EXFO Inc.

Condensed Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

	As at February 28, 2017	As at August 31, 2016
Assets		
Current assets		
Cash	$ 48,343	$ 43,208
Short-term investments	4,074	4,087
Accounts receivable		
Trade	36,818	42,993
Other	5,435	2,474
Income taxes and tax credits recoverable	4,131	4,208
Inventories	33,039	33,004
Prepaid expenses	2,971	3,099
	134,811	133,073
Tax credits recoverable	34,159	34,594
Property, plant and equipment	36,843	35,978
Intangible assets (note 3)	7,034	3,391
Goodwill (note 3)	26,094	21,928
Deferred income tax assets	7,078	8,240
Other assets	435	589
	$ 246,454	$ 237,793
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 37,803	$ 37,174
Provisions	258	299
Income taxes payable	545	971
Deferred revenue	11,335	9,486
	49,941	47,930
Deferred revenue	6,433	5,530
Deferred income tax liabilities	2,441	2,857
Other liabilities	30	75
	58,845	56,392
Shareholders' equity		
Share capital (note 5)	89,841	85,516
Contributed surplus	17,843	18,150
Retained earnings	130,620	126,309
Accumulated other comprehensive loss	(50,695)	(48,574)
	187,609	181,401
	$ 246,454	$ 237,793

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 28, 2017	Six months ended February 28, 2017	Three months ended February 29, 2016	Six months ended February 29, 2016
Sales	$ 60,030	$ 121,815	$ 53,597	$ 108,829
Cost of sales [(1)]	22,989	45,802	18,904	39,041
Selling and administrative	21,255	42,850	19,565	39,817
Net research and development	11,264	22,578	10,162	20,095
Depreciation of property, plant and equipment	962	1,865	924	1,899
Amortization of intangible assets	768	1,195	286	586
Interest and other income	(9)	(29)	(470)	(407)
Foreign exchange (gain) loss	272	(240)	(1,101)	(1,411)
Earnings before income taxes	2,529	7,794	5,327	9,209
Income taxes (note 7)	1,521	3,483	1,364	3,480
Net earnings for the period	$ 1,008	$ 4,311	$ 3,963	$ 5,729
Basic net earnings per share	$ 0.02	$ 0.08	$ 0.07	$ 0.11
Diluted net earnings per share	$ 0.02	$ 0.08	$ 0.07	$ 0.10
Basic weighted average number of shares outstanding (000's)	54,506	54,195	53,927	53,870
Diluted weighted average number of shares outstanding (000's) (note 8)	55,681	55,341	54,615	54,575

(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

(in thousands of US dollars)

	Three months ended February 28, 2017	Six months ended February 28, 2017	Three months ended February 29, 2016	Six months ended February 29, 2016
Net earnings for the period	$ 1,008	$ 4,311	$ 3,963	$ 5,729
Other comprehensive income (loss), net of income taxes				
Items that will not be reclassified subsequently to net earnings				
Foreign currency translation adjustment	2,019	(2,198)	(2,204)	(4,713)
Items that may be reclassified subsequently to net earnings				
Unrealized gains/losses on forward exchange contracts	326	(235)	50	(220)
Reclassification of realized gains/losses on forward exchange contracts in net earnings	139	320	839	1,717
Deferred income tax effect of gains/losses on forward exchange contracts	(100)	(8)	(242)	(390)
Other comprehensive income (loss)	2,384	(2,121)	(1,557)	(3,606)
Comprehensive income for the period	$ 3,392	$ 2,190	$ 2,406	$ 2,123

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)

	Six months ended February 29, 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)	(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	$ 87,031	$ 17,286	$ 124,662	$ (55,611)	$ 173,368

	Six months ended February 28, 2017				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at September 1, 2016	$ 85,516	$ 18,150	$ 126,309	$ (48,574)	$ 181,401
Issuance of share capital (notes 3 and 5)	3,490	–	–	–	3,490
Reclassification of stock-based compensation costs (note 5)	835	(835)	–	–	–
Stock-based compensation costs	–	528	–	–	528
Net earnings for the period	–	–	4,311	–	4,311
Other comprehensive income (loss)					
Foreign currency translation adjustment	–	–	–	(2,198)	(2,198)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of $8	–	–	–	77	77
Total comprehensive income for the period					2,190
Balance as at February 28, 2017	$ 89,841	$ 17,843	$ 130,620	$ (50,695)	$ 187,609

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 28, 2017	Six months ended February 28, 2017	Three months ended February 29, 2016	Six months ended February 29, 2016
Cash flows from operating activities				
Net earnings for the period	$ 1,008	$ 4,311	$ 3,963	$ 5,729
Add (deduct) items not affecting cash				
Stock-based compensation costs	353	611	314	690
Depreciation and amortization	1,730	3,060	1,210	2,485
Deferred revenue	3,022	2,947	2,162	3,673
Deferred income taxes	312	459	101	674
Changes in foreign exchange gain/loss	107	(431)	(615)	(959)
	6,532	10,957	7,135	12,292
Changes in non-cash operating items				
Accounts receivable	5,160	2,602	11,305	9,281
Income taxes and tax credits	(46)	(390)	1,211	933
Inventories	924	(324)	(2,642)	(5,868)
Prepaid expenses	(156)	102	(20)	34
Other assets	(37)	(24)	10	203
Accounts payable, accrued liabilities and provisions	2,011	586	(1,644)	1,731
Other liabilities	1	1	(26)	(54)
	14,389	13,510	15,329	18,552
Cash flows from investing activities				
Additions to short-term investments	(20)	(316)	–	(21)
Proceeds from disposal and maturity of short-term investments	298	298	501	501
Purchases of capital assets	(1,656)	(2,893)	(927)	(2,236)
Business combination (note 3)	–	(5,000)	–	–
	(1,378)	(7,911)	(426)	(1,756)
Cash flows from financing activities				
Bank loan	–	–	153	468
Redemption of share capital (note 5)	–	–	(186)	(187)
	–	–	(33)	281
Effect of foreign exchange rate changes on cash	271	(464)	674	477
Change in cash	13,282	5,135	15,544	17,554
Cash – Beginning of the period	35,061	43,208	27,874	25,864
Cash – End of the period	$ 48,343	$ 48,343	$ 43,418	$ 43,418
Supplementary information				
Income taxes paid	$ 603	$ 1,561	$ 508	$ 1,116
Additions to capital assets	$ 2,483	$ 3,662	$ 1,066	$ 2,375

As at February 29, 2016 and February 28, 2017, unpaid purchases of capital assets amounted to $516 and $1,268 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 (collectively "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 City, Quebec, Canada, G1M 2K2.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on March 29, 2017.

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 will adopt this new standard on September 1, 2018. The company is currently assessing the impact that the new standard will have on its consolidated financial statements.

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 is currently assessing the impact that the new standard will have on its consolidated financial statements and whether or not to adopt early the new standard.

(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 Business Combination

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

This acquisition was accounted for by applying the acquisition method as required by IFRS 3, "Business Combinations", and the requirements of IFRS 10, "Consolidated Financial Statements"; consequently, the fair value of the total consideration transferred was allocated to the assets acquired and liability assumed based on management's estimate of their fair value as at the acquisition date. The results of operations of the acquired business have been included in the consolidated financial statements of the company since October 31, 2016, being the date of acquisition.

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

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

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

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

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

The following table summarizes changes in goodwill during the three and six months ended February 28, 2017:

	Three months ended February 28, 2017	Six months ended February 28, 2017
Balance – beginning of the period	$ 21,418	$ 21,928
Business combination	4,403	4,403
Foreign currency translation adjustment	273	(237)
Balance – end of the period	$ 26,094	$ 26,094

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 28, 2017		As at August 31, 2016	
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Short-term investments	$ 4,074	$ –	$ 4,087	$ –
Forward exchange contracts	$ –	$ 646	$ –	$ 980
Financial liabilities				
Forward exchange contracts	$ –	$ 491	$ –	$ 1,120

(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 28, 2017, the company held contracts to sell US dollars for Canadian dollars and Indian rupees at various forward rates, which are summarized as follows:

US dollars – Canadian dollars

Expiry dates	**Contractual amounts**	**Weighted average contractual forward rates**
March 2017 to August 2017	$ 12,000	1.3068
September 2017 to August 2018	12,700	1.3376
September 2018 to December 2018	2,500	1.3585
Total	$ 27,200	1.3259

US dollars – Indian rupees

Expiry dates	**Contractual amounts**	**Weighted average contractual forward rates**
March 2017 to August 2017	$ 2,400	70.81
September 2017 to January 2018	2,000	70.76
Total	$ 4,400	70.79

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 a net loss of $140,000 as at August 31, 2016, and to a net gain of $155,000 as at February 28, 2017.

As at February 28, 2017, forward exchange contracts in the amount of $474,000 are presented as current assets in other accounts receivable; forward exchange contracts in the amount of $172,000 are presented as long-term assets in other long-term assets; and forward exchange contracts in the amount of $491,000 are presented as current liabilities in accounts payable and accrued liabilities in the balance sheet. Forward exchange contracts of $61,000 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 28, 2017, the company estimates that the portion of the net unrealized gain 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, amounted to $44,000.

(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 29, 2016 and February 28, 2017, the company recognized within its sales the following foreign exchange losses on forward exchange contracts:

	Three months ended February 28, 2017	Six months ended February 28, 2017	Three months ended February 29, 2016	Six months ended February 29, 2016
Losses on forward exchange contracts	$ 105	$ 345	$ 975	$ 1,849

5 Share Capital

The following tables summarize changes in share capital for the three months ended February 29, 2016 and February 28, 2017.

	Six months ended February 29, 2016				
	Multiple voting shares		Subordinate voting shares		
	Number	Amount	Number	Amount	Total 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

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

	Six months ended February 28, 2017				
	Multiple voting shares		Subordinate voting shares		
	Number	Amount	Number	Amount	Total amount
Balance as at September 1, 2016	31,643,000	$ 1	21,917,942	$ 85,515	$ 85,516
Issuance of share capital (note 3)	–	–	793,070	3,490	3,490
Redemption of restricted share units	–	–	88,371	–	–
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	346	346
Balance as at November 30, 2016	31,643,000	1	22,799,383	89,351	89,352
Redemption of restricted share units	–	–	97,900	–	–
Redemption of deferred share units	–	–	29,456	–	–
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	489	489
Balance as at February 28, 2017	31,643,000	$ 1	22,926,739	$ 89,840	$ 89,841

6 Statements of Earnings

Net research and development expenses comprise the following:

	Three months ended February 28, 2017	Six months ended February 28, 2017	Three months ended February 29, 2016	Six months ended February 29, 2016
Gross research and development expenses	$ 12,716	$ 25,356	$ 11,472	$ 22,751
Research and development tax credits and grants	(1,452)	(2,778)	(1,310)	(2,656)
Net research and development expenses for the period	$ 11,264	$ 22,578	$ 10,162	$ 20,095

Inventory write-down is as follows:

	Three months ended February 28, 2017	Six months ended February 28, 2017	Three months ended February 29, 2016	Six months ended February 29, 2016
Inventory write-down for the period	$ 482	$ 976	$ 609	$ 1,456

(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 28, 2017	Six months ended February 28, 2017	Three months ended February 29, 2016	Six months ended February 29, 2016
Cost of sales				
Depreciation of property, plant and equipment	$ 371	$ 730	$ 312	$ 635
Amortization of intangible assets	672	969	168	345
	1,043	1,699	480	980
Selling and administrative expenses				
Depreciation of property, plant and equipment	139	257	114	260
Amortization of intangible assets	17	36	18	36
	156	293	132	296
Net research and development expenses				
Depreciation of property, plant and equipment	452	878	498	1,004
Amortization of intangible assets	79	190	100	205
	531	1,068	598	1,209
	$ 1,730	$ 3,060	$ 1,210	$ 2,485
Depreciation of property, plant and equipment	$ 962	$ 1,865	$ 924	$ 1,899
Amortization of intangible assets	768	1,195	286	586
Total depreciation and amortization expenses for the period	$ 1,730	$ 3,060	$ 1,210	$ 2,485

Employee compensation comprises the following:

	Three months ended February 28, 2017	Six months ended February 28, 2017	Three months ended February 29, 2016	Six months ended February 29, 2016
Salaries and benefits	$ 29,244	$ 58,022	$ 27,794	$ 54,758
Stock-based compensation costs	353	611	314	690
Total employee compensation for the period	$ 29,597	$ 58,633	$ 28,108	$ 55,448

(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 28, 2017	Six months ended February 28, 2017	Three months ended February 29, 2016	Six months ended February 29, 2016
Cost of sales	$ 27	$ 54	$ 24	$ 55
Selling and administrative expenses	251	430	224	490
Net research and development expenses	75	127	66	145
Total stock-based compensation for the period	$ 353	$ 611	$ 314	$ 690

7 Income Taxes

For the three months ended February 29, 2016 and February 28, 2017, 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 28, 2017	Six months ended February 28, 2017	Three months ended February 29, 2016	Six months ended February 29, 2016
Income tax provision at combined Canadian federal and provincial statutory tax rate (27%)	$ 683	$ 2,105	$ 1,438	$ 2,486
Increase (decrease) due to:				
Foreign income taxed at different rates	(408)	(580)	(242)	(400)
Non-deductible loss (non-taxable income)	(5)	189	(274)	(70)
Non-deductible expenses	180	353	145	315
Change in tax rates	64	(25)	–	–
Foreign exchange effect of translation of foreign subsidiaries in the functional currency	4	(118)	251	101
Utilization of previously unrecognized deferred income tax assets	(133)	(289)	(32)	(32)
Unrecognized deferred income tax assets on temporary deductible differences and unused tax losses	1,130	1,980	330	1,342
Other	6	(132)	(252)	(262)
Income tax provision for the period	$ 1,521	$ 3,483	$ 1,364	$ 3,480

(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 28, 2017	Six months ended February 28, 2017	Three months ended February 29, 2016	Six months ended February 29, 2016
Current	$ 1,209	$ 3,024	$ 1,263	$ 2,806
Deferred	312	459	101	674
	$ 1,521	$ 3,483	$ 1,364	$ 3,480

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 28, 2017	Six months ended February 28, 2017	Three months ended February 29, 2016	Six months ended February 29, 2016
Basic weighted average number of shares outstanding (000's)	54,506	54,195	53,927	53,870
Plus dilutive effect of (000's):				
Restricted share units	1,022	990	563	585
Deferred share units	153	156	125	120
Diluted weighted average number of shares outstanding (000's)	55,681	55,341	54,615	54,575
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

9 Subsequent Event

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

The acquisition-date fair value of the total consideration transferred amounted to $9,025,000 and consisted of $7,625,000 in cash, net of Ontology's cash of $2,030,000 at the acquisition date, plus a cash contingent consideration based on certain sales volume of Ontology products over the 12-month period following the acquisition, valued at $1,400,000 at the acquisition date.

This acquisition will be accounted for by applying the acquisition method as required by IFRS 3, “Business Combinations”, and the requirements of IFRS 10, “Consolidated Financial Statements”; consequently, the fair value of the total consideration transferred will be allocated to the assets acquired and liabilities assumed based on management’s estimate of their fair value as at the acquisition date. The results of operations of the acquired business will be included in the consolidated financial statements of the company starting on March 2, 2017, being the date of acquisition.

Due to the proximity of the acquisition date to the release date of the company’s consolidated financial statements, the company has not finalized the initial accounting for the acquisition as the valuation of assets acquired and liabilities assumed has not been completed. The company expects to complete the purchase price allocation in the fourth quarter of fiscal 2017.