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 with 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 network visibility markets and increased competition among vendors; capacity to adapt our future product offering to future technological changes; limited visibility with regards 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; our ability to successfully integrate businesses that we acquire; 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 25, 2015.

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 network visibility solutions for fixed and mobile network operators, web-scale service providers as well as equipment manufacturers 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: 4G/LTE (long-term evolution), wireless backhaul, small cells and distributed antenna systems (DAS), 100G network upgrades and fiber-to-the-home (FTTH)/fiber-to-the-curb (FTTC)/fiber-to-the-node (FTTN) deployments.

Our success has been largely predicated on our core expertise in developing test equipment for wireline 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 called the FTB Ecosystem. Leveraging platform connectivity, customers can keep track of their entire test fleet, manage software updates and schedule calibration procedures. All test data within the FTB Ecosystem 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 expanded our product portfolio into service assurance for next-generation IP (internet protocol) networks and into test equipment for 2G, 3G and 4G/LTE wireless networks. Our service assurance solution, called the Brix System, is a probe-based hardware and software solution that delivers end-to-end, quality of service and quality of experience visibility as well as real-time, IP service monitoring and verification of next-generation IP networks. We have enriched our service assurance offering with infrastructure performance management tools and analytics software 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 wireline and wireless networks.

Our 2G, 3G and 4G/LTE test portfolio mainly consists of network simulators and protocol analyzers. 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 wireless networks and services are deployed. Our protocol analyzers analyze mobile network elements in order to validate functionality according to wireless technology specifications, determine whether or not these elements interoperate with each other effectively when combined to form a network, and assess how well the live network performs.

The competitive advantages of our products include a high degree of innovation, modularity (especially wireline products) and ease of use. Ultimately, our products enable network equipment manufacturers and operators to design, deploy, troubleshoot and monitor wireline and wireless networks and, in the process, help them reduce the cost of operating their networks.

We have a staff of approximately 1500 people in 25 countries, supporting more than 2000 customers in approximately 100 countries 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 five main research and development expertise centers in Boston, Toronto, Montreal, Quebec City and Oulu, supported by a software development center in India.

We launched 13 new products or major enhancements in fiscal 2015. Key new product introductions included EXFO Xtract, a real-time analytics software platform that has been well received by network operators for critical end-to-end network performance and service visibility requirements. We also introduced the NetBlazer 800 v2 series, a quad-port, field-portable, transport & datacom performance validation test solution designed to accelerate and simplify the turn-up of 1G and 10G Ethernet services. This solution is housed inthe new FTB-1 Pro, a lightweight and compact test platform allowing field technicians to carry out dedicated optical, Ethernet and multi-service testing. We also released CPRI (common public radio interface) test capabilities for fiber-to-the-antenna (FTTA) and distributed antenna system (DAS) deployments. Finally, we introduced new features for its patented intelligent optical link mapping (iOLM) software and for its automated wireless fiber inspection solutions, both contributing to automate and accelerate fiber deployments in wireless access networks.

We reported sales of $222.1 million in fiscal 2015 compared to $230.8 million in 2014 due to a significant headwind from a stronger US dollar versus other currencies. Otherwise, in fiscal 2015, in constant currency, our sales would have been flat year-over-year. Bookings totaled $223.1 million in fiscal 2015, for a book-to-bill ratio of 1.00, compared to $240.4 million in 2014.

We reported net earnings of $5.3 million, or $0.09 per diluted share, in fiscal 2015, compared to $783,000, or $0.01 per diluted share, in 2014. Net earnings in fiscal 2015 included $2.7 million in after-tax amortization of intangible assets, $1.3 million in after-tax restructuring charges, $1.3 million in stock-based compensation costs, and a foreign exchange gain of $7.2 million. Net earnings in fiscal 2014 included $4.1 million in after-tax amortization of intangible assets, $1.7 million in stock-based compensation costs and a foreign exchange gain of $1.6 million.

Adjusted EBITDA (net earnings before interest, income taxes, depreciation and amortization, restructuring charges, stock-based compensation costs and foreign exchange gain) amounted to $13.8 million, or 6.2% of sales, in fiscal 2015, compared to $14.4 million, or 6.2% of sales, in 2014. See page 20 of this document for a complete reconciliation of adjusted EBITDA and IFRS net earnings.

In the fourth quarter of fiscal 2015, we implemented a restructuring plan to align our cost structure to the challenging market environment. This plan resulted in one-time severance expenses of $1.6 million for employees laid off during the fourth quarter.

On January 7, 2015, we announced that our 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 million. On February 20, 2015, pursuant to the Offer, we purchased for cancellation 6,521,739 subordinate voting shares for an aggregate purchase price of CA$30 million (US$24.0 million), plus related fees of $0.2 million. We used cash to fund the purchase of shares.

On March 25, 2015, we announced that our Board of Directors approved the renewal of our 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. We expect to use cash, short-term investments or future cash flows from operations to fund the repurchase of shares. The normal course issuer bid started on March 27, 2015, and will end on March 26, 2016, or on an earlier date if we repurchase the maximum number of shares permitted under the bid. The program does not require that we repurchase any specific number of shares, and it may be modified, suspended or terminated at any time and without prior notice. All shares repurchased under the bid will be cancelled.

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.

In fiscal 2013, 2014 and 2015, no customer accounted for more than 10% of our sales, with our top customer representing 6.1%, 6.1% and 7.1% of our sales respectively.

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 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 and grants on research and development activities carried out in Canada and Finland. All related research and development tax credits and grants are recorded as a reduction of gross research and development expenses.

RESULTS OF OPERATIONS

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

Consolidated statements of earnings data [1]:	**2015**	2014	2013	**2015**	2014	2013
Sales	**$ 222,089**	$ 230,806	$ 242,150	**100.0%**	100.0%	100.0%
Cost of sales [2]	**85,039**	86,836	92,469	**38.3**	37.6	38.2
Selling and administrative	**82,200**	86,429	88,756	**37.0**	37.4	36.6
Net research and development	**44,003**	44,846	45,444	**19.8**	19.4	18.8
Depreciation of property, plant and equipment	**4,835**	4,995	6,028	**2.2**	2.2	2.5
Amortization of intangible assets	**2,883**	4,398	6,643	**1.3**	1.9	2.7
Interest and other income	**(155)**	(326)	(113)	**(0.1)**	(0.1)	–
Foreign exchange gain	**(7,212)**	(1,634)	(4,082)	**(3.2)**	(0.7)	(1.7)
Earnings before income taxes	**10,496**	5,262	7,005	**4.7**	2.3	2.9
Income taxes	**5,198**	4,479	5,664	**2.3**	2.0	2.3
Net earnings for the year	**$ 5,298**	$ 783	$ 1,341	**2.4%**	0.3%	0.6%
Basic and diluted net earnings per share	**$ 0.09**	$ 0.01	$ 0.02			
Other selected information:						
Gross margin before depreciation and amortization [3]	**$ 137,050**	$ 143,970	$ 149,681	**61.7%**	62.4%	61.8%
Research and development data:						
Gross research and development	**$ 50,148**	$ 52,423	$ 54,334	**22.6%**	22.7%	22.4%
Net research and development	**$ 44,003**	$ 44,846	$ 45,444	**19.8%**	19.4%	18.8%
Restructuring charges included in:						
Cost of sales	**$ 290**	$ –	$ –	**0.1%**	–%	–%
Selling and administrative expenses	**$ 586**	$ –	$ –	**0.3%**	–%	–%
Net research and development expenses	**$ 761**	$ –	$ 89	**0.3%**	–%	–%
Adjusted EBITDA [3]	**$ 13,779**	$ 14,391	$ 17,338	**6.2%**	6.2%	7.2%
Consolidated balance sheets data [1]:						
Total assets	**$ 219,002**	$ 278,031	$ 281,538			

(1) Consolidated statements of earnings and balance sheets data has been derived from our consolidated financial statements prepared according with IFRS, as issued by the IASB, except for non-IFRS measures [3].

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

(3) Refer to page 20 for non-IFRS measures.

RESULTS OF OPERATIONS

Sales and Bookings

The following table summarizes sales by product line:

	Years ended August 31,		
	2015	2014	2013
Physical-layer product line	$ 144,060	$ 132,097	$ 140,941
Protocol-layer product line	80,591	99,618	100,829
	224,651	231,715	241,770
Foreign exchange gains (losses) on forward exchange contracts	(2,562)	(909)	380
Total sales	$ 222,089	$ 230,806	$ 242,150

Fiscal 2015 vs. 2014

In fiscal 2015, our sales decreased 3.8% to $222.1 million, compared to $230.8 million in 2014, while our bookings decreased 7.2% year-over-year to $223.1 million in 2015 from $240.4 million in 2014, for a book-to-bill ratio of 1.00 (1.04 in 2014).

In fiscal 2015, however, we faced a significant headwind from a stronger US dollar, compared to 2014. Given that we generate a portion of our revenue in Canadian dollars and euros but report our results in US dollars, it had a negative impact on our sales year-over-year. In fiscal 2015, excluding the negative currency impact, our sales would have been flat year-over-year.

In fiscal 2015, we increased sales of our Physical-layer product line by 9.1% based on our leadership position in portable optical testing and the growing need for fiber in wireless access areas. Sales or our Protocol-layer product line, meanwhile, decreased 19.1% year-over-over, especially in the areas of 10G or less, portable transport testing and in wireless protocol analysis, due to delays in the launched of some important products (in the first half of the fiscal year), longer than usual market acceptance of newly launched products and difficult market conditions in Europe, Middle-East and Africa (EMEA). On a constant currency basis, sales growth of our Physical-layer product line would be higher and the decline of our Protocol-layer product line lower to reflect stable sales year-over-year for the combined product lines.

In constant currency, our sales to the Americas and Asia-Pacific (APAC) slightly increased year-over-year. In fiscal 2015, we benefited from some improvements in the Americas, following a challenging year in 2014 due to order delays and lower spending levels, especially among key customers. In fiscal 2015, we would have reported year-over-year increase in sales of our Physical-layer product line in the Americas and APAC, offset in part by a decrease in sales of our Protocol-layer product line in these areas.

In constant currency, sales to EMEA slightly decreased year-over-year as Europe, overall, remained a challenging market due to weaker currencies and economic uncertainties. That slight year-over-year decline in sales in the EMEA region comes from our Protocol-layer product line.

In fiscal 2015, our bookings were also negatively affected by a stronger US dollar, compared to the Canadian dollar and euro. In fiscal 2015, the year-over-year decrease in total bookings comes from our Protocol-layer product line; this more than offset the increase in bookings for our Physical-layer product line in the Americas and Asia-Pacific.

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 also explains the year-over-year decrease in sales and bookings in fiscal 2015 for our Protocol-layer product line.

Finally, in fiscal 2015, we faced increased competition and pricing pressure, compared to 2014, which negatively affected our sales and bookings year-over-year.

Fiscal 2014 vs. 2013

In fiscal 2014, our sales decreased 4.7% to $230.8 million, compared to $242.2 million in 2013, while our bookings increased 3.0% year-over-year to $240.4 million in 2014 from $233.5 million in 2013.

The year-over-year decrease in sales in fiscal 2014 compared to 2013 is mainly explained by the timing and nature of orders received in fiscal 2014, which resulted in a significant increase in our backlog at the end of 2014 compared to 2013. In fact, some orders received in fiscal 2014 were not shipped and/or recognized in sales due to the timing and/or nature of these orders, as in some cases, they involved large systems for which revenue recognition is dependent on installation and customer acceptance.

More precisely, in fiscal 2014, most of the year-over-year decrease in sales (in dollars) comes from the first half of the year in the Americas, as market conditions in this region proved to be challenging during that period due to order delays and lower spending levels, especially among key customers. Although in the second half of fiscal 2014 we benefited from projects and strategic initiatives that had been pushed out later in fiscal 2014, as well as from late budget approvals from key customers, and we reported a year-over-year increase in sales and bookings during that period, it was not enough to offset the sales decrease attributable to the Americas region in the first half of the year.

In addition to the above-mentioned explanations, during the first half of fiscal 2013, we had benefited from some calendar year-end budget spending on the part of network operators in the Americas, but we did not benefit from such spending in the first half of fiscal 2014 due to the tight budget control during this period, thereby reducing our sales year-over-year. The magnitude of calendar year-end budget spending can fluctuate year-over-year.

Sales to EMEA and APAC in 2014 also decreased year-over-year, which again is mostly attributable to a timing issue, as bookings have in fact increased year-over-year in both regions.

Furthermore, in fiscal 2014, increased pricing pressure worldwide had a negative impact on our sales and bookings year-over-year.

Finally, we recorded foreign exchange losses of $909,000 on our forward exchange contracts in 2014, compared to foreign exchange gains of $380,000 in 2013, which lowered our sales 0.5% year-over-year.

Geographic Distribution

In fiscal 2015, sales to the Americas, EMEA and APAC accounted for 54%, 26% and 20% of sales respectively, compared to 53%, 28% and 19% respectively in 2014.

GROSS MARGIN BEFORE DEPRECIATION AND AMORTIZATION (non-IFRS measure – refer to page 20 of this document)

Gross margin before depreciation and amortization (gross margin) amounted to 61.7%, 62.4% and 61.8% of sales in fiscal 2015, 2014 and 2013 respectively.

Fiscal 2015 vs. 2014

In fiscal 2015, our gross margin was unfavorably affected by product mix compared to 2014 as 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.

In addition, the decrease in our gross margin year-over-year comes from foreign exchange losses on our forward exchange contracts, which reduced our sales and negatively affected our gross margin by 0.3% compared to 2014.

Furthermore, in fiscal 2015, we faced increased competition and pricing pressure for some product lines, compared to 2014, which negatively affected our gross margin year-over-year.

Finally, in fiscal 2015, we recorded $290,000 in restructuring charges in the cost of sales (nil in 2014), which negatively affected our gross margin for that year (0.1%).

However, in fiscal 2015, we reported lower inventory write-down compared to the same period last year, which increased our gross margin by 0.2% year-over-year.

In addition, in fiscal 2015, a stronger US dollar compared to other currencies reduced our manufacturing costs and had a positive impact on our gross margin year-over-year.

Fiscal 2014 vs. 2013

The increase in our gross margin in fiscal 2014 compared to 2013 can be explained by the following factors.

In fiscal 2014, our gross margin was favorably affected by product mix, including some software-intensive products with higher margins. Namely, in fiscal 2013, we shipped large orders of lower-margin copper-access test solutions, which had negatively affected our gross margin that year. We did not have such orders in 2014.

However, the following factors partly offset the increase in our gross margin year-over-year.

In fiscal 2014, a lower sales volume compared to 2013 (4.7%), resulted in lower absorption of our fixed manufacturing costs, which decreased our gross margin year-over-year.

In addition, increased pricing pressure in fiscal 2014, compared to 2013, had a negative impact on our gross margin year-over-year.

Furthermore, in fiscal 2014, we recorded an inventory write-off of $4.6 million, compared to $4.1 million in 2013. This represents a negative impact of 0.3% on our gross margin year-over-year.

Finally, in fiscal 2014, increased foreign exchange losses on our forward exchange contracts, compared to 2013, also affected our gross margin by 0.1% year-over-year.

SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses amounted to $82.2 million, $86.4 million and $88.8 million for fiscal 2015, 2014 and 2013 respectively. As a percentage of sales, selling and administrative expenses amounted to 37.0%, 37.4% and 36.6% for fiscal 2015, 2014 and 2013 respectively.

Fiscal 2015 vs. 2014

In fiscal 2015, selling and administrative expenses included $586,000 or 0.3% of sales, in restructuring charges compared to nil in 2014.

Otherwise, in fiscal 2015, our selling and administrative expenses decreased due to the 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 these latter two currencies and we report our results in US dollars, and to tight control on expenses, which more than offset inflation and salary increases.

Fiscal 2014 vs. 2013

In fiscal 2014, despite inflation and salary increases, our selling and administrative expenses decreased, compared to 2013, due to tight control on expenses and the increase in the average value of the US dollar, compared to the Canadian dollar as a portion of these expenses are incurred in this currency and we report our results in US dollars.

In addition, in fiscal 2014, commission expenses to our sales channels were lower compared, to 2013, due to a lower sales volume year-over-year.

In fiscal 2014, although our selling and administrative expenses decreased in dollars year-over-year, they increased as a percentage of sales as our sales decreased year-over-year and a large portion of these expenses are relatively fixed in the short term.

RESEARCH AND DEVELOPMENT EXPENSES

Gross research and development expenses

Gross research and development expenses totaled $50.1 million, $52.4 million and $54.3 million for fiscal 2015, 2014 and 2013 respectively. As a percentage of sales, gross research and development expenses amounted to 22.6%, 22.7% and 22.4% for fiscal 2015, 2014 and 2013 respectively, while net research and development expenses accounted for 19.8%, 19.4% and 18.8% of sales for these respective years.

Fiscal 2015 vs. 2014

In fiscal 2015, the year-over-year 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 these latter two currencies and we report our results in US dollars.

In fiscal 2015, excluding the positive currency impact year-over-year, inflation, salary increases, as well as a shift in the mix and timing of research and development projects slightly increased our gross research and development expenses, compared to 2014.

In addition, in fiscal 2015, our gross research and development expenses included $761,000, or 0.3% of sales, in restructuring charges, compared to nil in 2014.

Fiscal 2014 vs. 2013

In fiscal 2014, the year-over-year increase in the average value of the US dollar compared to the Canadian dollar and the Indian rupee had a positive impact on our gross research and development expenses as a large portion of these expenses are incurred in these currencies and we report our results in US dollars.

In addition, in fiscal 2013, our gross research and development expenses included $89,000 in restructuring charges, compared to nil in 2014.

Otherwise, in fiscal 2014, inflation, salary increases, as well as a shift in the mix and timing of research and development projects resulted in increased gross research and development expenses compared to 2013.

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 $6.1 million, $7.6 million and $8.9 million for fiscal 2015, 2014 and 2013 respectively. As a percentage of gross research and development expenses, tax credits and grants reached 12.3%, 14.5% and 16.4% for fiscal 2015, 2014 and 2013 respectively.

Fiscal 2015 vs. 2014

The decrease in our tax credits and grants in fiscal 2015, compared to 2014, results from the decrease in the statutory Canadian federal and provincial research and development tax credit rates, 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 2015, the decrease in tax credits and grants as a percentage of gross research and development expenses, compared to 2014, mainly comes from the decrease in the statutory Canadian federal and provincial research and development tax credit rates.

Fiscal 2014 vs. 2013

The decrease in our tax credits and grants in fiscal 2014, compared to 2013, results from the decrease in the statutory Canadian federal and provincial research and development tax credit rates in 2014, 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 2014, the decrease in tax credits and grants as percentage of gross research and development expenses, compared to 2013, mainly comes from the decrease in the statutory Canadian federal and provincial research and development tax credit rates.

AMORTIZATION OF INTANGIBLE ASSETS

In conjunction with the business combinations we completed over the past several years, we recorded intangible assets, primarily consisting of core technology, customer relationships and brand name. In addition, intangible assets include software. These intangible assets resulted in amortization expenses of $2.9 million, $4.4 million and $6.6 million for fiscal 2015, 2014 and 2013 respectively.

Fiscal 2015 vs. 2014

The decrease in amortization expenses in fiscal 2015, compared to 2014, 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 expenses is incurred in this currency and we report our results in US dollars.

Fiscal 2014 vs. 2013

The decrease in amortization expenses in fiscal 2014 compared to 2013 comes from the fact that core technology related to the acquisition of Brix Networks Inc. (acquired in fiscal 2008) became fully amortized during fiscal 2013. In addition, in fiscal 2014, the increase in the average value of the US dollar compared to the Canadian dollar versus the previous year had a positive impact on our amortization expenses as these expenses are incurred in Canadian dollars and we report our results in US dollars.

FOREIGN EXCHANGE GAIN

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 a 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 gain of $7.2 million in fiscal 2015, compared to $1.6 million in 2014 and $4.1 million in 2013.

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.

Fiscal 2014

In fiscal 2014, the period-end value of the Canadian dollar decreased versus the US dollar and the euro, compared to the previous year end, which resulted in a foreign exchange gain of $1.6 million during the year. The period-end value of the Canadian dollar decreased 3.0% compared to CA$1.0858 = US$1.00 in fiscal 2014, compared to CA$1.0530 = US$1.00 at the end of the previous year, and decreased 2.7% compared to CA$1.4319 = €1.00 in fiscal 2014, compared to CA$1.3936 = €1.00 at the end of the previous year. In fiscal 2014, the average value of the Canadian dollar versus the US dollar was CA$1.0782 = US$1.00.

Fiscal 2013

In fiscal 2013, 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 $4.1 million during the year. The period-end value of the Canadian dollar decreased 6.3% compared to CA$1.0530 = US$1.00 in fiscal 2013, compared to CA$0.9863 = US$1.00 at the end of the previous year, and decreased 12.0% compared to CA$1.3936 = €1.00 in fiscal 2013, compared to CA$1.2438 = €1.00 at the end of the previous year. In fiscal 2013, the average value of the Canadian dollar compared to the US dollar was CA$1.0107 = 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 cost of sales and our operating items are denominated in Canadian dollars, euros and Indian rupees, and we report our results in US dollars.

Fiscal 2015 vs. 2014

In fiscal 2015, the increase in the average value of the US dollar compared to the Canadian dollar and the euro year-over-year had a positive impact on our financial results. The average value of the US dollar in fiscal 2015 increased 10.8% and 14.5%, respectively, compared to the Canadian dollar and the euro.

Fiscal 2014 vs. 2013

In fiscal 2014, the increase in the average value of the US dollar compared to the Canadian dollar and Indian rupee year-over-year had a positive impact on our financial results. The average value of the US dollar in fiscal 2014 increased 6.3% and 9.7%, respectively, compared to the Canadian dollar and the Indian rupee.

INCOME TAXES

In fiscal 2015, we reported income tax expenses of $5.2 million on earnings before income taxes of $10.5 million, compared to income tax expenses of $4.5 million on earnings before income taxes of $5.3 million in 2014 and income tax expenses of $5.7 million on earnings before income taxes of $7.0 million in 2013.

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 and had some non-deductible losses and expenses, such as stock-based compensation costs. However, a significant portion of our foreign exchange gain was created by the translation of financial statements of our foreign subsidiaries from their local currency to the functional currency, and was therefore non-taxable. 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 18 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, 2015, cash and short-term investments totaled $27.4 million, while our working capital was at $69.4 million. Our cash and short-term investments decreased $32.5 million in fiscal 2015, compared to 2014. First, in fiscal 2015, we made cash payments of $25.5 million for the redemption of share capital under our share repurchase programs, mainly our substantial issuer bid. In addition, during the year, we made cash payments of $5.9 million for the purchase of capital assets. Finally, we recorded an unrealized foreign exchange loss of $7.6 million on our cash and short-term investments. This unrealized foreign exchange loss resulted from the translation, in 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. However, operating activities generated $6.5 million in cash.

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, potential acquisitions as well as our share repurchase program. As at August 31, 2015, cash balances included an amount of $10.8 million that bears interest at an annual rate of 1.0%.

We believe that our cash balances and short-term investments of $27.4 million will be sufficient to meet our liquidity and capital requirements for the foreseeable future, including the effect of our share repurchase program. In addition to these assets, we have unused available lines of credit totaling $14.8 million for working capital and other general corporate purposes, and unused lines of credit of $17.7 million for foreign currency exposure related to forward exchange contracts. 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, 2015, our commitments under operating leases amount to $2.1 million in 2016, $1.4 million in 2017, $774,000 in 2018, $768,000 in 2019 and $2.5 million in 2020 and after, for total commitments of $7.5 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 $6.5 million in fiscal 2015, compared to $19.8 million in 2014 and cash flows used of $2.0 million in 2013.

Fiscal 2015 vs. 2014

Cash flows provided by operating activities in fiscal 2015 were attributable to the net earnings after items not affecting cash of $11.4 million, offset in part by the negative net change in non-cash operating items of $4.9 million; this was mainly due to the negative effect on cash of the increase of $10.8 million in our accounts receivable due to the timing of receipts and sales during the year, the negative effect on cash of the increase of $2.1 million in our income tax and tax credits recoverable due to tax credits earned during the year not yet recovered, and the negative effect on cash of the increase of $982,000 in our prepaid expenses due to timing of payments during the year. These negative effects on cash were offset in part by the positive effect on cash of the decrease of $820,000 in our inventories due to improved inventory turns during the year and the increase of $8.1 million in our accounts payable, accrued liabilities and provisions due to timing of purchases and payments during the year.

Fiscal 2014 vs. 2013

Cash flows provided by operating activities in fiscal 2014 were attributable to the net earnings after items not affecting cash of $11.5 million and the positive net change in non-cash operating items of $8.3 million; this was mainly due to the positive effect on cash of the $3.6 million decrease in our accounts receivable, due to the decrease in sales year-over-year and the timing of receipts and sales during the year, the $1.4 million decrease in our income taxes and tax credits recoverable mainly due to tax credits earned in previous years received during the year, as well as the $3.8 million increase in our accounts payable, accrued liabilities, provisions and other liabilities due to timing of purchases and payments during the year. These positive effects on cash were partly offset by the negative effect on cash of the $734,000 increase in our inventories to meet future demand.

Investing activities

Cash flows used by investing activities amounted to $2.3 million in fiscal 2015, compared to $8.9 million in 2014 and $5.0 million in 2013.

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.

Fiscal 2014

In fiscal 2014, we acquired (net of disposal) $1.0 million worth of short-term investments and we paid $7.9 million for the purchase of capital assets, including the assets of ByteSphere and Aito.

Fiscal 2013

In fiscal 2013, we paid $8.0 million for the purchase of capital assets but we disposed (net of acquisitions) of $3.0 million worth of short-term investments.

Financing activities

Cash flows used by financing activities amounted to $25.5 million in fiscal 2015, compared to $1.0 million in 2014 and $3.6 million in 2013.

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.

Fiscal 2014

In fiscal 2014, we redeemed share capital for a cash consideration of $937,000 and repaid $307,000 of our long-term debt. However, we received $225,000 from the exercise of stock options.

Fiscal 2013

In fiscal 2013, we redeemed share capital for a cash consideration of $3.1 million and repaid $589,000 of our long-term debt. However, we received $87,000 from the exercise of stock options.

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, 2015, we held forward exchange 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**
September 2015 to August 2016	$ 20,200,000	1.1180
September 2016 to August 2017	8,000,000	1.1530
September 2017 to December 2017	1,600,000	1.2135
Total	$ 29,800,000	1.1326

US dollars – Indian rupees

Expiry dates	**Contractual amounts**	**Weighted average contractual forward rate**
September 2015 to July 2016	$ 3,900,000	66.41

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 $497,000 and $4.2 million as at August 31, 2014 and 2015 respectively. The US dollar – Canadian dollar year-end exchange rate was CA$1.3157 = US$1.00 as at August 31, 2015.

SHARE CAPITAL

Share Capital

As at November 9, 2015, EXFO had 31,643,000 multiple voting shares outstanding, entitling to 10 votes each and 22,248,271 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, 2015, our off-balance sheet arrangements consisted of letters of guarantee amounting to $495,000 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, 2015, we did not have interests in any structured entities.

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 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 over the next 12 months, 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.

As at August 31, 2015, we had deferred income tax assets in the balance sheet in the amount of $8.9 million mainly for operating losses in the United States. In order to recover these deferred income tax assets, we need to generate approximately $22 million in pre-tax earnings in the United States, and in order to do so over the estimated recovery period of five years, we must generate pre-tax earnings compound annual growth rate (CAGR) of 6%, which we believe is probable. Our losses in the United States can be carried forward over a twenty-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, 2015, our non-refundable research and development tax credits recognized in the balance sheet amounted to $36.7 million. In order to recover these non-refundable research and development tax credits, we need to generate approximately $238 million (CA$313 million) in pre-tax earnings at the Canadian federal level and approximately $11 million at the Canadian provincial level. In order to generate $238 million in pre-tax earnings at the Canadian Federal level over the estimated recovery period of 18 years, we must generate a pre-tax earnings CAGR of 4%, which we believe is probable. Our non-refundable research and development tax credits can be carried forward over a twenty-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 2015, we performed our annual goodwill impairment test for our two CGUs, EXFO and Brix.

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 two CGUs:

EXFO CGU	$	8,636,000
Brix CGU		13,224,000
Total	$	21,860,000

In performing the goodwill impairment review of both CGUs, we determined the recoverable amount of goodwill based on fair value less costs of disposal. In estimating the recoverable amount of the EXFO CGU, we used a market approach, which is based on sales multiples within the range of 0.8 to 2.0 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 the EXFO CGU. To calculate the recoverable amount of the Brix CGU, we also applied a similar market approach, based on sales multiples for comparable businesses, which also ranged from 0.8 to 2.0 times sales. 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 EXFO's overall market capitalization, after adjustment for a control premium and the adjustment to deduct the recoverable amount of the Brix CGU. Based on this calculation, we calculated a recoverable amount which resulted in an implied sales multiple that was within the 0.8 to 2.0 times range, as used in the market approach described above.

In fiscal 2014, the calculation of recoverable amount of the Brix CGU also included a calculation of fair value based on discounted cash flows. However, this additional valuation technique was not considered necessary for fiscal 2015, on the basis that the market approach provided a more reliable estimate of fair value based on more reliable inputs, compared to the range of amounts being determined using cash flow projections and the significant assumptions applied to those cash flows.

As at August 31, 2015, the recoverable amount for both CGUs exceeded their carrying value. The recoverable amount of both CGUs would equal its carrying value using sales multiples of 0.7 times sales.

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 have not yet assessed the impact that the new standard will have on our consolidated financial statements.

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 not yet assessed the impact that the new standard will have on our consolidated financial statements or whether or not to early adopt the new standard.

RISKS AND UNCERTAINTIES

Over the past several years, we have managed our business in a difficult environment; 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. 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 economic conditions in North America and throughout the world and, more particularly, market conditions in the telecommunications industry. In the past, our operating results were adversely affected by reduced capital spending in North America, Europe and Asia and by unfavorable general economic conditions. In particular, sales to network operators in North America were significantly and adversely affected by a downturn in the telecommunications industry in 2001 and by the global economic recession in 2009. Challenging market conditions resurfaced in 2012 and continued through 2015 with network operators placing a tight rein on capital expenditures with the complexity of deploying fully converged IP networks. In the event of another recession or slowdown in key geographic regions or markets, we may experience a material adverse impact on our business, operating results and financial condition.

Our functional currency is the Canadian dollar. 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, 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 dollars and euros, 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 network visibility 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 in order 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 continuously 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, 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.

While strategic acquisitions, like those we have made in the past 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 their attention from our day-to-day business and operations.

For a more complete understanding of risk factors that may affect us, please refer to the risk factors set forth in our disclosure documents published with securities commissions at www.EXFO.com, or at www.sedar.com in Canada or 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 the purpose of 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, restructuring charges, stock-based compensation costs and foreign exchange gain.

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

Adjusted EBITDA *(unaudited)*

	Years ended August 31,		
	2015	**2014**	**2013**
IFRS net earnings for the year	$ 5,298	$ 783	$ 1,341
Add (deduct):			
Depreciation of property, plant and equipment	4,835	4,995	6,028
Amortization of intangible assets	2,883	4,398	6,643
Interest and other income	(155)	(326)	(113)
Income taxes	5,198	4,479	5,664
Restructuring charges	1,637	–	89
Stock-based compensation costs	1,295	1,696	1,768
Foreign exchange gain	(7,212)	(1,634)	(4,082)
Adjusted EBITDA for the year	$ 13,779	$ 14,391	$ 17,338
Adjusted EBITDA in percentage of total sales	6.2%	6.2%	7.2%

QUARTERLY SUMMARY FINANCIAL INFORMATION [1] (unaudited)
(tabular amounts in thousands of US dollars, except per share data)

	1st quarter	2nd quarter	3rd quarter	4th quarter	Year ended August 31,
2015					
Sales	$ 56,724	$ 50,990	$ 57,781	$ 56,594	$ 222,089
Cost of sales [2]	$ 21,237	$ 19,546	$ 22,281	$ 21,975	$ 85,039
Net earnings	$ 1,481	$ 931	$ 563	$ 2,323	$ 5,298
Basic and diluted net earnings per share	$ 0.02	$ 0.02	$ 0.01	$ 0.04	$ 0.09

	1st quarter	2nd quarter	3rd quarter	4th quarter	Year ended August 31,
2014					
Sales	$ 56,003	$ 51,179	$ 63,882	$ 59,742	$ 230,806
Cost of sales [2]	$ 21,185	$ 20,073	$ 23,469	$ 22,109	$ 86,836
Net earnings (loss)	$ (747)	$ (1,339)	$ 1,665	$ 1,204	$ 783
Basic and diluted net earnings (loss) per share [3]	$ (0.01)	$ (0.02)	$ 0.03	$ 0.02	$ 0.01

(1) Quarterly financial information has been prepared in accordance with IFRS as issued by the IASB. The presentation currency is the US dollars, 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 2015, sales were 3.8% lower year-over-year at $222.1 million compared to $230.8 million in 2014. Refer to section ''Sales and bookings'' elsewhere in this document for explanations about the year-over-year annual decrease in sales. On a quarterly basis, our sales may fluctuate from quarter to quarter due to timing and magnitude of orders.

During fiscal 2015, our sales were negatively affected by a stronger US dollar against other currencies. This mainly explains the year-over-year decrease in sales in the last two quarters of fiscal 2015 compared the same periods last year.

Fourth-Quarter Results

Gross margin

In the fourth quarter of fiscal 2015, our gross margin reached 61.2%, compared to 63.0% for the same period last year.

In the fourth quarter of fiscal 2015, our gross margin was unfavorably affected by product mix compared to the same period last year as 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.

In addition, in the fourth quarter of fiscal 2015, we recorded $290,000 in restructuring charges in the cost of sales (nil in 2014), which negatively affected our gross margin for that quarter (0.5%).

Furthermore, in the fourth quarter of fiscal 2015, foreign exchange losses on our forward exchange contracts were higher year-over-year, which reduced our sales and negatively affected our gross margin by 0.4% compared to the same period last year.

Finally, in the fourth quarter of fiscal 2015, we faced increased competition and pricing pressure for some product lines, compared to the same period last year, which negatively affected our gross margin year-over-year.

Net earnings

Net earnings amounted to $2.3 million, or $0.04 per diluted share, in the fourth quarter of fiscal 2015, compared to $1.2 million, or $0.02 per share, for the same period last year.

In the fourth quarter of fiscal 2015, we recorded a foreign exchange gain of $2.4 million compared to a loss of $334,000 for the same period last year due to the fluctuation of the period-end foreign exchange rates; this resulted in a $2.8 million increase in our net earnings year-over-year.

In addition, in the fourth quarter of fiscal 2015, our operating expenses (selling, administrative, net R&D, depreciation and amortization expenses) were $1.8 million lower compared to the same period last year, despite the restructuring charges of $1.3 million incurred during the quarter; the decrease in our operating expenses year-over-year was mainly due to the increase in the average value of the US dollar, compared to the Canadian dollar and the euro as a significant portion of these expenses are incurred in these two currencies and we report our results in US dollars. In addition, amortization of intangible assets decreased year-over-year 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.

However, in the fourth quarter of fiscal 2015, a lower gross margin in dollars (on lower sales) compared to the same period last year resulted in lower net earnings year-over-year.

Finally, in the fourth quarter of fiscal 2015, we recorded an income tax expense of $1.7 million compared to $1.4 million for the same period last year, which decrease our net earnings year-over-year.