

**EXFO Inc.**  
**Condensed Unaudited Interim Consolidated Balance Sheets**

(in thousands of US dollars)

	<b>As at May 31, 2016</b>	<b>As at August 31, 2015</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 42,273	\$ 25,864
Short-term investments	4,039	1,487
Accounts receivable		
Trade	44,288	48,068
Other	2,510	2,384
Income taxes and tax credits recoverable	4,263	3,855
Inventories	34,939	27,951
Prepaid expenses	3,235	2,801
	135,547	112,410
<b>Tax credits recoverable</b>	34,320	35,625
<b>Property, plant and equipment</b>	36,007	35,695
<b>Intangible assets</b>	3,541	4,096
<b>Goodwill</b>	21,938	21,860
<b>Deferred income tax assets</b>	7,973	8,900
<b>Other assets</b>	691	416
	\$ 240,017	\$ 219,002
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loan	\$ 455	\$ –
Accounts payable and accrued liabilities	39,022	34,126
Provisions	336	427
Income taxes payable	421	779
Deferred revenue	10,729	7,647
	50,963	42,979
<b>Deferred revenue</b>	4,929	2,957
<b>Deferred income tax liabilities</b>	2,734	1,524
<b>Other liabilities</b>	195	791
	58,821	48,251
<b>Shareholders' equity</b>		
Share capital (note 5)	86,826	86,045
Contributed surplus	17,635	17,778
Retained earnings	125,581	118,933
Accumulated other comprehensive loss	(48,846)	(52,005)
	181,196	170,751
	\$ 240,017	\$ 219,002

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

# EXFO Inc.

## Condensed Unaudited Interim Consolidated Statements of Earnings

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

	Three months ended May 31, 2016	Nine months ended May 31, 2016	Three months ended May 31, 2015	Nine months ended May 31, 2015
<b>Sales</b>	\$ 60,896	\$ 169,725	\$ 57,781	\$ 165,495
Cost of sales <sup>(1)</sup> (note 6)	23,880	62,921	22,281	63,064
Selling and administrative (note 6)	20,798	60,615	20,489	61,689
Net research and development (note 6)	11,303	31,398	10,923	33,087
Depreciation of property, plant and equipment (note 6)	958	2,857	1,163	3,664
Amortization of intangible assets (note 6)	294	880	444	2,561
Interest and other (income) expense	(309)	(716)	36	(216)
Foreign exchange (gain) loss	957	(454)	175	(4,787)
<b>Earnings before income taxes</b>	<u>3,015</u>	<u>12,224</u>	<u>2,270</u>	<u>6,433</u>
<b>Income taxes</b> (note 7)	<u>2,096</u>	<u>5,576</u>	<u>1,707</u>	<u>3,458</u>
<b>Net earnings for the period</b>	<u>\$ 919</u>	<u>\$ 6,648</u>	<u>\$ 563</u>	<u>\$ 2,975</u>
<b>Basic and diluted net earnings per share</b>	\$ 0.02	\$ 0.12	\$ 0.01	\$ 0.05
<b>Basic weighted average number of shares outstanding (000s)</b>	53,940	53,894	53,861	57,804
<b>Diluted weighted average number of shares outstanding (000s)</b> (note 8)	54,813	54,655	54,549	58,453

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

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## EXFO Inc.

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

(in thousands of US dollars)

	Three months ended <u>May 31, 2016</u>	Nine months ended <u>May 31, 2016</u>	Three months ended <u>May 31, 2015</u>	Nine months ended <u>May 31, 2015</u>
<b>Net earnings for the period</b>	\$ 919	\$ 6,648	\$ 563	\$ 2,975
Other comprehensive income (loss), net of income taxes				
Items that will not be reclassified subsequently to net earnings				
Foreign currency translation adjustment	5,488	775	802	(29,499)
Items that may be reclassified subsequently to net earnings				
Unrealized gains/losses on forward exchange contracts	1,045	825	38	(4,164)
Reclassification of realized losses on forward exchange contracts in net earnings	666	2,383	938	1,438
Deferred income tax effect of gains/losses on forward exchange contracts	(434)	(824)	(270)	725
Other comprehensive income (loss)	<u>6,765</u>	<u>3,159</u>	<u>1,508</u>	<u>(31,500)</u>
<b>Comprehensive income (loss) for the period</b>	<u>\$ 7,684</u>	<u>\$ 9,807</u>	<u>\$ 2,071</u>	<u>\$ (28,525)</u>

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

# EXFO Inc.

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

(in thousands of US dollars)

	Nine months ended May 31, 2015				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at September 1, 2014	\$ 111,491	\$ 16,503	\$ 113,635	\$ (10,259)	\$ 231,370
Redemption of share capital (note 5)	(26,396)	1,222	-	-	(25,174)
Reclassification of stock-based compensation costs (note 5)	1,376	(1,376)	-	-	-
Stock-based compensation costs	-	1,175	-	-	1,175
Net earnings for the period	-	-	2,975	-	2,975
Other comprehensive loss					
Foreign currency translation adjustment	-	-	-	(29,499)	(29,499)
Changes in unrealized losses on forward exchange contracts, net of deferred income taxes of \$725	-	-	-	(2,001)	(2,001)
Total comprehensive loss for the period					(28,525)
Balance as at May 31, 2015	<u>\$ 86,471</u>	<u>\$ 17,524</u>	<u>\$ 116,610</u>	<u>\$ (41,759)</u>	<u>\$ 178,846</u>

	Nine months ended May 31, 2016				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at September 1, 2015	\$ 86,045	\$ 17,778	\$ 118,933	\$ (52,005)	\$ 170,751
Redemption of share capital (note 5)	(457)	55	-	-	(402)
Reclassification of stock-based compensation costs (note 5)	1,238	(1,238)	-	-	-
Stock-based compensation costs	-	1,040	-	-	1,040
Net earnings for the period	-	-	6,648	-	6,648
Other comprehensive income					
Foreign currency translation adjustment	-	-	-	775	775
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of \$824	-	-	-	2,384	2,384
Total comprehensive income for the period					9,807
Balance as at May 31, 2016	<u>\$ 86,826</u>	<u>\$ 17,635</u>	<u>\$ 125,581</u>	<u>\$ (48,846)</u>	<u>\$ 181,196</u>

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

# EXFO Inc.

## Condensed Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended May 31, 2016	Nine months ended May 31, 2016	Three months ended May 31, 2015	Nine months ended May 31, 2015
<b>Cash flows from operating activities</b>				
Net earnings for the period	\$ 919	\$ 6,648	\$ 563	\$ 2,975
Add (deduct) items not affecting cash				
Stock-based compensation costs	386	1,076	374	1,162
Depreciation and amortization	1,252	3,737	1,607	6,225
Deferred revenue	1,203	4,876	854	1,358
Deferred income taxes	611	1,285	542	199
Changes in foreign exchange gain/loss	626	(333)	(77)	(2,875)
	<u>4,997</u>	<u>17,289</u>	<u>3,863</u>	<u>9,044</u>
Changes in non-cash operating items				
Accounts receivable	(5,887)	3,394	(6,494)	(7,811)
Income taxes and tax credits	(301)	632	(541)	(1,964)
Inventories	(759)	(6,627)	950	(983)
Prepaid expenses	(452)	(418)	(374)	(875)
Other assets	–	203	30	29
Accounts payable, accrued liabilities and provisions	4,675	6,406	1,334	8,994
Other liabilities	(5)	(59)	(30)	(62)
	<u>2,268</u>	<u>20,820</u>	<u>(1,262)</u>	<u>6,372</u>
<b>Cash flows from investing activities</b>				
Additions to short-term investments	(3,109)	(3,130)	–	(19,509)
Proceeds from disposal and maturity of short-term investments	–	501	1,619	23,685
Purchases capital assets	(1,138)	(3,374)	(1,826)	(4,625)
	<u>(4,247)</u>	<u>(6,003)</u>	<u>(207)</u>	<u>(449)</u>
<b>Cash flows from financing activities</b>				
Bank loan	–	468	–	–
Redemption of share capital (note 5)	(215)	(402)	(71)	(25,174)
	<u>(215)</u>	<u>66</u>	<u>(71)</u>	<u>(25,174)</u>
<b>Effect of foreign exchange rate changes on cash</b>	<u>1,049</u>	<u>1,526</u>	<u>78</u>	<u>(5,975)</u>
<b>Change in cash</b>	(1,145)	16,409	(1,462)	(25,226)
<b>Cash – Beginning of the period</b>	43,418	25,864	30,357	54,121
<b>Cash – End of the period</b>	<u>\$ 42,273</u>	<u>\$ 42,273</u>	<u>\$ 28,895</u>	<u>\$ 28,895</u>
<b>Supplementary information</b>				
Income taxes paid	\$ 505	\$ 1,621	\$ 350	\$ 1,174
Additions to capital assets	\$ 1,011	\$ 3,386	\$ 1,700	\$ 4,638

As at May 31, 2015 and 2016, unpaid purchases of capital assets amounted to \$369 and \$389 respectively.

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

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

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

### 1 Nature of Activities and Incorporation

EXFO Inc. and its subsidiaries (together “EXFO” or the “the company”) design, manufacture and market 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.

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

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on June 29, 2016.

### 2 Basis of Presentation

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

#### ***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 has not yet assessed the impact that the new standard will have on its 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. The company has not yet assessed the impact that the new standard will have on its consolidated financial statements, or whether to early adopt the new standard.

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

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

### 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.

### 3 Restructuring Charges

In the fourth quarter of the year ended August 31, 2015, the company implemented a restructuring plan to align its cost structure to the challenging market conditions. This plan resulted in severance expenses of \$1,637,000 recorded in fiscal 2015. These expenses were fully paid during the three months ended November 30, 2015.

### 4 Financial Instruments

#### *Fair Value of Financial Instruments*

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

Level 1: Quoted prices (unadjusted) in active 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 and forward exchange contracts are measured at fair value at each balance sheet date. The company's short-term investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets. The company's forward exchange contracts are classified within Level 2 of the fair value hierarchy because they are valued using quoted prices and forward exchange rates at the balance sheet dates.

The fair value of forward exchange contracts represents the amount at which they could be settled based on estimated current market rates.

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

	As at May 31, 2016		As at August 31, 2015	
	Level 1	Level 2	Level 1	Level 2
<b>Financial Assets</b>				
Short-term investments	\$ 4,039	\$ –	\$ 1,487	\$ –
Forward exchange contracts	\$ –	\$ 1,066	\$ –	\$ –
<b>Financial Liabilities</b>				
Forward exchange contracts	\$ –	\$ 1,694	\$ –	\$ 4,154

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

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### *Derivative Financial Instruments*

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

As at May 31, 2016, 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
June 2016 to August 2016	\$ 6,300	1.2142
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
Total	\$ 40,300	1.2867

#### *US dollars – Indian rupees*

Expiry dates	Contractual amounts	Weighted average contractual forward rates
June 2016 to August 2016	\$ 1,000	67.88
September 2016 to May 2017	2,600	70.82
Total	\$ 3,600	70.00

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 \$4,154,000 as at August 31, 2015, and \$628,000 as at May 31, 2016.

As at May 31, 2016, forward exchange contracts in the amount of \$586,000 are presented as current assets in other accounts receivable; forward exchange contracts in the amount of \$480,000 are presented as long-term assets in other long-term assets; forward exchange contracts in the amount of \$1,535,000 are presented as current liabilities in accounts payable and accrued liabilities; and forward exchange contracts of \$159,000 are presented as long-term liabilities in other long-term liabilities in the balance sheet. Forward exchange contracts of \$313,000 included in accounts payable and accrued liabilities, for which related hedged sales are recognized, are recorded in the consolidated statement of earnings; otherwise, other forward exchange contracts are not yet recorded in the consolidated statement of earnings and are recorded in other comprehensive income.

Based on the portfolio of forward exchange contracts as at May 31, 2016, the company estimates that the portion of the net unrealized losses 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 \$636,000.



# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

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

During the three and nine months ended May 31, 2015 and 2016, the company recognized within its sales the following foreign exchange losses on forward exchange contracts:

	<b>Three months ended May 31, 2016</b>	<b>Nine months ended May 31, 2016</b>	<b>Three months ended May 31, 2015</b>	<b>Nine months ended May 31, 2015</b>
Losses on forward exchange contracts	\$ 438	\$ 2,287	\$ 878	\$ 1,770

### 5 Share Capital

The following tables summarize changes in share capital for the nine months ended May 31, 2015 and 2016.

	<b>Nine months ended May 31, 2015</b>				<b>Total Amount</b>
	<b>Multiple voting shares</b>		<b>Subordinate voting shares</b>		
	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>	
Balance as at September 1, 2014	31,643,000	\$ 1	28,703,750	\$ 111,490	\$ 111,491
Redemption of restricted share units	-	-	115,669	-	-
Redemption of share capital	-	-	(236,486)	(919)	(919)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	-	-	-	443	443
Balance as at November 30, 2014	31,643,000	1	28,582,933	111,014	111,015
Redemption of restricted share units	-	-	107,099	-	-
Redemption of deferred share units	-	-	48,697	-	-
Redemption of share capital	-	-	(6,521,739)	(25,395)	(25,395)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	-	-	-	907	907
Balance as at February 28, 2015	31,643,000	1	22,216,990	86,526	86,527
Redemption of restricted share units	-	-	5,636	-	-
Redemption of share capital	-	-	(21,154)	(82)	(82)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	-	-	-	26	26
Balance as at May 31, 2015	<u>31,643,000</u>	<u>\$ 1</u>	<u>22,201,472</u>	<u>\$ 86,470</u>	<u>\$ 86,471</u>

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

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

	Nine months ended May 31, 2016				
	Multiple voting shares		Subordinate voting shares		Total amount
	Number	Amount	Number	Amount	
Balance as at September 1, 2015	31,643,000	\$ 1	22,092,034	\$ 86,044	\$ 86,045
Redemption of restricted share units	-	-	155,784	-	-
Redemption of deferred share units	-	-	653	-	-
Redemption of share capital	-	-	(200)	(1)	(1)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	-	-	-	723	723
Balance as at November 30, 2015	31,643,000	1	22,248,271	86,766	86,767
Redemption of restricted share units	-	-	119,973	-	-
Redemption of share capital	-	-	(62,442)	(243)	(243)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	-	-	-	507	507
Balance as at February 29, 2016	31,643,000	1	22,305,802	87,030	87,031
Redemption of restricted share units	-	-	1,807	-	-
Redemption of share capital	-	-	(54,369)	(213)	(213)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	-	-	-	8	8
Balance as at May 31, 2016	<u>31,643,000</u>	<u>\$ 1</u>	<u>22,253,240</u>	<u>\$ 86,825</u>	<u>\$ 86,826</u>

### 6 Statements of Earnings

Net research and development expenses comprise the following:

	Three months ended May 31, 2016	Nine months ended May 31, 2016	Three months ended May 31, 2015	Nine months ended May 31, 2015
Gross research and development expenses	\$ 12,612	\$ 35,363	\$ 12,462	\$ 37,947
Research and development tax credits and grants	(1,309)	(3,965)	(1,539)	(4,860)
Net research and development expenses for the period	<u>\$ 11,303</u>	<u>\$ 31,398</u>	<u>\$ 10,923</u>	<u>\$ 33,087</u>

Inventory write-down is as follows:

	Three months ended May 31, 2016	Nine months ended May 31, 2016	Three months ended May 31, 2015	Nine months ended May 31, 2015
Inventory write-down for the period	<u>\$ 596</u>	<u>\$ 2,052</u>	<u>\$ 1,083</u>	<u>\$ 3,062</u>

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

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

Depreciation and amortization expenses by functional area are as follows:

	<b>Three months ended May 31, 2016</b>	<b>Nine months ended May 31, 2016</b>	<b>Three months ended May 31, 2015</b>	<b>Nine months ended May 31, 2015</b>
Cost of sales				
Depreciation of property, plant and equipment	\$ 325	\$ 960	\$ 367	\$ 1,136
Amortization of intangible assets	<u>179</u>	<u>524</u>	<u>243</u>	<u>1,355</u>
	504	1,484	610	2,491
Selling and administrative expenses				
Depreciation of property, plant and equipment	125	385	124	401
Amortization of intangible assets	<u>19</u>	<u>55</u>	<u>69</u>	<u>771</u>
	144	440	193	1,172
Net research and development expenses				
Depreciation of property, plant and equipment	508	1,512	672	2,127
Amortization of intangible assets	<u>96</u>	<u>301</u>	<u>132</u>	<u>435</u>
	<u>604</u>	<u>1,813</u>	<u>804</u>	<u>2,562</u>
	<u>\$ 1,252</u>	<u>\$ 3,737</u>	<u>\$ 1,607</u>	<u>\$ 6,225</u>
Depreciation of property, plant and equipment	\$ 958	\$ 2,857	\$ 1,163	\$ 3,664
Amortization of intangible assets	<u>294</u>	<u>880</u>	<u>444</u>	<u>2,561</u>
Total depreciation and amortization expenses for the period	<u>\$ 1,252</u>	<u>\$ 3,737</u>	<u>\$ 1,607</u>	<u>\$ 6,225</u>

Employee compensation comprises the following:

	<b>Three months ended May 31, 2016</b>	<b>Nine months ended May 31, 2016</b>	<b>Three months ended May 31, 2015</b>	<b>Nine months ended May 31, 2015</b>
Salaries and benefits	\$ 28,983	\$ 83,741	\$ 28,724	\$ 88,031
Stock-based compensation costs	<u>386</u>	<u>1,076</u>	<u>374</u>	<u>1,162</u>
Total employee compensation for the period	<u>\$ 29,369</u>	<u>\$ 84,817</u>	<u>\$ 29,098</u>	<u>\$ 89,193</u>

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

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

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

	<b>Three months ended May 31, 2016</b>	<b>Nine months ended May 31, 2016</b>	<b>Three months ended May 31, 2015</b>	<b>Nine months ended May 31, 2015</b>
Cost of sales	\$ 25	\$ 80	\$ 43	\$ 126
Selling and administrative expenses	285	775	247	770
Net research and development expenses	<u>76</u>	<u>221</u>	<u>84</u>	<u>266</u>
Total stock-based compensation for the period	<u>\$ 386</u>	<u>\$ 1,076</u>	<u>\$ 374</u>	<u>\$ 1,162</u>

### 7 Income Taxes

For the three and nine months ended May 31, 2015 and 2016, 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:

	<b>Three months ended May 31, 2016</b>	<b>Nine months ended May 31, 2016</b>	<b>Three months ended May 31, 2015</b>	<b>Nine months ended May 31, 2015</b>
Income tax provision at combined Canadian federal and provincial statutory tax rate (27%)	\$ 814	\$ 3,300	\$ 613	\$ 1,737
Increase (decrease) due to:				
Foreign income taxed at different rates	(212)	(612)	223	800
Non-taxable (income)/loss	(203)	(273)	14	1,088
Non-deductible expenses	171	486	186	560
Foreign exchange effect of translation of foreign subsidiaries in the functional currency	227	328	(280)	(3,399)
Utilization of previously unrecognized deferred income tax assets	32	-	74	(6)
Unrecognized deferred income tax assets on temporary deductible differences and unused tax losses	1,340	2,682	926	2,909
Other	<u>(73)</u>	<u>(335)</u>	<u>(49)</u>	<u>(231)</u>
Income tax provision for the period	<u>\$ 2,096</u>	<u>\$ 5,576</u>	<u>\$ 1,707</u>	<u>\$ 3,458</u>

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

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

The income tax provision consists of the following:

	<b>Three months ended May 31, 2016</b>	<b>Nine months ended May 31, 2016</b>	<b>Three months ended May 31, 2015</b>	<b>Nine months ended May 31, 2015</b>
Current	\$ 1,485	\$ 4,291	\$ 1,165	\$ 3,259
Deferred	<u>611</u>	<u>1,285</u>	<u>542</u>	<u>199</u>
	<u>\$ 2,096</u>	<u>\$ 5,576</u>	<u>\$ 1,707</u>	<u>\$ 3,458</u>

### 8 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:

	<b>Three months ended May 31, 2016</b>	<b>Nine months ended May 31, 2016</b>	<b>Three months ended May 31, 2015</b>	<b>Nine months ended May 31, 2015</b>
Basic weighted average number of shares outstanding (000s)	53,940	53,894	53,861	57,804
Plus dilutive effect of (000s):				
Restricted share units	735	635	597	545
Deferred share units	<u>138</u>	<u>126</u>	<u>91</u>	<u>104</u>
Diluted weighted average number of shares outstanding (000s)	<u>54,813</u>	<u>54,655</u>	<u>54,549</u>	<u>58,453</u>
Stock awards excluded from the calculation of diluted weighted average number of shares because their exercise price was greater than the average market price of the common shares (000s)	<u>-</u>	<u>101</u>	<u>20</u>	<u>65</u>