

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

(in thousands of US dollars)

	<b>As at May 31, 2015</b>	<b>As at August 31, 2014</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 28,895	\$ 54,121
Short-term investments	982	5,726
Accounts receivable		
Trade	47,678	46,031
Other	2,058	2,001
Income taxes and tax credits recoverable	5,324	3,796
Inventories	31,555	35,232
Prepaid expenses	2,816	2,281
	119,308	149,188
<b>Tax credits recoverable</b>	36,423	41,745
<b>Property, plant and equipment</b>	37,864	42,780
<b>Intangible assets</b>	4,490	7,293
<b>Goodwill</b>	23,125	26,488
<b>Deferred income tax assets</b>	9,765	9,816
<b>Other assets</b>	475	721
	\$ 231,450	\$ 278,031
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 36,009	\$ 29,553
Provisions	437	532
Income taxes payable	834	840
Deferred revenue	9,348	8,990
	46,628	39,915
<b>Deferred revenue</b>	2,845	3,319
<b>Deferred income tax liabilities</b>	2,262	3,087
<b>Other liabilities</b>	869	340
	52,604	46,661
<b>Shareholders' equity</b>		
Share capital (note 4)	86,471	111,491
Contributed surplus	17,524	16,503
Retained earnings	116,610	113,635
Accumulated other comprehensive loss	(41,759)	(10,259)
	178,846	231,370
	\$ 231,450	\$ 278,031

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, 2015	Nine months ended May 31, 2015	Three months ended May 31, 2014	Nine months ended May 31, 2014
<b>Sales</b>	\$ 57,781	\$ 165,495	\$ 63,882	\$ 171,064
Cost of sales <sup>(1)</sup> (note 5)	22,281	63,064	23,469	64,727
Selling and administrative (note 5)	20,489	61,689	21,730	64,975
Net research and development (note 5)	10,923	33,087	11,745	33,999
Depreciation of property, plant and equipment (note 5)	1,163	3,664	1,219	3,737
Amortization of intangible assets (note 5)	444	2,561	1,025	3,281
Interest and other (income) expense	36	(216)	(220)	(296)
Foreign exchange (gain) loss	175	(4,787)	1,126	(1,968)
<b>Earnings before income taxes</b>	<u>2,270</u>	<u>6,433</u>	<u>3,788</u>	<u>2,609</u>
<b>Income taxes</b> (note 6)	<u>1,707</u>	<u>3,458</u>	<u>2,123</u>	<u>3,030</u>
<b>Net earnings (loss) for the period</b>	<u>\$ 563</u>	<u>\$ 2,975</u>	<u>\$ 1,665</u>	<u>\$ (421)</u>
<b>Basic and diluted net earnings (loss) per share</b>	\$ 0.01	\$ 0.05	\$ 0.03	\$ (0.01)
<b>Basic weighted average number of shares outstanding (000's)</b>	53,861	57,804	60,339	60,323
<b>Diluted weighted average number of shares outstanding (000's)</b> (note 7)	54,549	58,453	60,986	60,323

(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)

	<b>Three months ended May 31, 2015</b>	<b>Nine months ended May 31, 2015</b>	<b>Three months ended May 31, 2014</b>	<b>Nine months ended May 31, 2014</b>
<b>Net earnings (loss) for the period</b>	\$ 563	\$ 2,975	\$ 1,665	\$ (421)
Other comprehensive income (loss), net of income taxes				
Items that will not be reclassified subsequently to net earnings				
Foreign currency translation adjustment	802	(29,499)	4,736	(6,792)
Items that may be reclassified subsequently to net earnings				
Unrealized losses on forward exchange contracts	38	(4,164)	835	(694)
Reclassification of realized losses on forward exchange contracts in net earnings (loss)	938	1,438	391	756
Deferred income tax effect of losses on forward exchange contracts	(270)	725	(328)	(16)
Other comprehensive income (loss)	<u>1,508</u>	<u>(31,500)</u>	<u>5,634</u>	<u>(6,746)</u>
<b>Comprehensive income (loss) for the period</b>	<u>\$ 2,071</u>	<u>\$ (28,525)</u>	<u>\$ 7,299</u>	<u>\$ (7,167)</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, 2014				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at September 1, 2013	\$ 109,837	\$ 17,186	\$ 112,852	\$ (3,423)	\$ 236,452
Exercise of stock options (note 4)	225	–	–	–	225
Redemption of share capital (note 4)	(831)	(106)	–	–	(937)
Reclassification of stock-based compensation costs (note 4)	2,260	(2,260)	–	–	–
Stock-based compensation costs	–	1,261	–	–	1,261
Net loss for the period	–	–	(421)	–	(421)
Other comprehensive income (loss)					
Foreign currency translation adjustment	–	–	–	(6,792)	(6,792)
Changes in unrealized losses on forward exchange contracts, net of deferred income taxes of \$16	–	–	–	46	46
Total comprehensive loss for the period					(7,167)
Balance as at May 31, 2014	<u>\$ 111,491</u>	<u>\$ 16,081</u>	<u>\$ 112,431</u>	<u>\$ (10,169)</u>	<u>\$ 229,834</u>

	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 4)	(26,396)	1,222	–	–	(25,174)
Reclassification of stock-based compensation costs (note 4)	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>

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, 2015	Nine months ended May 31, 2015	Three months ended May 31, 2014	Nine months ended May 31, 2014
<b>Cash flows from operating activities</b>				
Net earnings (loss) for the period	\$ 563	\$ 2,975	\$ 1,665	\$ (421)
Add (deduct) items not affecting cash				
Stock-based compensation costs	374	1,162	407	1,272
Depreciation and amortization	1,607	6,225	2,244	7,018
Deferred revenue	854	1,358	209	(519)
Deferred income taxes	542	199	1,147	1,448
Changes in foreign exchange gain/loss	(77)	(2,875)	378	(523)
	<u>3,863</u>	<u>9,044</u>	<u>6,050</u>	<u>8,275</u>
Changes in non-cash operating items				
Accounts receivable	(6,494)	(7,811)	(8,208)	(3,683)
Income taxes and tax credits	(541)	(1,964)	(759)	(1,702)
Inventories	950	(983)	727	(2,806)
Prepaid expenses	(374)	(875)	492	(124)
Other assets	30	29	53	19
Accounts payable, accrued liabilities and provisions	1,334	8,994	4,565	9,956
Other liabilities	(30)	(62)	(35)	(78)
	<u>(1,262)</u>	<u>6,372</u>	<u>2,885</u>	<u>9,857</u>
<b>Cash flows from investing activities</b>				
Additions to short-term investments	–	(19,509)	(9,821)	(24,392)
Proceeds from disposal and maturity of short-term investments	1,619	23,685	9,244	23,806
Additions to capital assets	(1,826)	(4,625)	(2,750)	(5,146)
	<u>(207)</u>	<u>(449)</u>	<u>(3,327)</u>	<u>(5,732)</u>
<b>Cash flows from financing activities</b>				
Repayment of long-term debt	–	–	–	(307)
Exercise of stock options	–	–	30	225
Redemption of share capital (note 4)	(71)	(25,174)	–	(937)
	<u>(71)</u>	<u>(25,174)</u>	<u>30</u>	<u>(1,019)</u>
<b>Effect of foreign exchange rate changes on cash</b>				
	<u>78</u>	<u>(5,975)</u>	<u>771</u>	<u>(1,069)</u>
<b>Change in cash</b>	(1,462)	(25,226)	359	2,037
<b>Cash – Beginning of the period</b>	<u>30,357</u>	<u>54,121</u>	<u>47,064</u>	<u>45,386</u>
<b>Cash – End of the period</b>	<u>\$ 28,895</u>	<u>\$ 28,895</u>	<u>\$ 47,423</u>	<u>\$ 47,423</u>
<b>Supplementary information</b>				
Income taxes paid	\$ 350	\$ 1,174	\$ 271	\$ 1,142
Additions to capital assets	\$ 1,700	\$ 4,638	\$ 2,734	\$ 5,414

As at May 31, 2014 and 2015, unpaid purchases of capital assets amounted to \$499 and \$369 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 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 quality of experience solutions for wireless and wireline network operators and equipment manufacturers in the global telecommunications industry. The company’s core-to-edge solutions assess the performance and reliability of converged Internet protocol (IP) fixed and mobile networks.

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 23, 2015.

### 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, 2017. 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 data and as otherwise noted)

### 3 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, 2015		As at August 31, 2014	
	Level 1	Level 2	Level 1	Level 2
<b>Financial assets</b>				
Short-term investments	\$ 982	\$ -	\$ 5,276	\$ -
Forward exchange contracts	\$ -	\$ -	\$ -	\$ 193
<b>Financial Liabilities</b>				
Forward exchange contracts	\$ -	\$ 3,555	\$ -	\$ 690

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

As at May 31, 2015, the company held contracts to sell US dollars for Canadian dollars and Indian rupees at various forward rates, which are summarized as follows:

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

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

*US dollars – Canadian dollars*

Expiry dates	Contractual amounts	Weighted average contractual forward rates
June 2015 to August 2015	\$ 7,700	1.1033
September 2015 to August 2016	20,200	1.1180
September 2016 to August 2017	8,000	1.1530
September 2017 to December 2017	1,600	1.2135
Total	\$ 37,500	1.1266

*US dollars – Indian rupees*

Expiry dates	Contractual amounts	Weighted average contractual forward rates
June 2015 to August 2015	\$ 1,200	64.49
September 2015 to April 2016	2,800	65.96
Total	\$ 4,000	65.52

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 as at August 31, 2014, and \$3,555,000 as at May 31, 2015.

As at May 31, 2015, forward exchange contracts in the amount of \$2,812,000 are presented as current liabilities in accounts payable and accrued liabilities, and forward exchange contracts of \$743,000 are presented as long-term liabilities in other long-term liabilities in the balance sheet. Forward exchange contracts of \$594,000, included in accounts payable and accrued liabilities, for which related hedged sales are recognized, are recorded in the statement of earnings; otherwise, other forward exchange contracts are not yet recorded in the statement of earnings.

Based on the portfolio of forward exchange contracts as at May 31, 2015, 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 \$2,218,000.

During the three and nine months ended May 31, 2014 and 2015, the company recognized within its sales the following foreign exchange losses on forward exchange contracts:

	Three months ended May 31, 2015	Nine months ended May 31, 2015	Three months ended May 31, 2014	Nine months ended May 31, 2014
Losses on forward exchange contracts	\$ 878	\$ 1,770	\$ 352	\$ 721



# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

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

### 4 Share Capital

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

On March 25, 2015, the company announced that its Board of Directors approved the renewal of its share repurchase program, by way of a normal course issuer bid on the open market of up to 10% of the issued and outstanding subordinate voting shares, representing 1,397,598 subordinate voting shares at the prevailing market price. The company expects 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 the company repurchases the maximum number of shares permitted under the bid. The program does not require that the company repurchases 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.

The following tables summarize changes in share capital for the nine months ended May 31, 2014 and 2015.

	Nine months ended May 31, 2014				
	Multiple voting shares		Subordinate voting shares		Total Amount
	Number	Amount	Number	Amount	
Balance as at September 1, 2013	31,643,000	\$ 1	28,401,790	\$ 109,836	\$ 109,837
Exercise of stock options	-	-	25,800	106	106
Redemption of restricted share units	-	-	315,583	-	-
Redemption of deferred share units	-	-	38,010	-	-
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	-	-	-	1,435	1,435
Balance as at November 30, 2013	31,643,000	1	28,781,183	111,377	111,378
Exercise of stock options	-	-	20,500	89	89
Redemption of restricted share units	-	-	95,882	-	-
Redemption of share capital	-	-	(214,470)	(831)	(831)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	-	-	-	701	701
Balance as at February 28, 2014	31,643,000	1	28,683,095	111,336	111,337
Exercise of stock options	-	-	6,500	30	30
Redemption of restricted share units	-	-	14,155	-	-
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	-	-	-	124	124
Balance as at May 31, 2014	<u>31,643,000</u>	<u>\$ 1</u>	<u>28,703,750</u>	<u>\$ 111,490</u>	<u>\$ 111,491</u>

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

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

	Nine months ended May 31, 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
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>

### 5 Statements of Earnings

Net research and development expenses comprise the following:

	Three months ended May 31, 2015	Nine months ended May 31, 2015	Three months ended May 31, 2014	Nine months ended May 31, 2014
Gross research and development expenses	\$ 12,462	\$ 37,947	\$ 13,616	\$ 39,971
Research and development tax credits and grants	(1,539)	(4,860)	(1,871)	(5,972)
Net research and development expenses for the period	<u>\$ 10,923</u>	<u>\$ 33,087</u>	<u>\$ 11,745</u>	<u>\$ 33,999</u>

Inventory write-down is as follows:

	Three months ended May 31, 2015	Nine months ended May 31, 2015	Three months ended May 31, 2014	Nine months ended May 31, 2014
Inventory write-down for the period	<u>\$ 1,083</u>	<u>\$ 3,062</u>	<u>\$ 1,181</u>	<u>\$ 3,619</u>

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

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

Depreciation and amortization expenses by functional area are as follows:

	<b>Three months ended May 31, 2015</b>	<b>Nine months ended May 31, 2015</b>	<b>Three months ended May 31, 2014</b>	<b>Nine months ended May 31, 2014</b>
Cost of sales				
Depreciation of property, plant and equipment	\$ 367	\$ 1,136	\$ 377	\$ 1,141
Amortization of intangible assets	243	1,355	465	1,527
	<u>610</u>	<u>2,491</u>	<u>842</u>	<u>2,668</u>
Selling and administrative expenses				
Depreciation of property, plant and equipment	124	401	234	715
Amortization of intangible assets	69	771	377	1,152
	<u>193</u>	<u>1,172</u>	<u>611</u>	<u>1,867</u>
Net research and development expenses				
Depreciation of property, plant and equipment	672	2,127	608	1,881
Amortization of intangible assets	132	435	183	602
	<u>804</u>	<u>2,562</u>	<u>791</u>	<u>2,483</u>
	<u>\$ 1,607</u>	<u>\$ 6,225</u>	<u>\$ 2,244</u>	<u>\$ 7,018</u>
Depreciation of property, plant and equipment	\$ 1,163	\$ 3,664	\$ 1,219	\$ 3,737
Amortization of intangible assets	444	2,561	1,025	3,281
	<u>\$ 1,607</u>	<u>\$ 6,225</u>	<u>\$ 2,244</u>	<u>\$ 7,018</u>

Employee compensation comprises the following:

	<b>Three months ended May 31, 2015</b>	<b>Nine months ended May 31, 2015</b>	<b>Three months ended May 31, 2014</b>	<b>Nine months ended May 31, 2014</b>
Salaries and benefits	\$ 28,724	\$ 88,031	\$ 31,133	\$ 91,853
Stock-based compensation costs	374	1,162	407	1,272
Total employee compensation for the period	<u>\$ 29,098</u>	<u>\$ 89,193</u>	<u>\$ 31,540</u>	<u>\$ 93,125</u>

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

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

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

	<b>Three months ended May 31, 2015</b>	<b>Nine months ended May 31, 2015</b>	<b>Three months ended May 31, 2014</b>	<b>Nine months ended May 31, 2014</b>
Cost of sales	\$ 43	\$ 126	\$ 45	\$ 145
Selling and administrative expenses	247	770	264	856
Net research and development expenses	<u>84</u>	<u>266</u>	<u>98</u>	<u>271</u>
Total stock-based compensation for the period	<u>\$ 374</u>	<u>\$ 1,162</u>	<u>\$ 407</u>	<u>\$ 1,272</u>

### 6 Income Taxes

For the three months and the nine months ended May 31, 2014 and 2015, 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, 2015</b>	<b>Nine months ended May 31, 2015</b>	<b>Three months ended May 31, 2014</b>	<b>Nine months ended May 31, 2014</b>
Income tax provision at combined Canadian federal and provincial statutory tax rate (27%)	\$ 613	\$ 1,737	\$ 1,023	\$ 705
Increase (decrease) due to:				
Foreign income taxed at different rates	223	800	83	(27)
Non-taxable (income)/loss	14	1,088	(187)	(1,080)
Non-deductible expenses	186	560	387	794
Foreign exchange effect of translation of foreign subsidiaries in the functional currency	(280)	(3,399)	(151)	61
Utilization of previously unrecognized deferred income tax assets	74	(6)	-	-
Unrecognized deferred income tax assets on temporary deductible differences and unused tax losses	926	2,909	584	2,515
Other	<u>(49)</u>	<u>(231)</u>	<u>384</u>	<u>62</u>
Income tax provision for the period	<u>\$ 1,707</u>	<u>\$ 3,458</u>	<u>\$ 2,123</u>	<u>\$ 3,030</u>

# EXFO Inc.

## Notes to Condensed Unaudited Interim Consolidated Financial Statements

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

The income tax provision consists of the following:

	Three months ended May 31, 2015	Nine months ended May 31, 2015	Three months ended May 31, 2014	Nine months ended May 31, 2014
Current	\$ 1,165	\$ 3,259	\$ 976	\$ 1,582
Deferred	542	199	1,147	1,448
	<u>\$ 1,707</u>	<u>\$ 3,458</u>	<u>\$ 2,123</u>	<u>\$ 3,030</u>

### 7 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 May 31, 2015	Nine months ended May 31, 2015	Three months ended May 31, 2014	Nine months ended May 31, 2014
Basic weighted average number of shares outstanding (000's)	53,861	57,804	60,339	60,323
Plus dilutive effect of (000's):				
Restricted share units	597	545	546	570
Deferred share units	91	104	99	101
Stock options	—	—	2	12
	<u>54,549</u>	<u>58,453</u>	<u>60,986</u>	<u>61,006</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)	<u>20</u>	<u>65</u>	<u>25</u>	<u>94</u>

For the nine months ended May 31, 2014, the diluted amount per share was the same amount as the basic amount per share since the dilutive effect of stock options, restricted share units and deferred share units was not included in the calculation; otherwise, the effect would have been antidilutive. Accordingly, the diluted amount per share for this period was calculated using the basic weighted average number of shares outstanding.