

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

(in thousands of US dollars)

	<b>As at February 29, 2016</b>	<b>As at August 31, 2015</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 43,418	\$ 25,864
Short-term investments	958	1,487
Accounts receivable		
Trade	37,289	48,068
Other	2,213	2,384
Income taxes and tax credits recoverable	3,215	3,855
Inventories	33,088	27,951
Prepaid expenses	2,693	2,801
	122,874	112,410
<b>Tax credits recoverable</b>	34,103	35,625
<b>Property, plant and equipment</b>	34,937	35,695
<b>Intangible assets</b>	3,626	4,096
<b>Goodwill</b>	21,255	21,860
<b>Deferred income tax assets</b>	8,300	8,900
<b>Other assets</b>	433	416
	\$ 225,528	\$ 219,002
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank loan	\$ 457	\$ –
Accounts payable and accrued liabilities	34,314	34,126
Provisions	308	427
Income taxes payable	654	779
Deferred revenue	9,326	7,647
	45,059	42,979
<b>Deferred revenue</b>	4,684	2,957
<b>Deferred income tax liabilities</b>	1,977	1,524
<b>Other liabilities</b>	440	791
	52,160	48,251
<b>Shareholders' equity</b>		
Share capital (note 5)	87,031	86,045
Contributed surplus	17,286	17,778
Retained earnings	124,662	118,933
Accumulated other comprehensive loss	(55,611)	(52,005)
	173,368	170,751
	\$ 225,528	\$ 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 February 29, 2016	Six months ended February 29, 2016	Three months ended February 28, 2015	Six months ended February 28, 2015
<b>Sales</b>	\$ 53,597	\$ 108,829	\$ 50,990	\$ 107,714
Cost of sales <sup>(1)</sup> (note 6)	18,904	39,041	19,546	40,783
Selling and administrative (note 6)	19,565	39,817	20,168	41,200
Net research and development (note 6)	10,162	20,095	10,506	22,164
Depreciation of property, plant and equipment (note 6)	924	1,899	1,256	2,501
Amortization of intangible assets (note 6)	286	586	1,019	2,117
Interest and other income	(470)	(407)	(35)	(252)
Foreign exchange gain	(1,101)	(1,411)	(2,987)	(4,962)
<b>Earnings before income taxes</b>	<u>5,327</u>	<u>9,209</u>	<u>1,517</u>	<u>4,163</u>
<b>Income taxes</b> (note 7)	<u>1,364</u>	<u>3,480</u>	<u>586</u>	<u>1,751</u>
<b>Net earnings for the period</b>	<u>\$ 3,963</u>	<u>\$ 5,729</u>	<u>\$ 931</u>	<u>\$ 2,412</u>
<b>Basic net earnings per share</b>	\$ 0.07	\$ 0.11	\$ 0.02	\$ 0.04
<b>Diluted net earnings per share</b>	\$ 0.07	\$ 0.10	\$ 0.02	\$ 0.04
<b>Basic weighted average number of shares outstanding (000's)</b>	53,927	53,870	59,216	59,775
<b>Diluted weighted average number of shares outstanding (000's)</b> (note 8)	54,615	54,575	59,813	60,396

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

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

# EXFO Inc.

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

(in thousands of US dollars)

	Three months ended February 29, 2016	Six months ended February 29, 2016	Three months ended February 28, 2015	Six months ended February 28, 2015
<b>Net earnings for the period</b>	\$ 3,963	\$ 5,729	\$ 931	\$ 2,412
Other comprehensive income (loss), net of income taxes				
Items that will not be reclassified subsequently to net earnings				
Foreign currency translation adjustment	(2,204)	(4,713)	(18,566)	(30,301)
Items that may be reclassified subsequently to net earnings				
Unrealized losses on forward exchange contracts	50	(220)	(2,697)	(4,202)
Reclassification of realized losses on forward exchange contracts in net earnings	839	1,717	338	500
Deferred income tax effect of losses on forward exchange contracts	(242)	(390)	622	995
Other comprehensive loss	<u>(1,557)</u>	<u>(3,606)</u>	<u>(20,303)</u>	<u>(33,008)</u>
<b>Comprehensive income (loss) for the period</b>	<u>\$ 2,406</u>	<u>\$ 2,123</u>	<u>\$ (19,372)</u>	<u>\$ (30,596)</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)

	<b>Six months ended February 28, 2015</b>				
	<b>Share capital</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Accumulated other comprehensive loss</b>	<b>Total shareholders' equity</b>
Balance as at September 1, 2014	\$ 111,491	\$ 16,503	\$ 113,635	\$ (10,259)	\$ 231,370
Redemption of share capital (note 5)	(26,314)	1,211	-	-	(25,103)
Reclassification of stock-based compensation costs (note 5)	1,350	(1,350)	-	-	-
Stock-based compensation costs	-	789	-	-	789
Net earnings for the period	-	-	2,412	-	2,412
Other comprehensive loss					
Foreign currency translation adjustment	-	-	-	(30,301)	(30,301)
Changes in unrealized losses on forward exchange contracts, net of deferred income taxes of \$995	-	-	-	(2,707)	(2,707)
Total comprehensive loss for the period					(30,596)
Balance as at February 28, 2015	<u>\$ 86,527</u>	<u>\$ 17,153</u>	<u>\$ 116,047</u>	<u>\$ (43,267)</u>	<u>\$ 176,460</u>

	<b>Six months ended February 29, 2016</b>				
	<b>Share capital</b>	<b>Contributed surplus</b>	<b>Retained earnings</b>	<b>Accumulated other comprehensive loss</b>	<b>Total shareholders' equity</b>
Balance as at September 1, 2015	\$ 86,045	\$ 17,778	\$ 118,933	\$ (52,005)	\$ 170,751
Redemption of share capital (note 5)	(244)	57	-	-	(187)
Reclassification of stock-based compensation costs (note 5)	1,230	(1,230)	-	-	-
Stock-based compensation costs	-	681	-	-	681
Net earnings for the period	-	-	5,729	-	5,729
Other comprehensive income (loss)					
Foreign currency translation adjustment	-	-	-	(4,713)	(4,713)
Changes in unrealized losses on forward exchange contracts, net of deferred income taxes of \$390	-	-	-	1,107	1,107
Total comprehensive income for the period					2,123
Balance as at February 29, 2016	<u>\$ 87,031</u>	<u>\$ 17,286</u>	<u>\$ 124,662</u>	<u>\$ (55,611)</u>	<u>\$ 173,368</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 February 29, 2016	Six months ended February 29, 2016	Three months ended February 28, 2015	Six months ended February 28, 2015
<b>Cash flows from operating activities</b>				
Net earnings for the period	\$ 3,963	\$ 5,729	\$ 931	\$ 2,412
Add (deduct) items not affecting cash				
Stock-based compensation costs	314	690	388	788
Depreciation and amortization	1,210	2,485	2,275	4,618
Deferred revenue	2,162	3,673	1,531	504
Deferred income taxes	101	674	(11)	(343)
Changes in foreign exchange gain/loss	(615)	(959)	(1,770)	(2,798)
	<u>7,135</u>	<u>12,292</u>	<u>3,344</u>	<u>5,181</u>
Changes in non-cash operating items				
Accounts receivable	11,305	9,281	3,719	(1,317)
Income taxes and tax credits	1,211	933	(1,211)	(1,423)
Inventories	(2,642)	(5,868)	(752)	(1,933)
Prepaid expenses	(20)	34	(165)	(501)
Other assets	10	203	(2)	(1)
Accounts payable, accrued liabilities and provisions	(1,644)	1,731	824	7,660
Other liabilities	(26)	(54)	(13)	(32)
	<u>15,329</u>	<u>18,552</u>	<u>5,744</u>	<u>7,634</u>
<b>Cash flows from investing activities</b>				
Additions to short-term investments	–	(21)	(5,818)	(19,509)
Proceeds from disposal and maturity of short-term investments	501	501	8,300	22,066
Purchases capital assets	(927)	(2,236)	(2,045)	(2,799)
	<u>(426)</u>	<u>(1,756)</u>	<u>437</u>	<u>(242)</u>
<b>Cash flows from financing activities</b>				
Bank loan	153	468	–	–
Redemption of share capital (note 5)	(186)	(187)	(24,250)	(25,103)
	<u>(33)</u>	<u>281</u>	<u>(24,250)</u>	<u>(25,103)</u>
<b>Effect of foreign exchange rate changes on cash</b>				
	<u>674</u>	<u>477</u>	<u>(3,795)</u>	<u>(6,053)</u>
<b>Change in cash</b>	15,544	17,554	(21,864)	(23,764)
<b>Cash – Beginning of the period</b>	27,874	25,864	52,221	54,121
<b>Cash – End of the period</b>	<u>\$ 43,418</u>	<u>\$ 43,418</u>	<u>\$ 30,357</u>	<u>\$ 30,357</u>
<b>Supplementary information</b>				
Income taxes paid	\$ 508	\$ 1,116	\$ 457	\$ 824
Additions to capital assets	\$ 1,066	\$ 2,375	\$ 2,048	\$ 2,938

As at February 28, 2015 and February 29, 2016, unpaid purchases of capital assets amounted to \$495 and \$516 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 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 March 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 or not 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 February 29, 2016		As at August 31, 2015	
	Level 1	Level 2	Level 1	Level 2
<b>Financial assets</b>				
Short-term investments	\$ 958	\$ -	\$ 1,487	\$ -
Forward exchange contracts	\$ -	\$ 405	\$ -	\$ -
<b>Financial Liabilities</b>				
Forward exchange contracts	\$ -	\$ 2,942	\$ -	\$ 4,154

# 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)

### *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 February 29, 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
March 2016 to August 2016	\$ 12,600	1.1976
September 2016 to August 2017	19,800	1.2779
September 2017 to August 2018	9,300	1.3402
September 2018 to December 2018	1,900	1.3639
Total	\$ 43,600	1.2717

#### *US dollars – Indian rupees*

Expiry dates	Contractual amounts	Weighted average contractual forward rates
March 2016 to August 2016	\$ 3,100	67.92
September 2016 to February 2017	1,400	71.12
Total	\$ 4,500	68.91

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 \$2,537,000 as at February 29, 2016.

As at February 29, 2016, forward exchange contracts in the amount of \$177,000 are presented as current assets in other accounts receivable, forward exchange contracts in the amount of \$228,000 are presented as long-term assets in other long-term assets, forward exchange contracts in the amount of \$2,541,000 are presented as current liabilities in accounts payable and accrued liabilities, and forward exchange contracts of \$401,000 are presented as long-term liabilities in other long-term liabilities in the balance sheet. Forward exchange contracts of \$574,000 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 February 29, 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 \$1,790,000.



# 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 six months ended February 28, 2015 and February 29, 2016, the company recognized within its sales the following foreign exchange losses on forward exchange contracts:

	Three months ended February 29, 2016	Six months ended February 29, 2016	Three months ended February 28, 2015	Six months ended February 28, 2015
Losses on forward exchange contracts	\$ 975	\$ 1,849	\$ 600	\$ 892

### 5 Share Capital

The following tables summarize changes in share capital for the six months ended February 28, 2015 and February 29, 2016.

	Six months ended February 28, 2015				
	Multiple voting shares		Subordinate voting shares		Total Amount
	Number	Amount	Number	Amount	
Balance as at September 1, 2014	31,643,000	\$ 1	28,703,750	\$ 111,490	\$ 111,491
Redemption of restricted share units	-	-	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

# 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)

	Six months ended February 29, 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	<u>31,643,000</u>	<u>\$ 1</u>	<u>22,305,802</u>	<u>\$ 87,030</u>	<u>\$ 87,031</u>

### 6 Statements of Earnings

Net research and development expenses comprise the following:

	Three months ended February 29, 2016	Six months ended February 29, 2016	Three months ended February 28, 2015	Six months ended February 28, 2015
Gross research and development expenses	\$ 11,472	\$ 22,751	\$ 12,176	\$ 25,485
Research and development tax credits and grants	(1,310)	(2,656)	(1,670)	(3,321)
Net research and development expenses for the period	<u>\$ 10,162</u>	<u>\$ 20,095</u>	<u>\$ 10,506</u>	<u>\$ 22,164</u>

Inventory write-down is as follows:

	Three months ended February 29, 2016	Six months ended February 29, 2016	Three months ended February 28, 2015	Six months ended February 28, 2015
Inventory write-down for the period	<u>\$ 609</u>	<u>\$ 1,456</u>	<u>\$ 1,046</u>	<u>\$ 1,979</u>

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

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

Depreciation and amortization expenses by functional area are as follows:

	Three months ended February 29, 2016	Six months ended February 29, 2016	Three months ended February 28, 2015	Six months ended February 28, 2015
Cost of sales				
Depreciation of property, plant and equipment	\$ 312	\$ 635	\$ 374	\$ 769
Amortization of intangible assets	168	345	441	1,112
	<u>480</u>	<u>980</u>	<u>815</u>	<u>1,881</u>
Selling and administrative expenses				
Depreciation of property, plant and equipment	114	260	135	277
Amortization of intangible assets	18	36	338	702
	<u>132</u>	<u>296</u>	<u>473</u>	<u>979</u>
Net research and development expenses				
Depreciation of property, plant and equipment	498	1,004	747	1,455
Amortization of intangible assets	100	205	240	303
	<u>598</u>	<u>1,209</u>	<u>987</u>	<u>1,758</u>
	<u>\$ 1,210</u>	<u>\$ 2,485</u>	<u>\$ 2,275</u>	<u>\$ 4,618</u>
Depreciation of property, plant and equipment	\$ 924	\$ 1,899	\$ 1,256	\$ 2,501
Amortization of intangible assets	<u>286</u>	<u>586</u>	<u>1,019</u>	<u>2,117</u>
Total depreciation and amortization expenses for the period	<u>\$ 1,210</u>	<u>\$ 2,485</u>	<u>\$ 2,275</u>	<u>\$ 4,618</u>

Employee compensation comprises the following:

	Three months ended February 29, 2016	Six months ended February 29, 2016	Three months ended February 28, 2015	Six months ended February 28, 2015
Salaries and benefits	\$ 27,794	\$ 54,758	\$ 29,097	\$ 59,307
Stock-based compensation costs	314	690	388	788
Total employee compensation for the period	<u>\$ 28,108</u>	<u>\$ 55,448</u>	<u>\$ 29,485</u>	<u>\$ 60,095</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:

	Three months ended February 29, 2016	Six months ended February 29, 2016	Three months ended February 28, 2015	Six months ended February 28, 2015
Cost of sales	\$ 24	\$ 55	\$ 38	\$ 83
Selling and administrative expenses	224	490	260	523
Net research and development expenses	66	145	90	182
Total stock-based compensation for the period	<u>\$ 314</u>	<u>\$ 690</u>	<u>\$ 388</u>	<u>\$ 788</u>

### 7 Income Taxes

For the three and six months ended February 28, 2015 and February 29, 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:

	Three months ended February 29, 2016	Six months ended February 29, 2016	Three months ended February 28, 2015	Six months ended February 28, 2015
Income tax provision (recovery) at combined Canadian federal and provincial statutory tax rate (27%)	\$ 1,438	\$ 2,486	\$ 410	\$ 1,124
Increase (decrease) due to:				
Foreign income taxed at different rates	(242)	(400)	582	577
Non-taxable (income)/loss	(274)	(70)	243	1,074
Non-deductible expenses	145	315	172	374
Foreign exchange effect of translation of foreign subsidiaries in the functional currency	251	101	(2,126)	(3,119)
Utilization of previously unrecognized deferred income tax assets	(32)	(32)	(80)	(80)
Unrecognized deferred income tax assets on temporary deductible differences and unused tax losses	330	1,342	1,379	1,983
Other	(252)	(262)	6	(182)
Income tax provision for the period	<u>\$ 1,364</u>	<u>\$ 3,480</u>	<u>\$ 586</u>	<u>\$ 1,751</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:

	Three months ended February 29, 2016	Six months ended February 29, 2016	Three months ended February 28, 2015	Six months ended February 28, 2015
Current	\$ 1,263	\$ 2,806	\$ 597	\$ 2,094
Deferred	101	674	(11)	(343)
	<u>\$ 1,364</u>	<u>\$ 3,480</u>	<u>\$ 586</u>	<u>\$ 1,751</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:

	Three months ended February 29, 2016	Six months ended February 29, 2016	Three months ended February 28, 2015	Six months ended February 28, 2015
Basic weighted average number of shares outstanding (000's)	53,927	53,870	59,216	59,775
Plus dilutive effect of (000's):				
Restricted share units	563	585	492	510
Deferred share units	125	120	105	111
	<u>54,615</u>	<u>54,575</u>	<u>59,813</u>	<u>60,396</u>
Diluted weighted average number of shares outstanding (000's)				
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 (000's)	244	152	67	88