cash – Beginning of year	43,208	25,864	54,121
Cash – End of year	\$38,435	\$43,208	\$25,864
Supplementary information			
Income taxes paid	\$2,866	\$2,015	\$1,491

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

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EXFO Inc.

Notes to 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, manufactures and markets smarter network test, monitoring and analytics solutions for the world's leading communications service providers, network equipment manufacturers and webscale companies.

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 consolidated financial statements were authorized for issue by the Board of Directors on November 24, 2017.

2 Basis of Presentation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The company has consistently applied the same accounting policies through all periods presented.

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

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of derivative financial instruments, available-for-sale investments and the contingent liability.

Consolidation

These consolidated financial statements include the accounts of the company and its domestic and foreign subsidiaries. Intercompany accounts and transactions have been eliminated.

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.

Sales of goods

Revenue from sales of goods, which represent the majority of the sales of the company, 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 arrangements.

Maintenance contracts

Maintenance contracts are usually offered to customers for periods of 12 to 36 months. They generally include the right to unspecified software 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.

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Extended warranties

Extended warranties are usually offered to customers for periods of 6 to 48 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, installation and training, 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.

Presentation currency

The functional currency of the company is the Canadian dollar. The company has adopted the US dollar as its presentation currency as it is the most commonly used reporting currency in its industry. The consolidated financial statements are translated into the presentation currency 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. The 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 and denominated in a foreign currency are translated using the exchange rate at the date of the transaction, whereas non-monetary items that are measured at fair value and denominated in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange gains and losses arising from such translation are included in the consolidated statements of earnings.

(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 has 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. The foreign currency translation adjustment arising from such translation is included in accumulated other comprehensive income in shareholders' equity.

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Financial instruments

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

Classification

Financial assets

Cash	Loans and receivables
Short-term investments	Available for sale
Accounts receivable	Loans and receivables
Other assets	Loans and receivables
Forward exchange contracts	Derivatives used for hedging

Financial liabilities

Accounts payable and accrued liabilities	Other financial liabilities
Contingent liability	Financial liabilities at fair value through profit or loss
Forward exchange contracts	Derivatives used for hedging

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 are subsequently measured at fair value. After their initial recognition, any changes in their fair value are reflected in other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative 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 non-derivative financial liabilities initially measured at fair value plus transaction costs, and they are subsequently carried at amortized cost, using the effective interest rate method, which generally corresponds to the nominal amount due to their short-term maturity.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are non-derivative financial liabilities initially measured at fair value plus transaction costs and are subsequently measured at fair value. After their initial recognition, any changes in their fair value are reflected in the consolidated statements of earnings.

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

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 as well as Indian-rupee-denominated operating expenses and the related accounts payable. 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.

They are initially recorded at fair value plus transaction costs and subsequently measured at fair value. The fair value of forward exchange contracts is determined using quoted prices and forward exchange rates at the balance sheet date, with the resulting value discounted back to present 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 recognition of related hedged sales and operating expenses, accumulated changes in fair value of forward exchange contracts are respectively reclassified in sales and net research and development expenses 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 using the dollar-offset method.

Fair value hierarchy

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 market 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.

The company's short-term investments, forward exchange contracts and contingent liability 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 forward exchange contracts are classified within Level 2 of the fair value hierarchy because they are valued using quoted prices and forward foreign exchange rates at the balance sheet dates. The company's contingent liability is classified within level 3 of the fair value hierarchy because it is valued using unobservable inputs such as expected future sales of Ontology.

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 financial assets; therefore, they are carried at fair value in the consolidated 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.



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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	15 years
Buildings	20 to 60 years
Equipment	3 to 15 years
Leasehold improvements	The lesser of useful life and remaining lease term

The assets' residual values and useful lives 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 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 one to five years for core technology, five years for customer relationships, and four and eight years for software. None of the company's intangible assets were developed internally.

The amortization method and the useful lives of intangible assets are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of net identifiable assets acquired, and is allocated to each cash-generating unit (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.

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EXFO Inc.

Notes to Consolidated Financial Statements

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

Research and development

All costs related to research are expensed as incurred, net of related tax credits and grants. Development costs are expensed as incurred, net of related tax credits and grants, unless they meet the recognition criteria of IAS 38, "Intangible Assets", in which case they are capitalized, net of related tax credits and grants and amortized on a straight-line basis over the estimated benefit period. Research and development expenses mainly comprise salaries and related expenses, material costs as well as fees paid to third-party consultants. As at August 31, 2016 and 2017, the company had not capitalized any development costs.

The company elected to account for non-refundable research and development tax credits under IAS 20, "Accounting for Governmental Grants and Disclosures of Governmental Assistance", and as such, these tax credits are presented against gross research and development expenses in the consolidated statements of earnings. Non-refundable research and development tax credits are included in earnings or deducted from the related assets, provided there is reasonable assurance that the company has complied and will comply with the conditions related to the tax credits and that the tax credits will be received.

Impairment of non-financial assets

The company assesses at each reporting date whether there is an indication that the carrying value 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 purpose 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 CGU's fair value less costs of disposal 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. The company performs its annual goodwill impairment test in the fourth quarter of each fiscal year.

For property, plant and equipment and finite-life intangible assets, 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 for which 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 August 31, 2016 and 2017, all 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 the consolidated statements of 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 grants and that the grants will be received.

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Warranty

The company offers its customers basic 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 basic 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

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered or paid to the taxation authorities. Income tax rates used to calculate the amount are those that are enacted or substantively enacted at the balance sheet dates in the tax jurisdictions where the company generates 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 carry-forward of unused tax losses and deductions, using enacted or substantively enacted income tax rates at the balance sheet dates, that are expected to be in effect for the years in which the assets are expected to be recovered or the liabilities to be settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available against which the deductible temporary differences as well as unused tax losses and deductions can be utilized.

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

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

Uncertain tax positions

The company is subject to income tax laws and regulations in several 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 periods and any changes in the provisions are recognized in the consolidated statements of earnings when they occur. However, it is possible that at some future dates, 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 be recognized in the consolidated statement of earnings in the period in which such determination is made.

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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 year.

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 year, plus the effect of dilutive potential common shares outstanding during the year. 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 year 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 year.

Stock-based compensation

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 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.

Operating segments

Operating segments are defined as components of an entity engaged in business activities from which it may earn revenues and incur expenses, and whose operating results are regularly reviewed by the chief operating decision maker (CODM) to make decisions about resources to be allocated to segments and assess their performance and for which discrete information is available. The function of the CODM is performed by the Chief Executive Officer who reviews consolidated results for the purposes of allocating resources and evaluating performance. Accordingly, the company determines that it has one operating segment as of, and for the years ended August 31, 2015, 2016 and 2017. Entity-wide disclosures are presented in note 21.

Critical accounting judgments in applying accounting policies and estimates

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 as well as the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those judgments, estimates and assumptions.



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Critical judgments, estimates and assumptions are the following:

Critical judgments in applying accounting policies

(a) Determination of functional currency

The company operates in multiple countries and generates revenue and incurs expenses in several currencies, namely the Canadian dollar, the US dollar, the euro, the British pound, the Indian rupee and the CNY (Chinese currency). The determination of the functional currency of the company and its subsidiaries may require significant judgment. In determining the functional currency of the company and its subsidiaries, management takes into account primary, secondary and tertiary indicators. When indicators are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency.

(b) Determination of cash generating units and allocation of goodwill

For the purpose of impairment testing, goodwill must be allocated to each CGU or group of CGUs that are expected to benefit from the synergies of the business combination. Initial allocation and possible reallocation of goodwill to a CGU or a group of CGUs requires judgment.

Critical estimates and assumptions

(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, 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 laws and regulations and the amount and timing of future taxable income. The company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk based on its interpretation of laws and regulations. In addition, 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) Tax credits recoverable

Tax credits are recorded provided that there is reasonable assurance that the company has complied and will comply with all the conditions related to the tax credits and that the tax credits will be received. The ultimate recovery of the company's non-refundable tax credits is dependent upon the generation of sufficient future taxable income during the tax credits carry-forward periods. Management has made reasonable estimates and assumptions to determine the amount of non-refundable tax credits 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 (note 19).

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(d) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or group of assets (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation for the company's CGUs is based on a market approach that relies on unobservable inputs based on valuation multiples and recent transactions for comparable assets or businesses, within the same industry. The company applies judgment in making adjustments to the unobservable inputs for factors such as size, risk profile or profitability. The company also considers the company's value derived from its market capitalization, adjusting for a control premium considered appropriate based on other comparable companies with significant controlling interests. Depending on the market evidence available, the company, from time to time, may further supplement this market approach with an income approach that considers discounted cash flows to determine fair value less costs of disposal. The discounted cash flow model involves significant judgment with respect to estimating cash flows (based on market participant assumptions) and the appropriate discount rate.

(e) Purchase price allocation in business combinations

The fair value of the total consideration transferred in business combinations (purchase price) must be allocated based on estimated fair value of acquired net assets at the date of acquisition. Allocating the purchase price requires management to make estimates and judgments to determine assets acquired and liabilities assumed, useful lives of certain long-lived assets and the respective fair value of assets acquired and liabilities assumed; this may require the use of unobservable inputs, including management's expectations of future revenue growth, operating costs and profit margins as well as discount rates.

New IFRS pronouncements not yet adopted

Financial instruments

The final version of IFRS 9, "Financial Instruments", was issued in July 2014 and will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Requirements relating to hedge accounting representing a new hedge accounting model have also been added to IFRS 9. The new standard is effective for annual periods beginning on or after January 1, 2018, and must be applied retrospectively. The company will adopt this new standard on September 1, 2018. The company is currently assessing the impact that the new standard will have on its consolidated financial statements.

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### Revenue from contracts with customers

IFRS 15, "Revenue from Contracts with Customers", was issued in May 2014. The objective of this new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability. This new standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This new standard is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The company has performed an assessment to identify significant areas of impact, if any, between the company's current accounting treatment under IAS 18, "Revenue" and the new requirements of IFRS 15. Based on the assessments to date, the company anticipates that the main areas of impact will relate to the allocation of the transaction price to the various performance obligations under the contracts, the timing of revenue recognition for sales arrangement that contain customer acceptance clauses, and the sale of licenses that provide customers with the "right to use" the company's intellectual property. The company will adopt this new standard on September 1, 2018 using the modified retrospective method, with the cumulative effect of the initial application of the standard recognized as an adjustment to the opening balance of retained earnings as at the date of initial application. The company will apply this standard retrospectively only to contracts that are not completed at the date of initial application.

### Leases

IFRS 16, "Leases", was issued in January 2016. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer (lessee) and the supplier (lessor). IFRS 16 will supersede IAS 17, "Leases", and related Interpretations. This new standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15, "Revenue from Contracts with Customers", is also applied. The company has not yet assessed the impact that the new standard will have on its consolidated financial statements.

### Foreign Currency Transactions and Advance Consideration

IFRIC 22, "Foreign Currency Transactions and Advance Consideration", was issued in December 2016. IFRIC 22 addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) and on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The company will adopt this interpretation on September 1, 2018 and is currently assessing the impact that it will have on its consolidated financial statements.

### Uncertainty over Income Tax Treatments

IFRIC 23, "Uncertainty over Income Tax Treatment", was issued in June 2017. IFRIC 23 provides guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the

company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The company will adopt this interpretation on September 1, 2019 and is currently assessing the impact that it will have on its consolidated financial statements.

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## 3 Business Combinations

Absolute Analysis Inc.

On October 31, 2016, the company acquired substantially all the assets of Absolute Analysis Inc. (Absolute), a privately held company located in the United States, supplying solutions for radio frequency testing of fiber-based radio access networks. The acquisition-date fair value of the total consideration transferred amounted to \$8,490,000 and consisted of \$5,000,000 in cash and the issuance of 793,070 subordinate voting shares valued at \$3,490,000.

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 transferred was allocated to the assets acquired and liability 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 October 31, 2016, being the date of acquisition.

During the second quarter of fiscal 2017, the company completed the detailed valuation and finalized the allocation of the purchase price.

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

Assets acquired	
Core technology	\$4,130
Other assets	236
	4,366
Liability assumed	
Deferred income taxes	279
Net identifiable assets acquired	4,087
Goodwill	4,403
Fair value of the total consideration transferred	\$8,490

Intangible assets are amortized on a straight-line basis over their estimated useful lives of one to five years.

Acquired goodwill mainly represents synergies with the company's products as well as the Absolute acquired workforce. Acquired goodwill is deductible for tax purposes. Goodwill is allocated to the EXFO cash generating unit.

## Ontology Partners Limited

On March 2, 2017, the company acquired all of the issued and outstanding shares of Ontology Partners Limited (Ontology), a privately held company located in the United Kingdom, a supplier of real-time network topology discovery and service-chain mapping. The acquisition-date fair value of the total consideration transferred amounted

to \$9,180,000 and consisted of \$7,780,000 in cash, net of Ontology's cash of \$2,156,000 at the acquisition date, plus a cash contingent consideration based on certain sales volumes of Ontology products over the 12-month period following the acquisition, with an estimated fair value of \$1,400,000 at the acquisition date.

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 transferred 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 March 2, 2017, being the date of acquisition.

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During the fourth quarter of fiscal 2017, the company completed the detailed valuation and finalized the allocation of the purchase price; this resulted in an increase of goodwill of \$650,000 and a corresponding decrease in intangible assets.

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

Assets acquired	
Accounts receivable	\$1,701
Core technology	3,802
Customer relationships	1,607
Other assets	37
	7,147
Liabilities assumed	
Accounts payable and accrued liabilities	3,343
Deferred revenue	211
Long-term debt	1,480
Net identifiable assets acquired	2,113
Goodwill	7,067
Fair value of the total consideration transferred, net of cash acquired	\$9,180

Acquired intangible assets are amortized on a straight-line basis over their estimated useful life of five years.

Acquired goodwill mainly represents synergies with the company's products as well as Ontology acquired workforce. Acquired goodwill is not deductible for tax purposes. Goodwill is allocated to the Ontology cash generating unit.

As at August 31, 2017, the fair value of the cash contingent consideration amounted to \$1,092,000 with the change in its fair value being accounted for in the consolidated statement of earnings.

#### 4 Restructuring Charges

In May 2017, the company implemented a restructuring plan to streamline its passive monitoring solutions portfolio. This plan resulted in severance expenses of \$4,049,000 and inventory writeoffs of \$1,030,000, for total restructuring charges of \$5,079,000 during the year.

As at August 31, 2017, unpaid severance expenses amounted to \$2,477,000, which are expected to be paid in fiscal 2018 (note 11).

#### 5 Capital Disclosures



The company is not subject to any external restrictions on its capital.

The company's objectives when managing capital are:

- To maintain a flexible capital structure that optimizes the cost of capital at acceptable risk;
- To sustain future development of the company, including research and development activities, market development and potential acquisitions of complementary businesses or products; and
- To provide the company's shareholders with an appropriate return on their investment.

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No changes were made to the objectives and policies during the years ended August 31, 2016 and 2017.

The company defines its capital as shareholders' equity, excluding accumulated other comprehensive loss. The capital of the company amounted to \$229,975,000 and \$235,755,000 as at August 31, 2016 and 2017 respectively.

## 6 Financial Instruments

The following tables summarize financial instruments by category:

As at August 31, 2017

	Loans and receivable	Available for sale	Other financial liabilities	Financial liabilities at fair value through profit or loss	Derivatives used for hedging	Total
Financial assets						
Cash	\$38,435	\$	\$	\$	\$	\$38,435
Short-term investments	\$	\$ 775	\$	\$	\$	\$775
Accounts receivable	\$43,340	\$	\$	\$	\$	\$43,340
Other assets	\$36	\$	\$	\$	\$	\$36
Forward exchange contracts	\$	\$	\$	\$	\$ 2,258	\$2,258
Financial liabilities						
Accounts payable and accrued liabilities	\$	\$	\$36,776	\$	\$	\$36,776
Contingent liability	\$	\$	\$	\$ 1,092	\$	\$1,092

As at August 31, 2016

	Loans and receivable	Available for sale	Other financial liabilities	Derivatives used for hedging	Total
Financial assets					
Cash	\$43,208	\$	\$	\$	\$43,208
Short-term investments	\$	\$ 4,087	\$	\$	\$4,087
Accounts receivable	\$45,467	\$	\$	\$	\$45,467
Other assets	\$35	\$	\$	\$	\$35

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Forward exchange contracts	\$	\$	\$	\$ 980	\$980
Financial liabilities					
Accounts payable and accrued liabilities	\$	\$	\$ 36,099	\$	\$36,099
Forward exchange contracts	\$	\$	\$	\$ 1,120	\$1,120

Fair value

Cash, accounts receivable and accounts payable and accrued liabilities are financial instruments whose carrying values approximate their fair values due to their short-term maturities. The fair value of other assets approximates their carrying value due to their relatively short-term maturities.

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

	As at August				
	As at August 31, 2017			31, 2016	
	Level 1	Level 2	Level 3	Level 1	Level 2
Financial assets					
Short-term investments	\$ 775	\$		\$ 4,087	\$
Forward exchange contracts	\$	\$ 2,258		\$	\$ 980
Financial liabilities					
Forward exchange contracts	\$	\$		\$	\$ 1,120
Contingent liability	\$	\$	1,092	\$	\$

Market risk

Currency risk

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 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. Forward exchange contracts, which are designated as cash flow hedging instruments, qualify for hedge accounting.

As at August 31, 2016 and 2017, the company held contracts to sell US dollars for Canadian dollars and Indian rupees at various forward rates, which are summarized as follows:

US dollars – Canadian dollars

Expiry dates	Contractual amounts	Weighted average contractual forward rates
As at August 31, 2016		
September 2016 to August 2017	\$ 22,200	1.2784
September 2017 to August 2018	9,900	1.3367
September 2018 to December 2018	1,900	1.3639

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Total	\$ 34,000	1.3002
As at August 31, 2017		
September 2017 to August 2018	\$ 18,300	1.3407
September 2018 to August 2019	10,900	1.3426
Total	\$ 29,200	1.3414

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US dollars – Indian rupees

Expiry dates	Contractual amounts	Weighted average contractual forward rates
As at August 31, 2016		
September 2016 to August 2017	\$ 3,800	70.92
As at August 31, 2017		
September 2017 to August 2018	\$ 3,400	69.49
September 2018 to February 2019	1,600	67.26
Total	\$ 5,000	68.78

The carrying amount of forward exchange contracts is equal to 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 losses of \$140,000 and net gains of \$2,258,000 as at August 31, 2016 and 2017 respectively.

As at August 31, 2017, forward exchange contracts in the amount of \$1,697,000 are presented as current assets in other accounts receivable and forward exchange contracts in the amount of \$561,000 are presented as long-term assets in other long-term assets in the balance sheet. Forward exchange contracts of \$261,000, 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.

As at August 31, 2016, forward exchange contracts in the amount of \$635,000 were presented as current assets in other accounts receivable; forward exchange contracts in the amount of \$345,000 were presented as long-term assets in other long-term assets; forward exchange contracts in the amount of \$1,075,000 were presented as current liabilities in accounts payable and accrued liabilities; and forward exchange contracts in the amount of \$45,000 were presented as long-term liabilities in other long-term liabilities in the consolidated balance sheet.

Based on the portfolio of forward exchange contracts as at August 31, 2017, the company estimates that the portion of net unrealized gains on these contracts as of that date, which will be realized and reclassified from accumulated other comprehensive income to net earnings over the next 12 months, amounts to \$1,436,000.

For the years ended August 31, 2015, 2016 and 2017, the company recorded within its sales the following foreign exchange losses on forward exchange contracts:

Years ended August  
31,

2017 2016 2015

Losses on forward exchange contracts \$468 \$2,651 \$2,562

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The following table summarizes significant derivative and non-derivative financial assets and liabilities that are subject to currency risk as at August 31, 2016 and 2017 and for which such risk is charged to earnings:

	As at August 31, 2017		2016	
	Carrying/nominal amount (in thousands of US dollars)	Carrying/nominal amount (in thousands of euros)	Carrying/nominal amount (in thousands of US dollars)	Carrying/nominal amount (in thousands of euros)
Financial assets				
Cash	\$20,120	€ 6,235	\$ 13,090	€ 2,927
Accounts receivable	28,420	6,164	30,141	5,963
	48,540	12,399	43,231	8,890
Financial liabilities				
Accounts payable and accrued liabilities	12,447	2,725	14,251	1,081
Forward exchange contracts (nominal value)	3,600		4,000	–
	16,047	2,725	18,251	1,081
Net exposure	\$32,493	€ 9,674	\$ 24,980	€ 7,809

In addition to these assets and liabilities, the company has derivative financial liabilities for its outstanding forward exchange contracts in the amount (nominal value) of \$33,800,000 and \$29,200,000 as at August 31, 2016 and 2017 respectively for which the currency risk is charged to other comprehensive income.

The value of the Canadian dollar compared to the US dollar was CA\$1.3116 = US\$1.00 and CA\$1.2536 = US\$1.00 as at August 31, 2016 and 2017 respectively.

The value of the Canadian dollar compared to the euro was CA\$1.4601 = €1.00 and CA\$1.4825 = €1.00 as at August 31, 2016 and 2017 respectively.

The following sensitivity analysis summarizes the effect that a change in the value of the Canadian dollar (compared to the US dollar and euro) on derivative and non-derivative financial assets and liabilities denominated in US dollars and euros would have on net earnings, net earnings per diluted share and comprehensive income, based on the foreign exchange rates as at August 31, 2016 and 2017:

An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the US dollar would decrease (increase) net earnings by \$2,342,000, or \$0.04 per diluted share, and \$2,726,000, or \$0.05 per diluted share, as at August 31, 2016 and 2017 respectively.



An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the euro would decrease (increase) net earnings by \$830,000, or \$0.02 per diluted share, and \$1,025,000 or \$0.02 per diluted share, as at August 31, 2016 and 2017 respectively.

An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the US dollar would increase (decrease) other comprehensive income by \$2,176,000 and \$2,744,000 as at August 31, 2016 and 2017 respectively.

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The impact of the change in the value of the Canadian dollar compared to the US dollar and the euro on these derivative and non-derivative financial assets and liabilities is recorded in the foreign exchange gain or loss line item in the consolidated statements of earnings, except for outstanding forward contracts, whose impact is recorded in other comprehensive income. The change in the value of the Canadian dollar compared to the US dollar and the euro also affects the company's balances of income tax recoverable or payable, as well as deferred income tax assets and liabilities denominated in US dollars and euros; this may result in additional and significant foreign exchange gains or losses. However, these tax-related assets and liabilities are not considered financial instruments and are therefore excluded from the sensitivity analysis above. The foreign exchange rate fluctuations also flow through the consolidated statements of earnings line items, as a significant portion of the company's cost of sales and operating expenses are denominated in Canadian dollars, euros, British pounds and Indian rupees, and the company reports its results in US dollars; that effect is not reflected in the sensitivity analysis above.

## Interest rate risk

The company has limited exposure to interest rate risk. The company is mainly exposed to interest rate risks through its cash and short-term investments.

## Cash

As at August 31, 2016 and 2017, the company's cash balances included an amount of \$23,277,000 and \$6,681,000 respectively that bears interest at an annual rate of 1.2%.

## Short-term investments

Short-term investments consist of the following:

	As at August 31, 2017	2016
Term deposits denominated in Indian rupees, bearing interest at annual rates of 4.3% to 6.9% in 2017 and 6.0% to 7.3% in 2016, maturing on different dates between October 2017 and October 2018 in 2017 and November 2016 and October 2018 in 2016	\$775	\$1,419
Term deposit denominated in Canadian dollars, bearing interest at an annual rate of 1.5%, matured in May 2017		2,668
	\$775	\$4,087

Due to their short-term maturity, the company's short-term investments are not subject to a significant fair value interest rate risk. Accordingly, changes in fair value have been nominal to the degree that amortized cost approximates the fair value. Any change in the fair value of the company's short-term investments, all of which are classified as available for sale, is recorded in other comprehensive income.

Other financial instruments

Accounts receivable, other assets, accounts payable and accrued liabilities and the contingent liability are non-interest-bearing financial assets and liabilities.

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## Credit risk

Financial instruments that potentially subject the company to credit risk consist of cash, short-term investments, accounts receivable, other assets and forward exchange contracts (with a positive fair value). As at August 31, 2017, the company's short-term investments consist of debt instruments issued by high-credit quality corporations. These debt instruments are not expected to be affected by a significant credit risk. The company's cash and forward exchange contracts are held with or issued by high-credit quality financial institutions; therefore, the company considers the risk of non-performance on these instruments to be limited.

Generally, the company does not require collateral or other security from customers for trade accounts receivable; however, credit is extended to customers following an evaluation of creditworthiness. In addition, the company performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts receivable when accounts are determined to be uncollectible. Allowance for doubtful accounts amounted to \$3,752,000 and \$2,960,000 as at August 31, 2016 and 2017 respectively.

For the year ended August 31, 2017, the company's top customer represented 10.1% of sales. For the years ended August 31, 2015 and 2016, no customer represented more than 10% of sales.

The following table summarizes the age of trade accounts receivable:

	As at August 31,	
	2017	2016
Current	\$35,100	\$38,411
Past due, 0 to 30 days	3,049	1,286
Past due, 31 to 60 days	1,289	868
Past due, more than 60 days, net of allowance for doubtful accounts of \$3,752 and \$2,960 as at August 31, 2016 and 2017, respectively	1,692	2,428
	\$41,130	\$42,993

Changes in the allowance for doubtful accounts are as follows:

	Years ended	
	August 31,	
	2017	2016
Balance – Beginning of year	\$3,752	\$2,935
Addition charged to earnings	654	817
Writeoff of uncollectible accounts	(1,446)	
Balance – End of year	\$2,960	\$3,752

## Liquidity risk

Liquidity risk is defined as the potential that the company cannot meet its obligations as they become due.

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The following tables summarize the contractual maturity of the company's derivative and non-derivative financial liabilities:

	As at August 31, 2017	
	0-12 months	13-24 months
Accounts payable and accrued liabilities	\$36,776	\$
Contingent liability	1,092	
Forward exchange contracts		
Outflow	21,700	12,500
Inflow	(23,265)	(13,357)
Total	\$36,303	\$(857 )

	As at August 31, 2016		
	0-12 months	13-24 months	25-36 months
Accounts payable and accrued liabilities	\$36,099	\$	\$
Forward exchange contracts			
Outflow	26,000	9,900	1,900
Inflow	(25,653)	(10,089)	(1,976)
Total	\$36,446	\$(189 )	\$(76 )

As at August 31, 2017, the company had \$39,210,000 in cash and short-term investments and \$45,037,000 in accounts receivable. In addition to these financial assets, the company has unused available lines of credit totaling \$15,424,000 for working capital and other general corporate purposes, including potential acquisitions as well as unused lines of credit totaling \$25,676,000 for foreign currency exposure related to its forward exchange contracts (notes 10 and 22).

## 7Inventories

	As at August 31,	
	2017	2016
Raw materials	\$18,899	\$18,692
Work in progress	886	1,067
Finished goods	14,047	13,245
	\$33,832	\$33,004

The cost of sales comprised almost exclusively the amount of inventory recognized as an expense during the reporting years, and amounts to \$88,098,000, \$89,058,000 and \$98,503,000 for the years ended August 31, 2015, 2016 and 2017 respectively, including related depreciation and amortization, which are shown separately in operating expenses (note 17).

Inventory writedown amounted to \$4,066,000, \$3,678,000 and \$3,259,000 for the years ended August 31, 2015, 2016 and 2017 respectively.

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## 8 Property, Plant and Equipment

	Land and land improvements	Buildings	Equipment	Leasehold improvements	Total
Cost as at September 1, 2015	\$ 4,309	\$ 29,472	\$ 31,209	\$ 2,794	\$ 67,784
Additions		201	3,626	226	4,053
Disposals		(11 )	(4,280 )	(121 )	(4,412 )
Foreign currency translation adjustment	13	93	162	19	287
Cost as at August 31, 2016	4,322	29,755	30,717	2,918	67,712
Additions		794	5,562	319	6,675
Business combinations (note 3)			130		130
Disposals			(2,568 )	(339 )	(2,907 )
Foreign currency translation adjustment	200	1,402	1,733	150	3,485
Cost as at August 31, 2017	\$ 4,522	\$ 31,951	\$ 35,574	\$ 3,048	\$ 75,095
Accumulated depreciation as at September 1, 2015	\$ 1,142	\$ 5,943	\$ 24,213	\$ 791	\$ 32,089
Depreciation for the year	45	639	2,811	319	3,814
Disposals		(11 )	(4,258 )	(121 )	(4,390 )
Foreign currency translation adjustment	5	31	136	49	221
Accumulated depreciation as at August 31, 2016	1,192	6,602	22,902	1,038	31,734
Depreciation for the year	45	403	3,162	292	3,902
Disposals			(2,210 )	(339 )	(2,549 )
Foreign currency translation adjustment	58	328	1,353	137	1,876
Accumulated depreciation as at August 31, 2017	\$ 1,295	\$ 7,333	\$ 25,207	\$ 1,128	\$ 34,963
Net carrying value as at:					
August 31, 2016	\$ 3,130	\$ 23,153	\$ 7,815	\$ 1,880	\$ 35,978
August 31, 2017	\$ 3,227	\$ 24,618	\$ 10,367	\$ 1,920	\$ 40,132

As at August 31, 2016 and 2017, unpaid additions to property, plant and equipment amounted to \$499,000 and \$522,000 respectively.



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## 9 Intangible Assets and Goodwill

## Intangible assets

	Core technology	Customer relationships	Brand name	Software	Total
Cost as at September 1, 2015	\$ 10,521	\$ 4,935	\$492	\$ 10,728	\$26,676
Additions	147			313	460
Disposals	(6,414 )	(4,935 )	(492)	(310 )	(12,151)
Foreign currency translation adjustment	48			112	160
Cost as at August 31, 2016	4,302			10,843	15,145
Additions				912	912
Business combinations (note 3)	7,932	1,607			9,539
Disposals	(76 )			(407 )	(483 )
Foreign currency translation adjustment	735	82		553	1,370
Cost as at August 31, 2017	\$ 12,893	\$ 1,689	\$	\$ 11,901	\$26,483
Accumulated amortization as at September 1, 2015	\$ 7,912	\$ 4,935	\$492	\$9,241	\$22,580
Amortization for the year	700			472	1,172
Disposals	(6,414 )	(4,935 )	(492)	(297 )	(12,138)
Foreign currency translation adjustment	109			31	140
Accumulated amortization as at August 31, 2016	2,307			9,447	11,754
Amortization for the year	2,617	167		505	3,289
Disposals	(54 )			(398 )	(452 )
Foreign currency translation adjustment	260	2		447	709
Accumulated amortization as at August 31, 2017	\$ 5,130	\$ 169	\$	\$ 10,001	\$ 15,300
Net carrying value as at:					
August 31, 2016	\$ 1,995	\$	\$	\$ 1,396	\$3,391
August 31, 2017	\$ 7,763	\$ 1,520	\$	\$ 1,900	\$11,183
Remaining amortization period as at August 31, 2017	4 years	5 years		5 years	

## Goodwill

	Years ended August 31,	
	2017	2016
Balance – Beginning of year	\$21,928	\$21,860

Business combinations (note 3)	11,470	
Foreign currency translation adjustment	1,679	68
Balance – End of year	\$35,077	\$21,928

In the fourth quarter of fiscal 2016 and 2017, the company performed its annual goodwill impairment test for all CGUs.

Goodwill has been allocated to the lowest level within the company at which it is monitored by management to make business decisions, which are the following CGUs:

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	As at August 31,	
	2017	2016
EXFO CGU	\$13,772	\$8,663
Brix CGU	13,878	13,265
Ontology CGU (note 3)	7,427	
Total	\$35,077	\$21,928

In performing the goodwill impairment review of its CGUs, the company determined the recoverable amount of goodwill based on fair value less costs of disposal. In estimating the recoverable amount of its CGUs, the company used a market approach, which is based on sales multiples within the range of 0.6 to 2.9 times sales, for comparable businesses with similar operations within the same industry over the past year. The company applied judgment in making certain adjustments for factors such as size, risk profile or profitability of the comparable businesses, when compared to the company's CGU.

Furthermore, as the sales and operations of the EXFO CGU constitutes the significant majority of the company's sales and operations, the company also compared the carrying amount of the EXFO CGU to the company's overall market capitalization, after adjustment for a control premium and the adjustment to deduct the recoverable amount of the Brix and Ontology CGUs. Based on this calculation, management calculated a recoverable amount which resulted in an implied sales multiple that was within the 0.6 to 2.9 times range, as used in the company's market approach described above.

As the valuation techniques used by the company require the use of unobservable inputs, the recoverable amount of the company's CGUs is classified within Level 3 of the fair value hierarchy.

As at August 31, 2017, the recoverable amount for all CGUs exceeded their carrying value. The recoverable amount of EXFO CGU, Brix CGU and Ontology CGU would equal their carrying value if we assume sales multiples of 0.7, 0.6 and 2.2 times sales respectively.

**10 Credit Facilities**

The company has lines of credit that provide for advances of up to CA\$5,800,000 (US\$4,627,000) and up to US\$6,000,000. The line of credit in Canadian dollars bears interest at the Canadian prime rate and the line of credit in US dollars bears interest at the US prime rate. As at August 31, 2017, an amount of CA\$736,000 (US\$587,000) was drawn from these lines of credit for letters of guarantee in the normal course of the company's operations for its own selling and purchasing requirements. The company also has a line of credit that provides for advances of up to CA\$6,750,000 (US\$5,384,000). This line of credit bears interest at the Canadian prime rate (note 22).

In addition, the company has lines of credit totaling \$26,731,000 for the foreign currency risk exposure related to its US dollar – Canadian dollar forward exchange contracts (note 6). As at August 31, 2017, an amount of \$1,955,000 was reserved from these lines of credit.

Finally, the company has a line of credit of INR 115,385,000 (US\$1,800,000) for the foreign currency risk exposure related to its US dollar – Indian rupee forward exchange contracts (note 6). As at August 31, 2017, an amount of INR 57,692,000 (US\$900,000) was reserved from this line of credit.

Accounts receivable were pledged as collateral against all these lines of credit, which are also subject to a negative pledge whereby the company has agreed with the banks not to pledge its assets to any other party without its consent.

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## 11 Accounts Payable and Accrued Liabilities and Provisions

## Accounts payable and accrued liabilities

	As at August 31,	
	2017	2016
Trade	\$ 19,002	\$ 16,940
Salaries and social benefits	15,176	16,188
Forward exchange contracts (note 6)		1,075
Other	2,598	2,971
	\$36,776	\$37,174

## Provisions

	As at August 31,	
	2017	2016
Warranty	\$320	\$299
Contingent liability (note 3)	1,092	
Restructuring charges (note 4)	2,477	
	\$3,889	\$299

## 12 Commitments

The company entered into operating leases for certain of its premises and equipment, which expire at various dates through 2023. Minimum rentals payable under operating leases are as follows:

	As at August 31,	
	2017	2016
No later than 1 year	\$2,176	\$2,213
Later than 1 year and no later than 5 years	6,238	3,050
Later than 5 years	1,681	1,037
	\$10,095	\$6,300

For the years ended August 31, 2015, 2016 and 2017, rental expenses under operating leases amounted to \$2,845,000, \$2,728,000 and \$2,945,000 respectively.

The company also entered into license agreements for certain intellectual property which expire at various dates through 2022:

	As at August	
	31,	
	2017	2016
No later than 1 year	\$ 1,264	\$ 1,124
Later than 1 year and no later than 5 years	1,450	826
	\$2,714	\$ 1,950

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## 13 Share Capital

Authorized – unlimited as to number, without par value

Subordinate voting and participating, bearing a non-cumulative dividend to be determined by the Board of Directors, ranking pari passu with multiple voting shares

Multiple voting and participating, entitling to 10 votes each, bearing a non-cumulative dividend to be determined by the Board of Directors, convertible at the holder's option into subordinate voting shares on a one-for-one basis, ranking pari passu with subordinate voting shares

The following table summarizes the share capital activity:

	Multiple Voting Shares		Subordinate Voting Shares		Total amount
	Number	Amount	Number	Amount	
Balance as at September 1, 2014	31,643,000	\$ 1	28,703,750	\$ 111,490	\$ 111,491
Redemption of restricted share units (note 15)		–	229,559	–	–
Redemption of deferred share units (note 15)		–	48,697	–	–
Redemption of share capital		–	(6,889,972 )	(26,827 )	(26,827 )
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	1,381	1,381
Balance as at August 31, 2015	31,643,000	1	22,092,034	86,044	86,045
Redemption of restricted share units (note 15)	–	–	277,805	–	–
Redemption of deferred share units (note 15)	–	–	653	–	–
Redemption of share capital	–	–	(452,550 )	(1,768 )	(1,768 )
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	1,239	1,239
Balance as at August 31, 2016	31,643,000	1	21,917,942	85,515	85,516
Issuance of share capital (note 3)	–	–	793,070	3,490	3,490
Redemption of restricted share units (note 15)	–	–	327,859	–	–
Redemption of deferred share units (note 15)	–	–	29,906	–	–
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	1,405	1,405
Balance as at August 31, 2017	31,643,000	\$ 1	23,068,777	\$ 90,410	\$ 90,411





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On January 7, 2015, the company announced that its Board of Directors had authorized a substantial issuer bid (the "Offer") to purchase for cancellation up to 7,142,857 subordinate voting shares for an aggregate purchase price not to exceed CA\$30,000,000. On February 20, 2015, pursuant to the Offer, the company purchased for cancellation 6,521,739 subordinate voting shares for an aggregate purchase price of CA\$30,000,000 (US\$24,027,000), plus related fees of \$223,000. The company used cash to fund the purchase of shares.

On March 25, 2015, the company announced that its Board of Directors had approved the renewal of its share repurchase program, by way of a normal course issuer bid on the open market of up to 10% of the issued and outstanding subordinate voting shares, representing 1,397,598 subordinate voting shares at the prevailing market price. The normal course issuer bid started on March 27, 2015, and ended on March 26, 2016. All shares repurchased under the bid were cancelled.

On March 29, 2016, the company announced that its Board of Directors had approved the renewal of its share repurchase program, by way of a normal course issuer bid on the open market of up to 6.6% of the issued and outstanding subordinate voting shares, representing 900,000 subordinate voting shares at the prevailing market price. The normal course issuer bid started on April 1, 2016, and ended on March 31, 2017. All share repurchased under that bid were cancelled.

## 14 Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss are as follows:

	Foreign currency translation adjustment	Cash-flow hedge	Accumulated other comprehensive loss
Balance as at September 1, 2014	\$ (10,668 )	\$ 409	\$ (10,259 )
Foreign currency translation adjustment	(39,175 )	–	(39,175 )
Changes in unrealized losses on forward exchange contracts, net of deferred income taxes	–	(2,571 )	(2,571 )
Balance as at August 31, 2015	(49,843 )	(2,162 )	(52,005 )
Foreign currency translation adjustment	707		707
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes		2,724	2,724
Balance as at August 31, 2016	(49,136 )	562	(48,574 )
Foreign currency translation adjustment	8,262		8,262
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes		1,347	1,347



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## 15 Stock-Based Compensation Plans

The following table summarizes the stock-based compensation costs recognized for employee services received during the years ended August 31, 2015, 2016 and 2017:

	Years ended August 31,		
	2017	2016	2015
Stock-based compensation costs arising from equity-settled awards	\$1,439	\$1,394	\$1,323
Stock-based compensation costs arising from cash-settled awards	38	(16 )	(28 )
	\$1,477	\$1,378	\$1,295

The maximum number of additional subordinate voting shares issuable under the Long-Term Incentive Plan and the Deferred Share Unit Plan cannot exceed 6,306,153 shares. The maximum number of subordinate voting shares that may be granted to any individual on an annual basis cannot exceed 5% of the number of outstanding subordinate voting shares. The company settles equity-settled awards through the issuance of common shares from treasury.

## Long-Term Incentive Plan

The company established the Long-Term Incentive Plan for its directors, executive officers and employees and those of its subsidiaries, as determined by the Board of Directors. The plan, which includes stock options and restricted share units, was approved by the shareholders of the company.

## Stock Options

The exercise price of stock options granted under the Long-Term Incentive Plan is the market price of the common shares on the date of grant. Stock options granted under the plan expire 10 years from the date of grant and generally vest over a four-year period, being the required period of service from employees, generally with 25% vesting on an annual basis commencing on the first anniversary of the date of grant. As at August 31, 2017, the company had no outstanding or exercisable stock options.

The following table summarizes stock option activity for the years ended August 31, 2015 and 2016 (no activities in 2017):

	Years ended August 31,			
	2016		2015	
	Number	Weighted average exercise	Number	Weighted average exercise

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		price (CA\$)		price (CA\$)
Outstanding – Beginning of year	17,099	\$ 6	87,454	\$ 6
Forfeited	–	–	(2,000 )	6
Expired	(17,099)	6	(68,355)	6
Outstanding – End of year	–	\$ –	17,099	\$ 6
Exercisable – End of year	–	\$ –	17,099	\$ 6

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## Restricted Share Units (RSUs)

RSUs are stock awards that rise and fall in value based on the market price of the company's subordinate voting shares and are redeemable for actual subordinate voting shares. Vesting dates are also established by the Board of Directors on the date of grant. The vesting dates are subject to a minimum term of three years and a maximum term of 10 years from the award date, being the required period of service from employees. Fair value of RSUs equals the market price of the common shares on the date of grant.

The following table summarizes RSU activity for the years ended August 31, 2015, 2016 and 2017:

	Years ended August 31,		
	2017	2016	2015
Outstanding – Beginning of year	1,551,555	1,299,958	1,225,135
Granted	527,143	572,008	409,521
Redeemed	(327,859 )	(277,805 )	(229,559 )
Forfeited	(139,509 )	(42,606 )	(105,139 )
Outstanding – End of year	1,611,330	1,551,555	1,299,958

None of the RSUs outstanding as at August 31, 2016 and 2017 were redeemable. The weighted average grant-date fair value of RSUs granted during the years ended August 31, 2015, 2016 and 2017 amounted to \$3.63, \$3.23 and \$4.54 respectively.

The weighted-average market price of the shares at the date of redemption of RSUs redeemed during the years ended August 31, 2015, 2016 and 2017, was \$3.60, \$3.03 and \$4.55 respectively.

## Deferred Share Unit Plan

The company established a Deferred Share Unit (DSU) Plan for the members of the Board of Directors as part of their annual retainer fees. Each DSU entitles the Board members to receive one subordinate voting share. DSUs are acquired on the date of grant and are redeemed in subordinate voting shares when the Board member ceases to be Director of the company. This plan was approved by the shareholders of the company.

The following table summarizes DSU activity for the years ended August 31, 2015, 2016 and 2017:

	Years ended August 31,		
	2017	2016	2015
Outstanding – Beginning of year	159,127	114,810	117,701
Granted	45,058	44,970	45,806
Redeemed	(29,906 )	(653 )	(48,697 )
Outstanding – End of year	174,279	159,127	114,810

As at August 31, 2016 and 2017, none of the DSUs outstanding were redeemable. The weighted average grant-date fair value of DSUs granted during the years ended August 31, 2015, 2016 and 2017, amounted to \$3.38, \$3.33 and \$4.53 respectively.

The weighted-average market price of the shares at the date of redemption of DSUs redeemed during the years ended August 31, 2015, 2016 and 2017, was \$3.49, \$3.04 and \$5.02 respectively.

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## Stock Appreciation Rights Plan

The company established the Stock Appreciation Rights Plan for certain employees. Under that plan, eligible employees are entitled to receive a cash amount equivalent to the difference between the market price of the common shares on the date of exercise and the exercise price determined on the date of grant. Stock appreciation rights granted under the plan expire 10 years from the date of grant and generally vest over a four-year period, being the required period of service from employees. This plan was approved by the shareholders of the company.

The following table summarizes stock appreciation rights activity for the years ended August 31, 2015, 2016 and 2017:

	Years ended August 31,		2016		2015	
	2017					
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding – Beginning of year	33,500	\$ 1	42,324	\$ 1	39,874	\$ 2
Granted	7,900	–	7,800	–	6,150	–
Exercised	(14,104)	2	(12,927)	5	(500 )	6
Expired	–	–	(1,500 )	7	(2,000 )	5
Forfeited	–	–	(2,197 )	–	(1,200 )	6
Outstanding – End of year	27,296	\$ 1	33,500	\$ 1	42,324	\$ 1
Exercisable – End of year	4,721	\$ 3	14,000	\$ 3	22,924	\$ 3

The liability arising from stock appreciation rights as at August 31, 2016 and 2017 amounted to \$76,000 and \$115,000 respectively and is recorded in accounts payable and accrued liabilities in the consolidated balance sheets.

The following table summarizes information about outstanding stock appreciation rights as at August 31, 2017:

Exercise price	Stock appreciation rights outstanding	Number	Stock appreciation rights exercisable	Weighted average remaining contractual life	Number

\$ 2.36	2,721	1 year	2,721
\$ 3.74	1,500	2 years	1,500
\$ 6.28	500	–	500
	27,296	7 years	4,721

## 16 Related-Party Disclosures

### Ultimate controlling shareholder

Mr. Germain Lamonde, the company's Executive Chairman, is the company's ultimate controlling shareholder.



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## Related party transaction

During the year ended August 31, 2015, following the merger of one subsidiary with the parent company, the subsidiary redeemed one share owned by G. Lamonde Investissements financiers, a company controlled by Mr. Germain Lamonde, for a cash consideration of \$1, representing its paid-up capital.

## Compensation of key management personnel

	Years ended August 31,		
	2017	2016	2015
Salaries and short-term employee benefits	\$3,715	\$3,701	\$3,025
Stock-based compensation costs	775	826	617
	\$4,490	\$4,527	\$3,642

Key management personnel includes senior management and directors.

## 17 Statements of Earnings

## Net research and development

Net research and development expenses comprise the following:

	Years ended August 31,		
	2017	2016	2015
Gross research and development expenses	\$53,124	\$47,875	\$50,148
Research and development tax credits and grants	(5,956)	(5,188)	(6,145)
Net research and development expenses for the year	\$47,168	\$42,687	\$44,003

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## Depreciation and amortization

Depreciation and amortization expenses by functional area are as follows:

	Years ended August 31,		
	2017	2016	2015
Cost of sales			
Depreciation of property, plant and equipment	\$1,522	\$1,290	\$1,519
Amortization of intangible assets	2,652	702	1,540
	4,174	1,992	3,059
Selling and administrative expenses			
Depreciation of property, plant and equipment	530	501	524
Amortization of intangible assets	251	75	790
	781	576	1,314
Net research and development expenses			
Depreciation of property, plant and equipment	1,850	2,023	2,792
Amortization of intangible assets	386	395	553
	2,236	2,418	3,345
	\$7,191	\$4,986	\$7,718
Depreciation of property, plant and equipment	\$3,902	\$3,814	\$4,835
Amortization of intangible assets	3,289	1,172	2,883
Total depreciation and amortization expenses for the year	\$7,191	\$4,986	\$7,718

## Employee compensation

Employee compensation comprises the following:

	Years ended August 31,		
	2017	2016	2015
Salaries and benefits	\$115,832	\$112,569	\$114,868
Restructuring charges	3,509		1,637
Stock-based compensation costs	1,414	1,378	1,295
Total employee compensation for the year	\$120,755	\$113,947	\$117,800

Restructuring charges by functional area are as follows:

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Years ended August  
31,  
2017 2016 2015

Cost of sales	\$1,697	\$	\$290
Selling and administrative expenses	1,150		586
Net research and development costs	2,232		761
Total restructuring charges for the year	\$5,079	\$	\$1,637

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

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

	Years ended August 31,		
	2017	2016	2015
Cost of sales	\$121	\$107	\$159
Selling and administrative expenses	1,052	972	791
Net research and development expenses	304	299	345
Total stock-based compensation costs for the year	\$1,477	\$1,378	\$1,295

## 18 Other Disclosures

## Government grants

The company is entitled to receive grants on certain eligible research and development projects conducted in Finland from TEKES, a Finnish technology organization, which funds Finnish companies' high technology research and innovations. The company's eligible research and development projects must be pre-approved by TEKES, and the grant is subject to certain conditions. In the event that a condition is not met, TEKES can require reimbursement of a portion or the entire amount of the grant received. A liability to repay the funding is recognized in the period in which conditions arise that will cause the funding to be repayable. As at August 31, 2017, the company was in compliance with the conditions of the funding. This funding is accounted for as a reduction of gross research and development expenses in the consolidated statements of earnings. For the years ended August 31, 2015, 2016 and 2017, the company recorded \$919,000, \$299,000 and \$146,000 respectively, under that program in the consolidated statements of earnings.

## Defined contribution pension plans

The company maintains separate defined contribution pension plans for certain eligible employees. These plans, which are accounted for on an accrual basis, are summarized as follows:

## · Canadian defined contribution pension plan

The company maintains a plan for certain eligible employees residing in Canada, under which the company may elect to match the employees' contributions up to a maximum of 4% of an employee's gross salary. Cash contributions to this plan and expenses for the years ended August 31, 2015, 2016 and 2017, amounted to \$1,492,000, \$1,374,000 and \$1,571,000 respectively.

## · US defined contribution pension plan (401K plan)

The company maintains a 401K plan for eligible employees residing in the U.S. Under this plan, the company must contribute an amount equal to 3% of an employee's current compensation. In addition, eligible employees

may contribute up to the lesser of 1% of eligible compensation or the statutorily prescribed annual limit to the 401K plan. The 401K plan permits but does not require the company to make additional matching contributions to the 401K plan on behalf of the eligible participants, subject to a maximum of 50% of the first 6% of the participant's current compensation subject to certain legislated maximum contribution limits. During the years ended August 31, 2015, 2016 and 2017, the company recorded cash contributions and expenses totaling \$628,000, \$622,000 and \$630,000 respectively.

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EXFO Inc.

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

## 19 Income Taxes

The reconciliation of the income tax provision calculated using the combined Canadian federal and provincial statutory income tax rate with the income tax provision in the financial statements is as follows:

	Years ended August 31,		
	2017	2016	2015
Income tax provision at combined Canadian federal and provincial statutory tax rate (27%)	\$2,014	\$4,499	\$2,671
Increase (decrease) due to:			
Foreign income/loss taxed at different rates	(900 )	(1,025)	482
Non-deductible loss (non-taxable income)	(245 )	5	2,540
Non-deductible expenses	981	411	664
Change in tax rates	(10 )		
Foreign exchange effect of translation of foreign subsidiaries in the functional currency	176	566	(3,641)
Utilization of previously unrecognized deferred income tax assets	(46 )		
Unrecognized deferred income tax assets on temporary deductible differences and unused tax losses	4,659	3,702	2,556
Other	(21 )	(394 )	(236 )
Income tax provision for the year	\$6,608	\$7,764	\$5,036

	Years ended August 31,		
	2017	2016	2015

The income tax provision consists of the following:

Current			
Current income taxes	\$5,554	\$6,186	\$4,633
Deferred			
Deferred income taxes relating to the origination and reversal of temporary differences	(3,605)	(2,124)	(2,153)
Unrecognized deferred income tax assets on temporary deductible differences and unused tax losses	4,659	3,702	2,556
	1,054	1,578	403
Income tax provision for the year	\$6,608	\$7,764	\$5,036



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EXFO Inc.

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

## Deferred taxes

	As at August 31,	
	2017	2016
Deferred income tax assets		
Deferred income tax assets recoverable within 12 months	\$3,361	\$4,224
Deferred income tax assets recoverable after 12 months	3,194	4,016
	6,555	8,240
Deferred income tax liabilities		
Deferred income tax liabilities payable within 12 months	499	645
Deferred income tax liabilities payable after 12 months	2,617	2,212
	3,116	2,857
Deferred income tax assets net	\$3,439	\$5,383

The changes in deferred income tax assets and liabilities for the year ended August 31, 2016 are as follows:

	Balance as at September 1, 2015	Credited (charged) to the statement of earnings	Credited (charged) to shareholders' equity	Foreign currency translation adjustment	Balance as at August 31, 2016
Deferred income tax assets					
Long-lived assets	\$ 2,849	\$ (595 )	\$	\$ 1	\$2,255
Provisions and accruals	5,024	177	(935 )	(20 )	4,246
Deferred revenue	1,308	1,015		7	2,330
Research and development expenses	2,240	112		9	2,361
Losses carried forward	6,551	(1,951 )		(2 )	4,598
Deferred income tax liabilities					
Research and development tax credits	(10,037 )	(336 )		(34 )	(10,407)
Total	\$ 7,935	\$ (1,578 )	\$ (935 )	\$ (39 )	\$5,383
Classified as follows:					
Deferred income tax assets	\$ 9,459				\$8,240
Deferred income tax liabilities	(1,524 )				(2,857 )
	\$ 7,935				\$5,383





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

The changes in deferred income tax assets and liabilities for the year ended August 31, 2017 are as follows:

	Balance as at September 1, 2016	Credited (charged) to the statement of earnings	Credited (charged) to shareholders' equity	Business combinations	Foreign currency translation adjustment	Balance as at August 31, 2017
Deferred income tax assets						
Long-lived assets	\$ 2,255	\$ (240 )	\$	\$ (279 )	\$ 66	\$ 1,802
Provisions and accruals	4,246	(89 )	(479 )		94	3,772
Deferred revenue	2,330	486			74	2,890
Research and development expenses	2,361	248			122	2,731
Losses carried forward	4,598	(1,470 )		1,059	54	4,241
Deferred income tax liabilities						
Long-lived assets		111		(1,059 )	(54 )	(1,002 )
Research and development tax credits	(10,407 )	(100 )			(488 )	(10,995)
Total	\$ 5,383	\$ (1,054 )	\$ (479 )	\$ (279 )	\$ (132 )	\$ 3,439
Classified as follows:						
Deferred income tax assets	\$ 8,240					\$ 6,555
Deferred income tax liabilities	(2,857 )					(3,116 )
	\$ 5,383					\$ 3,439

Unrecognized deferred income tax assets on temporary deductible differences and unused tax losses are as follows:

	As at August 31,	
	2017	2016
Temporary deductible differences	\$ 2,271	\$ 1,676
Losses carried forward	43,670	38,287
	\$ 45,941	\$ 39,963

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EXFO Inc.

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

As at August 31, 2017, the year of expiry of operating losses for which no deferred income tax assets were recognized in the consolidated balance sheet are as follows, presented by tax jurisdiction:

Year of expiry	Finland	United States	United Kingdom
2018	\$444	\$741	\$
2019		3,470	
2020	7,848	7,991	
2021	6,799	2,211	
2022	11,788	7,435	
2023	7,637	1,972	
2024	5,896	1,351	
2025	7,350	1,351	
2026	251	1,351	
2027	2,035	1,351	
2028		2,447	
2030		2,713	
2031		109	
2033		4,681	
2034		4,851	
2035		2,616	
2036		8,501	
2037		8,988	
Indefinite			3,737
	\$50,048	\$64,130	\$ 3,737

Furthermore, as at August 31, 2017, the company had available capital losses in Canada amounting to \$53,396,000 (CA\$66,937,000) at the federal level and \$56,696,000 (CA\$71,074,000) at the provincial level for which no deferred income tax assets were recognized. These losses can be carried forward indefinitely against capital gains.

As at August 31, 2017, non-refundable research and development tax credits recognized in the consolidated balance sheet amounted to \$40,501,000. In order to recover these non-refundable research and development tax credits, the company needs to generate approximately \$262,000,000 (CA\$328,000,000) in pre-tax earnings at the Canadian federal level and approximately \$12,000,000 at the Canadian provincial level. In order to generate \$262,000,000 in pre-tax earnings at the Canadian Federal level over the estimated recovery period of 15 years, the company must generate a pre-tax earnings compound annual growth rate (CAGR) of 2%, which the company believes is probable. The company's non-refundable research and development tax credits can be carried forward over a twenty-year period.

In addition, as at August 31, 2017, the company had deferred income tax assets in the consolidated balance sheet in the amount of \$3,239,000 for operating losses in the United States. In order to recover these deferred income tax assets, the company needs to generate approximately \$9,500,000 in pre-tax earnings at the United States level, and in order to do so over the estimated recovery period of three years, the company must generate a pre-tax earnings CAGR of 2%, which the company believes is probable. The company's operating losses in the United States can be carried forward over a twenty-year period.

As at August 31, 2017, no income taxes were recognized on taxable temporary differences of \$17,006,000; such taxes would be payable on the unremitted earnings of certain of the company's subsidiaries, as the company has determined that:

- (1) Undistributed profits of its foreign subsidiaries will not be distributed in the foreseeable future; and
- (2) Undistributed profits of its domestic subsidiaries will not be taxable when distributed.

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EXFO Inc.

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

## 20 Earnings per Share

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

	Years ended August 31,		
	2017	2016	2015
Basic weighted average number of shares outstanding (000's)	54,423	53,863	56,804
Plus dilutive effect of (000's):			
Restricted share units	979	675	549
Deferred share units	153	131	104
Diluted weighted average number of shares outstanding (000's)	55,555	54,669	57,457
Stock awards excluded from the calculation of the diluted weighted average number of shares outstanding because their exercise price was greater than the average market price of the common shares (000's)		75	57

## 21 Segment Information

Sales for products and services are detailed as follows:

	Years ended August 31,		
	2017	2016	2015
Products	\$213,653	\$205,371	\$193,427
Services	29,648	27,212	28,662
	\$243,301	\$232,583	\$222,089

Sales to external customers by geographic region are detailed as follows:

	Years ended August 31,		
	2017	2016	2015
United States	\$97,186	\$95,388	\$82,227
Canada	22,586	18,027	19,722
Other	14,951	14,129	17,547
Americas	134,723	127,544	119,496
Europe, Middle-East and Africa	62,101	57,172	57,274

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China	22,312	25,281	21,526
Other	24,165	22,586	23,793
Asia-Pacific	46,477	47,867	45,319
	\$243,301	\$232,583	\$222,089

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

Sales were allocated to geographic regions based on the country of residence of the related customers.

Long-lived assets by geographic region are detailed as follows:

	As at August 31, 2017			As at August 31, 2016		
	Property, plant and equipment	Intangible assets	Goodwill	Property, plant and equipment	Intangible assets	Goodwill
Canada	\$29,417	\$ 4,643	\$ 3,890	\$27,048	\$ 1,330	\$—
United States	2,031	1,072	14,696	1,174	1,637	13,265
Finland	441	316	9,064	572	354	8,663
United Kingdom	915	5,093	7,427	797	—	—
India	4,000	27	—	3,602	37	—
China	3,227	32	—	2,657	33	—
Other	101	—	—	128	—	—
	\$40,132	\$ 11,183	\$ 35,077	\$35,978	\$ 3,391	\$ 21,928

## 22 Subsequent Events

## Business combinations

## Astellia SA

On September 8, 2017, the company acquired a 33.1% interest in Astellia SA ("Astellia"), a publicly traded company on the NYSE Euronext Paris stock exchange. Astellia is a provider of network and subscriber intelligence enabling mobile operators to drive service quality, maximize operational efficiency, reduce churn and develop revenue. Its vendor-independent, real-time monitoring and troubleshooting solution is used to optimize networks end-to-end from radio to core. The cost of this investment amounted to €8,568,000 (US\$10,311,000), which was settled in cash on September 8, 2017.

On October 10, 2017, the company reached an agreement with Astellia to acquire Astellia's remaining shares at a share price of €10, for total consideration of €17,312,010 (approximately US\$20,000,000) by way of a public tender offer. The public offering will open in late calendar 2017 or early 2018, subject to the approval of French foreign investment authorities and permission from l'Autorité des marchés financiers. If the public tender offering is successful, the settlement of the acquisition is expected to take place early in calendar 2018.

## Yenista Optics S.A.S.

On October 2, 2017, the company acquired all issued and outstanding shares of Yenista Optics S.A.S. (Yenista), a privately held company located in France, a supplier of advanced optical test equipment for the research and development and manufacturing markets. The acquisition-date fair value of the total consideration amounted to €9,400,000 (US\$11,100,000) and consisted of €8,300,000 (US\$9,700,000) in cash, net of Yenista's cash of €1,100,000 (US\$1,400,000) at the acquisition date. This acquisition will be 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 transferred will be 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 will be included in the consolidated financial statements of the company starting October 2, 2017, being the acquisition date.



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Other

Credit facilities

On October 25, 2017, the company modified certain credit facilities whereby existing lines of credits, that provided advances up to CA\$4,800,000 (US\$3,829,000) and up to US\$6,000,000 for operating purposes, were cancelled and replaced by a credit facility of CA\$28,929,000 (US\$23,077,000) mainly for the acquisition of the remaining shares of Astellia under the public tender offer. This credit facility bears interest at the Canadian prime rate and is secured by a movable mortgage of CA\$65,000,000 (US\$51,851,000) over the universality of the company's Canadian movable assets, present and future (note 10).

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Management's Discussion and Analysis of Financial Condition  
and Results of Operations

This discussion and analysis 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, expect, believe, plan, anticipate, intend, could, estimate, continue, or similar expressions or the negative of such expressions 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 forward-looking statements due to various factors including, but not limited to, macroeconomic uncertainty as well as capital spending and network deployment levels in the telecommunications industry (including our ability to quickly adapt cost structures to anticipated levels of business and our ability to manage inventory levels with market demand); future economic, competitive, financial and market conditions; consolidation in the global telecommunications test, service assurance and analytics solutions markets and increased competition among vendors; our ability to successfully integrate businesses that we acquire; capacity to adapt our future product offering to future technological changes; limited visibility with regard to the timing and nature of customer orders; delay in revenue recognition due to longer sales cycles for complex systems involving customers' acceptance; fluctuating exchange rates; concentration of sales; timely release and 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 the 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 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 document. 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. This discussion and analysis should be read in conjunction with the consolidated financial statements.

The following discussion and analysis of financial condition and results of operations is dated November 24, 2017.

All dollar amounts are expressed in US dollars, except as otherwise noted.

COMPANY OVERVIEW

We are a leading provider of next-generation test, service assurance and analytics solutions for fixed and mobile communications service providers (CSPs), web-scale operators as well as network equipment manufacturers (NEMs) in the global telecommunications industry. Our intelligent solutions with contextually relevant analytics are designed to improve end-user quality of experience, enhance network performance and drive operational efficiencies throughout the network and service delivery lifecycles. We target high-growth market opportunities related to increasing bandwidth and improving quality of experience on network infrastructures: 5G, Internet of Things (IoT), 4G/LTE (long-term evolution), wireless backhaul, small cells and distributed antenna systems (DAS), 100G and 400G network upgrades, as well as fiber-to-the-home (FTTH)/fiber-to-the-curb (FTTC)/fiber-to-the-node (FTTN) deployments.



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Our success has been largely predicated on our core expertise in developing test equipment for fixed networks. These solutions are available as handheld test instruments, portable platforms with related modules, and as rack-mounted chassis with related modules. Our PC-centric, open-ended platforms, combined with cloud-based software applications, can be transformed into a fully connected test environment that allows CSPs to automate complex, labor-intensive tasks like fiber-to-the-antenna (FTTA), DAS and small cell deployments. Leveraging platform connectivity, CSPs can also keep track of their entire test fleet, manage software updates and schedule calibration procedures. All test data can be stored in a central database and used as a point of reference against future measurements. Consequently, this enhanced test environment enables customers to increase productivity and reduce operating expenses.

Over the years, we have expanded our product portfolio into fiber monitoring, service assurance for next-generation IP (Internet protocol) networks and test equipment for 2G, 3G, 4G/LTE and soon 5G mobile networks. Our fiber monitoring solution leverages EXFO's expertise and market leadership in optical time domain reflectometry (OTDR) by using them as remote test units (RTUs) to monitor an optical plant 24 hours per day, seven days per week. As such, this fiber monitoring solution proactively detects any fiber degradation or locates any fiber cut to optimize quality of service along long-haul, metro and access networks. Our service assurance solution, called the Brix System, is a probe-based hardware and software offering that delivers quality of service and quality of experience visibility as well as real-time service monitoring and verification of next-generation IP networks. We have enriched our service assurance offering with infrastructure performance management tools, analytics software and network discovery topology solutions via technology acquisitions. Built around a distributed architecture, the Brix System enables the successful launch and ongoing profitable operation of IP-based voice, video and data applications and services across fixed and mobile networks.

Our mobile network portfolio mainly consists of network simulators and optical radio frequency (RF) test solutions. Our network simulators simulate real-world, large-scale network traffic and end-user behavior in a laboratory environment in order to predict network behavior, uncover faults and optimize networks before mobile networks and services are deployed. Our optical RF test solutions are dedicated to tuning up and troubleshooting fiber-based mobile networks. These solutions are critical for locating and analyzing RF interference issues in FTFA, DAS, remote radio heads and baseband units that support 4G/LTE and upcoming 5G networks. These software applications can be combined with optical and Ethernet modules in our FTB-1 Pro platform to create an all-in-one test solution for cell technicians and maintenance engineers.

The competitive advantages of our products include a high degree of innovation, modularity (especially wireline products) and ease of use. Ultimately, our products enable NEMs, CSPs and web-scale operators to design, deploy, troubleshoot and monitor fixed and mobile networks and, in the process, help them reduce the cost of operating their networks.

We have a staff of approximately 1,600 people in 25 countries, supporting more than 2,000 customers around the world. We operate three main manufacturing sites, which are located in Quebec City, Canada, in Shenzhen, China, and in Oulu, Finland. We also have six main research and development expertise centers in Boston, Toronto, Montreal, Quebec City, Oulu and London, supported by a software development center in India.

We launched 16 new products and/or major enhancements in fiscal 2017, addressing four key technology areas: fiber, Cloud, network virtualization and 5G. New product introductions included a 400 Gbit/s optical transport test solution for the lab and manufacturing markets; an automated inspection probe for testing multi-fiber connectors in data centers and radio access networks; a software-based solution, Universal Virtual Synch, enabling communications service providers to accurately and cost-effectively measure network latency; and optical RF over OBSAI (open base station architecture initiative) link test capabilities to complement optical RF over CPRI (common public radio

interface) test technology for centralized radio access networks.

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Our sales increased 4.6% to \$243.3 million in fiscal 2017 compared to \$232.6 million in 2016. Bookings, which represent purchase orders received from customers, increased 4.8% to \$251.8 million in fiscal 2017 compared to \$240.3 million in 2016, for a book-to-bill ratio of 1.03.

Net earnings amounted to \$0.9 million, or \$0.02 per diluted share, in fiscal 2017, compared to \$8.9 million, or \$0.16 per diluted share, in fiscal 2016. Net earnings in fiscal 2017 included net expenses totaling \$10.6 million comprising \$2.7 million in after-tax amortization of intangible assets, \$1.4 million in stock-based compensation costs, \$4.8 million in after-tax restructuring charges, \$0.4 million in positive change in the fair value of the cash contingent consideration, \$1.1 million in after-tax acquisition-related costs, and a foreign exchange loss of \$1.0 million. Net earnings in fiscal 2016 included net expenses totaling \$2.3 million comprising \$1.1 million in after-tax amortization of intangible assets, \$1.4 million in stock-based compensation costs, and a foreign exchange gain of \$0.2 million.

Adjusted EBITDA (net earnings before interest, income taxes, depreciation and amortization, stock-based compensation costs, restructuring charges, change in fair value of cash contingent consideration, and foreign exchange gain or loss) amounted to \$22.0 million, or 9.1% of sales, in fiscal 2017, compared to \$22.0 million, or 9.5% of sales, in 2016. As disclosed in the third quarter of fiscal 2017, expected adjusted EBITDA for fiscal 2017 amounted to approximately \$20 million, based on the midpoint of our earnings guidance for the fourth quarter. In the fourth quarter of fiscal 2017, actual sales were at the high end of our earnings guidance, which explains higher than expected Adjusted EBITDA for the whole fiscal year. See page 73 of this document for a complete reconciliation of adjusted EBITDA and IFRS net earnings.

On October 31, 2016, we acquired substantially all the assets of Absolute Analysis Inc. (Absolute), a privately held company located in the United States, supplying solutions for radio frequency testing of fiber-based radio access networks. The acquisition-date fair value of the total consideration amounted to \$8.5 million, and consisted of \$5.0 million in cash and the issuance of 793,070 subordinate voting shares valued at \$3.5 million. 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 our consolidated financial statements since October 31, 2016, being the date of acquisition. For additional disclosure on the accounting for the acquisition, see note 3 to our fiscal 2017 consolidated financial statements.

On March 2, 2017, we acquired all issued and outstanding shares of Ontology Partners Limited (Ontology), a privately held company located in the United Kingdom, a supplier of real-time network topology discovery and service-chain mapping. The acquisition-date fair value of the total consideration amounted to \$9.2 million and consisted of \$7.8 million in cash, net of Ontology's cash of \$2.2 million at the acquisition date, plus a cash contingent consideration based on certain sales volume of Ontology products over the 12-month period following the acquisition, valued at \$1.4 million at the acquisition date. 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 transferred 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 were included in our consolidated financial statements since March 2, 2017, being the date of acquisition. For additional disclosure on the accounting for the acquisition, see note 3 to our fiscal 2017 consolidated financial statements.

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On March 29, 2017, we announced the appointment of Philippe Morin as our new Chief Executive Officer (CEO), effective April 1, 2017. Mr. Morin, who has more than 25 years of experience in the telecommunications industry, initially was named EXFO's Chief Operating Officer in November 2015. Prior to joining EXFO, Mr. Morin was Senior Vice-President of Worldwide Sales and Field Operations at Ciena. He also held senior management positions at Nortel Networks, including President of the Optical Networking Division. EXFO founder Germain Lamonde, who had fulfilled the roles of CEO and Chairman of the Board for more than 30 years, became Executive Chairman. He maintains leadership of EXFO's acquisition strategy and remains actively involved in defining EXFO's growth initiatives, customer outreach as well as corporate governance.

On May 2, 2017, we announced a restructuring plan to streamline our passive monitoring solutions portfolio, which falls under our protocol-layer product line. This plan resulted in severance expenses of \$4.1 million and inventory writeoffs of \$1.0 million, for total restructuring charges of \$5.1 million during the year. As a result of this plan, we expect annual savings of approximately \$9 million.

On September 8, 2017, we acquired 33.1% of all issued and outstanding shares of Astellia SA ("Astellia"), a publicly traded company on the NYSE Euronext Paris stock exchange. Astellia is a provider of network and subscriber intelligence enabling mobile operators to drive service quality, maximize operational efficiency, reduce churn and develop revenue. Its vendor-independent, real-time monitoring and troubleshooting solution is used to optimize networks end-to-end from radio to core. The acquisition-date fair value of the consideration transferred amounted to €8.6 million (US\$10.3 million) in an all-cash deal.

On October 2, 2017, we acquired all issued and outstanding shares of Yenista Optics S.A.S (Yenista), a privately held company located in France, a supplier of advanced optical test equipment for the research and development and manufacturing markets. Its portfolio includes benchtop optical spectrum analyzers, tunable lasers, tunable filters and passive optical component test systems for NEMs and optical component vendors. The acquisition-date fair value of the total consideration amounted to €9.4 million (US\$11.1 million) and consisted of €8.3 million (US\$9.7 million) in cash, net of Yenista's cash of €1.1 million (US\$1.4 million) at the acquisition date. This acquisition will be 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 transferred will be 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 will be included in our consolidated financial statements starting October 2, 2017, being the date of acquisition.

On October 10, 2017, we reached an agreement with Astellia to acquire Astellia's remaining shares at a share price of €10, for total consideration of €17.3 million (approximately US\$20 million) by way of a public tender offer. The public offering will open in late calendar 2017 or early 2018, subject to the approval of French foreign investment authorities and permission from l'Autorité des marchés financiers. If the public tender offering is successful, the settlement of the acquisition is expected to take place early in calendar 2018.

On October 25, 2017, we modified certain credit facilities whereby existing lines of credits, that provided advances up to CA\$4.8 million (US\$3.8 million) and up to US\$6.0 million for operating purposes, were cancelled and replaced by a credit facility of CA\$28.9 million (US\$23.1 million) mainly for the acquisition of the remaining shares of Astellia under the public tender offer.

## Sales

We sell our products to a diversified customer base in approximately 100 countries through our direct sales force and channel partners, such as sales representatives and distributors. Most of our sales are denominated in US dollars, euros

and Canadian dollars.

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In fiscal 2015 and 2016, no customer accounted for more than 10% of our sales, with our top customer representing 7.1% and 7.1% of our sales respectively. In fiscal 2017, our top customer represented 10.1% of our sales, with our top three customers representing 18.4% of our sales.

We believe that we have a vast array of products, a diversified customer base and a good spread across geographical areas, which provides us with reasonable protection against the concentration of sales and credit risk.

Cost of Sales

The cost of sales includes raw materials, salaries and related expenses for direct and indirect manufacturing personnel, as well as overhead costs. Excess, obsolete and scrapped materials are also included in the cost of sales. However, the cost of sales is presented exclusive of depreciation and amortization, which are shown separately in the consolidated statements of earnings.

Operating Expenses

We classify our operating expenses into three main categories: selling and administrative expenses, research and development expenses, as well as depreciation and amortization expenses.

Selling and administrative expenses consist primarily of salaries and related expenses for personnel, sales commissions, travel expenses, marketing programs, professional services, information systems, human resources and other corporate expenses.

Gross research and development expenses consist primarily of salaries and related expenses for engineers and other technical personnel, material component costs as well as fees paid to third-party consultants. We are eligible to receive research and development tax credits on research and development activities carried out in Canada. All related research and development tax credits are recorded as a reduction of gross research and development expenses.

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## RESULTS OF OPERATIONS

(in thousands of US dollars, except per share data, and as a percentage of sales for the years indicated)

Consolidated statement of earnings data <sup>(1)</sup> :	Years ended August 31,					
	2017	2016	2015	2017	2016	2015
Sales	\$243,301	\$232,583	\$222,089	100.0%	100.0%	100.0%
Cost of sales <sup>(2)</sup>	94,329	87,066	85,039	38.8	37.4	38.3
Selling and administrative <sup>(3)</sup>	86,256	82,169	82,200	35.5	35.3	37.0
Net research and development	47,168	42,687	44,003	19.4	18.4	19.8
Depreciation of property, plant and equipment	3,902	3,814	4,835	1.6	1.6	2.2
Amortization of intangible assets	3,289	1,172	2,883	1.4	0.5	1.3
Change in fair value of cash contingent consideration	(383 )	–	–	(0.2 )	–	–
Interest and other (income) expense	303	(828 )	(155 )	0.1	(0.4 )	(0.1 )
Foreign exchange (gain) loss	978	(161 )	(7,212 )	0.4	–	(3.2 )
Unusual charge <sup>(3)</sup>	–	–	603	–	–	0.3
Earnings before income taxes	7,459	16,664	9,893	3.0	7.2	4.4
Income taxes	6,608	7,764	5,036	2.7	3.4	2.2
Net earnings for the year	\$851	\$8,900	\$4,857	0.3 %	3.8 %	2.2 %
Basic net earnings per share	\$0.02	\$0.17	\$0.09			
Diluted net earnings per share	\$0.02	\$0.16	\$0.08			
Other selected information:						
Gross margin before depreciation and amortization <sup>(4)</sup>	\$148,972	\$145,517	\$137,050	61.2 %	62.6 %	61.7 %
Research and development data:						
Gross research and development	\$53,124	\$47,875	\$50,148	21.8 %	20.6 %	22.6 %
Net research and development	\$47,168	\$42,687	\$44,003	19.4 %	18.4 %	19.8 %
Restructuring charges included in:						
Cost of sales	\$1,697	\$–	\$290	0.7 %	– %	0.1 %
Selling and administrative expenses	\$1,150	\$–	\$586	0.5 %	– %	0.3 %
Net research and development expenses	\$2,232	\$–	\$761	0.9 %	– %	0.3 %
Adjusted EBITDA <sup>(4)</sup>	\$22,041	\$22,039	\$13,779	9.1 %	9.5 %	6.2 %
Consolidated balance sheet data <sup>(1)</sup> :						
Total assets	\$259,241	\$237,793	\$217,478			

(1) Consolidated statement of earnings and balance sheet data has been derived from our consolidated financial statements prepared according with IFRS, as issued by the IASB, except for non-IFRS measures <sup>(4)</sup>.

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

(3) Selling and administrative is exclusive of a one-time charge relating to an unusual bad debt in fiscal 2015.

(4) Refer to page 73 for non-IFRS measures.



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## RESULTS OF OPERATIONS

## Sales and Bookings

The following tables summarize sales and bookings by product line, in thousands of US dollars:

## Sales

	Years ended August 31,		
	2017	2016	2015
Physical-layer product line	\$ 161,864	\$ 151,910	\$ 144,060
Protocol-layer product line	81,905	83,324	80,591
	243,769	235,234	224,651
Foreign exchange losses on forward exchange contracts	(468 )	(2,651 )	(2,562 )
Total sales	\$ 243,301	\$ 232,583	\$ 222,089

## Bookings

	Years ended August 31,		
	2017	2016	2015
Physical-layer product line	\$ 165,886	\$ 155,320	\$ 144,673
Protocol-layer product line	86,348	87,631	80,948
	252,234	242,951	225,621
Foreign exchange losses on forward exchange contracts	(468 )	(2,651 )	(2,562 )
Total bookings	\$ 251,766	\$ 240,300	\$ 223,059

## Fiscal 2017 vs. 2016

In fiscal 2017, our sales increased 4.6% to \$243.3 million, compared to \$232.6 million in 2016, while our bookings increased 4.8% year-over-year to \$251.8 million in 2017 from \$240.3 million in 2016, for a book-to-bill ratio of 1.03 (1.03 in 2016).

## Sales

In fiscal 2017, we made progress in sales (6.6%) for our physical-layer product line (optical and copper testing), mainly in the Americas, compared to 2016, mostly due to our leadership position in portable optical testing, a 100G investment cycle among CSPs in this region, and growing business with web-scale operators for their data center interconnects. In addition, in fiscal 2017, we benefited to some extent from calendar year-end budget spending on the part of some CSPs in the Americas, versus a nominal amount in 2016. To a lesser extent, sales of our physical-layer product line increased in Europe, Middle East and Africa (EMEA) despite the decrease in the average value of the British pound and the euro compared to the US dollar year-over-year, which had to some extent a negative impact on our sales and bookings to this region in 2017 compared to 2016. In the Asia-Pacific (APAC) region, sales of our physical-layer product line decreased year-over-year in fiscal 2017, especially in China, mainly due to delayed investments from NEMs.



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In fiscal 2017, sales of our protocol-layer product line decreased 1.7% year-over-year, mainly in the Americas, despite the positive impact of newly acquired Absolute. In fiscal 2016, we also had recognized a large order from a North American Tier-1 network operator for our EXFO Xtract solution, and we did not close such large order in fiscal 2017. In addition, the streamlining of our passive monitoring product line in fiscal 2017 had a negative impact on our sales in 2017 compared to 2016. Furthermore, in fiscal 2016, our transport and datacom product line (a subgroup within our protocol-layer product line) benefited, to a greater extent, from the 100G investment cycle, especially in the United States, compared to 2017. Otherwise, sales of our protocol-layer product line increased in the EMEA year-over-year, mainly due to the positive impact of recently acquired Ontology, despite the decrease in the average value of the British pound and the euro compared to the US dollar year-over-year. Sales of our protocol-layer product line were flat overall in APAC year-over-year in fiscal 2017.

Finally, in fiscal 2017, we reported lower losses on our forward exchange contracts, which had a \$2.2 million positive impact on our total sales year-over-year.

Overall, the year-over-year increase in total sales in fiscal 2017 comes from the Americas, mainly in Canada and to a lesser extent in the United States, and from the EMEA. On the other hand, sales to APAC slightly decreased year-over-year, as sales to China decreased year-over-year after a robust performance in 2016.

## Bookings

In fiscal 2017, we reported a year-over-year increase in total bookings, which mainly comes from the Americas for our physical-layer product line and from the EMEA for our protocol-layer product line, despite negative currency impacts from the British pound and the euro.

In fiscal 2017, our physical-layer product line reported significant year-over-year increase in bookings in the Americas as we benefited from heightened penetration of mobile network operators for their fronthaul and backhaul networks, increased traction with fixed network operators for their 100G long-haul and metro links and growing business with web-scale operators for their data center interconnects. In addition, as mentioned earlier, in fiscal 2017, we have benefited to some extent from calendar year-end budget spending on the part of some CSPs in the Americas, versus a nominal amount in 2016. Otherwise, bookings for our physical-layer product line were flat in the EMEA and APAC year-over-year. The EMEA was to some extent negatively impacted by the decrease in the average value of the British pound and the euro compared to the US dollar year-over-year. In APAC, bookings were negatively impacted by the decrease in bookings in China, mainly due to delayed investments from NEMs, offset by traction gained in the rest of APAC.

Our protocol-layer product lines reported decrease in total bookings in fiscal 2017 compared to 2016. Most of the decrease comes from the Americas, despite the positive impact our newly acquired Absolute and Ontology businesses, as our transport and datacom product line (a subgroup within our protocol-layer product line) did not reach the same level of orders from the 100G investment cycle, especially in the United States compared to 2016. In addition, in 2016, we received a large order from a North American Tier 1 network operator for our EXFO Xtract solution, and we did not close such large order in 2017. Otherwise, we made progress in bookings in the EMEA thanks to the recent acquisition of Ontology. In addition, in fiscal 2017, bookings in APAC slightly increased year-over-year. Finally, the streamlining of our passive monitoring product line in fiscal 2017 negatively impacted the bookings of our protocol-layer product line compared to 2016.

## Fiscal 2016 vs. 2015

In fiscal 2016, our sales increased 4.7% to \$232.6 million, compared to \$222.1 million in 2015, while our bookings increased 7.7% year-over-year to \$240.3 million in 2016 from \$223.1 million in 2015, for a book-to-bill ratio of 1.03 (1.00 in 2015).

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### Sales

In fiscal 2016, despite year-over-year sales increase, we suffered from a headwind from a stronger US dollar compared to 2015. Given that we generate a portion of our revenue in Canadian dollars (Americas) and in euros (EMEA) but report our results in US dollars, it had a negative impact on our total sales and bookings year-over-year, as the US dollar increased against these currencies. In fact, in fiscal 2016, our total sales would have increased by approximately 6% and our total bookings would have increased by approximately 9% year-over-year in constant currencies.

In fiscal 2016, despite the negative currency impact, both product lines delivered year-over-year increases in sales, with respective increases of 5.4% and 3.4% for our physical and protocol-layer product lines.

In fiscal 2016, the year-over-year sales increase in our physical-layer product line is mainly due to our leadership position in portable optical testing and a 100G investment cycle among CSPs, especially in the United States. This 100G investment cycle also benefited our transport and datacom product line (a subgroup within our protocol-layer product line), especially in the United States. In addition, in fiscal 2016, sales of our newly launched analytics software solution EXFO Xtract (which is also a subgroup of our protocol-layer product line) contributed to the year-over-year sales increase.

Overall, the year-over-year increase in sales in fiscal 2016 comes from the Americas, namely the United States, and from APAC, namely China. Both the United States and China delivered a robust year-over-year sales increase. On the other hand, sales to EMEA slightly decreased year-over-year, due to negative currency impact. Otherwise, this region would have reported slight sales increase year-over-year, despite uncertain market conditions in many European countries. The United Kingdom, however, delivered a strong sales increase in 2016, after a steady decline in sales over the last couple of years.

### Bookings

In fiscal 2016, we delivered solid year-over-year increases in bookings for our two product lines, despite the negative currency impact. The year-over-year increase in bookings was manifested through heightened penetration of mobile network operators for their fronthaul and backhaul networks, increased traction with fixed network operators for their 100G long-haul and metro links, and growing business with web-scale operators for their data center interconnects. In addition, in fiscal 2016, we received orders in the Americas for our EXFO Xtract solution, which resulted in increased bookings for our protocol-layer product line year-over-year.

Overall, in fiscal 2016, we reported robust year-over-year bookings increases in every geographic area.

As we gradually evolve from a supplier of dedicated test instruments to a supplier of end-to-end solutions, our quarterly sales and bookings are becoming increasingly subject to quarterly fluctuations, as we are managing more complex, multimillion dollar deals that have prolonged sales and revenue recognition cycles related to our protocol-layer products. This has been amplified with the recent acquisition of Ontology.

### Sales by geographic region

The following table summarizes sales by geographic region:

Years ended August  
31,



	2017	2016	2015
Americas	55 %	55 %	54 %
EMEA	26	25	26
APAC	19	20	20
	100%	100%	100%

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### GROSS MARGIN BEFORE DEPRECIATION AND AMORTIZATION

(non-IFRS measure – refer to page 73 of this document)

Gross margin before depreciation and amortization (gross margin) amounted to 61.2%, 62.6% and 61.7% of sales in fiscal 2017, 2016 and 2015 respectively.

#### Fiscal 2017 vs. 2016

In fiscal 2017, gross margin included \$1.7 million or 0.7% of sales in restructuring charges for severance expenses and inventory writeoffs. Excluding those charges, gross margin would have amounted to 61.9% of sales in fiscal 2017, slightly lower (0.7%) compared to 2016.

In fiscal 2017, our gross margin (excluding the impact of our restructuring charges) was unfavorably affected by product mix within both product lines compared to 2016. In particular, in fiscal 2016, we recognized a large order with a Tier-1 network operator for our EXFO Xtract solution, which had a positive impact on our gross margin during that year as this product delivers strong margins. We did not have such high-margin deals this year. In addition, in fiscal 2017, our physical-layer product line represented a larger portion of our sales year-over-year, and this product line delivers lower margins than our protocol-layer product line (protocol-layer products have a richer software content), which had a negative impact on our gross margin year-over-year.

However, in fiscal 2017, we recorded in our sales lower foreign exchange losses on our forward exchange contracts, compared to 2016, which contributed to increase our gross margin by 0.3% year-over-year.

In addition, in fiscal 2017, we recorded lower inventory writeoffs compared to 2016, which contributed to increase our gross margin by an additional 0.2% year-over-year.

#### Fiscal 2016 vs. 2015

In fiscal 2016, our gross margin was favorably affected by a richer product mix within our protocol-layer product line. Namely, year-over-year sales increases for our transport and datacom products, as well as the recognition of orders for our EXFO Xtract software analytics solution, had a positive impact on our gross margin in fiscal 2016, compared to 2015; this was offset in part by an unfavorable product mix within our physical-layer product line year-over-year.

In addition, in fiscal 2016, we recorded lower inventory writeoffs compared to 2015, which contributed to increase our gross margin by 0.2% year-over-year.

Furthermore, in fiscal 2015, we recorded \$0.3 million in restructuring charges in the cost of sales (nil in 2016) which negatively affected our gross margin for that year by 0.1%.

Finally, in fiscal 2016, a stronger US dollar compared to other currencies reduced our manufacturing costs and had a positive impact on our gross margin year-over-year.

### SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses amounted to \$86.3 million, \$82.2 million and \$82.2 million for fiscal 2017, 2016 and 2015 respectively. As a percentage of sales, selling and administrative expenses amounted to 35.5%, 35.3% and 37.0% for fiscal 2017, 2016 and 2015 respectively.



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### Fiscal 2017 vs. 2016

In fiscal 2017, our selling and administrative expenses increased \$4.1 million year-over-year due to restructuring charges of \$1.2 million, additional expenses following the acquisitions of Absolute and Ontology and to support the growth of our business, inflation, salary increases, as well as one-time acquisition-related costs of \$1.1 million following the recent business acquisitions.

Excluding restructuring charges and acquisition-related costs for business combinations, which represent 0.9% of sales, our selling and administrative expenses would have represented 34.6% of sales, lower compared to 35.3% of sales in 2016.

### Fiscal 2016 vs. 2015

In fiscal 2016, our selling and administrative expenses were positively affected by the significant increase in the average value of the US dollar compared to the Canadian dollar and the euro year-over-year, as a portion of our selling and administrative expenses are incurred in Canadian dollars and euros and we report our results in US dollars, as well as by the positive impact of our 2015 restructuring plan. In addition, our 2015 restructuring plan resulted in severance expenses of \$0.6 million (or 0.3% of sales) recorded in the fourth quarter of 2015 (nil in 2016); these elements offset inflation, salary increases and increased commission expenses on increased sales.

As percentage of sales, our selling and administrative expenses decreased in fiscal 2016 compared to 2015 as these expenses were flat year-over-year and our sales increased.

## RESEARCH AND DEVELOPMENT EXPENSES

### Gross research and development expenses

Gross research and development expenses totaled \$53.1 million, \$47.9 million and \$50.1 million for fiscal 2017, 2016 and 2015 respectively. As a percentage of sales, gross research and development expenses amounted to 21.8%, 20.6% and 22.6% for fiscal 2017, 2016 and 2015 respectively, while net research and development expenses accounted for 19.4%, 18.4% and 19.8% of sales for these respective years.

### Fiscal 2017 vs. 2016

In fiscal 2017, our gross research and development expenses increased \$5.2 million year-over-year due to restructuring charges of \$2.2 million, additional expenses following the acquisitions of Absolute and Ontology and to support the growth of our business, inflation, salary increases, as well as a shift in the mix and timing of research and development projects, compared to 2016.

Excluding restructuring charges, which represent 0.9% of sales, our gross research and development expenses would have represented 20.9% of sales, almost flat compared to 20.6% of sales in 2016.

### Fiscal 2016 vs. 2015

In fiscal 2016, the year-over-year significant increase in the average value of the US dollar compared to the Canadian dollar and the euro had a positive impact on our gross research and development expenses as a large portion of these expenses are incurred in Canadian dollars and euros and we report our results in US dollars. In addition, the 2015

restructuring plan positively affected our gross research and development expenses in 2016. Finally, our 2015 restructuring plan resulted in severance expenses of \$0.8 million (or 0.3% of sales) in 2015 versus nil in 2016. However, these positive effects year-over-year were offset in part by inflation, salary increases, as well as a shift in the mix and timing of research and development projects, compared to 2015.

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As a percentage of sales, our gross research and development decreased in fiscal 2016 compared to 2015 as these expenses decreased year-over-year and our sales increased.

### Tax Credits and Grants

We are entitled to tax credits from the Canadian federal and provincial governments for eligible research and development activities conducted in Canada. We are also eligible for grants by a Finnish technology organization on certain research and development projects conducted in Finland.

Tax credits and grants for research and development activities were \$6.0 million, \$5.2 million and \$6.1 million for fiscal 2017, 2016 and 2015 respectively. As a percentage of gross research and development expenses, tax credits and grants reached 11.2%, 10.8% and 12.3% for fiscal 2017, 2016 and 2015 respectively.

#### Fiscal 2017 vs. 2016

The increase in our tax credits and grants in fiscal 2017, compared to 2016, mainly results from the increase in our gross research and development expenses year-over-year.

In fiscal 2017, the increase in tax credits and grants as a percentage of gross research and development expenses, compared to 2016, mainly comes from the shift in mix of eligible projects.

#### Fiscal 2016 vs. 2015

The decrease in our tax credits and grants in fiscal 2016, compared to 2015, results from the decrease in our gross research and development expenses, the shift in mix of eligible projects, namely in Finland, as well as from the increase in the average value of the US dollar compared to the Canadian dollar year-over-year, as our tax credits are denominated in Canadian dollars and we report our results in US dollars.

In fiscal 2016, the decrease in tax credits and grants as a percentage of gross research and development expenses, compared to 2015, mainly comes from the shift in mix of eligible projects.

### DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Depreciation of property, plant and equipment totaled \$3.9 million, \$3.8 million and \$4.8 million for fiscal 2017, 2016 and 2015 respectively.

In fiscal 2016, the year-over-year increase in the average value of the US dollar compared to the Canadian dollar had a positive effect on our depreciation expenses, as these expenses are incurred in Canadian dollars and we report our results in US dollars.

### AMORTIZATION OF INTANGIBLE ASSETS

In conjunction with the business combinations we completed, we recorded intangible assets primarily consisting of core technology and customer relationships. In addition, intangible assets include software. These intangible assets resulted in amortization expenses of \$3.3 million, \$1.2 million and \$2.9 million for fiscal 2017, 2016 and 2015 respectively.

Fiscal 2017 vs. 2016

The increase in our amortization expense in fiscal 2017, compared to 2016, was due to the acquisitions of Absolute (October 31, 2016) and Ontology (March 2, 2017).

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Fiscal 2016 vs. 2015

The decrease in our amortization expense in fiscal 2016, compared to 2015, is mainly due to the fact that core technology related to the acquisition of NetHawk Oyj (acquired in fiscal 2010) became fully amortized in the third quarter of fiscal 2015, and that the average value of the US dollar increased compared to the Canadian dollar year-over-year, as our amortization expense is incurred in this currency and we report our results in US dollars.

FOREIGN EXCHANGE GAIN (LOSS)

Foreign exchange gains and losses are mainly the result of the translation of operating activities denominated in currencies other than our functional currency, which is the Canadian dollar. A portion of our foreign exchange gains or losses result from the translation of cash balances and deferred income taxes denominated in US dollars. We manage our exposure to currency risk in part with forward exchange contracts. In addition, some of our entities' operating activities are denominated in US dollars, euros and British pounds, which further hedges this risk. However, we remain exposed to a currency risk; namely, any increase in the value of the Canadian dollar compared to the US dollar would have a negative impact on our operating results.

We reported a foreign exchange loss of \$1.0 million in fiscal 2017 compared to gain of \$0.2 million in 2016 and \$7.2 million in 2015.

Fiscal 2017

In fiscal 2017, the period-end value of the Canadian dollar increased versus the US dollar compared to the previous year-end, which resulted in a foreign exchange loss of \$1.0 million during the year. The period-end value of the Canadian dollar increased 4.6% versus the US dollar to CA\$1.2536 = US\$1.00 in fiscal 2017 compared to CA\$1.3116 = US\$1.00 at the end of the previous year. In fiscal 2017, the average value of the Canadian dollar versus the US dollar was CA\$1.3212 = US\$1.00.

Fiscal 2016

In fiscal 2016, we witnessed some volatility in the value of the Canadian dollar as it fluctuated compared to the US dollar, which overall resulted in a foreign exchange gain of \$0.2 million during that period. The period-end value of the Canadian dollar slightly increased 0.3% versus the US dollar to CA\$1.3116 = US\$1.00 in fiscal 2016 compared to CA\$1.3157 = US\$1.00 at the end of the previous year. In fiscal 2016, the average value of the Canadian dollar versus the US dollar was CA\$1.3278 = US\$1.00.

Fiscal 2015

In fiscal 2015, the period-end value of the Canadian dollar significantly decreased versus the US dollar and the euro compared to the previous year end, which resulted in a significant foreign exchange gain of \$7.2 million during the year. The period-end value of the Canadian dollar decreased 17.5% to CA\$1.3157 = US\$1.00 in fiscal 2015 compared to CA\$1.0858 = US\$1.00 at the end of the previous year, and decreased 3.0% to CA\$1.4755 = €1.00 in fiscal 2015 compared to CA\$1.4319 = €1.00 at the end of the previous year. In fiscal 2015, the average value of the Canadian dollar versus the US dollar was CA\$1.2093 = US\$1.00.

Foreign exchange rate fluctuations also flow through the P&L line items as a portion of our sales are dominated in Canadian dollars and euros and a significant portion of our cost of sales and operating items are denominated in



Canadian dollars, euros, Indian rupees and British pounds and we report our results in US dollars. In fiscal 2016, the increase in the average value of the US dollar compared to the Canadian dollar, the euro and the Indian rupee year-over-year, resulted in a positive impact on our financial results. The average value of the US dollar increased 8.9%, 4.6% and 6.3% respectively year-over-year, compared to the Canadian dollar, the euro and the Indian rupee. In fiscal 2017, overall, there were no significant changes in the average value of our main currencies compared to the US dollar, which had no significant impact on our financial results during the year compared to 2016.

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### INCOME TAXES

In fiscal 2017, we reported income tax expenses of \$6.6 million on earnings before income taxes of \$7.5 million, compared to income tax expenses of \$7.8 million on earnings before income taxes of \$16.7 million in 2016 and income tax expenses of \$5.0 million on earnings before income taxes of \$9.9 million in 2015.

These distorted tax rates mainly resulted from the fact that we did not recognize deferred income tax assets for some of our subsidiaries at loss, a significant portion of our restructuring charges recorded in fiscal 2017 related to these subsidiaries, and acquisition-related costs for business combinations are non-deductible for tax purposes. In addition, we had some other non-deductible losses and expenses, such as stock-based compensation costs. However, a significant portion of our foreign exchange gain or loss was a result of the translation of financial statements of our foreign subsidiaries from their local currency to the functional currency, and was therefore non-taxable or deductible. Otherwise, our effective tax rate would have been closer to the combined Canadian and provincial statutory tax rate of 27% for these years.

Please refer to note 19 to our consolidated financial statements for a full reconciliation of our income tax provision.

### LIQUIDITY AND CAPITAL RESOURCES

#### Cash Requirements and Capital Resources

As at August 31, 2017, cash and short-term investments totaled \$39.2 million, while our working capital was at \$74.4 million. Our cash and short-term investments decreased \$8.1 million in fiscal 2017, compared to 2016. In fiscal 2017, we made cash payments of \$12.8 million for the acquisitions of Absolute and Ontology, \$7.2 million for the purchase of capital assets and \$1.5 million for the repayment of the long-term debt assumed as part of the Ontology acquisition. Otherwise, in fiscal 2017, we generated \$12.9 million in cash flows from operating activities and we recorded an unrealized foreign exchange gain on our cash and short-term investments of \$0.5 million. This unrealized foreign exchange gain resulted from the translation, into US dollars, of our Canadian-dollar-denominated cash and short-term investments and was included in the accumulated other comprehensive income in the balance sheet.

Our short-term investments consist of debt instruments issued by high-credit quality corporations; therefore, we consider the risk of non-performance of these financial instruments to be limited. These debt instruments are not expected to be affected by a significant liquidity risk. For the purpose of managing our cash position, we have established a cash management policy, which we follow and monitor on a regular basis. Our cash and short-term investments will be used for working capital and other general corporate purposes, and for potential acquisitions. As at August 31, 2017, cash balances included an amount of \$6.7 million that bears interest at an annual rate of 1.2%.

We believe that our cash balances and short-term investments of \$39.2 million will be sufficient to meet our liquidity and capital requirements for the foreseeable future, including the payment of \$10.3 million for the 33.1% investment in Astellia, the payment of \$9.7 million for the acquisition of Yenista, and any potential payment for the cash contingent consideration related to the acquisition of Ontology. In addition, on October 25, 2017, to finance the potential acquisition of the remaining share of Astellia under the public tender offer, we modified certain credit facilities whereby existing lines of credits, that provided advances up to CA\$4.8 million (US\$3.8 million) and up to US\$6.0 million for operating purposes, were cancelled and replaced by a credit facility of CA\$28.9 million (US\$23.1 million). Finally, we have unused available lines of credit totaling \$6.2 million for working capital and other general corporate purposes, and unused lines of credit of \$25.7 million for foreign currency exposure related to

forward exchange contracts.

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However, possible operating losses, restructuring charges and/or possible investments in or acquisitions of complementary businesses, products or technologies may require additional financing. There can be no assurance that additional debt or equity financing will be available when required or, if available, that it can be secured on satisfactory terms.

As at August 31, 2017, our commitments under operating leases and license agreements amount to \$3.5 million in 2018, \$2.2 million in 2019, \$2.1 million in 2020, \$2.0 million in 2021 and \$3.0 million in 2022 and after, for total commitments of \$12.8 million.

### Sources and Uses of Cash

We finance our operations and meet our capital expenditure requirements mainly through cash flows from operating activities, the use of our cash and short-term investments as well as the issuance of subordinate voting shares.

#### Operating activities

Cash flows provided by operating activities were \$12.9 million in fiscal 2017, compared to \$24.4 million in 2016 and \$6.5 million in 2015.

#### Fiscal 2017 vs. 2016

Cash flows provided by operating activities in fiscal 2017 were attributable to the net earnings after items not affecting cash of \$13.0 million, slightly offset by the negative net change in non-cash operating items of \$0.1 million; this was mainly due to the positive effect on cash of the decrease of \$4.0 million in our accounts receivable due to the timing of receipts and sales during the year and by the positive effect on cash of the decrease of \$0.9 million in our inventories due to improved inventory turns during the year; these positive effects on cash were more than offset by the negative effect on cash of the \$2.4 million increase in our income tax and tax credits recoverable due to tax credits earned during the year not yet recovered, the negative effect on cash of the increase of \$0.9 million in our prepaid expenses due to timing of payments during the year, and by the negative effect on cash of the decrease of \$1.7 million in our accounts payable, accrued liabilities and provisions due to timing of purchases and payments during the year.

#### Fiscal 2016 vs. 2015

Cash flows provided by operating activities in fiscal 2016 were attributable to the net earnings after items not affecting cash of \$20.7 million, and the positive net change in non-cash operating items of \$3.6 million. This was mainly due to the positive effect on cash of the decrease of \$2.7 million in our accounts receivable due to the timing of receipts and sales during the year, the positive effect on cash of the \$0.9 million decrease in our income tax and tax credits recoverable due to tax credits earned in previous periods recovered during the year, and the positive effect on cash of the \$4.9 million increase in our accounts payable, accrued liabilities and provisions due to the timing of purchases and payments during the year. These positive effects on cash were offset in part by the negative effect on cash of the \$4.7 million increase in our inventories to meet future demand, and the negative effect on cash of the increase of \$0.3 million in our prepaid expenses due to timing of payments during the year.

#### Investing activities

Cash flows used by investing activities amounted to \$16.5 million in fiscal 2017, compared to \$7.0 million in 2016 and \$2.3 million in 2015.



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Fiscal 2017

In fiscal 2017, we made cash payments of \$12.8 million and \$7.2 million respectively for the acquisitions of Absolute and Ontology and the purchase of capital assets. Otherwise, we disposed (net of acquisitions) of \$3.5 million worth of short-term investments.

Fiscal 2016

In fiscal 2016, we paid \$4.4 million for the purchase of capital assets and we acquired (net of disposal) \$2.6 million worth of short-term investments.

Fiscal 2015

In fiscal 2015, we paid \$5.9 million for the purchase of capital assets but we disposed (net of acquisitions) of \$3.6 million worth of short-term investments.

Financing activities

Cash flows used by financing activities amounted to \$1.5 million in fiscal 2017, compared to \$1.6 million in 2016 and \$25.5 million in 2015.

Fiscal 2017

In fiscal 2017, we repaid the long-term debt of \$1.5 million assumed as part of the acquisition of Ontology.

Fiscal 2016

In fiscal 2016, we redeemed share capital under our share repurchase program for a cash consideration of \$1.6 million.

Fiscal 2015

In fiscal 2015, we redeemed share capital under our share repurchase programs (namely our substantial issuer bid) for a cash consideration of \$25.5 million.

FORWARD EXCHANGE CONTRACTS

We are exposed to a currency risk as a result of our export sales of products manufactured in Canada, China and Finland, the majority of which are denominated in US dollars and euros. In addition, we are exposed to a currency risk as a result of our research and development activities in India (Indian rupees). These risks are partially hedged by forward exchange contracts. Forward exchange contracts, which are designated as cash flow hedging instruments, qualify for hedge accounting.

As at August 31, 2017, we held forward exchange contracts to sell US dollars for Canadian dollars and Indian rupees at various forward rates, which are summarized as follows:



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## US dollars – Canadian dollars

Expiry dates	Contractual amounts	Weighted average contractual forward rates
September 2017 to August 2018	\$18,300,000	1.3407
September 2018 to August 2019	10,900,000	1.3426
Total	\$29,200,000	1.3414

## US dollars – Indian rupees

Expiry dates	Contractual amounts	Weighted average contractual forward rates
September 2017 to August 2018	\$3,400,000	69.49
September 2018 to February 2019	1,600,000	67.26
Total	\$5,000,000	68.78

The carrying amount of forward exchange contracts is equal to 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 losses of \$0.1 million and net gains of \$2.3 million as at August 31, 2016 and 2017 respectively. The US dollar – Canadian dollar year-end exchange rate was CA\$1.2536 = US\$1.00 as at August 31, 2017.

## SHARE CAPITAL

As at November 13, 2017, EXFO had 31,643,000 multiple voting shares outstanding, entitling to 10 votes each and 23,224,396 subordinate voting shares outstanding. The multiple voting shares and the subordinate voting shares are unlimited as to number and without par value.

## OFF-BALANCE SHEET ARRANGEMENTS

As at August 31, 2017, our off-balance sheet arrangements consisted of letters of guarantee amounting to \$0.6 million for our own selling and purchasing requirements, which were reserved from our lines of credit; these letters of guarantee expire at various dates through fiscal 2020.

## STRUCTURED ENTITIES

As at August 31, 2017, we did not have interests in any structured entities.





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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with IFRS requires us 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. On an ongoing basis, we evaluate these estimates and assumptions, including those related to the fair value of assets and liabilities acquired in business combinations, the fair value of financial instruments, the allowance for doubtful accounts receivable, the amount of tax credits recoverable, the provision for excess and obsolete inventories, the estimated useful lives of capital assets, the valuation of long-lived assets, the impairment of goodwill, the recoverable amount of deferred income tax assets, the amount of certain accrued liabilities, provisions and deferred revenue as well as stock-based compensation costs. We base our estimates and assumptions on historical experience and on other factors that we believe to be reasonable under the circumstances.

Critical Judgments in Applying Accounting Policies

(a) Determination of functional currency

We operate in multiple countries and generate revenue and incur expenses in several currencies, namely the Canadian dollar, the US dollar, the euro, the British pound, the Indian rupee and the CNY (Chinese currency). The determination of the functional currency of EXFO and its subsidiaries may require significant judgment. In determining the functional currency of EXFO and its subsidiaries, we take into account primary, secondary and tertiary indicators. When indicators are mixed and the functional currency is not obvious, we use our judgment to determine the functional currency.

(b) Determination of cash generating units and allocation of goodwill

For the purpose of impairment testing, goodwill must be allocated to each cash-generating unit (CGU) or group of CGUs that are expected to benefit from the synergies of the business combination. Initial allocation and possible reallocation of goodwill to a CGU or a group of CGUs requires judgment.

Critical Estimates and Assumptions

(a) Inventories

We state our inventories at the lower of cost, determined on an average cost basis and net realizable value, and we provide reserves for excess and obsolete inventories. We determine our reserves for excess and obsolete inventories based on the quantities on hand at the reporting dates compared to foreseeable needs, taking into account changes in demand, technology or market. It is possible that additional inventory reserves may occur if future sales are less than our forecasts or if there is a significant shift in product mix compared to our forecasts, which could adversely affect our results.

(b) Income taxes

We are 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. We maintain provisions for uncertain tax positions that we believe appropriately reflect our risk based on our interpretation of laws and regulations. In addition, we make reasonable estimates and assumptions to determine the amount of deferred tax assets that can be recognized in our consolidated financial statements, based upon the

likely timing and level of anticipated future taxable income together with tax planning strategies. The ultimate realization of our 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.

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As at August 31, 2017, we had deferred income tax assets in the consolidated balance sheet in the amount of \$3.2 million for operating losses in the United States. To recover these deferred income tax assets, we need to generate approximately \$9.5 million in pre-tax earnings in the United States, and to do so over the estimated recovery period of three years, we must generate pre-tax earnings compound annual growth rate (CAGR) of 2%, which we believe is probable. Our losses in the United States can be carried forward over a 20-year period.

## (c) Tax credits recoverable

Tax credits are recorded provided that there is reasonable assurance that we have complied and will comply with all the conditions related to the tax credits and that the tax credits will be received. The ultimate recovery of our non-refundable tax credits is dependent upon the generation of sufficient future taxable income during the tax credits carry-forward periods. We have made reasonable estimates and assumptions to determine the amount of non-refundable tax credits that can be recognized in our consolidated financial statements, based upon the likely timing and level of anticipated future taxable income together with tax planning strategies.

As at August 31, 2017, our non-refundable research and development tax credits recognized in the consolidated balance sheet amounted to \$40.5 million. To recover these non-refundable research and development tax credits, we need to generate approximately \$262 million (CA\$328 million) in pre-tax earnings at the Canadian federal level and approximately \$12 million at the Canadian provincial level. To generate \$262 million in pre-tax earnings at the Canadian federal level over the estimated recovery period of 15 years, we must generate a pre-tax earnings CAGR of 2%, which we believe is probable. Our non-refundable research and development tax credits can be carried forward over a 20-year period.

## (d) 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 of disposal and its value in use. The fair value less costs of disposal calculation for our CGUs is based on a market approach that relies on input from implicit valuation multiples and recent transactions for comparable assets or businesses, within the same industry. We apply judgment in making adjustments for factors such as size, risk profile or profitability and also consider EXFO's value derived from its market capitalization considering a control premium based on comparable situations. Depending on the market evidence available, we, from time to time, may further supplement this market approach with discounted cash flows.

In the fourth quarter of fiscal 2017, we performed our annual goodwill impairment test for all CGUs.

For the purposes of the impairment test, goodwill has been allocated to the lowest level within the company at which it is monitored by management to make business decisions, which are the following CGUs:

EXFO CGU	\$ 13,772,000
Brix CGU	13,878,000
Ontology CGU	7,427,000
Total	\$ 35,077,000

In performing the goodwill impairment review of our CGUs, we determined the recoverable amount of goodwill based on fair value less costs of disposal. In estimating the recoverable amount of our CGUs, we used a market approach, which is based on sales multiples within the range of 0.6 to 2.9 times sales, for comparable businesses with similar operations within the same industry over the past year. We applied judgment in making certain adjustments for factors such as size, risk profile or profitability of the comparable businesses, when compared to our CGUs.



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Furthermore, as the sales and operations of the EXFO CGU constitutes the significant majority of our sales and operations, we also compared the carrying amount of the EXFO CGU to our overall market capitalization, after adjustment for a control premium and the adjustment to deduct the recoverable amount of the Brix and Ontology CGUs. Based on this calculation, we calculated a recoverable amount which resulted in an implied sales multiple that was within the 0.6 to 2.9 times range, as used in our market approach described above.

As at August 31, 2017, the recoverable amount for all CGUs exceeded their carrying value. The recoverable amount of EXFO CGU, Brix CGU and Ontology CGU would equal their carrying value using sales multiples of 0.7, 0.6 and 2.2 times sales respectively.

### (e)Purchase price allocation in business combinations

The fair value of the total consideration transferred in business combinations (purchase price) must be allocated based on the estimated fair value of acquired net assets at the date of acquisition. Allocating the purchase price requires management to make estimates and judgments to determine assets acquired and liabilities assumed, useful lives of certain long-lived assets and the respective fair value of assets acquired and liabilities assumed; this may require the use of unobservable inputs, including management's expectations of future revenue growth, operating costs and profit margins as well as discount rates.

#### i)Growth rates

The assumptions used are based on acquired companies' historical growth, expectations of future revenue growth, expected synergies as well as industry and market trends.

#### ii)Discount rate

The company uses a discount rate to calculate the present value of estimated future cash flows, which represents its weighted average cost of capital (WACC).

## NEW IFRS PRONOUNCEMENTS NOT YET ADOPTED

### Financial Instruments

The final version of IFRS 9, "Financial Instruments", was issued in July 2014 and will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Requirements relating to hedge accounting representing a new hedge accounting model have also been added to IFRS 9. The new standard is effective for annual periods beginning on or after January 1, 2018, and must be applied retrospectively. We will adopt this new standard on September 1, 2018. We are currently assessing the impact that the new standard will have on our consolidated financial statements.



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### Revenue from Contracts with Customers

IFRS 15, "Revenue from Contracts with Customers", was issued in May 2014. The objective of this new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability. This new standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This new standard is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. We have performed an assessment to identify significant areas of impact, if any, between our current accounting treatment under IAS 18, "Revenue" and the new requirements of IFRS 15. Based on the assessments to date, we anticipate that the main areas of impact will relate to the allocation of the transaction price to the various performance obligations under the contracts, the timing of revenue recognition for sales arrangement that contain customer acceptance clauses, and the sale of licenses that provide customers with the "right to use" our intellectual property. We will adopt this new standard on September 1, 2018 using the modified retrospective method, with the cumulative effect of the initial application of the standard recognized as an adjustment to the opening balance of retained earnings as at the date of initial application. We will apply this standard retrospectively only to contracts that are not completed at the date of initial application.

### Leases

IFRS 16, "Leases", was issued in January 2016. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, that is the customer (lessee) and the supplier (lessor). IFRS 16 will supersede IAS 17, "Leases", and related Interpretations. This new standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15, "Revenue from Contracts with Customers", is also applied. We have not yet assessed the impact that the new standard will have on our consolidated financial statements.

### Foreign Currency Transactions and Advance Consideration

IFRIC 22, "Foreign Currency Transactions and Advance Consideration", was issued in December 2016. IFRIC 22 addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) and on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. We will adopt this interpretation on September 1, 2018 and are currently assessing the impact that it will have on our consolidated financial statements.

### Uncertainty over Income Tax Treatments

IFRIC 23, "Uncertainty over Income Tax Treatments", was issued in June 2017. IFRIC 23 provides guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. We will adopt this interpretation on September 1, 2019 and are currently assessing the impact that it will have on our consolidated financial statements.





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CONTROLS

As described in Form 20-F/A filed on January 9, 2017, we concluded that EXFO's internal control over financial reporting was not effective as at August 31, 2016, as a result of the identification of a material weakness as we did not maintain sufficient controls over the trade accounts receivable ledger, which included a failure to maintain appropriate segregation of duties and a lack of supervisory review and monitoring of journal entries recorded to the trade accounts receivable ledger. See item 15(b) of Form 20-F/A filed on January 9, 2017 for more details on the impact of the material weakness on EXFO's financial reporting.

In the second quarter of fiscal 2017, we completed the implementation of our remediation plans to address the material weakness, which included additional segregation of duties. As at August 31, 2017, we concluded, through testing, that these controls were operating effectively and that the material weakness was considered remediated as of that date.

RISKS AND UNCERTAINTIES

Over the past several years, we have managed our business in a difficult environment; gradually evolved from a supplier of dedicated test instruments to a supplier of end-to-end solutions, focused on research and development programs for new and innovative solutions aimed at expected growth pockets in our sector; continued the development of our domestic and international markets; and made strategic acquisitions such as the recent acquisitions of Absolute, Ontology, Astellia and Yenista. However, we operate in a highly competitive and complex sector that is in constant evolution and, as a result, we encounter various risks and uncertainties that must be given appropriate consideration in our strategic management plans and policies.

Our business is subject to the effects of general global and regional economic conditions, particularly conditions in the telecommunications test, service assurance and analytics markets. In the past, our operating results have been adversely affected as a result of unfavorable economic conditions and reduced or delayed capital spending in the Americas, EMEA and APAC. Global and regional economic conditions continue to be volatile and uncertain as reflected by Britain's decision to exit the European Union. If global and/or regional economic and market conditions, or economic conditions in key markets, remain uncertain or deteriorate, we may experience material adverse impacts on our business. Unfavorable and/or uncertain economic and market conditions may result in lower capital spending or delayed spending by our customers on network test, service assurance and analytics solutions and, therefore, demand for our products could decline and adversely impact our revenue.

While strategic acquisitions, like those we made in fiscal 2017, those completed or announced in fiscal 2018, and possibly others in the future, are essential to our long-term growth, they also expose us to certain risks and uncertainties related to the rapid and effective integration of these businesses, their products, technologies and personnel as well as key personnel retention. Finally, integration of new acquisitions will require the dedication of management resources, which may detract management's attention from our day-to-day business and operations.

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Our functional currency is the Canadian dollar. We are exposed to a currency risk because of our export sales of products manufactured in Canada, China and Finland, the majority of which are denominated in US dollars and euros, while a significant portion of our cost of sales and operating expenses are denominated in Canadian dollars and currencies such as euros, British pounds, rupees (India) and CNY (China). As a result, even though we manage our exposure to currency risk to some extent with forward exchange contracts (by selling US dollars for Canadian dollars and US dollars for Indian rupees) and certain cost of sales and operating expenses denominated in currencies other than the Canadian dollar, namely the US dollar and euro, we are exposed to fluctuations in the exchange rates between the Canadian dollar on one hand and the US dollar, euro and other currencies on the other. Any increase in the value of the Canadian dollar relative to the US dollar and other currencies, or any unfavorable variance between the value of the Canadian dollar and the contractual rates of our US dollar - Canadian dollar forward exchange contracts, could result in foreign exchange losses and have a material adverse effect on our operating results. Foreign exchange rate fluctuations also flow through the statement of earnings line items as a significant portion of cost of sales and our operating expenses are denominated in Canadian dollars, euros and Indian rupees, and we report our results in US dollars. Any decrease in the value of the US dollar relative to the Canadian dollar and other currencies, could have a material adverse effect on our operating results.

Risks and uncertainties related to the telecommunications test, service assurance and analytics industry involve the rapid and timely development of new products that may have short lifecycles and require extensive research and development; the difficulty of adequately predicting market size, trends and customer needs; the ability to quickly adapt our cost structure to changing market conditions to achieve profitability; and the challenge of retaining highly skilled employees.

Given our strategic goals for growth and competitive positioning in our industry, we are continually expanding into international markets, such as the operation of our manufacturing facilities in China and our software development center in India as well as operating other subsidiaries in many countries. This exposes us to certain risks and uncertainties, namely changes in local laws and regulations, multiple technological standards, protective legislation, inter-company transfer price audits, pricing pressure, cultural differences and the management of operations in different countries.

The economic environment of our industry could also result in some of our customers experiencing difficulties, which, consequently, could have a negative effect on our results, especially in terms of future sales and recoverability of accounts receivable. However, the sectorial and geographic diversity of our customer base provides us with a reasonable level of protection in this area. Finally, other financial instruments, which potentially subject us to credit risks, consist mainly of cash, short-term investments and forward exchange contracts. Our short-term investments consist of debt instruments issued by high-credit quality corporations. Our cash and forward exchange contracts are held with or issued by high-credit quality financial institutions; therefore, we consider the risk of non-performance on these instruments to be limited.

We depend on a single supplier or a limited number of suppliers for some of the parts used to manufacture our products for which alternative sources may not be readily available. In addition, all our orders are placed through individual purchase orders and, therefore, our suppliers may experience difficulties, suffer from natural disasters, delays or stop supplying parts to us at any time. The reliance on a single source or limited number of suppliers could result in increased costs, delivery problems and reduced control over product pricing and quality. Any interruption or delay in the supply of any of these parts could significantly harm our ability to meet scheduled product deliveries to our customers and cause us to lose sales. Furthermore, the process of qualifying a new manufacturer for complex parts designed to our specifications, such as our optical, electronic or mechanical parts, is lengthy and would consume a substantial amount of time for our technical personnel and management. If we were required to change a supplier in a short period of time, our business would be disrupted. In addition, we may be unsuccessful in identifying a new

supplier capable of meeting and willing to meet our needs on terms that we would find acceptable.

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For a more complete understanding of risk factors that may affect us, please refer to the risk factors set forth in our Annual Report, on Form 20-F published with securities commissions at [www.EXFO.com](http://www.EXFO.com), or at [www.sedar.com](http://www.sedar.com) in Canada or [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml) in the U.S.

## NON-IFRS MEASURES

We provide non-IFRS measures (constant currency data, gross margin before depreciation and amortization and adjusted EBITDA) as supplemental information regarding our operational performance. We use these measures for evaluating our historical and prospective financial performance, as well as our performance relative to our competitors. These measures also help us to plan and forecast future periods as well as to make operational and strategic decisions. We believe that providing this information to our investors, in addition to the IFRS measures, allows them to see the company's results through the eyes of management, and to better understand our 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.

Constant currency data represents data before foreign currency impact. Data for the current period is translated using foreign exchange rates of the corresponding period from the preceding year.

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

Adjusted EBITDA represents net earnings before interest, income taxes, depreciation and amortization, stock-based compensation costs, restructuring charges, change in fair value of cash contingent consideration, unusual charge, and foreign exchange gain or loss.

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

## Adjusted EBITDA

	Years ended August 31,		
	2017	2016	2015
IFRS net earnings for the year	\$851	\$8,900	\$4,857
Add (deduct):			
Depreciation of property, plant and equipment	3,902	3,814	4,835
Amortization of intangible assets	3,289	1,172	2,883
Interest and other (income) expense	303	(828 )	(155 )
Income taxes	6,608	7,764	5,036
Stock-based compensation costs	1,414	1,378	1,295
Restructuring charges	5,079	–	1,637
Change in fair value of cash contingent consideration	(383 )	–	–

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Unusual charge	–	–	603
Foreign exchange (gain) loss	978	(161 )	(7,212 )
Adjusted EBITDA for the year	\$22,041	\$22,039	\$13,779
Adjusted EBITDA in percentage of total sales	9.1 %	9.5 %	6.2 %

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

	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	Year ended August 31,
2017					
Sales	\$61,785	\$60,030	\$58,505	\$62,981	\$243,301
Cost of sales <sup>(2)</sup>	\$22,813	\$22,989	\$24,555	\$23,972	\$94,329
Net earnings (loss)	\$3,303	\$1,008	\$(4,304)	\$844	\$851
Basic and diluted net earnings (loss) per share	\$0.06	\$0.02	\$(0.08)	\$0.02	\$0.02

	1 <sup>st</sup> quarter	2 <sup>nd</sup> quarter	3 <sup>rd</sup> quarter	4 <sup>th</sup> quarter	Year ended August 31,
2016					
Sales	\$55,232	\$53,597	\$60,896	\$62,858	\$232,583
Cost of sales <sup>(2)</sup>	\$20,137	\$18,904	\$23,880	\$24,145	\$87,066
Net earnings	\$1,766	\$3,963	\$919	\$2,252	\$8,900
Basic net earnings per share <sup>(3)</sup>	\$0.03	\$0.07	\$0.02	\$0.04	\$0.17
Diluted net earnings per share	\$0.03	\$0.07	\$0.02	\$0.04	\$0.16

Quarterly financial information has been derived from our unaudited condensed interim consolidated financial statements, which are prepared in accordance with the IFRS, as issued by the IASB, applicable to the preparation of interim financial statements, including IAS 34, "Interim Financial Reporting". The presentation currency is the US dollar, which differs from the functional currency of the company (Canadian dollar).

(1) of interim financial statements, including IAS 34, "Interim Financial Reporting". The presentation currency is the US dollar, which differs from the functional currency of the company (Canadian dollar).

(2) The cost of sales is exclusive of depreciation and amortization.

(3) Per share data is calculated independently for each quarter presented. Therefore, the sum of this quarterly information does not equal the corresponding annual information.

## Quarterly Sales Analysis

Overall in fiscal 2017, our sales increased 4.6% to \$243.3 million compared to \$232.6 million in 2016.

Refer to section "Sales and bookings" elsewhere in this document for explanations about the year-over-year annual increase in sales. On a quarterly basis, our sales fluctuate from quarter to quarter due to timing and magnitude of orders.

## Fourth-Quarter Results

## Gross margin

In the fourth quarter of fiscal 2017, our gross margin reached 61.9%, slightly higher compared to 61.6% for the same period last year.

First, we recorded lower inventory writeoffs in the fourth quarter of fiscal 2017 compared to the same period last year, which increased our gross margin by 1.3% year-over-year.

Also, in the fourth quarter of fiscal 2017, we reported lower foreign exchange losses on our forward exchange contracts, which had a positive impact of 0.2% on our gross margin year-over-year.

However, in the fourth quarter of fiscal 2017, our physical-layer product line represented a larger portion of our sales year-over-year, and this product line delivers lower margins than our protocol-layer product line (protocol-layer products have a richer software content), which had a negative impact on our gross margin year-over-year. In addition, in the fourth quarter of fiscal 2017, our gross margin was unfavorably affected by product mix within our physical-layer product line compared to the same period last year, which further reduced our gross margin year-over-year.



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Finally, in the fourth quarter of fiscal 2017, we recorded \$0.1 million in restructuring charges in the cost of sales (nil in 2016), which negatively affected our gross margin for that quarter (0.2%).

Net earnings

Net earnings amounted to \$0.8 million, or \$0.02 per diluted share, in the fourth quarter of fiscal 2017 compared to \$2.3 million, or \$0.04 per diluted share, for the same period last year.

First, in the fourth quarter of fiscal 2017, we recorded restructuring charges of \$1.3 million compared to nil in 2016.

In addition, in the fourth quarter of fiscal 2017, we incurred a foreign exchange loss of \$2.9 million compared to \$0.3 million in the same period last year due to the fluctuation of the period-end foreign exchange rates.

Otherwise, in the fourth quarter of fiscal 2017, excluding restructuring charges, our operating expenses (selling, administrative, net research and development, depreciation and amortization expenses) were \$1.0 million lower compared to the same period last year, despite general inflation and salary increases and the impact of our recent acquisitions. The decrease in our operating expenses year-over-year mainly comes from the effect of our recent restructuring plan. This was offset in part by higher amortization expense following the recent acquisitions.

In addition, in the fourth quarter of fiscal 2017, we recorded a positive change in the fair value of the cash contingent consideration payable for the acquisition of Ontology in the amount of \$0.4 million.

Finally, in the fourth quarter of fiscal 2017, we recorded an income tax expense of \$1.1 million compared to \$2.2 million for the same period last year, which increased our net earnings year-over-year.

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Quebec City, Canada, November 1, 2017

RE: Annual General and Special Meeting of Shareholders

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Dear Shareholder,

I would like to invite you to our upcoming Annual General and Special Meeting. Consider this letter as a formal invitation to attend our Meeting, which will be held on January 10, 2018, 9:00 a.m., at the Vantage Venues, Room Caledonia (27<sup>th</sup> floor), located at 150 King Street West, in Toronto.

Details of the business to be conducted at the Meeting are provided in the attached Management Proxy Circular and Notice of Annual General and Special Meeting of Shareholders. Please be advised that my annual Letter to Shareholders will be available on our website as well as the letter of our CEO, Philippe Morin (EXFO.com/AR2017), from November 24, 2017.

It is important that your shares be represented at the Meeting. **WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE VOTE BY TELEPHONE OR ELECTRONICALLY OR COMPLETE, SIGN, DATE AND PROMPTLY RETURN THE ACCOMPANYING PROXY BY FAX OR EMAIL OR IN THE ENCLOSED POSTAGE-PAID ENVELOPE.**

If you send in your proxy card and then decide to attend the Meeting to vote your shares in person, you may still do so. Your proxy is revocable in accordance with the procedures set forth in the Management Proxy Circular. On behalf of the Board of Directors, I would like to express our appreciation for your continued interest in EXFO. We look forward to seeing you at the Meeting.

Sincerely,

/s/ Germain Lamonde

Germain Lamonde

Executive Chairman of the Board

EXFO Inc.

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EXFO Inc.

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NOTICE OF ANNUAL AND SPECIAL MEETING  
OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the Annual and Special Meeting (the "Meeting") of shareholders of EXFO Inc. (the "Corporation") will be held at 9:00 a.m. (Eastern Standard Time), on Wednesday, January 10, 2018, at the Vantage Venues, Caledonia Room (27<sup>th</sup> Floor), 150 King Street West, Toronto, Ontario, Canada for the following purposes:

1. to receive the consolidated financial statements of the Corporation for the financial year ended August 31, 2017, and the Auditor's report thereon;
2. to elect Directors of the Corporation;
3. to appoint PricewaterhouseCoopers LLP as auditors and to authorize the Audit Committee to fix their remuneration;
4. to approve the amendments to the Long-Term Incentive Plan and the Deferred Share Unit Plan as set forth in Schedule A to the Proxy Circular;
5. to transact such further or other business as may properly come before the Meeting or any adjournment or adjournments thereof.

Enclosed is a copy of the 2017 consolidated financial statements, management's discussion and analysis and the Auditor's Report thereon, together with the Management Proxy Circular and a form of Proxy.

DATED at Quebec, Province of Quebec, this 1<sup>st</sup> day of November 2017.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Benoit Ringuette

Benoit Ringuette

Secretary

Shareholders unable to attend the Meeting are requested to vote by telephone or electronically or to complete the enclosed proxy form and return it by fax, email or in the envelope provided. To be valid, votes or proxies must reach the office of AST Trust Company (Canada), no later than the close of business on the last day prior to the date of the Meeting or any reconvening of the Meeting in case of adjournment. Shareholders may also have the proxy form delivered to the Chairman of the Meeting prior to the time of voting on the day of the Meeting or any adjournment thereof.

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Appointment of  
Proxyholder

I/We, being holder(s) of subordinate voting shares of EXFO Inc. (the "Company"), hereby appoint: Germain Lamonde, Executive Chairman, or, failing him, Philippe Morin, Chief Executive Officer OR

Under Canadian Securities Law, you are entitled to receive certain investor documents. If you wish to receive such material, please tick the applicable boxes below. You may also go to AST website <https://ca.astfinancial.com/financialstatements> and input code 1629a.

Print the name of the person you are appointing if this person is someone other than the individuals listed above

I would like to receive quarterly financial statements  
 I do not want to receive annual financial statements

I would like to receive future mailings by email at \_\_\_\_\_

as proxy of the undersigned, to attend, act and vote on behalf of the undersigned in accordance with the below direction (or if no directions have been given, as the proxy sees fit) on all the following matters and any other matter that may properly come before the Annual and Special Meeting of Shareholders of the Company to be held at 9:00 a.m. (Eastern Time) on January 10, 2018, at the Vantage Venues, 150 King Street West, 27<sup>th</sup> Floor, Caledonia Room, Toronto, Ontario, Canada (the "Meeting"), and at any and all adjournments or postponements thereof in the same manner, to the same extent and with the same powers as if the

I/We authorize you to act in accordance with my/our instructions set out above. I/We hereby revoke any proxy previously given with respect to the Meeting. If no voting instructions are indicated above, this Proxy will be voted FOR a matter by Management's appointees or, if you appoint another proxyholder, as that other proxyholder sees fit. On any amendments or variations proposed or any new business properly submitted before the Meeting, I/We authorize you to vote as you see fit.

\_\_\_\_\_  
Signature(s)  
Date

Please sign exactly as your name(s) appear on this proxy. Please see reverse for instructions. All proxies must be received by January 9<sup>th</sup>, 2018 at 5:00 p.m. (Eastern time).

undersigned were personally present, with full power of substitution.

Management recommends voting FOR Resolutions 1, 2 and 3. Please use a dark black pencil or pen.

1. Election of Directors  
FOR WITHHOLD

1. François Côté

2. Germain Lamonde

3. Angela Logothesis

4. Philippe Morin

5. Claude Séguin

6. Randy E. Tornes

2. Appointment of Auditors  
FOR WITHHOLD

Appointment of PricewaterhouseCoopers LLP

as Auditors

3. FOR-AGAINST  
FOR-AGAINST  
Incentive Plan and the Deferred Share

Unit  
Plan

Amendments  
Resolution  
To  
approve  
the  
amendments  
to  
the  
Long-Term  
Incentive  
Plan  
and  
the  
Deferred  
Share  
Unit  
Plan  
as  
set  
forth  
in  
Schedule  
A  
to  
the  
Proxy  
Circular.

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How to Vote

INTERNET

TELEPHONE

Proxy Form – Annual and Special Meeting of Shareholders of EXFO Inc. to be held on January 10, 2018 (the "Meeting")

- Go to [www.astvotemyproxy.com](http://www.astvotemyproxy.com)
- Cast your vote online
- View Meeting documents

Use any touch-tone phone, call toll free in Canada and United States 1-888-489-7352 and follow the voice instructions

Notes to Proxy

1. This proxy must be signed by a holder or his or her attorney duly authorized in writing. If you are an individual, please sign exactly as your name appears on this proxy. If the holder is a corporation, a duly authorized officer or attorney of the corporation must sign this proxy, and if the corporation has a corporate seal, its corporate seal should be affixed.

To vote using your smartphone, please scan this QR Code

2. If the securities are registered in the name of an executor, administrator or trustee, please sign exactly as your name appears on this proxy. If the securities are registered in the name of a deceased or other holder, the proxy must be signed by the legal representative with his or her name printed below his or her signature, and evidence of authority to sign on behalf of the deceased or other holder must be attached to this proxy.

To vote by telephone or Internet you will need your control number. If you vote by Internet or telephone, do not return this proxy.

**MAIL, FAX or EMAIL**

3. Some holders may own securities as both a registered and a beneficial holder; in which case you may receive more than one Circular and will need to vote separately as a registered and beneficial holder. Beneficial holders may be forwarded either a form of proxy already signed by the intermediary or a voting instruction form to allow them to direct the voting of securities they beneficially own. Beneficial holders should follow instructions for voting conveyed to them by their intermediaries.

- Complete and return your signed proxy in the envelope provided or send to:

AST Trust Company (Canada)  
P.O. Box 721  
Agincourt, ON M1S 0A1

4. If a security is held by two or more individuals, any one of them present or represented by proxy at the Meeting may, in the absence of the other or others, vote at the Meeting. However, if one or more of them are present or represented by proxy, they must vote together the number of securities indicated on the proxy.

- You may alternatively fax your proxy to 416-368-2502 or toll free in Canada and the United States to 1-866-781-3111 or scan and email to [proxy@astfinancial.com](mailto:proxy@astfinancial.com)

All holders should refer to the Proxy Circular for further information regarding completion and use of this proxy and other information pertaining to the Meeting.

An undated proxy is deemed to be dated on the day it was received by AST.

If you wish to receive investor documents electronically in future, please visit

Edgar Filing: EXFO INC. - Form 6-K

This proxy is solicited by and on behalf of Management of the <https://ca.astfinancial.com/edelivery> to enroll.  
Company.

All proxies must be received by January 9, 2018 at  
5:00 p.m. (Eastern time).



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NOTICE OF ANNUAL AND SPECIAL  
MEETING OF SHAREHOLDERS  
AND  
MANAGEMENT PROXY CIRCULAR

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November 1, 2017

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EXFO Inc.  
MANAGEMENT PROXY CIRCULAR

VOTING INFORMATION AND PROXIES

Solicitation of Proxies

This Management Proxy Circular ("Circular") is provided in connection with the solicitation by the Management of EXFO Inc. (the "Corporation" or "EXFO") of proxies to be used at the Annual and Special Meeting of shareholders (the "Meeting") of the Corporation to be held at the time and place and for the purposes stated in the accompanying Notice of Meeting and at any adjournment thereof. Unless otherwise indicated, the information contained herein is given as at November 1, 2017.

It is expected that the solicitation will be made primarily by mail and e-mail but proxies may also be solicited personally by officers, employees or agents of the Corporation. The Corporation may also reimburse brokers and other persons holding shares in their names or in the names of nominees, for their costs incurred in sending proxy material to principals and obtaining their proxies. The cost of solicitation will be borne by the Corporation and is expected to be nominal.

Appointment and Revocation of Proxies and Attendance of Beneficial Shareholders

The persons named in the enclosed Form of Proxy (the "Form of Proxy") are officers of the Corporation. A shareholder desiring to appoint some other person (who need not be a shareholder) to represent him or her at the Meeting may do so by inserting such person's name in the blank space provided in the Form of Proxy and checking item (B).

To be valid, votes or proxies must be received at the Toronto, Canada office of AST Trust Company (Canada), 1 Toronto Street, Suite 1200, Toronto, Ontario, M5C 2V6, the transfer agent of the Corporation, no later than the close of business on the last business day preceding the day of the Meeting or any adjournment thereof, or proxies may be delivered to the Chairman of the Meeting on the day of the Meeting or any adjournment thereof. A beneficial shareholder who completes a Form of Proxy and who wishes to attend and vote at the Meeting personally must appoint himself or herself proxy holder in the foregoing manner.

A proxy given pursuant to this solicitation may be revoked by instrument in writing executed by the shareholder or by his or her attorney authorized in writing if such instrument is deposited either at the registered office of the Corporation to the attention of the Corporate Secretary or at the Toronto, Canada office of the Corporation's transfer agent no later than the close of business on the last business day preceding the day of the Meeting or any adjournment thereof or with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof.

Voting of Proxies

The shares represented by proxies appointing the persons, or any one of them, designated by Management thereon to represent the shareholder at the Meeting will be voted in accordance with the instructions given by the shareholder. Unless otherwise indicated, the voting rights attached to the shares represented by a Form of Proxy will be voted "FOR" in respect of all the proposals described herein.



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The Form of Proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the accompanying Notice of Meeting. As at the date hereof, Management is not aware that any other matter is to be presented at the Meeting. If, however, other matters properly come before the Meeting, the persons designated in the Form of Proxy will vote thereon in accordance with their judgment pursuant to the discretionary authority conferred by such proxy with respect to such matters. A shareholder desiring to vote by telephone should call 1-888-489-7352 or to vote electronically must go to the following site: [www.astvotemyproxy.com](http://www.astvotemyproxy.com) and enter the personalized 13-digit e-voting control number printed on the enclosed Form of Proxy and follow the instructions on the screen or otherwise fax or e-mail or mail the enclosed Form of Proxy.

## Voting Shares and Principal Holders Thereof

As at November 1, 2017, 23,224,396 Subordinate Voting Shares and 31,643,000 Multiple Voting Shares were outstanding, being the only classes of shares of the Corporation entitled to be voted at the Meeting. Each holder of Subordinate Voting Shares is entitled to one (1) vote and the holder of Multiple Voting Shares is entitled to ten (10) votes for each share registered in his or her name at the close of business on November 13, 2017, being the date fixed by the Board of Directors for the purpose of determining registered shareholders entitled to receive the accompanying Notice of Meeting and to vote (the "Record Date"). A list of shareholders entitled to vote as of the Record Date, showing the number of shares held by each shareholder, shall be prepared within ten (10) days of the Record Date. This list of shareholders will be available for inspection during normal business hours at the Montreal, Canada office of AST Trust Company (Canada), the transfer agent of the Corporation, 2001 Robert-Bourassa Boulevard, Suite 1600, Montreal, Quebec, Canada, H3A 2A6, and at the Meeting.

Unless otherwise indicated, the resolutions submitted to a vote at the Meeting must be passed by a majority of the votes cast by the holders of Subordinate Voting Shares and Multiple Voting Shares, as a single class, present at the Meeting in person or by proxy and voting in respect of all resolutions to be voted on by the shareholders of the Corporation.

To the knowledge of executive officers and directors of the Corporation, as at November 1, 2017, the only persons who are beneficial owners or who exercise control or direction, directly or indirectly, over shares carrying more than 10% of the voting rights attaching to any class of shares of the Corporation are:

Name of Shareholder	Number of Subordinate Voting Shares	Percentage of Voting Rights Attached to All Subordinate Voting Shares	Number of Multiple Voting Shares <sup>(1)</sup>	Percentage of Voting Rights Attached to All Multiple Voting Shares	Percentage of Voting Rights Attached to All Subordinate and Multiple Voting Shares
Germain Lamonde	<sup>(2)</sup> 3,769,508	16.23%	31,643,000	<sup>(3)</sup> 100%	94.27%
EdgePoint Investment Group, Inc.	3,011,136	12.97%	—	—	0.89%
Soros Fund Management	2,306,000	9.93%	—	—	0.68%

(1) The holder of Multiple Voting Shares is entitled to ten (10) votes for each share.

- Mr. Lamonde exercises control over 3,000,000 Subordinate Voting Shares through 9356-9036 Québec Inc., a company controlled by Mr. Lamonde. Mr. Lamonde exercises control over 400,000 Subordinate Voting Shares through 9356-9010 Québec Inc., a company controlled by Mr. Lamonde. Mr. Lamonde exercises control over 316,247 Subordinate Voting Shares through 9356-8988 Québec Inc., a company controlled by Mr. Lamonde. Mr. Lamonde exercises control over 24,743,000 Multiple Voting Shares through G. Lamonde Investissements Financiers Inc., a company controlled by Mr. Lamonde. Mr. Lamonde exercises control over 5,000,000 Multiple Voting Shares through 9356-9036 Québec Inc., a company controlled by Mr. Lamonde. Mr. Lamonde exercises control over 1,900,000 Multiple Voting Shares through Fiducie Germain Lamonde, a family trust for the benefit of Mr. Lamonde's family.

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### Electronic Delivery

The Corporation has a voluntary program for e-mail notification to its shareholders advising them that documents which must be delivered pursuant to securities legislation are available on the Corporation's website. Every year, as required by law governing public companies, the Corporation delivers documentation to shareholders, such as this Circular and the Corporation's annual consolidated financial statements together with the auditor's report thereon. The Corporation has made the delivery of such documents more convenient for its shareholders, as shareholders who so wish may be notified by e-mail when the Corporation's documentation is posted in the "Investors" section on its website ([www.EXFO.com](http://www.EXFO.com)). Accordingly, such documentation will not be sent to such shareholders in paper form by mail. The Corporation believes that electronic delivery will benefit the environment and reduce its costs. Shareholders who do not consent to receive documentation by e-mail will continue to receive such documentation by mail. Shareholders may also notify the Corporation in writing of their intention not to receive the annual consolidated financial statements together with the auditor's report thereon, neither by e-mail nor by mail.

Registered shareholders can consent to electronic delivery by visiting AST Trust Company (Canada)'s web site: <https://ca.astfinancial.com/delivery>. Unregistered shareholders (i.e. shareholders whose shares are held through a securities broker, bank, trust company or other nominee) can consent to electronic delivery by completing and returning the appropriate form received from the applicable intermediary.

### BUSINESS TO BE TRANSACTED AT THE MEETING

#### Presentation of the Financial Statements

The consolidated financial statements of the Corporation for the financial year ended August 31, 2017 and the auditor's report thereon will be submitted to shareholders at the Meeting but no vote with respect thereto is required or proposed to be taken.

#### Election of the Directors and Nomination Process

According to the articles of the Corporation, the Board of Directors shall consist of a minimum of three (3) and a maximum of twelve (12) directors. The number of directors is currently fixed at six (6) pursuant to a resolution of the Board of Directors. At the Meeting, Management proposes the six (6) persons named hereafter on pages 88 to 93 as nominees for election as directors to hold office until the next annual meeting or until the office is otherwise vacated in accordance with the Corporation's by-laws.

Management does not anticipate that any of the nominees will be unable or, for any reason whatsoever, reluctant to fulfill their duties as directors. Should this occur for any reason whatsoever before the election, the persons named in the Form of Proxy reserve the right to vote for another nominee of their choice unless the shareholder specifies on the Form of Proxy to abstain from voting for the election of the directors. The election of the directors must be approved by a majority of the votes cast on the matter at the Meeting.

The Corporation's Majority Voting Policy applies to this election. Under such policy, a director who is elected in an uncontested election with a greater number of votes "withheld" than votes "for" such director will be required to tender his or her resignation to the Chair of the Board. This resignation will be effective when accepted by the Board of Directors. Unless extraordinary circumstances apply, the Board of Directors will accept the resignation. The Board of Directors will announce its decision (including the reason for not accepting a resignation) by press release within ninety (90) days of the meeting during which the election was held. A copy of the Majority Voting Policy is available

on the Corporation's website ([www.EXFO.com](http://www.EXFO.com)).



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The Human Resources Committee assists the Board of Directors by identifying individuals qualified to become members of the Board of Directors, and making recommendations to the Board of Directors as to selection of director nominees for the next annual meeting of shareholders. In making its recommendations, the Human Resources Committee objectively considers, among others, the competencies and skills that: (i) the Board of Directors considers to be necessary for the Board, as a whole, to possess; (ii) the Board of Directors considers each existing director to possess; and (iii) each new nominee will bring to the board room. Therefore, the competencies and skills, identified by the Human Resources Committee, as a whole, include the skill sets of current board members such as financial literacy, proficiency with test, service assurance and network visibility solutions and technologies, telecommunications industry experience, international business experience and other related competencies. Any additional skill sets deemed to be beneficial are considered, assessed and identified in light of the opportunities and risks facing the Corporation when candidates for director positions are considered.

### Appointment and Remuneration of Auditors

A firm of auditors is to be appointed by vote of the shareholders at the Meeting to serve as auditors of the Corporation until the close of the next annual general meeting of the shareholders. The Audit Committee is to be authorized to fix the remuneration of the auditors so appointed. The Board of Directors and Management, upon the advice of the Audit Committee, recommend that PricewaterhouseCoopers LLP be re-appointed as auditors of the Corporation. The re-appointment of PricewaterhouseCoopers LLP must be approved by a majority of the votes cast on the matter at the Meeting.

### Amendments to the Long-Term Incentive Plan and the Deferred Share Unit Plan

The Corporation's Long-Term Incentive Plan (the "LTIP") and Deferred Share Unit Plan (the "DSU Plan"), which are further described herein under the heading "Long-Term Incentive Compensation", are designed to better align the interests of the directors, officers, employees, consultants as well as non-employee directors with those of the Corporation's shareholders.

On October 12, 2017, the Board of Directors of the Corporation, on the recommendation of the Human Resources Committee authorized, subject to regulatory and shareholders' approvals, certain amendments to the current LTIP and DSU Plan. The proposed amendments include an increase in the number of Subordinate Voting Shares reserved for issuance under such plans as well as the adoption of new amending provisions and an automatic extension of the period during which an option is exercisable if the expiration date falls during a blackout period, as more detailed below.

### Increase in Shares Reserved for Issuance

As of November 1, 2017, the aggregate number of Subordinate Voting Shares issuable under the LTIP and DSU Plan shall not exceed 6,306,153 Subordinate Voting Shares, which represents 11.5% of the Corporation's issued and outstanding voting shares. From this total, 4,241,139 Subordinate Voting Shares have been issued and 1,849,653 Subordinate Voting Shares are issuable under actual awards held by participants, which represents 11.1% of the Corporation's issued and outstanding voting shares as of November 1, 2017, leaving 215,361, Subordinate Voting Shares available for grant under the LTIP and DSU Plan, representing 0.4% of the issued and outstanding voting shares as of November 1, 2017.

It is proposed to increase the aggregate number of Subordinate Voting Shares reserved for issuance under the LTIP and DSU Plan from 6,306,153 to 11,792,893 Subordinate Voting Shares. This would mean that Subordinate Voting

Shares available for future grants under the LTIP and DSU Plan would then increase from 215,361 to 5,702,101, representing 10.4% of the total 54,867,396 issued and outstanding voting shares of the Corporation as of November 1, 2017. The last increase in the number of Subordinate Voting Shares reserved for issuance was approved by the shareholders of the Corporation in 2003.

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The purpose of the proposed increase is to allow the Corporation to continue to use the LTIP and DSU Plan as an incentive for directors, officers (except the Executive Chairman), employees and any other person or entity engaged to provide ongoing services to the Corporation and to attract, motivate and retain talented personnel, whether through organic growth or acquisitions.

Adoption of New Amending Provisions

Many of the older stock based incentive plans, including the LTIP and the DSU Plan, contain an amending formula that does not specifically list the amendments requiring shareholder approval, because the Toronto Stock Exchange used to have a policy that sets out when shareholder approval is required for plan amendments. The Toronto Stock Exchange has rescinded such policy and now encourages issuers to adopt detailed amending provisions designed to distinguish plan amendments that do, and those that do not, require shareholder approval. The proposed new amending provisions meet the requirements of the Toronto Stock Exchange.

The following is a detailed summary of the new amending provisions proposed to be included in the LTIP and the DSU Plan, copies of which plans are provided in Schedules "B" and "C" hereto.

Under the new amending provisions, the Board of Directors may amend the LTIP and the DSU Plan or any options, Restricted Share Units ("RSUs") and Deferred Share Units ("DSUs") issuable thereunder at any time without the consent of the holders of such securities provided that such amendment shall (i) not adversely alter or impair any securities previously granted except as permitted by the terms of the plans, (ii) be subject to any required approval of any securities regulatory authority or stock exchange, and (iii) be subject to shareholder approval, where required, by law, stock exchange requirements or the plans themselves, provided however that actions which do not require shareholder approval include, without limitation, the following actions:

- amendments of a general housekeeping or clerical nature that, among others, clarify, correct or rectify any ambiguity, defective provision, error or omission in the LTIP or the DSU Plan;
- amendments necessary to comply with applicable laws or the requirements of any securities regulatory authority or stock exchange;
- changing the eligibility for, and limitations on, participation in the LTIP and the DSU Plan;
- modifying the terms and conditions of any options, RSUs and DSUs, including restrictions, not inconsistent with the terms of the LTIP and the DSU Plan, which terms and conditions may differ among individual grants and holders of such securities;
- modifying the periods referred to in the LTIP during which vested options may be exercised, provided that the option period is not extended beyond ten years after the date of the granting of the option;
- amendments with respect to the vesting period, with respect to circumstances that would accelerate the vesting of options or RSUs, or the redemption of DSUs;
- any amendment resulting from or due to the alteration of share capital as more fully set out in the LTIP and the DSU Plan;
- amendments to the provisions relating to the administration of the LTIP and the DSU Plan; and
- suspending or terminating the LTIP and the DSU Plan.

For greater certainty, the Board of Directors shall be required to obtain shareholder approval to make the following amendments:

- a reduction in the exercise price of options held by an insider;
- an extension of the exercise period of options held by an insider;
- any amendment to remove or to exceed the limits on insider participation;

an increase to the maximum number of Subordinate Voting Shares issuable under the LTIP and the DSU Plan; and  
any amendment to the amendment provisions of the LTIP and the DSU Plan.

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For the first three bullet points above, the votes attached to shares held directly or indirectly by insiders benefiting directly or indirectly from the amendment must be excluded. In addition, with respect to the last bullet point above, where the amendment will disproportionately benefit one or more insiders over other holders of options, RSUs or DSUs, the votes of shares held directly or indirectly by those insiders receiving the disproportionate benefit must be excluded.

### Extension of the Option Period

Most of the listed companies, including the Corporation, have adopted trading policies whereby officers, directors and employees cannot exercise options or trade in securities of the company during blackout periods. The Toronto Stock Exchange has a policy that sets out the circumstances where the expiration of an option can be extended during such blackout periods.

The LTIP currently provides that an option shall be exercisable during a period established by the Board of Directors or the Human Resources Committee, which period shall commence no earlier than the grant date and shall terminate no later than ten years after such date (the "Option Period").

It is proposed to amend the LTIP in order to add a provision whereby the Option Period shall be automatically extended if the date on which it is scheduled to terminate falls during a blackout period or within 10 business days after the last day of a blackout period. In such cases, the Option Period shall terminate 10 business days after the last day of a blackout period. The full text of the proposed amendment to the LTIP is provided in Schedule "B" to this Circular.

### Other amendments

It is proposed to make other amendments of a general housekeeping or clerical nature such as clarification of insider participation limit and other restrictions applicable to issuances of options, RSUs and DSUs, clarification of currency exchange rate used as a result of discontinuance of rate publication, and numbering changes.

The Board of Directors recommends that the shareholders vote FOR the adoption of the resolution to approve the proposed amendments to the LTIP and the DSU Plan, appended hereto as Schedule "A" to this Circular. In order to adopt the foregoing resolution, at least a majority of the votes cast by holders of Subordinate Voting Shares and Multiple Voting Shares, voting as a single class, present in person or by proxy, must be voted in favor of the resolution.

## NOMINEES FOR ELECTION AS DIRECTORS AND THEIR BENEFICIAL OWNERSHIP OF VOTING SECURITIES

The following charts and notes set out the name of each of the individuals proposed to be nominated at the Meeting for election as a director of the Corporation. Included in these charts is information relating to the proposed directors' committee memberships, meeting attendance, period of service as a director, principal directorships with other organizations and equity ownership (or securities over which each of them exercises control or direction) in the Corporation.

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## GERMAIN LAMONDE

St-Augustin-de-Desmaures,  
Quebec, Canada  
Director since  
September 1985  
Not Independent  
(Management)  
Principal Occupation:  
Executive Chairman of the  
Board  
of Directors of the Corporation  
since April 1, 2017  
President and Chief Executive  
Officer of the Corporation  
until April 1, 2017

Germain Lamonde, a founder of EXFO, is Executive Chairman of the Board and served as the company's Chief Executive Officer (CEO) for over 30 years. During his tenure as CEO, Mr. Lamonde grew the company from the ground up into a global leader in the test, service assurance and analytics markets. Today, he is actively involved in leading the acquisition strategy, defining the company's growth strategies, customer outreach, select projects and corporate governance policies. Mr. Lamonde has served on the board of directors of several organizations, including the Canadian Institute for Photonic Innovations, Quebec City's economic development corporation (Québec International), the National Optics Institute (INO) and Université Laval in Quebec City. Germain Lamonde holds a bachelor's degree in engineering physics from the Université de Montreal's school of engineering (Polytechnique Montréal), a master's degree in optics from Université Laval, and is a graduate of the Ivey Executive Management Program offered by Western University.

## Board/Committee Membership

Attendance Board Memberships of Another  
(1) Reporting Issuer

Chairman of the Board of Directors

10/10 100% –

## Securities Held

As at	Subordinate Voting Shares (#)	Multiple Voting Shares (#)	RSUs (#)	Total Shares (2)	Total Market Value (3) of Shares (2) and RSUs and RSUs (#) (US\$)
August 31, 2017	3,769,508 (4)	31,643,000 (5)		35,412,508	166,438,788

- (1) From September 1, 2016 until November 1, 2017, Mr. Lamonde attended six (6) board meetings in person and four (4) board meetings by telephone.
- (2) Includes both Subordinate Voting Shares and Multiple Voting Shares.
- The value of unvested RSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2017, which was US\$4.70 (CA\$5.89). The market value of the Subordinate Voting Shares and Multiple Voting Shares was calculated by using the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ Global Select Market on August 31, 2017 using the daily exchange rate of the Bank of Canada to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars as required. The actual gains on vesting of RSUs will depend on the value of the Subordinate Voting Shares on the date of vesting. There can be no assurance that these values will be realized.
- (3) Mr. Lamonde exercises control over 3,000,000 Subordinate Voting Shares through 9356-9036 Québec Inc., a company controlled by Mr. Lamonde. Mr. Lamonde exercises control over 400,000 Subordinate Voting Shares through 9356-9010 Québec Inc., a company controlled by Mr. Lamonde. Mr. Lamonde exercises control over 316,247 Subordinate Voting Shares through 9356-8988 Québec Inc., a company controlled by Mr. Lamonde. Mr. Lamonde exercises control over 24,743,000 Multiple Voting Shares through G. Lamonde Investissements Financiers Inc., a company controlled by Mr. Lamonde. Mr. Lamonde exercises control over 5,000,000 Multiple Voting Shares through 9356-9036 Québec Inc., a company controlled by Mr. Lamonde. Mr. Lamonde exercises control over 1,900,000 Multiple Voting Shares through Fiducie Germain Lamonde, a family trust for the benefit of Mr. Lamonde's family.
- (4)
- (5)

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## FRANÇOIS CÔTÉ

Montreal, Quebec, Canada  
 Director since January 2015  
 Lead Director  
 Independent Principal Occupation: Director

François Côté was appointed a member of our Board of Directors in January 2015. Mr. Côté is a director as a full-time occupation, for corporations in the public, private and non-profit sectors, bringing his expertise in strategy, M&A, governance and passion for growth. Mr. Côté held a variety of executive positions at Bell Canada prior to becoming President and Chief Executive Officer of Emergis. Following the acquisition of Emergis by TELUS in January 2008, he was appointed President of TELUS Quebec, TELUS Health and TELUS Ventures. In this role, Mr. Côté was responsible for broadening TELUS Quebec's presence and driving the company's national health strategy through timely investments in information technology and innovative wireless solutions. Mr. Côté holds a Bachelor's degree in Industrial Relations from Laval University. In 2007, he was named Entrepreneur of the Year by Ernst & Young, in the Corporate Restructuring category for the province of Quebec. Mr. Côté serves on the boards of Alithya, Aspire Food Group, CPU and of the Fondation Martin Matte. Mr. Côté is also on the Consultative Committee of Medfar Solutions and serves on the Advisor Committee of Groupe Morneau. Mr. Côté is also acting as advisor to different companies' CEO's.

Board/Committee Membership	Attendance (1)	Board Memberships of Another Reporting Issuer
Board of Directors	9/10 90%	
Audit Committee	6/6 100%	—
Human Resources Committee	5/5 100%	
Independent Board of Directors	5/5 100%	

## Securities Held

As at	Subordinate Voting Shares (#)	DSUs (#)	Total Shares and DSUs (#)	Total Market Value <sup>(2)</sup> of Shares <sup>(3)</sup> and DSUs (US\$)
August 31, 2017	6,500	17,730	24,230	113,881

(1) From September 1, 2016 until November 1, 2017, Mr. Côté attended six (6) board meetings in person and three (3) board meetings by telephone.

(2) The value of unvested DSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2017, which was US\$4.70 (CA\$5.89). The market value of the Subordinate Voting Shares was calculated by using the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ Global Select Market on August 31, 2017 using the daily exchange rate of the Bank of Canada to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars as required. The actual gains on vesting of DSUs



will depend on the value of the Subordinate Voting Shares on the date of vesting. There can be no assurance that these values will be realized.

(3)Refers to Subordinate Voting Shares.

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## ANGELA LOGOTHETIS

Angela Logothetis has more than twenty-five (25) years of international experience in the telecommunications industry. She has been strategically engaged in the industry's major network transformations. Ms. Logothetis has an outstanding software pedigree having worked for market-leading software companies including Amdocs, Cramer, PricewaterhouseCoopers and Accenture as well as start-up software companies Clarity and Time Quantum Technology. She has held senior leadership positions in ANZ, APAC and EMEA and has held global responsibility for the past ten (10) years. Ms. Logothetis is the Head of Network Strategy, Technology and Services for Amdocs. Amdocs is the market leader in customer experience software solutions and services for the world's largest communications, entertainment and media service providers. Ms. Logothetis has held several senior leadership positions at Amdocs including Head of OSS Product and Technology, Vice-President of OSS Product Management and Executive Site Lead for Amdocs Bath. She has chaired high-caliber software forums in Amdocs including the Divisional Leadership Team, the Technical Advisory Council, and has served as an executive on the Product Business Management Team and the Product Leadership Forum. Ms. Logothetis holds a Bachelor of Science degree, with first class honors, in Business Information Technology from the University of New South Wales, Australia. She completed dual majors in accountancy and information technology.

Bath  
United  
Kingdom  
Director since  
January 2017  
Independent  
Principal  
Occupation:  
Vice-President,  
Head of  
Technology  
and Services  
Amdocs <sup>(1)</sup>

Board/Committee Membership	Attendance <sup>(2)</sup>	Board Memberships of Another Reporting Issuer
Board of Directors	4/5 80%	
Audit Committee	3/3 100%	—
Human Resources Committee	3/3 100%	
Independent Board of Directors	3/3 100%	

## Securities Held

As at	Subordinate Voting Shares (#)	DSUs (#)	Total Shares and DSUs (#)	Total Market Value <sup>(3)</sup> of Shares <sup>(4)</sup> and DSUs (US\$)
August 31, 2017 –		8,639	8,639	40,603

(1) Amdocs is a market leader in software solutions and services for communications, media and entertainment service providers.

(2) From January 11, 2017 until November 1, 2017, Ms. Logothetis attended three (3) board meetings in person and one (1) board meeting by telephone.

(3)

The value of unvested DSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2017, which was US\$4.70 (CA\$5.89). The market value of the Subordinate Voting Shares was calculated by using the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ Global Select Market on August 31, 2017 using the daily exchange rate of the Bank of Canada to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars as required. The actual gains on vesting of DSUs will depend on the value of the Subordinate Voting Shares on the date of vesting. There can be no assurance that these values will be realized.

(4) Refers to Subordinate Voting Shares.

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## PHILIPPE MORIN

Montreal,  
Quebec  
Canada  
Proposed  
nominee for

Director to the January 2018 shareholders' meeting Not Independent (Management) Principal Occupation: CEO of the Corporation since April 1, 2017

Philippe Morin was appointed Chief Executive Officer (CEO) of EXFO in April 2017. He has more than twenty-five (25) years of experience in the telecommunications industry, and became EXFO's Chief Operating Officer (COO) in November 2015, leading the company's global sales leadership, market development, marketing and product strategy. Before joining EXFO, Mr. Morin was Senior Vice-President of Worldwide Sales and Field Operations at Ciena. He previously held senior leadership roles at Nortel Networks, including President of Metro Ethernet Networks and Vice-President and General Manager of Optical Networks. Philippe Morin holds a bachelor's degree in electrical engineering from Université Laval in Quebec City, Canada, and a master's degree in business (MBA) from McGill University in Montreal, Canada.

Board/Committee Membership	Attendance (1)	Board Memberships of Another Reporting Issuer
Board of Directors	N/A	N/A
Audit Committee	N/A	N/A
Human Resources Committee	N/A	N/A
Independent Board of Directors	N/A	N/A

## Securities Held

As at	Subordinate Voting Shares (#)	RSUs (#)	Total Shares and RSUs (#)	Total Market Value (2) of Share (3) and RSUs (US\$)
August 31, 2017	600,000	255,238	855,238	4,019,619

(1) Mr. Morin, if elected, will join our Board of Directors on January 10, 2018. Hence, from September 1, 2016 until November 1, 2017, Mr. Morin did not attend any meetings as a board member.

- The value of unvested RSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2017, which was US\$4.70 (CA\$5.89). The market value of the Subordinate Voting Shares and Multiple Voting Shares was calculated by using the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ Global Select Market on August 31, 2017 using the daily exchange rate of the Bank of Canada to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars as required. The actual gains on vesting of RSUs will depend on the value of the Subordinate Voting Shares on the date of vesting. There can be no assurance that these values will be realized.
- (2) Refers to Subordinate Voting Shares.
- (3) Refers to Subordinate Voting Shares.

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## CLAUDE SÉGUIN

Westmount, Quebec, Canada Director since February 2013  
 Independent Principal Occupation: Special Advisor to the Founder and Executive Chairman, CGI Group Inc. (1)

Claude Séguin was appointed a member of EXFO's Board of Directors in February 2013. He brings to EXFO nearly forty (40) years of corporate, financial, executive and provincial government experience gained through senior management positions in major corporations and government departments. Mr. Séguin is currently Special advisor to the Founder and Executive Chairman at CGI Group Inc., a global leader in information technology and business process services. He was, until October 2016, Senior Vice-President, Corporate Development and Strategic Investments. In this position, he was responsible for all merger and acquisition activities. Prior to joining CGI in 2003, he served as President of CDP Capital—Private Equity, and prior to this position, he served as Teleglobe Inc.'s Executive Vice-President, Finance and Chief Financial Officer, a position that he held from 1992 to 2000. Mr. Séguin also has extensive senior-level government experience, having served as Deputy Finance Minister of the Province of Quebec from 1987 to 1992, in addition to Assistant Deputy Finance Minister in prior years. Prior to that, he has been Director of Planning and Assistant Director of Social Programs at the Province of Quebec Treasury Board. Mr. Séguin is a member of the boards of HEC-Montréal and Centraide of Greater Montreal Foundation as well as being Chairman of the Board of Finance – Montreal, an organization regrouping financial institutions in the Province of Quebec. He also serves on the board of directors of Fonds de solidarité FTQ, a trade union sponsored investments fund. Claude Séguin graduated from HEC-Montréal and earned a master's and a Ph.D. in public administration from Syracuse University in New York State. He also followed the Advanced Management Program at Harvard Business School.

Board/Committee Membership	Attendance (2)	Board Memberships of Another Reporting Issuer
Board of Directors	10/10 100%	
Audit Committee	6/6 100%	
Human Resources Committee	5/5 100%	—
Independent Board of Directors	5/5 100%	

## Securities Held

As at	Subordinate Voting Shares (#)	DSUs (#)	Total Shares and DSUs (#)	Total Market Value (3) of Shares (4) and DSUs (US\$)
August 31, 2017 –		29,855	29,855	140,318

(1) CGI Group Inc. is an information technology consulting, systems integration, outsourcing and solutions company.

(2)

From September 1, 2016 until November 1, 2017, Mr. Séguin attended six (6) board meetings in person and four (4) board meetings by telephone.

The value of unvested DSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2017, which was US\$4.70 (CA\$5.89). The market value of the Subordinate Voting Shares was calculated by using the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ Global Select Market on August 31, 2017 using the daily exchange rate of the Bank of Canada to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars as required. The actual gains on vesting of DSUs will depend on the value of the Subordinate Voting Shares on the date of vesting. There can be no assurance that these values will be realized.

(4) Refers to Subordinate Voting Shares.

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## RANDY E. TORNES

Frisco, Texas, Randy E. Tornes was appointed a member of EXFO's Board of Directors in February 2013. He USA brings to EXFO over thirty (30) years of telecommunications experience gained through senior Director since management positions at leading network equipment manufacturers. Mr. Tornes is Vice-President, February 2013 Strategic Alliances at Juniper Networks, a worldwide leader in high-performance networking and Independent telecommunications equipment. Prior to his current role at Juniper, he was the Operating Area Principal Leader for AT&T and responsible for all sales, service and support of Juniper products and services. Occupation: Prior to joining Juniper Networks in May 2012, he spent two (2) years at Ericsson, where he was Vice-President Vice-President Sales (AT&T account). Previous to that position, he worked for Nortel for twenty-six Strategic (26) years, holding various sales management positions, including Vice-President Sales, GSM Alliances, Americas. Mr. Tornes also served as member of the Board of Governors at 3G Americas LLC. Juniper Randy E. Tornes holds a Bachelor of Science degree in business—organizational development and Networks (1) production and operations management, from the University of Colorado in Colorado Springs.

Board/Committee Membership	Attendance (2)	Board Memberships of Another Reporting Issuer
Board of Directors	10/10 100%	
Audit Committee	6/6 100%	
Human Resources Committee	5/5 100%	—
Independent Board of Directors	5/5 100%	

## Securities Held

As at	Subordinate Voting Shares (#)	DSUs (#)	Total Shares and DSUs (#)	Total Market Value (3) of Shares (4) and DSUs (US\$)
August 31, 2017 –		62,603	62,603	294,234

(1) Juniper Networks is a manufacturer of networking equipment.

(2) From September 1, 2016 until November 1, 2017, Mr. Tornes attended six (6) board meetings in person and four (4) board meetings by telephone.

(3) The value of unvested DSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2017, which was US\$4.70 (CA\$5.89). The market value of the Subordinate Voting Shares was calculated by using the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ Global Select Market on August 31, 2017 using the daily exchange rate of the Bank of Canada to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars as required. The actual gains on vesting of DSUs



will depend on the value of the Subordinate Voting Shares on the date of vesting. There can be no assurance that these values will be realized.

(4)Refers to Subordinate Voting Shares.

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The information as to Subordinate Voting Shares and Multiple Voting Shares beneficially owned or over which the above-named individuals exercise control or direction is not within the direct knowledge of the Corporation and has been furnished by the respective individuals. The information as to the Principal Board Memberships is also not within the direct knowledge of the Corporation and has been furnished by the respective individuals.

None of the individuals who are proposed to be nominated at the Meeting for election as a director of the Corporation:

is, as at the date hereof, or has been, within ten (10) years before the date hereof, a director, chief executive officer or chief financial officer of any company that (i) was subject to an order that was issued while such individual was acting in the capacity as director, chief executive officer or chief financial officer, or (ii) was subject to an order that a) was issued after such individual ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer;

is, as at the date hereof, or has been within ten (10) years before the date hereof, a director or executive officer of any company that, while such individual was acting in that capacity, or within a year of that individual ceasing to b) act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;

has, within the ten (10) years before the date hereof, become bankrupt, made a proposal under any legislation c) relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his assets; or

has been subject to (i) any penalties or sanctions imposed by a court relating to securities legislation or by a d) securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for such individual.

## COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

### Compensation Discussion and Analysis

This Compensation Discussion and Analysis focuses primarily on: (i) significant elements of the Corporation's executive compensation program; (ii) principles on which the Corporation makes compensation decisions and determines the amount of each element of executive and director compensation; and (iii) an analysis of the material compensation decisions made by the Human Resources Committee for the financial year ended August 31, 2017.

The following is a discussion of the compensation arrangements with the Corporation's Executive Chairman, Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and each of the two most highly compensated executive officers of the Corporation and its subsidiaries whose total compensation was, individually, more than CA\$150,000 (collectively with the Executive Chairman, CEO and CFO, the "Named Executive Officers" or "NEOs"). The NEOs for the financial year ended August 31, 2017 were Mr. Germain Lamonde (Executive Chairman), Mr. Philippe Morin (CEO), Mr. Pierre Plamondon (CFO and Vice-President, Finance), Mr. Willem Jan te Niet (Vice-President, Sales — Europe Middle East and Africa) and Mr. Dana Yearian (Vice-President, Sales — Americas). Mr. Lamonde stepped down as CEO as of April 1, 2017 and was nominated Executive Chairman of the Corporation. Mr. Morin was promoted from Chief Operating Officer of the Corporation to CEO of the Corporation as of April 1, 2017.



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### Members of the Human Resources Committee

During the financial year ended August 31, 2017, the Human Resources Committee was composed of:

- Mr. François Côté (Chairman)
- Mr. Pierre-Paul Allard
- Mr. Darryl Edwards (until January 10, 2017)
- Ms. Angela Logothetis (since January 11, 2017)
- Mr. Claude Séguin
- Mr. Randy E. Tornes

None of these members were officers or employees, or former officers or employees of the Corporation or its subsidiaries. All of the members of the Human Resources Committee are considered "independent", as defined in applicable securities legislation and regulations. They each have experience in executive compensation either as a chief executive officer or a senior executive officer of a publicly-traded corporation. Mr. Pierre-Paul Allard has held management and executive positions for the last thirty (30) years. Mr. François Côté held a variety of executive positions, including president and chief executive officer, for approximately twenty (20) years. Mr. Côté also holds a Bachelor's degree in Industrial Relations. Ms. Angela Logothetis holds a Bachelor of Science degree, with first class honors, in Business Information Technology. She completed dual majors in accountancy and information technology. She has more than twenty-five (25) years of international experience in the telecommunications industry. Mr. Claude Séguin has held various senior management and executive positions in major corporations in the last forty (40) years. Mr. Randy E. Tornes has approximately thirty (30) years of management experience through senior sales management positions. Over the course of their careers, all members have been exposed at various degrees to the complexity of balancing efficient executive compensation strategies with the evolution of business requirements, having to manage directly or indirectly impacts and consequences of executive compensation decisions. The Board of Directors believes that the Human Resources Committee collectively has the knowledge, experience and background required to fulfill its mandate.

### Mandate of the Human Resources Committee

The Human Resources Committee of the Board of Directors is responsible for establishing the annual compensation and assessing the risks related thereto and overseeing the assessment of the performance of all the Corporation's executive officers, including the Executive Chairman and CEO. The Human Resources Committee also reviews and submits to the Board of Directors recommendations for the salary structure and the short-term and long-term incentive compensation programs for all employees of the Corporation. The Human Resources Committee also evaluates and makes recommendations to the Board of Directors regarding the compensation of directors, including the number of Deferred Share Units credited to the non-employee directors pursuant to the Deferred Share Unit Plan. The Human Resources Committee's goal is to develop and monitor executive compensation programs that are consistent with strategic business objectives and shareholders' interests. Though the Human Resources Committee is responsible for the review of employees' performance and approval of the identity of the employees that will receive Restricted Share Units or options to purchase shares of the Corporation, in accordance with policies established by the Board of Directors and the terms of the Long-Term Incentive Plan, these functions may be shared between the Board of Directors and the Human Resources Committee. During the period from September 1, 2016 to August 31, 2017, these functions have been shared by the Board of Directors and the Human Resources Committee but have mainly been performed by the Human Resources Committee.

The Human Resources Committee has reviewed and discussed with the Executive Chairman, the CEO and the Vice-President, Human Capital of the Corporation, the compensation disclosure in this document, and has

recommended to the Board of Directors that the disclosure be included in this Circular.

From September 1, 2016 to November 1, 2017, the Human Resources Committee held five (5) meetings and at all of those meetings executive compensation was discussed. The Human Resources Committee meetings were attended by all the members of the Human Resources Committee except Mr. Allard and Mr. Edwards, each of whom were absent at one (1) meeting. The following table outlines the main activities of the Human Resources Committee during the period from September 1, 2016 to November 1, 2017:

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Meeting Main Activities of the Human Resources Committee

Review of the Business Performance Measures results for the financial year ended August 31, 2016;

Review of the Business Performance Measures for the financial year started September 1, 2016;

Review of the Short-Term Incentive Plan results for the financial year ended August 31, 2016;

Update on the Short-Term Incentive Plan for the financial year started September 1, 2016;

Review of the proposed salary scales and salary increases for the year started September 1, 2016;

Review of the compensation plans of executive officers for the financial year started September 1, 2016 being the Base Salary, the Short-Term Incentive Plan and the stock-based compensation delivered through the Long-Term Incentive Plan;

Review and approval of the stock-based compensation plan for the sales force delivered through the Long-Term Incentive Plan for the financial year started September 1, 2016;

October 12, 2016 Review and approval of the quantum for the stock-based compensation plan for the performing employees delivered through the Long-Term Incentive Plan for the financial year started September 1, 2016;

Review and approval of the executive compensation section of the Management proxy circular for the financial year ended August 31, 2016;

Review and approval of the CEO objectives and compensation plan;

Selection of New Board Members;

Annual Sales Force Achievement and Key staffing update;

Review and approval of the retirement policy of the Corporation;

Annual Review of the Human Resources Committee Charter;

Review of the Risk Assessment of Executive Compensation disclosure obligations.

Executive Chairman role, transition and compensation;

Review and approval of the Short-Term Incentive Plan of some executive officers for the financial year started September 1, 2016, including the CEO objectives;

Employee Survey Update;

Review of the quarterly results under the Short-Term Incentive Plan for the financial year started September 1, 2016 and being part of the Short-Term Incentive Plan;

Review and approval of the stock-based compensation for performing employees delivered through the Long-Term Incentive Plan for the financial year started September 1, 2016;

Global Compensation and Board Members Compensation Review;

Leadership program and Talent Management.

Review of the quarterly results under the Short-Term Incentive Plan for the financial year started September 1, 2016 and being part of the Short-Term Incentive Plan;

Succession Planning;

Executive Chairman role, transition and compensation;

March 29,  
2017

Review of the Key Human Resources Initiatives;  
Nomination and Compensation of new CEO;

Update on the key initiatives following Employee survey;

Board Members Compensation and stock ownership;

Review of the Talent Management and Leadership program.

Review of the quarterly results under the Short-Term Incentive Plan for the financial year started September 1, 2016 and being part of the Short-Term Incentive Plan;

Board Members stock ownership;  
Update on Restructuring;

June 29,  
2017

Update on the Global Compensation Review;  
Update on the Management Structure Review;

Update on the Talent Management Review;  
Update on the key initiatives following Employee survey;

Review of the Key Human Resources Initiatives.

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Meeting of the  
Main  
Activities  
of the  
Human  
Resources  
Committee

Review of the Business Performance Measures results for the financial year ended August 31, 2017;

Review of the Business Performance Measures for the financial year started September 1, 2017;

Review of the Short-Term Incentive Plan results for the financial year ended August 31, 2017;

Update on the Short-Term Incentive Plan for the financial year started September 1, 2017;

Review of the proposed salary scales and salary increases for the year started September 1, 2017;

Review of the compensation plans of executive officers for the financial year started September 1, 2017 being the Base Salary, the Short-Term Incentive Plan and the stock-based compensation delivered through the Long-Term Incentive Plan;

October  
11, 2017

Review and approval of the executive compensation section of the Management proxy circular for the financial year ended August 31, 2017;

Review and approval of the CEO and Executive Chairman objectives and compensation plan;

Key staffing update;

Annual Sales Force Achievement;

Annual Review of the Human Resources Committee Charter;

Review of the Risk Assessment of Executive Compensation disclosure obligations.

Compensation Plan Control - Compensation Consultant and Internal Review

As a general practice, the Corporation's relative position in terms of compensation levels is determined periodically through studies performed by independent consulting firms using a selected reference market of comparable companies. The benchmarking activities are further detailed below under the heading – "Benchmarking".

For the financial year that ended on August 31, 2017, the Human Resources Committee retained the services of Willis Towers Watson to evaluate the market competitiveness of the compensation package that is currently offered to the



external members of its Board of Directors. The compensation elements covered by the analysis were: annual board retainer, committee chair and member retainers, board and committee meeting fees and stock-based compensation. Willis Towers Watson's work included assistance in benchmarking, assessing potential gaps between the market and the external Board members' compensation levels and proposing potential changes to ensure alignment with the market and with the Corporation's compensation policy. With a few exceptions, Willis Towers Watson used the same compensation group to benchmark the external members of the Board of Directors as it used to benchmark executive compensation (as further described below).

For the financial year that ended on August 31, 2017, the Human Resources Committee also retained the services of Willis Towers Watson to evaluate the market competitiveness of the compensation package that is currently offered to its Chief Executive Officer and its Executive Chairman. The compensation elements covered by the analysis were: base salary; target bonus; long-term incentive; perquisites and pension (hereinafter in this Circular referred to as the "Target Total Compensation"). Willis Towers Watson's work included assistance in benchmarking, assessing potential gaps between the market and the executives' compensation levels and proposing potential changes to ensure alignment with the market and with the Corporation's compensation policy.

In 2016, the Corporation engaged Willis Towers Watson to perform an executive total compensation review (hereinafter in this Circular referred to as the "Target Compensation Positioning"). The analysis covered the Target Total Compensation. Willis Towers Watson's work included assistance in benchmarking, assessing potential gaps between the market and the executives' compensation levels and proposing potential changes to ensure alignment with the market and with the Corporation's compensation policy. In 2016, eleven (11) executive positions were covered by the executive total compensation review, eight (8) located in Canada and three (3) outside of Canada. Willis Towers Watson also provided recommendations regarding the short-term incentive and long-term incentive compensation design of the Corporation and assessed the competitiveness of the compensation offered to the independent Directors of the Board and proposed changes to ensure alignment with market practices.

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In addition, internal pay equity studies are a key factor used by the Corporation to complete the compensation review process and indicate where necessary adjustments may be required. During the financial year ended August 31, 2017, this practice continued, and certain compensation adjustments were made as have been made in previous years.

The Human Resources Committee has the authority to retain any independent consultants of its choice to advise its members on total executive compensation policy matters, and to determine the fees and the terms and conditions of the engagement of these consultants. The Human Resources Committee is ultimately responsible for its own decisions, which may take into consideration more than the information and recommendations provided by its compensation consultants or Management.

For the financial years that ended on August 31, 2016 and 2017, the Corporation also retained the services of Willis Towers Watson, Mercer, Eckler, Aon, Great Place to Work, Lee Hecht Harrison Knightsbridge, OPEX Conseils, SMA Transformation, SPB Organizational Psychology, RecrutXL Inc., and Xactly Corporation for services which were not related to executive compensation. The services provided by Willis Towers Watson concerned the access to benefits and compensation data and surveys for employees in Canada, United States and United Kingdom. The services provided by Eckler related to pension plan analysis, retirement policy, governance and communication to employees. The services provided by OPEX Conseils concerned various work related to the logistic and the administration of compensation of sales employees including improvement of processes. The services provided by Aon related to the access to compensation data and surveys for sales employees in various countries. The Corporation retained the services of Great Place to Work for culture audit services. The services provided by Lee Hecht Harrison Knightsbridge related to outplacement services.

The Corporation consulted Mercer for assistance with compensation data for expatriate employees and assistance with the compliance of the Pay Equity Act established by the Government of Quebec, Canada. The Corporation consulted SMA Transformation and RecrutXL Inc. for assistance with employees' training. The Corporation consulted SPB Organizational Psychology for tests before promoting. The Corporation consulted Xactly Corporation for the software improvement with respect to commission calculation. Fees for the services performed that are not related to executive compensation are not required to be approved by the Human Resources Committee.

The aggregate fees paid to Willis Towers Watson, Eckler, Aon, Great Place to Work, Lee Hecht Harrison Knightsbridge, Mercer, OPEX Conseils, SMA Transformation, SPB Organizational Psychology, RecrutXL Inc. and Xactly Corporation for consulting services provided to the Human Resources Committee related to determining compensation for any of the Corporation's directors and executive officers and to the Corporation for all other services provided during the financial years ended August 31, 2016 and 2017 were as follows:

Type of Fee	Financial 2016 Fees	Percentage of Financial 2016 Fees	Financial 2017 Fees	Percentage of Financial 2017 Fees
Executive Compensation - Related Fees	CA\$28,734	14%	CA\$25,107	10%
All Other Fees	CA\$175,202	86%	CA\$230,417	90%
Total	CA\$203,936	100%	CA\$255,524	100%

## Benchmarking

For the purpose of assessing the competitiveness of the Target Total Compensation of senior executives, the Corporation considered compensation data from a comparator group including private and publicly-traded companies of comparable size and similar industry, operations in multiple countries and attracting similar profiles of employees, professionals and experts. The comparator group has been revised in 2016 with the guidance and advice from Willis Towers Watson.

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Canada executives: For the executives based in Canada, the Corporation used the following comparator group: 5N Plus Inc., ACCEO Solutions, AgJunction Inc, Atos IT Services and Solutions, Inc., Avigilon Corporation, Callian Technologies Ltd., Ciena, COM DEV International Ltd., Constellation Software inc., Evertz Technologies Ltd., GTECH, Open Text Corporation, Redline Communications Group Inc., Sandvine Corporation, Sierra Wireless Inc., Smart Technologies Inc., Vecima Networks Inc., Vidéotron Ltée and Wi-Lan Inc.

United States executives: For the executives based in the United States, the Corporation used the following comparator group: AMETEK, Avangate, BMC Software, CDK Global, Communications Systems, Crown Castle, Intelsat, Itron, Keysight Technologies, Laird Technologies, MTS Systems, Plexus, SAS Institute, SunGard Data Systems, Teradata, TomTom, Total System Services, Truphone, Verint Systems.

United Kingdom executives: For the executives based in the United Kingdom, the Corporation used the following comparator group: BAE Systems Applied Intelligence, COLT Telecom, Flextronics, Fujitsu, Irdeto, McCain Foods, PepsiCo, Premier Food Group, QinetiQ, Qualcomm, Rentokil Initial, Talk Talk Group, Viacom.

Asia executives: For the executives based in Asia, the Corporation used a broader comparator group, based on general industry data: A.Menarini Asia-Pacific, Abbott Laboratories, AbbVie, Accenture, ACE Asia Pacific Services, ACE Insurance, ACE Life Insurance Company Ltd, ACR Capital Holdings, AIA Company, Aimia, Alcatel-Lucent, Amazon.com, ANZ Banking Group, ASML, AstraZeneca, Avanade, Aviva Ltd, AXA Insurance Singapore, AXA Life Insurance Singapore, Bank of New York Mellon, Baxter, Beckman Coulter, Becton Dickinson, BHP Billiton, Bio-Rad Laboratories, Biosensors, BT Global Services, Cerebos Pacific Limited, Chubb Pacific Underwriting, Cigna, CommScope, DHL, DHL Express, DHL GBS, DHL Global Forwarding, DHL Mail, DHL Supply Chain, Discovery Communications, Experian, Federal Insurance Company, Fujitsu, GE Energy, GE Healthcare, General Electric, Great Eastern Life Insurance, Hap Seng Consolidated, HSBC Holdings, IHS Global, IMI, Ingenico, Intel, Intercontinental Hotels Group, International Flavors & Fragrances, ITT Corporation, Johnson & Johnson, Lexmark, Liberty Insurance, MI Limited, Manulife, MasterCard, Merck KGaA, Microsoft, Molex, MSD International GMBH (Singapore Branch), National Australia Bank, NBC Universal, NCR, Overseas Assurance Corporation, Pfizer, Pramerica Financial Asia HQ, Proximus, Prudential Assurance Company, Prudential Services, QBE Insurance, Qualcomm, Reinsurance Group of America, RELX Group, Rio Tinto, Roche Pharmaceuticals, Sabre Holdings, Sealed Air, Smiths Group, Spirax Sarco, Standard Chartered Bank, StarHub, Starwood Hotels & Resorts, Straits Developments, Swiss Reinsurance International, Teva Pharmaceutical Industries, Thermo Fisher Scientific, Trayport, TUI, UBS, Unilever, United Overseas Bank, Verizon, Zurich Insurance Company, Zurich Life Insurance.

To be considered in the comparator group, a company had to meet the following specific criteria:

a) Similar industry: Technology Hardware and Equipment, Telecommunications Equipment and Services or Software and Services; and

Comparable in size: revenues under CA\$1 billion. Only one publicly traded company had revenues above the equivalent of CA\$1 billion. The compensation market comparison is done using the regression analysis which is a b) method to predict the "size-adjusted" competitive level of compensation to reflect the size of the Corporation in relation to that of the other companies of the reference group. This method mitigates the impact that larger companies may have on the competitive compensation levels for the Corporation.

The Corporation also participates in two (2) major surveys on an annual basis and accordingly is permitted to purchase the results in order to continue the benchmarking of our compensation on a regular basis. The first one is Willis Towers Watson High Tech Middle Management, Professional and Support Compensation Survey, providing and receiving data for Canada, USA, UK, Finland and Lebanon. The other one is Radford (AON) Global Sales

Survey, providing and receiving data for all the countries where the Corporation employs sales force.

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### Guiding Principles for Compensation of Executive Officers

The Corporation's executive compensation plans are designed to attract, retain and motivate key executives who directly impact the Corporation's long-term success and the creation of shareholder value. In determining executive compensation, the Human Resources Committee considers the following four (4) principles:

**Performance-based:** Executive compensation levels reflect both the results of the Corporation and individual results based on specific quantitative and qualitative objectives established at the beginning of each financial year in keeping with the Corporation's long-term strategic objectives.

**Aligned with shareholder interests:** An important portion of incentive compensation for executives is composed of equity awards to ensure that executives are aligned with the principles of sustained long-term shareholder value growth.

**Market competitive:** Compensation of executives is designed to be externally competitive when compared against executives of comparable peer companies, and in consideration of the Corporation's results.

**Individually equitable:** Compensation levels are also designed to reflect individual factors such as scope of responsibility, experience, and performance against individual measures.

### Compensation Policies and Practices

In April 2007, the Corporation adopted a Best Practice Regarding the Granting Date of Stock Incentive Compensation. The purpose of this best practice is to ensure that the Corporation complies with securities regulation and avoids the back-dating of equity based incentive compensation. The best practice states that the Corporation shall: (i) grant recurrent equity based incentive compensation pursuant to its Long-Term Incentive Plan on the fifth business day following the public release of the Corporation's financial results; and (ii) grant recurrent stock based incentive compensation pursuant to its Deferred Share Unit Plan on the last business day of each quarter. In October 2014, the Corporation amended the Human Resources Committee Charter in order to adapt it to the latest NASDAQ Rules on independency of directors, nomination and compensation committees and to better describe the nomination of directors' process and in October 2017 the Corporation amended the Human Resources Committee Charter in order to specifically add the compensation review of the Executive Chairman.

### Risk-Assessment of Executive Compensation Program

The Human Resources Committee considers the implications of the risks associated with the Corporation's compensation policies and practices when establishing recommendations for the compensation of executive officers. As such, for the financial year ended August 31, 2017, the Human Resources Committee conducted an internal risk assessment for executive compensation. The Human Resources Committee individually examined the compensation plans for each potential NEO against a list of elements that could trigger executives taking inappropriate or excessive risks. For the financial year ended August 31, 2017, the Human Resources Committee did not identify any risks associated with the Corporation's executive compensation policies and practices that are reasonably likely to have a material adverse effect on the Corporation.

On October 9, 2012, the Human Resources Committee Charter was amended in order to expressly reflect the responsibility of the Human Resources Committee to conduct an annual assessment of the risks associated with the Corporation's executive compensation policies and procedures.



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### Purchase of Hedging Financial Instruments by an Executive Officer or Director

While the Corporation has not adopted a policy prohibiting or restricting its executive officers and directors from purchasing financial instruments, including prepaid variable forward contracts, equity swaps, collars, or units of exchange funds, that are designated to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the executive officer or director, to Management's knowledge, no executive officer or director has purchased any such financial instruments as of November 1, 2017. In addition, according to the Security Trading Policy of the Corporation, executive officers and directors are required to pre-clear with the Corporation's legal counsel's office any transaction concerning the Corporation's securities, which includes the entering into any of the above-mentioned financial instruments.

### Compensation Elements

The key elements of the Corporation's 2017 executive compensation program were (i) base salary, (ii) short-term incentive compensation (by way of the Short-Term Incentive Plan or the Sales Incentive Plan) and (iii) the stock-based incentive compensation delivered through the Long-Term Incentive Plan. In addition, the Corporation has also offered benefit plans and, if applicable, contributed to a Deferred Profit-Sharing Plan or a 401K Plan. To determine appropriate compensation levels for each compensation component, the Human Resources Committee considered all key elements of the executive compensation program. The Human Resources Committee did not assign specific weightings to any key element of the Corporation's 2017 executive compensation program.

### Base Salaries

In establishing the base salaries of senior officers, including the Executive Chairman of the board of directors and the CEO, the Corporation takes into consideration responsibilities, job descriptions and salaries paid by other similar organizations for positions similar in magnitude, scope and complexity. The Human Resources Committee's objective is to align executive compensation levels with the Target Compensation Positioning offered within a reference market of comparable companies that are similar in size to the Corporation, with a particular focus on those within the high-technology/telecommunications and manufacturing-durable goods industries. The Human Resources Committee reviews the base salary of each executive officer on an annual basis at the beginning of each financial year and recommends that the Board of Directors approve appropriate adjustments, if required, within the salary range in order to maintain a competitive position within the market place.

### Short-Term Incentive Compensation

The Short-Term Incentive Plan ("STIP"), or the Sales Incentive Plan ("SIP") for the executive officers that are included within the sales force, provides executive officers with the opportunity to earn annual bonuses based on the Corporation's financial performance and the achievement of strategic corporate and departmental objectives established on a yearly basis (the "Business Performance Measures") as well as the achievement of individual performance objectives ("Individual Performance Measures"). The Business Performance Measures under the STIP also apply to all other employees of the Corporation, except the sales force, for which the SIP applies. The Individual Performance Measures only apply to executive officers and directors' levels of the Corporation.

Annually the Human Resources Committee determines the annual incentive target for each executive officer, being a percentage of the executive's base salary ("Annual Incentive Target"). The Annual Incentive Targets for executive officers eligible for incentive bonuses in the financial year ended August 31, 2017 were established to be progressively in line with the objective of the Human Resources Committee of aligning compensation with the Target Compensation Positioning offered in the reference market. For the most recently ended financial year, the Annual



Incentive Target for the NEOs was:

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Name & Position	Annual Incentive Target as % of Base Salary
Germain Lamonde, Executive Chairman	65.0%
Philippe Morin, CEO	51.0%
Pierre Plamondon, CFO and Vice President, Finance	45.0%
Willem Jan te Niet, Vice President, Sales — EMEA	67.0%
Dana Yearian, Vice President, Sales — Americas	90.0%

Short-Term Incentive Plan

The STIP awards (for executive officers not in sales force) are calculated as follows:

$$\text{Salary} = \text{Base Salary} \times \text{Annual Incentive Target (\%)} \times \text{Business Performance Measures (\%)} \times \text{Individual Performance Measures (\%)}$$

At the beginning of each financial year, the Human Resources Committee recommends for approval by the Board of Directors the Business Performance Measures that will account for the annual incentive compensation. The following table provides the Business Performance Measures, their weight and result within the overall Business Performance Measures applicable to all executive officers and employees of the Corporation except those executives and employees that are within the sale force:

Business Performance Measures <sup>(1)</sup>	Weight	Result in % of the Result of the Metrics Weight	
Consolidated revenues <sup>(2)</sup>	30%	14.66%	US\$243.3 million
Profitability <sup>(3)</sup>	45%	13.64%	US\$23.0 million
Quality <sup>(4)</sup>	15%	13.95%	101%
Net Promoter Score <sup>(5)</sup>	5%	4.65%	67%

On-time delivery <sup>(6)</sup>	5%	2.43%	93.8%
Total	100%	49.33%	

The corporate Profitability result for the year must be positive (above 0) for the whole Business Performance Measure to trigger a payout. The corporate Profitability represents net earnings before interest, income taxes, depreciation and amortization, restructuring charges, change in fair value of cash contingent consideration, stock-based compensation costs, foreign exchange gain and certain one-time items.

(1) For consolidated revenues metric, results will be based on the achievement from 25% to 125%, calculated on a pro-rated basis, from the revenues attained in the previous financial year (US\$232.5 million) up to the target defined at the beginning of the financial year (US\$277.8 million).

(2) For Profitability metric, results will be based on the achievement from 25% to 125%, calculated on a pro-rated basis, from the corporate Profitability attained in the previous financial year (US\$22.0 million) up to the target defined at the beginning of the financial year (US\$41.7 million).

(3) For quality, results will range from nil to 100% of the weight upon attainment of a minimum threshold of 50% up to the annual target defined at the beginning of the financial year (106.25%) and from 100% to 125% of the weight from such annual target to the maximum threshold of 125%.

(4) For Net Promoter Score metrics, results will range from nil to 100% of the weight upon attainment of a minimum threshold of 50% up to the annual target defined at the beginning of the financial year (68.75%) and from 100% to 125% of the weight from such annual target to the maximum threshold of 75%.

(5) For on-time delivery, results will range from nil to 100% of the weight upon attainment of a minimum threshold of 92%, up to the annual target defined at the beginning of the financial year (97.78%) and from 100% to 125% of the weight from such annual target to the maximum threshold of 99.7%.

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The Individual Performance Measures are determined annually by the executive's supervisor or the Human Resources Committee and approved by the Board of Directors of the Corporation. They are based upon the position, role and responsibilities of each executive within the Corporation, departmental objectives and personal management objectives. At the conclusion of each year, the executive's supervisor or the Human Resources Committee evaluates the performance of the executive against the pre-determined objectives and the executive's performance is evaluated by progress, achievements and contributions. The following tables provide for each NEO subject to the STIP an overview of the elements included within the Individual Performance Measures, their weight and result for financial year 2017 within the overall Individual Performance Measures:

Germain Lamonde, Executive  
Chairman

Elements	
Weight	Result
(From 0% to 160%) (%)	
Individual Performance Measures <sup>1</sup>	

Financial objectives

From 0% to 40%	27.58%
Corporate revenues	

From 0% to 50%	19.72%
Corporate EBITDA	

Strategic contribution

From 0% to 20%	20.00%
Merger and Acquisition activities aiming towards a Solutions oriented	

company

Establishment  
and  
implementation  
of  
a  
strategic  
plan  
that  
will  
result in 0% to 20%  
in  
revenue  
growth  
in  
identified  
services  
and  
products  
family

20.00%

Employee  
Satisfaction  
From 0% to 20%

20.00%

Customer  
Satisfaction  
From 0% to 10%

7.00%

Total 114.30%

56.38%

Total  
of  
Business  
Performance  
Measures  
(49.33%)  
X  
Individual  
Performance  
Measures

(114.30%)

If the minimum level of the Corporate EBITDA, as determined at the beginning of the financial year, is not (1) achieved, payment of any variable compensation to the Executive Chairman will be at the discretion of the Human Resources Committee.

Philippe Morin, CEO

Elements  
 of Weight Result  
 Individual to 150% (%)  
 Performance  
 Measures<sup>1</sup>

Financial objectives

Corporate to 40% 17.72%  
 EBITDA

Corporate to 30% 20.51%  
 revenues

Strategic contribution

Expending corporate revenues, profitability from 0% to 30% 12.57%  
 positioning in selected strategic markets

From 0% to 30% 25.63%  
 Delivering

the  
strategies  
and  
objectives  
under  
the  
NEO's  
responsibility  
as  
set  
forth  
in  
the  
Corporation's  
strategic  
plan

Positioning  
and  
transforming  
the  
Corporation  
to  
achieve ~~from~~ 0% to 20% 15.50%  
significant  
growth  
in  
Corporate  
EBITDA  
and  
revenues

Total 91.93%

45.35%

Total  
of  
Business  
Performance  
Measures  
(49.33%)  
X  
Individual  
Performance  
Measures  
(91.93%)

If the minimum level of the Corporate EBITDA, as determined at the beginning of the financial year, is not (1) achieved, payment of any variable compensation to the CEO will be at the discretion of the Human Resources Committee.



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Pierre Plamondon, CFO and Vice President, Finance

Elements of Individual Performance Measures	Weight (from 0% to 150%)	Result (%)
Financial objectives	Weight	
Corporate EBITDA	40%	From 0% to 70% 32.18%
Corporate revenues	30%	
Strategic contribution	Weight	
Delivering the strategies and objectives under the NEO's responsibility as set forth in the Corporation's strategic plan	30%	
Delivering the objectives under the NEO's responsibility as set forth in the Corporation's operational plan	30%	From 0% to 80% 58.60%
Delivering a Strategic Contribution and Support in the Corporation's information technology management, investors relations and legal services	20%	
Total		90.78%
Total of Business Performance Measures (49.33%) X Individual Performance Measures (90.78%)		44.78%

Sales Incentive Plan

The SIP objectives for executive officers in the sales force are aimed to reward three (3) elements: two (2) elements are shareholder oriented (contribution margins, contribution margin growth and billings) and one (1) is based on specific objectives. The objectives are determined by the executive's supervisor and are for the territory under the executive's supervision. The following tables outline the SIP objectives for each NEO who is within the sales force:

Willem Jan te Niet, Vice-President,  
Sales — EMEA

Business Performance (US\$) Results (US\$)

Contribution Margin	73,527
Bonus (1)	
Bonus on Billings (2)	22,727
Bonus on Specific Sales Objectives (3)	7,840
Total	104,094

(1) The amount of bonus for the attainment of the quarterly contribution margin targets for the territory of the EMEA is based on the percentage of achievement up to 100% of the quarterly and annual contribution margin targets defined at the beginning of the financial year. An accelerated amount of bonus based on the percentage of attainment of the quarterly and annual contribution margin targets above 100% is also payable.

(2) The amount of bonus for the attainment of the billings targets for the territory of the EMEA is based on the percentage of achievement up to 100% of the quarterly and annual billings targets defined at the beginning of the financial year. An additional amount of bonus based on the percentage of attainment from above 100% to 125% of the quarterly billings targets is also payable. Upon percentage of achievement above 125% of the quarterly billings targets, such corresponding exceeding portion of percentage achievement is added to the next quarter for the calculation of the amount of bonus and capped to 150% of achievement. An additional amount of bonus based on the percentage of attainment from above 100% of the annual billings target is also payable.

(3) The amount of bonus for the attainment of the specific product lines bookings targets for the territory of the EMEA is based on the percentage of achievement from above 50% to 100% of the annual bookings targets of the specific product lines defined at the beginning of the financial year. An accelerated amount of bonus based on the

percentage of attainment of the specific product lines bookings targets for the territory of the EMEA above 100% is also payable.

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Dana Yearian, Vice-President, Sales —  
Americas

Business Performance (US\$ Results (US\$))

Contribution Margin	113,694
Bonus (1)	
Bonus on Billings (2)	39,340
Bonus on Sales Objectives (3)	3,641
Total	156,675

(1) The amount of bonus for the attainment of the quarterly contribution margin targets for the territory of the Americas is based on the percentage of achievement up to 100% of the quarterly and annual contribution margin targets defined at the beginning of the financial year. An accelerated amount of bonus based on the percentage of attainment of the quarterly and annual contribution margin targets above 100% is also payable.

(2) The amount of bonus for the attainment of the billings targets for the territory of the Americas is based on the percentage of achievement up to 100% of the quarterly and annual billings targets defined at the beginning of the financial year. An additional amount of bonus based on the percentage of attainment from above 100% to 125% of the quarterly billings targets is also payable. Upon percentage of achievement above 125% of the quarterly billings targets, such corresponding exceeding portion of percentage achievement is added to the next quarter for the calculation of the amount of bonus and capped to 150% of achievement. An additional amount of bonus based on the percentage of attainment from above 100% of the annual billings target is also payable.

(3)

The amount of bonus for the attainment of the specific product lines bookings targets for the territory of the Americas is based on the percentage of achievement from above 50% to 100% of the annual bookings targets of the specific product lines defined at the beginning of the financial year. An accelerated amount of bonus based on the percentage of attainment of the specific product lines bookings targets for the territory of the Americas above 100% is also payable.

#### Long-Term Incentive Compensation

The long-term incentive compensation offered by the Corporation is made up of two (2) main initiatives: i) the LTIP for directors, officers, employees and other persons or companies providing ongoing management or consulting services ("Consultants") of the Corporation and its subsidiaries and ii) the DSU plan for non-employee directors of the Corporation.

#### Long-Term Incentive Plan (LTIP)

The principal component of the long-term incentive compensation offered by the Corporation is the LTIP. Introduced in May 2000, the LTIP is designed to provide directors, officers, employees and Consultants of the Corporation and its subsidiaries with an incentive to create value and accordingly ensures that their interests are aligned with those of the Corporation's shareholders and to further attract, motivate and retain all of its employees, including the NEOs with the exception of the Executive Chairman who, as of August 31, 2012, is no longer participating. The LTIP is subject to review by the Human Resources Committee to ensure maintenance of its market competitiveness. The LTIP was amended in January 2005 and in January 2016.

The Board of Directors has full and complete authority to interpret the LTIP and to establish the rules and regulations applying to it and to make all other determinations it deems necessary or useful for the administration of the LTIP, provided that such interpretations, rules, regulations and determinations are consistent with the rules of all stock exchanges on which the securities of the Corporation are then traded and with all applicable securities legislation and regulations. The Board of Directors or the Human Resources Committee may, at any time, with the prior approval of the competent regulatory authorities, amend, suspend or terminate the LTIP in whole or in part. Under the current amending provisions, any material amendment (including an increase in the maximum number of Subordinate Voting Shares covered by options or Restricted Share Units under the LTIP) or a reduction in the subscription price of an option (other than for standard anti-dilution purposes) or a change in the terms of a Restricted Share Unit award shall be approved by a majority of votes cast at a meeting of shareholders of the Corporation.

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In addition to the foregoing, any material amendment to an award held by an insider, including a change in the subscription price or expiry date, shall be approved by a majority of votes cast at a meeting of shareholders of the Corporation, other than votes attaching to shares beneficially owned by the insider. A material amendment to an award held by an insider does not include an accelerated expiry of an award or change of the time during which an award may first be exercised or vested or change of the time of an award, or any part thereof, will become exercisable or vest. The shareholders' approval of an amendment may be given by way of confirmation at the next meeting of shareholders after the amendment is made, provided that no Subordinate Voting Shares are issued following the exercise of options and the vesting of Restricted Share Units pursuant to the amended terms prior thereto. For a summary of the proposed new amending provisions, see "Amendments to the Long-Term Incentive Plan and the Deferred Share Unit Plan - Adoption of New Amending Provisions".

The LTIP provides for the issuance of options to purchase Subordinate Voting Shares and the issuance of Restricted Share Units ("RSUs") redeemable for Subordinate Voting Shares issued from treasury to participating directors, officers, employees and Consultants of the Corporation and its subsidiaries. The Board of Directors, upon recommendation from the Human Resources Committee, designates the recipients of options or RSUs and determines the number of Subordinate Voting Shares covered by each option or RSU, the dates of vesting, the expiry date and any other conditions relating to these options or RSUs, in each case in accordance with the applicable legislation of the securities regulatory authorities.

During the financial year ended August 31, 2017, target awards for eligible officers under the LTIP were established to be in line with the objective of the Human Resources Committee to align compensation with the Target Compensation Positioning offered in the reference market. Each NEO, with the exception of the Executive Chairman since the end of the financial year ended August 31, 2012, is entitled to receive RSUs annually in accordance with the following policy:

Name & Position	Grant Levels <sup>(1)</sup> (% of Previous Year Base Salary)
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Philippe Morin, CEO	50.0%
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Pierre Plamondon, CFO and Vice President, Finance	45.0%
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	30.0%
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Willem Jan  
te Niet, Vice  
President,  
Sales  
EMEA

Dana  
Yearian,  
Vice President, 42.5%  
Sales  
Americas

(1) Actual grant value may differ from the grant level guidelines as the stock price may vary between the time of the grant and its approval.

RSU awards are based on the expected impact of the role of the executive officer on the Corporation's performance and strategic development as well as market benchmarking. The Human Resources Committee undertakes an analysis from time to time to determine the possible payouts pursuant to the LTIP under various scenarios and at various levels of share price growth to ensure that the LTIP is aligned with the interests of the Corporation's shareholders.

RSUs are also used to attract and retain top executives, as well as in business acquisitions. For the year ended August 31, 2017, the Corporation determined the number of RSUs granted to each executive officer according to their individual contribution, specifically with respect to additional responsibilities as the case may be. As disclosed under the section "Summary Compensation Table" hereof, all of the NEOs, with the exception of the Executive Chairman as described earlier, were granted RSUs during the last financial year. The purpose of the grants was to focus the executives on developing and successfully implementing the continuing growth strategy of the Corporation and to align the executives with the principles of sustained long-term shareholder value growth. The grants were also considered to contribute to the Corporation's objective to align the compensation of the executives with the reference market. The Corporation did not take into account the amount and terms of outstanding options or RSUs or the restrictions on resale of such units when determining the grants mentioned above.

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The exercise price of the options is determined by the Board of Directors at the time of granting the options, subject to compliance with the rules of all stock exchanges on which the Subordinate Voting Shares are listed and with all applicable securities legislation and regulation. In any event, the exercise price may not be lower than the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and the NASDAQ Global Select Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada from September 1, 2016 to January 31, 2017 and the daily exchange rate of the Bank of Canada since February 1, 2017 on the grant date to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars. Any option issued is non-transferable, except in the event of death, for legal representative. As at November 1, 2017 there were no options granted and none outstanding.

The fair value at the time of grant of an RSU is equal to the market value of Subordinate Voting Shares at the time the RSU is granted. The grant date market value is equal to the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and the NASDAQ Global Select Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada from September 1, 2016 to January 31, 2017 and the daily exchange rate of the Bank of Canada since February 1, 2017 on the grant date to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars. Any RSU issued is non-transferable, except in the event of death, for legal representative. As at November 1, 2017, there were a total of 1,675,374 RSUs granted and outstanding pursuant to the LTIP having a weighted average fair value at the time of grant of US\$3.97 (CA\$4.99) per RSU.

Prior to the adoption of the amendments to the LTIP and DSU Plan as proposed in this Circular, the maximum number of Subordinate Voting Shares that are issuable under the LTIP and DSU Plan shall not exceed 6,306,153 Subordinate Voting Shares, which represents 11.5% of the Corporation's issued and outstanding voting shares as of November 1, 2017. From this total, 4,241,139 Subordinate Voting Shares have been issued and 1,849,653 Subordinate Voting Shares are issuable under actual awards held by participants, which represents 11.1% of the Corporation's issued and outstanding voting shares as of November 1, 2017, leaving 215,361 Subordinate Voting Shares available for grant under the LTIP and DSU Plan, representing 0.4% of the issued and outstanding voting shares as of November 1, 2017. If the proposed amendments are adopted, the aggregate number of Subordinate Voting Shares reserved for issuance under the LTIP and DSU Plan will be increased from 6,306,153 to 11,792,893 Subordinate Voting Shares. This would mean that Subordinate Voting Shares available for future grants under the LTIP and DSU Plan would then increase from 215,361 to 5,702,101, representing 10.4% of the total 54,867,396 issued and outstanding voting shares of the Corporation as of November 1, 2017.

All of the Subordinate Voting Shares covered by options that expire or are cancelled become reserved Subordinate Voting Shares for the purposes of options or RSUs that may be subsequently granted under the terms of the LTIP. No participant shall hold in total options to purchase, RSUs and DSUs representing more than 5% of the number of Subordinate Voting Shares issued and outstanding from time to time. There are additional limitations for insiders of the Corporation. The number of Subordinate Voting Shares issuable at any time pursuant to options, RSUs and DSUs granted to insiders of the Corporation shall not exceed 10% of the total issued and outstanding Subordinate Voting Shares. The number of Subordinate Voting Shares issued to insiders, within a one (1) year period, pursuant to the exercise, settlement or redemption of options, RSUs and DSUs shall not exceed 10% of the number of issued and outstanding Subordinate Voting Shares, and the number of Subordinate Voting Shares issued to any one insider and such insider's associates, within a one-year period, pursuant to the exercise, settlement or redemption of options, RSUs and DSUs shall not exceed 5% of the total issued and outstanding Subordinate Voting Shares of the Corporation. Options vest at a rate as determined by the Board of Directors. Options may be exercised in whole or in part once vested. Options that are granted under the LTIP must be exercised within a maximum period of ten (10) years following the date of their grant or they will be forfeited.



The vesting dates of RSUs are subject to a minimum term of three (3) years and a maximum term of ten (10) years from the award date. The following table presents, for the last five (5) financial years, the RSUs granted and their respective vesting schedule.

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Financial Year Ended	Grant Date	RSUs Granted (#)	Fair Value at the Time of Grant (US\$/RSU)	Vesting Schedule
	October 19, 2016	38,300	4.01	
	January 18, 2017	153,700	5.10	50% on each of the third and fourth anniversary dates of the grant.
August 31, 2017	April 5, 2017	123,110	4.89	
	October 19, 2016	207,269	4.01	100% on the fifth anniversary date of the grant subject to early vesting of up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board of Directors of the Corporation, are fully attained.
	April 5, 2017	4,764	4.89	
	Total	527,143		
	October 15, 2015	36,900	3.23	
	November 9, 2015	109,890	3.43	
	January 13, 2016	151,400	3.00	50% on each of the third and fourth anniversary dates of the grant.
August 31, 2016	July 7, 2016	2,500	3.30	
	August 15, 2016	10,000	3.33	
	October 15, 2015	206,373	3.23	100% on the fifth anniversary date of the grant subject to early vesting of up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board of Directors of the Corporation, are fully attained.
	November 9, 2015	54,945	3.43	
	Total	572,008		

	October 16, 2014	29,150	3.71	
	January 14, 2015	163,400	3.55	
	March 31, 2015	5,000	3.78	50% on each of the third and fourth anniversary dates of the grant.
August 31, 2015	July 2, 2015	12,299	3.27	
	October 16, 2014	197,726	3.71	100% on the fifth anniversary date of the grant subject to early vesting of up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board of Directors of the Corporation, are fully attained.
	July 2, 2015	1,946	3.27	
	Total	409,521		
	October 16, 2013	36,950	5.28	
	January 15, 2014	132,000	4.36	50% on each of the third and fourth anniversary dates of the grant.
August 31, 2014	July 3, 2014	29,502	4.77	
	October 16, 2013	138,233	5.28	100% on the fifth anniversary date of the grant subject to early vesting of up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board of Directors of the Corporation, are fully attained.
	Total	336,685		
	October 16, 2012	30,006	5.06	
	January 16, 2013	145,750	5.61	50% on each of the third and fourth anniversary dates of the grant.
August 31, 2013	October 16, 2012	140,404	5.06	100% on the fifth anniversary date of the grant subject to early vesting of up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board of Directors of the Corporation, are fully attained.

Total 316,160

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If any vesting dates fall into any blackout period or any other restrictive period during which the RSU holder is not entitled to trade the Corporation's Subordinate Voting Shares, the RSUs shall: (i) vest on the fifth trading day the RSU holder is entitled to trade after such blackout period or restrictive period; or (ii) if the RSU holder decides, prior to such vesting date, to pay his/her income tax without using any of the Subordinate Voting Shares' proceeds, then and only then, the vesting date shall remain the one determined on the granting date for such RSUs. If the proposed amendments are adopted, the LTIP will include a provision whereby the Option Period shall be automatically extended if the date on which it is scheduled to terminate falls during a blackout period or within 10 business days after the last day of a blackout period. In such cases, the Option Period will terminate 10 business days after the last day of a blackout period. See "Amendments to the Long-Term Incentive Plan and the Deferred Share Unit Plan - Extension of the Option Period".

With the exceptions mentioned under the section entitled "Termination and Change of Control Benefits", unless otherwise determined by the Board of Directors, any option granted pursuant to the LTIP will lapse: (i) immediately upon the termination of the relationship with the Corporation or one of its subsidiaries for a good and sufficient cause for employees or officers or at the date on which an employee or an officer resigns or leaves his employment with the Corporation or one of its subsidiaries (or within thirty (30) days if the holder's employment is terminated for reasons not related to cause); and (ii) thirty (30) days after a director ceases to be a member of the Board of Directors of the Corporation or one of its subsidiaries for any reason other than death or permanent disability. The LTIP provides that, in the event of death or permanent disability, any option held by the optionee lapses six (6) months after the date of permanent disability and the option shall become exercisable no later than the date of termination by reason of death or permanent disability of the employee or the officer. In the event of retirement, any option held by an employee lapses thirty (30) days after the date of any such retirement. Nevertheless, in case of retirement or early retirement of an officer or employee, the Board of Directors or the Human Resources Committee may at its own discretion extend the period an option will lapse in accordance with the terms of the LTIP.

With the exceptions mentioned under the section entitled "Termination and Change of Control Benefits", unless otherwise determined by the Board of Directors, any RSU granted pursuant to the LTIP will lapse: (i) immediately, where vesting of a unit is subject to the attainment of performance objectives, if such performance objectives have not been attained (or postponed at a further vesting date as determined by the Board of Directors); and (ii) immediately, whether or not subject to attainment of performance objectives, upon the termination of the relationship with the Corporation or one of its subsidiaries for a good and sufficient cause for employees or officers or at the date on which an employee or an officer resigns or leaves his employment with the Corporation or one of its subsidiaries.

The LTIP provides that any RSU granted will vest immediately, to a certain proportion as determined by the LTIP, upon the termination of the relationship of an employee or officer with the Corporation or one of its subsidiaries for reasons not related to cause. The LTIP provides that any RSU granted pursuant to the LTIP will vest immediately upon the termination of the relationship of an employee or officer with the Corporation or one of its subsidiaries because of death or permanent disability. The LTIP also provides that upon participant attainment of the retirement conditions established by the Corporation and continued compliance with the confidentiality, non-solicitation and non-competition obligations of the RSU holder, the RSU holder shall be entitled to the regular vesting as established by the Board of Directors at the time of grant pursuant to the LTIP. Furthermore, in case of an RSU holder employment with the Corporation is terminated following a change of control, the Board of Directors or the Human Resources Committee may, at its own discretion, increase the number of Subordinate Voting Shares to which an RSU holder is entitled.

In the event of a change of control, the Board of Directors or the Human Resources Committee may, prior or following the change of control, accelerate the time at which an option or RSU may first be exercised or the time during which an option or RSU or any part thereof will become exercisable.



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The full text of the current LTIP is included in our 2017 Annual Information Form on Form 20-F under Exhibit 4.57, which was filed on November 24, 2017 on SEDAR at [www.sedar.com](http://www.sedar.com) in Canada or on EDGAR at [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml) in the U.S.

Restricted Share Unit Grants in Last Financial Year

The aggregate number of RSUs granted from September 1, 2016 to November 1, 2017, was 753,298 having a weighted average fair value at the time of grant of US\$4.38 (CA\$5.70) per RSU. The fair value at the time of grant of a RSU is equal to the market value of Subordinate Voting Shares at the time RSUs are granted. At November 1, 2017, there were a total of 1,675,374 RSUs granted and outstanding pursuant to the LTIP having a weighted average fair value at the time of grant of US\$3.97 (CA\$4.99) per RSU.

The RSUs are redeemed for Subordinate Voting Shares issued from treasury on the vesting dates established by the Board of Directors of the Corporation at the time of grant in its sole discretion.

Therefore, the value at vesting of a RSU, when converted to Subordinate Voting Shares, is equivalent to the market value of a Subordinate Voting Share at the time the conversion takes place and is taxable as employment income. The table above shows information regarding RSU grants made under the LTIP during the financial year ended August 31, 2017.

During the financial year ended August 31, 2017, the following RSUs were granted to the following NEOs:

Name	RSUs Granted (#)	Percentage of Total RSUs Granted to Employees in Financial Year (%) <sup>(1)</sup>	Fair Value at the Time of Grant (US\$/RSU) <sup>(2)</sup>	Grant Date	Vesting Schedule <sup>(3)</sup>
Philippe Morin	47,529	9.02%	4.01	October 19, 2016	100% on the fifth anniversary date of the grant subject to early vesting up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board of Directors of the Corporation are fully attained. <sup>(4)</sup>
	38,110	7.23%	4.89	April 5, 2017	50% on each of the third and fourth anniversary dates of the grant.
	4,764	0.90%	4.89	April 5, 2017	100% on the fifth anniversary date of the grant subject to early vesting up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary

date of the grant if performance objectives  
namely related to long-term growth of revenue  
and profitability, as determined by the Board of  
Directors of the Corporation are fully attained.  
(4)

Pierre  
25,162 4.77%  
Plamondon 4.01

October  
19, 2016

100% on the fifth anniversary date of the grant  
subject to early vesting up to 1/3 on the third  
anniversary date of the grant and up to 50% of  
the remaining units on the fourth anniversary  
date of the grant if performance objectives  
namely related to long-term growth of revenue  
and profitability, as determined by the Board of  
Directors of the Corporation are fully attained.  
(4)



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Name	RSUs Granted (#)	Percentage of Total RSUs Granted to Employees in Financial Year (%) <sup>(1)</sup>	Fair Value at the Time of Grant (US\$/RSU) <sup>(2)</sup>	Grant Date	Vesting Schedule <sup>(3)</sup>
Willem Jan te Niet	16,681	3.16%	4.01	October 19, 2016	100% on the fifth anniversary date of the grant subject to early vesting up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board of Directors of the Corporation are fully attained. <sup>(4)</sup>
Dana Yearian	24,744	4.69%	4.01	October 19, 2016	100% on the fifth anniversary date of the grant subject to early vesting up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board of Directors of the Corporation are fully attained. <sup>(4)</sup>

(1) Such percentage does not include any cancelled RSUs.

The fair value at the time of grant of a RSU is equal to the market value of Subordinate Voting Shares at the time RSUs are granted. The grant date market value is equal to the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and the NASDAQ Global Select Market on the last trading day

(2) preceding the grant date, using the noon buying rate of the Bank of Canada from September 1, 2016 to January 31, 2017 and the daily exchange rate of the Bank of Canada since February 1, 2017 on the grant date to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars as required.

(3) All RSUs first vesting cannot be earlier than the third anniversary date of their grant.

(4) Those RSUs granted in the financial year ended August 31, 2017 vest on the fifth anniversary date of the grant but are subject to early vesting on the third and fourth anniversary date of the grant on the attainment of performance objectives, as determined by the Board of Directors of the Corporation. Accordingly, subject to the attainment of performance objectives, the first early vesting is up to 1/3 of the units on the third anniversary date of the grant and the second early vesting is up to 50% of the remaining units on the fourth anniversary date of the grant. The early vesting shall be subject to the attainment of performance objectives. Such performance objectives are based on the attainment of a sales growth metric combined with profitability metric. The sales growth metric is determined by the Compound Annual Growth Rate of sales of the Corporation for the period described below (SALES CAGR). The profitability metric is determined as the Cumulative Corporation's IFRS net earnings before interest, income taxes, depreciation of property, plant and equipment, amortization of intangible assets, foreign exchange gain or loss, change in fair value of cash contingent consideration, and extraordinary gain or loss over the

Cumulative Sales for the same period (LTIP EBITDA). Accordingly, the first early vesting performance objectives will be attained, calculated on a pro-rated basis as follows: i) 100% for a SALES CAGR of 20% or more and 0% for a SALES CAGR of 5% or less for the three-year period ending on August 31, 2019; cumulated with ii) 100% for a LTIP EBITDA of 15% and 0% for a LTIP EBITDA of 7.5% or less for the three-year period ending on August 31, 2019. The second early vesting performance objectives will be attained on the same premises as described above but for the four-year period ending on August 31, 2020.

The following table summarizes information about RSUs granted to the members of the Board of Directors and to Management and Corporate Officers of the Corporation and its subsidiaries as at August 31, 2017:

	Number of RSUs (#)	% of Outstanding RSUs	Weighted Average Fair Value at the Time of Grant (\$US/RSU)
Executive Chairman (one (1) individual)	–	–	–
CEO (one (1) individual)	255,238	15.84%	3.78
Board of Directors (five (5) individuals)	–	–	–
Management and Corporate Officers (nine (9) individuals)	578,088	35.88%	4.08

Option Grants in Last Financial Year

There were no options to purchase the Corporation's Subordinate Voting Shares granted during the financial year ended August 31, 2017 and thereafter until November 1, 2017. As at November 1, 2017, there were no option granted and none outstanding.

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Deferred Share Unit Plan (DSU Plan)

Introduced in October 2004 and effective as of January 2005, the Corporation's DSU Plan (the Deferred Share Unit Plan) is designed to align more closely the interests of the Corporation's non-employee directors with those of its shareholders.

Under the DSU Plan, non-employee directors may elect to receive up to 100% of their retainer fees in the form of DSUs, each of which has an estimated value determined based on the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and the NASDAQ Global Select Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada from September 1, 2016 to January 31, 2017 and the daily exchange rate of the Bank of Canada since February 1, 2017 on the grant date to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars, as required. DSUs entitle the holder thereof to dividends in the form of additional DSUs at the same rate as dividends on Subordinate Voting Shares. Any DSU issued is non-transferable, except by will or other testamentary document or according to the laws respecting the devolution and allotment of estates.

When a participant ceases to act as a director, the participant (or in the case of death, the beneficiary of the DSUs) may cause the Corporation to redeem the DSUs by filing a notice of redemption with the Corporation's Secretary specifying the redemption date. If the participant or his/her beneficiary or legal representative, as the case may be, fails to file such a notice, the redemption date shall be December 15 of the first calendar year commencing after the year the participant ceased to act as a director. Within ten business days after the redemption date, the participant shall receive, at the discretion of the Corporation, in satisfaction of the number of DSUs credited to his or her account on such date, any of the following: (a) a number of Subordinate Voting Shares purchased on the open market having a value, net of any applicable withholdings, equal to the market value of a Subordinate Voting Share on the redemption date multiplied by the number of DSUs credited to his or her notional account on the payment date, (b) a number of Subordinate Voting Shares issued by the Corporation equal to the number of DSUs credited to his or her notional account on the payment date, or (c) any combination of clauses (a) and (b). If a participant dies after ceasing to act as a director, but before filing a redemption notice, these provisions shall apply with such modifications as the circumstances require.

Subordinate Voting Shares issued by the Corporation will be issued from the same pool of Subordinate Voting Shares reserved for issuance pursuant to the LTIP. There are additional limitations for insiders of the Corporation. The number of Subordinate Voting Shares issuable at any time pursuant to options, RSUs and DSUs granted to insiders of the Corporation shall not exceed 10% of the total issued and outstanding Subordinate Voting Shares. The number of Subordinate Voting Shares issued to insiders, within a one (1) year period, pursuant to the exercise, settlement or redemption of options, RSUs and DSUs shall not exceed 10% of the number of issued and outstanding Subordinate Voting Shares, and the number of Subordinate Voting Shares issued to any one insider and such insider's associates, within a one-year period, pursuant to the exercise, settlement or redemption of options, RSUs and DSUs shall not exceed 5% of the total issued and outstanding Subordinate Voting Shares of the Corporation.

Under the current amending provisions, the DSU Plan may be amended or terminated at any time and from time to time by the Board of Directors, with the prior approval of the competent regulatory authorities, provided that any such amendment or termination does not in any way infringe upon any rights of participants in respect of DSUs previously credited to the account of participants. For a summary of the proposed new amending provisions, see "Amendments to the Long-Term Incentive Plan and the Deferred Share Unit Plan - Adoption of New Amending Provisions".



Table of ContentsDeferred Share Unit Grants in Last Financial Year

The aggregate number of DSUs credited to non-employee directors during the financial year ended August 31, 2017 was 45,058. The estimated value at the time of grant of a DSU is determined based on the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and the NASDAQ Global Select Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada from September 1, 2016 to January 31, 2017 and the daily exchange rate of the Bank of Canada since February 1, 2017 on the grant date to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars, as required. The value at vesting of a DSU is equivalent to the market value of the Subordinate Voting Shares when a DSU is converted to such Subordinate Voting Shares. As at August 31, 2017, there were a total of 174,279 DSUs credited and outstanding pursuant to the DSU Plan having a weighted average fair value at the time of grant of US\$4.09 (CA\$4.94).

During the financial year ended August 31, 2017, the following DSUs were granted to the non-employee members of the Board of Directors:

DSUs Granted (#)	Weighted Average Fair Value at the Time of Grant (US\$/DSU)	Total of the Fair Value at the Time of Grant (US\$)	Vesting
45,058	4.36	196,453	At the time director ceases to be a member of the Board of Directors of the Corporation

The following table summarizes information about DSUs granted to the non-employee members of the Board of Directors as at November 1, 2017:

	Number of DSUs (#)	% of Issued and Outstanding DSUs	Total of the Fair Value at the Time of Grant (US\$)	Weighted Average Fair Value at the Time of Grant (US\$/DSU)
Board of Directors (five (5) individuals)	174,279	100%	4.09	712,801

Number of Subordinate Voting Shares Reserved for Future Issuance

During the financial year ended August 31, 2017, 45,058 DSUs and 527,143 RSUs were granted to directors, officers and employees. Such awards were issued from the pool of Subordinate Voting Shares reserved for issuance pursuant to the LTIP and the DSU Plan of which the maximum number of Subordinate Voting Shares issuable shall not exceed 6,306,153, which represents 11.5% of the Corporation's issued and outstanding voting shares as at November 1, 2017. As at November 1, 2017, the number of Subordinate Voting Shares reserved for future issuance is 215,361 representing 0.4% of the Corporation's issued and outstanding voting shares as at November 1, 2017. If the proposed increase is approved the aggregate number of Subordinate Voting Shares reserved for issuance under the LTIP and DSU Plan will increase from 6,306,153 to 11,792,893 Subordinate Voting Shares. This would mean that Subordinate

Voting Shares available for future grants under the LTIP and the DSU Plan would increase from 215,361 to 5,702,101, representing 10.4% of the total 54,867,396 issued and outstanding voting shares of the Corporation as of November 1, 2017. See "Amendments to the Long-Term Incentive Plan and the Deferred Share Unit Plan - Increase in Shares Reserved for Issuance".

Stock Appreciation Rights Plan

On August 4, 2001, the Corporation established a Stock Appreciation Rights Plan (the "SAR Plan"), as amended on January 12, 2010, for the benefit of certain employees residing in countries where the granting of stock-based compensation under the LTIP is not feasible in the opinion of the Corporation. The Board of Directors has full and complete authority to interpret the SAR Plan and to establish the rules and regulations applying to it and to make all other determinations it deems necessary or useful for the administration of the SAR Plan.

Under the SAR Plan, eligible employees are entitled to receive a cash amount equivalent to the difference between the market price of the Subordinate Voting Shares on the date of exercise or the date of vesting and the exercise price determined on the date of grant. No Subordinate Voting Shares are issuable under the SAR Plan.

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The Board of Directors has delegated to Management the task of designating the recipients of stock appreciation rights, the date of exercise or vesting, the expiry date and other conditions. Under the terms of the SAR Plan, the exercise price determined on the date of grant of the stock appreciation right is equal to zero (0) if the stock appreciation right is to reflect a RSU under the LTIP or, if the stock appreciation right is to reflect an option under the LTIP, the exercise price determined on the date of grant may not be lower than the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ Global Select Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada from September 1, 2016 to January 31, 2017 and the daily exchange rate of the Bank of Canada since February 1, 2017 on the grant date to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars. Stock appreciation rights are non transferable.

The stock appreciation rights, reflecting a RSU under the LTIP, vest at a rate of 50% annually commencing on the third anniversary date of the date of grants made in January 2014, October 2014, January 2015, October 2015, January 2016, October 2016 and January 2017.

The stock appreciation rights, reflecting a RSU under the LTIP, will: i) lapse immediately upon the termination of the relationship with the Corporation or one (1) of its subsidiaries for a good and sufficient cause or at the date on which an employee resigns or leaves his employment with the Corporation or one (1) of its subsidiaries; and ii) vest immediately, to a certain proportion as determined by the SAR Plan, upon the termination without cause of the relationship of an employee with the Corporation or one (1) of its subsidiaries.

The stock appreciation rights, reflecting an option under the LTIP, vest over a four-year period, with 25% vesting annually commencing on the first anniversary date of the date of grant. However, since October 2007, some stock appreciation rights, representing an option under the LTIP, vest at a rate of 50% annually commencing on the third anniversary date of the grants made in October 2008 and October 2009.

For stock appreciation rights, reflecting an option under the LTIP, once vested, such right may be exercised between the second and the fifteenth business day following each release of the Corporation's quarterly financial results and will lapse immediately upon the termination of the relationship with the Corporation or one (1) of its subsidiaries for a good and sufficient cause or at the date on which an employee resigns or leaves his employment with the Corporation or one (1) of its subsidiaries (or within thirty (30) days if the holder is dismissed without cause). In the event of retirement or disability, any stock appreciation right held by an employee lapses thirty (30) days after the date of any such disability or retirement. In the event of death, any stock appreciation right lapses six (6) months after the date of death.

All of the stock appreciation rights that are granted under the SAR Plan may be exercised within a maximum period of ten (10) years following the date of their grant.

From September 1, 2016 until November 1, 2017, 14,104 Stock Appreciation Rights ("SARs") were exercised.

During the financial year ended August 31, 2017, 7,900 SARs were granted to employees. As at August 31, 2017, there were 27,296 SARs outstanding.

### Benefits and Perquisites

Certain employees of the Corporation, including the NEOs, are eligible to participate in the Corporation's benefits programs, which may include life insurance, extended health and dental coverage, short and long-term disability coverage, accidental death and dismemberment (AD&D) compensation and emergency travel assistance. Although the

majority of costs of the benefits are paid by the Corporation, employees (including the NEOs) may also be required to contribute to obtain such benefits.



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With the exception of car allowances that are provided to the Corporation's Executive Chairman and Vice Presidents of Sales, executive officers, including other NEOs, do not receive any perquisites. The value of the perquisites for each of the NEOs, if applicable, is less than CA\$50,000 or 10% of total annual salary and bonus for the financial year and, as such, is not included in the table provided under the heading "Summary Compensation Table" and in the table provided under the heading "Termination and Change of Control Benefits".

### Deferred Profit-Sharing Plan

The Corporation maintains a deferred profit-sharing plan (the "DPSP") for certain eligible Canadian resident employees, including NEOs but excluding the Corporation's Executive Chairman, under which the Corporation may elect to match the employees' contributions up to a maximum of 4% of an employee's gross salary, provided that the employee has contributed to a tax-deferred registered retirement savings plan. Cash contributions, for eligible employees to the DPSP, and expenses for the years ended August 31, 2015, 2016 and 2017 amounted to US\$1,492,000, US\$1,374,000 and US\$1,571,000, respectively. The amounts contributed to the DPSP are invested at the employee's will in the investment vehicles offered by Manufacturers Life Insurance Company (Manulife) (previously Standard Life), the Corporation's fund administrator. Withdrawals of funds from the DPSP account are not permitted. In the event of termination of the employment, if the employee has been a member of the DPSP for more than two (2) years, the employee is entitled to receive the funds accumulated in his DPSP account.

### 401K Plan

The Corporation maintains a 401K plan for eligible United States resident employees of its subsidiaries. Employees become eligible to participate in the 401K plan on the date they are hired. Under this plan, the Corporation must contribute an amount equal to 3% of an employee's current compensation. In addition, employees may elect to defer their current compensation up to the lesser of 1% of eligible compensation or the statutorily prescribed annual limit and have the deferral contributed to the 401K plan. The 401K plan permits, but does not require the Corporation to make additional matching contributions to the 401K plan on behalf of the eligible participants, subject to a maximum of 50% of the first 6% of the participant's current compensation subject to certain legislated maximum contribution limits. The Corporation contributes up to 3% of the participant's current compensation, subject to certain legislated maximum contribution limits. In the years ended August 31, 2015, 2016 and 2017, the Corporation made aggregate contributions of US\$628,000, US\$622,000 and US\$630,000 respectively, to the 401K plan. Contributions by participants or by the Corporation to the 401K plan and income earned on plan contributions are generally not taxable to the participant until withdrawn and contributions by the Corporation are generally deductible by the Corporation when made. At the direction of each participant, the trustees of the 401K plan invest the assets of the 401K plan in selected investment options.

### 2017 Performance and Compensation

Compensation for the NEOs is awarded through the Corporation's executive compensation plan, which aligns compensation with key strategic objectives and individual performance. The Corporation has established Business Performance Measures outlining key performance indicators which are applicable to all employees. You will find more information on such indicators under the heading "Short-Term Incentive Compensation". These performance indicators focus efforts, communicate priorities and enable performance to be benchmarked.

The following table highlights the NEOs early vesting achievement in accordance with the Corporation's LTIP:

Long-Term  
Incentive  
Plan (LTIP)  
- RSUs

Date of Grant	Vesting Date	% of Early Vesting Achievement <sup>(1)</sup>
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October 16, 2013	October 16, 2017	3%
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October 16, 2014	October 16, 2017	6%
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(1) The vesting schedules are provided in the table under the heading "Long-Term Incentive Plan".

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Conclusion

By way of application of the Corporation's executive compensation policy, an important part of executive compensation is linked to corporate performance and long-term value creation. The Human Resources Committee continuously reviews executive compensation programs to ensure that they maintain their competitiveness and continue to focus on the Corporation's objectives, values and business strategies.

For the financial year ending August 31, 2012, we made a significant change to the Executive Chairman compensation structure. Following the evaluation of the share ownership of the Executive Chairman, it was decided by the Human Resources Committee that the Executive Chairman should no longer receive equity-based compensation within his compensation as the share ownership of the Executive Chairman has been determined to be sufficient and that equity-based compensation was no longer reasonably considered as an incentive to performance.

Depending on specific circumstances, the Human Resources Committee may also recommend employment terms and conditions that deviate from the policies and the execution by the Corporation or its subsidiaries of employment contracts on a case-by-case basis.

Executive Chairman Performance Compensation during Last Three (3) Financial Years

The following table compares the compensation awarded to Mr. Germain Lamonde in respect of his performance as CEO until April 1, 2017 and then as Executive Chairman to the Total Market Capitalization Growth for the last three (3) financial years. The compensation includes base salary, short-term incentive payments, as well as long-term incentive payments at grant date pursuant to the LTIP.

Compensation 2016 Elements	2015	Three-Year Total
Cash		
Base Salary	CA\$717,500	CA\$700,000
Short-Term Incentive	CA\$615,332	CA\$2,032,832
Equity		
Long-Term	CA\$272,962	CA\$331,115
	CA\$101,022	CA\$695,099

Incentive

Total  
 CA\$980,462 CA\$1,031,115 CA\$716,354 CA\$2,727,931  
 Direct  
 Compensation

Contribution  
 to  
 DPSP           —                   —                   —

All  
 Other  
 Compensation       —                   —                   —

Total  
 CA\$980,462 CA\$1,031,115 CA\$716,354 CA\$2,727,931  
 Compensation

Annual  
 Average           —                   —                   CA\$909,310

Total  
 Market  
 Capitalization  
 (CA\$  
 millions)       231.9               217.6               257.3  
 as  
 at  
 August  
 31  
 (2)

0.30%           0.44%           0.33%           0.35%  
 Total  
 Cost  
 as  
 a  
 %  
 of

Market  
Capitalization

(1) On April 1, 2017, Mr. Germain Lamonde stepped down as CEO and became Executive Chairman of the Corporation.

(2) In fiscal year 2015, the Corporation redeemed 6,521,739 subordinate voting shares under its substantial issuer bid.

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## CEO Performance Compensation during Last Three (3) Financial Years

The following table compares the compensation awarded to Mr. Philippe Morin in respect of his performance as COO until April 1, 2017 and then as CEO to the Total Market Capitalization Growth for the last three (3) financial years. The compensation includes base salary, short-term incentive payments, as well as long-term incentive payments at grant date pursuant to the LTIP.

2017 <sup>(1)</sup> Compensation Elements	2016 <sup>(2)</sup>	2015	Three-Year Total
Cash			
Base Salary	CA\$512,500	CA\$394,231	– CA\$906,731
Short-Term Incentive	CA\$118,531	CA\$142,590	– CA\$261,121
Equity			
Long-Term Incentive	CA\$741,256	CA\$749,999	– CA\$1,281,255
Total Direct Compensation	CA\$1,162,287	CA\$1,286,820	– CA\$2,449,107
Contribution to DPSP	CA\$14,346	CA\$9,135	– CA\$23,481
–	–	–	–
All			

Other  
Compensation

Total \$1,176,633 CA\$1,295,955 – CA\$2,472,588  
Compensation

Annual – – CA\$1,236,294  
Average

Total  
Market  
Capitalization

(CA\$  
322.3  
millions) 231.9 – 277.1  
as  
at  
August  
31

Total  
Cost

as  
0.37% 0.56% – 0.45%  
%  
of  
Market  
Capitalization

(1) Mr. Philippe Morin was nominated CEO on April 1, 2017.

(2) Mr. Philippe Morin was nominated COO on November 9, 2015.

Summary Compensation Table of Named Executive Officers

The table below shows compensation information during the three (3) most recently completed financial years for the NEOs. This information includes, as applicable, the Canadian and US dollar and Euro value of base salaries, share-based and option-based awards, non-equity incentive plan compensations, pension value and all other compensation, if any, whether paid or deferred.

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Name and Principal Position	Financial Year	Salary <sup>(1)</sup> <sup>(2)</sup> (\$)	Share-Based Awards <sup>(2)</sup> <sup>(3)</sup> (\$)	Option-Based Awards (\$)	Non-Equity Plan Compensation (\$)	Incentive Compensation (\$)	Pension Value (\$)	All Other Compensation (\$) <sup>(2)</sup> <sup>(5)</sup>	Total Compensation (\$)
					Annual Incentive Plans <sup>(2)</sup> <sup>(4)</sup>	Long-Term Incentive Plan			
	2017	543,067 (US)	— (US)	—	199,032 (US)	—	—	—	742,099 (US)
		717,500 (CA)	— (CA)	—	262,962 (CA)	—	—	—	980,462 (CA)
Germain Lamonde, Executive Chairman <sup>(6)</sup>	2016	527,188 (US)	— (US)	—	249,371 (US)	—	—	—	776,559 (US)
		700,000 (CA)	— (CA)	—	331,115 (CA)	—	—	—	1,031,115 (CA)
	2015	508,833 (US)	— (US)	—	83,537 (US)	—	—	—	592,370 (US)
		615,332 (CA)	— (CA)	—	101,022 (CA)	—	—	—	716,354 (CA)
	2017	387,905 (US) <sup>(8)</sup>	402,101 (US)	—	89,715 (US)	—	—	10,858 (US)	890,579 (US)
		512,500 (CA)	531,256 (CA)	—	118,531 (CA)	—	—	14,346 (CA)	1,176,633 (CA)
Philippe Morin, CEO <sup>(7)</sup>	2016	296,905 (US) <sup>(8)</sup>	564,844 (US)	—	107,388 (US)	—	—	6,879 (US)	976,016 (US)
		394,231 (CA)	749,999 (CA)	—	142,589 (CA)	—	—	9,135 (CA)	1,295,954 (CA)



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Name and Principal Position	Financial Year	Salary <sup>(1) (2)</sup> (\$)	Share-Based Awards <sup>(2) (3)</sup> (\$)	Option- Based Awards (\$)	Non-Equity Incentive Plan Compensation (\$)		Pension Value (\$)	All Other Compensation <sup>(2) (5)</sup> (\$)	Total Compensation (\$)
					Annual Incentive Plans <sup>(2) (4)</sup>	Long-Term Incentive Plan			
	2017	228,841 (US)	100,176 (US)		46,116 (US)			11,006 (US)	386,139 (US)
		302,345 (CA)	132,352 (CA)	—	60,928 (CA)	—	—	14,541 (CA)	510,166 (CA)
Pierre Plamondon, CFO and Vice President, Finance	2016	221,502 (US)	91,220 (US)	—	82,291 (US)	—	—	9,064 (US)	404,077 (US)
		294,110 (CA)	121,122 (CA)	—	109,266 (CA)	—	—	12,035 (CA)	536,533 (CA)
	2015	235,665 (US)	95,847 (US)	—	31,095 (US)	—	—	12,212 (US)	374,819 (US)
		284,990 (CA)	115,907 (CA)	—	37,603 (CA)	—	—	14,768 (CA)	453,268 (CA)
	2017	226,587 (US)	66,891 (US)	—	104,094 (US)	—	—	7,912 (US)	405,484 (US)
		299,367 (CA)	88,376 (CA)	—	137,529 (CA)	—	—	10,454 (CA)	535,726 (CA)
		206,625 (€)	60,998 (€)	—	94,923 (€)	—	—	7,215 (€)	369,761 (€)
Willem Jan te Niet, Vice President, Sales — EMEA	2016	9,160 (US) <sup>(10)</sup>	32,384 (US)	—	—	—	—	—	41,544 (US)
		12,162 (CA)	43,000 (CA)	—	—	—	—	—	55,162 (CA)
		8,250 (€)	29,168 (€)	—	—	—	—	—	37,418 (€)
	2017	238,134 (US)	99,223 (US)	—	156,675 (US)	—	—	7,049 (US)	501,081 (US)
		314,623 (CA)	131,094 (CA)	—	206,999 (CA)	—	—	9,314 (CA)	662,030 (CA)
Dana Yearian, Vice President, Sales — Americas									

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2016	233,465 (US)	97,087 <sup>(US)</sup> – 128,913 (CA)	–	181,465 (US)	–	–	7,049 <sup>(US)</sup> 9,360 <sup>(CA)</sup>	519,066 (US)
		309,995 (CA)		240,949 (CA)				689,217 (CA)
2015	228,439 (US)	95,369 <sup>(US)</sup> 115,330 (CA)	–	156,372 (US)	–	–	7,049 <sup>(US)</sup> 8,525 <sup>(CA)</sup>	487,229 (US)
		276,251 (CA)		189,100 (CA)				589,206 (CA)

(1) Base salary earned in the financial year, regardless when paid.

The compensation information for Canadian residents has been converted from Canadian dollars to US dollars based upon an average foreign exchange rate of CA\$1.3212 = US\$1.00 for the financial year ended August 31, 2017, CA\$1.3278 = US\$1.00 for the financial year ended August 31, 2016 and CA\$1.2093 = US\$1.00 for the

(2) financial year ended August 31, 2015. The compensation information for the Netherlands resident has been converted from Euros to US dollars based upon an average foreign exchange rate of €0.9119 = US\$1.00 for the financial year ended August 31, 2017 and €0.9007 = US\$1.00 for the financial year ended August 31, 2016 and the conversion from US dollars to Canadian dollars is made as described above.

(3) Indicates the dollar amount based on the grant date fair value of the RSUs awarded under the LTIP for the financial year. The grant date fair value is equal to the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and the NASDAQ Global Select Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada from September 1, 2016 to January 31, 2017 and the daily exchange rate of the Bank of Canada since February 1, 2017 on the grant date to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars. Grants of RSUs to NEOs are detailed under section "Compensation Discussion and Analysis – Long-Term Incentive Plan".

(4) Indicates the total bonus earned during the financial year whether paid during the financial year or payable on a later date:

Name	Paid during the Financial Year Ended August 31, 2017 <sup>(i)</sup> (\$)	Paid in the First Quarter of the Financial Year Ending on August 31, 2018 <sup>(i)</sup> (\$)	Total Bonus Earned during the Financial Year Ended August 31, 2017 <sup>(i)</sup> (\$)
Germain Lamonde	(US) (CA)	199,032 <sup>(US)</sup> 262,962 <sup>(CA)</sup>	199,032 <sup>(US)</sup> 262,962 <sup>(CA)</sup>
Philippe Morin	(US) (CA)	89,715 <sup>(US)</sup> 118,531 <sup>(CA)</sup>	89,715 <sup>(US)</sup> 118,531 <sup>(CA)</sup>
Pierre Plamondon	(US) (CA)	46,116 <sup>(US)</sup> 60,928 <sup>(CA)</sup>	46,116 <sup>(US)</sup> 60,928 <sup>(CA)</sup>

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	61,371 (US)	42,723 (US)	104,094 (US)
Willem Jan te Niet	81,084 (CA)	56,445 (CA)	137,529 (CA)
	55,964 (€)	38,959 (€)	94,923 (€)
	92,480 (US)	64,195 (US)	156,675 (US)
Dana Yearian	122,185 (CA)	84,814 (CA)	206,999 (CA)

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- (i) Refer to note 2 above.
- Indicates the amount contributed by the Corporation during the financial year to the DPSP as detailed under section "Compensation Discussion and Analysis – Deferred Profit-Sharing Plan", the 401K plan as detailed under section
- (5) "Compensation Discussion and Analysis – 401K plan", as applicable, for the benefit of the NEOs. Mr. Lamonde is not eligible to participate in the DPSP.
- (6) Mr. Lamonde stepped down as CEO as of April 1, 2017 and was nominated Executive Chairman of the Corporation.
- (7) Mr. Morin was promoted from Chief Operating Officer of the Corporation to CEO of the Corporation as of April 1, 2017. He joined the Corporation as COO on November 9, 2015.
- (8) This amount represents the salary paid to Mr. Philippe Morin from November 9, 2015 to August 31, 2016 which is based on an annual salary of US\$376,563 (CA\$500,000) for the financial year ended August 31, 2016.
- (9) Mr. Willem Jan te Niet joined the Corporation as Vice President, Sales — EMEA on August 15, 2016.
- (10) This amount represents the salary paid to Mr. te Niet from August 15, 2016 to August 31, 2016 which is based on an annual salary of €198,000 (US\$219,829, CA\$291,889) for the financial year ended August 31, 2016.

## Incentive Plan Awards

The significant terms of all plan-based awards and non-equity incentive plan awards, issued or vested, or under which options have been exercised, during the financial year, or outstanding at the end of the financial year are described herein under the section entitled "Compensation Discussion and Analysis – Long-Term Incentive Plan" and "Compensation Discussion and Analysis – Short Term Incentive Compensation".

## Outstanding Share-Based Awards and Option-Based Awards

The following sets out for each NEO all option and RSU awards outstanding as at August 31, 2017, if any, including those granted before August 31, 2017.

Name	Outstanding Option-Based Awards (Options)				Outstanding Share-Based Awards (RSUs)		
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price	Option Expiration Date	Value of Unexercised "in-the-money" Options	Number of Shares or Units that Have Not Vested (#)	Market or Share-Based Payout Value of Awards that Have Not Vested (US\$) <sup>(1)</sup>	Market or Payout Value of Vested Share-Based Awards Not Paid Out or Distributed (US\$)
Germain Lamonde	–	–	–	–	–	–	–
Philippe Morin	–	–	–	–	255,238	1,199,619	–

Pierre Plamondon	–	–	–	–	121,516	571,125	–
Willem Jan te Niet	–	–	–	–	26,681	125,401	–
Dana Yearian	–	–	–	–	116,178	546,037	–

The value of unvested RSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2017, which was US\$4.70 (CA\$5.89). The market value of the Subordinate Voting Shares was calculated by using the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ Global Select Market on August 31, 2017 using the daily exchange rate of the (1) Bank of Canada to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars as required. The actual gains on vesting will depend on the value of the Subordinate Voting Shares on the date of vesting. There can be no assurance that these values will be realized.

#### Exercised Option-Based Awards

No option-based awards of the Corporation were held during the financial year ended August 31, 2017 by the NEOs.

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## Incentive Plan Awards – Value Vested or Earned during the Year

The following table summarizes, for each of the NEOs, the value of share-based awards vested during the financial year ended August 31, 2017, if any, and the value of non-equity incentive plan compensation earned during the financial year ended August 31, 2017, if any.

Name	Share-Based Awards – Value Vested during the Year (US\$) <sup>(1)</sup>	Non-Equity Incentive Plan Compensation – Value Earned during the Year (US\$) <sup>(2)</sup>
Germain Lamonde	247,698	199,032
Philippe Morin		89,715
Pierre Plamondon	68,380	46,116
Willem Jan te Niet		104,094
Dana Yearian	71,384	156,675

The aggregate dollar value realized is equivalent to the market value of the Subordinate Voting Shares underlying (1) the RSUs at vesting. This value, as the case may be, has been converted from Canadian dollars to US dollars based upon the daily exchange rate of the Bank of Canada on the day of vesting.

(2) Includes total non-equity incentive plan compensation earned by each NEO in respect to the financial year ended on August 31, 2017 (as indicated under the "Summary Compensation Table").

## Pension Plan Benefits

The Corporation does not have a defined benefit pension plan. The significant terms of the DPSP and the 401K plan of the Corporation are described herein under the sections entitled "Compensation Discussion and Analysis – Deferred Profit-Sharing Plan" and "Compensation Discussion and Analysis – 401K plan". The amounts paid by the Corporation to the NEOs under such plans are detailed in the column entitled "All other compensation" in the "Summary Compensation Table".

## Termination and Change of Control Benefits

The Corporation has an employment agreement with Mr. Germain Lamonde, the Corporation's Executive Chairman. The agreement is for an indeterminate period and compensation is reviewed annually. In the event of the termination of Mr. Lamonde's employment without cause, Mr. Lamonde will be entitled to a severance payment equal to twenty-four (24) months of his current rate of remuneration (base salary, STIP compensation and benefits) and the immediate vesting of all stock options and RSUs. In addition, in the event that Mr. Lamonde's employment is terminated following a merger or an acquisition by a third party of substantially all of the Corporation's assets or of the majority of its share capital, he will be entitled to a severance payment equal to twenty-four (24) months of his current rate of remuneration (base salary, STIP compensation and benefits) and to the immediate vesting of all stock options and RSUs. If Mr. Lamonde voluntarily resigns, he will be entitled to immediate vesting of all stock options and RSUs.

The Corporation has an employment agreement with Mr. Philippe Morin, the Corporation's Chief Executive Officer. The agreement is for an indeterminate period and compensation is reviewed annually. In the event of termination of Mr. Morin's employment without cause, Mr. Morin will be entitled to a severance payment equal to twelve (12) months of his current base salary. In addition, in the event Mr. Morin's employment is terminated following a merger or an acquisition by a third party of substantially all of the Corporation's assets or of the majority of its share capital, he will be entitled to a severance payment equal to twelve (12) months of his current base salary and to the immediate vesting of all stock options and RSUs.

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The Corporation has an employment agreement with Mr. Pierre Plamondon, the Corporation's CFO and Vice President, Finance. The agreement is for an indeterminate period and compensation is reviewed annually. In the event of termination of Mr. Plamondon's employment without cause, Mr. Plamondon will be entitled to a severance payment equal to twelve (12) months of his current base salary. In addition, in the event Mr. Plamondon's employment is terminated following a merger or an acquisition by a third party of substantially all of the Corporation's assets or of the majority of its share capital, he will be entitled to a severance payment equal to eighteen (18) months of his current rate of remuneration (base salary, STIP compensation and benefits) and to the immediate vesting of all stock options and RSUs.

The Corporation has an employment agreement with Mr. Willem Jan te Niet, the Corporation's Vice-President, Sales — EMEA. The agreement is for an indeterminate period and compensation is reviewed annually. In the event of termination of Mr. te Niet's employment without cause, Mr. te Niet will be entitled to severance payments equal to one (1) month per year of service as a Vice-President of the Corporation with a minimum of six (6) months but in no case exceeding twelve (12) months of his current base salary. In addition, in the event Mr. te Niet's employment is terminated following a merger or an acquisition by a third party of substantially all of the Corporation's assets or of the majority of its share capital, he will be entitled to severance payments equal to one (1) month per year of service as a Vice-President of the Corporation with a minimum of six (6) months but in no case exceeding twelve (12) months of his current rate of remuneration (base salary, SIP compensation and benefits) and to the immediate vesting of all RSUs.

The Corporation has an employment agreement with Mr. Dana Yearian, the Corporation's Vice President, Sales — Americas. The agreement is for an indeterminate period and compensation is reviewed annually. In the event of termination of Mr. Yearian's employment without cause, Mr. Yearian will be entitled to a severance payment equal to twelve (12) months of his current base salary. In addition, in the event Mr. Yearian's employment is terminated following a merger or an acquisition by a third party of substantially all of the Corporation's assets or of the majority of its share capital, he will be entitled to a severance payment equal to eighteen (18) months of his current rate of remuneration (base salary, SIP compensation and benefits) and to the immediate vesting of all stock options and RSUs.

The following table outlines the estimated incremental payments NEOs would be entitled to receive if a termination payment event occurred on August 31, 2017, which includes all payments, payables and benefits that would be given by the Corporation to a NEO upon such termination payment event.

Named Executive Officer	Termination Payment Event		
	Without Cause (\$) <sup>(2)</sup>	Change of Control (\$) <sup>(2)</sup> <sup>(3) (4)</sup>	Voluntary (\$) <sup>(6)</sup>
Germain Lamonde	1,672,966 <sup>(US)</sup> 2,097,230 <sup>(CA)</sup>	1,672,966 <sup>(US)</sup> 2,097,230 <sup>(CA)</sup>	0
Philippe Morin	837,045 <sup>(US)</sup> 1,049,144 <sup>(CA)</sup>	1,608,442 <sup>(US)</sup> 2,015,852 <sup>(CA)</sup>	—



Pierre Plamondon	550,685 (US)	1,063,640 (US)	—
	690,213 (CA)	1,333,146 (CA)	
Willem Jan te Niet	164,517 (US)	261,991 (US)	—
	206,228 (CA)	328,381 (CA)	
	139,115 (€)	221,538 (€)	
Dana Yearian	527,739 (US)	1,175,436 (US)	—
	661,445 (CA)	1,473,303 (CA)	

The aggregate amount disclosed includes an evaluation of the amount that the NEO would have been entitled to should a termination of employment without cause have occurred on August 31, 2017 and includes, as the case may be for each NEO, the base salary that would have been received and total value of RSUs and options that would have vested (with the exception of Mr. Lamonde's evaluation which is described in note 6 below and (1) includes: the base salary, STIP compensation, and total value of RSUs and options that would have vested). The amount for base salary compensation is calculated according to those amounts provided under the section entitled "Summary Compensation Table" included in this Circular. The amount for the total value attached to the vesting of RSUs and options determined pursuant to the LTIP as described in the section entitled "Long-Term Incentive Compensation – Long-Term Incentive Plan" for termination without cause.

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- (2) The aggregate amount for Canadian residents has been converted from Canadian dollars to US dollars based upon a foreign exchange rate of CA\$1.2536 = US\$1.00 as of August 31, 2017. The aggregate amount for Netherlands resident has been converted from Euros to US dollars based upon a foreign exchange rate of €0.8456 = US\$1.00 as of August 31, 2017.
- (3) "Change of Control" is defined as a merger or an acquisition by a third party of substantially all of the Corporation's assets or of the majority of its share capital.
- (4) The aggregate amount disclosed includes, as the case may be for each NEO, an evaluation of the amount that the NEO would have been entitled to should a termination of employment for Change of Control have occurred on August 31, 2017 and includes, as the case may be, namely, the base salary, STIP or SIP compensation and total value of RSUs and options that would have vested. The amount for base salary and STIP or SIP compensation are calculated according to those amounts provided under the section entitled "Summary Compensation Table" included in this Circular, the total value attached to the vesting of RSUs and options is calculated according to those amounts provided in the columns named "Value of unexercised "in-the-money" options" and "Market or payout value of share-based awards that have not vested" of the table included under the heading entitled "Outstanding share-based awards and option-based awards".
- (5) The aggregate amount disclosed includes an evaluation of the amount that Mr. Lamonde would have been entitled to should a termination of employment without cause have occurred on August 31, 2017 and includes: the base salary, STIP compensation, and total value of RSUs and options that would have vested. The amount for base salary and STIP compensation are calculated according to those amounts provided under the section entitled "Summary Compensation Table" included in this Circular; the total value attached to the vesting of RSUs and options are calculated according to those amounts provided in the columns named "Value of unexercised "in-the-money" options" and "Market or payout value of share-based awards that have not vested" of the table included under the heading entitled – "Outstanding share-based awards and option-based awards".
- (6) Mr. Lamonde did not hold any RSUs or options on August 31, 2017.

Compensation of Directors

Director Compensation Table

In the financial year ended August 31, 2014, the decision was made to increase the Annual Retainer and eliminate the attendance fees and each Director who was not an employee of the Corporation or any of its subsidiaries received an Annual Retainer as set forth in the following table, payable in a combination of cash and DSUs as chosen by the director pursuant to the DSU Plan. Since June 2017, our Directors have the obligation to elect to receive at least seventy-five (75%) of their Annual Retainer in form of DSUs until their cumulative Annual Retainers equal or exceed three (3) times the sum of: i) the Annual Retainer for Directors; ii) the Annual Retainer for Audit Committee Members; and iii) the Annual Retainer for Human Resources Committee Members. The significant terms of the DSU Plan are described herein under the section entitled "Long-Term Incentive Compensation – Deferred Share Unit Plan".

	From September 1, 2016 to February 28, 2017		From March 1, 2017 to August 31, 2017	
	(2)	(2)	(3)	(4)
Annual Retainer for Directors (1)	CA\$57,000	US\$43,143	CA\$63,500	US\$48,062

Annual Retainer for Lead Director	CA\$8,000	US\$6,055	CA\$9,000	US\$6,812	(4)
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Annual Retainer for Audit Committee Chairman	CA\$8,000	US\$6,055	CA\$10,000	US\$7,569	(4)
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Annual Retainer for Audit Committee Members	CA\$4,000	US\$3,028	CA\$4,250	US\$3,217	(5)
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Annual Retainer for Human Resources Committee Chairman	CA\$6,000	US\$4,541	CA\$6,500	US\$4,920	(4)
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Annual Retainer for Human Resources Committee Members	CA\$3,000	US\$2,271	CA\$3,750	US\$2,838	(5)
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All the Directors elected to receive 100% of their Annual Retainer for Directors in form of DSUs except Mr.

Pierre-Paul Allard who elected to receive 50% of his Annual Retainer in form of DSUs and Mr. François Côté, Ms.

(1) Angela Logothetis and Mr. Claude Seguin who elected to receive 50% of their Annual Retainer in form of DSUs until March 1, 2017 and Mr. François Côté who elected to receive 75% of his Annual Retainer in form of DSUs starting March 1, 2017.

(2) The Annual Retainer for Mr. Pierre-Paul Allard, Ms. Angela Logothetis and Mr. Randy E. Tornes is US\$57,000 (CA\$75,308).

(3) The Annual Retainer for Mr. Pierre-Paul Allard, Ms. Angela Logothetis and Mr. Randy E. Tornes is US\$63,500 (CA\$83,896).

(4) The compensation information has been converted from Canadian dollars to US dollars based upon an average foreign exchange rate of CA\$1.3212 = US\$1.00 for the financial year ended August 31, 2017.

(5)

The Annual Retainer for Audit Committee Members is CA\$4,250 for Mr. François Côté and Mr. Claude Séguin and US\$4,250 (CA\$5,615) for Mr. Pierre-Paul Allard, Ms. Angela Logothetis and Mr. Randy Tornes since March 2017. The Annual Retainer for Human Resources Committee Members is CA\$3,750 for Mr. François Côté and Mr. Claude Séguin and US\$3,750 (CA\$4,955) for Mr. Pierre-Paul Allard, Ms. Angela Logothetis and Mr. Randy Tornes since March 2017.

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In the financial year ended August 31, 2017, the Directors who were not employees of the Corporation earned the following compensation:

Name	Fees Earned <sup>(1)</sup> (\$)	Share-Based Awards (\$)	Option-Based Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Pension Value (\$)	All Other Compensation (\$)	Total (\$)
Pierre-Paul Allard	62,899 <sup>(US)</sup> 83,102 <sup>(CA)</sup>	—	—	—	—	—	62,899 <sup>(US)</sup> 83,102 <sup>(CA)</sup>
François Côté	59,889 <sup>(US)</sup> 79,125 <sup>(CA)</sup>	—	—	—	—	—	59,889 <sup>(US)</sup> 79,125 <sup>(CA)</sup>
Darryl Edwards	17,627 <sup>(US)</sup> 23,289 <sup>(CA)</sup>	—	—	—	—	—	17,627 <sup>(US)</sup> 23,289 <sup>(CA)</sup>
Angela Logothetis	42,343 <sup>(US)</sup> 55,944 <sup>(CA)</sup>	—	—	—	—	—	42,343 <sup>(US)</sup> 55,944 <sup>(CA)</sup>
Claude Séguin	54,969 <sup>(US)</sup> 72,625 <sup>(CA)</sup>	—	—	—	—	—	54,969 <sup>(US)</sup> 72,625 <sup>(CA)</sup>
Randy E. Tornes	66,899 <sup>(US)</sup> 88,387 <sup>(CA)</sup>	—	—	—	—	—	66,899 <sup>(US)</sup> 88,387 <sup>(CA)</sup>

The compensation information has been converted from Canadian dollars to US dollars based upon an average foreign exchange rate of CA\$1.3212 = US\$1.00 for the financial year ended August 31, 2017 except for compensation amounts paid to Mr. Pierre-Paul Allard and Mr. Randy E. Tornes which were paid in US dollars for the portion of their annual retainer for Directors. Since March 1<sup>st</sup>, 2017, the compensation amounts paid to Mr. (1) Pierre-Paul Allard, Ms. Angela Logothetis and Mr. Randy E. Tornes were paid in US dollars. The fees are always payable in cash, but executives are provided the opportunity to elect to exchange all or a portion of their Annual Retainer for Directors into DSUs. The following table identifies the portion of the fees earned by the directors that were paid in DSUs and the portion that were paid in cash.

Name	Fees Earned
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	DSUs (\$) <sup>(i)</sup>	Cash (\$) <sup>(i)</sup>	Total (\$) <sup>(i)</sup>
Pierre-Paul Allard <sup>(ii)</sup>	30,125 <sup>(US)</sup>	32,774 <sup>(US)</sup>	62,899 <sup>(US)</sup>
	39,801 <sup>(CA)</sup>	43,301 <sup>(CA)</sup>	83,102 <sup>(CA)</sup>
François Côté <sup>(iii)</sup>	31,080 <sup>(US)</sup>	28,809 <sup>(US)</sup>	59,889 <sup>(US)</sup>
	41,063 <sup>(CA)</sup>	38,062 <sup>(CA)</sup>	79,125 <sup>(CA)</sup>
Darryl Edwards <sup>(ii)</sup>	7,850 <sup>(US)</sup>	9,777 <sup>(US)</sup>	17,627 <sup>(US)</sup>
	10,371 <sup>(CA)</sup>	12,918 <sup>(CA)</sup>	23,289 <sup>(CA)</sup>
Angela Logothetis <sup>(iv)</sup>	38,686 <sup>(US)</sup>	3,657 <sup>(US)</sup>	42,343 <sup>(US)</sup>
	51,112 <sup>(CA)</sup>	4,832 <sup>(CA)</sup>	55,944 <sup>(CA)</sup>
Claude Séguin <sup>(iv)</sup>	35,550 <sup>(US)</sup>	19,419 <sup>(US)</sup>	54,969 <sup>(US)</sup>
	46,969 <sup>(CA)</sup>	25,656 <sup>(CA)</sup>	72,625 <sup>(CA)</sup>
Randy E. Tornes <sup>(v)</sup>	60,250 <sup>(US)</sup>	6,649 <sup>(US)</sup>	66,899 <sup>(US)</sup>
	79,602 <sup>(CA)</sup>	8,785 <sup>(CA)</sup>	88,387 <sup>(CA)</sup>

- The estimated value at the time of grant of a DSU is determined based on the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and the NASDAQ Global Select Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada from September 1, 2016 to
- (i) January 31, 2017 and the daily exchange rate of the Bank of Canada since February 1, 2017 to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars, as required. The value at vesting of a DSU is equivalent to the market value of a Subordinate Voting Share when a DSU is converted to such Subordinate Voting Share.
- (ii) Elected to receive 50% of his Annual Retainer for Directors in form of DSUs.
- (iii) Elected to receive, until March 1, 2017, 50% and, thereafter, 75% of his Annual Retainer for Directors in form of DSUs.
- (iv) Elected to receive, until March 1, 2017, 50% and, thereafter, 100% of his Annual Retainer for Directors in form of DSUs.
- (v) Elected to receive 100% his Annual Retainer for Directors in form of DSUs.

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## Director Incentive Plan Awards

The significant terms of all plan-based awards and non-equity-incentive plan awards, issued or vested, or under which options have been exercised, during the year, or outstanding at the end of the financial year are described herein under section entitled "Compensation Discussion and Analysis – Long-Term Incentive Plan".

## Outstanding Share-Based Awards and Option-Based Awards

The following table sets out for each Director of the Corporation all awards outstanding as at August 31, 2017, if any, including awards granted before August 31, 2017.

## Outstanding Share-Based Awards (DSUs)

Name	Number of Shares or Units of Share-Based Awards that Have Not Vested (#)	Market or Payout Value of Share-Based Awards that Have Not Vested (US\$) <sup>(1)</sup>	Market or Payout Value of Vested Share-Based Awards Not Paid Out or Distributed (US\$)
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Pierre-Paul Allard	55,452	260,624	
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François Côté	17,730	83,331	–
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Angela Logothesis	8,639	40,603	–
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Claude Séguin	29,855	140,319	–
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Randy E. Tornes	62,603	294,234	–
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(1) The value of unvested DSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2017, which was US\$4.70 (CA\$5.89). The market value of the Subordinate Voting Shares was calculated by using the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ Global Select Market on August 31, 2017 using the daily exchange rate of the Bank of Canada to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the

Toronto Stock Exchange closing price to United States dollars as required. The actual gains on vesting will depend on the value of the Subordinate Voting Shares on the date of vesting. There can be no assurance that these values will be realized.

No Director holds outstanding option-based awards of the Corporation as at August 31, 2017. On January 23, 2017 and March 24, 2017, Mr. Darryl Edwards converted 29,456 DSUs and 450 DSUs respectively into 29,906 Subordinate Voting Shares of the Corporation.

Exercised Share-Based Awards

In the financial year that ended August 31, 2017, none of the DSUs of Directors vested with the exception of Mr. Darryl Edwards, a former Director, as detailed below and the Directors did not receive any non-equity incentive compensation from the Corporation.

The following table summarizes information about DSUs converted and paid in Subordinate Voting Shares when a Director ceased to be a member of the Board as at November 1, 2017:

Name	Number of DSUs Converted	Aggregate Value Realized (US\$) <sup>(1)</sup>
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Darryl Edwards <sup>(2)</sup>	29,456	147,380
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Darryl Edwards <sup>(2)</sup>	450	2,631
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(1) The aggregate value realized is equivalent to the market value of the securities underlying the DSUs at conversion.

(2) Mr. Edwards ceased to be a member of the Board of Directors as of January 10, 2017.



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## Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth the number of Subordinate Voting Shares of the Corporation issued and outstanding as at August 31, 2017, or that may be issued, under the Corporation's LTIP and DSU Plan, both of which were approved by the Corporation's shareholders.

Plan Category	Number of Securities to Be Issued upon Exercise of Outstanding Options, RSUs and DSUs (#) (a)	Weighted-Average Exercise Price of Outstanding Options, RSUs and DSUs (US\$) (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (#) (c)
LTIP – RSUs	1,611,330	n/a <sup>(1)</sup>	
LTIP – Options	–	–	435,024 <sup>(2)</sup>
DSU Plan – DSUs	174,279	n/a <sup>(1)</sup>	

(1) The value of RSUs and DSUs will be equal to the market value of the Subordinate Voting Shares of the Corporation on the date of vesting.

(2) Following the approval of the proposed increase of the aggregate number of Subordinate Voting Shares reserved for issuance under the LTIP and DSU Plan, the number of securities remaining available for future issuance under such plans would be 5,702,101. See "Amendments to the Long-Term Incentive Plan and the Deferred Share Unit Plan - Increase in Shares Reserved for Issuance".

## PERFORMANCE GRAPH

The line graph of the next page compares the cumulative total shareholder return of the Corporation's Subordinate Voting Shares with the cumulative shareholder return of the S&P/TSX Composite Index for the last five (5) financial years ended August 31, 2017. It assumes that the initial value of the investment in the Corporation's Subordinate Voting Shares and in the S&P/TSX Composite Index was CA\$100 on September 1, 2012. The bar chart below illustrates the trend in total compensation paid to the NEOs in office during such periods; the Executive Chairman,

CEO and CFO are included in each period but the other named executive officers changed from one period to another. For further information about the identity and compensation of the NEOs, please refer to our previous five (5) Management Proxy Circulars and this Circular under the section "Summary Compensation Table".

The Corporation's Stock Performance  
(September 1, 2012 to August 31, 2017)

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	August 31,					
	2012	2013	2014	2015	2016	2017
EXFO Subordinate Voting Shares (CA\$)	\$100	\$99	\$98	\$84	\$89	\$120
S&P/TSX Composite Index (CA\$)	\$100	\$106	\$131	\$116	\$122	\$127
NEOs' total compensation (in millions of CA\$)	\$2.5	\$2.3	\$2.6	\$2.6	\$4.1	\$3.9

The line graph reflects that EXFO underperformed the S&P/TSX Composite Index between fiscal years 2013 and 2015, but performed relatively better in 2016 and particularly in 2017. Consequently, EXFO narrowed the performance gap between the S&P/TSX Composite Index and itself at the end of the five-year period. Total shareholder return for the Corporation remained relatively stable in 2013 and 2014, dropped in 2015, and recovered in 2016 and especially in 2017. Total shareholder return for the Index increased in financial 2013, 2014, 2016 and 2017, while it declined in 2015.

The Corporation was negatively impacted by uneven macro-economic conditions and uneven telecom spending during this five-year period. Its sales were also affected by global exchange rates, notably the increase of the US dollar versus a basket of currencies like the Canadian dollar, British pound and Euro. The Index, meanwhile, suffered from lower prices for natural resources in 2015, but it was less perturbed by unsteady macro-economic conditions. Due to the relatively small size of the Corporation and its market capitalization, its Subordinate Voting Shares tend to be more volatile and more severely impacted, either positively or negatively, than the Index.

The bar chart above illustrates that over the same five-year period, the total level of compensation received by the NEOs, as expressed in Canadian dollars, followed the Corporation's share price performance in 2016, but not between 2013 and 2015 as well as in 2017. The following information should be considered when analyzing the chart:

Despite the relative stability of the Corporation's share price as at August 31, 2013 compared to the previous financial year, total compensation to the NEOs decreased. This decrease in NEOs compensation reflected financial results below expectations for financial 2013 and consequently was aligned with shareholders' interests.

The Corporation's share price remained relatively flat as at August 31, 2014 compared to the previous financial year, but total NEO compensation increased for that year. This rise in NEO compensation can be explained mainly by the progressive adjustment of the CEO's base salary, as he no longer received equity-based compensation, as well as adjustments to align executive compensation with the Target Compensation Positioning offered within a reference market of comparable companies similar in size to the Corporation. This was deemed necessary to maintain a competitive position within the marketplace and retain key executives.

The Corporation's share price decreased as at August 31, 2015 compared to the previous financial year, while total NEO compensation as expressed in Canadian dollars remained flat for the same period. It should be noted, however, three out of five NEOs were remunerated in currencies other than the Canadian dollar. On a constant currency basis, total NEO compensation would have decreased by about CA\$100,000 year-over-year. As a result, total compensation received by the NEOs for this period was aligned with share price performance.

The Corporation's share performance increased from September 1, 2015 to August 31, 2016. Total compensation received by the NEOs during this period also increased but at a higher rate than the Corporation's share price. It should be noted that the Corporation hired an executive to the newly created position of Chief Operating Officer in the early part of the financial year, which also contributed to the increase in total compensation received by the NEOs during this period.

The Corporation's share performance increased from September 1, 2016 to August 31, 2017. Total compensation received by the NEOs decreased during this period as certain financial targets were not met, which consequently was aligned with shareholders' interests.

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Total compensation to NEOs of the Corporation is defined as the aggregate of base salary, short-term compensation and long-term compensation. Base salary is established at the beginning of each financial year, according to recommendations made by the Board of Directors' Human Resources Committee. Short-term compensation, which varies from one year to the next, is contingent upon the achievement of pre-established objectives measured against corporate and individual targets for a given financial year. For more information about short-term compensation, refer to the heading entitled "Short Term Incentive Compensation." Long-term compensation, which is provided in the form of RSUs, vests over a three- to five-year period, depending on the achievement of pre-established corporate goals. For more information about long-term compensation, refer to the heading entitled "Long-Term Incentive Plan".

Consequently, base salary and short-term compensation do not necessarily track the market value of our share price. Long-term compensation, however, is directly aligned with share-price performance, since the market value of RSUs is equal to the market value of our shares on any vesting day. Accordingly, the market value of the Corporation's share price will affect the planned value of NEOs' total compensation, thereby partially aligning their experience with that of shareholders.

## DIRECTORS AND OFFICER'S LIABILITY INSURANCE

The Corporation maintains insurance protection against liability incurred by its officers and directors as well as those of its subsidiaries in the performance of their duties. The entire premium, amounting to US\$130,000 from September 30, 2017 to September 30, 2018, is paid by the Corporation. The aggregate limit of liability in respect of any and all claims is US\$15 million per year, subject to a deductible of US\$250,000. A separate excess director and officer liability policy with aggregate limit of US\$5 million provides broad form side A coverage, featuring difference-in-conditions (DIC) drop-down coverage that fills in potential coverage gaps that may exist under restrictive or unresponsive underlying insurance. This specific policy provides coverage for personal directors and officers liability if the organization fails or refuses to indemnify, or is financially unable to do so, or is prevented by law from indemnifying and will also respond if the primary D&O policy limit is consumed.

## REPORT ON CORPORATE GOVERNANCE PRACTICES

### Corporate Governance Developments in Canada

In January 2004, the Canadian Securities Administrators (the "CSA") adopted Multilateral Instrument 52-110—Audit Committees, which was last amended in November 2015 ("MI 52 110"). MI 52 110 sets forth certain requirements regarding Audit Committee composition and responsibilities, as well as reporting obligations with respect to audit-related matters. The disclosure of the MI 52-110 requirements is included in our 2017 Annual Information Form on Form 20-F under Exhibit 11.5 (Audit Committee Charter), Items 6.A (Directors and Senior Management) and 16.C (Principal Accountant Fees and Services) available as described below. For the composition of the Audit Committee, refer to the table provided under heading "Nominees for Election as Directors and their Beneficial Ownership of Voting Securities".

Effective June 30, 2005, the CSA also adopted National Instrument 58-101—Disclosure of Corporate Governance Practices ("NI 58 101") and National Policy 58 201—Effective Corporate Governance ("NP 58 201" and, together with MI 52 110, the "CSA Corporate Governance Standards"). NP 58 201 provides guidance to Canadian issuers with respect to corporate governance practices, while NI 58 101 requires issuers to make certain disclosures regarding their governance practices. The CSA Corporate Governance Standards, particularly NI 58 101 and NP 58 201, have replaced the former guidelines of the Toronto Stock Exchange that had, prior to the coming into force of the CSA Corporate

Governance Standards, served as the primary source of codified recommendations in respect of corporate governance practices in Canada.

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### EXFO's Corporate Governance Practices

In accordance with NI 58-101, we are required to disclose information with respect to our system of corporate governance. Over the past few years, we have undertaken a comprehensive review of our corporate governance practices in order to best comply with and, whenever practicable, exceed the CSA Standards.

We adopted in March 2005, and are updating on a regular basis, a number of charters and policies, including an Audit Committee Charter, a Board of Directors Corporate Governance Guidelines, a Code of Ethics for our Principal Executive Officer and Senior Financial Officers, a Disclosure Guidelines, an Ethics and Business Conduct Policy, a Human Resources Committee Charter, a Securities Trading Policy and a Statement on Reporting Ethical Violations (Whistleblower Policy). We adopted in October 2006 a policy regarding Hiring Employees and Former Employees of Independent Auditor. We adopted in June 2011 an Independent Members Committee Charter. We also adopted in October 2011 a majority voting policy for the election of our Directors and amended it in order to comply with the TSX Rules in March 2016. We amended in October 2012 the Human Resources Committee Charter in order to expressly reflect the responsibility of the Human Resources Committee to conduct an annual assessment of the risks associated with the Corporation's executive compensation policies and procedures.

In March 2017, we amended our Disclosure Guidelines to add the Executive Chairman as a member of the Disclosure Committee. In June 2017, we also amended our Director Share Ownership Policy and our Board of Directors Corporate Governance Guidelines in order to introduce mandatory obligations for our Directors to elect to receive at least seventy-five (75%) of their Annual Retainer in form of DSUs until their cumulative Annual Retainers equal or exceed three (3) times the sum of: i) the Annual Retainer for Directors; ii) the Annual Retainer for Audit Committee Members; and iii) the Annual Retainer for Human Resources Committee Members.

We amended in January 2013, in October 2014 and in October 2017 the Human Resources Committee Charter in order to respectively receive and discuss suggestions from shareholders for potential Directors' nominees, to adapt it to the latest NASDAQ Rules on compensation committee along with an update on the nomination of Directors process and in order to specifically add the compensation review of the Executive Chairman. We adopted in January 2013 a Policy Regarding Conflict Minerals. We amended our Ethics and Business Conduct Policy and our Statement on Reporting Ethical Violations (Whistleblower Policy) in June 2013 and adopted in September 2013 the Agent Code of Conduct to formalize our anti-corruption compliance program. We adopted also in September 2013 a Director Share Ownership Policy. We also amended in October 2014 the Audit Committee Charter in order to harmonize its terminology with MI 52-110. We are also implementing best practices such as Best Practice regarding the Granting Date of Stock Incentive Compensation and the establishment of guidelines regarding the filing and disclosure of material contracts. We refer to our Board of Directors and Committee Charters as our "Corporate Governance Rules".

We are of the view that adopting and implementing good corporate governance practices is a cornerstone of our corporate and management practices and policies and that our existing corporate governance practices already meet the prevailing corporate governance standards. We further believe that the measures we have adopted with respect to corporate governance comply substantially with the CSA Standards.

We encourage our shareholders to consult our Corporate Governance Rules and Ethics and Business Conduct Policy available on our website ([www.EXFO.com](http://www.EXFO.com)) and also available in print to any shareholder who requests copies by contacting our Corporate Secretary.

Our 2017 Annual Information Form on Form 20-F (also filed with the Securities and Exchange Commission ("SEC")), which will be available on or before November 29, 2017 and which may be obtained free of charge upon request to the Corporate Secretary or at [www.sedar.com](http://www.sedar.com) in Canada or [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml) in the U.S., will also contain

certain information with respect to our corporate governance practices.

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We are dedicated to updating our corporate governance practices on an ongoing basis in order to respond to the evolution of best practices. We and our Board of Directors are of the view that our corporate governance practices, as summarized in the Schedule D attached to this Management Proxy Circular, are in substantial compliance with the CSA Corporate Governance Standards. Copies of our Corporate Governance Rules and all related policies (including those mentioned above) are available on our website ([www.EXFO.com](http://www.EXFO.com)) as mentioned in Schedule D.

ADDITIONAL INFORMATION

Additional information relating to the Corporation is on SEDAR at [www.sedar.com](http://www.sedar.com). The Corporation shall provide to any person or company, free of charge upon request to the Corporate Secretary of the Corporation, at 400 Godin Avenue, Quebec, Province of Quebec, Canada, G1M 2K2, phone number (418) 683-0913 ext. 23704 or fax number (418) 683-9839:

- (a) one (1) copy of the Annual Report on Form 20-F of the Corporation filed with the SEC in the United States pursuant to the Securities Exchange Act of 1934, and with securities commissions or similar authorities;
- (b) one (1) copy of the consolidated financial statements and the Auditors report thereon as well as the Management's discussion and analysis of financial condition and results of operations of the Corporation for its most recently completed financial year, included in the Annual Report on Form 20-F of the Corporation and one (1) copy of any interim consolidated financial statements of the Corporation subsequent to the consolidated financial statements for its most recently completed financial year;
- (c) one (1) copy of this Management Proxy Circular.

Additional information relating to the Corporation is also included in the Corporation's Annual Report on Form 20-F for the year ended August 31, 2017. The consolidated audited annual financial statements, the report of the auditor and Management's discussion and analysis is being mailed to shareholders, pursuant to applicable legislation, with the Notice of Meeting and this Management Proxy Circular. Additional copies of the above mentioned documents are available on SEDAR at [www.sedar.com](http://www.sedar.com) in Canada or [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml) in the U.S., and may be obtained free of charge from the Corporation upon request and will be available at the Meeting or on the Corporation website ([www.EXFO.com](http://www.EXFO.com)) under the Investors Section.

DIRECTORS' APPROVAL

The contents and the sending of this Management Proxy Circular have been approved by the Directors of the Corporation.

DATED at Quebec, Province of Quebec, Canada, this 1<sup>st</sup> day of November 2017.

/s/ Benoit Ringuette  
Benoit Ringuette  
Corporate Secretary  
EXFO INC.  
400 Godin Avenue

Quebec, Province of Quebec, Canada, G1M 2K2

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SCHEDULE A  
RESOLUTION

WHEREAS the Board of Directors of the Corporation has recommended that the shareholders approve certain changes to the Long-Term Incentive Plan and Deferred Share Unit Plan in order to increase the maximum number of Subordinate Voting Shares that may be issued, to adopt new amending provisions and to add a provision with respect to the extension of the period during which an option is exercisable if the expiration date falls during a blackout period.

BE IT RESOLVED AS A RESOLUTION OF THE SHAREHOLDERS THAT:

the amendments to the Long-Term Incentive Plan and Deferred Share Unit Plan to (i) increase the aggregate of all Subordinate Voting Shares of the Corporation reserved for issuance from 6,306,153 to 11,792,893, resulting in an increase from 215,361 to 5,702,101 Subordinate Voting Shares available for future grants, (ii) adopt new amending provisions, (iii) add a provision to the Long-Term Incentive Plan whereby the period during which an option is

1. exercisable shall be automatically extended if the expiration date falls during a blackout period or within 10 business days after the last day of a blackout period, and iv) make other amendments of a general housekeeping or clerical nature, the full text of which is attached as Schedules B and C to the Management Proxy Circular dated November 1, 2017, be and are hereby confirmed, ratified and approved subject to the Corporation obtaining all required approvals from the Toronto Stock Exchange and other regulatory authorities;

2. any officer or director of the Corporation be and is hereby authorized and directed, for and on behalf of the Corporation, to execute and deliver all such documents and to do all such acts and things as may be deemed necessary or appropriate as such director or officer may determine in consultation with regulatory authorities for the carrying out of the foregoing provisions of this resolution; and

3. the directors of the Corporation may, in their discretion, revoke this resolution before it is implemented, without further notice to, or approval of the shareholders.

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SCHEDULE B  
EXFO INC.  
LONG TERM INCENTIVE PLAN

1. PURPOSE OF THE PLAN

The purpose of the long-term incentive plan (the "Plan") for Directors, executive officers, employees and other persons or companies providing ongoing management or consulting services (the "Consultants") to EXFO Inc. (the "Corporation") or to any of the Subsidiaries of the Corporation is to secure for the Corporation and its shareholders the benefit of an incentive to partake in share ownership by Directors, executive officers and employees of the Corporation and its Subsidiaries, as the case may be, and by certain Consultants who provide services on a continuous basis. For the purposes of the Plan, "Subsidiaries" shall mean (i) any legal entity of which the Corporation is the holder or the beneficiary, at the time of the granting of the Option or RSUs, directly or indirectly, otherwise than by way of security only, of securities to which are attached over 50% of the votes enabling it to elect the majority of the Directors of such entity as well as any subsidiary of such legal entity and (ii) any legal entity in which the Corporation or a subsidiary of the Corporation holds at least 50% of the voting rights or in which it has a majority interest and of which the Corporation or a subsidiary of the Corporation manages the operations.

2. DEFINITIONS

For the purposes of this Plan, the following terms shall have the following meanings:

"Award" means the RSUs granted to an Eligible Participant under the Plan on an Award Date, evidenced by an Award Agreement and subject to the terms and conditions of the Plan and the Award Agreement;

"Award Agreement" means an agreement, substantially in the form of the agreement set out in Schedule 2 to this Plan, entered into by an Eligible Participant and the Corporation pursuant to which an Award is granted to the Eligible Participant in accordance with the Plan, and containing such additional terms and conditions not inconsistent with the Plan as the Board shall deem desirable;

"Award Date" means the date on which an Award is granted, which date may be on or, if determined by the Board at the time of grant, after the date that the Board resolves to grant the Award;

"Blackout Period" means any period during which a policy of the Corporation prevents an Optionee from exercising an Option;

"Board" means the board of Directors of the Corporation;

"Change of Control" shall have the meaning as set forth in Section 7;

"Committee" means the Human Resources Committee composed solely of non-employee members or any other committee composed solely of non-employee members constituted from time to time at the Board's discretion to administrate the Plan;

"Continuing Directors" shall have the meaning as set forth in Section 7.2;

"Consultants" means persons or companies providing ongoing management or consulting services to the Corporation;

"Corporation" means EXFO Inc.;

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"Director" means any person elected to the Board at any annual meeting of shareholders;

"DSU" means Deferred Share Units that may be granted from time to time to non-employee Directors of the Corporation pursuant to the provisions of a Deferred Share Unit Plan for the Directors;

"Early Expiry Date" shall have the meaning as set forth in Section 5.3.2;

"Early Vesting Date" shall have the meaning as set forth in Section 6.4;

"Eligible Participant" means any officer, employee, non-employee Director of the Corporation or Consultants designated by the Board as eligible to participate in the Plan;

"Grant Date" means the date on which an Option is granted, which date may be on or, if determined by the Board at the time of grant, after the date that the Board resolves to grant the Option;

"Option" means an option to subscribe Shares granted to an Eligible Participant pursuant to the terms of the Plan;

"Optionee" means the Directors, officers or employees of the Corporation or any of its Subsidiaries, as the case may be, or the Consultants to whom Options are granted;

"Option Period" shall have the meaning as set forth in Section 5.3.1;

"Permanent Disability" means an injury which impairs the physical and/or mental ability of an Eligible Participant to perform his/her normal work for the Corporation supposedly for the remainder of his/her life;

"Plan" means the Long-Term Incentive Plan of the Corporation, as amended;

"Restricted Share Unit" or "RSU" means the right of an Eligible Participant to whom a grant of such unit is made to receive a Share on the Vesting Date (or Early Vesting Date, as the case may be) upon the attainment of specified performance objectives, if any, as determined by the Board in accordance with section 6, unless such unit expires prior to its Vesting Date.;

"RSU Holder" shall have the meaning as set forth in Section 6.2;

"RSU Shares" means the Shares that an RSU Holder may receive pursuant to a particular Award Agreement;

"Shares" means the subordinate voting shares of the Corporation;

"Subscription Form" shall have the meaning as set forth in Section 5.4;

"Subscription Price" shall have the meaning as set forth in Section 5.2;

"Subsidiaries" shall have the meaning as set forth in Section 1;

"Vesting Date" shall have the meaning as set forth in Section 6.3.

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3. ADMINISTRATION

The Plan shall be administered by the Corporation's Board of non-employee Directors (the "Board") or at the Board's decision by the Human Resources Committee composed solely of non-employee members or any other committee composed solely of non-employee members constituted from time to time (the "Committee"). The Board or the Committee shall have full and complete latitude to interpret the Plan and to establish the rules and regulations applying to it and to make all other determinations it deems necessary or useful for the administration of the Plan, including without limiting the scope of the foregoing and subject to subsection 5.3.3, to change an Early Expiry Date (as defined hereinafter) provided that such interpretations, rules, regulations and determinations shall be consistent with the relevant policy statements of the competent securities authorities and the rules of the stock exchanges on which the securities of the Corporation are listed.

4. SHARES SUBJECT TO THE PLAN

The shares subject to the Plan are the subordinate voting shares (the "Shares") of the Corporation. The total number of Shares that may be issued under the Plan and under the Deferred Share Unit Plan for the Directors shall not exceed 11,792,893 Shares of the Corporation, subject to the adjustment under Section 8, and no Eligible Participant shall hold in total Options, RSUs and DSUs representing more than 5% of the number of Shares issued and outstanding from time to time. All of the Shares covered by Options or RSUs that will have expired or have been cancelled shall become reserved Shares for the purposes of Options or RSUs that may be subsequently granted under the terms of the Plan.

For greater clarity, the issuance of Shares under the Plan shall be subject to the following:

- (a) the number of Shares reserved for issuance pursuant to Options, RSUs and DSUs granted to insiders of the Corporation shall not exceed 10% of the total issued and outstanding Shares;
- (b) the number of Shares issued to insiders, within a one-year period, pursuant to the exercise, settlement or redemption of Options, RSUs and DSUs shall not exceed 10% of the total issued and outstanding Shares; and the number of Shares issued to any one insider and such insider's associates, within a one-year period, pursuant to
- (c) the exercise, settlement or redemption Options, RSUs and DSUs shall not exceed 5% of the total issued and outstanding Shares.

5. OPTIONS

5.1 Grant of Options

The Board or the Committee shall from time to time designate the Directors, officers or employees of the Corporation or any of its Subsidiaries, as the case may be, or the Consultants to whom Options shall be granted (an "Optionee") and the number of Shares covered by each of such Option. Any Optionee may hold more than one Option. The granting of each Option shall be evidenced by a letter from the Corporation addressed to the Optionee setting forth the number of Shares covered by such option, the Subscription Price, the terms and conditions of exercise of the Option and the Option Period.

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5.2 Subscription Price

The Subscription Price of the Shares subject to an Option shall be established by the Board of Directors or its designated Committee at the time of the grant, but such price shall not be less than the market price of the Shares at the date of the granting of the Option (the "Grant Date"), calculated as the greater of the closing prices of the Shares on the Toronto Stock Exchange and the NASDAQ Global Select Market on the last trading day preceding the Grant Date or, if the Shares did not trade on such last trading day, the greater of the average, rounded off to the nearest cent, of the bid and ask prices for the Shares on the Toronto Stock Exchange and the NASDAQ Global Select Market at the close of trading on such last trading day preceding the Grant Date (the "Subscription Price").

The closing price of the Shares or, as the case may be, the average of the bid and ask prices of the Shares at the close of trading on the NASDAQ Global Select Market shall be converted into Canadian dollars at the noon buying rate of Federal Reserve Bank of New York on the Grant Date when such conversion is required.

5.3 Option Period

Subject to the provisions of subsections 5.3.2 and 5.3.3, each Option shall be exercisable during a period established by the Board or the Committee (the "Option Period"); such period shall commence no earlier than the Grant Date and shall terminate no later than ten years after such date.

Notwithstanding the provisions of subsection 5.3.1, an Option shall not be exercisable by an Optionee from and after each and every one of the following dates (an "Early Expiry Date"), unless the Board or the Committee decides otherwise:

- (a) in the case where the Optionee is an officer or an employee, the date on which the Optionee resigns and voluntarily leaves his employment with the Corporation or one of its Subsidiaries, as the case may be, or the date on which the employment of the Optionee with the Corporation or one of its Subsidiaries is terminated for a good and sufficient cause, as the case may be;
- (b) in the case where the Optionee is a Director of the Corporation or one of its Subsidiaries, as the case may be, but is not employed by either the Corporation or one of its subsidiaries, 30 days following the date on which such Optionee ceases to be a member of the Board of Directors for any reason other than death or Permanent Disability;
  - (i) in the case where the Optionee is an officer or employee, 6 months following the date on which the Optionee's employment with the Corporation or any of its Subsidiaries, as the case may be, is terminated by reason of death or Permanent Disability or
  - (ii) in the case where the Optionee is a Director of the Corporation or any of its Subsidiaries, as the case may be, but is not employed by either the Corporation or any of its Subsidiaries, 6 months
- (c) following the date on which such Optionee ceases to be a member of the Board of Directors by reason of death or Permanent Disability. Notwithstanding the foregoing, in case of death or Permanent Disability of the Optionee, the Option Period established by the Board or the Committee shall commence no later than the date of termination by reason of death or Permanent Disability of the Optionee and all Options held by such Optionee shall become exercisable upon such date;
- (d) in the case where the Optionee is an officer or employee, 30 days following the date on which the Optionee's employment with the Corporation or any of its Subsidiaries, as the case may be, is terminated for any cause or reason other than those mentioned in paragraphs 5.3.2(a) and 5.3.2(c), including, without limiting the scope of the foregoing, disability, illness, retirement or early retirement. Notwithstanding the foregoing, in case of retirement or early retirement of an officer or employee, the Board or the Committee may at its own discretion but subject to Section 3, extend the Early Expiry Date mentioned in this paragraph 5.3.2(d);

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(e) in the case where the Optionee is a Consultant, 30 days following the date on which his contract as a Consultant is terminated or, as the case may be, 30 days following the receipt by the Consultant of a notice from the Corporation indicating that the Options must be exercised within 30 days from the date of receipt of the notice.

5.3.3 The rules set forth in paragraph 5.3.2 shall not be interpreted in such a manner as to extend the Option Period beyond 10 years.

5.3.4 The Option Period shall automatically be extended if the date on which it is scheduled to terminate shall fall during a Blackout Period or within 10 business days after the last day of a Blackout Period. In such cases, the Option Period shall terminate 10 business days after the last day of a Blackout Period.

5.3.5 All rights conferred by an Option not exercised at the termination of the Option Period or from and after any Early Expiry Date shall be forfeited.

5.4 Exercise of Options

(a) Subject to the provisions of section 5.3, an Option may be exercised in whole, at any time, or in part, from time to time, during the Option Period, but in all cases in accordance with the exercise frequency established by the Board or the Committee and applicable at the time of the grant.

(b) An Option may be exercised by forwarding a duly executed Subscription Form as attached hereto as Schedule 1 (the "Subscription Form") to the Secretary of the Corporation. Such Subscription Form shall set forth the number of Shares so subscribed and the address to which the share certificate is to be delivered. The Subscription Form shall also be accompanied by a certified cheque made payable to the Corporation in the amount of the Subscription Price. The Corporation shall cause a certificate for the number of Shares specified in the Subscription Form to be issued in the name of the Optionee and delivered to the address specified in the Subscription Form no later than 10 business days following the receipt of such Subscription Form and cheque.

5.5 No Assignment

No Option or interest therein shall be assignable for purpose of transfer of guarantee or otherwise by the Optionee other than by will or the operation of applicable legal dispositions regarding succession.

5.6 Not a Shareholder

An Optionee shall have no rights as a shareholder of the Corporation with respect to any Shares covered by his/her Option until he/she shall have become the holder of record of such Shares.

6. GRANT OF RSU AWARDS

6.1 Grant of Awards

The Board shall from time to time designate the Eligible Participants to whom a grant of RSUs shall be made and shall determine the number of RSUs granted under the Award. The Board shall further have discretion to establish at the time of grant, within the restrictions set forth in the Plan, the Award Date, the Vesting Date, the performance objectives which must be attained for the Award to vest, if any, and other particulars applicable to an Award granted hereunder.



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6.2 Award Agreement

Upon the grant of an Award, the Corporation will deliver to the Eligible Participant selected to receive same an Award Agreement dated as of the Award Date, containing the terms of the Award and executed by the Corporation, and upon delivery to the Corporation of the Award Agreement executed by the Eligible Participant in question, the Eligible Participant in question will be an RSU Holder under the Plan and, subject to vesting, have the right to receive the RSU Shares on the terms set out in the Award Agreement and in the Plan.

6.3 Vesting Date

The Vesting Date of an Award will be determined by the Board at the time of grant, subject however to a minimum term of three years and a maximum term of ten years from the Award Date and will be subject to the provisions of section 6.4 relating to early vesting or expiry.

6.4 Early Vesting

Unless otherwise determined by the Board at or after the time of grant, and subject to the minimum and maximum (a) term referred to at section 6.3 hereof, except for events described in section 6.4(b) and (c) where minimum term is not applicable:

Where vesting of an Award is subject to the attainment of performance objectives, such Award, or part thereof, shall expire on the Vesting Date if such performance objectives have not been attained or shall be postpone at a further Vesting Date as determined by the Board from time to time, the whole in accordance with the terms and conditions of the applicable Award Agreement.

(i) Any Award, whether or not subject to the attainment of performance objectives, shall expire immediately upon the (ii) RSU Holder thereof ceasing to be an Eligible Participant as a result of being dismissed from his office or employment for cause.

(iii) Any Award, whether or not subject to the attainment of performance objectives, shall vest before its Vesting Date or expire, as the case may be, in the following events and manner:

(1) if an RSU Holder resigns and voluntary leaves his office or employment, the Award held by such RSU Holder shall expire immediately on the date he resigns and leaves his office or employment;

(2) if an RSU Holder is dismissed without cause, the Award held by such RSU Holder shall vest immediately on the date of dismissal in accordance with section 6.4(b);

if an RSU Holder dies or his employment with the Corporation is terminated due to Permanent Disability, the Award held by such RSU Holder shall vest immediately on the date of the death of the RSU Holder or on the date of termination, as the case may be and notwithstanding anything to the contrary herein provided, the RSU Holder (3) (or, if deceased, his legal representative) of such early vesting Award shall be entitled to receive, on the date of the death of the RSU Holder or the date of termination due to Permanent Disability (each for the purpose of this section 6.4(a)(iii)(3) an "Early Vesting Date"), all of the Shares of the Award Agreement on the terms set out in the Award Agreement and in accordance with the vesting as set forth in section 6.7 below; and

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- (4) if an RSU Holder attains the retirement conditions established by the Corporation from time to time, the Award held by such RSU Holder shall vest immediately on the date of retirement in accordance with section 6.4(c).  
 In the case of the occurrence of an event contemplated in section 6.4(a)(iii)(2), and notwithstanding anything to the contrary herein provided, the RSU Holder of such early vesting Award shall be entitled to receive, on the date of  
 (b) dismissal without cause or the date of the Change of Control, as the case may be (each for the purpose of this section 6.4(b) an "Early Vesting Date"), the number of Shares equal to:

The number of RSU Shares underlying the Award  Number of days elapsed between the Award Date and the Early Vesting Date  
 Number of days in the Vesting Period of such Award  
 unless otherwise determined by the Board at or after the time of the grant. Notwithstanding the foregoing, in case of a RSU Holder employment with the Corporation is terminated following a Change of Control, the Board or the Committee may at its own discretion increase the number of Shares a RSU Holder is entitled to pursuant to this paragraph 6.4(b).

- (c) In the case of the occurrence of an event contemplated in sections 6.4(a)(iii)(4), and notwithstanding anything to the contrary herein provided, the RSU Holder shall be entitled to the regular vesting as established by the Award Agreement upon the following conditions: (i) attainment of the retirement conditions established by the Corporation and (ii) continued compliance with the confidentiality, non-solicitation and non-competition obligations of the RSU Holder, on the terms set out in the Award Agreement and in accordance with the vesting as set forth in section 6.7 below.

6.5 Non-Assignable

An Award will not be assignable. Notwithstanding the foregoing, in the case where an RSU Holder dies and the vesting of his Award is accelerated in the manner set forth in section 6.4(a)(iii)(3), his legal representative shall have the rights of such RSU Holder under the Plan and the Award Agreement.

6.6 No Implied Rights

An RSU Holder will only have rights as a shareholder of the Corporation with respect to those of the RSUs Shares, if any, that the RSU Holder has received upon the vesting of an Award in accordance with its terms. Nothing in this Plan or in any Award Agreement will confer or be construed as conferring on an RSU Holder any right to remain as an officer, key employee or non-employee Director of the Corporation, or an Eligible Participant the right to be granted Options or Awards hereunder.

6.7 Vesting of the Award

Unless an Award has expired in accordance with sections 6.4(a)(i),(ii), and (iii)(1), the Corporation shall not later than five (5) business days after the Vesting Date (or after the Early Vesting Date, as the case may be):

- (a) issue from treasury the number of RSU Shares represented by such vested Award (or the number of Shares determined in accordance with section 6.4(b), as the case may be) and direct its transfer agent to issue a certificate in the name of the RSU Holder of such vested Award (or, if deceased, his legal representative) which will be issued as fully paid and non-assessable Shares.

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7. CHANGE OF CONTROL

7.1 For the purposes of this section 7, "Change of Control" shall mean:

- the acquisition by any person or entity, or any persons or entities acting jointly or in concert, whether directly or indirectly, of voting securities of the Corporation which together with all other voting securities of the Corporation held by such persons or entities, constitute, in the aggregate, either (a) fifty percent (50%) or more of the votes attached to all outstanding voting securities of the Corporation, or (b) forty percent (40%) or more of the votes attached to all outstanding voting securities of the Corporation and is followed within twenty-four (24) months by changes of the members of the Board resulting in a change of the majority of the Board;
- 7.1.1 an amalgamation, arrangement or other form of business combination of the Corporation with another entity which results in the holders of voting securities of that other entity holding, in the aggregate, either (a) fifty percent (50%) or more of the votes attached to all outstanding voting securities of the entity resulting from the business combination, or (b) forty percent (40%) or more of the votes attached to all outstanding voting securities of the entity resulting from the business combination and is followed within twenty-four (24) months by changes of the members of the Board resulting in a change of the majority of the Board;
- 7.1.2 any event or series of events (which event or series of events may include, without limitation, a proxy fight or proxy solicitation with respect to the election of Directors of the Corporation made in opposition to the nominees recommended by the Continuing Directors during any period of twenty-four (24) consecutive months) as a result of which a majority of the members of the Board consists of individuals other than Continuing Directors; or
- 7.1.3 the sale, lease or exchange of all or substantially all of the property of the Corporation to another person or entity, other than in the ordinary course of business of the Corporation or any of its Subsidiaries.
- 7.1.4

For the purposes of this section 7.2, "Continuing Directors" shall mean with respect to any period of twenty-four (24) consecutive months, (a) any members of the Board on the first (1<sup>st</sup>) day of such period, (b) any members of the Board elected after the first (1<sup>st</sup>) day of such period at any annual meeting of shareholders who were nominated by the Board or a committee thereof, if a majority of the members of the Board or such committee were Continuing Directors at the time of such nomination, and (c) any members of the Board elected to succeed Continuing Directors by the Board or a committee thereof, if a majority of the members of the Board or such committee were Continuing Directors at the time of such election.

7.3 Notwithstanding any provisions to the contrary contained in this Plan, the Board or the Committee shall have the power to accelerate the time at which an Option or RSU may first be exercised or the time during which an Option or RSU or any part thereof will become exercisable including, without limitation, prior to or in connection with a Change of Control.

8. EFFECTS OF ALTERATION OF SHARE CAPITAL

In the event of any change in the number of outstanding Shares of the Corporation by reason of any stock dividend, stock split, recapitalization, merger, consolidation, combination or exchange of Shares or other similar change, subject to the prior approval of the competent regulatory authorities, an equitable adjustment shall be made by the Board or the Committee in the maximum number or kind of Shares issuable under the Plan or subject to outstanding RSUs or Options and in the Subscription Price of such Shares for purposes of the Options. Such adjustment will be definitive and mandatory for the purposes of the Plan.

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9. AMENDMENT AND TERMINATION

The Board bears full responsibility with regard to the Plan, which includes, but is not limited to, the power and authority to amend, suspend or terminate the Plan, in whole or in part, or amend the terms and conditions of outstanding Options or RSUs, provided that such amendment, suspension or termination shall:

- 9.1.1 be subject to obtaining approval of the shareholders of the Corporation, unless not required pursuant to section 9.2 or applicable securities law or stock exchange requirements;
- 9.1.2 be subject to obtaining any required approval of any securities regulatory authority or stock exchange; and not adversely alter or impair any Option or RSU previously granted (provided that the Board may at its discretion accelerate the vesting of any Option or RSU regardless of any adverse or potentially adverse tax consequences resulting from such acceleration).
- 9.1.3 Subject to section 9.3, shareholder approval is not required with respect to the following actions, provided that they are made in accordance with applicable securities law and stock exchange requirements:
  - 9.2.1 amendments of a general housekeeping or clerical nature that, among others, clarify, correct or rectify any ambiguity, defective provision, error or omission in the Plan;
  - 9.2.2 amendments necessary to comply with applicable laws or the requirements of any securities regulatory authority or stock exchange;
  - 9.2.3 changing the eligibility for, and limitations on, participation in the Plan; modifying the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Option or RSU, which terms and conditions may differ among individual Option or RSU grants and Optionees and RSU Holders;
  - 9.2.4 modifying the periods referred to in section 5.3 of the Plan during which vested Options may be exercised, provided that the Option Period is not extended beyond 10 years after the date of the granting of the Option;
  - 9.2.5 amendments with respect to the vesting period or with respect to circumstances that would accelerate the vesting of Options or RSUs;
  - 9.2.6 any amendment resulting from or due to the alteration of share capital as more fully set out in section 8 hereof;
  - 9.2.7 amendments to the provisions relating to the administration of the Plan; and
  - 9.2.8 suspending or terminating the Plan.
- 9.2.9 Notwithstanding section 9.2, shareholder approval is required for:
  - 9.3.1 a reduction in the Subscription Price of Options held by an insider;
  - 9.3.2 an extension of the Option Period of Options held by an insider;
  - 9.3.3 any amendment to remove or to exceed the limit in sections 4(a) or 4(b);

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- 9.3.4 an increase to the maximum number of Shares issuable under the Plan; and  
9.3.5 any amendment to the provisions of this Section 9.

With regard to shareholder approval as required pursuant to sections 9.3.1, 9.3.2 and 9.3.3, the votes attached to 9.4 Shares held directly or indirectly by insiders benefiting directly or indirectly from the amendment must be excluded.

With regard to shareholder approval as required pursuant to section 9.3.5, where the amendment will 9.5 disproportionately benefit one or more insiders over other Optionees or RSU Holders, the votes attached to Shares held directly or indirectly by those insiders receiving the disproportionate benefit must be excluded.

10. FINAL PROVISIONS

10.1 The Corporation's obligation to issue Options granted or Shares under the terms of the Plan is subject to all of the applicable laws, regulations or rules of any governmental regulatory agency or other competent authority in respect of the issuance or distribution of securities and to the rules of any stock exchange on which the Shares of the Corporation are listed. Each Optionee shall agree to comply with such laws, regulations and rules and to provide to the Corporation any information or undertaking required to comply with such laws, regulations and rules.

The participation in the Plan of a Director, an executive officer or an employee of the Corporation or any of its Subsidiaries, as well as any Consultant, shall be entirely optional and shall not be interpreted as conferring upon a Director, an executive officer or an employee of the Corporation or any of its Subsidiaries, as well as any Consultant, any right or privilege whatsoever, except for the rights and privileges set out expressly in the Plan.

10.2 Neither the Plan nor any act that is done under the terms of the Plan shall be interpreted as restricting the right of the Corporation or any of its Subsidiaries to terminate the employment of an executive officer or employee at any time, as well as any contractual relationship with any Consultant. Any notice of dismissal given to an executive officer or employee, as well as to any Consultant, at the time his/her employment is terminated, or any payment in the place and stead of such notice, or any combination of the two, shall not have the effect of extending the duration of the employment or the contractual relationship for purposes of the Plan.

No Director, executive officer or employee of the Corporation or any of its Subsidiaries, as well as any 10.3 Consultant, shall acquire the automatic right to be granted one or more Options or RSUs under the terms of the Plan by reason of any previous grant of Options or RSUs under the terms of the Plan.

10.4 The Plan does not provide for any guarantee in respect of any loss or profit that may result from fluctuations in the price of the Shares.

The Corporation and its Subsidiaries shall assume no responsibility as regards the tax consequences that 10.5 participation in the Plan will have for a Director, an executive officer or an employee of the Corporation or any of its Subsidiaries, as well as any Consultant, and such persons are urged to consult their own tax advisors in such regard.

(a) A plan participant may be required to pay to the Corporation or any subsidiary and the Corporation or any Subsidiary shall have the right and is hereby authorized to withhold from any Shares or other property deliverable under any Option or RSU or from any compensation or other amounts owing to a plan participant the amount (in cash or Shares) of any required tax withholding and payroll taxes in respect of an Option, its exercise, or any payment or transfer under an Option or in respect of a RSU and to take such other action as may be necessary in the opinion of the Corporation to satisfy all obligations for the payment of such taxes.

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- Without limiting the generality of clause (a) above a Plan participant may satisfy, in whole or in part, the foregoing withholding liability (but no more than the minimum required withholding liability) by delivery of Shares owned by the Plan participant with a fair market value equal to such withholding liability (provided that such Shares are not subject to any pledge or other security interest and have either been held by the Plan participant for 6 months, (b) previously acquired by the Plan participant on the open market or meet such other requirements as the Committee may determine necessary in order to avoid an accounting earnings charge), or by having the Corporation withhold from the number of Shares otherwise issuable pursuant to the exercise or settlement of the Option or RSU award a number of Shares with a fair market value equal to such withholding liability.
- 10.6 The Plan and any Option or RSU granted under the terms of the Plan shall be governed and interpreted according to the laws of the province of Quebec and the laws of Canada applicable thereto.
- 10.7 The Plan is dated as of May 25, 2000 and amended as of January 9, 2004, January 12, 2005, as of January 6, 2016 and as of January 10, 2018.

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SCHEDULE 1

EXFO INC.

STOCK OPTION PLAN

SUBSCRIPTION FORM

\_\_\_\_\_  
(Date)  
EXFO Inc.  
400 Avenue Godin  
Quebec, Quebec  
G1M 2K2

Attention of the Secretary

I, the undersigned, \_\_\_\_\_, hereby subscribe for \_\_\_\_\_ out of the Subordinate Voting Shares of EXFO Inc. (the "Corporation") to which I am entitled to subscribe pursuant to an option granted on \_\_\_\_\_ in accordance with the terms and conditions mentioned in paragraph 5.3.5(b) of the Corporation's Long Term Incentive Plan. I enclose herewith my certified cheque (or money order) made payable to the order of EXFO Inc., in the amount of \$ \_\_\_\_\_ in payment of the said subscription.

() \_\_\_\_\_  
(signature)

\_\_\_\_\_  
(number) (street)

\_\_\_\_\_  
(city) (province) (postal code)

(\_\_\_\_\_) \_\_\_\_\_  
(telephone)





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SCHEDULE 2

EXFO INC.

LONG TERM INCENTIVE PLAN

FORM OF AWARD AGREEMENT

This Award Agreement is entered into between EXFO Inc. (the "Corporation") and the Restrictive Share Units (RSU) Holder named below pursuant to the Long-Term Incentive Plan of the Corporation (the "Plan"), a copy of which is available on demand, and confirms that:

1. on \_\_\_\_\_ (the "Award Date");
2. \_\_\_\_\_ (the "RSU Holder");
3. was granted \_\_\_\_\_ non-assignable Restricted Shares Units (RSU) (the "Award");
4. vesting of the Award shall:  
not be subject to the attainment of performance objectives; or  
be subject to the attainment of the following performance objectives:

\_\_\_\_\_  
\_\_\_\_\_:

5. the Award shall vest at 5:00 P.M., Eastern Time on the following date(s):  
\_\_\_\_\_ or, if such date falls into any black out period or any other restrictive period during which the RSU Holder is not entitled to trade EXFO's Subordinate Voting Shares, the RSUs shall: a) vest on the fifth trading day the RSU Holder is entitled to trade after such black out period or restrictive period or b) if the RSU Holder decides, prior to such vesting date, to pay his/her income tax without using any of the Shares' proceeds, then and only then, the vesting date shall remain [date];
6. The Corporation will issue from treasury, its Subordinate Voting Shares, the number of RSU represented by such vested Award mentioned above.
7. All on the terms and subject to the conditions set out in the Plan. By signing this agreement, the RSU Holder acknowledges that he or she has read and understands the Plan, and agrees to be bound thereby.  
This Agreement and all related documents have been drawn up in the English language at the specific request of the
8. parties hereto. La présente entente, ainsi que tout autre document y afférent, ont été rédigés en langue anglaise à la demande expresse des parties.

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In order to accept this Award, we invite you to sign in duplicate this Award Agreement and return one copy as soon as possible to the attention of Legal Department, 400 Godin Avenue, Quebec City, Quebec, G1M 2K2.

IN WITNESS WHEREOF the Corporation and the RSU Holder have executed this Award Agreement, in duplicate, as of \_\_\_\_\_

**RSU Holder**

**EXFO Inc.**

Name of RSU Holder

By:

Signature of RSU Holder

[Name],  
[Title]

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SCHEDULE C  
EXFO INC.  
DEFERRED SHARE UNIT PLAN  
FOR THE MEMBERS OF THE BOARD OF DIRECTORS

1. DEFINITIONS

For the purpose of this Deferred Share Unit Plan, except as otherwise expressly provided or unless the context otherwise requires:

"Board" means the non-employee members of the Board of Directors of the Corporation or such Committee of the Board composed solely of non-employee members, as the Board may select from time to time to administer this DSUP;

"Business Day" means any day on which banks are open for business in the province of Quebec;

"Corporation" means EXFO Inc;

"Deferred Remuneration" means, in respect of a Participant, the sum of the Portion as may be elected by such Participant under section 4;

"Director" means a member of the Board who is not an employee of the Corporation and who is entitled to compensation under a resolution of the Board;

"DSUP" means this Deferred Share Unit Plan for the Directors;

"Election Notice" has the meaning ascribed thereto in section 4.1;

"Portion" has the meaning ascribed thereto in section 3.2;

"Options" has the meaning ascribed thereto in the Corporation's Long-Term Incentive Plan;

"Participant" means any Director participating in the DSUP;

"Redemption Date" has the meaning ascribed thereto in section 6.2;

"Redemption Notice" has the meaning ascribed thereto in section 6.2;

"RSUs" has the meaning ascribed thereto in the Corporation's Long-Term Incentive Plan;

"Share" means a Subordinate Voting Share of the Corporation;

"Termination Date" in respect of a Participant means the earliest date on which both of the following conditions are satisfied:

- (i) the Participant has ceased to be a director of the Corporation by reason of his or her death or retirement or loss of office as a director; and
- (ii) person related to the Corporation for the purposes of the Income Tax Act (Canada).

"Termination Notice" has the meaning ascribed thereto in section 4.3;

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"Units" means Deferred Share Units that may be granted from time to time to Participants pursuant to the provisions of this DSUP;

"Value of a Unit" or "Value of the Units" means, at any particular date, the market value of the Shares at that date, calculated as the greater of the closing prices of the Shares on The Toronto Stock Exchange and the NASDAQ Global Select Market on the last trading day preceding such date or, if the Shares did not trade on such last trading day, the greater of the average, rounded off to the nearest cent, of the bid and ask prices for the Shares on The Toronto Stock Exchange and the NASDAQ Global Select Market at the close of trading on such last trading day preceding such date, subject to adjustments made pursuant to section 5.2 of this DSUP. The closing price of the Shares or, as the case may be, the average of the bid and ask prices of the Shares at the close of trading on the NASDAQ Global Select Market shall be converted into Canadian dollars at the noon buying rate of Federal Reserve Bank of New York on the Grant Date when such conversion is required.

**2. ADMINISTRATION**

This DSUP shall be administered by the Board, which may delegate its duties and powers in whole or in part to any subcommittee thereof consisting solely of non-employee directors. The Board is authorized to interpret this DSUP, to establish, amend and rescind any rules and regulations relating to this DSUP, and to make any other determinations that it deems necessary or desirable for the administration of this DSUP. The Board may correct any defect or supply any omission or reconcile any inconsistency in this DSUP in the manner and to the extent the Board deems necessary or desirable. Any decision of the Board in the interpretation and administration of this DSUP, as described herein, shall lie within its sole and absolute discretion and shall be final, conclusive and

2.1 binding on all parties concerned. Notwithstanding the foregoing, all actions of the Board shall be such that this DSUP continuously meets the conditions of paragraph 6801(d) of the Regulations under the Income Tax Act (Canada). Neither the Board or any member thereof, nor any officer or employee of the Corporation, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with this DSUP, and the members of the Board and the officers and employees of the Corporation shall be entitled to indemnification by the Corporation in respect of any claim, loss, damage or expense (including legal fees and disbursements) arising therefrom to the fullest extent permitted by law. The expenses of administering this DSUP shall be borne by the Corporation.

**3. ELIGIBILITY**

3.1 The Corporation is establishing a DSUP for Directors beginning from the date of the approval by the shareholders of the Corporation.

Each Participant is entitled to receive in the form of units a percentage of the annual board retainer fee payable

3.2 annually to a Director and may, subject to the conditions set forth herein, elect to receive in the form of Units any percentage, up to 100%, of the annual board retainer fee (the "Portion").

**4. ELECTION TO PARTICIPATE**

Each Participant who elects to participate in the DSUP will be required to file a notice of election, in the form of Schedule A hereto (the "Election Notice"), with the Corporation's Secretary before August 1<sup>st</sup> in each year and for

4.1 each new Director such Election Notice must be delivered not later than 7 days after the date on which his or her term as a director commenced, indicating the percentage of the Portion payable

(a) in the following calendar year for a continuing director and

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in the current calendar year beginning on the first day of the financial quarter of the Corporation next following the (b) date of receipt by the Corporation of the Election Notice for a new director in respect of which the Participant elects to receive Units.

The election of a Participant (who has not filed a Termination Notice in respect of such election) to participate in the DSUP shall be effective for the fiscal year or balance thereof in respect of which it is made and shall be deemed to apply to all fiscal years of the Corporation subsequent to the filing of the Election Notice until and unless a Termination Notice is filed per Section 4.3. If no Election Notice is made, and no prior election is deemed effective, the Participant shall be deemed to have elected to be paid 100% of the Portion in Units.

Each Participant is entitled, at any time, to terminate such Participant's future participation in the DSUP by filing with the Secretary of the Corporation a notice of termination in the form of Schedule B hereto (the "Termination Notice"). A Participant who has filed a Termination Notice may elect to participate again in the DSUP in respect of any period following the filing of such Termination Notice by filing an Election Notice in accordance with Section 4.1, and so on.

5. GRANT OF UNITS

Participants will be credited for each fiscal year of the Corporation, a number of Units determined on the basis of the amount of Deferred Remuneration payable to such Director in respect of such fiscal year, divided by the Value of a Unit.

Participants to whose accounts Units stand credited will be credited with additional Units whenever cash dividends are paid on Shares.

In the event of a stock dividend, stock split, combination or exchange of shares, merger, consolidation, spin-off or other distribution (other than normal cash dividends) of the Corporation's assets to shareholders, or any other change affecting the Shares, including the conversion thereof into shares of another entity upon an amalgamation or reorganization of the Corporation, such proportionate adjustments, if any, as the Board in its discretion may deem appropriate to reflect such change, will be made with respect to the number of Units outstanding under the DSUP.

6. REDEMPTION OF UNITS

Subject to the limitations contained in sections 6.2 to 6.4, Units will be redeemable and the value thereof payable after the Termination Date of a Participant.

In the case where a Participant ceases to act as a Director, the Participant (or in the case of death, the beneficiary of the Units) may, after the Termination Date, subject to section 6.3, cause the Corporation to redeem the Units by filing a notice of redemption in the form of Schedule C hereto (the "Redemption Notice") with the Corporation's Secretary specifying the redemption date, which shall be at least five Business Days following the date on which the Redemption Notice is filed with the Corporation, but no later than December 15 of the first calendar year commencing after the year of the Termination Date (the "Redemption Date").

Within ten Business Days after the Redemption Date but no later than December 31 of the first calendar year commencing after the year of the Termination Date (the "Payment Date"), the Participant shall receive, at the discretion of the Corporation, in satisfaction of the number of Units credited to his or her account on such date, any of the following:

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- a number of Shares purchased on the open market by the Broker having a Value of the Units, net of any applicable
- (a) withholdings, equal to the Value of a Unit on the Redemption Date multiplied by the number of Units credited to his or her notional account on the Payment Date, in accordance with the terms of Section 7 hereof,
  - (b) a number of Shares issued by the Corporation equal to the number of Units credited to his or her notional account on the Payment Date,
  - (c) any combination of clauses (a) and (b).

The Corporation will pay all brokerage commissions arising in connection with the purchase of Shares by the Broker on the open market and. A Participant shall not be entitled to require payment of any amount on account of Units credited to such Participant's account prior to his or her Termination Date nor later than the last business day in December of the first calendar year commencing after the Termination Date.

6.3 If the Participant or his/her beneficiary or legal representative, as the case may be, fails to file a Redemption Notice with the Corporation before the Deadline, the Participant or his/her beneficiary or legal representative, shall be deemed to have filed on the Deadline a Redemption Notice with the Corporation for such Participant's Units specifying December 15 of such year as the Redemption Date.

6.4 If a Participant dies after ceasing to act as a Director, but before filing a Redemption Notice with the Corporation, sections 6.2 and 6.3 shall apply with such modifications as the circumstances require.

6.5 A Redemption Notice shall apply to all Units held by the Participant or his/her beneficiary or legal representative, as the case may be, at the time it is filed.

Purchase of Shares pursuant to Section 6 hereof shall be made on the open market by a broker independent from the Corporation and who is a member of The Toronto Stock Exchange or NASDAQ Global Select Market or if the Shares are no longer listed or traded on The Toronto Stock Exchange or NASDAQ Global Select Market or both, then of such other stock exchange or quotation service as the Board may determine constitutes the principal market for the Shares (the "Broker"). Any such designation may be changed from time to time. Upon designation of a broker or at any time thereafter, the Corporation may elect to provide the Broker with a letter of agreement to be executed by the Broker and entered into with the Participant and to which the Corporation would also be a party, 6.6 setting forth, inter alia, (i) the Broker's concurrence to being so designated, to acting for the Participant's account in accordance with customary usage of the trade with a view to obtaining the best share price for the Participant and to delivering to the Participant or his or her representative the share certificate for the Shares purchased upon payment by the Corporation of the purchase price and the related reasonable brokerage commissions, and (ii) the Corporation's agreement to notify the Broker of the number of Shares to be purchased and to pay the purchase price and the related reasonable brokerage commissions, provided however that no terms of such letter agreement shall have the effect of making the Broker or deeming the broker to be an affiliate of (or not independent from) the Corporation for purposes of any applicable corporate, securities or stock exchange requirement.

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Prior to 11:00 a.m. (Montreal time) on the Payment Date, the Corporation shall notify the Broker as to the number of Shares to be purchased by the Broker on behalf of the Participant on the open market. As soon as practicable thereafter, the Broker shall purchase on the open market the number of Shares which the Corporation has requested the Broker to purchase and shall notify the Participant and the Corporation of (a) the aggregate purchase price ("Aggregate Purchase Price") of the Shares, (b) the purchase price per Share or, if the Shares were purchased at different prices, the average purchase price (computed on a weighted average basis) per Share, (c) the amount of any related reasonable brokerage commissions and (d) the settlement date for the purchase of the Shares. On the settlement date, upon payment of the Aggregate Purchase Price and related reasonable commissions by the Corporation, the Broker shall deliver to the Participant or to his or her representative the certificate representing the Shares. No settlement date shall be after the last business day in December of the first calendar year commencing after the Termination Date.

6.8 The Units, that may be delivered under this DSUP, have not been registered under the U.S. Securities Act of 1933, as amended, as of the effective date of this DSUP and the Corporation has no obligation to register such units.

7. SHARES SUBJECT TO THIS DEFERRED SHARE UNIT PLAN

The total number of Shares that may be issued under this DSUP shall not exceed 11,792,893 Shares of the Corporation, including such Shares that may be issued under the Long Term Incentive Plan of the Corporation, subject to the adjustment under Section 8, and no Participant shall hold in total Options, RSUs and Units which may be exercised, settled or redeemed for more than 5% of the number of Shares issued and outstanding from time to time.

For greater clarity, the issuance of Shares under this DSUP shall be subject to the following:

- (i) the number of Shares reserved for issuance pursuant to Options, RSUs and Units granted to insiders of the Corporation shall not exceed 10% of the total issued and outstanding Shares;
- (ii) the number of Shares issued to insiders, within a one-year period, pursuant to the exercise, settlement or redemption of Options, RSUs and Units shall not exceed 10% of the total issued and outstanding Shares; and
- (iii) the number of Shares issued to any one insider and such insider's associates, within a one-year period, pursuant to the exercise, settlement or redemption of Options, RSUs and Units shall not exceed 5% of the total issued and outstanding Shares.

8. ADJUSTMENTS AND REORGANIZATIONS

In the event of any change in the number of outstanding Shares of the Corporation by reason of any stock dividend, stock split, recapitalization, merger, consolidation, combination or exchange of Shares or other similar change, subject to the prior approval of the competent regulatory authorities, an equitable adjustment shall be made by the Board in the maximum number or kind of Shares issuable under this DSUP. Such adjustment will be definitive and mandatory for the purposes of this DSUP.



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9. AMENDMENT OR TERMINATION OF THE DSUP

- The Board bears full responsibility with regard to the DSUP, which includes, but is not limited to, the power and authority to amend, suspend or terminate the DSUP, in whole or in part, or amend the terms and conditions of outstanding Units, provided that such amendment, suspension or termination shall:
- 9.1.1 be subject to obtaining approval of the shareholders of the Corporation, unless not required pursuant to section 9.2 or applicable securities law or stock exchange requirements;
  - 9.1.2 be subject to obtaining any required approval of any securities regulatory authority or stock exchange; and not adversely alter or impair any Unit previously granted (provided that the Board may at its discretion accelerate the redemption of any Unit regardless of any adverse or potentially adverse tax consequences resulting from such acceleration).
  - 9.2 Subject to section 9.3, shareholder approval is not required with respect to the following actions, provided that they are made in accordance with applicable securities law and stock exchange requirements:
    - 9.2.1 amendments of a general housekeeping or clerical nature that, among others, clarify, correct or rectify any ambiguity, defective provision, error or omission in the DSUP;
    - 9.2.2 amendments necessary to comply with applicable laws or the requirements of any securities regulatory authority or stock exchange;
    - 9.2.3 changing the eligibility for, and limitations on, participation in the DSUP;
    - 9.2.4 modifying the terms and conditions, including restrictions, not inconsistent with the terms of the DSUP, of any Unit, which terms and conditions may differ among individual Unit grants and Participants;
    - 9.2.5 amendments with respect to the term or with respect to circumstances that would accelerate the redemption of Units;
    - 9.2.6 any amendment resulting from or due to the alteration of share capital as more fully set out in section 8 hereof;
    - 9.2.7 amendments to the provisions relating to the administration of the DSUP; and
    - 9.2.8 suspending or terminating the DSUP.
  - 9.3 Notwithstanding section 9.2, shareholder approval is required for:
    - 9.3.1 any amendment to remove or to exceed the limit in sections 7.1(i) and 7.1(ii);
    - 9.3.2 an increase to the maximum number of Shares issuable under the DSUP; and
    - 9.3.3 any amendment to the provisions of this Section 9.
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9.4 With regard to shareholder approval as required pursuant to section 9.3, the votes attached to Shares held directly or indirectly by insiders benefiting directly or indirectly from the amendment must be excluded.

9.5 With regard to shareholder approval as required pursuant to section 9.3.5, where the amendment will disproportionately benefit one or more insiders over other Participants, the votes attached to shares held directly or indirectly by those insiders receiving the disproportionate benefit must be excluded.

10. GENERAL

10.1 The DSUP will be administered by the Board or, if determined by the Board, by a committee of the Board, and all costs related to the implementation and administration of the DSUP will be paid by the Corporation.

10.2 A Participant may not sell, assign or otherwise dispose of Units or any rights in respect thereof, except by will or other testamentary document or according to the laws respecting the devolution and allotment of estates.

10.3 Unless otherwise determined by the Board, no funds will be set aside to guarantee the payment of the Units and future payment of Units will remain an unfunded liability recorded on the books of the Corporation.

10.4 The DSUP will be effective as of January 12, 2005, as amended as of January 10, 2018.

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SCHEDULE A

Election Notice

EXFO INC.

Deferred Share Unit Plan for the Members of the Board of Directors  
(the "Deferred Share Unit Plan" or the "Plan")

Note: All capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Deferred Share Unit Plan.

Please tick the appropriate box and complete as appropriate:

£I hereby elect to participate in the Corporation's Deferred Share Unit Plan and my elected percentage is \_\_\_\_\_%.

£I hereby elect not to participate in the Corporation's Deferred Share Unit Plan.

I confirm that:

I have received and reviewed a copy of the Deferred Share Unit Plan and agree to be bound by it. I understand that I will not be able to cause the Corporation to redeem Units until I cease to act as a Director.

I recognize that, when Units credited pursuant to this election are redeemed in accordance with the terms of the Deferred Share Unit Plan after I cease to be a Director, income tax and other withholdings will arise at that time. Upon redemption of Units, the Corporation will make the appropriate withholdings as required by law at that time. These may include deductions at source on account of federal and provincial income taxes, Canada Pension Plan, Quebec Pension Plan, Quebec Health Insurance Plan, etc. and, with respect to U.S. residents, on account of applicable federal, state and local taxes.

I will respect any applicable limitation imposed by the Corporation's insider trading policies and any applicable laws and regulations regarding insider trading.

The foregoing includes a brief outline of certain key provisions of the Deferred Share Unit Plan. For more complete information, reference should be made to the text of the Deferred Share Unit Plan.

(Signature of Participant)

Date

(Name of Participant in  
Block Letters)

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SCHEDULE B

Termination Notice

EXFO INC.

Deferred Share Unit Plan for the Members of the Board of Directors  
(the "Deferred Share Unit Plan")

Note: All capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Deferred Share Unit Plan.

I hereby advise the Corporation that I wish to terminate my participation in the Deferred Share Unit Plan. I understand that my participation in the Deferred Share Unit Plan shall be terminated as of and from the first fiscal year of the Corporation following the filing of this Termination Notice. Any Units credited to my account shall remain in such account and will be redeemable only in accordance with the terms of the Deferred Share Unit Plan.

(Signature of Participant)

Date

(Name of Participant in  
Block Letters)

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SCHEDULE C

Redemption Notice

EXFO INC.

Deferred Share Unit Plan for the Members of the Board of Directors  
(the "Deferred Share Unit Plan")

Note: All capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Deferred Share Unit Plan.

I hereby advise the Corporation that I wish the Corporation to redeem all the Units credited to my account under the Deferred Share Unit Plan on \_\_\_\_\_ (insert Redemption Date, which shall be at least five (5) Business Days following the date on which such Redemption Notice is filed with the Corporation but no later than December 15 of the first calendar year commencing after the year of the Termination Date).

(Signature of Participant)

Date

(Name of Participant in  
Block Letters)

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SCHEDULE D  
CORPORATE GOVERNANCE PRACTICES

CSA Guidelines

EXFO's Corporate  
Governance Practices

1. Board of Directors

- (a) Disclose the identity of directors who are independent.

The following  
directors are  
independent:  
Mr. Pierre-Paul Allard  
Mr. François Côté  
Ms. Angela  
Logothetis  
Mr. Claude Séguin  
Mr. Randy E. Tornes

- (b) Disclose the identity of directors who are not independent, and describe the basis for that determination.

Mr. Germain  
Lamonde –  
non-independent – is  
Executive Chairman  
of the Corporation and  
the majority  
shareholder of the  
Corporation as he has  
the ability to exercise  
a majority of the votes  
for the election of the  
Board of Directors.  
Mr. Philippe Morin –  
non-independent – is  
currently a proposed  
nominee for Director  
and is CEO of the  
Corporation since  
April 1, 2017.

- (c) Disclose whether or not a majority of directors are independent. If a majority of directors are not independent, describe what the board of directors does to facilitate its exercise of independent judgment in carrying out its responsibilities.

The majority of  
directors are  
independent:  
From September 1,  
2016 to November 1,  
2017, 5 out of 6.

- (d) If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify No. both the director and the other issuer.

- (e) Disclose whether or not the independent directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. If the independent directors hold such meetings, disclose the number of meetings held since the beginning of the issuer's most recently completed financial year. If the independent directors do not hold such meetings, describe what the board does to facilitate open and candid discussion among its independent directors.

The independent Directors hold as many meetings as needed annually and any Director may request a meeting at any time. From September 1, 2016 and to November 1, 2017 five (5) meetings of independent Directors without Management occurred. In June 2011, an Independent Members Committee Charter was adopted.



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The Chair of the Board of Directors (being the majority shareholder) is not an independent Director. Since 2002, the Corporation has named an independent director to act as "Lead Director".

Mr. François Côté has been acting as the independent "Lead Director" of the Corporation since January 2016.

The Lead Director is an outside and unrelated Director appointed by the Board of Directors to ensure that the Board of Directors can perform its duties in an effective and efficient manner independent of Management. The appointment of a Lead Director is part of the Corporation's ongoing commitment to good corporate governance. The Lead Director will namely:

- (f) Disclose whether or not the chair of the board is an independent director. If the board has a chair or lead director who is an independent director, disclose the identity of the independent chair or lead director, and describe his or her role and responsibilities. If the board has neither a chair that is independent nor a lead director that is independent, describe what the board does to provide leadership for its independent directors.
- provide independent leadership to the Board of Directors;
  - select topics to be included in the Board of Directors meetings;
  - facilitate the functioning of the Board of Directors independently of the Corporation's Management;
  - maintain and enhance the quality of the Corporation's corporate governance practices;
  - in the absence of the Executive Chair, act as chair of meetings of the Board of Directors;
  - recommend, where necessary, the holding of special meetings of the Board of Directors;
  - serve as Board of Directors ombudsman, so as to ensure that questions or comments of individual directors are heard and addressed;
  - manage and investigate any report received through the Corporation website pursuant to the Corporation's Statement on reporting Ethical Violations, Ethics and Business Conduct Policy and Agent Code of Conduct; and
  - work with the Board of Directors to facilitate the process for developing, monitoring and evaluating specific

annual objectives for the Board of Directors each year.

(g) Disclose the attendance record of each director for all board meetings held since the beginning of the issuer's most recently completed financial year.

The table below indicates the Directors' record of attendance at meetings of the Board of Directors and its committees during the financial year ended August 31, 2017:

Director	Board Meetings Attended	Audit Committee Meetings Attended	Human Resources Committee Meetings Attended	Independent Directors Meetings Attended	Total Board and Committee Meetings Attendance Rate
Lamonde, Germain	9 of 9	n/a	n/a	n/a	100%
Allard, Pierre-Paul	7 of 9	3 of 5	3 of 4	3 of 4	73%
Côté, François	8 of 9	5 of 5	4 of 4	4 of 4	95%
Edwards, Darryl	2 of 5	1 of 3	1 of 2	1 of 2	42%
Logothetis, Angela	3 of 4	2 of 2	2 of 2	2 of 2	90%
Séguin, Claude	9 of 9	5 of 5	4 of 4	4 of 4	100%
Tornes, Randy E.	9 of 9	5 of 5	4 of 4	4 of 4	100%
Attendance Rate:	87%	84%	90%	90%	87%

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- Board Mandate – Disclose the text of the board's written mandate. If the board does not have a written mandate, describe how the board delineates its role and responsibilities.
- (a) Assuring the integrity of the executive officers and creating a culture of integrity throughout the organization. The Board of Directors is committed to maintaining the highest standards of integrity throughout the organization. Accordingly, the Board of Directors adopted an Ethics and Business Conduct Policy and a Statement on Reporting Ethical Violations (Whistleblower Policy) which are available on the Corporation's website ([www.EXFO.com](http://www.EXFO.com)) to all employees and initially distributed to every new employee of the Corporation.
- (b) Adoption of a strategic planning process. The Board of Directors provides guidance for the development of the strategic planning process and approves the process and the plan developed by Management annually. In addition, the Board of Directors carefully reviews the strategic plan and deals with strategic planning matters that arise during the year.
- (c) Identification of principal risks and implementing of risk management systems. The Board of Directors works with Management to identify the Corporation's principal risks and manages these risks through regular appraisal of Management's practices on an ongoing basis.
- (d) Succession planning including appointing, training and monitoring senior management. The Human Resources Committee is responsible for the elaboration and implementation of a succession planning process and its updates as required. The Human Resources Committee is responsible to monitor and review the performance of the Executive Chairman and of the Chief Executive Officer and that of all other senior officers.
- (e) Communications policy. The Chief Financial Officer of the Corporation is responsible for communications between Management and the Corporation's current and potential shareholders and financial analysts. The Board of Directors adopted and implemented Disclosure Guidelines to ensure consistency in the manner that communications with shareholders and the public are managed. The Audit Committee reviews press releases containing the quarterly results of the Corporation prior to release. In addition, all material press releases of the Corporation are reviewed by the Executive Chairman, Chief Executive Officer, Chief Financial Officer, Investor Relations Manager, Director of Financial Reporting and Accounting and General Counsel. The Disclosure Guidelines have been established in accordance with the relevant disclosure requirements under applicable Canadian and United States securities laws.

(f) Integrity of internal control and management information systems.

The Audit Committee has the responsibility to review the Corporation's systems of internal controls regarding finance, accounting, legal compliance and ethical behavior. The Audit Committee meets with the Corporation's external auditors on a quarterly basis. Accordingly, the Corporation fully complies with Sarbanes-Oxley Act requirements within the required period of time.

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Approach to corporate governance including  
(g) developing a set of corporate governance principles and  
guidelines that are specifically applicable to the issuer.

The Board of Directors assumes direct responsibility for the monitoring of the Board of Director's corporate governance practices, the functioning of the Board of Directors and the powers, mandates and performance of the committees. These responsibilities were previously assumed by the Human Resources Committee. Accordingly, the Board of Directors adopted the following policies to fully comply with these responsibilities, which are updated on a regular basis as required:

Policy	Adopted	Amendments
Audit Committee Charter*	March 2005	November 2011 (French version only) October 2014
Board of Directors Corporate Governance Guidelines*	March 2005	June 2017
Code of Ethics for our Principal Executive Officer and Senior Financial Officers*	March 2005	
Disclosure Guidelines	March 2005	May 2005 August 2008 March 2017
Ethics and Business Conduct Policy*	March 2005	June 2013
Human Resources Committee Charter*		September 2006 October 2012 January 2013 October 2014 October 2017

Securities and Trading Policy	March 2005	
Statement on Reporting Ethical Violations (Whistleblower Policy)*	March 2005	June 2013
Policy Regarding Hiring Employees and Former Employees of Independent Auditors*	October 2006	
Best Practice Regarding the Granting Date of Stock Incentive Compensation	April 2007	
Guidelines Regarding the Filing and Disclosure of Material Contracts	October 2008	
Independent Committee Charter	June 2011	
Majority Voting Policy*	October 2011	March 2016
Policy Regarding Conflict Minerals*	January 2013	
Agent Code of Conduct*	September 2013	
Director Share Ownership Policy*	September 2013	June 2017

\* Available on the Corporation's website (www.EXFO.com).



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The Board of Directors adopted in October 2011 a Majority Voting Policy for the election of Directors and updated it in accordance with the TSX Rules in March 2016. In October 2012 in order to expressly reflect the responsibility of the Human Resources Committee to conduct an annual assessment of the risks associated with the Corporation's executive compensation policies and procedures, the Board of Directors amended the Human Resources Committee Charter. The Board of Directors amended in January 2013 the Human Resources Committee Charter to include within the Human Resources Committee's mandate the responsibility to receive and discuss suggestions from shareholders for potential director's nominees. Also in January 2013, the Board of Directors adopted a Policy Regarding Conflict Minerals. In the course of formalizing its anti-corruption compliance program, the Board of Directors amended the Ethics and Business Conduct Policy and the Statement on Reporting Ethical Violations (Whistleblower Policy) in June 2013 and also adopted in September 2013 the Agent Code of Conduct. In September 2013, the Board of Directors integrated a governance best practice by adopting a Director Share Ownership Policy.

The Board of Directors amended in October 2014 the Human Resources Committee Charter in order to adapt it to the latest NASDAQ Rules on compensation committees along with an update on the nomination of Directors process and the Audit Committee Charter in order to harmonize its terminology with MI 52-110.

The Board of Directors amended in March 2017 the Disclosure Guidelines to add the Executive Chairman as a member of the Disclosure Committee. The Board of Directors amended in June 2017 the Director Share Ownership Policy and the Board of Directors Corporate Governance Guidelines in order to introduce mandatory obligations for the Directors to elect to receive at least seventy-five (75%) of their Annual Retainer in form of DSUs until their cumulative Annual Retainers equal or exceed three (3) times the sum of: i) the Annual Retainer for Directors; ii) the Annual Retainer for Audit Committee Members; and iii) the Annual Retainer for Human Resources Committee Members. The Board of Directors amended in October 2017 the Human Resources Committee Charter in order to specifically add the compensation review of the Executive Chairman.

Expectations and responsibilities of Directors, including basic duties and (h) responsibilities with respect to attendance at board meetings and advance review of meeting materials.

The Board of Directors is also responsible for the establishment and functioning of all of the Board of Directors' committees, their compensation and their good standing. At regularly scheduled meetings of the Board of Directors, the Directors receive, consider and discuss committee reports. The Directors also receive in advance of any meeting, all documentation required for the upcoming meetings and they are expected to review and consult this documentation.



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3. Position Descriptions

Disclose whether or not the board has  
(a) developed written position descriptions for the chair of the board and the chair of each board committee. If the board has not developed written position descriptions for the chair and/or the chair of each board committee, briefly describe how the board delineates the role and responsibilities of each such position.

There is no specific mandate for the Board of Directors, however the Board of Directors is, by law, responsible for managing the business and affairs of the Corporation. Any responsibility which is not delegated to senior Management or to a committee of the Board of Directors remains the responsibility of the Board of Directors. Accordingly, the chair of the Board of Directors, of the Audit Committee and of the Human Resources Committee will namely:

- provide leadership to the Board of Directors or Committee;
- ensure that the Board of Directors or Committee can perform its duties in an effective and efficient manner;
- facilitate the functionary of the Board of Directors or Committee; and
- promote best practices and high standards of corporate governance.

Disclose whether or not the board and CEO have developed a written position description for the CEO. If the board and  
(b) CEO have not developed such a position description, briefly describe how the board delineates the role and responsibilities of the CEO.

No written position description has been developed for the Executive Chairman and for the CEO. The Executive Chairman and the Chief Executive Officer, along with the rest of Management placed under his supervision, is responsible for meeting the corporate objectives as determined by the strategic objectives and budget as they are adopted each year by the Board of Directors.

4. Orientation and Continuing Education

(a) Briefly describe what measures the board takes to orient new directors regarding

i. the role of the board, its committees and its directors; and

The Human Resources Committee Charter foresees that the Human Resources Committee maintains an orientation program for new Directors.

ii. the nature and operation of the issuer's business.

Presentations and reports relating to the Corporation's business and affairs are provided to new Directors. In addition, new Board of Directors members meet with senior Management of the Corporation to review the business and affairs of the Corporation.

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<p>Briefly describe what measures, if any, the board takes to provide continuing education for its directors. If the board does not provide (b) continuing education, describe how the board ensures that its directors maintain the skill and knowledge necessary to meet their obligations as directors.</p>	<p>The Human Resources Committee Charter foresees that the Human Resources Committee maintains a continuing education program for Directors. In March 2013, the independent Directors of the Corporation attended a presentation on the Corruption of Foreign Public Officials Act given by PricewaterhouseCoopers LLP. In March 2014, the independent Directors of the Corporation attended a presentation on directors' fiduciary duty by Fasken Martineau DuMoulin LLP. In March 2015, the Directors of the Corporation attended a presentation on directors' fiduciary duty in a controlled environment and on Corporate Governance by Norton Rose Fulbright LLP. In October 2015 the Directors of the Corporation attended a presentation on the Corporation's Service Assurance products by the Vice-President Transport and Service Assurance Division of the Corporation. In 2016, the Directors of the Corporation attended an online training on the Corporation's business and orientation. In 2017, the Directors of the Corporation attended a training on the Corporation's products and solutions and also attended a presentation on Fraud Risk given by PricewaterhouseCoopers LLP.</p>
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5. Ethical Business Conduct

<p>Disclose whether or not the board has adopted a written (a) code for the directors, officers and employees. If the board has adopted a written code:</p> <p style="padding-left: 20px;">disclose how a person or i. company may obtain a copy of the code;</p> <p style="padding-left: 20px;">describe how the board monitors compliance with its code, or if the board does not monitor ii. compliance, explain whether and how the board satisfies itself regarding compliance with its code; and</p> <p>iii. provide a cross-reference to any material change report filed since the beginning of the issuer's most recently completed</p>	<p>The Corporation is committed to maintaining the highest standard of business conduct and ethics. Accordingly, the Board of Directors updated and established (i) a Board of Directors Corporate Governance Guidelines, (ii) a Code of Ethics for our Principal Executive Officer and senior Financial Officers, (iii) an Ethics and Business Conduct Policy and (iv) a Statement on Reporting Ethical Violations (Whistleblower Policy) which are available on the Corporation's website (<a href="http://www.EXFO.com">www.EXFO.com</a>).</p> <p>The Board of Directors will determine, or designate appropriate persons to determine, appropriate actions to be taken in the event of a violation of the Code of Ethics for our Principal Executive Officer and senior Financial Officers. Someone that does not comply with this Code of Ethics will be subject to disciplinary measures, up to and including discharge from the Corporation. Furthermore, a compliance affirmation must be filled in a written form agreeing to abide by the policies of the Code of Ethics.</p> <p>No material change report has been required or filed during our financial year ended August 31, 2017 with respect to any conduct constituting a departure from our Code of Ethics.</p>
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financial year that pertains  
to any conduct of a  
director or executive  
officer that constitutes a  
departure from the code.

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- (b) Describe any steps the board takes to ensure directors exercise independent judgement in considering transactions and agreements in respect of which a director or executive officer has a material interest.
- Activities that could give rise to conflicts of interest are prohibited. Members of the Board of Directors should contact the Lead Director or in-house legal counsel regarding any issues relating to possible conflict of interest. If such event occurs, the implicated Board of Directors member will not participate in the meeting and discussion with respect to such possible conflict of interest and will not be entitled to vote on such matter. Senior executives should also contact the in-house legal counsel regarding any issues relating to possible conflict of interest.
- (c) Describe any other steps the board takes to encourage and promote a culture of ethical business conduct.
- The Corporation has instituted and follows a "Whistleblower Policy" where each member of the Board of Directors as well as any senior officer, every employee of the Corporation and any person is invited and encouraged to report anything appearing or suspected of being non-ethical to our Lead Director, in confidence. The Lead Director has the power to hire professional assistance to conduct an internal investigation should he so fell it is required.

6. Nomination of Directors

- (a) Describe the process by which the board identifies new candidates for board nomination.
- The Board of Directors adopted and implemented a Human Resources Committee Charter which integrates the Compensation Committee Charter and the Nominating and Governance Committee Charter. The Human Resources Committee is responsible for nomination, assessment and compensation of directors and Officers. More specifically, the Human Resources committee, which is comprised entirely of independent Directors, is responsible for participating in the recruitment and recommendation of new candidates for appointment or election to the Board. When considering a potential candidate, the Human Resources Committee considers the qualities and skills that the Board, as a whole, should have and assesses the competencies and skills of the current members of the Board. Based on the talent already represented on the Board, the Human Resources Committee then identifies the specific skills, personal qualities or experiences that a candidate should possess in light of the opportunities and risks facing the Corporation. Potential candidates are screened to ensure that they possess the requisite qualities, including integrity, business judgment and experience, business or professional expertise, independence from Management, international experience, financial literacy, excellent communications skills and the ability to work well with the Board and the Corporation. The Human Resources Committee considers the existing commitments of a potential candidate to ensure that such candidate will be able to fulfill his or her obligations as a Board member.

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The Human Resources Committee maintains a list of potential director candidates for its future consideration and may engage outside advisors to assist in identifying potential candidates. The Human Resources Committee also considers recommendations for director nominees submitted by the Corporation's shareholders, officers, Directors and senior Management.

The Human Resources Committee consists of five (5) members all of whom are independent Directors. The Chairman of the Human Resources Committee is Mr. François Côté. The Human Resources Committee Charter foresees:

Disclose whether or not the board has a nominating committee composed entirely of independent directors. If the board does (b) not have a nominating committee composed entirely of independent directors, describe what steps the board takes to encourage an objective nomination process.

recommending a process for assessing the performance of the Board of Directors as a whole, the Chair of the Board of Directors and the Committee chairs and the contribution of individual Directors, and seeing to its implementation;

If the board has a nominating committee, describe the (c) responsibilities, powers and operation of the nominating committee.

recommending the competencies, skills and personal qualities required on the Board of Directors in order to create added value, taking into account the opportunities and risks faced by the Corporation and subsequently identifying and recommending to the Board of Directors.

7. Compensation

(a) Describe the process by which the board determines the compensation for the issuer's directors and officers.

The Human Resources Committee reviews periodically compensation policies in light of market conditions, industry practice and level of responsibilities. Only independent Directors are compensated for acting as a Director of the Corporation.

(b)

Disclose whether or not the board has a compensation committee composed entirely of independent directors. If the board does not have a compensation committee composed entirely of independent directors, describe what steps the board takes to ensure an objective process for determining such compensation.

The Human Resources Committee consists of five (5) members all of who are independent Directors. The Chairman of the Human Resources Committee is Mr. François Côté.

(c)

If the board has a compensation committee, describe the responsibilities, powers and operation of the compensation committee.

The Human Resources Committee Charter foresees that such committee shall:

review and approve on an annual basis with respect to the annual compensation of all senior officers which namely includes the assessment of risks associated with the compensation of such senior officers;

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review and approve, on behalf of the Board of Directors or in collaboration with the Board of Directors as applicable, on the basis of the attribution authorized by the Board of Directors, to whom options to purchase shares of the Corporation, RSUs or DSUs shall be offered as the case may be and if so, the terms of such options, RSUs or DSUs in accordance with the terms of the Corporation's LTIP or the Deferred Share Unit Plan provided that no options, RSUs or DSUs shall be granted to members of this committee without the approval of the Board of Directors;

recommend to the Board of Directors from time to time the remuneration to be paid by the Corporation to Directors;

make recommendations to the Board of Directors with respect to the Corporation's incentive compensation plans and equity-based plans.

Other Board Committees –

8. If the board has standing committees other than the audit, compensation and nominating committees identify the committees and describe their function. The Board of Directors has no other standing committee.

9. Assessments The Board of Directors assumes direct responsibility for the monitoring of the Board of Directors' corporate governance practices, the functioning of the Board of Directors and the powers, mandates and performance of the Human Resources Committee. The Human Resources Committee, composed solely of independent Directors, initiates a self-evaluation of the Board of Directors' performance on an annual basis. Questionnaires are distributed to each independent director for the purpose of evaluation the Board of Directors' responsibilities and functions and the performance of the Board of Directors' Committees. The results of the questionnaires are compiled on a confidential basis to encourage full and frank commentary and are discussed at the next regular meeting of the Human Resources Committee or independent Board of Directors members meeting.
- board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If

assessments  
are regularly  
conducted,  
describe the  
process used  
for the  
assessments.  
If  
assessments  
are not  
regularly  
conducted,  
describe  
how the  
board  
satisfies  
itself that the  
board, its  
committees,  
and its  
individual  
directors are  
performing  
effectively.

10. Director Term Limits and Other Mechanisms of Board Renewal – Disclose whether or not the issuer has adopted term limits for the directors on its board or other mechanisms of board renewal and, if so, include a description of those director term limits or other mechanisms
- The Corporation does not have a policy that limits the term of the directors on its board. The Board has determined that the term limit of the director's mandate or the mandatory retirement age is not essential in part, because Board renewal has not been a challenge for the Corporation in recent years. Specifically, the average tenure of the current independent directors is low, at approximately four (4) years and a half (fifty-four (54) months). Historically, the average tenure of the independent directors that served on the Board of Directors since 2000 is eight (8) years and ten (10) months. In addition, the Corporation seeks to avoid losing the services of a qualified director with experience and in-depth knowledge of the Corporation through the imposition of an arbitrary term limit but is of the opinion however that a balance between long term directors and new directors who bring a different experience and new ideas is essential.



of board  
renewal. If  
the issuer  
has not  
adopted  
director term  
limits or  
other  
mechanisms  
of board  
renewal,  
disclose why  
it has not  
done so.

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The Human Resources Committee initiates a self-evaluation of the Board of Director's performance on an annual basis. This evaluation is an alternative mechanism for renewing the terms of the Directors serving on its Board of Directors. The annual review process of the overall efficiency of the Board of Directors and Committees as a whole and of Committee members and Directors on an individual basis, remains the best way of ensuring that the skills required are well represented within the Board of Directors.

Policies Regarding the  
11. Representation of Women on  
the Board

(a) Disclose whether the issuer has adopted a written policy relating to the identification and nomination of women directors. If the issuer has not adopted such a policy, disclose why it has not done so.

The Corporation does not have any written policy regarding the identification and nomination of women directors as it did not deem it necessary and its focus is on the recruitment of candidates with the specific skills, personal qualities and experiences to add the highest value to the Board, rather than on the gender or other personal characteristics of particular candidates.

(b) If an issuer has adopted a policy referred to in (a), disclose the following in respect of the policy:

The Corporation does not have a written policy.

i. a short summary of its objectives and key provisions,

ii. the measures taken to ensure that the policy has been effectively implemented,

iii. annual and cumulative progress by the issuer in achieving the objectives of the policy, and

iv. whether and, if so, how the board or its nominating committee measures the effectiveness of the policy.

Consideration of the Representation of Women in the Director Identification and Selection Process – Disclose whether and, if so, how the board or nominating committee considers the level of representation of women on the board in identifying and nominating candidates for election or re-election to the board. If the issuer does not consider the level of representation of women on the board in identifying and nominating candidates for election or re-election to the board, disclose the issuer's reasons for not doing so.

The Human Resources Committee does not specifically consider the level of representation of women on the Board in identifying and nominating candidates for election or re-election to the Board. In the context of such process, it considers the then current Board composition and anticipated competencies required so as to add the highest value to the Board. See Heading 6 "Nomination of Directors" on page 161 of this Circular for a description of the process adhered to by the Corporation to select director candidates.

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- Consideration Given to the Representation of Women in Executive Officer Appointments – Disclose whether and, if so, how the issuer considers the level of representation of women in executive officer positions when making executive officer appointments. If the issuer does not consider the level of representation of women in executive officer positions when making executive officer appointments, disclose the issuer's reasons for not doing so.
13. The Corporation is focused on finding executive talent to grow and expand its business. As such, it focuses on recruiting and retaining executive talent needed to develop and implement the Corporation's strategy, objectives and goals without regard for the gender or other personal characteristics of particular candidates for executive officer positions.
- Issuer's Targets Regarding the Representation of Women on the Board and in Executive Officer Positions
14. For purposes of this Item, a "target" means a number or percentage, or a range of numbers or percentages, adopted by the issuer of women on the issuer's board or in executive officer positions of the issuer by a specific date.
- (a) Disclose whether the issuer has adopted a target regarding women on the issuer's board. If the issuer has not adopted a target, disclose why it has not done so.
- (b) The Corporation does not have a target of women on the Board of Directors because it does not believe that any candidate for membership to the Board of Directors should be chosen nor excluded solely or largely because of gender or other personal characteristics. In selecting director nominee, the Corporation considers the skills, expertise and background that would complement the existing Board.
- (c) Disclose whether the issuer has adopted a target regarding women in executive officer positions of the Corporation. The Corporation considers candidates based on their

target regarding women qualifications, personal qualities, business background and experience, and does not  
in executive officer feel that targets necessarily result in the identification or selection of the best  
positions of the issuer. If candidates.  
the issuer has not  
adopted a target, disclose  
why it has not done so.

If the issuer has adopted  
(d) a target referred to in  
either (b) or (c), disclose:

- i. the target, and  
the annual and
- ii. cumulative progress of  
the issuer in achieving  
the target.

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15. Number of Women on the Board and in Executive Officer Positions

Disclose the number and proportion (in (a) percentage terms) of directors on the issuer's board who are women.

Currently, one of the Corporation's Board members is a woman (17%).

Disclose the number and proportion (in (b) percentage terms) of executive officers of the issuer, including all major subsidiaries of the issuer, who are women.

Even though the Corporation did have women as executive officers in the past, currently, none of the Corporation's executive officers are women (0%). However, starting November 13, 2017, one woman will be an executive officer of the Corporation (11%).