EXFO INC.
Form 20-F/A
January 10, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F/A
(Amendment No.1)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)
OF THE SECURITIES EXCHANGE ACT OF 1934; or

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended August 31, 2016; or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period ________ to ________; or

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission File No. 0-30895

EXFO INC.
(Exact name of registrant as specified in its charter)

Not Applicable
(Translation of Registrant's name into English)

Canada
(Jurisdiction of Incorporation or organization)

400 Godin Avenue, Quebec, Quebec, G1M 2K2, Canada
(Address of principal executive offices)

Benoit Ringuette, (418) 683-0211, benoit.ringuette@exfo.com, (418) 683-9839, 400 Godin Avenue, Quebec, Quebec, G1M 2K2, Canada
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered

Subordinate Voting Shares without par value	NASDAQ
Subordinate Voting Shares without par value	TSX

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

As of August 31, 2016, the registrant had 21,917,942 Subordinate Voting Shares outstanding and 31,643,000 Multiple Voting Shares outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual report or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.
Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b 2 of the Exchange Act).
Yes No

TABLE OF CONTENTS

Table of Contents

EXPLANATORY NOTE

As a result of the identification of a material weakness in its internal control over financial reporting, EXFO Inc. (the "Company") is filing this Amendment No. 1 ("Amendment No. 1") to its Annual Report on Form 20-F for the fiscal year ended August 31, 2016 (the "Original Filing"), as originally filed with the Securities and Exchange Commission (the "SEC") on November 28, 2016. The Company has revised its consolidated financial statements for the year ended August 31, 2016 which is included under Item 18 of this Amendment No. 1 and has also revised its Management's Discussion and Analysis ("MD&A") for the year ended August 31, 2016. See "Operating and Financial Review and Prospects" under item 5 of this Amendment No. 1. The Original Filing has been amended to reflect "Management's Annual Report on Internal Control over Financial Reporting (restated)", as well as updated disclosures under Item 15, "Controls and Procedures". This Amendment No. 1 also includes currently dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. These certifications are included in this Amendment No. 1 as exhibits 12.1, 12.2, 13.1 and 13.2.

Subsequent to the Original Filing, EXFO's management identified errors in its previously issued consolidated financial statements relating to the overstatement of a single trade receivable account with an individual customer. The Company evaluated the aggregate effects of the errors to our previously issued consolidated financial statements in accordance with IAS 8 - Accounting Policies, Accounting Estimates and Errors ("IAS 8"), as well as and in consideration of the guidance in SEC Staff Accounting Bulletins No. 99 and No. 108. Based upon quantitative and qualitative factors, the Company has determined that the errors were not material to the previously issued consolidated financial statements. However, the cumulative effect of the errors may be significant to our financial results for the year ending August 31, 2017. As a result, the errors have been corrected by revising our previously issued consolidated financial statements, which are being filed as part of this Amendment No. 1.

In conjunction with the errors described above, the Company's management has identified a material weakness in the Company's internal control over financial reporting as of August 31, 2016, resulting in the improper aging of its trade account receivable ledger which led to an incorrect assessment of bad debt expense against a single trade receivable account. Specifically, the Company did not maintain sufficient controls over the trade accounts receivable ledger, which included failure to maintain appropriate segregation of duties and lack of supervisory review and monitoring of journal entries recorded to the trade accounts receivable ledger.

Considering the identified material weakness, the Company's Chief Executive Officer and the Chief Financial Officer have concluded that internal controls over financial reporting were not effective as of August 31, 2016. This control deficiency cannot be considered to be remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that the controls are operating effectively. See "Management's Annual Report on Internal Controls over Financial Reporting (restated)" under Item 15(b) of this Amendment No.1.

As a result of the identification of a material weakness in the Company's internal control over financial reporting as of August 31, 2016, prompting the requirement to file this Amendment No. 1, the Company has also revised its previously issued consolidated financial statements which are included under Item 18 of this Amendment No. 1.

In addition to the above matters, the Company has revised its selected financial data information and adjusted the risk factor relating to internal controls. See "Selected Financial Data" under Item 3A and "Risk factors" under Item 3D of this Amendment No.1. The Company has also updated its market and credit risks disclosure under Item 11 of this Amendment No.1.

Other than as expressly set forth above, this Amendment No. 1 does not, and does not purport to, update or restate the information in the Original Filing, filed on November 28, 2016, or reflect any events that have occurred after the Original Filing was initially filed.

1

Table of Contents

DISCLOSURE REGARDING FORWARD-LOOKING INFORMATION

This Annual Report contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, and we intend that such forward-looking statements be subject to the safe harbors created thereby. Forward-looking statements are statements other than historical information or statements of current condition. Words such as may, expect, believe, plan, anticipate, intend, could, estimate, continue, or similar expressions or the negative of such expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events and circumstances are considered forward-looking statements. They are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in forward-looking statements due to various factors including, but not limited to, macroeconomic uncertainty as well as capital spending and network deployment levels in the telecommunications industry (including our ability to quickly adapt cost structures with anticipated levels of business and our ability to manage inventory levels with market demand); future economic, competitive, financial and market conditions; consolidation in the global telecommunications test, service assurance and analytics solutions markets and increased competition among vendors; capacity to adapt our future product offering to future technological changes; limited visibility with regards to the timing and nature of customer orders; delay in revenue recognition due to longer sales cycles for complex systems involving customers' acceptance; fluctuating exchange rates; concentration of sales; timely release and market acceptance of our new products and other upcoming products; our ability to successfully expand international operations; our ability to successfully integrate businesses that we acquire; and the retention of key technical and management personnel. Assumptions relating to the foregoing involve judgments and risks, all of which are difficult or impossible to predict and many of which are beyond our control. Other risk factors that may affect our future performance and operations are detailed in this Annual Report. We believe that the expectations reflected in the forward-looking statements are reasonable based on information currently available to us, but we cannot assure that the expectations will prove to have been correct. Accordingly, you should not place undue reliance on these forward-looking statements. These statements speak only as of the date of this document. Unless required by law or applicable regulations, we undertake no obligation to revise or update any of them to reflect events or circumstances that occur after the date of this document.

All dollar amounts in this Annual Report are expressed in US dollars, except as otherwise noted.

PART I.

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Table of Contents

Item 3. Key Information

A. Selected Financial Data

The consolidated statements of earnings data for the years ended August 31, 2014, 2015 and 2016 and the consolidated balance sheets data as at August 31, 2015 and 2016 have been derived from our audited consolidated financial statements that are included elsewhere in this Annual Report on Form 20-F/A. Consolidated statement of earnings data for the years ended August 31, 2012 and 2013 and consolidated balance sheets data as at August 31, 2012, 2013 and 2014 have been derived from our audited consolidated financial statements not included in this Annual Report on Form 20-F/A. We have revised our previously issued consolidated financial statements for August 31, 2014, 2015 and 2016 (previously filed on Form 20-F on November 28, 2016) to properly record a bad debt expense associated with a single trade receivable account related to a customer, which dated back from 2012 to 2015 . All financial information presented herein was revised to reflect the correction of the error. See "Note 1, Revision of Consolidated Financial Statements" to our consolidated financial statements included under Item 18 of this Amendment No.1.

Consolidated financial statements from which the selected financial data has been derived, have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

The selected financial data should be read in conjunction with "Item 5. Operating and Financial Review and Prospects" and our consolidated financial statements and the related notes thereto, included in this Annual Report on Form 20-F/A.

	Years ended August 31,				
	2016 (6)	2015 (6)	2014 (6)	2013 (3)	2012 (4)
	(in thousands of US dollars, except share and per share data)				
Consolidated Statements of Earnings Data:					
Sales	$232,583	$222,089	$230,806	$242,150	$249,966
Cost of sales (1)	87,066	85,039	86,836	92,469	91,792
Selling and administrative (2)	82,169	82,200	86,429	88,756	94,139
Net research and development	42,687	44,003	44,846	45,444	49,854
Depreciation of property, plant and equipment	3,814	4,835	4,995	6,028	6,169
Amortization of intangible assets	1,172	2,883	4,398	6,643	7,819
Changes in fair value of cash contingent consideration					(311)
Interest and other income	(828)	(155)	(326)	(113)	(131)
Foreign exchange (gain) loss	(161)	(7,212)	(1,634)	(4,082)	657
Unusual charge (6)		603	720	540	220
Earnings (loss) before income taxes	16,664	9,893	4,542	6,465	(242)
Income taxes	7,764	5,036	4,286	5,519	3,512
Net earnings (loss) for the year	$8,900	$4,857	$256	$946	$(3,754)
Basic net earnings (loss) per share	$0.17	$0.09	$0.00	$0.02	$(0.06)
Diluted net earnings (loss) per share	$0.16	$0.08	$0.00	$0.02	$(0.06)
Basic weighted average number of shares used in per share calculations (000's)	53,863	56,804	60,329	60,323	60,453
	54,669	57,457	61,015	61,110	60,453

Diluted weighted average number of shares used in per share calculations (000's)					
Other Consolidated Statements of Earnings Data:					
Gross research and development	$47,875	$50,148	$52,423	$54,334	$59,282
Net research and development	$42,687	$44,003	$44,846	$45,444	$49,854

3

Table of Contents

	As at August 31,				
	2016 (6)	2015 (6)	2014 (5) (6)	2013 (3)	2012 (4)
	(in thousands of US dollars)				
Consolidated Balance Sheets Data:					
Cash	$43,208	$25,864	$54,121	$45,386	$58,868
Short-term investments	4,087	1,487	5,726	4,868	8,236
Total assets	237,793	217,478	276,948	280,982	306,522
Long-term debt (excluding current portion)					282
Share capital	85,516	86,045	111,491	109,837	110,965
Shareholders' equity	$181,401	$169,227	$230,287	$235,896	$253,120

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

(2) Selling and administrative is exclusive of unusual charge, shown separately, which represents the adjustment to bad debt expenses arising from the revision (see Note 1 to the consolidated financial statements included in this Annual Report on Form 20-F/A).

(3) Includes adjustments for the revision which decreased earnings before income taxes by $540,000, net earnings by $395,000, and total assets and shareholders' equity by $556,000.

(4) Includes adjustments for the revision which increased loss before income taxes by $220,000 and net loss by $161,000, and decreased total assets and shareholders' equity by $161,000.

(5) Includes adjustments for the revision which decreased total assets and shareholders' equity by $1,083,000.

(6) See "Note 1, Revision of Consolidated Financial Statements" to our consolidated financial statements for the year ended August 31, 2016 included in this Annual Report on Form 20-F/A for additional information.

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

Table of Contents

D. Risk Factors

Our business may be adversely affected by unfavorable general economic and market conditions.

Our business is subject to the effects of general global and regional economic conditions, particularly conditions in the telecommunications test, service assurance and analytics markets. In the past, our operating results were adversely affected by unfavorable economic conditions and reduced or delayed capital spending in the Americas, Europe, Middle East and Africa (EMEA) as well as Asia-Pacific regions.

Global and regional economic conditions continue to be volatile and uncertain as reflected by Britain's decision to exit the European Union. If global and/or regional economic and market conditions, or economic conditions in key markets, remain uncertain or deteriorate, we may experience material adverse impacts on our business. Unfavorable and/or uncertain economic and market conditions may result in lower capital spending or delayed spending by our customers on network test, service assurance and analytics solutions and, therefore, demand for our products could decline and adversely impact our revenue. Adverse economic and/or market conditions could also result in, among other things:

- difficulty in forecasting, budgeting and planning due to the uncertain spending plans of current or prospective customers;
- increased competition for fewer network projects and sales opportunities;
- increased pricing pressure that may adversely affect revenue and gross margin;
- higher cost structure compared to revenue level;
- increased risk of charges related to excess and obsolete inventories, write-offs of deferred tax assets and tax credits, and impairment of intangible assets and goodwill;
- customers' financial difficulties and increased difficulty in collecting accounts receivable; and
- additional restructuring costs.

These effects, as well as any other currently unforeseeable effects, are difficult to forecast and mitigate. As a result, we may experience material adverse impacts on our business, operating results, financial condition, and stock price.

Fluctuations in the exchange rates between the Canadian dollar, US dollar, euro, British Pound and other currencies may adversely affect our revenues and operating results.

Our functional currency is the Canadian dollar, but we report our results in US dollars. As a result, any increase in the value of the US dollar versus the Canadian dollar, euro and British Pound could adversely affect our revenues because we generate a certain percentage of our sales in Canadian dollars, euros and British Pounds but we report them in US dollars in our financial statements. For example, the increase in the value of the US dollar relative to the Canadian dollar, euro and British Pound negatively affected our revenues in fiscal 2016.

We are also exposed to a currency risk in terms of operating results for any fluctuation in the exchange rate between the Canadian dollar, on one hand, and the US dollar, euro, British Pound and other currencies on the other. In fact, the majority of our revenues are denominated in US dollars, euros and British Pounds, but a significant portion of our cost of sales, operating expenses and capital expenditures are denominated in Canadian dollars, US dollars and other currencies such as euros, British Pounds, Rupees (India) and Renminbis (China). Even though we partially manage our exposure to currency risks with forward exchange contracts (by selling US dollars for Canadian dollars and US dollars for Indian Rupees) and even though certain operating expenses denominated in currencies other than the Canadian dollar, namely the US dollar, euro and British Pound, we remain exposed to fluctuations in the exchange rates between the Canadian dollar, on one hand, and the US dollar, euro and other currencies on the other. Any increase in the value of the Canadian dollar relative to the US dollar and other currencies, or any unfavorable variance between the value of the Canadian dollar and the contractual rates of our US-Canadian dollar forward exchange contracts, could result in increased expenses reported in US dollars or foreign exchange losses and have a material adverse effect on our operating results.

Table of Contents

Foreign exchange rate fluctuations also flow through statement of earnings line items, since a significant portion of our cost of sales and operating expenses are denominated in Canadian dollars, euros, British Pounds and Indian rupees, and we report our results in US dollars. Any decrease in the value of the US dollar relative to the Canadian dollar and other currencies, could have a material adverse effect on our operating results and provide competitive advantages to our competitors.

We must continue to overcome significant competition in our targeted industries in order to keep or gain market share and achieve our growth strategy.

The market for our business activity namely designing, manufacturing, marketing and selling test, service assurance and analytics solutions for communications service providers, data center, cloud and web-scale operators as well as network equipment manufacturers is rapidly evolving and is marked by intense competition, consolidation and technical innovation. We anticipate the pace of change to remain high or even accelerate for our targeted industries in the future. We might see the emergence of new competitors or the consolidation of current competitors, as the markets for telecommunications test, service assurance and analytics solutions evolve in response to technical innovations and economic conditions.

Main competitors in the test equipment environment include global suppliers like Anritsu Corporation, Danaher Corporation (namely a subsidiary of Danaher: Fluke Networks), and Viavi Solutions (formerly a division of JDS Uniphase Corporation), as well as other players such as AFL Noyse, IXIA, Kingfisher International, ShinewayTech, Spirent Communications plc, VeEX Inc., and Yokogawa Electric Corporation. On the service assurance and analytics side, we mainly compete against Accedian Networks, Anritsu Corporation, Empirix, IXIA, NetScout Systems, Inc. (including the 2015 merger of Netscout Systems and Tektronix Communications), Radcom, Spirent Communications plc and Viavi Solutions (formerly a division of JDS Uniphase Corporation).

Some competitors have greater financial, technical and/or marketing resources than us. Consequently, they may be able to devote greater resources to the development, marketing, manufacturing, selling and support of their products in order to capture market share.

Competitors also may be better positioned than us to capture market share or to acquire companies and new technologies that would potentially displace our products or render them obsolete. We cannot predict whether current or future competitors will develop or market products that offer higher performance, more features, or are more cost-effective than our current or future products. To remain competitive and achieve our growth strategy, we must increase our sales and develop cost-effective products and product enhancements that offer higher performance and more functionality, in current and new sectors, so that we can increase our market share. Our failure to do so may harm our business, results of operations and financial condition.

We have faced pricing pressure on our existing products and expect this pressure will continue. If we do not continue to lower our manufacturing costs or introduce new products with higher margins, our gross margin may decrease and our operating results may be adversely affected.

Increased competition in the telecommunications test, service assurance and analytics markets, along with consolidation among competitors and customers, will likely result in ongoing downward pressure on average selling prices. For example, some of our customers have been subject to consolidation and could obtain products from a vendor other than us, or demand more favorable terms and conditions from us, which would harm our sales and operating results. In addition, some customers may merge with or acquire our competitors and discontinue their relationships with us. This, in turn, may negatively affect our gross margin. Pricing pressure can result from a number of factors such as, among other things:

- increased competition for business;
- reduced demand;
- limited number of potential customers;
- competition from companies with lower production costs, including companies operating in lower-cost environments;

Table of Contents

· introduction of new products by competitors;
· greater economies of scale for higher-volume competitors;
· large customers, who buy in high volumes, can exert substantial negotiating leverage over us; and
· resale of used equipment.

As pricing pressure will likely continue to affect our existing products, we may have to increase the number of units sold to maintain our existing sales levels. If we are unable to increase our sales levels, lower our manufacturing costs, or introduce new products with higher margins, our gross margin may decline and our operating results may suffer.

We may not be able to make the acquisitions or strategic alliances needed for the development of our business and, if we do make such acquisitions or strategic alliances, we may not be able to successfully integrate the acquired businesses, products, technologies and personnel or realize the expected benefits of strategic alliances.

We intend to carefully seek businesses through acquisitions and alliances, whose products and technologies are complementary to ours, or which will enable us to expand our markets and/or our market share. However, we may not be able to make any such beneficial transactions or a sufficient number of such transactions to meet our strategic goals. Our competitors may be in a better position to acquire the same businesses, products and technologies that we wish to acquire. Our fluctuating stock price, cash position, or ability to raise capital or issue debt on favorable terms at the time of an acquisition may also affect our ability to complete such an acquisition. Acquisitions or alliances could also distract management's attention from our day-to-day business and operations. In the event of any future acquisition or strategic alliance, we could, among other things:

· issue shares that would dilute individual shareholder percentage ownership;
· incur debt;
· assume liabilities and commitments;
· incur significant expenses related to acquisition costs;
· incur significant expenses related to amortization of additional intangible assets;
· incur significant impairment losses of goodwill and intangible assets related to such acquisitions; and
· incur losses from operations.

In the event we complete acquisitions or sign strategic alliances, we may be unable to successfully integrate acquired companies or realize the expected benefits of alliances. Integration risks include, among other things:

· the risk of not realizing the expected benefits or synergies from such acquisitions or alliances;
· problems integrating the acquired operations, technologies, products and personnel;
· risks associated with the transfer of acquired know-how and technology;
· unanticipated costs or liabilities;
· diversion of management's attention from our core business;
· adverse effects on existing business relationships with suppliers and customers;
· risks associated with entering markets in which we have no or limited prior experience; and
· potential loss of key employees, particularly those of acquired organizations.

Ultimately, the failure to make acquisitions or strategic alliances, or the inability to effectively integrate acquisitions and realize the expected benefits of alliances, could disrupt our overall business and harm our financial condition.

Table of Contents

If we fail to adapt appropriately to the challenges associated with operating internationally, the expected growth of our business may be impeded and our operating results may be affected.

For the fiscal year ended August 31, 2016, customers outside of the United States and Canada accounted for 51.2% of our sales. Our international sales will be limited if we cannot establish and maintain relationships with international distributors, set up additional foreign operations, expand international sales channel management, hire additional personnel, develop relationships with international communications service providers, web-scale operators and network equipment manufacturers, and operate adequate after-sales support internationally.

Even if we are able to successfully operate and expand our international operations, we may not be able to maintain or increase international market demand for our products. Our international operations are subject to a number of risks, including, among other things:

- challenges in staffing and managing foreign operations due to the limited number of qualified candidates, employment laws and business practices in foreign countries, any of which could increase the cost and reduce the efficiency of operating in foreign countries;
- fluctuations among currencies;
- our inability to comply with import/export, environmental and other trade compliance regulations of the countries in which we do business, together with unexpected changes in such regulations;
- measures to ensure that we design, implement and maintain adequate and effective controls over our financial processes and reporting in the future;
- failure to adhere to laws, regulations and contractual obligations relating to customer contracts in various countries;
- difficulties in establishing and enforcing our intellectual property rights;
- inability to maintain a competitive list of distributors for indirect sales;
- tariffs and other trade barriers;
- economic instability in foreign markets, including Britain's decision to exit the European Union and the impact this choice may have on doing business in Europe;
- wars, acts of terrorism and political unrest;
- language and cultural barriers;
- lack of integration of foreign operations;
- potential foreign and domestic tax consequences;
- technology standards that differ from those on which our products are based, which could require expensive redesign and retention of personnel familiar with those standards;
- longer accounts receivable payment cycles and possible difficulties in collecting payments which may increase our operating costs and hurt our financial performance; and
- failure to meet certification requirements.

Any of these factors could harm our international operations and negatively affect our business, results of operations and financial condition. The recurrence of weakness in these economies or of weakness in other foreign economies could also have a significant negative effect on our future operating results.

Our reliance on software development resources in India and manufacturing personnel in China may expose us to unanticipated costs or liabilities.

In addition to research and development centers in Quebec City, Canada, Montreal, Canada, Concord, Canada, Boston, United States, and Oulu, Finland, we maintain a software development center in Pune, India. We also manufacture products at our wholly-owned production facility in Shenzhen, China.

8

Table of Contents

Over the years, we have significantly increased our software development and manufacturing activities in India and China, respectively. There is no assurance that our reliance on software development resources in India and manufacturing personnel in China will enable us to maintain our cost structure at current levels, achieve additional cost savings, or generate greater resource efficiency. Furthermore, our software development and manufacturing efforts abroad involve significant risks in addition to the ones disclosed in other risk factors:

- difficulty in hiring and retaining appropriate engineering and manufacturing resources due to intense competition for such resources and resulting wage inflation;
- exposure to misappropriation of intellectual property and proprietary information;
- heightened exposure to changes in the economic, regulatory, security, and political conditions of these countries;
- fluctuations in currency exchange rates;
- changes in tax laws and regulations in India and China, including transfer pricing policies;
- cash management and repatriation of profit; and
- high inflation rates which could increase our operating costs.

If we are unable to adapt to current and future changes in technology or if we are unable to introduce new and enhanced products on a timely basis, our products may become obsolete, which could prevent us from achieving our growth strategy and adversely affect our operating results.

The industries that we serve are characterized by rapidly evolving technology and industry standards that result in frequent new product introductions. For example, we are transforming ourselves from a supplier of dedicated test instruments into a supplier of end-to-end service assurance and analytics solutions to meet the emerging needs of communications service providers, who are increasingly shifting their spending towards virtualized networks. Any failure by us to anticipate or respond to new technological developments, customer requirements or evolving standards could cause us to incur significant impairment losses of goodwill and/or losses from operations. Consequently, this could have a material adverse effect on our business, results of operations and financial condition. The development of proprietary technology entails significant technical and business risks and requires substantial expenditures and lead times. The success of our new product introductions will depend on several factors, including, among other things, our ability to:

- properly identify and anticipate customer needs;
- innovate and develop new products on a timely basis;
- gain timely market acceptance for new products;
- manufacture and deliver our new products on time, in sufficient volume and with adequate quality;
- price our products competitively;
- continue investing in our research and development programs;
- anticipate competitors' announcements of new products; and
- successfully transform the company into an end-to-end service assurance and analytics supplier.

Failure to do the above could be exploited by our competitors. If we lose market share as a result of lapses in our product development, our business would suffer.

Our products may have unforeseen defects, offer substandard technical specifications or fail to deliver the key features that customers want, all of which could harm our reputation, impede market acceptance of our products and negatively impact our business, results of operations and financial condition.

Given their complexity, our products may contain undetected software or hardware defects, inaccurate calibration or compatibility problems, or regulatory compliance issues, particularly when they are first introduced or when new versions are released. Our new products could also be substandard in terms of technical specifications or fail to deliver the key features that customers want. There can be no assurance that, despite our testing and diligent efforts, defects will not be found in new products after they have been fully deployed and operated under peak stress conditions, or that customized products will meet customer sign-off acceptance requirements. If we are unable to fix defects or other problems or meet custom requirements, we could experience, among other things:

Table of Contents

- costly repairs;
- additional development and support costs;
- product returns or recalls;
- sales cancellations;
- damage to our brand reputation;
- loss of customers, failure to attract new customers or achieve market acceptance;
- diversion of development and engineering resources;
- legal actions by our customers, including claims for consequential damages and loss of profits; and
- legal actions by governmental entities, including actions to impose product recalls and/or forfeitures.

The occurrence of any one or more of the foregoing could seriously harm our business, results of operations and financial condition.

Our intellectual property and proprietary technology are important to the continued success of our business. Our failure to protect this proprietary technology may significantly impair our competitive position.

Our success and ability to compete depend to a significant extent on our proprietary technology, with which we attempt to prevent others from using the innovations that are central to our existing and future products. As of August 31, 2016, our records indicated that we held the following portfolio of utility patents: 60 active granted US patents, 47 granted or validated patents in countries of the European Union, 7 patents in Canada, 12 patents in China, and 5 patents in other jurisdictions. In addition, we have 36 utility patent applications (including provisional applications) pending in the US, 22 patent applications at the European Patent Office or directly entered at the national patent office of an EU member country, 2 applications in Canada, 14 applications in China and 8 applications in other countries. The expiration dates of our active issued patents range from 2016 to 2034, with no significant active patent expiring in the near future.

Our records also indicated that, as of August 31, 2016, we held 17 active granted design patents, as well as 10 pending design patent applications, in the United States and several other international jurisdictions.

We also rely on a combination of copyright and trademark laws, trade secrets, confidentiality procedures, contractual provisions and license agreements to protect our proprietary technology.

We may have to engage in litigation, formal opposition proceedings, or the like in order to defend our patents and other intellectual property rights or to determine the validity or scope of the proprietary rights of others. Such litigation and opposition proceedings can be time-consuming and expensive, regardless of whether we win or lose.

The process of seeking patent protection can be long and expensive and we cannot be certain that any currently pending or future application will actually result in issued patents, or that, even if a patent is issued in a particular jurisdiction, it will not be subsequently invalidated at the patent office as a result of a third-party-initiated opposition procedure. Moreover, we cannot be certain that an issued patent will be of sufficient scope or strength to provide meaningful protection or commercial advantage to us.

We also rely on trade secret protection for our technology, in part through confidentiality agreements with our employees, consultants, distributors and third parties. However, these agreements may be breached or otherwise rendered ineffective and we may not have adequate remedies for any breach or shortfall of these agreements. In any case, others may come to know about our trade secrets through a variety of methods. In addition, the laws of some jurisdictions in which we sell our products may not protect our intellectual property rights to the same extent as do the laws of Canada and the United States.

Table of Contents

Our intellectual property rights, particularly our existing or future patents, may be invalidated, circumvented, challenged or required to be licensed to others.

Our intellectual property rights are important assets for us. Various events outside of our control pose a threat to our intellectual property rights, as well as to our products, services and technologies. For example, effective intellectual property protection may not be available in every country in which our products and services are distributed. Also, the efforts we have undertaken to protect our proprietary rights may not be sufficient or effective.

Furthermore, others may develop technologies that are similar or superior to our technology, duplicate or reverse engineer our technology, or design around the patents owned or licensed by us. We cannot be sure that the steps that we take to protect our technology will prevent misappropriation or infringement. If we fail or are unable to protect our technology, thereby enabling others to copy or use it, we will be less able to differentiate our products and our sales may decline.

Others may claim that our products infringe upon their intellectual property rights, or they may infringe our intellectual property, and we may expend significant resources enforcing or defending our rights or suffer competitive injury.

Litigation regarding intellectual property rights is common in the technology industry and third-party infringement claims involving technologies may increase. If an infringement claim is filed against us, we may be prevented from using some of our technologies and may incur significant costs to resolve the claim. Conversely, we may be required to spend significant resources to monitor and enforce our intellectual property rights.

Non-practicing entities (NPEs – also informally known as "patent trolls") are increasingly asserting patent claims against companies working in the Information and Communications Technology domain. Because their entire business model is predicated upon undertaking legal action to extract licensing and/or royalty fees from legitimate "practicing" entities, such as EXFO, they often initiate such litigation even if the purported relevance of their patent claims may be questionable. Consequently, we may be obliged to reach a negotiated monetary settlement or embark upon costly legal proceedings if an NPE asserts such claims against us.

More generally, we could incur substantial costs in defending ourselves and our customers against infringement claims asserted by any third party (including notably competitors), or in bringing infringement claims against others. Litigation could also adversely affect sales of the challenged product or technology and divert the efforts of our management and technical personnel. In the event of an infringement claim, we may be required to obtain one or more licenses from third parties. We cannot assure you that we, or our customers, could obtain necessary licenses from third parties at a reasonable cost or at all. If we fail to obtain a license where one is required, we could incur substantial liabilities and be forced to suspend the marketing of the challenged products.

Our use of open source software in our products could adversely affect our ability to sell our products and subject us to possible litigation.

Some of our products contain software licensed to us by third-party authors under "open source" licenses. If our proprietary commercial software were to incorporate open source software, we might, under the terms of certain open source licenses, be required to license that combined software as well as release the source code of the combined software to third parties. This could allow third parties to use our proprietary software at no charge, could enable our competitors to create similar products with lower development effort and time, and ultimately could result in a loss of product sales and lower revenues for us.

11

Table of Contents

We could be subject to suits by parties claiming infringement of intellectual property rights in what we believe to be licensed open source software. Moreover, we cannot assure you that our internal processes for controlling our use of open source software in our products will be effective. If we are held to have breached the terms of an open source software license, we could be required to seek licenses from third parties to continue offering our products, to re-engineer our products, to discontinue the sale of our products if re-engineering could not be accomplished in a timely manner, to allow third parties to use our products at no charge under the terms of that open source software license, or to make generally available, in source code form, our proprietary software, any of which could adversely affect our business, operating results, and financial condition.

Our quarterly revenues and operating results are subject to significant fluctuations and you should not rely on them as an indication of our future performance.

Our sales and operating results have fluctuated from quarter to quarter in the past and significant fluctuations may occur in the future. Given that orders for our service assurance and analytics solutions vary in size and complexity and in certain instances require customer acceptance before revenue recognition occurs, our sales may fluctuate significantly on a quarterly basis. As well, many of our deals involve lengthy sales cycles, contract negotiations as well as extensive product testing, installation, laboratory or network certification, including network-specific or region-specific processes. In addition, our sales and operating results generally depend on the volume and timing of the orders we receive from customers as well as our ability to fulfill received orders.

On the other hand, our cost of sales and operating expenses, which include manufacturing overhead costs, selling and administrative, research and development, as well as depreciation and amortization expenses, are relatively fixed in the short term. If we sell fewer products than anticipated, if there is a delay in the launch of new products, or if prices for our products decline, we may not be able to quickly reduce our cost of sales and operating expenses in response to lower sales. Factors that could affect the amount and timing of our sales and cause quarterly fluctuations in our revenue and operating results include, among other things:

- length of the sales cycle for certain products, especially those that are higher priced and more complex;
- sales cycle prolonged by lengthy customer acceptance;
- timing of product launches and market acceptance of our new products as well as those of our competitors;
- our ability to sustain product volumes and high levels of quality across all product lines;
- timing of shipments for large orders;
- effect of seasonality on sales and bookings; and
- losing key accounts and not successfully developing new ones.

Our sales and operating results could also be volatile due to a number of factors, some of which we have little or no control over, including, without limitation:

- fluctuating demand for test, service assurance and analytics solutions;
- changes in the capital spending and operating budgets of our customers, which may cause seasonal or other fluctuations in product mix, volume, timing and number of orders we receive from our customers;
- order cancellations or rescheduled delivery dates;
- pricing changes by our competitors or suppliers;
- insufficient or excess inventory;
- variations in the mix between higher and lower-margin products and services;
- customer bankruptcies and difficulties in collecting accounts receivable;
- restructuring and impairment charges;
- foreign exchange rate fluctuations;

- general economic conditions, including a slowdown or recession;
- distorted effective tax rate due to non-taxable/deductible elements and unrecognized deferred tax assets; and
- effects of recent acquisitions of businesses.

We may in the future choose to reduce prices, increase spending, or modify our product portfolio in response to actions by competitors or in an effort to pursue new market opportunities. These actions may also adversely affect our business and operating results and may cause our quarterly results to be lower than the results of previous quarters. Due to these factors, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance.

We depend on short-term arrangements with a single supplier or a limited number of suppliers for some key components and materials in our products, which makes us susceptible to supply shortages or price fluctuations that could adversely affect our operating results.

We depend on a single supplier or a limited number of suppliers for several parts used to manufacture our products for which alternative sources may not be readily available. In addition, all of our orders are placed through individual purchase orders and, therefore, our suppliers may stop supplying parts to us at any time. Our reliance on a single source or limited number of suppliers could result in increased costs, delivery problems, reduced control over product pricing and quality and could require us to stockpile critical parts. Financial difficulties of suppliers could also affect our ability to obtain necessary parts in a timely manner. Any interruption or delay in the supply of any of these parts could significantly harm our ability to meet scheduled product deliveries to our customers and cause us to lose sales. Furthermore, the process of qualifying a new manufacturer for complex parts designed to our specifications, such as our optical, electronic and mechanical parts, is lengthy and would consume a substantial amount of time of our technical personnel and management. If we were required to change a supplier in a short period of time, our business would be disrupted. In addition, we may be unsuccessful in identifying a new supplier capable of meeting and willing to meet our needs on acceptable terms. Consolidation involving suppliers could further reduce the number of alternatives available to us and increase the cost of parts, which would make our products less competitive and result in lower margins.

We have identified a material weakness in our internal control over financial reporting as of August 31, 2016, which we are still in the process of remediating. Our failure to maintain an effective system of internal control over financial reporting means that we may not be able to accurately report our financial information or prevent fraud, which could harm our operating results and cause investors to lose confidence in our reported financial information.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Our management has identified a material weakness in our internal control over financial reporting as at August 31, 2016, resulting in the improper aging of its trade accounts receivable ledger which led to an incorrect assessment of bad debt expense against a single trade receivable account. Specifically, we did not maintain sufficient controls over the trade accounts receivable ledger, which included failure to maintain appropriate segregation of duties and lack of supervisory review and monitoring of journal entries recorded to the trade accounts receivable ledger.

We are in the process of implementing a remediation plan to address the material weakness, which includes additional segregation of duties and supervisory review and monitoring of adjustments to the trade accounts receivable ledger on a timely basis. The implementation of the remediation plan has commenced and is expected to be complete in the second quarter of fiscal 2017. The material weakness cannot be considered remediated until the remedial controls operate for a sufficient period of time and management has time to conclude, through testing, that these controls are operating effectively.

We devote significant resources and time to comply with the requirements of the Sarbanes-Oxley Act of 2002. Our efforts to comply with the annual internal control reporting requirement for each fiscal year depends on the effectiveness of our financial reporting as well as data systems and controls throughout our company and operating subsidiaries. We cannot be certain that these measures, including those for which we are in the process of remediating, will ensure that we design, implement and maintain adequate controls over our financial processes and reporting in the future. Our failure to implement our remediation plan referred to above, or to implement newly required or improved controls or adapt our controls, or difficulties encountered in their operation, or difficulties in the assimilation of acquired businesses into our control system, can harm our operating results, or prevent us from meeting our financial reporting obligations or result in a restatement of previously disclosed financial statements. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on our share price and our access to capital.

We require employees and managers who are knowledgeable about the specialized nature of our business. If we are unable to attract and retain sufficient numbers of highly skilled technical, sales, marketing, senior management and other personnel, our operations and financial results will suffer.

Due to the specialized nature of our business, we are highly dependent on the continued service of and on our ability to attract qualified engineering, sales, marketing, senior management and other personnel. If we are unable to attract and retain such qualified personnel, it could have a material adverse effect on our business, results of operations and financial condition.

We must also provide significant training for our employees due to the highly specialized nature of the telecommunications test, service assurance and analytics markets. The knowledge base of our current personnel may be inadequate or we may fail to assimilate and train new employees. Highly skilled employees with the education and training that we require – especially employees with significant experience and expertise in international business development, product management, sales, engineering and operations – may be difficult to find. Once trained, our employees may leave the organization or be hired by our competitors and reveal highly sensitive information to them.

We may become involved in various lawsuits and legal proceedings that may substantially increase our costs and harm our business.

We may from time to time become involved in various lawsuits and legal proceedings. Litigation is subject to inherent uncertainties and an adverse result may arise from time to time that could have a material adverse effect on our business, results of operations or financial condition. Any litigation to which we are subject could require significant involvement of our senior management and may divert management attention from our business and operations.

In addition, the failure of our products to perform to customer expectations could give rise to product liability and warranty claims. We carry insurance for product liability and take accounting reserves for warranty claims that we consider adequate in view of industry practice, but this may not be sufficient to cover all potential liability.

We may also face other types of claims by third parties in relation to the conduct of our business. A successful claim against us for an amount exceeding our policy limits would force us to use our own resources to pay the claim, which could result in a reduction of our cash available for other uses, increase our expenses and have a negative effect on our business, results of operations and financial condition.

If we suffer loss to our factories or facilities, our operations could be seriously harmed.

Our factories and facilities may be subject to catastrophic losses due to fire, vandalism, terrorism or other natural or man-made disasters. We do not have redundant multiple-site capacity and if any of our facilities or factories were to experience a catastrophic loss, it would disrupt our operations, delay production, shipments and revenue and result in large expenses, thereby harming our results of operations.

Table of Contents

Unexpected declines in our research and development and other tax credits and grants may have an adverse effect on our business.

Our historical operating results reflect substantial benefits from programs sponsored by Canadian federal and provincial governments for the support of research and development activities conducted in Canada. In addition, EXFO Oy is entitled to government grants from a Finnish technology organization for research and development activities conducted in Finland. Altogether, research and development tax credits and grants represented 10.8% of our gross research and development expenses for the year ended August 31, 2016.

Our research and development projects entitled to government grants from the Finnish technology organization must be pre-approved and the grant is subject to certain conditions. In the event a specific condition is not met, we may be required to reimburse a portion or the entire amount of the grant received, which would have material adverse effect on our results of operations and financial condition.

If changes in laws or government policies terminate or adversely modify the Canadian federal and provincial government programs or the Finnish government program, under which we receive the majority of our research and development and other tax credits and grants, or if we unexpectedly become unable to participate in or take advantage of these programs, then our net research and development and other expenses will materially increase or we may decrease our research and development activities.

In addition, to the extent that we may increase our research and development activities in India, or potentially acquire new companies, our increased R&D activities may not be eligible for these programs. If we were required to decrease our research and development activities, or were unable to benefit from other tax credits and grants, this could have a material adverse effect on our business, results of operations and financial condition.

Changes in our effective tax rate or adverse outcomes resulting from tax audits, including international inter-company transfer price audits, may have an adverse impact on our results.

As an international corporation, we are subject to taxation in the various jurisdictions in which we conduct business. Significant judgment is required in the determination of our worldwide provision for income taxes and this determination requires the interpretation and application of complex tax laws and regulations. Our global effective tax rate may be adversely impacted by the level of earnings, by changes in the mix of earnings/losses among companies and countries which may have different statutory tax rates, by the write off of our deferred tax assets, by the intercompany transfer price used and by changes in tax rules and regulations. We are also subject to income tax and transfer pricing audits in the respective jurisdictions in which we conduct business. We regularly assess the likelihood of adverse outcomes resulting from these audits and review the adequacy of our provisions for income taxes. There can be no assurance that the outcomes of these tax audits will not result in liabilities in excess of our provisions, which can have an adverse impact on our results and financial condition.

Our current principal stockholder has effective control over our company.

As of November 1, 2016, Germain Lamonde, our Chairman of the Board, President and Chief Executive Officer, held 94.55% of the voting rights in our stock. By virtue of his stock ownership, Mr. Lamonde has effective control over all matters submitted to our stockholders, including the election of our Directors, and exercises significant control over our policies and affairs. Such concentration of voting power could have the effect of delaying, deterring or preventing a change in control or other business combinations that might otherwise be beneficial to our stockholders and may harm the market price of our shares.

If we complete major acquisitions of complementary businesses, products or technologies, we may need additional capital, and may not be able to raise additional capital on favorable terms or at all, which could limit our ability to grow and could increase our costs.

Table of Contents

Our future liquidity and capital requirements are difficult to predict because they depend on numerous factors, including the success of our existing and new product offerings as well as competing technology and market developments. As a result, we may not be able to generate sufficient cash flows from our operations to meet additional working capital requirements, support additional capital expenditures or take advantage of acquisition opportunities. As at August 31, 2016, we held $47.3 million in cash and short-term investments.

We may need to raise additional capital in the future. Our ability to obtain additional financing will be subject to a number of factors, including market conditions, reduced access to credit facilities and our operating performance. These factors may render the timing, amount, terms and conditions of additional financing unattractive for us. If we raise additional funds by selling equity securities, the relative ownership of our existing investors could be diluted or new investors could obtain terms more favorable than previous investors. If we raise funds through debt financing, we could incur significant borrowing costs and be required to meet restrictive debt covenants. If we are unable to raise additional funds when needed or at terms satisfactory to us, our ability to operate and grow our business could be impeded.

Our business and operations would suffer in the event of a failure of our information technology infrastructure.

We rely upon the capacity, efficiency and security of our information technology hardware and software infrastructures and those from third parties, as well as our ability to expand and update these infrastructures, in response to our evolving needs. Any failure to manage, expand, update or secure our information technology infrastructures or any failure in the operation of these infrastructures could harm our business.

Our information systems and third-party systems may be vulnerable to damages from computer viruses, natural disasters, unauthorized access, theft of information and other similar disruptions. Any system failure, accident or security breach could result in disruptions to our operations. To the extent that any disruption, security breach or cyber-attack results in a loss or damage to our data, or inappropriate disclosure of confidential information, it could harm our business. In addition, these events may force us to devote more money and resources in order to protect ourselves against damages caused by these disruptions or security breaches in the future.

Compliance with SEC rules relating to "conflict minerals" may require us and our suppliers to incur substantial expense and may result in disclosure by us that certain minerals used in components and/or products we contract to manufacture may contain such "conflict minerals".

The SEC adopted disclosure requirements under Section 1502 of the Dodd-Frank Act, regarding the source of certain conflict minerals for issuers for which such conflict minerals are necessary to the functionality or production of a product manufactured, or contracted to be manufactured, by that issuer, which are mined from the Democratic Republic of Congo ("DRC") and adjoining countries. The metals covered by the rules include tin, tantalum, tungsten and gold, commonly referred to as "3TG." Because we use components which contain tin, tantalum, tungsten or gold, the SEC rules require us to conduct a reasonable country of origin inquiry to determine if we know or have reason to believe any of the minerals used in the production process may have originated from the DRC or an adjoining country (collectively referred to as "covered countries") and to perform further supply chain due diligence on the source and chain of custody of those minerals to determine if they originated in one of the covered countries and, if so, whether they financed or benefited armed groups in the covered countries. Our material sourcing is broad based and multi-tiered, and we may not be able to easily verify the origins for all metals used in our products. As a result, the costs of the aforementioned diligence efforts by us and by our suppliers could be significant. In addition, disclosures by us mandated by the new rules which are perceived by the market to be "negative" may cause customers to refuse to purchase our products. We are unable to assess the cost of continuing compliance with this rule, and there can be no assurance that the cost will not have an adverse effect on our business, financial condition or results of operations.

16

Table of Contents

If we are held liable for the violation of the applicable anti-bribery laws, it could have a material adverse effect on our business.

We are subject to the applicable anti-bribery laws in countries we do business, which generally prohibit companies, their subsidiaries, their affiliates and their intermediaries from making improper payments to government officials for the purpose of obtaining or keeping business or otherwise obtaining favorable treatment. The anti-bribery laws generally apply to companies, individual directors, officers, employees and agents. Under the applicable anti-bribery laws, companies may be held liable for actions taken by agents, local partners or representatives. If we or our intermediaries fail to comply with the requirements of the applicable anti-corruption laws, governmental authorities in the U.S., in Canada or other countries could seek to impose civil and/or criminal penalties, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Our stock price is volatile.

Our stock price has experienced substantial volatility in the past and may remain volatile in the future. Volatility in our stock price can arise from a number of factors discussed in this "Risk Factors" section. Our stock price will fluctuate based on our financial performance and growth expectations. It can also be affected by public announcements from our competitors and our customers in the telecommunications industry. In addition, turmoil in credit markets and in the broader economy can contribute to share price and volume fluctuations in global stock markets. During fiscal 2016, our closing stock price on NASDAQ ranged from a high of $4.32 per share to a low of $2.57 per share. These aforementioned factors, including volatility often unrelated to the operating performance of our company, may materially affect our stock price in the future.

Table of Contents

Item 4. Information on the Company

A. History and Development of the Company

Our legal name and commercial name is EXFO Inc. / EXFO inc. Our head office is located at 400 Godin Avenue, Quebec, Quebec, Canada, G1M 2K2 and our main telephone number is (418) 683-0211. Our e-mail address is info@EXFO.com and our website is www.EXFO.com. Information on our website is not incorporated by reference in this Annual Report. Our agent for service in the United States is CT Corporation System, 111 Eighth Avenue, New York, New York 10011. Our Transfer Agent and Registrar is CST Trust Company (CST), 2001 Robert-Bourassa Blvd., Suite 1600, Montreal, Quebec, Canada, H3A 2A6. This Annual Report contains trademarks and registered trademarks of us and other companies.

We were incorporated in Canada on September 18, 1985 pursuant to the Canada Business Corporations Act. Since that date, we have amended our articles on various occasions mainly to modify our legal and corporate names and our share capital.

Since we are using this Form 20-F as an annual report, we have provided herein the information required pursuant to Item 4A(4) for the period beginning as at September 1, 2015 until the date of this Annual Report. For information responsive to this Item 4A(4) for prior periods, please refer to our previously filed Annual Reports on Form 20-F. Information in our previously filed Annual Reports on Form 20-F is not incorporated by reference in this Annual Report.

On March 25, 2015, we announced that our Board of Directors approved the renewal of our share repurchase program, by way of a normal course issuer bid on the open market of up to 10% of our issued and outstanding subordinate voting shares, representing 1,397,598 subordinate voting shares at the prevailing market price. The period of the normal course issuer bid commenced on March 27, 2015 and ended on March 26, 2016. We had repurchased for cancellation 194,389 shares under that program for an aggregate net purchase price of $577,000.

On March 29, 2016, we announced that our Board of Directors approved the renewal of our share repurchase program, by way of a normal course issuer bid on the open market of up to 6.6% of our issued and outstanding subordinate voting shares, representing 900,000 subordinate voting shares at the prevailing market price. The period of the normal course issuer bid commenced on April 1, 2016 and will end on March 31, 2017. As of November 14, 2016, we had repurchased for cancellation 389,908 shares under that program for an aggregate net purchase price of $1.4 million.

On October 31, 2016, we acquired substantially all the assets of Absolute Analysis Inc., a privately held company located in United States, supplying solutions for radio frequency testing of fiber-based radio access networks which will extend our commitment to meet need of mobile network operators deploying fiber-based fronthaul networks and radio access networks architectures. This acquisition was settled for a total consideration of approximately $8.5 million, excluding acquisition-related costs. The consideration paid consisted of $5 million in cash and the issuance of 793,070 subordinate voting shares, valued at $3.5 million.

B. Business Overview

We provide communications service providers (CSPs) and data center, cloud and web-scale operators with field test, service assurance and analytics solutions to ensure the smooth deployment, maintenance and management of next-generation physical, virtual, fixed and mobile networks. We have also forged strong relationships with network equipment manufacturers (NEMs) to develop deep expertise that migrates from the lab to the field and beyond. We believe that our key differentiation comes from combining intelligent, automated and cloud-based test and monitoring solutions with real-time analytics to deliver what we believe to be unmatched end-to-end visibility and assurance—from a network, services and end-user level. We are no.1 in portable optical testing in terms of global market share and have deployed the largest active, probe-based service assurance solution worldwide.

Table of Contents

We target high-growth market opportunities related to increasing bandwidth and improving quality of experience on network infrastructures: 4G/LTE (long-term evolution), wireless backhaul, small cells and distributed antenna systems (DAS), 100G network upgrades and fiber-to-the-home (FTTH)/fiber-to-the-curb (FTTC)/fiber-to-the-node (FTTN) deployments.

We were founded in 1985 in Quebec City, Canada. Our original products were focused on the needs of installers and operators of fiber-optic networks. Customers use these field-portable test solutions for the installation, maintenance and troubleshooting of optical networks. Over the past several years, we have enhanced our competitive position in telecommunications test, service assurance and analytics markets through acquisitions of transport and datacom, copper/xDSL and wireless test companies, an IP service assurance business, an analytics software company, and recently radio frequency (RF) test technologies for fiber-based radio access networks (RANs).

We launched 15 new products or major enhancements in fiscal 2016. Key new product introductions included TestFlow, a unique cloud-based, field test automation solution simplifying and accelerating complex, labor-intensive deployment activities for home-broadband and wireless radio access networks (RAN); LTB-8 platform, a multi-module test and software-sharing automation suite accelerating high-speed optical testing in lab and manufacturing environments; a whole new family of optical time domain reflectometers (OTDRs), raising industry standards for technical specifications and time savings in characterizing optical networks; iSAM, an intelligent service activation software bringing speed and simplicity to testing Ethernet services; MaxTester-940 Fiber Certifier OLTS (optical loss test set) for data center and enterprise markets; and the telecom industry's first G.fast handheld test set for the roll out of ultra-broadband services on copper links.

Industry Background

Market conditions improved in fiscal 2016 due to the necessity of CSPs to deploy fiber deeper in their networks and at higher transmission rates (100G) in order to cope with growing Internet usage, proliferation of smart phones and tablets, and explosion in videos services. The transition towards virtualized network functions and cloud-based services also required substantial investments on the part of CSPs and will continue to do so in upcoming years given the inherent complexity of managing hybrid networks, both physical and virtualized. Finally, the advent of new technologies like 5G wireless and Internet of Things (IoT) are expected to increase capital spending due to their ultra-high speeds and low-latency requirements not seen in today's network infrastructures.

These positive market drivers within the telecommunications industry in 2016 were mitigated by uneven macro-economic conditions with modest and slowing growth witnessed in the Americas and Asia-Pacific regions, respectively, and a flat to negative environment in Europe, Middle East and Africa (EMEA) following Britain's decision to exit from the European Union.

Growth Strategy

Our long-term goal is to become the leader in the global telecom test, service assurance and analytics markets. Given surging bandwidth demand and the need to better monetize networks, we believe that CSPs and NEMs must make considerable investments to network infrastructures.

To achieve our goal, we plan to:

- evolve into a trusted advisor;
- increase our presence with wireless operators;
-

expand our share of wallet with tier-1 service providers, as well as with data center, cloud and web-scale operators; and

- accelerate profitability.

Customers

Customers on a global basis use our test, service assurance and analytics solutions to enable their networks to perform optimally during their complete life cycles: research, development, manufacturing, installation, maintenance and monitoring.

We initially developed test equipment for wireline CSPs and, to a lesser extent, component vendors and equipment manufacturers, but over the years we have expanded our offering to wireless CSPs, cable television companies, data center, cloud and web-scale operators, public utilities, private network operators, third-party installers, equipment rental companies, large enterprises and laboratory researchers.

In fiscal 2016, our top customer accounted for 7.1% of our sales and our top three customers represented 15.6%. In comparison, our top customer accounted for 7.1% of sales and our top three customers represented 14.4% in 2015, while our top customer accounted for 6.1% of sales and our top three customers represented 11.6% in 2014.

Products

We offer an extensive range of wireline and wireless test, service assurance and analytics solutions to the global telecommunications industry. We believe our success has been largely predicated on our core expertise in developing test equipment for wireline networks. Following the acquisition of Brix Networks in April 2008, we expanded our product portfolio into the service assurance market for next-generation IP networks. Through the acquisition of NetHawk Oyj in March 2010, we offer test and service assurance solutions for 2G, 3G and 4G/LTE wireless networks.

In April 2014, we acquired the assets of ByteSphere, a software company specializing in global IT management and network monitoring solutions. This transaction extended our service assurance offering into infrastructure performance monitoring through highly scalable device and network element polling technology.

In June 2014, we acquired the assets of Aito Technologies, a provider of customer experience analytics for mobile CSPs. We have combined the analytics software capabilities of Aito Technologies with our service assurance portfolio to provide mobile CSPs with heightened, end-to-end visibility and in-depth troubleshooting capabilities of their 3G and 4G/LTE networks. Both of these asset acquisitions were non-material.

We believe the competitive advantages of our products include a high degree of innovation, modularity (especially wireline products) and ease of use. Ultimately, we believe our products enable NEMs, CSPs as well as data center, cloud and web-scale operators to design, deploy, troubleshoot and monitor wireline and wireless networks, and also help customers reduce their operating expenses.

Products for Communications Service Providers (CSPs)

Wireline Test Equipment

We provide an extensive range of portable test solutions that are mainly used by CSPs to install, turn up and maintain their optical and copper-based telecommunications networks. These products are available as handheld test instruments, portable platforms with related modules, and as rack-mounted chassis with related modules.

Our handheld instruments are durable, compact and easy to use. They include dedicated testers like power meters or they can be multi-function units that carry out several different measurements.

Our field-test platforms, namely the FTB-1 Pro Platform, FTB-1 Platform, FTB-2 Pro Platform and FTB-500 Platform, are at the core of our wireline product portfolio. Our FTB-1 Pro, designed for frontline technicians in the field, is a single-slot, modular platform dedicated to carry out optical, Ethernet and multiservice tests simply and efficiently. It differentiates itself through ultra-strong processing power and rich features like a multi-touch, high-resolution widescreen display. The FTB-1 Platform does not possess the same processing power or rich feature set of the FTB-1 Pro, but it is suitable for optical, copper, Ethernet and multiservice testing applications.

Table of Contents

Our FTB-2 Pro Platform offers the power and scalability of a multi-technology, high-performance unit, but in a smaller form factor. The FTB-2 Pro Platform can host two single-slot test modules, such as an OTDR (optical time domain reflectometer), automated optical loss test set (OLTS) with a variety of fiber inspection probes (FIPs), and Ethernet tester that can characterize transmission rates up to 100 Gbit/s.

Our FTB-500 platform is available in two configurations for various high-end tasks with transmission rates up to 100 Gbit/s. The four-slot model of the FTB-500 is designed for datacom testing, OTDR analysis, optical loss, Ethernet and multiservice transport (SONET/SDH/OTN) testing. The eight-slot model is a high-performance, multiple-protocol unit that allows users to combine next-generation SONET/SDH functions with Ethernet, Fibre Channel and optical-layer testing capabilities. It can handle dispersion characterization (PMD and CD), as well as DWDM/ROADM testing with optical spectrum analysis, and a variety of FIPs.

All four portable platforms support USB, mobile, Wi-Fi, and Bluetooth connectivity capabilities to efficiently manage testing and reporting operations in the field. These PC-centric, open-ended platforms, combined with cloud-based software applications, can be transformed into a fully connected test environment that allows CSPs to automate complex, labor-intensive tasks like fiber-to-the-antenna (FTTA), distributed antenna system (DAS) and small cell deployments. Leveraging platform connectivity, customers can also keep track of their entire test fleet, manage software updates and schedule calibration procedures. All test data can be stored in a central database and used as a point of reference against future measurements within our cloud-based solution. Consequently, this enhanced test environment enables customers to increase productivity and reduce operating expenses.

Wireless Test Equipment

We provide 2G, 3G and 4G/LTE network simulators for CSP labs. EXFO's network simulators emulate real-world, large-scale network traffic and end-user behavior in a laboratory environment in order to predict network behavior, uncover faults and optimize networks before wireless networks and services are deployed. Typical tests include regression and load testing.

We also offer protocol analyzers which analyze mobile network elements to validate functionality according to wireless technology specifications, whether these elements interoperate with each other effectively when combined to form a network, and how well the live network performs. These test tools allow engineers to troubleshoot networks in order to find the source of errors and quickly fix them. Our protocol analyzers support multi-interface testing and all major mobile technologies: GSM/GPRS/EDGE/UMTS/LTE. These analyzers have also been integrated into passive probes within our service assurance offering to better meet the emerging requirements of our customers. These new hardware probes complement our active verifiers to form a fully integrated active and passive service assurance solution.

Wireline/Wireless Service Assurance Systems

We provide a comprehensive service assurance solution, called the EXFO Worx System, for wireline and wireless CSPs, as well as for the managed services arms of NEMs in support of service-level agreements (SLAs) required by their customers.

The EXFO Worx System is a hardware and software solution that delivers real-time, end-to-end quality of service (QoS) and quality of experience (QoE) service monitoring for next-generation IP networks. Built around a distributed architecture, we believe the EXFO Worx System enables the successful launch and ongoing profitable operation of Ethernet/IP-based voice, video and data networks and services across wireline and wireless networks.

We have also transformed our service assurance portfolio to address the growing need for NFV-related solutions. The EXFO Worx solution offers a variety of software-based probes, enabling the interworking with new NFV-based network architectures and components.

Table of Contents

We believe a competitive advantage of EXFO's service assurance solution is the ability to implement SLA monitoring and assure any IP service, over any network, to any endpoint—all from the same open and extensible platform. Key capabilities include:

- performance monitoring and analysis;
- advanced data correlation and analysis engine;
- VoIP and VoLTE service assurance;
- IP/MPLS service assurance;
- mobile backhaul and metro Ethernet service assurance;
- IP video service assurance;
- advanced analytics and reports; and
- custom solutions and back-office integration services.

The EXFO Worx System offers a multi-play capability such that customers can leverage one, several or all of the aforementioned capabilities on a single platform, which we believe delivers significant savings in capital and operating expenditures.

We believe the highly scalable EXFO Worx correlation and analysis engine architecture is well suited for the needs of CSP networks and related IP services. It works together with network-wide monitoring sources — including EXFO's physical and virtual verifiers, third-party devices and standards-based interfaces. In fiscal 2014, we acquired the assets of ByteSphere to complement EXFO Worx. ByteSphere's solutions feature advanced techniques for infrastructure performance management, including network element polling and fault management. The combination of ByteSphere, now marketed and enhanced under the EXFO Xtract brand, and EXFO Worx's capabilities provides real-time correlation between network element performance metrics and probe-based service performance metrics.

EXFO Worx conducts network and IP service testing and monitoring, while collecting, storing, correlating and analyzing essential data to produce detailed graphical reports and analytics on end-to-end service performance.

EXFO Worx software applications include:

- Voice quality (VoIP, VoLTE, VoWiFi) and performance management;
- IP/MPLS and carrier Ethernet (mobile backhaul and metro Ethernet) service quality monitoring;
- IP video (IPTV, OTT) quality and performance management;
- FLEX: Adapted analytics and customized dashboards for integrated operations with operator back-office and NOC systems.

It is a holistic solution designed to provide CSPs with end-to-end visibility from a network, services and end-user level. Data mined from a variety of sources and correlated into the EXFO Worx engine is leveraged to provide CSPs with three essential benefits: Prioritization of service-affecting issues, root-cause analysis and predictive analytics. As a result, EXFO can drive the value of raw data into correlated and actionable insight for customers through advanced analytics and visualization.

Products for Network Equipment Manufacturers (NEMs)

Wireline Test Equipment

Our network equipment manufacturer (NEM) solutions, mainly built around our newly launched LTB-8 Rackmount Platform, are available as test modules or stand-alone benchtop instruments.

Our highly scalable LTB-8 platform, which can host as many as eight 100G test modules, was introduced in 2016 to address the numerous requirements that NEMs demand from their multiservice transport and datacom network equipment. Lab users can carry out tests for a variety of technologies including Ethernet, OTN, Fibre Channel and SONET/SDH. Optical tests can also be carried out via power meters, variable attenuators and switches. Remote control of one or several LTB-8 platforms is available via a proprietary web-based interface. As well, 100G test modules within the LTB-8 platform can be readily inserted into the portable FTB-2 Pro Platform for ease of transition between lab and field testing.

We also offer the IQS-600 platform which can efficiently run as many as 100 optical test modules using a single controller unit. Its system-based approach – one box, several test modules – combined with an open architecture (PXI, Windows, LabVIEW™, etc.) and ease of programming, produces a highly flexible test environment.

The IQS-600 also provides backward compatibility with previous IQ-generation test modules, while delivering all the power and advantages of a next-generation platform. EXFO's wide selection of test modules includes multiservice test solutions covering optical transport network (OTN), Ethernet and SONET/SDN technologies, high-speed power meters, light sources, WDM laser sources, tunable laser sources, variable attenuators, polarization controllers, optical spectrum analyzers and optical switches.

Outside of these modular-based products, we offer advanced, stand-alone test solutions for NEMs in the process of developing ultra-high-speed optical networks.

Wireless Test Equipment

We provide 2G, 3G and 4G/LTE network simulators for the NEMs market. EXFO's network simulators emulate real-world, large-scale network traffic and end-user behavior in a laboratory environment in order to predict network behavior, uncover faults and optimize networks before wireless networks and services are deployed. Typical tests include regression and load testing.

We also offer intelligence tools for police, armed forces and other governmental organizations to help fight organized crime and terrorists.

Research and Development

Our global R&D operations fall under the management of a vice-president. We maintain R&D centers in Quebec City, Canada, Montreal, Canada, Toronto, Canada, Chelmsford, USA, Oulu, Finland and Pune, India. Gross research and development expenditures totaled $47.9 million in fiscal 2016 compared to $50.1 million in 2015 and $52.4 million in 2014.

We believe that our future success largely depends on our ability to introduce new solutions and product enhancements to our core technologies. Through market-oriented product portfolio review processes, we ensure that our investments in research and development are aligned with market opportunities and customers' needs. This process enables us to maximize our returns on R&D investments by focusing our resources on prioritized projects. Product portfolio review meetings, which occur three times per year, enable us to select the right mix of new products and allocate the necessary resources for their development. All our projects, including those already underway, are reviewed, given a priority rating and allocated budgets and resources. Existing projects can be stopped or substantially redefined if there have been significant changes in market conditions, or if the project development schedule or budget has significantly changed.

Product development projects, once they are underway, are managed through a structured process known as the stage-gate approach. The stage-gate approach is based on a systematic review of a project's progress at various stages of its lifecycle. The following are the key review stages of the stage-gate approach:

- market study and research feasibility;
- product definition;
- development feasibility;
- development;
- qualification; and
- transfer to production.

At each stage, we review our project risks, costs and estimated completion time. We compare our design to anticipated market needs and ensure that our new product development is synchronized with other internal departments and external industry events.

Sales

We sell our wireline and wireless test, service assurance and analytics solutions through direct and indirect sales channels in the Americas (US, Canada, Central and South America), Europe, Middle East and Africa (EMEA) and Asia-Pacific regions.

In the Americas, we use a hybrid model, combining key account management with direct and indirect sales coverage. We typically use key account managers to serve large customers that generate high sales volumes or might potentially represent high sales volumes in the future. These key account managers are supplemented by regional sales managers, sales engineers, sales representatives and distributors in the US as well as Central and South American metropolitan areas, and regional sales managers and sales engineers in Canada.

We opt for a direct sales approach when selling higher-end, highly technical products to sophisticated buyers. Sales of low- to medium-level complexity products to less stringent technical buyers are usually done through a manufacturer representative organization or distributors supported by regional sales managers. Our main sales offices in the Americas are located in Richardson, Texas, Quebec City, Canada, Toronto, Canada and Mexico D.F., Mexico. They are supplemented by a regional presence in cities across the US, Central and South America, as well as Canada.

On the international front, we have sales personnel covering strategic areas in EMEA and Asia-Pacific.

Our sales network in EMEA is supported by a main office and service center in Chandler's Ford, Hampshire, UK, which serves as headquarters of our European sales operations and also provides repair, calibration and technical support services for our EMEA customers. We also have additional sales offices in multiple countries across EMEA to serve and support our various customers and distribution partners.

As for Asia-Pacific, our main sales office for South East Asia is located in Singapore, while our main sales offices for mainland China are located in Beijing and Shenzhen. In addition, we have other sales offices in strategic locations around the world to support our network of distributors and various customers.

We also rely on a network of distributors worldwide to work with us in supporting mostly our international sales and to participate in a large number of international events. We believe that the local presence and cultural attributes of our distributors allow us to better serve our global markets.

Our sales team is led by a chief operating officer (COO), who is supported by a vice-president responsible for each major geographic region: Americas, EMEA and Asia-Pacific. These sales executives, in turn, are backed by regional sales directors that lead a widely distributed team acting as key account managers, regional sales managers, sales engineers and application engineers. Our sales people are located throughout major metropolitan areas around the world. This group of sales professionals has on average more than 15 years of experience in the fields of telecommunications, fiber optics, or test and service assurance. Within each major geographic region, we have sales staff dedicated to wireline and wireless test, service assurance and analytics customers.

Table of Contents

We also have an in-house Customer Service Group to meet the needs of existing and new customers. This group is responsible for providing quotations to customers, supporting our sales force, managing demonstration units, order management, technical support and training as well as calibration and repair services.

Sales to customers in the Americas represented 55% of our sales in fiscal 2016, while sales to customers in EMEA and Asia-Pacific accounted for 25% and 20% of our sales, respectively. In comparison, the Americas, EMEA and Asia-Pacific accounted for 54%, 26% and 20% of our sales in 2015, respectively, and 53%, 28% and 19% in 2014, respectively.

Product Management, Marketing/Communications and Global Services

Product Management

All product management duties fall under the leadership of a COO, who is supported by two vice-presidents respectively responsible for test and measurement as well as systems and services. Each product management executive, in turn, is backed by directors and/or product managers who have various degrees in engineering, science and business administration. Directors and product managers are responsible for all aspects of our telecom marketing program including product strategy, new product introductions, definition of new features and functions, pricing, product launches and advertising campaigns. We follow up our marketing initiatives by attending industry trade shows. Furthermore, we have a customer relationship management (CRM) system to compile market and customer information including forecasts, opportunities, leads and competitive data. We use this information to make strategic business decisions.

Marketing/Communications

Our Marketing-Communications team, which mainly consists of a director, project managers, marketing writers, translators and graphic artists, supports our product management team by producing marketing and corporate documentation. Literature includes specification sheets, application notes, product catalogues, advertising copy and an electronic corporate newsletter. This Marketing-Communications team is also responsible for all sales tools required by our worldwide sales force like webinars and for updating the marketing contents of our website. In addition, it is responsible for interfacing and engaging with key industry analysts and media. Marketing and communications activities fall under the direct responsibility of a vice-president.

Global Services

EXFO's Global Services operation, which falls under the responsibility of a vice-president, provides customers with a broad array of support and services worldwide. This team has in-house staff in North America, Europe, and Asia. It also provides local support in specific countries through select partners. Such a strategy enables EXFO to have a global reach while maintaining strong local ties.

This team's objective is to ensure customer satisfaction through a flawless business experience and to achieve our long-term mission by providing internal and customer-facing services. Specifically, it fulfills its mission by offering:

· Customer Relationship Management (CRM) Administration – Business ownership of our CRM toolset and evolution;
· Sales Support – Leverage the effectiveness of our sales force by providing pre-sales and demo support, as well as guiding customers in purchasing the correct equipment for their respective applications, issuing quotations, and promoting our extended warranty service and support program;
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- Order Management – Accurately process customer orders from entry through fulfillment and delivery, and manage order changes;
- Customer Service – Serve as a primary interface for inbound and outbound customer communication. Provide customers with one central point of contact and work with the customer from purchasing equipment to helping them arrange for service, if necessary;

Table of Contents

- Field Support – Provide expert technical support and deliver product service worldwide. Support our Worldwide Service Centers and directly manage the Service Partner Program. Where applicable, furnish installation and on-site servicing for more complex equipment and applications;
- Systems Services – Provide pre-sale, delivery, post-sale technical support, and systems actualization of customer's network monitoring and converged service assurance systems;
- Education Services – Aggregate expertise, develop material, and deliver free and fee-based training;
- Professional Services – Provide value-added solution services for our test and system customers.

Manufacturing

Our manufacturing operations consist mainly of material planning, supply-chain management, sub-assembly, final assembly and test, software loading, calibration, quality control, shipping, billing and customs management. Most of our manufacturing activities, which occupy a total of 138,000 square feet, take place at our facility compound in Quebec City, Canada and Shenzhen, China, but we also have facilities in Chelmsford, USA, and Oulu, Finland, for final assembly of service assurance and wireless test equipment, respectively. All our manufacturing operations fall under the supervision of a vice-president.

Our Quebec City, Canada, operations mainly produce low-volume, high-complexity telecom products. It has maintained ISO 9001 certification since 1994 and first obtained TL 9000 certification in July 2012. Our manufacturing plant in Shenzhen, China, which started operations in September 2007, is responsible for the production of high-volume, low-complexity telecom products. Our Shenzhen plant, which follows the same corporate quality standards, was first certified ISO 9001 in January 2009 and also obtained TL 9000 certification in July 2012.

All of our products meet required industry standards, and some of our products address additional voluntary standards, such as those set by Telcordia, IEC, IETF, ETSI and other bodies that issue industry standards. During manufacturing, each product has a specific quality control plan, with rigorous checkpoints, to ensure product conformity. Various tasks in the quality assurance process include quality control, conformity testing, product documentation, product improvement, regulatory compliance, metrology and calibration.

Our manufacturing operations include the following responsibilities:

- Production. From production planning to product shipment, our production department is responsible for manufacturing high-quality products on time. Factories are organized in work cells; each cell consists of specialized technicians with equipment and has full responsibility over a product family. Technicians are cross-trained and versatile enough, so that they can carry out specific functions in more than one cell. This allows shorter lead times by alleviating bottlenecks.

- Manufacturing and Test Engineering. This department, which supports our production cells, acts like a gatekeeper to ensure the quality of our products and the effectiveness of our manufacturing processes. It is responsible for the transfer of products from research and development to manufacturing, product improvement, documentation, metrology, and the quality control and regulatory compliance process. Quality control represents a key element in our manufacturing operations. Quality is assured through product testing at numerous stages in the manufacturing process to ensure that our products meet both stringent industry and customer performance requirements.

- Supply-Chain Management. This department is responsible for sales forecasting, raw material procurement, material-cost reduction and vendor performance management. Our products consist of optical, electronic and mechanical parts, which are purchased from suppliers around the world. Approximately one-third of our parts are manufactured to our specifications. Materials represent the largest portion of our cost of goods. Our performance is tightly linked to vendor performance, requiring greater emphasis on this critical aspect of our business.

Table of Contents

Our manufacturing operations are subject to environmental laws in various jurisdictions around the world. Our product designs comply with WEEE Directive and RoHS Directive legislation enacted by the European Union regarding, respectively, the disposal of waste electrical and electronic equipment and the restriction of the use of certain hazardous substances in electrical and electronic equipment, for all products exported to Europe. As the world undergoes climate changes, environmental and biodiversity issues have become critical to our society. We obtained ISO 14001 certification in October 2013 and, therefore, started continuous improvement in reducing our environmental footprint.

Sources and Availability of Raw Materials

We use various suppliers to provide parts for the manufacture and support of multiple product lines. Although our intent is to establish at least two sources of supply for materials whenever possible, we obtain several parts from single or limited source supply arrangements. We may not be able to procure these parts from alternative sources at acceptable prices within a reasonable time; therefore, the loss or interruption of such arrangements could have an impact on our ability to deliver certain products on a timely basis. See Item 3D of this Annual Report under "Risk Factors"   We depend on short-term arrangements with a single supplier or a limited number of suppliers for some key components and materials in our products, which makes us susceptible to supply shortages or price fluctuations that could adversely affect our operating results."

We will continue to mitigate the risk of production interruptions and shortages of parts by: (1) carrying safety stock of critical components, (2) monitoring the delivery performance of our suppliers, (3) selecting and qualifying alternative sources of supplies for key parts whenever possible, and (4) promptly assessing potential effects of worldwide natural disasters.

Seasonality

Historically, we have been subject to seasonality mainly in our second quarter (December, January and February) due to the Christmas holidays and delays in approval of CSP spending budgets for the new calendar year. These two factors can have negative effects on our bookings in our second quarter, but they are mitigated by the renewal of annual maintenance contracts and sometimes calendar year-end spending on the part of CSPs. We are also subject to increased seasonality in the fourth quarter (June, July and August), because bookings activity tends to slow down during the summer months, especially in Europe. These seasonal effects do not apply consistently and do not always correlate to our financial results. Accordingly, they should not be considered as reliable indicators of future revenue or results of operations.

Competition

The test, service assurance and analytics markets are highly competitive and subject to rapid change as a result of technological developments and market conditions. We compete with many different companies, depending on product family and geographical market. We believe that the main competitive factors in the industry include the following:

· level of technical compliance and alignment to use-case;
· product performance and reliability;
· solution's contribution to productivity;
· price and quality of products;
· level of technological innovation;
· product lead times;

- breadth of product offerings;
- ease of use;
- brand-name recognition;
- customer service and technical support;
- strength of sales and distribution relationships; and
- financial stability of supplier.

Table of Contents

Main competitors in the test equipment environment include global suppliers like Anritsu Corporation, Danaher Corporation (namely subsidiaries of Danaher: Fluke Networks), and Viavi Solutions (formerly a division of JDS Uniphase Corporation), as well as other players such as AFL Noyse, IXIA, Kingfisher International, ShinewayTech, Spirent Communications plc, VeEX Inc., and Yokogawa Electric Corporation. On the service assurance and analytics side, we mainly compete against Accedian Networks, Anritsu Corporation, Empirix, IXIA, NetScout Systems, Inc. (including the 2015 merger of Netscout Systems and Tektronix Communications), Radcom, Spirent Communications plc and Viavi Solutions (formerly a division of JDS Uniphase Corporation). See Item 3D of this Annual Report under "Risk Factors   We must continue to overcome significant competition in our targeted industries in order to keep or gain market share and achieve our growth strategy."

Employees

As at November 1, 2016, we had 1,551 full-time employees compared to 1,499 and 1,572 for the same periods in 2015 and 2014, respectively. Our workforce as of November 1, 2016 included 341 employees in manufacturing, 598 employees in research and development, and 612 employees in sales and marketing as well as general and administrative functions.

Our future performance depends, to a significant degree, on our continued ability to attract and retain highly skilled and qualified technical, sales and marketing, and senior management personnel. Our employees are not represented by a labor union with the exception of our manufacturing personnel in Quebec City, Canada. We consider relations with our employees to be good. See Item 3D of this Annual Report under "Risk Factors   We require employees and managers who are knowledgeable about the specialized nature of our business. If we are unable to attract and retain sufficient numbers of highly skilled technical, sales, marketing, senior management and other personnel, our operations and financial results will suffer".

Regulatory Environment

In most countries where our products are sold, our products must comply with the regulations of one or more governmental entities. These regulations often are complex and vary from country to country. Depending upon the country and the relevant product, the applicable regulations may require product testing, approval, registration, marking and unique design restrictions. Accordingly, we have appointed a team of engineers who are responsible for ensuring that our products comply with all applicable regulations.

In the United States, our products must comply with the regulations of some agencies of the U.S. federal government, including the Federal Communications Commission (FCC), the Food and Drug Administration (FDA) and the Occupational Safety and Health Administration (OSHA). Under the FCC's regulations, our products must comply with certain electromagnetic compatibility (EMC) requirements to insure they do not generate electromagnetic noise which could possibly cause undesirable operation, as well as affect other surrounding devices. Additionally, some of our products must comply with the FDA's non-medical performance standards and related rules concerning light-emitting products, such as lasers. The FDA's regulations applicable to our products are intended to promote safety by limiting human exposure to harmful non-iodizing radiation. Similarly, our products must comply with safety standards adopted by OSHA.

Similar regulations apply in other countries. For example, in Canada our products must comply with the applicable standards adopted by the Standards Council of Canada (SCC). These include product safety standards developed in collaboration with the Canadian Standards association as well as EMI requirements adopted by Industry Canada. Countries in the European Union require product compliance as dictated by the applicable directives, which are required to be authorized to apply the CE marking on the product. This includes testing to ensure compliance with harmonized European Norm (EN) standards for product safety, EMC requirements and RoHS.

In Europe, with the implementation of the WEEE directives (2012/19/EU) for recycling of electronic products in selected European Countries, EXFO has established a process to ensure full compliance with regulations and oversee the management, logistics, recycling rate, disposal services and activities related to recycling of electronic equipment and products within the member states.

Table of Contents

Additionally, to address the issue of environmental compliance, the European Union has mandated the Restriction of the Use of Certain Hazardous Substances or "RoHS" Directive (2011/65/EU), which applies to all products included within the scope of WEEE directive. Mandatory product compliance includes the ban of certain substances within specified concentrations, unless formally exempted by the directive. To ensure compliance to this directive, a formal restricted substances control (RSC) program was implemented for our products included within the scope of WEEE. This program ensures the design, procurement and manufacturing of affected products prevents the inclusion of the banned substances as specified by the RoHS directive.

Other significant types of regulations not described in this Annual Report also may apply, depending upon the relevant product and country of destination.

Intellectual Property

Our success and ability to compete are dependent in part on our ability to develop and protect our proprietary technology. We file U.S. and international (utility) patent applications to protect technology, inventions and improvements important to the development of our business. We also rely on a combination of design patents, copyright, trademark, trade secret rights, licensing and confidentiality agreements.

Our intellectual property and proprietary technology are important to the continued success of our business. Were we inadequately protect our intellectual property and proprietary technology, our competitive position might be significantly impaired. There also remains a risk that our intellectual property rights, particularly our existing or future patents might be invalidated, circumvented, challenged or required to be licensed to others. Furthermore, others may claim that our products infringe upon their intellectual property rights, or they may infringe our intellectual property, and we may expend significant resources enforcing or defending our rights or suffer competitive injury.

Our success and ability to compete depend to a significant extent on our proprietary technology, with which we attempt to prevent others from using the innovations that are central to our existing and future products. As of August 31, 2016, our records indicated that we held the following portfolio of utility patents: 60 active granted US patents, 47 granted or validated patents in countries of the European Union, 7 patents in Canada, 12 patents in China, and 5 patents in other jurisdictions. In addition, we have 36 utility patent applications (including provisional applications) pending in the US, 22 patent applications at the European Patent Office or directly entered at the national patent office of an EU member country, 2 applications in Canada, 14 applications in China and 8 applications in other countries. The expiration dates of our active issued patents range from 2016 to 2034, with no significant active patent expiring in the near future.

Our records also indicated that, as of August 31, 2016, we held 17 active granted design patents, as well as 10 pending design patent applications, in the United States and several other international jurisdictions.

We consider seven of our inventions for which patents have either been granted or are pending to be material. These inventions are:

- a method and apparatus for improved characterization of loss-inducing "events" along an optical fiber using an Optical Time Domain Reflectometer (OTDR). This invention describes how, by a judicious combination of OTDR data corresponding to different optical-pulse durations, the location and loss characteristics of an event can be quantified with much better accuracy and/or more rapidly than via conventional approaches. This invention is offered as an option for almost all of the current EXFO OTDR-based products;

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a method for determining the optical signal-to-noise ratio employing an optical spectrum analyzer, which is particularly advantageous for use with tightly-filtered DWDM signals used in high-bandwidth optical networks. This invention is a key value-added option to our FTB-5240-S series of portable optical spectrum analyzers;

Table of Contents

- a method and apparatus to determine the theoretical and practical data rates for a cable under test. This invention uses a single test device to predict the performance of a pair of ADSL (Asymmetric Digital Subscriber Line) modems, and in case of problems, analyze the cause of the modems' failure to synchronize. It is a key functionality of our FTB-610, FTB-635, MaxTester 610, MaxTester 635 and MaxTester 635G;

- a scalable system for monitoring network elements, for which only a non-redundant subset of the identified network information is stored, thereby enabling monitoring of a much larger group of network elements than is possible with conventional memory-constrained monitoring systems. Furthermore, this system employs a multi-threaded architecture that dynamically spawns an array of multi-technology monitoring sub-systems. This invention forms the basis of the web-based EXFO Xtract Open Analytics Platform, enabling the user, among other things, to leverage data from a multitude of sources and to define a sequence of activities based on templates in order to accomplish a given task;

- a method for actively analyzing a data packet delivery path to provide diagnostics and root cause analysis of network delivery path issues, which is embedded in certain software applications of the EXFO Worx System of EXFO Service Assurance;

- a distributed protocol analyzer for quality-of-service measurement. This invention underlies the combined QoS measurements offered in the NetHawk iPro and NetHawk M5 products; and

- a communication methodology used to perform independent bi-directional protocol testing over a connection or connectionless network between two test instruments, wherein the transfer mechanism of status and intermediate test results during an active test and the transmission of the final results to one of the instruments enables the user to perform a bidirectional single-ended test. This invention is at the heart of the EXFO Datacom product families, including applications in conformity with our EtherSAM standard test suite.

Confidentiality and proprietary information agreements with our senior management, employees and others generally stipulate that all confidential information developed or made known to these individuals by us during the course of their relationship is to be kept confidential and not disclosed to third parties, except under specific circumstances. The agreements also generally provide that all intellectual property developed by the individual in the course of rendering services to us belongs exclusively to us. However, these efforts afford only limited protection.

Table of Contents

C. Organizational Structure

As of November 1, 2016, the following chart presents our corporate structure, the jurisdiction of incorporation of our subsidiaries and the percentage of shares (which is also the percentage of voting power) that we hold in those subsidiaries.

Table of Contents

D. Property, Plant and Equipment

Our head offices are located in Quebec City, Province of Quebec, Canada where we occupy two buildings. These buildings house our executive and administrative offices, research and development facilities and production facilities. We also have offices in Montreal, Province of Quebec, Canada, in Concord, Ontario, Canada, in Chelmsford, Massachusetts, United States (EXFO Service Assurance Inc.), in Chandler's Ford, Hampshire, United Kingdom (EXFO Europe Limited), in Shenzhen, China (EXFO Telecom Equipment (Shenzhen) Co. Ltd.), in Pune, India (EXFO Electro-Optical Engineering India Private Ltd.), in Oulu, Finland (EXFO Oy), in Lappeenranta, Finland (EXFO Oy), and in Richardson, Texas, United States (EXFO America Inc.).

In addition, we maintain sales offices and/or have regional sales managers located in Australia, China, Czech Republic, France, Germany, Great Britain, India, Japan, Mexico, Singapore, Spain, Sweden, United Arab Emirates and the United States.

The following table sets forth information with respect to the main facilities that we occupy as at November 1, 2016.

Location	Use of Space	Square Footage	% of Utilization	Type of Interest
436 Nolin Street Quebec (Quebec) G1M 1E7	Occupied for manufacturing of products	44,000	90%	Owned
400 Godin Avenue Quebec (Quebec) G1M 2K2	Occupied for research and development, customer services, repair/calibration services, manufacturing, management and administration	129,000 [(1)]	90%	Owned
2500 Alfred-Nobel Montreal (Quebec) H4S 2C3	Occupied for research and development, management and administration	75,000	60%	Owned
2500 Alfred-Nobel Montreal (Quebec) H4S 2C3	Available for rent	50,000	0%	Owned
160 Drumlin Circle Concord (Ontario) L4K 3E5	Occupied for research and development, product management and administration	23,500	40%	Owned
270 Billerica Road Chelmsford, MA 01824 United States	Occupied for research and development, manufacturing, management and administration	29,000	75%	Leased

Winchester House School Lane Chandlers Ford, Eastleigh Hampshire SO53 4DG United Kingdom	Occupied for European customer service, repair/calibration services, sales management and administration	13,000	80%	Leased

Table of Contents

Location	Use of Space	Square Footage	% of Utilization	Type of Interest
3rd Floor, Building 10 Yu Sheng Industrial Park (Gu Shu Crossing) No. 467, National Highway 107 Xixiang, Bao An District Shenzhen 518126 China	Occupied for manufacturing of products, repair/calibration services	64,000	80%	Leased
Offices No 602, 603, 604, 701 and 702 Tower S-4 Cybercity Magarpatta , Hadapsar Pune 411 013 India	Occupied for research and development	33,981	85%	Owned
Offices No 102 Tower S-4 Cybercity Magarpatta , Hadapsar Pune 411 013 India	Leased to a third party	5,979	100%	Owned
Elektroniikkatie 2 FI-90590 Oulu Finland	Occupied for research and development, manufacturing, management and administration	30,338	100%	Leased

(1) Including the warehouse space. Premises without the warehouse are approximately 115,000 square feet.

Item 4A. Unresolved Staff Comments

Not applicable.

Table of Contents

Item 5. Operating and Financial Review and Prospects (revised – January 9, 2017)

This amended management's discussion and analysis of the financial condition and results of operations ("MD&A") of EXFO Inc. should be read in conjunction with our revised consolidated financial statements and the notes thereto for the year ended August 31, 2016, included elsewhere in this Annual Report on Form 20-F/A. Details of the revision are disclosed in Note 1, Revision of Consolidated Financial Statements, to our consolidated financial statements. This MD&A has been amended to reflect the impact of this revision.

During the first quarter of fiscal 2017, we identified errors in our previously issued consolidated financial statements relating to the overstatement of a single trade receivable account as further explained in our August 31, 2016 consolidated financial statements under Note 1, Revision of Consolidated Financial Statements. We evaluated the aggregate effects of the errors to our previously issued consolidated financial statements in accordance with IAS 8 - Accounting Policies, Accounting Estimates and Errors ("IAS 8"), as well as and in consideration of the guidance in SEC Staff Accounting Bulletins No. 99 and No. 108. Based upon quantitative and qualitative factors, we have determined that the errors were not material to our previously issued consolidated financial statements and disclosures in our Annual Report on Form 20-F for the year ended August 31, 2016. However, the cumulative effect of the errors may be significant to our financial results for the year ending August 31, 2017. Accordingly, we have revised our previously issued consolidated financial statements.

In conjunction with the errors described above, we have identified a material weakness in our internal control over financial reporting as of August 31, 2016, resulting in the improper aging of our trade account receivable ledger which led to an incorrect assessment of bad debt expense against a single trade receivable account. Specifically, we did not maintain sufficient controls over the trade accounts receivable ledger, which included failure to maintain appropriate segregation of duties and lack of supervisory review and monitoring of journal entries recorded to the trade accounts receivable ledger.

This discussion and analysis contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995, and we intend that such forward-looking statements be subject to the safe harbors created thereby. Forward-looking statements are statements other than historical information or statements of current condition. Words such as may, expect, believe, plan, anticipate, intend, could, estimate, continue, or similar expressions or the negative of such expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events and circumstances are considered forward-looking statements. They are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in forward-looking statements due to various factors including, but not limited to, macroeconomic uncertainty as well as capital spending and network deployment levels in the telecommunications industry (including our ability to quickly adapt cost structures with anticipated levels of business and our ability to manage inventory levels with market demand); future economic, competitive, financial and market conditions; consolidation in the global telecommunications test, service assurance and analytics solutions markets and increased competition among vendors; capacity to adapt our future product offering to future technological changes; limited visibility with regards to the timing and nature of customer orders; delay in revenue recognition due to longer sales cycles for complex systems involving customers' acceptance; fluctuating exchange rates; concentration of sales; timely release and market acceptance of our new products and other upcoming products; our ability to successfully expand international operations; our ability to successfully integrate businesses that we acquire; and the retention of key technical and management personnel. Assumptions relating to the foregoing involve judgments and risks, all of which are difficult or impossible to predict and many of which are beyond our control. Other risk factors that may affect our future performance and operations are detailed in our Annual Report, on Form 20-F, and our other filings with the U.S. Securities and Exchange Commission and the Canadian securities commissions. We believe that the expectations reflected in the forward-looking statements are reasonable based on information currently available to us, but we cannot assure that the expectations will prove to have been correct. Accordingly, you should not place undue reliance on these forward-looking statements. These statements speak only as of the date of this document. Unless required by law or applicable regulations, we undertake no obligation to revise or update any of them to reflect events or circumstances that occur after the date of this document. This discussion and analysis should be read in conjunction with the consolidated financial statements.

Table of Contents

The following discussion and analysis of financial condition and results of operations is dated January 9, 2017.

All dollar amounts are expressed in US dollars, except as otherwise noted.

COMPANY OVERVIEW

We are a leading provider of next-generation test, service assurance and analytics solutions for fixed and mobile communications service providers (CSPs), web-scale operators as well as network equipment manufacturers in the global telecommunications industry. Our intelligent solutions with contextually relevant analytics are designed to improve end-user quality of experience, enhance network performance and drive operational efficiencies throughout the network and service delivery lifecycles. We target high-growth market opportunities related to increasing bandwidth and improving quality of experience on network infrastructures: 4G/LTE (long-term evolution), wireless backhaul, small cells and distributed antenna systems (DAS), 100G network upgrades and fiber-to-the-home (FTTH)/fiber-to-the-curb (FTTC)/fiber-to-the-node (FTTN) deployments.

Our success has been largely predicated on our core expertise in developing test equipment for wireline networks. These solutions are available as handheld test instruments, portable platforms with related modules, and as rack-mounted chassis with related modules. Our PC-centric, open-ended platforms, combined with cloud-based software applications, can be transformed into a fully connected test environment that allows CSPs to automate complex, labor-intensive tasks like fiber-to-the-antenna (FTTA), DAS and small cell deployments. Leveraging platform connectivity, CSPs can also keep track of their entire test fleet, manage software updates and schedule calibration procedures. All test data be stored in a central database and used as a point of reference against future measurements. Consequently, this enhanced test environment enables customers to increase productivity and reduce operating expenses.

Over the years, we expanded our product portfolio into service assurance for next-generation IP (Internet protocol) networks and into test equipment for 2G, 3G and 4G/LTE wireless networks. Our service assurance solution, called the Brix System, is a probe-based hardware and software offering that delivers end-to-end, quality of service and quality of experience visibility as well as real-time, service monitoring and verification of next-generation IP networks. We have enriched our service assurance offering with infrastructure performance management tools and analytics software solutions via technology acquisitions. Built around a distributed architecture, the Brix System enables the successful launch and ongoing profitable operation of IP-based voice, video and data applications and services across wireline and wireless networks.

Our 2G, 3G and 4G/LTE test portfolio mainly consists of network simulators and protocol analyzers. Our network simulators simulate real-world, large-scale network traffic and end-user behavior in a laboratory environment in order to predict network behavior, uncover faults and optimize networks before wireless networks and services are deployed. Our protocol analyzers analyze mobile network elements in order to validate functionality according to wireless technology specifications, determine whether or not these elements interoperate with each other effectively when combined to form a network, and assess how well the live network performs.

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

We have a staff of approximately 1600 people in 25 countries, supporting more than 2000 customers in approximately 100 countries around the world. We operate three main manufacturing sites, which are located in Quebec City, Canada, in Shenzhen, China and in Oulu, Finland. We also have five main research and development expertise centers in Boston, Toronto, Montreal, Quebec City and Oulu, supported by a software development center in India.

Table of Contents

We launched 15 new products or major enhancements in fiscal 2016. Key new product introductions included TestFlow, a unique cloud-based, field test automation solution simplifying and accelerating complex, labor-intensive deployment activities for home-broadband and wireless radio access networks (RAN); LTB-8 platform, a multi-module test and software-sharing automation suite accelerating high-speed optical testing in lab and manufacturing environments; a whole new family of optical time domain reflectometers (OTDRs), raising industry standards for technical specifications and time savings in characterizing optical networks; iSAM, an intelligent service activation software bringing speed and simplicity to testing Ethernet services; MaxTester-940 Fiber Certifier OLTS (optical loss test set) for data center and enterprise markets; and the telecom industry's first G.fast handheld test set for the roll out of ultra-broadband services on copper links.

Our sales increased 4.7% to $232.6 million in fiscal 2016 compared to $222.1 million in 2015, despite a headwind from a stronger US dollar versus other currencies. In fiscal 2016, in constant currency, our sales would have increased 6.0% year-over-year. Bookings increased 7.7% to $240.3 million in fiscal 2016 compared to $223.1 million in 2015, for a book-to-bill ratio of 1.03. In constant currency, bookings would have increased 9.0% year-over-year.

Net earnings amounted to $8.9 million, or $0.16 per diluted share in fiscal 2016, compared to $4.9 million, or $0.08 per diluted share, in fiscal 2015. Net earnings in fiscal 2016 included $1.1 million in after-tax amortization of intangible assets, $1.4 million in stock-based compensation costs, and a foreign exchange gain of $0.2 million. Net earnings in fiscal 2015 included $2.7 million in after-tax amortization of intangible assets, $1.3 million in after-tax restructuring charges, $1.3 million in stock-based compensation costs, after-tax unusual charge of $0.4 million, and a foreign exchange gain of $7.2 million.

Adjusted EBITDA (net earnings before interest, income taxes, depreciation and amortization, restructuring charges, stock-based compensation costs, unusual charge and foreign exchange gain) amounted to $22.0 million, or 9.5% of sales, in fiscal 2016, compared to $13.8 million, or 6.2% of sales, in 2015. See page 52 of this document for a complete reconciliation of adjusted EBITDA and IFRS net earnings.

On March 29, 2016, we announced that our Board of Directors approved the renewal of our share repurchase program by way of a normal course issuer bid on the open market of up to approximately 6.6% of the issued and outstanding subordinate voting shares, representing 0.9 million subordinate voting shares at the prevailing market price. We expect to use cash, short-term investments or future cash flows from operations to fund the repurchase of shares. The normal course issuer bid started on April 1, 2016, and will end on March 31, 2017, or on an earlier date if we repurchase the maximum number of shares permitted under the bid. The program does not require that we repurchase any specific number of shares, and it may be modified, suspended or terminated at any time and without prior notice. All shares repurchased under the bid will be cancelled. In fiscal 2016, we redeemed for cancellation 0.5 million subordinate voting shares for a cash consideration of $1.6 million.

On October 31, 2016, we acquired substantially all the assets of Absolute Analysis Inc., a privately held company located in United States, supplying solutions for radio frequency testing of fiber-based radio access networks. This acquisition was settled for a total consideration of approximately $8.5 million, excluding acquisition-related costs. The consideration paid consisted of $5 million in cash and the issuance of 793,070 subordinate voting shares, valued at $3.5 million.

Sales

We sell our products to a diversified customer base in approximately 100 countries through our direct sales force and channel partners, such as sales representatives and distributors. Most of our sales are denominated in US dollars, euros and Canadian dollars.

In fiscal 2014, 2015 and 2016, no customer accounted for more than 10% of our sales, with our top customer representing 6.1%, 7.1% and 7.1% of our sales respectively.

Table of Contents

We believe that we have a vast array of products, a diversified customer base, and a good spread across geographical areas, which provides us with reasonable protection against the concentration of sales and credit risk.

Cost of Sales

The cost of sales includes raw materials, salaries and related expenses for direct and indirect manufacturing personnel, as well as overhead costs. Excess, obsolete and scrapped materials are also included in the cost of sales. However, the cost of sales is presented exclusive of depreciation and amortization, which are shown separately in the statements of earnings.

Operating Expenses

We classify our operating expenses into three main categories: selling and administrative expenses, research and development expenses, as well as depreciation and amortization expenses.

Selling and administrative expenses consist primarily of salaries and related expenses for personnel, sales commissions, travel expenses, marketing programs, professional services, information systems, human resources and other corporate expenses. Selling and administrative expenses excludes, however, the unusual charge relating to the adjustment to bad debt expense arising from the revision described in Note 1 to the consolidated financial statements.

Gross research and development expenses consist primarily of salaries and related expenses for engineers and other technical personnel, material component costs as well as fees paid to third-party consultants. We are eligible to receive research and development tax credits and grants on research and development activities carried out in Canada and Finland. All related research and development tax credits and grants are recorded as a reduction of gross research and development expenses.

Table of Contents

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

Consolidated statements of earnings data [1]:	2016	2015	2014	2016	2015	2014
Sales	$232,583	$222,089	$230,806	100.0 %	100.0 %	100.0 %
Cost of sales [2]	87,066	85,039	86,836	37.4	38.3	37.6
Selling and administrative [3]	82,169	82,200	86,429	35.3	37.0	37.4
Net research and development	42,687	44,003	44,846	18.4	19.8	19.4
Depreciation of property, plant and equipment	3,814	4,835	4,995	1.6	2.2	2.2
Amortization of intangible assets	1,172	2,883	4,398	0.5	1.3	1.9
Interest and other income	(828)	(155)	(326)	(0.4)	(0.1)	(0.1)
Foreign exchange gain	(161)	(7,212)	(1,634)	–	(3.2)	(0.7)
Unusual charge [3]	–	603	720	–	0.3	0.3
Earnings before income taxes	16,664	9,893	4,542	7.2	4.4	2.0
Income taxes	7,764	5,036	4,286	3.4	2.2	1.9
Net earnings for the year	$8,900	$4,857	$256	3.8 %	2.2 %	0.1 %
Basic net earnings per share	$0.17	$0.09	$0.00			
Diluted net earnings per share	$0.16	$0.08	$0.00			
Other selected information:						
Gross margin before depreciation and amortization [4]	$145,517	$137,050	$143,970	62.6 %	61.7 %	62.4 %
Research and development data:						
Gross research and development	$47,875	$50,148	$52,423	20.6 %	22.6 %	22.7 %
Net research and development	$42,687	$44,003	$44,846	18.4 %	19.8 %	19.4 %
Restructuring charges included in:						
Cost of sales	$–	$290	$–	– %	0.1 %	– %
Selling and administrative expenses	$–	$586	$–	– %	0.3 %	– %
Net research and development expenses	$–	$761	$–	– %	0.3 %	– %
Adjusted EBITDA [4]	$22,039	$13,779	$14,391	9.5 %	6.2 %	6.2 %
Consolidated balance sheets data [1]:						
Total assets	$237,793	$217,478	$276,948			

(1) Consolidated statements of earnings and balance sheets data has been derived from our consolidated financial statements prepared according with IFRS, as issued by the IASB, except for non-IFRS measures [4].
(2) The cost of sales is exclusive of depreciation and amortization, shown separately.
(3) Selling and administrative is exclusive of unusual charge, shown separately, which represents bad debt expenses arising from the revision (see Note 1 to the consolidated financial statements included in this Annual Report on Form 20-F/A).
(4) Refer to page 52 for non-IFRS measures.

Table of Contents

RESULTS OF OPERATIONS

Sales and Bookings

The following tables summarize sales and bookings by product line in thousands of US dollars:

Sales

	Years ended August 31,		
	2016	2015	2014
Physical-layer product line	$151,910	$144,060	$132,097
Protocol-layer product line	83,324	80,591	99,618
	235,234	224,651	231,715
Foreign exchange losses on forward exchange contracts	(2,651)	(2,562)	(909)
Total sales	$232,583	$222,089	$230,806

Bookings

	Years ended August 31,		
	2016	2015	2014
Physical-layer product line	$155,320	$144,673	$137,166
Protocol-layer product line	87,631	80,948	104,148
	242,951	225,621	241,314
Foreign exchange losses on forward exchange contracts	(2,651)	(2,562)	(909)
Total bookings	$240,300	$223,059	$240,405

Fiscal 2016 vs. 2015

In fiscal 2016, our sales increased 4.7% to $232.6 million, compared to $222.1 million in 2015, while our bookings increased 7.7% year-over-year to $240.3 million in 2016 from $223.1 million in 2015, for a book-to-bill ratio of 1.03 (1.00 in 2015).

In fiscal 2016, despite year-over-year sales increase, we suffered from a continued headwind from a stronger US dollar compared to 2015. Given that we generate a portion of our revenue in Canadian dollars (Americas) and in euros (Europe, Middle East and Africa [EMEA]) but report our results in US dollars, it had a negative impact on our total sales and bookings year-over-year, as the US dollar increased against these currencies. In fact, in fiscal 2016, our total sales would have increased by approximately 6% and our total bookings would have increased by approximately 9% year-over-year in constant currencies.

In fiscal 2016, despite the negative currency impact, both product lines delivered year-over-year increases in sales, with respective increases of 5.4% and 3.4 % for our Physical and Protocol-layer product lines.

In fiscal 2016, the year-over-year sales increase in our Physical-layer product line (optical and copper testing) is mainly due to our leadership position in portable optical testing and a 100G investment cycle among communications service providers (CSPs), especially in the United States. This 100G investment cycle also benefited to our transport and datacom product line (a sub-group within our Protocol-layer product line), especially in the

United States. In addition, in fiscal 2016, sales of our newly launched analytics software solution EXFO Xtract (which is also a sub-group of our Protocol-layer product line) contributed to the year-over-year sales increase.

Overall, the year-over-year increase in sales in fiscal 2016 comes from the Americas, namely in the United States and from the Asia-Pacific (APAC) region, namely in China. Both United States and China delivered robust year-over-year sales increase. On the other hand, sales to EMEA slightly decreased year-over-year, due to negative currency impact. Otherwise, this region would have reported slight sales increase year-over-year, despite uncertain market conditions in many European countries. United Kingdom however, delivered strong sales increase in 2016, after a steady decline in sales over the last couple of years.

In fiscal 2016, we delivered solid year-over-year increases in bookings for our two product lines, despite the negative currency impact. The year-over-year increase in bookings was manifested through heightened penetration of mobile network operators for their fronthaul and backhaul networks, increased traction with fixed network operators for their 100G long-haul and metro links, and growing business with web-scale operators for their data center interconnects. In addition, in fiscal 2016, we received orders in the Americas for our EXFO Xtract solution, which resulted in increased bookings for our protocol-layer product line year-over-year.

Overall, in fiscal 2016, we reported robust year-over-year bookings increases in every geographic area.

As we gradually evolve from a supplier of dedicated test instruments to a supplier of end-to-end solutions, our quarterly sales and bookings are becoming increasingly subject to quarterly fluctuations, as we are managing more complex, multimillion dollar deals that have prolonged sales and revenue recognition cycles related to our Protocol-layer products.

Fiscal 2015 vs. 2014

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

In fiscal 2015, however, we faced a significant headwind from a stronger US dollar, compared to 2014. Excluding this negative currency impact, our sales would have been flat year-over-year.

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

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

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

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

Table of Contents

In addition, in fiscal 2015, our sales and bookings for our Protocol-layer product line were negatively affected by the management of more complex, multimillion dollar deals that have prolonged sales and revenue recognition cycles.

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

Sales by geographic region

The following table summarizes sales by geographic region:

	Years ended August 31,		
	2016	2015	2014
Americas	55 %	54 %	53 %
EMEA	25	26	28
APAC	20	20	19
	100 %	100 %	100 %

GROSS MARGIN BEFORE DEPRECIATION AND AMORTIZATION
(non-IFRS measure – refer to page 52 of this document)

Gross margin before depreciation and amortization (gross margin) amounted to 62.6%, 61.7% and 62.4% of sales in fiscal 2016, 2015 and 2014 respectively.

Fiscal 2016 vs. 2015

In fiscal 2016, our gross margin was favorably affected by a richer product mix within our protocol-layer product line. Namely, year-over-year sales increases for our transport and datacom products, as well as the recognition of orders for our EXFO Xtract software analytics solution, had a positive impact on our gross margin in fiscal 2016, compared to 2015; this was offset in part by an unfavorable product mix within our physical-layer product line year-over-year.

In addition, in fiscal 2016, we recorded lower inventory write-off compared to 2015, which contributed to increase our gross margin by 0.2% year-over-year.

Furthermore, in fiscal 2015, we recorded $0.3 million in restructuring charges in the cost of sales (nil in 2016), which negatively affected our gross margin for that year (0.1%).

Finally, in fiscal 2016, a stronger US dollar compared to other currencies reduced our manufacturing costs and had a positive impact on our gross margin year-over-year.

Fiscal 2015 vs. 2014

In fiscal 2015, our gross margin was unfavorably affected by product mix compared to 2014 as our Physical-layer product line represented a larger portion of our sales year-over-year and this product line delivers lower margins than our Protocol-layer product line.

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

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

Finally, in fiscal 2015, we recorded $0.3 million in restructuring charges in the cost of sales (nil in 2014), which negatively affected our gross margin for that year (0.1%).

Table of Contents

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

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

SELLING AND ADMINISTRATIVE EXPENSES (excluding unusual charge, which represents bad debt expenses arising from the revision (see Note 1 to the consolidated financial statements included in this Annual Report on Form 20-F/A))

Selling and administrative expenses amounted to $82.2 million, $82.2 million and $86.4 million for fiscal 2016, 2015 and 2014 respectively. As a percentage of sales, selling and administrative expenses amounted to 35.3%, 37.0% and 37.4% for fiscal 2016, 2015 and 2014 respectively.

Fiscal 2016 vs. 2015

In fiscal 2016, our selling and administrative expenses were positively affected by the significant increase in the average value of the US dollar compared to the Canadian dollar and the euro year-over-year, as a portion of our selling and administrative expenses are incurred in Canadian dollars and euros, and we report our results in US dollars, and the positive impact of our 2015 restructuring plan. In addition, our 2015 restructuring plan resulted in severance expenses of $0.6 million (or 0.3% of sales) recorded in the fourth quarter of 2015 (nil in 2016); these elements offset inflation, salary increases and increased commission expenses on increased sales.

As percentage of sales, our selling and administrative expenses decreased in fiscal 2016 compared to 2015 as these expenses were flat year-over-year and our sales increased.

Fiscal 2015 vs. 2014

In fiscal 2015, selling and administrative expenses included $0.6 million or 0.3% of sales, in restructuring charges compared to nil in 2014.

Otherwise, in fiscal 2015, our selling and administrative expenses decreased due to the increase in the average value of the US dollar compared to the Canadian dollar and the euro year-over-year, as a portion of our selling and administrative expenses are incurred in these latter two currencies and we report our results in US dollars, and to tight control on expenses, which more than offset inflation and salary increases.

RESEARCH AND DEVELOPMENT EXPENSES

Gross research and development expenses

Gross research and development expenses totaled $47.9 million, $50.1 million and $52.4 million for fiscal 2016, 2015 and 2014 respectively. As a percentage of sales, gross research and development expenses amounted to 20.6%, 22.6% and 22.7% for fiscal 2016, 2015 and 2014 respectively, while net research and development expenses accounted for 18.4%, 19.8% and 19.4% of sales for these respective years.

Fiscal 2016 vs. 2015

In fiscal 2016, the year-over-year significant increase in the average value of the US dollar, compared to the Canadian dollar and the euro had a positive impact on our gross research and development expenses as a large portion of these expenses are incurred in Canadian dollars and euros, and we report our results in US dollars. In addition, the 2015 restructuring plan positively affected our gross research and development expenses in 2016. Finally, our 2015 restructuring plan resulted in severance expenses of $0.8 million (or 0.3% of sales) in 2015 versus nil in 2016. However, these positive effects year-over-year were offset in part by inflation, salary increases, as well as a shift in the mix and timing of research and development projects, compared to 2015.

Table of Contents

As percentage of sales, our gross research and development decreased in fiscal 2016 compared to 2015 as these expenses decreased year-over-year and our sales increased.

Fiscal 2015 vs. 2014

In fiscal 2015, the year-over-year increase in the average value of the US dollar, compared to the Canadian dollar and the euro had a positive impact on our gross research and development expenses as a large portion of these expenses are incurred in these latter two currencies and we report our results in US dollars.

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

In addition, in fiscal 2015, our gross research and development expenses included $0.8 million, or 0.3% of sales, in restructuring charges, compared to nil in 2014.

Tax Credits and Grants

We are entitled to tax credits from the Canadian federal and provincial governments for eligible research and development activities conducted in Canada. We are also eligible for grants by a Finnish technology organization on certain research and development projects conducted in Finland.

Tax credits and grants for research and development activities were $5.2 million, $6.1 million and $7.6 million for fiscal 2016, 2015 and 2014 respectively. As a percentage of gross research and development expenses, tax credits and grants reached 10.8%, 12.3% and 14.5% for fiscal 2016, 2015 and 2014 respectively.

Fiscal 2016 vs. 2015

The decrease in our tax credits and grants in fiscal 2016, compared to 2015, results from the decrease in our gross research and development expenses, the shift in mix of eligible projects, namely in Finland, as well as from the increase in the average value of the US dollar, compared to the Canadian dollar year-over-year, as our tax credits are denominated in Canadian dollars and we report our results in US dollars.

In fiscal 2016, the decrease in tax credits and grants as a percentage of gross research and development expenses, compared to 2015, mainly comes from the shift in mix of eligible projects.

Fiscal 2015 vs. 2014

The decrease in our tax credits and grants in fiscal 2015, compared to 2014, results from the decrease in the statutory Canadian federal and provincial research and development tax credit rates, as well as from the increase in the average value of the US dollar, compared to the Canadian dollar year-over-year, as our tax credits are denominated in Canadian dollars and we report our results in US dollars.

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

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Depreciation of property, plant and equipment totaled \$3.8 million, \$4.8 million and \$5.0 million for fiscal 2016, 2015 and 2014 respectively.

Table of Contents

Fiscal 2016 vs. 2015

In fiscal 2016, the year-over-year increase in the average value of the US dollar compared to the Canadian dollar had a positive effect on our depreciation expenses as these expenses are incurred in Canadian dollars and we report our results in US dollars.

AMORTIZATION OF INTANGIBLE ASSETS

In conjunction with the business combinations we completed over the past several years, we recorded intangible assets, primarily consisting of core technology, customer relationships and brand name. In addition, intangible assets include software. These intangible assets resulted in amortization expenses of $1.2 million, $2.9 million and $4.4 million for fiscal 2016, 2015 and 2014 respectively.

Fiscal 2016 vs. 2015

The decrease in our amortization expenses in fiscal 2016, compared to 2015, is mainly due to the fact that core technology related to the acquisition of NetHawk Oyj (acquired in fiscal 2010) became fully amortized in the third quarter of fiscal 2015, and that the average value of the US dollar increased compared to the Canadian dollar year-over-year, as our amortization expenses is incurred in this currency and we report our results in US dollars.

Fiscal 2015 vs. 2014

The decrease in amortization expenses in fiscal 2015, compared to 2014, is mainly due the core technology related to the acquisition of NetHawk Oyj, as well as the increase in the average value of the US dollar compared to the Canadian dollar year-over-year, as our amortization expenses is incurred in this currency and we report our results in US dollars.

FOREIGN EXCHANGE GAIN

Foreign exchange gains and losses are mainly the result of the translation of operating activities denominated in currencies other than our functional currency, which is the Canadian dollar. A portion of our foreign exchange gains or losses result from the translation of cash balances and deferred income taxes denominated in US dollars. We manage our exposure to currency risk in part with forward exchange contracts. In addition, some of our entities' operating activities are denominated in US dollars, euros and British pounds, which further hedges this risk. However, we remain exposed to a currency risk; namely, any increase in the value of the Canadian dollar, compared to the US dollar, would have a negative impact on our operating results.

We reported a foreign exchange gain of $0.2 million in fiscal 2016, compared to $7.2 million in 2015 and $1.6 million in 2014.

Fiscal 2016

In fiscal 2016, we witnessed some volatility in the value of the Canadian dollar as it fluctuated compared to the US dollar, which overall resulted in a foreign exchange gain of $0.2 million during that period. The period-end value of the Canadian dollar slightly increased 0.3% versus the US dollar to CAD$1.3116 = US$1.00 in fiscal 2016, compared to CAD$1.3157 = US$1.00 at the end of the previous year. In fiscal 2016 the average value of the Canadian dollar versus the US dollar was CA$1.3278 = US$1.00.

Table of Contents

Fiscal 2015

In fiscal 2015, the period-end value of the Canadian dollar significantly decreased versus the US dollar and the euro, compared to the previous year end, which resulted in a significant foreign exchange gain of $7.2 million during the year. The period-end value of the Canadian dollar decreased 17.5% to CA$1.3157 = US$1.00 in fiscal 2015, compared to CA$1.0858 = US$1.00 at the end of the previous year, and decreased 3.0% to CA$1.4755 = €1.00 in fiscal 2015, compared to CA$1.4319 = €1.00 at the end of the previous year. In fiscal 2015, the average value of the Canadian dollar versus the US dollar was CA$1.2093 = US$1.00.

Fiscal 2014

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

Foreign exchange rate fluctuations also flow through the P&L line items as a portion of our sales are dominated in Canadian dollars and euros and a significant portion of cost of sales and our operating items are denominated in Canadian dollars, euros and Indian rupees, and we report our results in US dollars.

Fiscal 2016 vs. 2015

In fiscal 2016, the increase in the average value of the US dollar compared to the Canadian dollar, the euro and the Indian rupee year-over-year, resulted in a positive impact on our financial results. The average value of the US dollar increased 8.9%, 4.6% and 6.3% respectively year-over-year, compared to the Canadian dollar, the euro and the Indian rupee.

Fiscal 2015 vs. 2014

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

UNUSUAL CHARGE

Unusual charge for fiscal 2015 and 2014 relates to bad debt expenses associated with a single trade receivable account. See "Note 1, Revision of Consolidated Financial Statements" to our consolidated financial statements for the year ended August 31, 2016.

INCOME TAXES

In fiscal 2016, we reported income tax expenses of $7.8 million on earnings before income taxes of $16.7 million, compared to income tax expenses of $5.0 million on earnings before income taxes of $9.9 million in 2015 and income tax expenses of $4.3 million on earnings before income taxes of $4.5 million in 2014.

These distorted tax rates mainly resulted from the fact that we did not recognize deferred income tax assets for some of our subsidiaries at loss and had some non-deductible losses and expenses, such as stock-based compensation costs. However, a significant portion of our foreign exchange gain was created by the translation of financial statements of our foreign subsidiaries from their local currency to the functional currency, and was therefore non-taxable. Otherwise, our effective tax rate would have been closer to the combined Canadian and provincial statutory tax rate of 27% for these years.

Please refer to note 18 to our consolidated financial statements for a full reconciliation of our income tax provision.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Cash Requirements and Capital Resources

As at August 31, 2016, cash and short-term investments totaled $47.3 million, while our working capital was at $85.1 million. Our cash and short-term investments increased $19.9 million in fiscal 2016, compared to 2015. In fiscal 2016, we generated $24.4 million in cash flows from operating activities and we recorded an unrealized foreign exchange gain on our cash and short-term investment of $1.6 million. This unrealized foreign exchange gain resulted from the translation, in US dollars, of our Canadian-dollar-denominated cash and short-term investments and was included in the accumulated other comprehensive income in the balance sheet. Otherwise, in fiscal 2016, we made cash payments of $4.4 million and $1.6 million respectively for the purchase of capital assets and the redemption of share capital.

Our short-term investments consist of debt instruments issued by high-credit quality corporations; therefore, we consider the risk of non-performance of these financial instruments to be limited. These debt instruments are not expected to be affected by a significant liquidity risk. For the purpose of managing our cash position, we have established a cash management policy, which we follow and monitor on a regular basis. Our cash and short-term investments will be used for working capital and other general corporate purposes, potential acquisitions as well as our share repurchase program. As at August 31, 2016, cash balances included an amount of $23.3 million that bears interest at an annual rate of 1.2%.

We believe that our cash balances and short-term investments of $47.3 million will be sufficient to meet our liquidity and capital requirements for the foreseeable future, including the effect of our share repurchase program. In addition to these assets, we have unused available lines of credit totaling $14.9 million for working capital and other general corporate purposes, and unused lines of credit of $21.6 million for foreign currency exposure related to forward exchange contracts. However, possible operating losses, restructuring charges and/or possible investments in or acquisitions of complementary businesses, products or technologies may require additional financing. There can be no assurance that additional debt or equity financing will be available when required or, if available, that it can be secured on satisfactory terms.

As at August 31, 2016, our commitments under operating leases amount to $3.3 million in 2017, $1.8 million in 2018, $0.8 million in 2019, $0.7 million in 2020 and $1.7 million in 2021 and after, for total commitments of $8.3 million.

Sources and Uses of Cash

We finance our operations and meet our capital expenditure requirements mainly through cash flows from operating activities, the use of our cash and short-term investments as well as the issuance of subordinate voting shares.

Operating activities

Cash flows provided by operating activities were $24.4 million in fiscal 2016, compared to $6.5 million in 2015 and $19.8 million in 2014.

Fiscal 2016 vs. 2015

Cash flows provided by operating activities in fiscal 2016 were attributable to the net earnings after items not affecting cash of $20.7 million, and the positive net change in non-cash operating items of $3.6 million. This was mainly due to the positive effect on cash of the decrease of $2.7 million in our accounts receivable due to the timing of receipts and sales during the year, the $0.9 million decrease in our income tax and tax credits recoverable due to tax credits earned in previous periods recovered during the year, and the $4.9 million increase in our accounts payable, accrued liabilities and provisions due to the timing of purchases and payments during the year. These positive effects on cash were offset in part by the negative effect on cash of the $4.7 million increase in our inventories to meet future demand, and the negative effect on cash of the increase of $0.3 million in our prepaid expenses due to timing of payments during the year.

Table of Contents

Fiscal 2015 vs. 2014

Cash flows provided by operating activities in fiscal 2015 were attributable to the net earnings after items not affecting cash of $11.4 million, offset in part by the negative net change in non-cash operating items of $4.9 million; this was mainly due to the negative effect on cash of the increase of $10.8 million in our accounts receivable due to the timing of receipts and sales during the year, the negative effect on cash of the increase of $2.1 million in our income tax and tax credits recoverable due to tax credits earned during the year not yet recovered, and the negative effect on cash of the increase of $1.0 million in our prepaid expenses due to timing of payments during the year. These negative effects on cash were offset in part by the positive effect on cash of the decrease of $0.8 million in our inventories due to improved inventory turns during the year and the increase of $8.1 million in our accounts payable, accrued liabilities and provisions due to timing of purchases and payments during the year.

Investing activities

Cash flows used by investing activities amounted to $7.0 million in fiscal 2016, compared to $2.3 million in 2015 and $8.9 million in 2014.

Fiscal 2016

In fiscal 2016, we paid $4.4 million for the purchase of capital assets and we acquired (net of disposal) $2.6 million worth of short-term investments.

Fiscal 2015

In fiscal 2015, we paid $5.9 million for the purchase of capital assets but we disposed (net of acquisitions) of $3.6 million worth of short-term investments.

Fiscal 2014

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

Financing activities

Cash flows used by financing activities amounted to $1.6 million in fiscal 2016, compared to $25.5 million in 2015 and $1.0 million in 2014.

Fiscal 2016

In fiscal 2016, we redeemed share capital under our share repurchase program for a cash consideration of $1.6 million.

Fiscal 2015

In fiscal 2015, we redeemed share capital under our share repurchase programs (namely our substantial issuer bid) for a cash consideration of $25.5 million.

Fiscal 2014

In fiscal 2014, we redeemed share capital under our share repurchase program for a cash consideration of $0.9 million and repaid $0.3 million of our long-term debt. However, we received $0.2 million from the exercise of stock options.

Table of Contents

FORWARD EXCHANGE CONTRACTS

We are exposed to a currency risk as a result of our export sales of products manufactured in Canada, China and Finland, the majority of which are denominated in US dollars and euros. In addition, we are exposed to a currency risk as a result of our research and development activities in India (Indian rupees). These risks are partially hedged by forward exchange contracts. Forward exchange contracts, which are designated as cash flow hedging instruments, qualify for hedge accounting.

As at August 31, 2016, we held forward exchange contracts to sell US dollars for Canadian dollars and Indian rupees at various forward rates, which are summarized as follows:

US dollars – Canadian dollars

Expiry dates	Contractual amounts	Weighted average contractual forward rates
September 2016 to August 2017	$22,200,000	1.2784
September 2017 to August 2018	9,900,000	1.3367
September 2018 to December 2018	1,900,000	1.3639
Total	$34,000,000	1.3002

US dollars – Indian rupees

Expiry dates	Contractual amounts	Weighted average contractual forward rate
September 2016 to August 2017	$3,800,000	70.92

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 $4.2 million and $0.1 million as at August 31, 2015 and 2016 respectively. The US dollar – Canadian dollar year-end exchange rate was CA$1.3116 = US$1.00 as at August 31, 2016.

SHARE CAPITAL

As at November 14, 2016, EXFO had 31,643,000 multiple voting shares outstanding, entitling to 10 votes each and 22,799,383 subordinate voting shares outstanding. The multiple voting shares and the subordinate voting shares are unlimited as to number and without par value.

OFF-BALANCE SHEET ARRANGEMENTS

As at August 31, 2016, our off-balance sheet arrangements consisted of letters of guarantee amounting to $0.4 million for our own selling and purchasing requirements, which were reserved from our lines of credit; these letters of guarantee expire at various dates through fiscal 2020.

STRUCTURED ENTITIES

As at August 31, 2016, we did not have interests in any structured entities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with IFRS requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosures of contingent assets and liabilities at the date of the financial statements. On an ongoing basis, we evaluate these estimates and assumptions, including those related to the fair value of financial instruments, the allowance for doubtful accounts receivable, the amount of tax credits recoverable, the provision for excess and obsolete inventories, the estimated useful lives of capital assets, the valuation of long-lived assets, the impairment of goodwill, the recoverable amount of deferred income tax assets, the amount of certain accrued liabilities, provisions and deferred revenue as well as stock-based compensation costs. We base our estimates and assumptions on historical experience and on other factors that we believe to be reasonable under the circumstances.

Critical Judgments in Applying Accounting Policies

(a) Determination of functional currency

We operate in multiple countries and generate revenue and incur expenses in several currencies, namely the Canadian dollar, the US dollar, the euro, the British pound, the Indian rupee and the CNY (Chinese currency). The determination of the functional currency of EXFO and its subsidiaries may require significant judgment. In determining the functional currency of EXFO and its subsidiaries, we take into account primary, secondary and tertiary indicators. When indicators are mixed and the functional currency is not obvious, we use our judgment to determine the functional currency.

(b) Determination of cash generating units and allocation of goodwill

For the purpose of impairment testing, goodwill must be allocated to each cash-generating unit (CGU) or group of CGUs that are expected to benefit from the synergies of the business combination. Initial allocation and possible reallocation of goodwill to a CGU or a group of CGUs requires judgment.

Critical Estimates and Assumptions

(a) Inventories

We state our inventories at the lower of cost, determined on an average cost basis and net realizable value, and we provide reserves for excess and obsolete inventories. We determine our reserves for excess and obsolete inventories based on the quantities on hand at the reporting dates compared to foreseeable needs, taking into account changes in demand, technology or market. It is possible that additional inventory reserves may occur if future sales are less than our forecasts or if there is a significant shift in product mix compared to our forecasts, which could adversely affect our results.

(b) Income taxes

We are subject to income tax laws and regulations in several jurisdictions. Under these laws and regulations, uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. We maintain provisions for uncertain tax positions that we believe appropriately reflect our risk based on our interpretation of laws and regulations. In addition, we make reasonable estimates and assumptions to determine the amount of deferred tax assets that can be recognized in our consolidated financial statements, based upon the likely timing and level of anticipated future taxable income together with tax planning strategies. The ultimate realization of our deferred income tax assets is dependent upon the generation of sufficient future taxable income during the periods in which those assets are expected to be realized.

Table of Contents

As at August 31, 2016, we had deferred income tax assets in the balance sheet in the amount of $4.6 million for operating losses in the United States. In order to recover these deferred income tax assets, we need to generate approximately $13.5 million in pre-tax earnings in the United States, and in order to do so over the estimated recovery period of four years, we must generate pre-tax earnings compound annual growth rate (CAGR) of 2%, which we believe is probable. Our losses in the United States can be carried forward over a twenty-year period.

(c) Tax credits recoverable

Tax credits are recorded provided that there is reasonable assurance that we have complied and will comply with all the conditions related to the tax credits and that the tax credits will be received. The ultimate recovery of our non-refundable tax credits is dependent upon the generation of sufficient future taxable income during the tax credits carry-forward periods. We have made reasonable estimates and assumptions to determine the amount of non-refundable tax credits that can be recognized in our consolidated financial statements, based upon the likely timing and level of anticipated future taxable income together with tax planning strategies.

As at August 31, 2016, our non-refundable research and development tax credits recognized in the balance sheet amounted to $37.2 million. In order to recover these non-refundable research and development tax credits, we need to generate approximately $240 million (CA$315 million) in pre-tax earnings at the Canadian federal level and approximately $12 million at the Canadian provincial level. In order to generate $240 million in pre-tax earnings at the Canadian Federal level over the estimated recovery period of 12 years, we must generate a pre-tax earnings CAGR of 2%, which we believe is probable.
Our non-refundable research and development tax credits can be carried forward over a twenty-year period.

(d) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or group of assets (cash generating unit (CGU)) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation for our CGUs is based on a market approach that relies on input from implicit valuation multiples and recent transactions for comparable assets or businesses, within the same industry. We apply judgment in making adjustments for factors such as size, risk profile or profitability and also consider EXFO's value derived from its market capitalization considering a control premium based on comparable situations. Depending on the market evidence available, we, from time to time, may further supplement this market approach with discounted cash flows.

In the fourth quarter of fiscal 2016, we performed our annual goodwill impairment test for our two CGUs, EXFO and Brix.

For the purposes of the impairment test, goodwill has been allocated to the lowest level within the company at which it is monitored by management to make business decisions, which are the following two CGUs:

EXFO CGU	$8,663,000
Brix CGU	13,265,000
Total	$21,928,000

Table of Contents

In performing the goodwill impairment review of both CGUs, we determined the recoverable amount of goodwill based on fair value less costs of disposal. In estimating the recoverable amount of the EXFO CGU, we used a market approach, which is based on sales multiples within the range of 0.7 to 3.7 times sales, for comparable businesses with similar operations within the same industry over the past year. We applied judgment in making certain adjustments for factors such as size, risk profile or profitability of the comparable businesses, when compared to the EXFO CGU. To calculate the recoverable amount of the Brix CGU, we also applied a similar market approach, based on sales multiples for comparable businesses, which also ranged from 0.7 to 3.7 times sales. Furthermore, as the sales and operations of the EXFO CGU constitutes the significant majority of our sales and operations, we also compared the carrying amount of the EXFO CGU to EXFO's overall market capitalization, after adjustment for a control premium and the adjustment to deduct the recoverable amount of the Brix CGU. Based on this calculation, we calculated a recoverable amount which resulted in an implied sales multiple that was within the 0.7 to 3.7 times range, as used in the market approach described above.

As at August 31, 2016, the recoverable amount for both CGUs exceeded their carrying value. The recoverable amount of EXFO CGU and Brix CGU would equal their carrying value using sales multiples of 0.6 and 0.7 time sales respectively.

NEW IFRS PRONOUNCEMENTS NOT YET ADOPTED

Financial Instruments

The final version of IFRS 9, "Financial Instruments", was issued in July 2014 and will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Requirements relating to hedge accounting representing a new hedge accounting model have also been added to IFRS 9. The new standard is effective for annual periods beginning on or after January 1, 2018, and must be applied retrospectively. We will adopt this new standard on September 1, 2018. We are currently assessing the impact that the new standard will have on our consolidated financial statements.

Revenue from Contracts with Customers

IFRS 15, "Revenue from Contracts with Customers", was issued in May 2014. The objective of this new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability. This new standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This new standard is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. We are currently assessing the impact that the new standard will have on our consolidated financial statements and whether or not early adopt the new standard.

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

Table of Contents

NON-IFRS MEASURES

We provide non-IFRS measures (constant currency data, gross margin before depreciation and amortization and adjusted EBITDA) as supplemental information regarding our operational performance. We use these measures for the purpose of evaluating our historical and prospective financial performance, as well as our performance relative to our competitors. These measures also help us to plan and forecast future periods as well as to make operational and strategic decisions. We believe that providing this information to our investors, in addition to the IFRS measures, allows them to see the company's results through the eyes of management, and to better understand our historical and future financial performance.

The presentation of this additional information is not prepared in accordance with IFRS. Therefore, the information may not necessarily be comparable to that of other companies and should be considered as a supplement to, not a substitute for, the corresponding measures calculated in accordance with IFRS.

Constant currency data represents data before foreign currency impact. Data for the current period is translated using foreign exchange rates of the corresponding period from the preceding year.

Gross margin before depreciation and amortization represents sales less cost of sales, excluding depreciation and amortization.

Adjusted EBITDA represents net earnings before interest, income taxes, depreciation and amortization, restructuring charges, stock-based compensation costs, unusual charge, and foreign exchange gain.

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

Adjusted EBITDA

	Years ended August 31,		
	2016	2015	2014
IFRS net earnings for the year	$8,900	$4,857	$256
Add (deduct):			
Depreciation of property, plant and equipment	3,814	4,835	4,995
Amortization of intangible assets	1,172	2,883	4,398
Interest and other income	(828)	(155)	(326)
Income taxes	7,764	5,036	4,286
Restructuring charges	–	1,637	–
Unusual charge [1]	–	603	720
Stock-based compensation costs	1,378	1,295	1,696
Foreign exchange gain	(161)	(7,212)	(1,634)
Adjusted EBITDA for the year	$22,039	$13,779	$14,391
Adjusted EBITDA in percentage of total sales	9.5 %	6.2 %	6.2 %

(1)

We have amended the calculation of adjusted EBITDA to include an adjustment for the unusual charge associated with bad debt expense, as described in Note 1, Revision to Consolidated Financial Statements, to our consolidated financial statements on the basis that the charge is not considered typical for our historical or future operating performance.

Table of Contents

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The following table sets forth information about our executive officers, senior managers and Directors as of November 1, 2016.

Name and Municipality of Residence	Position with EXFO
PIERRE-PAUL ALLARD Pleasanton, California	Independent Director
STEPHEN BULL Quebec City, Quebec	Vice-President, Research and Development
STÉPHANE CHABOT Quebec City, Quebec	Vice-President, Test and Measurement
FRANÇOIS CÔTÉ Montreal, Quebec	Independent Director
DARRYL EDWARDS Weston Under Wetherley, United Kingdom	Independent Director
LUC GAGNON St-Augustin-de-Desmaures, Quebec	Vice-President, Manufacturing Operations and Global Services
GERMAIN LAMONDE St-Augustin-de-Desmaures, Quebec	Chairman of the Board, President and Chief Executive Officer
CLAUDIO MAZZUCA LaSalle, Quebec	Vice-President, Systems and Services
PHILIPPE MORIN Senneville, Quebec	Chief Operating Officer
PIERRE PLAMONDON Quebec City, Quebec	Vice-President, Finance and Chief Financial Officer
BENOIT RINGUETTE Boischatel, Quebec	General Counsel and Corporate Secretary
SYLVAIN ROULEAU Kirkland, Quebec	Vice-President, Human Capital
MICHAEL SCHEPPKE Singapore, Singapore	Vice-President, Sales — Asia-Pacific

CLAUDE SÉGUIN Westmount, Quebec	Independent Director
LEE HUAT (JOSEPH) SOO Singapore, Singapore	Vice-President, Sales — Asia-Pacific
WILLEM JAN TE NIET Harfsen, Netherlands	Vice-President, Sales — EMEA
RANDY E. TORNES Frisco, Texas	Independent Director
DANA YEARIAN Lake Forest, Illinois	Vice-President, Sales — Americas

The address of each of our executive officers, senior managers and Directors is c/o EXFO Inc., 400 Godin Avenue, Quebec, Quebec, Canada, G1M 2K2. The following is a brief biography of each of our executive officers, senior managers and Directors.

Pierre-Paul Allard was appointed a member of our Board of Directors in September 2008 and has been a board member of many other technology companies in Canada and in the US. Mr. Allard is Senior Vice-President, Worldwide Sales and President Global Field Operations at Check Point Software Technologies Inc. As Chief Revenue Officer, Mr. Allard is responsible for all go-to-market at Check Point. Prior to joining Check Point in July 2016, Mr. Allard led the go to market and sales teams at Avaya Inc. for 4 years. Prior to this, he worked for nineteen (19) years at Cisco Systems, Inc., where he most recently held the position of Vice-President, Sales and Operations, Global Enterprise. Previously, Mr. Allard was President of Cisco Systems Canada, and before that he held various management roles at IBM Canada for twelve (12) years. In 2002, Mr. Allard co-chaired the Canadian e-Business Initiative, a private-public partnership aiming to measure the role e-Business plays in increasing productivity levels, job creation and competitive position. In 1998, he was the laureate of the Arista-Sun life Award, for Top Young Entrepreneur in Large Enterprise, conferred by the Montreal Chamber of Commerce. In 2003, he received the Queen's Golden Jubilee Medal, which highlights significant contributions to Canada. In the same year, he was also awarded the prestigious Trudeau Medal from the University of Ottawa, Telfer School of Management. Pierre-Paul Allard holds a bachelor's and masters' degree in business administration from the University of Ottawa, Canada.

Stephen Bull joined EXFO in 1995 as an Engineering Manager (project management) for the Advanced Optics group. From September 1997 to December 1999, he held the position of Assistant Director of Engineering responsible for all the software development. Mr. Bull was then appointed EXFO's Vice-President of Research and Development in December 1999. Today, he manages a department that includes more than 760 engineers and technicians spread out over three continents and nine locations. He is responsible for EXFO's product development initiatives and manages the Project Management Office and related processes. Prior to joining EXFO, Mr. Bull was General Manager and Managing Director of Space Research Corporation, a military engineering company in Belgium, from June 1986 to March 1990, as well as of Taurus, an IT consulting firm, from 1990 to 1995. He is currently the President of the Institut de développement de produits (an institute dedicated to the advancement of product development practices) and a member of the Product Development Management Association (PDMA). He speaks regularly at conferences on product development. Stephen Bull holds a bachelor's degree in electrical engineering from Université Laval in Quebec City, and is a certified New Product Development Professional from the PDMA.

Stéphane Chabot first joined EXFO as a Product Line Manager in 1998 and was promoted to Product Line Manager—Network Service Provider Market in 2001. As Vice-President, Test and Measurement, Mr. Chabot is responsible for the Optical and Access & Platform product lines. Prior to this appointment, he was Director of EXFO's Optical Business Unit, a position he had held since 2006. In this role, Mr. Chabot led the main team in its responsibility for developing the worldwide optical business and strategy, developing and maintaining the product family roadmap and vision, developing and controlling yearly marketing, ensuring go-to-market plans, developing new markets, providing key market watch and competitive updates, analyzing product line performance and metrics, providing periodic benchmarking, and developing partnerships/OEMs/acquisitions within the product line family. Mr. Chabot was highly successful as Director of the Optical Business Unit, doubling its annual revenues to more than $120M and 38% market share in optical portable solutions, with leadership in many key worldwide applications, such as Fiber-to-the-Home. Prior to his employment at EXFO, Mr. Chabot was a Telecommunications Officer at the Canadian Armed Forces from 1992 to 1998. Stéphane Chabot holds a bachelor's degree in Space Science from The Royal Military College of Canada, and a Diploma in Business Administration from Laval University.

François Côté was appointed a member of our Board of Directors in January 2015. Mr. Côté is a director as a full-time occupation, for corporations in the public, private and non-profit sectors, bringing his expertise in strategy, M&A, governance and passion for growth. Mr. Côté held a variety of executive positions at Bell Canada prior to becoming President and Chief Executive Officer of Emergis. Following the acquisition of Emergis by TELUS in January 2008, he was appointed President of TELUS Quebec, TELUS Health and TELUS Ventures. In this role, Mr. Côté was responsible for broadening TELUS Quebec's presence and driving the company's national health strategy through timely investments in information technology and innovative wireless solutions. Mr. Côté holds a Bachelor's degree in Industrial Relations from Laval University. In 2007, he was named Entrepreneur of the Year by Ernst & Young, in the Corporate Restructuring category for the province of Quebec. Mr. Côté serves on the boards of Alithya and Lumenpulse Inc. (LMP) as well as the Advisory Board of the McGill Centre for the Convergence of Health and Economics (MCCHE). He is also Chairman of the Board for Norda Stelo, Vice-President of the Board of the Foundation Dr. Julien and Board member of the Fondation Martin Matte. In June 2013, Mr. Côté was named Honourary Lieutenant-Colonel of the Canadian Armed Forces' 34th Signal Regiment.

Darryl Edwards was appointed a member of EXFO's Board of Directors in September 2011. Mr. Edwards is the President and Chief Executive Officer of ECI Telecom, a leading provider of access and transport solutions. Prior to leading ECI, Mr. Edwards was the Chairman of the Board for MACH, a leading provider of hub-based mobile communication solutions. He brings to EXFO more than thirty (30) years of telecommunications experience gained from a number of senior executive leadership positions; most recently he was the Chief Executive Officer of AIRCOM International, successfully leading the company through to business sale. Mr. Edwards was previously at Nortel Networks for seventeen (17) years, where he held various executive officer positions, including President of EMEA and President of Global Sales (Carrier Networks). He also was the Chief Executive Officer for two (2) of Nortel's key joint ventures, first in the Middle East and later in Germany. Prior to his time at Nortel, Mr. Edwards spent thirteen (13) years at GEC-Plessey Telecommunications where he worked in engineering, quality assurance and international sales. He was also an advisor to private equity firm Warburg Pincus, the majority shareholder in MACH, on telecommunications-related topics. Mr. Edwards has held a number of chairs, including Chairman of the Board of Nortel's interests in Turkey, Nortel Netas, which was listed on the Istanbul Stock Exchange. He also was a member of the Advisory Counsel to the Turkish government between 2004 and 2008, and previously served on the UK Government Broadband Stakeholders Group and the Information Age Partnership. Darryl Edwards holds a Higher National Certificate (Physics) from Birmingham Polytechnic in the UK.

Luc Gagnon was appointed Vice-President, Manufacturing Operations in May 2003 and, in May 2007, he also took on the vice-presidency of the Global Services department. He is responsible for ensuring the smooth operation of all manufacturing activities, which include production, purchasing, product engineering, quality assurance, planning, manufacturing engineering, product configuration, transportation and customs, as well as material resources. In addition, he must ensure that there is an ongoing and efficient relation between the manufacturing process and the end customer. Prior to his nomination in 2003, Mr. Gagnon held the position of Production Director since 2000. Before joining EXFO, he had similar roles in several other high-technology companies. He worked for Mendes from 1999 to 2000, for C-MAC from 1997 to 1999, for STERIS from 1993 to 1997 and for MITEL from 1985 to 1993. Luc Gagnon holds a bachelor's degree in electrical engineering and master's degree in engineering, both from the Université de Sherbrooke, in Canada.

Germain Lamonde, a founder of EXFO, has been President and Chief Executive Officer of EXFO since its inception in 1985. He has also been Chairman of the Board since EXFO went public in 2000. Responsible for the overall management and strategic direction of EXFO, Mr. Lamonde has grown the company from the ground up into a global leader in the test, service assurance and analytics markets. Mr. Lamonde has served on the board of directors of several organizations such as the Canadian Institute for Photonic Innovations, the POLE QCA Economic Development Corporation, the National Optics Institute of Canada (INO) and Université Laval in Quebec City, to name a few. Mr. Lamonde has also been involved in numerous charity organizations such as United Way and served as honorary President for the Leucan Shaved Head initiative for the Quebec City Region. Germain Lamonde holds a bachelor's degree in engineering physics from the University of Montreal's School of Engineering (École Polytechnique), a master's degree in optics from Université Laval, and is also a graduate of the Ivey Executive Management Program offered by the University of Western Ontario.

Table of Contents

Claudio Mazzuca was appointed Vice-President, Systems and Services in March 2012. Prior to this appointment, he held the role of Director of EXFO's Transport and Datacom business unit since 2006. In this role, he was responsible for the development and execution of business and product strategy for this business unit, which now is a leading player in the Ethernet and next-generation packet transport test market segments. Mr. Mazzuca began his career as a systems engineer for Nortel Networks, where he worked on the launch of the highly successful 10G High-Speed Transport and DWDM product line, and later on Nortel's Preside Network Management solution. He then moved to technology startup Hyperchip Systems as Senior Product Manager, focusing on the development of large-scale metro and core IP routers and switches, and associated OEM components. In 2004, he joined EXFO's Transport and Datacom business unit as Product Line Manager for the next-generation SONET/SDH products, and in 2005, was promoted to Group Manager for the entire Transport and Datacom product line. Claudio Mazzuca holds a bachelor's degree in electrical engineering from Concordia University and a master's degree in business from McGill University in Montreal.

Philippe Morin was appointed Chief Operating Officer (COO) of EXFO in November 2015. He is responsible for EXFO's global sales leadership, market development, marketing, product management and technology strategy. Before joining EXFO, Mr. Morin was Senior Vice-President of Worldwide Sales and Field Operations at Ciena. Previously, he was Ciena's Senior Vice-President of the Global Products Group and held a number of leadership roles at Nortel Networks including President of Metro Ethernet Networks, Vice-President and General Manager of Optical Networks, as well as having held positions in sales, marketing and product management in North America and Europe. Altogether, Mr. Morin has more than 25 years of experience in the telecommunications industry. Philippe Morin holds a Bachelor of Electrical Engineering degree from Laval University in Quebec City, Canada, and a Master of Business Administration (MBA) degree from McGill University in Montreal, Canada

Pierre Plamondon was appointed Vice-President, Finance and Chief Financial Officer (CFO) of EXFO in January 1996. He is responsible for the accounting services, financial reporting, legal services, investor relations and information technology services. Prior to joining EXFO, Mr. Plamondon served as Senior Manager for Price Waterhouse, now PricewaterhouseCoopers LLP, from September 1981 to December 1995, in Canada and France. Pierre Plamondon holds a bachelor's degree in business administration and a license in accounting, both from Université Laval in Quebec City. Mr. Plamondon is a member of the Quebec Chartered Professional Accountants Order. He is currently a director of Urbanimmersive Inc., a public company listed on the TSX Venture Exchange. Over the years, he has been a member of the Board of Directors of several non-profit organizations among which the Fondation de l'Université Laval and SOVAR Inc. (Société de valorisation des applications de la recherche de l'Université Laval).

Benoit Ringuette has been our in-house Legal Counsel and Corporate Secretary since April 2004. Prior to joining EXFO, Mr. Ringuette practiced mainly in commercial, corporate and securities law from 1998 to 2003 as an associate in the law firms of O'Brien, Flynn Rivard in Quebec City and Desjardins Ducharme Stein Monast in Quebec City. Mr. Ringuette has been a member of the Quebec Bar since 1998. Mr. Ringuette holds a bachelor's degree in Civil Law and a master's degree in Business Administration (MBA) from Laval University in Quebec City, Canada.

Sylvain Rouleau was appointed Vice-President, Human Capital at EXFO in January 2012. As such, his main responsibility is overseeing the human resources department, and, more specifically, his mandate is to transform EXFO into an organization that optimizes its human capital and, in turn, surpasses its objectives. Mr. Rouleau has over twenty-five (25) years' experience in human resources and has held several executive positions in a variety of international organizations. Namely, before joining EXFO, he was Senior Vice-President, Human Capital at Kruger since February 2009. From 2003 to 2009, he worked for the Alcan Group Bauxite & Alumina as Vice-President, Human Resources, Communications and Corporate Affairs. Prior to that, he managed human resources teams for Nortel Networks as well as several divisions of the General Electric Company, such as GE Power Systems, GE

Medical Systems and GE Aircraft Engines, both in Canada and abroad. Mr. Rouleau's international perspective and his proven expertise as a business partner and as a change agent serve as a reference in human resources management. Sylvain Rouleau holds a master's degree in organizational psychology (O.D. and Complex Systems) from the Université de Sherbrooke in Canada, and he has given several conferences on leading-edge organizations.

Table of Contents

Claude Séguin was appointed a member of EXFO's Board of Directors in February 2013. He brings to EXFO nearly forty (40) years of corporate, financial, executive and provincial government experience gained through senior management positions in major corporations and government departments. Mr. Séguin is currently Special advisor to the Founder and Executive Chairman at CGI Group Inc., a global leader in information technology and business process services. He was, until October 2016, Senior Vice-President, Corporate Development and Strategic Investments. In this position, he was responsible for all merger and acquisition activities. Prior to joining CGI in 2003, he served as President of CDP Capital—Private Equity, and prior to this position, he served as Teleglobe Inc.'s Executive Vice-President, Finance and Chief Financial Officer, a position that he held from 1992 to 2000. Mr. Séguin also has extensive senior-level government experience, having served as Deputy Finance Minister of the Province of Québec from 1987 to 1992, in addition to Assistant Deputy Finance Minister. Prior to that, he has been Director of Planning and Assistant Director of Social Programs at the Province of Quebec Treasury Board. Mr. Séguin is a member of the boards of HEC-Montréal and Centraide of Greater Montreal Foundation as well as being Chairman of the Board of Finance – Montreal, an organization regrouping financial institutions in the Province of Quebec. Claude Séguin graduated from HEC-Montréal and earned a master's and a Ph.D. in public administration from Syracuse University in New York State. He also followed the Advanced Management Program at Harvard Business School.

Michael Scheppke was appointed EXFO's Vice-President, Sales – APAC in October 2016. He is responsible for managing telecom sales, both direct and indirect, and the execution of sales strategies across APAC regions. Michael developed his expertise working in our industry in both the USA and Asia. Following several years at HP and Agilent, he spent a significant part of his career at Ixia where he held various senior roles. He has developed and executed the go-to-market strategy for their network monitoring business in APAC by successfully leading diverse sales teams, and expending sales coverage with channel partners. Michael holds a bachelor of science degree in electrical engineering from the University of Florida.

Lee Huat (Joseph) Soo was appointed EXFO's Vice-President of Asia Sales in December 2011. He is responsible for managing telecom sales, both direct and indirect, and for the execution of sales strategies in the Asian market. As a member of the Strategy and Management Committees, he also develops corporate strategy for EXFO. Mr. Soo has extensive market knowledge and sales experience in the telecom industry, as he has been leading Asia Pacific sales teams for major test and measurement providers for the last fifteen (15) years. Namely, he was Vice-President of Asia Pacific Sales at Fluke Networks from 2010 to 2011. Prior to that, he was Executive Vice-President of Rohde & Schwarz Asia Pacific Regional, where he held various management and sales positions at different Rohde & Schwarz locations since he began there in 1997. Earlier on, Mr. Soo began his career as a Senior EMC Engineer at Astec Power Pte Ltd in 1990. Lee Huat (Joseph) Soo is fluent in English and Chinese and has lived both in Asia and the US. He holds a Bachelor of Science degree from the University of Minnesota Twin Cities and has attended several executive MBA courses at the Singapore Institute of Management. Mr. Soo will remain with EXFO until the end of November 2016.

Willem Jan te Niet was appointed Vice-President, Sales – EMEA in August 2016. He is responsible for managing telecom sales, both direct and indirect, and the execution of sales strategies across Europe, the Middle East and Africa. Prior to joining EXFO, Wim was on the senior management teams for global leaders such as Citrix Systems, Equinix, Ericsson-LG and Nortel. He brings considerable expertise in the areas of cloud, networking and big data mobile analytics. Wim also has more than 20 years of experience in managing sales teams and executing successful business development strategies with wireline and mobile operators. Wim holds a master of science degree in business administration from the University of Groningen.

Randy E. Tornes was appointed a member of EXFO's Board of Directors in February 2013. He brings to EXFO over thirty (30) years of telecommunications experience gained through senior management positions at leading network equipment manufacturers. Mr. Tornes is Vice-President, Strategic Alliances at Juniper Networks, a worldwide leader in high-performance networking and telecommunications equipment. Prior to his current role at Juniper, he was the Operating Area Leader for AT&T and responsible for all sales, service and support of Juniper products and services. Prior to joining Juniper Networks in May 2012, he spent two (2) years at Ericsson, where he was Vice-President Sales (AT&T account). Previous to that position, he worked for Nortel for twenty-six (26) years, holding various sales management positions, including Vice-President Sales, GSM Americas. Mr. Tornes also served as member of the Board of Governors at 3G Americas LLC. Randy E. Tornes holds a Bachelor of Science degree in business—organizational development and production and operations management, from the University of Colorado in Colorado Springs.

Table of Contents

Dana Yearian was appointed EXFO's Vice-President, Sales – Americas in March 2007. Prior to this appointment, Mr. Yearian held the position of Vice-President, Telecom Sales, North America. He is responsible for managing telecom sales, both direct and indirect, and the execution of sales strategies across North, Central and South America regions. From 2005 to 2006, Mr. Yearian held senior executive sales positions at Spirent Communications Service Assurance division. In 2003, he founded The Katrixx Group, which provided consulting and contracting services to high-technologies companies. Before founding this company, Mr. Yearian worked as Vice-President of Sales at Acterna Corp. (from 1991 to 2003), where he led both North American and International sales and support operations. Prior to working for Acterna, Mr. Yearian held various executive positions, namely at Toshiba America, Silicon Sensors (Advanced Photonix, Inc.) and Impell Corporation (ABB Ltd.). Dana Yearian holds a bachelor's degree in electrical engineering from the Illinois Institute of Technology in Chicago, and has completed MBA course work at DePaul University, also in Chicago, Illinois, USA.

Term of Executive Officers

Executive officers are appointed annually by the Board of Directors and serve until their successors are appointed and qualified or until earlier resignation or removal. There are no family relations among directors and officers and no arrangements with third parties (customers, suppliers) pursuant to which they were appointed as officers or directors.

B. Compensation

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Compensation Discussion and Analysis

This Compensation Discussion and Analysis focuses primarily on: (i) significant elements of the Corporation's executive compensation program; (ii) principles on which the Corporation makes compensation decisions and determines the amount of each element of executive and director compensation; and (iii) an analysis of the material compensation decisions made by the Human Resources Committee for the financial year ended August 31, 2016.

The following is a discussion of the compensation arrangements with the Corporation's Chief Executive Officer ("CEO"), Chief Operating Officer ("COO"), Chief Financial Officer ("CFO") and each of the two most highly compensated executive officers of the Corporation and its subsidiaries whose total compensation was, individually, more than CA$150,000, (collectively with the CEO, COO and CFO, the "Named Executive Officers" or "NEOs"). The NEOs for the financial year ended August 31, 2016 were Mr. Germain Lamonde (CEO), Mr. Philippe Morin (COO), Mr. Pierre Plamondon (Vice-President, Finance and CFO), Mr. Jon Bradley (Vice-President, Sales — Europe Middle East and Africa) and Mr. Dana Yearian (Vice-President, Sales — Americas).

Members of the Human Resources Committee

During the financial year ended August 31, 2016, the Human Resources Committee was composed of:

- Mr. François Côté (Chairman)
- Mr. Pierre-Paul Allard
- Mr. Darryl Edwards
- Mr. Claude Séguin
- Mr. Randy E. Tornes

None of these members were officers or employees, or former officers or employees of the Corporation or its subsidiaries. All of the members of the Human Resources Committee are considered "independent", as defined in applicable securities legislation and regulations. They each have experience in executive compensation either as a chief executive officer or a senior executive officer of a publicly-traded corporation. Mr. Pierre-Paul Allard has held management and executive positions for the last thirty (30) years. Mr. Côté held a variety of executive positions, including president and chief executive officer, for approximately twenty (20) years and he is the Chairman of the Human Resources Committee of Lumenpulse Inc. Mr. Côté also holds a Bachelor's degree in Industrial Relations. Mr. Darryl Edwards has held a number of senior executive leadership positions in the last thirty (30) years. Mr. Claude Séguin has held various senior management and executive positions in major corporations in the last forty (40) years. Mr. Randy E. Tornes has approximately thirty (30) years of management experience through senior sales management positions. Over the course of their careers, all members have been exposed at various degrees to the complexity of balancing efficient executive compensation strategies with the evolution of business requirements, having to manage directly or indirectly impacts and consequences of executive compensation decisions. The Board of Directors believes that the Human Resources Committee collectively has the knowledge, experience and background required to fulfill its mandate.

Mandate of the Human Resources Committee

The Human Resources Committee of the Board of Directors is responsible for establishing the annual compensation and assessing the risks related thereto and overseeing the assessment of the performance of all the Corporation's executive officers, including the President and CEO. The Human Resources Committee also reviews and submits to the Board of Directors recommendations for the salary structure and the short-term and long-term incentive compensation programs for all employees of the Corporation. The Human Resources Committee also evaluates and makes recommendations to the Board of Directors regarding the compensation of directors, including the number of Deferred Share Units credited to the non-employee directors pursuant to the Deferred Share Unit Plan. The Human Resources Committee's goal is to develop and monitor executive compensation programs that are consistent with strategic business objectives and shareholders' interests. Though the Human Resources Committee is responsible for the review of employees' performance and approval of the identity of the employees that will receive Restricted Share Units or options to purchase shares of the Corporation, in accordance with policies established by the Board of Directors and the terms of the Long-Term Incentive Plan, these functions may be shared between the Board of Directors and the Human Resources Committee. During the period from September 1, 2015 to August 31, 2016, these functions have been shared by the Board of Directors and the Human Resources Committee but have mainly been performed by the Human Resources Committee.

The Human Resources Committee has reviewed and discussed with the CEO and Vice-President, Human Capital of the Corporation, the compensation disclosure in this document, and has recommended to the Board of Directors that the disclosure be included in this Annual Report.

From September 1, 2015 to November 1, 2016, the Human Resources Committee held five (5) meetings and at all of those meetings executive compensation was discussed. The Human Resources Committee meetings were attended by all the members of the Human Resources Committee except Mr. Allard and Mr. Edwards, each of whom were absent at one (1) meeting. The following table outlines the main activities of the Human Resources Committee during the period from September 1, 2015 to November 1, 2016:

Meeting	Main Activities of the Human Resources Committee
October 7, 2015	Review of the Business Performance Measures results for the financial year ended August 31, 2015; Review of the Business Performance Measures for the financial year started September 1, 2015; Review of the Short-Term Incentive Plan results for the financial year ended August 31, 2015; Review of the Short-Term Incentive Plan for the financial year started September 1, 2015; Review of the proposed salary scales and salary increases for the year started September 1, 2015; Review of the compensation plans of executive officers for the financial year started September 1, 2015 being the Base Salary, the Short-Term Incentive Plan and the stock-based compensation delivered through the Long-Term Incentive Plan; Review and approval of the stock-based compensation plan for the sales force delivered through the Long-Term Incentive Plan for the financial year started September 1, 2015; Review and approval of the quantum for the stock-based compensation plan for the performing employees delivered through the Long-Term Incentive Plan for the financial year started September 1, 2015; Review and approval of the executive compensation section of the Management proxy circular for the financial year ended August 31, 2015; Review and approval of the CEO objectives and compensation plan; Review of the Risk Assessment of Executive Compensation disclosure obligations.
January 6, 2016	Review and approval of the Business Performance Measures for the financial year started September 1, 2015; Review and approval of the Short-Term Incentive Plan of some executive officers for the financial year started September 1, 2015, including the CEO objectives; Review of the Short-Term Incentive Plan results for the financial year ended August 31, 2015; Review of the quarterly results under the Short-Term Incentive Plan for the financial year started September 1, 2015 and being part of the Short-Term Incentive Plan; Review and approval of the stock-based compensation for performing employees delivered through the Long-Term Incentive Plan for the financial year started September 1, 2015; Global Compensation Review; Leadership program; Talent Management.
March 29, 2016	Review of the quarterly results under the Short-Term Incentive Plan for the financial year started September 1, 2015 and being part of the Short-Term Incentive Plan; Succession Planning; Review and approval of the Short-Term Incentive Plan of some executive officers for the financial year started September 1, 2015; Review of the Key Human Capital Initiatives; Executive Compensation Review; Leadership program; Review of the selection criteria for Board Members; Review of the Talent Management.

June 29, 2016	Review of the quarterly results under the Short-Term Incentive Plan for the financial year started September 1, 2015 and being part of the Short-Term Incentive Plan; Review and approval of the Short-Term Incentive Plan of the remaining executive officers for the financial year started September 1, 2015; Update on the Global Compensation Review; Update on the Management Structure Review; Update on the Talent Management Review; Review of the Key Human Capital Initiatives.
October 12, 2016	Review of the Business Performance Measures results for the financial year ended August 31, 2016; Review of the Business Performance Measures for the financial year started September 1, 2016; Review of the Short-Term Incentive Plan results for the financial year ended August 31, 2016; Update on the Short-Term Incentive Plan for the financial year started September 1, 2016; Review of the proposed salary scales and salary increases for the year started September 1, 2016; Review of the compensation plans of executive officers for the financial year started September 1, 2016 being the Base Salary, the Short-Term Incentive Plan and the stock-based compensation delivered through the Long-Term Incentive Plan; Review and approval of the stock-based compensation plan for the sales force delivered through the Long-Term Incentive Plan for the financial year started September 1, 2016; Review and approval of the quantum for the stock-based compensation plan for the performing employees delivered through the Long-Term Incentive Plan for the financial year started September 1, 2016; Review and approval of the executive compensation section of the Management proxy circular for the financial year ended August 31, 2016; Review and approval of the CEO objectives and compensation plan; Review of the Risk Assessment of Executive Compensation disclosure obligations.

Table of Contents

Compensation Plan Control - Compensation Consultant and Internal Review

As a general practice, the Corporation's relative position in terms of compensation levels is determined periodically through studies performed by independent consulting firms using a selected reference market of comparable companies. The benchmarking activities are further detailed below under the heading – "Benchmarking".

In 2016, the Corporation engaged Willis Towers Watson to perform an executive total compensation review (hereinafter in this Annual Report referred to as the "Target Compensation Positioning"). The compensation elements covered by the analysis were: base salary; target bonus; long-term incentive; perquisites and pension (hereinafter in this Annual Report referred to as the "Target Total Compensation"). Willis Towers Watson's work included assistance in benchmarking, assessing potential gaps between the market and the executives' compensation levels and proposing potential changes to ensure alignment with the market and with the Corporation's compensation policy. In 2016, eleven (11) executive positions were covered by the executive total compensation review, eight (8) located in Canada and three (3) outside of Canada.

In 2015, the Corporation relied on the benchmarking activities and on the work accomplished in previous years. In 2013 and 2014, as in 2016, Willis Towers Watson was engaged to perform the Target Compensation Positioning as described in the above paragraph. Willis Towers Watson also provided recommendations regarding the short-term incentive and long-term incentive compensation design of the Corporation and assessed the competitiveness of the compensation offered to the independent Directors of the Board and proposed changes to ensure alignment with market practices.

In addition, internal pay equity studies are a key factor used by the Corporation to complete the compensation review process and indicate where necessary adjustments may be required. During the financial year ended August 31, 2016, this practice continued and certain compensation adjustments were made as have been made in previous years. Notably, in 2012, the Human Resources Committee, after the evaluation of the share ownership of the CEO, determined that the CEO should no longer receive equity-based compensation within his compensation since the share ownership of the CEO is sufficient and equity-based compensation is no longer reasonably considered as an incentive to performance. Accordingly, it was decided that the base salary of the CEO would be adjusted over a period of four (4) years starting from the financial year started September 1, 2012.

The Human Resources Committee has the authority to retain any independent consultants of its choice to advise its members on total executive compensation policy matters, and to determine the fees and the terms and conditions of the engagement of these consultants. The Human Resources Committee is ultimately responsible for its own decisions, which may take into consideration more than the information and recommendations provided by its compensation consultants or Management.

For the financial year that ended on August 31, 2016, the Human Resources Committee retained the services of Willis Towers Watson for an analysis on executive officers' compensation.

For the financial years that ended on August 31, 2015 and 2016, the Corporation also retained the services of Willis Towers Watson, Eckler, 37-2 Conseil Inc. (now Normandin Beaudry), Aon, Great Place to Work, Lee Hecht Harrison Knightsbridge, Mercer, Morneau Shepell, OPEX Conseils, SMA Transformation, and SPB Organizational Psychology for services which were not related to executive compensation. The services provided by Willis Towers Watson concerned the access to benefits and compensation data and surveys for employees in Canada, United States, Finland and United Kingdom. The services provided by Eckler related to defined contribution pension plan analysis, retirement policy, governance and communication to employees. The services provided by 37-2 Conseil Inc. (now Normandin Beaudry) and OPEX Conseils concerned various work related to the logistic and the administration of compensation of sales employees including improvement of processes. The services provided by Aon related to the access to compensation data and surveys for sales employees in various countries. The Corporation retained the services of Great Place to Work for culture audit services. The services provided by Lee Hecht Harrison Knightsbridge and Morneau Shepell related to outplacement services.

Table of Contents

The Corporation consulted Mercer for assistance with compensation data for expatriate employees and assistance with the compliance of the Pay Equity Act established by the Government of Quebec, Canada. The Corporation consulted SMA Transformation for assistance with employees' training. The Corporation consulted SPB Organizational Psychology for tests before promoting. Fees for the services performed that are not related to executive compensation are not required to be approved by the Human Resources Committee.

The aggregate fees paid to Willis Towers Watson, Eckler, 37-2 Conseil Inc. (now Normandin Beaudry), Aon, Great Place to Work, Lee Hecht Harrison Knightsbridge, Mercer, Morneau Shepell, OPEX Conseils, SMA Transformation and SPB Organizational Psychology for consulting services provided to the Human Resources Committee related to determining compensation for any of the Corporation's directors and executive officers and to the Corporation for all other services provided during the financial years ended August 31, 2015 and 2016 were as follows:

Type of Fee	Financial 2015 Fees	Percentage of Financial 2015 Fees	Financial 2016 Fees	Percentage of Financial 2016 Fees
Executive Compensation - Related Fees	CA$0,00	0%	CA$28,734	28%
All Other Fees	CA$115,333	100%	CA$175,202	72%
Total	CA$115,333	100%	CA$203,936	100%

Benchmarking

For the purpose of assessing the competitiveness of the Target Total Compensation of senior executives, the Corporation considered compensation data from a comparator group including private and publicly-traded companies of comparable size and similar industry, operations in multiple countries and attracting similar profiles of employees, professionals and experts. The comparator group has been revised in 2016 with the guidance and advice from Willis Towers Watson.

- Canada executives: For the executives based in Canada, the Corporation used the following comparator group: 5N Plus Inc., ACCEO Solutions, AgJunction Inc, Atos IT Services and Solutions, Inc., Avigilon Corporation, Callian Technologies Ltd., Ciena, COM DEV International Ltd., Constellation Software inc., Evertz Technologies Ltd., GTECH, Open Text Corporation, Redline Communications Group Inc., Sandvine Corporation, Sierra Wireless Inc., Smart Technologies Inc., Vecima Networks Inc., Vidéotron Ltée and Wi-Lan Inc.

- United States executives: For the executives based in the United States, the Corporation used the following comparator group: AMETEK, Avangate, BMC Software, CDK Global, Communications Systems, Crown Castle, Intelsat, Itron, Keysight Technologies, Laird Technologies, MTS Systems, Plexus, SAS Institute, SunGard Data Systems, Teradata, TomTom, Total System Services, Truphone, Verint Systems.

- United Kingdom executives: For the executives based in the United Kingdom, the Corporation used the following comparator group: BAE Systems Applied Intelligence, COLT Telecom, Flextronics, Fujitsu, Irdeto, McCain Foods, PepsiCo, Premier Food Group, QinetiQ, Qualcomm, Rentokil Initial, Talk Talk Group, Viacom.

Table of Contents

- Asia executives: For the executives based in Asia, the Corporation used a broader comparator group, based on general industry data: A.Menarini Asia-Pacific, Abbott Laboratories, AbbVie, Accenture, ACE Asia Pacific Services, ACE Insurance, ACE Life Insurance Company Ltd, ACR Capital Holdings, AIA Company, Aimia, Alcatel-Lucent, Amazon.com, ANZ Banking Group, ASML, AstraZeneca, Avanade, Aviva Ltd, AXA Insurance Singapore, AXA Life Insurance Singapore, Bank of New York Mellon, Baxter, Beckman Coulter, Becton Dickinson, BHP Billiton, Bio-Rad Laboratories, Biosensors, BT Global Services, Cerebos Pacific Limited, Chubb Pacific Underwriting, Cigna, CommScope, DHL, DHL Express, DHL GBS, DHL Global Forwarding, DHL Mail, DHL Supply Chain, Discovery Communications, Experian, Federal Insurance Company, Fujitsu, GE Energy, GE Healthcare, General Electric, Great Eastern Life Insurance, Hap Seng Consolidated, HSBC Holdings, IHS Global, IMI, Ingenico, Intel, Intercontinental Hotels Group, International Flavors & Fragrances, ITT Corporation, Johnson & Johnson, Lexmark, Liberty Insurance, M1 Limited, Manulife, MasterCard, Merck KGaA, Microsoft, Molex, MSD International GMBH (Singapore Branch), National Australia Bank, NBC Universal, NCR, Overseas Assurance Corporation, Pfizer, Pramerica Financial Asia HQ, Proximus, Prudential Assurance Company, Prudential Services, QBE Insurance, Qualcomm, Reinsurance Group of America, RELX Group, Rio Tinto, Roche Pharmaceuticals, Sabre Holdings, Sealed Air, Smiths Group, Spirax Sarco, Standard Chartered Bank, StarHub, Starwood Hotels & Resorts, Straits Developments, Swiss Reinsurance International, Teva Pharmaceutical Industries, Thermo Fisher Scientific, Trayport, TUI, UBS, Unilever, United Overseas Bank, Verizon, Zurich Insurance Company, Zurich Life Insurance.

To be considered in the comparator group, a company had to meet the following specific criteria:

a) Similar industry: Technology Hardware and Equipment, Telecommunications Equipment and Services or Software and Services; and

b) Comparable in size: revenues under CA$1 billion. Only one publicly traded company had revenues above the equivalent of CA$1 billion. The compensation market comparison is done using the regression analysis which is a method to predict the "size-adjusted" competitive level of compensation to reflect the size of the Corporation in relation to that of the other companies of the reference group. This method mitigates the impact that larger companies may have on the competitive compensation levels for the Corporation.

The Corporation also participates in two (2) major surveys on an annual basis and accordingly is permitted to purchase the results in order to continue the benchmarking of our compensation on a regular basis. The first one is Willis Towers Watson High Tech Middle Management, Professional and Support Compensation Survey, providing and receiving data for Canada, USA, UK, Finland and Lebanon. The other one is Radford (AON) Global Sales Survey, providing and receiving data for all the countries where the Corporation employs sales force.

Guiding Principles for Compensation of Executive Officers

The Corporation's executive compensation plans are designed to attract, retain and motivate key executives who directly impact the Corporation's long-term success and the creation of shareholder value. In determining executive compensation, the Human Resources Committee considers the following four (4) principles:

- Performance-based: Executive compensation levels reflect both the results of the Corporation and individual results based on specific quantitative and qualitative objectives established at the beginning of each financial year in keeping with the Corporation's long-term strategic objectives.

- Aligned with shareholder interests: An important portion of incentive compensation for executives is composed of equity awards to ensure that executives are aligned with the principles of sustained long-term shareholder value growth.

Table of Contents

- Market competitive: Compensation of executives is designed to be externally competitive when compared against executives of comparable peer companies, and in consideration of the Corporation's results.

- Individually equitable: Compensation levels are also designed to reflect individual factors such as scope of responsibility, experience, and performance against individual measures.

Compensation Policies and Practices

In April 2007, the Corporation adopted a Best Practice Regarding the Granting Date of Stock Incentive Compensation. The purpose of this best practice is to ensure that the Corporation complies with securities regulation and avoids the back-dating of equity based incentive compensation. The best practice states that the Corporation shall: (i) grant recurrent equity based incentive compensation pursuant to its Long-Term Incentive Plan on the fifth business day following the public release of the Corporation's financial results; and (ii) grant recurrent stock based incentive compensation pursuant to its Deferred Share Unit Plan on the last business day of each quarter. In October 2014, the Corporation amended the Human Resources Committee Charter in order to adapt it to the latest NASDAQ Rules on independency of directors, nomination and compensation committees and to better describe the nomination of directors' process.

Risk-Assessment of Executive Compensation Program

The Human Resources Committee considers the implications of the risks associated with the Corporation's compensation policies and practices when establishing recommendations for the compensation of executive officers. As such, for the financial year ended August 31, 2016, the Human Resources Committee conducted an internal risk assessment for executive compensation. The Human Resources Committee individually examined the compensation plans for each potential NEO against a list of elements that could trigger executives taking inappropriate or excessive risks. For the financial year ended August 31, 2016, the Human Resources Committee did not identify any risks associated with the Corporation's executive compensation policies and practices that are reasonably likely to have a material adverse effect on the Corporation.

On October 9, 2012 the Human Resources Committee Charter was amended in order to expressly reflect the responsibility of the Human Resources Committee to conduct an annual assessment of the risks associated with the Corporation's executive compensation policies and procedures.

Purchase of Hedging Financial Instruments by an Executive Officer or Director

While the Corporation has not adopted a policy prohibiting or restricting its executive officers and directors from purchasing financial instruments, including prepaid variable forward contracts, equity swaps, collars, or units of exchange funds, that are designated to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by the executive officer or director, to Management's knowledge, no executive officer or director has purchased any such financial instruments as of November 1, 2016. In addition, according to the Security Trading Policy of the Corporation, executive officers and directors are required to pre-clear with the Corporation's legal counsel's office any transaction concerning the Corporation's securities, which includes the entering into any of the above-mentioned financial instruments.

Compensation Elements

The key elements of the Corporation's 2016 executive compensation program were (i) base salary, (ii) short-term incentive compensation (by way of the Short-Term Incentive Plan or the Sales Incentive Plan) and (iii) the stock-based incentive compensation delivered through the Long-Term Incentive Plan. In addition, the Corporation has also offered benefit plans and, if applicable, contributed to a Deferred Profit-Sharing Plan or a 401K Plan. To determine appropriate compensation levels for each compensation component, the Human Resources Committee considered all key elements of the executive compensation program. The Human Resources Committee did not assign specific weightings to any key element of the Corporation's 2016 executive compensation program.

Base Salaries

In establishing the base salaries of senior officers, including the President and CEO, the Corporation takes into consideration responsibilities, job descriptions and salaries paid by other similar organizations for positions similar in magnitude, scope and complexity. The Human Resources Committee's objective is to align executive compensation levels with the Target Compensation Positioning offered within a reference market of comparable companies that are similar in size to the Corporation, with a particular focus on those within the high-technology/telecommunications and manufacturing-durable goods industries. The Human Resources Committee reviews the base salary of each executive officer on an annual basis at the beginning of each financial year and recommends that the Board of Directors approve appropriate adjustments, if required, within the salary range in order to maintain a competitive position within the market place.

Short-Term Incentive Compensation

The Short-Term Incentive Plan ("STIP"), or the Sales Incentive Plan ("SIP") for the executive officers that are included within the sales force, provides executive officers with the opportunity to earn annual bonuses based on the Corporation's financial performance and the achievement of strategic corporate and departmental objectives established on a yearly basis (the "Business Performance Measures") as well as the achievement of individual performance objectives ("Individual Performance Measures"). The Business Performance Measures under the STIP also apply to all other employees of the Corporation, except the sales force, for which the SIP applies. The Individual Performance Measures only apply to executive officers and directors' levels of the Corporation.

Annually the Human Resources Committee determines the annual incentive target for each executive officer, being a percentage of the executive's base salary ("Annual Incentive Target"). The Annual Incentive Targets for executive officers eligible for incentive bonuses in the financial year ended August 31, 2016 were established to be progressively in line with the objective of the Human Resources Committee of aligning compensation with the Target Compensation Positioning offered in the reference market. For the most recently ended financial year, the Annual Incentive Target for the NEOs was:

Name & Position	Annual Incentive Target as % of Base Salary
Germain Lamonde, CEO	65.0%
Philippe Morin, COO	50.0%
Pierre Plamondon, Vice-President, Finance and CFO	42.5%
Jon Bradley, Vice-President, Sales — EMEA	70.0%
Dana Yearian, Vice-President, Sales — Americas	89.0%

Short-Term Incentive Plan

The STIP awards (for executive officers not in sales force) are calculated as follows:

Base Salary	X	Annual Incentive Target (%)	X	Business Performance Measures (%)	X	Individual Performance Measures (%)

At the beginning of each financial year, the Human Resources Committee recommends for approval by the Board of Directors the Business Performance Measures that will account for the annual incentive compensation.
The following table provides the Business Performance Measures, their weight and result within the overall Business Performance Measures applicable to all executive officers and employees of the Corporation except those executives and employees that are within the sale force:

Table of Contents

Business Performance Measures (1)	Weight	Result in % of the Weight	Result of the Metrics
Consolidated revenues (2)	30%	17.85%	US$232.6 million
Adjusted EBITDA (3)	45%	30.52%	US$22.0 million
Quality (4)	15%	12.75%	95%
Net Promoter Score (5)	5%	5.88%	70%
On-time delivery (4)	5%	4.22%	96.5%
Total	100%	71.22%	

(1) The corporate Adjusted EBITDA result for the year must be positive (above 0) for the whole Business Performance Measure to trigger a payout. Adjusted EBITDA represents net earnings before interest, income taxes, depreciation and amortization, restructuring charges, stock-based compensation costs and foreign exchange gain.

(2) For consolidated revenues metric, results will be based on the achievement from 25% to 125%, calculated on a pro-rated basis, from the revenues attained in the previous financial year (US$222.1 million) up to the target defined at the beginning of the financial year (US$252.5 million).

(3) For Adjusted EBITDA metric, results will be based on the achievement from 25% to 125%, calculated on a pro-rated basis, from the Adjusted EBITDA attained in the previous financial year (US$13.8 million) up to the target defined at the beginning of the financial year (US$33.1 million).

(4) For quality and on-time delivery metrics, results will range from nil to 100% of the weight upon attainment of a minimum threshold of 50% and 91.7%, respectively, up to the annual target defined at the beginning of the financial year and from 100% to 150% of the weight from such annual target to the maximum threshold of 125% and 99.7%, respectively.

(5) For Net Promoter Score metrics, results will range from nil to 100% of the weight upon attainment of a minimum threshold of 45% up to the annual target defined at the beginning of the financial year and from 100% to 150% of the weight from such annual target to the maximum threshold of 72%.

The Individual Performance Measures are determined annually by the executive's supervisor or the Human Resources Committee and approved by the Board of Directors of the Corporation. They are based upon the position, role and responsibilities of each executive within the Corporation, departmental objectives and personal management objectives. At the conclusion of each year, the executive's supervisor or the Human Resources Committee evaluates the performance of the executive against the pre-determined objectives and the executive's performance is evaluated by progress, achievements and contributions. The following tables provide for each NEO subject to the STIP an overview of the elements included within the Individual Performance Measures, their weight and result for financial year 2016 within the overall Individual Performance Measures:

Germain Lamonde, CEO

Elements of Individual Performance Measures[1]	Weight (from 0% to 160%)	Result (%)
Financial objectives		
Corporate revenues	From 0% to 35%	25.70%
Corporate EBITDA	From 0% to 55%	17.85%
Strategic contribution		
Merger and Acquisition activities aiming towards a Solutions oriented company	From 0% to 20%	18.00%

Establishment and implementation of a strategic plan that will result in revenue growth in identified services and products family	From 0% to 20%	15.50%
Customer Satisfaction	From 0% to 15%	11.63%
Employee Satisfaction	From 0% to 15%	13.50%
Total		102.18%
Total of Business Performance Measures (71.22%) X Individual Performance Measures (102.18%)		72.77%

(1) If the minimum level of the Corporate EBITDA, as determined at the beginning of the financial year, is not achieved, payment of any variable compensation to the CEO will be at the discretion of the Human Resources Committee.

Table of Contents

Philippe Morin, COO

Elements of Individual Performance Measures		Weight (from 0% to 150%)	Result (%)
Financial objectives	Weight		
Corporate EBITDA	40%	From 0% to 70%	49.30%
Corporate revenues	30%		
Strategic contribution	Weight		
Expending corporate revenues, profitability and positioning in selected strategic markets	30%		
Delivering the strategies and objectives under the NEO's responsibility as set forth in the Corporation's strategic plan	30%	From 0% to 80%	52.27%
Positioning and transforming the Corporation to allow significant growth in Corporate EBITDA and revenues	20%		
Total			101.57%
Total of Business Performance Measures (71.22%) X Individual Performance Measures (101.57%)			72.34%

Pierre Plamondon, Vice-President, Finance and CFO

Elements of Individual Performance Measures	Weight (from 0% to 150%)	Result (%)

Financial objectives	Weight		
Corporate EBITDA	40%	From 0% to 70%	49.64%
Corporate revenues	30%		
Strategic contribution	**Weight**		
Delivering the strategies and objectives under the NEO's responsibility as set forth in the Corporation's strategic plan	30%	From 0% to 80%	73.10%
Maintaining the highest standard and compliance in the Corporation's financial reporting; internal controls and corporate governance; corporate development and risk management	30%		
Delivering a Strategic Contribution and Support in the Corporation's information technology management, investors relations and legal services	20%		
Total			122.74%
Total of Business Performance Measures (71.22%) X Individual Performance Measures (122.74%)			87.41%

Sales Incentive Plan

The SIP objectives for executive officers in the sales force are aimed to reward four (4) elements: three (3) elements are shareholder oriented (contribution margins, contribution margin growth and billings) and one (1) is based on specific objectives. The objectives are determined by the executive's supervisor and are for the territory under the executive's supervision. The following tables outline the SIP objectives for each NEO who is within the sales force:

Jon Bradley, Vice-President, Sales — EMEA

Business Performance Measures Incentive Targets (US$) Results (US$)

	73,382	68,245
Contribution Margin Bonus (1)		
Bonus on Billings (2)	20,013	19,188
Bonus on Strategic Sales Objectives (3)	30,020	26,210
Long-Term Expansion Bonus (4)	10,007	9,376
Total	133,422	123,019

(1) The amount of bonus for the attainment of the quarterly contribution margin targets for the territory of the EMEA is based on the percentage of achievement from above 35% to 100% of the quarterly contribution margin targets defined at the beginning of the financial year. An accelerated amount of bonus based on the percentage of attainment of the quarterly contribution margin targets above 100% is also payable.

67

Table of Contents

(2) The amount of bonus for the attainment of the billings targets for the territory of the EMEA is based on the percentage of achievement from above 50% to 100% of the quarterly billings targets defined at the beginning of the financial year. An additional amount of bonus based on the percentage of attainment from above 100% to 125% of the quarterly billings targets is also payable. Upon percentage of achievement above 125% of the quarterly billings targets, such corresponding exceeding portion of percentage achievement is added to the next quarter for the calculation of the amount of bonus and capped to 150% of achievement.

(3) The amount of bonus for the attainment of the specific product lines bookings targets for the territory of the EMEA is based on the percentage of achievement from above 50% to 100% of the annual bookings targets of the specific product lines defined at the beginning of the financial year. An accelerated amount of bonus based on the percentage of attainment of the specific product lines bookings targets for the territory of the EMEA above 100% is also payable.

(4) The amount of bonus for the contribution margin growth targets for the territory of the EMEA in fiscal year 2017 is based on the percentage of such growth from above 5% to 15%.

Dana Yearian, Vice-President, Sales — Americas

Business Performance Measures	Incentive Targets (US$)	Results (US$)
Contribution Margin Bonus (1)	124,979	113,142
Bonus on Billings (2)	31,245	30,628
Bonus on Strategic Sales Objectives (3)	33,849	19,470
Long-Term Expansion	18,226	18,226

Bonus (4)		
Total	208,299	181,465

(1) The amount of bonus for the attainment of the quarterly contribution margin targets for the territory of the Americas is based on the percentage of achievement from above 35% to 100% of the quarterly contribution margin targets defined at the beginning of the financial year. An accelerated amount of bonus based on the percentage of attainment of the quarterly contribution margin targets above 100% is also payable.

(2) The amount of bonus for the attainment of the billings targets for the territory of the Americas is based on the percentage of achievement from above 50% to 100% of the quarterly billings targets defined at the beginning of the financial year. An additional amount of bonus based on the percentage of attainment from above 100% to 125% of the quarterly billings targets is also payable. Upon percentage of achievement above 125% of the quarterly billings targets, such corresponding exceeding portion of percentage achievement is added to the next quarter for the calculation of the amount of bonus and capped to 150% of achievement.

(3) The amount of bonus for the attainment of the specific product lines bookings targets for the territory of the Americas is based on the percentage of achievement from above 50% to 100% of the annual bookings targets of the specific product lines defined at the beginning of the financial year. An accelerated amount of bonus based on the percentage of attainment of the specific product lines bookings targets for the territory of the Americas above 100% is also payable.

(4) The amount of bonus for the contribution margin growth targets for the territory of the Americas in fiscal year 2017 is based on the percentage of such growth from above 5% to 15%.

Long-Term Incentive Compensation

The long-term incentive compensation offered by the Corporation is made up of two (2) main initiatives: i) the Long-Term Incentive Plan (the "LTIP") for directors, officers, employees and other persons or companies providing ongoing management or consulting services ("Consultants") of the Corporation and its subsidiaries and ii) the Deferred Share Unit Plan (the "DSU plan") for non-employee directors of the Corporation.

Long-Term Incentive Plan

The principal component of the long-term incentive compensation offered by the Corporation is the LTIP. Introduced in May 2000, the LTIP is designed to provide directors, officers, employees and Consultants who provide services on a continuous basis with an incentive to create value and accordingly ensures that their interests are aligned with those of the Corporation's shareholders and to further attract, motivate and retain all of its employees, including the NEOs with the exception of the CEO who, as of August 31, 2012, is no longer participating. The LTIP is subject to review by the Human Resources Committee to ensure maintenance of its market competitiveness. The LTIP was amended in January 2005 and more recently in January 2016. Based on the recommendations of the Human Resources Committee, the LTIP was amended in January 2016 to better protect the interests of the directors, employees and officers (or their legal representatives) in circumstances of death, permanent disability and retirement. The terms of certain early vesting conditions and option period pursuant to the LTIP were modified as further detailed at the end of this section.

Table of Contents

The Board of Directors has full and complete authority to interpret the LTIP and to establish the rules and regulations applying to it and to make all other determinations it deems necessary or useful for the administration of the LTIP, provided that such interpretations, rules, regulations and determinations are consistent with the rules of all stock exchanges on which the securities of the Corporation are then traded and with all applicable securities legislation and regulations. The Board of Directors or the Human Resources Committee may, at any time, with the prior approval of the competent regulatory authorities, amend, suspend or terminate the LTIP in whole or in part. Accordingly, for the latest amendments in January 2016, the Corporation first submitted the LTIP's proposed changes and the applicable text of this Annual Report to the Toronto Stock Exchange and it is only once the proposed changes were accepted that the amendments were submitted to the Human Resources Committee for approval and to the Board of Directors for ratification. Any material amendment (including an increase in the maximum number of Subordinate Voting Shares covered by options or Restricted Share Units under the LTIP) or a reduction in the subscription price of an option (other than for standard anti-dilution purposes) or a change in the terms of a Restricted Share Unit award shall be approved by a majority of votes cast at a meeting of shareholders of the Corporation. In addition to the foregoing, any material amendment to an award held by an insider, including a change in the subscription price or expiry date, shall be approved by a majority of votes cast at a meeting of shareholders of the Corporation, other than votes attaching to shares beneficially owned by the insider. A material amendment to an award held by an insider does not include an accelerated expiry of an award or change of the time during which an award may first be exercised or vested or change of the time of an award, or any part thereof, will become exercisable or vest. The shareholders' approval of an amendment may be given by way of confirmation at the next meeting of shareholders after the amendment is made, provided that no Subordinate Voting Shares are issued following the exercise of options and the vesting of Restricted Share Units pursuant to the amended terms prior thereto.

The LTIP provides for the issuance of options to purchase Subordinate Voting Shares and the issuance of Restricted Share Units ("RSUs") redeemable for actual Subordinate Voting Shares or the equivalent in cash to participating directors, officers, employees and consultants. Since January 6, 2016, the settlement of RSUs is made only by the issuance of Subordinate Voting Shares from treasury and are no longer settled from purchases on the secondary market or from payment of the equivalent in cash. The Board of Directors, upon recommendation from the Human Resources Committee, designates the recipients of options or RSUs and determines the number of Subordinate Voting Shares covered by each option or RSU, the dates of vesting, the expiry date and any other conditions relating to these options or RSUs, in each case in accordance with the applicable legislation of the securities regulatory authorities.

During the financial year ended August 31, 2016, target awards for eligible officers under the LTIP were established to be in line with the objective of the Human Resources Committee to align compensation with the Target Compensation Positioning offered in the reference market. Each NEO, with the exception of the CEO since the end of the financial year ended August 31, 2012, is entitled to receive RSUs annually in accordance with the following policy:

Name & Position	Grant Levels [(1)] (% of Previous Year Base Salary)
	50.0% [(2)]

Philippe Morin, COO	
Pierre Plamondon, Vice-President, Finance and CFO	42.5%
Jon Bradley Vice-President, Sales EMEA	42.5%
Dana Yearian, Vice-President, Sales Americas	42.5%

(1) Actual grant value may differ from the grant level guidelines as the stock price may vary between the time of the grant and its approval.
(2) Current year base salary since he did not have a base salary for the previous year.

RSU awards are based on the expected impact of the role of the executive officer on the Corporation's performance and strategic development as well as market benchmarking. The Human Resources Committee undertakes an analysis from time to time to determine the possible payouts pursuant to the LTIP under various scenarios and at various levels of share price growth to ensure that the LTIP is aligned with the interests of the Corporation's shareholders.

Table of Contents

RSUs are also used to attract and retain top executives, as well as in business acquisitions. For the year ended August 31, 2016, the Corporation determined the number of RSUs granted to each executive officer according to their individual contribution, specifically with respect to additional responsibilities as the case may be. As disclosed under the section "Summary Compensation Table" hereof, all of the NEOs, with the exception of the CEO as described earlier, were granted RSUs during the last financial year. The purpose of the grants was to focus the executives on developing and successfully implementing the continuing growth strategy of the Corporation and to align the executives with the principles of sustained long-term shareholder value growth. The grants were also considered to contribute to the Corporation's objective to align the compensation of the executives with the reference market. The Corporation did not take into account the amount and terms of outstanding options or RSUs or the restrictions on resale of such units when determining the grants mentioned above.

The exercise price of the options is determined by the Board of Directors at the time of granting the options, subject to compliance with the rules of all stock exchanges on which the Subordinate Voting Shares are listed and with all applicable securities legislation and regulation. In any event, the exercise price may not be lower than the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and the NASDAQ National Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada on the grant date to convert either the NASDAQ National Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars. Any option issued is non-transferable, except in the event of death, for legal representative. As at November 1, 2016 there were no options granted and none outstanding.

The fair value at the time of grant of an RSU is equal to the market value of Subordinate Voting Shares at the time the RSU is granted. The grant date market value is equal to the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and the NASDAQ National Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada on the grant date to convert either the NASDAQ National Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars. Any RSU issued is non-transferable, except in the event of death, for legal representative. As at November 1, 2016, there were a total of 1,702,397 RSUs granted and outstanding pursuant to the LTIP having a weighted average fair value at the time of grant of US$4.03 (CA$4.73) per RSU.

The maximum number of Subordinate Voting Shares that are issuable under the LTIP and DSU Plan shall not exceed 6,306,153 Subordinate Voting Shares, which represents 11.6% of the Corporation's issued and outstanding voting shares as of November 1, 2016. From this total, 3,816,126 Subordinate Voting Shares have been issued and 1,861,524 Subordinate Voting Shares are issuable under actual awards held by participants, which represents 10.4% of the Corporation's issued and outstanding voting shares as of November 1, 2016, leaving 628,503 Subordinate Voting Shares available for grant under the LTIP and DSU Plan, representing 1.2% of the issued and outstanding voting shares as of November 1, 2016. All of the Subordinate Voting Shares covered by options that expire or are cancelled become reserved Subordinate Voting Shares for the purposes of options or RSUs that may be subsequently granted under the terms of the LTIP. No participant shall hold in total options to purchase and RSUs representing more than 5% of the number of Subordinate Voting Shares issued and outstanding from time to time. There are additional limitations for insiders of the Corporation. The number of Subordinate Voting Shares reserved for issuance pursuant to options and RSUs granted to insiders of the Corporation shall not exceed 10% of the total issued and outstanding Subordinate Voting Shares. The maximum number of Subordinate Voting Shares that may be issued to insiders, within a one (1) year period, shall not exceed 10% of the number of issued and outstanding Subordinate Voting Shares and any one insider together with such insider's associates shall not be issued, within a one-year period, a number of Subordinate Voting Shares exceeding 5% of the total issued and outstanding Subordinate Voting Shares of the Corporation. Options vest at a rate as determined by the Board of Directors. Options may be exercised in whole or in part once vested. Options that are granted under the LTIP must be exercised within a maximum period of ten (10) years following the date of their grant or they will be forfeited.

The vesting dates of RSUs are subject to a minimum term of three (3) years and a maximum term of ten (10) years from the award date. The following table presents, for the last five (5) financial years, the RSUs granted and their respective vesting schedule.

Table of Contents

Financial Year Ended	Grant Date	RSUs Granted (#)	Fair Value at the Time of Grant (US$/RSU)	Vesting Schedule
August 31, 2016	October 15, 2015	36,900	3.23	50% on each of the third and fourth anniversary dates of the grant.
	November 9, 2015	109,890	3.43	
	January 13, 2016	151,400	3.00	
	July 7, 2016	2,500	3.30	
	August 15, 2016	10,000	3.33	
	October 15, 2015	206,373	3.23	100% on the fifth anniversary date of the grant subject to early vesting of up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board of Directors of the Corporation, are fully attained.
	November 9, 2015	54,945	3.43	
	Total	572,008		
August 31, 2015	October 16, 2014	29,150	3.71	50% on each of the third and fourth anniversary dates of the grant.
	January 14, 2015	163,400	3.55	
	March 31, 2015	5,000	3.78	
	July 2, 2015	12,299	3.27	
	October 16, 2014	197,726	3.71	100% on the fifth anniversary date of the grant subject to early vesting of up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board of Directors of
	July 2, 2015	1,946	3.27	

				the Corporation, are fully attained.
	Total	409,521		
August 31, 2014	October 16, 2013	36,950	5.28	50% on each of the third and fourth anniversary dates of the grant.
	January 15, 2014	132,000	4.36	
	July 3, 2014	29,502	4.77	
	October 16, 2013	138,233	5.28	100% on the fifth anniversary date of the grant subject to early vesting of up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board of Directors of the Corporation, are fully attained.
	Total	336,685		
August 31, 2013	October 16, 2012	30,006	5.06	50% on each of the third and fourth anniversary dates of the grant.
	January 16, 2013	145,750	5.61	
	October 16, 2012	140,404	5.06	100% on the fifth anniversary date of the grant subject to early vesting of up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board of Directors of the Corporation, are fully attained.
	Total	316,160		
August 31, 2012	October 18, 2011	23,000	5.43	50% on each of the third and fourth anniversary dates of the grant.
	January 17, 2012	8,321	6.61	
	January 18, 2012	122,000	6.47	
	January 23, 2012	7,576	6.55	
	April 3, 2012	2,571	7.06	

October 18, 2011	163,651	5.43	100% on the fifth anniversary date of the grant subject to early vesting of up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board of Directors of the Corporation, are fully attained.
January 23, 2012	6,330	6.55	
April 3, 2012	1,429	7.06	
Total	334,878		

If any vesting dates fall into any black-out period or any other restrictive period during which the RSU holder is not entitled to trade the Corporation's Subordinate Voting Shares, the RSUs shall: (i) vest on the fifth trading day the RSU holder is entitled to trade after such black-out period or restrictive period; or (ii) if the RSU holder decides, prior to such vesting date, to pay his/her income tax without using any of the Subordinate Voting Shares' proceeds, then and only then, the vesting date shall remain the one determined on the granting date for such RSUs.

With the exceptions mentioned under the section entitled "Termination and Change of Control Benefits", unless otherwise determined by the Board of Directors, any option granted pursuant to the LTIP will lapse: (i) immediately upon the termination of the relationship with the Corporation or one of its subsidiaries for a good and sufficient cause for employees or officers or at the date on which an employee or an officer resigns or leaves his employment with the Corporation or one of its subsidiaries (or within thirty (30) days if the holder's employment is terminated for reasons not related to cause); and (ii) thirty (30) days after a director ceases to be a member of the Board of Directors of the Corporation or one of its subsidiaries for any reason other than death or permanent disability. Before January 6, 2016, the LTIP provides that in the event of retirement or disability, any option held by an employee lapses thirty (30) days after the date of any such disability or retirement. Nevertheless, in case of retirement or early retirement of an officer or employee, the Board of Directors or the Human Resources Committee may at its own discretion extend the period an option will lapse in accordance with the terms of the LTIP. In the event of death, any option held by the optionee lapses six (6) months after the date of death. Since January 6, 2016, in the event of permanent disability, as defined under the LTIP, any option held by the optionee lapses six (6) months after the date of permanent disability. In the event of death or permanent disability, the option shall become exercisable no later than the date of termination by reason of death or permanent disability of the employee or the officer.

With the exceptions mentioned under the section entitled "Termination and Change of Control Benefits", unless otherwise determined by the Board of Directors, any RSU granted pursuant to the LTIP will lapse: (i) immediately, where vesting of a unit is subject to the attainment of performance objectives, if such performance objectives have not been attained (or postponed at a further vesting date as determined by the Board of Directors); and (ii) immediately, whether or not subject to attainment of performance objectives, upon the termination of the relationship with the Corporation or one of its subsidiaries for a good and sufficient cause for employees or officers or at the date on which an employee or an officer resigns or leaves his employment with the Corporation or one of its subsidiaries.

Before January 2016, the LTIP provides that any RSU granted will vest immediately, to a certain proportion as determined by the LTIP, upon the termination of the relationship of an employee or officer with the Corporation or one of its subsidiaries: (i) for reasons not related to cause; (ii) because of death or permanent disability; or (iii) retirement. The LTIP was amended in January 2016 so that any RSU granted pursuant to the LTIP will vest immediately upon the termination of the relationship of an employee or officer with the Corporation or one of its subsidiaries because of death or permanent disability. The LTIP was also amended in January 2016 so that upon participant attainment of the retirement conditions established by the Corporation and continued compliance with the confidentiality, non-solicitation and non-competition obligations of the RSU holder, the RSU holder shall be entitled to the regular vesting as established by the Board of Directors at the time of grant pursuant to the LTIP. Furthermore, in case of an RSU holder employment with the Corporation is terminated following a change of control, the Board of Directors or the Human Resources Committee may, at its own discretion, increase the number of Subordinate Voting Shares to which an RSU holder is entitled.

In the event of a change of control, the Board of Directors or the Human Resources Committee may, prior or following the change of control, accelerate the time at which an option or RSU may first be exercised or the time during which an option or RSU or any part thereof will become exercisable.

The full text of the LTIP including the latest amendments of January 2016 is included in our 2016 Annual Information Form on Form 20-F under Exhibit 4.55, which will be available on or before November 28, 2016 on SEDAR at www.sedar.com in Canada or on EDGAR at www.sec.gov/edgar.shtml in the U.S.

Table of Contents

Restricted Share Unit Grants in Last Financial Year

The aggregate number of RSUs granted from September 1, 2015 to November 1, 2016, was 817,577 having a weighted average fair value at the time of grant of US$3.46 (CA$4.60) per RSU. The fair value at the time of grant of a RSU is equal to the market value of Subordinate Voting Shares at the time RSUs are granted. At November 1, 2016, there were a total of 1,702,397 RSUs granted and outstanding pursuant to the LTIP having a weighted average fair value at the time of grant of US$4.03 (CA$4.73) per RSU.

The RSUs may be redeemed for actual Subordinate Voting Shares or the equivalent in cash at the discretion of the Board of Directors of the Corporation on the vesting dates established by the Board of Directors of the Corporation at the time of grant in its sole discretion.

Therefore, the value at vesting of a RSU, when converted to Subordinate Voting Shares, is equivalent to the market value of a Subordinate Voting Share at the time the conversion takes place and is taxable as employment income. The table above shows information regarding RSU grants made under the LTIP during the financial year ended August 31, 2016.

During the financial year ended August 31, 2016, the following RSUs were granted to the following NEOs:

Name	RSUs Granted (#)	Percentage of Total RSUs Granted to Employees in Financial Year (%) [(1)]	Fair Value at the Time of Grant (US$/RSU) [(2)]	Grant Date	Vesting Schedule [(3)]
	109,890	19.21%	3.43	November 9, 2015	50% on each of the third and fourth anniversary dates of the grant.
Philippe Morin	54,945	9.61%	3.43	November 9, 2015	100% on the fifth anniversary date of the grant subject to early vesting up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board of Directors of the Corporation are fully attained. [(4)]
Pierre Plamondon	29,046	5.08%	3.23	October 15, 2015	100% on the fifth anniversary date of the grant subject to early vesting up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board

					of Directors of the Corporation are fully attained. (4)
Jon Bradley	26,575	4.65%	3.23	October 15, 2015	100% on the fifth anniversary date of the grant subject to early vesting up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board of Directors of the Corporation are fully attained. (4)
Dana Yearian	30,058	5.25%	3.23	October 15, 2015	100% on the fifth anniversary date of the grant subject to early vesting up to 1/3 on the third anniversary date of the grant and up to 50% of the remaining units on the fourth anniversary date of the grant if performance objectives namely related to long-term growth of revenue and profitability, as determined by the Board of Directors of the Corporation are fully attained. (4)

Table of Contents

(1) Such percentage does not include any cancelled RSUs.

(2) The fair value at the time of grant of a RSU is equal to the market value of Subordinate Voting Shares at the time RSUs are granted. The grant date market value is equal to the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and the NASDAQ National Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada on the grant date to convert either the NASDAQ National Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars as required.

(3) All RSUs first vesting cannot be earlier than the third anniversary date of their grant.

(4) Those RSUs granted in the financial year ended August 31, 2016 vest on the fifth anniversary date of the grant but are subject to early vesting on the third and fourth anniversary date of the grant on the attainment of performance objectives, as determined by the Board of Directors of the Corporation. Accordingly, subject to the attainment of performance objectives, the first early vesting is up to 1/3 of the units on the third anniversary date of the grant and the second early vesting is up to 50% of the remaining units on the fourth anniversary date of the grant. The early vesting shall be subject to the attainment of performance objectives. Such performance objectives are based on the attainment of a sales growth metric combined with profitability metric. The sales growth metric is determined by the Compound Annual Growth Rate of sales of the Corporation for the period described below (SALES CAGR). The profitability metric is determined as the Cumulative Corporation's IFRS net earnings before interest, income taxes, depreciation of property, plant and equipment, amortization of intangible assets, foreign exchange gain or loss, change in fair value of cash contingent consideration, and extraordinary gain or loss over the Cumulative Sales for the same period (LTIP EBITDA). Accordingly, the first early vesting performance objectives will be attained, calculated on a pro-rated basis as follows: i) 100% for a SALES CAGR of 20% or more and 0% for a SALES CAGR of 5% or less for the three-year period ending on August 31, 2018; cumulated with ii) 100% for a LTIP EBITDA of 15% and 0% for a LTIP EBITDA of 7.5% or less for the three-year period ending on August 31, 2018. The second early vesting performance objectives will be attained on the same premises as described above but for the four-year period ending on August 31, 2019.

The following table summarizes information about RSUs granted to the members of the Board of Directors and to Management and Corporate Officers of the Corporation and its subsidiaries as at August 31, 2016:

	Number of RSUs (#)	% of Issued and Outstanding RSUs	Weighted Average Fair Value at the Time of Grant ($US/RSU)
President and CEO (one (1) individual)	53,261	3.43%	5.43
Board of Directors (five (5) individuals)	–	–	–
Management and Corporate Officers (twelve (12) individuals)	893,467	57.59%	4.11

Option Grants in Last Financial Year

There were no options to purchase the Corporation's Subordinate Voting Shares granted during the financial year ended August 31, 2016 and thereafter until November 1, 2016. As at November 1, 2016, there were no option granted and none outstanding.

Deferred Share Unit Plan

Introduced in October 2004 and effective as of January 2005, the Corporation's DSU Plan (the Deferred Share Unit Plan) is designed to align more closely the interests of the Corporation's non-employee directors with those of its shareholders.

Under the Deferred Share Unit Plan, non-employee directors may elect to receive up to 100% of their retainer fees in the form of DSUs, each of which has an estimated value determined based on the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and the NASDAQ National Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada on the grant date to convert either the NASDAQ National Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars, as required. The value at vesting of a DSU is equivalent to the market value of a Subordinate Voting Share when a DSU is converted to such Subordinate Voting Share. Any DSU issued is non-transferable.

Table of Contents

The Deferred Share Unit Plan may be amended or terminated at any time and from time to time by the Board of Directors, with the prior approval of the competent regulatory authorities, provided that any such amendment or termination does not in any way infringe upon any rights of participants in respect of DSUs previously credited to the account of participants. DSUs attract dividends in the form of additional DSUs at the same rate as dividends on Subordinate Voting Share. When a director ceases to be a member of the Board of Directors, the DSUs are converted and paid in Subordinate Voting Shares that are either purchased on the open market or issued by the Corporation until January 2016 and since then they are issued by the Corporation. Such Subordinate Voting Shares issued by the Corporation will be issued from the same pool of Subordinate Voting Shares reserved for issuance pursuant to the LTIP, which is 11.6% of the total issued and outstanding voting shares.

Deferred Share Unit Grants in Last Financial Year

The aggregate number of DSUs credited to non-employee directors during the financial year ended August 31, 2016 was 44,970. The estimated value at the time of grant of a DSU is determined based on the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and the NASDAQ National Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada on the grant date to convert either the NASDAQ National Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars, as required. The value at vesting of a DSU is equivalent to the market value of the Subordinate Voting Shares when a DSU is converted to such Subordinate Voting Shares. As at August 31, 2016, there were a total of 159,127 DSUs credited and outstanding pursuant to the Deferred Share Unit Plan having a weighted average fair value at the time of grant of US$4.00 (CA$4.65).

During the financial year ended August 31, 2016, the following DSUs were granted to the non-employee members of the Board of Directors:

DSUs Granted (#)	Weighted Average Fair Value at the Time of Grant (US$/DSU)	Total of the Fair Value at the Time of Grant (US$)	Vesting
44,970	3.33	149,750	At the time director ceases to be a member of the Board of Directors of the Corporation

The following table summarizes information about DSUs granted to the non-employee members of the Board of Directors as at November 1, 2016:

	Number of DSUs (#)	% of Issued and Outstanding DSUs	Total of the Fair Value at the Time of Grant (US$)	Weighted Average Fair Value at the Time of Grant (US$/DSU)
Board of Directors (five (5) individuals)	159,127	100%	636,508	4.00

Number of Subordinate Voting Shares Reserved for Future Issuance

During the financial year ended August 31, 2016, 44,970 DSUs and 572,008 RSUs were granted to directors, officers and employees. Such awards were issued from the pool of Subordinate Voting Shares reserved for issuance pursuant to the LTIP and the Deferred Share Unit Plan of which the maximum number of Subordinate Voting Shares issuable shall not exceed 6,306,153, which represents 11.6% of the Corporation's issued and outstanding voting shares as at November 1, 2016. As at November 1, 2016, the number of Subordinate Voting Shares reserved for future issuance is 628,503 representing 1.2% of the Corporation's issued and outstanding voting shares as at November 1, 2016.

Stock Appreciation Rights Plan

On August 4, 2001, the Corporation established a Stock Appreciation Rights Plan (the "SAR Plan"), as amended on January 12, 2010, for the benefit of certain employees residing in countries where the granting of stock-based compensation under the LTIP is not feasible in the opinion of the Corporation. The Board of Directors has full and complete authority to interpret the SAR Plan and to establish the rules and regulations applying to it and to make all other determinations it deems necessary or useful for the administration of the SAR Plan.

Table of Contents

Under the SAR Plan, eligible employees are entitled to receive a cash amount equivalent to the difference between the market price of the Subordinate Voting Shares on the date of exercise or the date of vesting and the exercise price determined on the date of grant. No Subordinate Voting Shares are issuable under the SAR Plan.

The Board of Directors has delegated to Management the task of designating the recipients of stock appreciation rights, the date of exercise or vesting, the expiry date and other conditions. Under the terms of the SAR Plan, the exercise price determined on the date of grant of the stock appreciation right is equal to zero (0) if the stock appreciation right is to reflect a RSU under the LTIP or, if the stock appreciation right is to reflect an option under the LTIP, the exercise price determined on the date of grant may not be lower than the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ National Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada on the grant date to convert either the NASDAQ National Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars. Stock appreciation rights are non transferable.

The stock appreciation rights, reflecting a RSU under the LTIP, vest at a rate of 50% annually commencing on the third anniversary date of the date of grants made in October 2012, January 2013, October 2013, January 2014, October 2014, January 2015, October 2015, January 2016 and October 2016.

The stock appreciation rights, reflecting a RSU under the LTIP, will: i) lapse immediately upon the termination of the relationship with the Corporation or one (1) of its subsidiaries for a good and sufficient cause or at the date on which an employee resigns or leaves his employment with the Corporation or one (1) of its subsidiaries; and ii) vest immediately, to a certain proportion as determined by the SAR Plan, upon the termination without cause of the relationship of an employee with the Corporation or one (1) of its subsidiaries.

The stock appreciation rights, reflecting an option under the LTIP, vest over a four-year period, with 25% vesting annually commencing on the first anniversary date of the date of grant. However, since October 2007, some stock appreciation rights, representing an option under the LTIP, vest at a rate of 50% annually commencing on the third anniversary date of the grants made in October 2007, October 2008 and October 2009.

For stock appreciation rights, reflecting an option under the LTIP, once vested, such right may be exercised between the second and the fifteenth business day following each release of the Corporation's quarterly financial results and will lapse immediately upon the termination of the relationship with the Corporation or one (1) of its subsidiaries for a good and sufficient cause or at the date on which an employee resigns or leaves his employment with the Corporation or one (1) of its subsidiaries (or within thirty (30) days if the holder is dismissed without cause). In the event of retirement or disability, any stock appreciation right held by an employee lapses thirty (30) days after the date of any such disability or retirement. In the event of death, any stock appreciation right lapses six (6) months after the date of death.

All of the stock appreciation rights that are granted under the SAR Plan may be exercised within a maximum period of ten (10) years following the date of their grant.

From September 1, 2015 until November 1, 2016, 13,202 Stock Appreciation Rights ("SARs") were exercised.

During the financial year ended August 31, 2016, 7,800 SARs were granted to employees. As at August 31, 2016, there were 33,500 SARs outstanding.

Benefits and Perquisites

Certain employees of the Corporation, including the NEOs, are eligible to participate in the Corporation's benefits programs, which may include life insurance, extended health and dental coverage, short and long-term disability coverage, accidental death and dismemberment (AD&D) compensation and emergency travel assistance. Although the majority of costs of the benefits are paid by the Corporation, employees (including the NEOs) may also be required to contribute to obtain such benefits.

Table of Contents

With the exception of car allowances that are provided to the Corporation's CEO and Vice-Presidents of Sales, executive officers, including other NEOs, do not receive any perquisites. The value of the perquisites for each of the NEOs, if applicable, is less than CA$50,000 or 10% of total annual salary and bonus for the financial year and, as such, is not included in the table provided under the heading "Summary Compensation Table" and in the table provided under the heading "Termination and Change of Control Benefits".

Deferred Profit-Sharing Plan

The Corporation maintains a deferred profit-sharing plan (the "DPSP") for certain eligible Canadian resident employees, including NEOs but excluding the Corporation's CEO, under which the Corporation may elect to match the employees' contributions up to a maximum of 4% (3% prior to January 2014) of an employee's gross salary, provided that the employee has contributed to a tax-deferred registered retirement savings plan. Cash contributions, for eligible employees to the DPSP, and expenses for the years ended August 31, 2014, 2015 and 2016 amounted to US$1,451,000, US$1,492,000 and US$1,374,000, respectively. The amounts contributed to the DPSP are invested at the employee's will in the investment vehicles offered by Manufacturers Life Insurance Company (Manulife) (previously Standard Life), the Corporation's fund administrator. Withdrawals of funds from the DPSP account are not permitted. In the event of termination of the employment, if the employee has been a member of the DPSP for more than two (2) years, the employee is entitled to receive the funds accumulated in his DPSP account.

401K Plan

The Corporation maintains a 401K plan for eligible United States resident employees of its subsidiaries. Employees become eligible to participate in the 401K plan on the date they are hired. Under this plan, the Corporation must contribute an amount equal to 3% of an employee's current compensation. In addition, employees may elect to defer their current compensation up to the lesser of 1% of eligible compensation or the statutorily prescribed annual limit and have the deferral contributed to the 401K plan. The 401K plan permits, but does not require the Corporation to make additional matching contributions to the 401K plan on behalf of the eligible participants, subject to a maximum of 50% of the first 6% of the participant's current compensation subject to certain legislated maximum contribution limits. The Corporation contributes up to 3% of the participant's current compensation, subject to certain legislated maximum contribution limits. In the years ended August 31, 2014, 2015 and 2016, the Corporation made aggregate contributions of US$616,000, US$628,000 and US$622,000 respectively, to the 401K plan. Contributions by participants or by the Corporation to the 401K plan and income earned on plan contributions are generally not taxable to the participant until withdrawn and contributions by the Corporation are generally deductible by the Corporation when made. At the direction of each participant, the trustees of the 401K plan invest the assets of the 401K plan in selected investment options.

2016 Performance and Compensation

Compensation for the NEOs is awarded through the Corporation's executive compensation plan, which aligns compensation with key strategic objectives and individual performance. The Corporation has established Business Performance Measures outlining key performance indicators which are applicable to all employees. You will find more information on such indicators under the heading "Short-Term Incentive Compensation". These performance indicators focus efforts, communicate priorities and enable performance to be benchmarked.

The following table highlights the NEOs early vesting achievement in accordance with the Corporation's LTIP:

Long-Term Incentive Plan (LTIP) - RSUs

Date of Grant	Vesting Date	% of Early Vesting Achievement [1]
October 16, 2012	October 17, 2016	0%
October 16, 2013	October 17, 2016	0%

(1) The vesting schedules are provided in the table under the heading "Long-Term Incentive Plan".

77

Table of Contents

Conclusion

By way of application of the Corporation's executive compensation policy, an important part of executive compensation is linked to corporate performance and long-term value creation. The Human Resources Committee continuously reviews executive compensation programs to ensure that they maintain their competitiveness and continue to focus on the Corporation's objectives, values and business strategies.

For the financial year ending August 31, 2012, we made a significant change to the CEO compensation structure. Following the evaluation of the share ownership of the CEO, it was decided by the Human Resources Committee that the CEO should no longer receive equity-based compensation within his compensation as the share ownership of the CEO has been determined to be sufficient and that equity-based compensation was no longer reasonably considered as an incentive to performance.

Depending on specific circumstances, the Human Resources Committee may also recommend employment terms and conditions that deviate from the policies and the execution by the Corporation or its subsidiaries of employment contracts on a case-by-case basis.

CEO Performance Compensation during Last Three (3) Financial Years

The following table compares the compensation awarded to Mr. Germain Lamonde in respect of his performance as CEO to the Total Market Capitalization Growth for the last three (3) financial years. The compensation includes base salary, short-term incentive payments, as well as long-term incentive payments at grant date pursuant to the LTIP.

Compensation Elements	2016	2015	2014	Three-Year Total
Cash				
Base Salary	CA$700,000	CA$615,332	CA$557,767	CA$1,873,099
Short-Term Incentive	CA$331,115	CA$101,022	CA$214,300	CA$646,437
Equity				
Long-Term Incentive	–	–	–	–
Total Direct Compensation	CA$1,031,115	CA$716,354	CA$772,067	CA$2,519,536
Pension Value	–	–	–	–
All Other Compensation	–	–	–	–

Total Compensation	CA$1,031,115	CA$716,354	CA$772,067	CA$2,519,536
Annual Average	–	–	–	CA$839,845
Total Market Capitalization (CA$ millions) as at August 31 (1)	231.9	217.6	286.6	245.4
Total Cost as a % of Market Capitalization	0.44%	0.33%	0.27%	0.34%

(1) In fiscal year 2015, the Corporation redeemed 6,521,739 subordinate voting shares under the Substantial Issuer Bid.

78

Table of Contents

Summary Compensation Table of Named Executive Officers

The table below shows compensation information during the three (3) most recently completed financial years for the NEOs. This information includes, as applicable, the Canadian, US and Singapore dollar and British pound value of base salaries, share-based and option-based awards, non-equity incentive plan compensations, pension value and all other compensation, if any, whether paid or deferred.

Name and Principal Position	Financial Year	Salary [1] [2] ($)	Share-Based Awards [2] [3] ($)	Option-Based Awards ($)	Non-Equity Incentive Plan Compensation ($)		Pension Value ($)	All Other Compensation ($) [2] [5]	Total Compensation ($)
					Annual Incentive Plans [2] [4]	Long-Term Incentive Plan			
Germain Lamonde, President and CEO	2016	527,188 (US) 700,000 (CA)	– (US) – (CA)	–	249,371 (US) 331,115 (CA)	–	–	–	776,559 (US) 1,031,115 (CA)
	2015	508,833 (US) 615,332 (CA)	– (US) – (CA)	–	83,537 (US) 101,022 (CA)	–	–	–	592,370 (US) 716,354 (CA)
	2014	517,313 (US) 557,767 (CA)	– (US) – (CA)	–	198,757 (US) 214,300 (CA)	–	–	–	716,070 (US) 772,067 (CA)
Philippe Morin, COO	2016	296,905 (US) [6] 394,231 (CA)	564,844 (US) 749,999 (CA)	–	107,388 (US) 142,589 (CA)	–	–	6,879 (US) 9,135 (CA)	976,016 (US) 1,295,954 (CA)
Pierre Plamondon, Vice-President, Finance and CFO	2016	221,502 (US) 294,110 (CA)	91,220 (US) 121,122 (CA)	–	82,291 (US) 109,266 (CA)	–	–	9,064 (US) 12,035 (CA)	404,077 (US) 536,533 (CA)
	2015			–		–	–		

		235,665 (US) 284,990 (CA)	95,847 (US) 115,907 (CA)		31,095 (US) 37,603 (CA)			12,212 (US) 14,768 (CA)	374,819 (US) 453,268 (CA)
	2014	252,938 (US) 272,718 (CA)	100,465 (US) 108,321 (CA)	–	69,448 (US) 74,879 (CA)	–	–	11,667 (US) 12,579 (CA)	434,518 (US) 468,497 (CA)
	2016	179,973 (US) 238,968 (CA) 124,739 (£)	85,837 (US) 113,975 (CA) 59,494 (£)	–	123,019 (US) 163,344 (CA) 85,264 (£)	–	–	–	388,829 (US) 516,287 (CA) 269,497 (£)
Jon Bradley, Vice-President, Sales — EMEA	2015	193,664 (US) 234,198 (CA) 124,739 (£)	83,579 (US) 101,072 (CA) 53,833 (£)	–	78,315 (US) 94,706 (CA) 50,442 (£)	–	–	–	355,558 (US) 429,976 (CA) 229,014 (£)
	2014	200,594 (US) 216,280 (CA) 121,459 (£)	71,402 (US) 76,986 (CA) 45,740 (£)	–	116,563 (US) 125,678 (CA) 70,579 (£)	–	–	–	388,559 (US) 418,944 (CA) 237,778 (£)
Dana Yearian, Vice-President, Sales — Americas	2016	233,465 (US) 309,995 (CA)	97,087 (US) 128,913 (CA)	–	181,465 (US) 240,949 (CA)	–	–	7,049 (US) 9,360 (CA)	519,066 (US) 689,217 (CA)
	2015	228,439 (US) 276,251 (CA)	95,369 (US) 115,330 (CA)	–	156,372 (US) 189,100 (CA)	–	–	7,049 (US) 8,525 (CA)	487,229 (US) 589,206 (CA)
	2014	224,400 (US) 241,948 (CA)	93,329 (US) 100,627 (CA)	–	140,579 (US) 151,573 (CA)	–	–	7,049 (US) 7,601 (CA)	465,357 (US) 501,749 (CA)

(1) Base salary earned in the financial year, regardless when paid.

(2) The compensation information for Canadian residents has been converted from Canadian dollars to US dollars based upon an average foreign exchange rate of CA$1.3278 = US$1.00 for the financial year ended August 31, 2016, CA$1.2093 = US$1.00 for the financial year ended August 31, 2015 and CA$1.0782 = US$1.00 for the financial year ended August 31, 2014. The compensation information for UK resident has been converted from British Pounds to US dollars based upon an average foreign exchange rate of £0.6931 = US$1.00 for the financial year ended August 31, 2016, £0.6441 = US$1.00 for the financial year ended August 31, 2015 and £0.6055 = US$1.00 for the financial year ended August 31, 2014 and the conversion from US dollars to Canadian dollars is made as described above.

(3) Indicates the dollar amount based on the grant date fair value of the RSUs awarded under the LTIP for the financial year. The grant date fair value is equal to the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and the NASDAQ National Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada on the grant date to convert either the NASDAQ National Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars. Grants of RSUs to NEOs are detailed under section "Compensation Discussion and Analysis – Long-Term Incentive Plan".

Table of Contents

(4) Indicates the total bonus earned during the financial year whether paid during the financial year or payable on a later date:

Name	Paid during the Financial Year Ended August 31, 2016 (i) ($)		Paid in the First Quarter of the Financial Year Ending on August 31, 2017 (i) ($)		Total Bonus Earned during the Financial Year Ended August 31, 2016 (i) ($)	
Germain Lamonde		(US) (CA)	249,371 331,115	(US) (CA)	249,371 331,115	(US) (CA)
Philippe Morin		(US) (CA)	107,388 142,589	(US) (CA)	107,388 142,589	(US) (CA)
Pierre Plamondon		(US) (CA)	82,291 109,266	(US) (CA)	82,291 109,266	(US) (CA)
Jon Bradley	63,591 84,436 44,075	(US) (CA) (£)	59,428 78,908 41,189	(US) (CA) (£)	123,019 163,344 85,264	(US) (CA) (£)
Dana Yearian	98,141 130,312	(US) (CA)	83,324 110,637	(US) (CA)	181,465 240,949	(US) (CA)

(i) Refer to note 2 above.

(5) Indicates the amount contributed by the Corporation during the financial year to the DPSP as detailed under section "Compensation Discussion and Analysis – Deferred Profit-Sharing Plan", the 401K plan as detailed under section "Compensation Discussion and Analysis – 401K plan", as applicable, for the benefit of the NEOs. Mr. Lamonde is not eligible to participate in the DPSP and Mr. Bradley did not participate.

(6) This amount represents the salary paid to Mr. Philippe Morin from November 9, 2015 to August 31, 2016 which is based on an annual salary of US$376,563 (CA$500,000) for the financial year ended August 31, 2016.

Incentive Plan Awards

The significant terms of all plan-based awards and non-equity incentive plan awards, issued or vested, or under which options have been exercised, during the financial year, or outstanding at the end of the financial year are described herein under the section entitled "Compensation Discussion and Analysis – Long-Term Incentive Plan" and "Compensation Discussion and Analysis – Short Term Incentive Compensation".

Outstanding Share-Based Awards and Option-Based Awards

The following sets out for each NEO all option and RSU awards outstanding as at August 31, 2016, if any, including those granted before August 31, 2016.

Name	Outstanding Option-Based Awards (Options)				Outstanding Share-Based Awards (RSUs)		
	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price	Option Expiration Date	Value of Unexercised "in-the-money" Options	Number of Shares or Units of Shares that Have Not Vested (#)	Market or Payout Value of Share-Based Awards that Have Not Vested (US$) (1)	Market or Payout Value of Vested Share-Based Awards Not Paid Out or Distributed (US$)
Germain Lamonde	—		–	–	53,261	175,761	–
Philippe Morin	—		–	–	164,835	543,956	–
Pierre Plamondon	—		–	–	113,679	375,141	–
Jon Bradley	—		–	–	88,547	292,205	–
Dana Yearian	—		–	–	106,756	352,295	–

(1) The value of unvested RSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2016, which was US$3.30 (CA$4.33). The market value of the Subordinate Voting Shares was calculated by using the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ National Market on August 31, 2016 using the noon buying rate of the Bank of Canada to convert either the NASDAQ National Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars as required. The actual gains on vesting will depend on the value of the Subordinate Voting Shares on the date of vesting. There can be no assurance that these values will be realized.

Table of Contents

Exercised Option-Based Awards

No stock options were exercised during the financial year ended August 31, 2016 by the NEOs having outstanding option-based awards of the Corporation.

Incentive Plan Awards – Value Vested or Earned during the Year

The following table summarizes, for each of the NEOs, the value of share-based awards vested during the financial year ended August 31, 2016, if any, and the value of non-equity incentive plan compensation earned during the financial year ended August 31, 2016, if any. In the financial year that ended August 31, 2016, all of the options granted to an NEO were exercisable.

Name	Share-Based Awards – Value Vested during the Year (US$) (1)	Non-Equity Incentive Plan Compensation – Value Earned during the Year (US$) (2)
Germain Lamonde	132,457	249,371
Philippe Morin		107,388
Pierre Plamondon	64,581	82,291
Jon Bradley	51,214	123,019
Dana Yearian	61,406	181,465

(1) The aggregate dollar value realized is equivalent to the market value of the Subordinate Voting Shares underlying the RSUs at vesting. This value, as the case may be, has been converted from Canadian dollars to US dollars based upon the noon buying rate of the Bank of Canada on the day of vesting.

(2) Includes total non-equity incentive plan compensation earned by each NEO in respect to the financial year ended on August 31, 2016 (as indicated under the "Summary Compensation Table").

Pension Plan Benefits

The Corporation does not have a defined benefit pension plan. The significant terms of the DPSP and the 401K plan of the Corporation are described herein under the sections entitled "Compensation Discussion and Analysis – Deferred

Profit-Sharing Plan" and "Compensation Discussion and Analysis – 401K plan". The amounts paid by the Corporation to the NEOs under such plans are detailed in the column entitled "All other compensation" in the "Summary Compensation Table".

Termination and Change of Control Benefits

The Corporation has an employment agreement with Mr. Germain Lamonde. The agreement is for an indeterminate period and compensation is reviewed annually. In the event of the termination of Mr. Lamonde's employment without cause, Mr. Lamonde will be entitled to a severance payment equal to twenty-four (24) months of his current rate of remuneration (base salary, STIP compensation and benefits) and the immediate vesting of all stock options and RSUs. In addition, in the event that Mr. Lamonde's employment is terminated following a merger or an acquisition by a third party of substantially all of the Corporation's assets or of the majority of its share capital, he will be entitled to a severance payment equal to twenty-four (24) months of his current rate of remuneration (base salary, STIP compensation and benefits) and to the immediate vesting of all stock options and RSUs. If Mr. Lamonde voluntarily resigns, he will be entitled to immediate vesting of all stock options and RSUs.

The Corporation has an employment agreement with Mr. Philippe Morin, the Corporation's Chief Operating Officer. The agreement is for an indeterminate period and compensation is reviewed annually. In the event of termination of Mr. Morin's employment without cause, Mr. Morin will be entitled to a severance payment equal to twelve (12) months of his current base salary. In addition, in the event Mr. Morin's employment is terminated following a merger or an acquisition by a third party of substantially all of the Corporation's assets or of the majority of its share capital, he will be entitled to a severance payment equal to twelve (12) months of his current base salary and to the immediate vesting of all stock options and RSUs.

Table of Contents

The Corporation has an employment agreement with Mr. Pierre Plamondon, the Corporation's Vice-President, Finance and CFO. The agreement is for an indeterminate period and compensation is reviewed annually. In the event of termination of Mr. Plamondon's employment without cause, Mr. Plamondon will be entitled to a severance payment equal to twelve (12) months of his current base salary. In addition, in the event Mr. Plamondon's employment is terminated following a merger or an acquisition by a third party of substantially all of the Corporation's assets or of the majority of its share capital, he will be entitled to a severance payment equal to eighteen (18) months of his current rate of remuneration (base salary, STIP compensation and benefits) and to the immediate vesting of all stock options and RSUs.

The Corporation has an employment agreement with Mr. Jon Bradley, the Corporation's Vice-President, Sales — EMEA. The agreement is for an indeterminate period and compensation is reviewed annually. In the event of termination of Mr. Bradley's employment without cause, Mr. Bradley will be entitled to severance payments equal to twelve (12) months of his current base salary. In addition, in the event Mr. Bradley's employment is terminated following a merger or an acquisition by a third party of substantially all of the Corporation's assets or of the majority of its share capital, he will be entitled to severance payments equal to two (2) months of his current rate of remuneration (base salary, SIP compensation and benefits) per year of service as a Vice-President of the Corporation but in no case exceeding eighteen (18) months of remuneration and to the immediate vesting of all RSUs.

The Corporation has an employment agreement with Mr. Dana Yearian, the Corporation's Vice-President, Sales — Americas. The agreement is for an indeterminate period and compensation is reviewed annually. In the event of termination of Mr. Yearian's employment without cause, Mr. Yearian will be entitled to a severance payment equal to twelve (12) months of his current base salary. In addition, in the event Mr. Yearian's employment is terminated following a merger or an acquisition by a third party of substantially all of the Corporation's assets or of the majority of its share capital, he will be entitled to a severance payment equal to eighteen (18) months of his current rate of remuneration (base salary, SIP compensation and benefits) and to the immediate vesting of all stock options and RSUs.

The following table outlines the estimated incremental payments NEOs would be entitled to receive if a termination payment event occurred on August 31, 2016, which includes all payments, payables and benefits that would be given by the Corporation to a NEO upon such termination payment event.

Named Executive Officer	Termination Payment Event					
	Without Cause ($) [1] [2]		Change of Control ($) [2] [3] [4]		Voluntary ($)	
Germain Lamonde	1,748,061 2,292,850	(US) [5] (CA)	1,748,061 2,292,850	(US) (CA)	175,761 230,620	(US) [6] (CA)
Philippe Morin	496,315 651,026	(US) (CA)	925,170 1,213,736	(US) (CA)	–	
Pierre Plamondon					–	

	419,202	(US)	836,459	(US)	
	549,926	(CA)	1,097,294	(CA)	
Jon Bradley	306,092	(US)	705,963	(US)	–
	401,544	(CA)	926,094	(CA)	
	233,035	(£)	537,467	(£)	
Dana Yearian	411,503	(US)	974,690	(US)	–
	539,821	(CA)	1,278,586	(CA)	

(1) The aggregate amount disclosed includes an evaluation of the amount that the NEO would have been entitled to should a termination of employment without cause have occurred on August 31, 2016 and includes, as the case may be for each NEO, the base salary that would have been received and total value of RSUs and options that would have vested (with the exception of Mr. Lamonde's evaluation which is described in note 6 below and includes: the base salary, STIP compensation, and total value of RSUs and options that would have vested). The amount for base salary compensation is calculated according to those amounts provided under the section entitled "Summary Compensation Table" included in this Annual Report. The amount for the total value attached to the vesting of RSUs and options determined pursuant to the LTIP as described in the section entitled "Long-Term Incentive Compensation – Long-Term Incentive Plan" for termination without cause.

Table of Contents

(2) The aggregate amount for Canadian residents has been converted from Canadian dollars to US dollars based upon a foreign exchange rate of CA$1.3116 = US$1.00 as of August 31, 2016. The aggregate amount for UK resident has been converted from British Pounds to US dollars based upon a foreign exchange rate of £0.7613 = US$1.00 as of August 31, 2016.

(3) "Change of Control" is defined as a merger or an acquisition by a third party of substantially all of the Corporation's assets or of the majority of its share capital.

(4) The aggregate amount disclosed includes, as the case may be for each NEO, an evaluation of the amount that the NEO would have been entitled to should a termination of employment for Change of Control have occurred on August 31, 2016 and includes, as the case may be, namely, the base salary, STIP or SIP compensation and total value of RSUs and options that would have vested. The amount for base salary and STIP or SIP compensation are calculated according to those amounts provided under the section entitled "Summary Compensation Table" included in this Annual Report, the total value attached to the vesting of RSUs and options is calculated according to those amounts provided in the columns named "Value of unexercised "in-the-money" options" and "Market or payout value of share-based awards that have not vested" of the table included under the heading entitled "Outstanding share-based awards and option-based awards".

(5) The aggregate amount disclosed includes an evaluation of the amount that Mr. Lamonde would have been entitled to should a termination of employment without cause have occurred on August 31, 2016 and includes: the base salary, STIP compensation, and total value of RSUs and options that would have vested. The amount for base salary and STIP compensation are calculated according to those amounts provided under the section entitled "Summary Compensation Table" included in this Annual Report; the total value attached to the vesting of RSUs and options are calculated according to those amounts provided in the columns named "Value of unexercised "in-the-money" options" and "Market or payout value of share-based awards that have not vested" of the table included under the heading entitled – "Outstanding share-based awards and option-based awards".

(6) The aggregate amount disclosed includes an evaluation of the amount that Mr. Lamonde would have been entitled to should a voluntary termination of employment have occurred on August 31, 2016 and includes: the total value of RSUs and options that would have vested. The amount for the total value attached to the vesting of RSUs and options are calculated according to those amounts provided in the columns named "Value of unexercised "in-the-money" options" and "Market or payout value of share-based awards that have not vested" of the table included under the heading entitled "Outstanding share-based awards and option-based awards".

Compensation of Directors

Director Compensation Table

In the financial year ended August 31, 2014, the decision was made to increase the Annual Retainer and eliminate the attendance fees and each Director who was not an employee of the Corporation or any of its subsidiaries received an Annual Retainer as set forth in the following table, payable in a combination of cash and DSUs as chosen by the director pursuant to the DSU Plan. The significant terms of the DSU Plan are described herein under the section entitled "Long-Term Incentive Compensation – Deferred Share Unit Plan".

Annual Retainer for Directors (1)	CA$57,000 (2)	US$42,928 (3)

Annual Retainer for Lead Director	CA$8,000	US$6,025	(3)
Annual Retainer for Audit Committee Chairman	CA$8,000	US$6,025	(3)
Annual Retainer for Audit Committee Members	CA$4,000	US$3,013	(3)
Annual Retainer for Human Resources Committee Chairman	CA$6,000	US$4,519	(3)
Annual Retainer for Human Resources Committee Members	CA$3,000	US$2,259	(3)

(1) All the Directors elected to receive 50% of their Annual Retainer for Directors in form of DSUs except Mr. Randy E. Tornes who elected to receive 100% of his Annual Retainer in form of DSUs.

(2) The Annual Retainer for Mr. Pierre-Paul Allard and Mr. Randy E. Tornes is US$57,000 (CA$75,685).

(3) The compensation information has been converted from Canadian dollars to US dollars based upon an average foreign exchange rate of CA$1.3278 = US$1.00 for the financial year ended August 31, 2016.

Table of Contents

In the financial year ended August 31, 2016, the Directors who were not employees of the Corporation earned the following compensation:

Name	Fees Earned (1) ($)	Share-Based Awards ($)	Option-Based Awards ($)	Non-Equity Incentive Plan Compensation ($)	Pension Value ($)	All Other Compensation ($)	Total ($)
Pierre-Paul Allard	62,272 (US) 82,684 (CA)	–	–	–	–	–	62,272 (US) 82,684 (CA)
François Côté	54,366 (US) 72,187 (CA)	–	–	–	–	–	54,366 (US) 72,187 (CA)
Darryl Edwards	50,318 (US) 66,813 (CA)	–	–	–	–	–	50,318 (US) 66,813 (CA)
Claude Séguin	51,212 (US) 68,000 (CA)	–	–	–	–	–	51,212 (US) 68,000 (CA)
Randy E. Tornes	62,272 (US) 82,685 (CA)	–	–	–	–	–	62,272 (US) 82,685 (CA)

(1) The compensation information has been converted from Canadian dollars to US dollars based upon an average foreign exchange rate of CA$1.3278 = US$1.00 for the financial year ended August 31, 2016 except for compensation amounts paid to Mr. Pierre-Paul Allard and Mr. Randy E. Tornes which were paid in US dollars for the portion of their annual retainer for Directors. The fees are always payable in cash, but executives are provided the opportunity to elect to exchange all or a portion of their Annual Retainer for Directors into DSUs. The following table identifies the portion of the fees earned by the directors that were paid in DSUs and the portion that were paid in cash.

Name	Fees Earned		
	DSUs ($) (i)	Cash ($)	Total ($)
Pierre-Paul	28,500 (US) 37,842 (CA)	33,772 (US) 44,842 (CA)	62,272 (US) 82,684 (CA)

Allard (ii)						
François Côté (ii)	21,464 28,500	(US) (CA)	32,902 43,687	(US) (CA)	54,366 72,187	(US) (CA)
Darryl Edwards (ii)	21,464 28,500	(US) (CA)	28,854 38,313	(US) (CA)	50,318 66,813	(US) (CA)
Claude Séguin (ii)	21,464 28,500	(US) (CA)	29,748 39,500	(US) (CA)	51,212 68,000	(US) (CA)
Randy E. Tornes (iii)	57,000 75,685	(US) (CA)	5,272 7,000	(US) (CA)	62,272 82,685	(US) (CA)

(i) The estimated value at the time of grant of a DSU is determined based on the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and the NASDAQ National Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada on the grant date to convert either the NASDAQ National Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars, as required. The value at vesting of a DSU is equivalent to the market value of a Subordinate Voting Share when a DSU is converted to such Subordinate Voting Share.
(ii) Elected to receive 50% of his Annual Retainer for Directors in form of DSUs.
(iii) Elected to receive 100% of his Annual Retainer for Directors in form of DSUs.

Director Incentive Plan Awards

The significant terms of all plan-based awards and non-equity-incentive plan awards, issued or vested, or under which options have been exercised, during the year, or outstanding at the end of the financial year are described herein under section entitled "Compensation Discussion and Analysis – Long-Term Incentive Plan".

Table of Contents

Outstanding Share-Based Awards and Option-Based Awards

The following table sets out for each Director of the Corporation all awards outstanding as at August 31, 2016, if any, including awards granted before August 31, 2016.

Name	Outstanding Share-Based Awards (DSUs)		
	Number of Shares or Units of Shares that Have Not Vested (#)	Market or Payout Value of Share-Based Awards that Have Not Vested (US$) [1]	Market or Payout Value of Vested Share-Based Awards Not Paid Out or Distributed (US$)
Pierre-Paul Allard	48,883	161,314	
François Côté	10,809	35,670	–
Darryl Edwards	28,217	93,116	–
Claude Séguin	21,755	71,792	–
Randy E. Tornes	49,463	163,228	–

(1) The value of unvested DSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2016, which was US$3.30 (CA$4.33). The market value of the Subordinate Voting Shares was calculated by using the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ National Market on August 31, 2016 using the noon buying rate of the Bank of Canada to convert either the NASDAQ National Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars as required. The actual gains on vesting will depend on the value of the Subordinate Voting Shares on the date of vesting. There can be no assurance that these values will be realized.

No Director holds outstanding option-based awards of the Corporation as at August 31, 2016. On September 15, 2016, Mr. Marier converted his 653 DSUs into 653 Subordinate Voting Shares of the Corporation.

Exercised Share-Based Awards

In the financial year that ended August 31, 2016, none of the DSUs of Directors vested with the exception of Mr. Guy Marier, a former Director, as detailed below and the Directors did not receive any non-equity incentive compensation from the Corporation.

The following table summarizes information about DSUs converted and paid in Subordinate Voting Shares when a Director ceased to be a member of the Board as at November 1, 2016:

Name	Number of DSUs Converted	Aggregate Value Realized (US$) (1)
Guy Marier (2)	653	1,955

(1) The aggregate value realized is equivalent to the market value of the securities underlying the DSUs at conversion.
(2) Mr. Marier ceased to be a member of the Board of Directors as of January 7, 2015.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth the number of Subordinate Voting Shares of the Corporation issued and outstanding as at August 31, 2016, or that may be issued, under the Corporation's LTIP and Deferred Share Unit Plan, both of which were approved by the Corporation's shareholders.

Table of Contents

Plan Category	Number of Securities to Be Issued upon Exercise of Outstanding Options, RSUs and DSUs (#) (a)	Weighted-Average Exercise Price of Outstanding Options, RSUs and DSUs (US$) (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (#) (c)
LTIP – RSUs	1,551,555	n/a [(1)]	
LTIP – Options	–	–	867,716
Deferred Share Unit Plan – DSUs	159,127	n/a [(1)]	

(1) The value of RSUs and DSUs will be equal to the market value of the Subordinate Voting Shares of the Corporation on the date of vesting.

PERFORMANCE GRAPH

The line graph below compares the cumulative total shareholder return of the Corporation's Subordinate Voting Shares with the cumulative shareholder return of the S&P/TSX Composite Index for the last five (5) financial years ended August 31, 2016. It assumes that the initial value of the investment in the Corporation's Subordinate Voting Shares and in the S&P/TSX Composite Index was CA$100 on September 1, 2011. The bar chart below illustrates the trend in total compensation paid to the NEOs in office during such periods; the CEO and CFO are included in each period but the remaining three (3) named executive officers changed from one period to another. For further information about the identity and compensation of the NEOs, please refer to our previous five (5) Annual Reports and this Annual Report under the section "Summary Compensation Table".

The Corporation's Stock Performance
(September 1, 2011 to August 31, 2016)

	August 31,					
	2011	2012	2013	2014	2015	2016
EXFO Subordinate Voting Shares (CA$)	$100	$70	$70	$70	$59	$63
S&P/TSX Composite Index (CA$)	$100	$94	$100	$123	$109	$115
NEOs' total compensation (in millions of CA$)	$2.7	$2.5	$2.3	$2.6	$2.6	$4.1

Table of Contents

The line graph on the previous page reflects that EXFO underperformed the S&P/TSX Composite Index during the last five (5) years ended August 31, 2016. Total shareholder return for the Corporation decreased markedly in 2012, remained stable in 2013 and 2014, slipped again in 2015 and slightly recovered in 2016. Total shareholder return for the Index increased in financial 2013, 2014 and 2016, while it declined in 2012 and 2015. In fact, the Corporation's share price followed the same trend as the Index in 2012, 2015 and 2016; in 2013 and 2014, the Corporation's share price remained stable while the Index increased.

The Corporation was negatively impacted by the debt crisis in Europe in 2012, uneven macro-economic conditions in recent years and lower telecom spending. Its sales were also affected by global exchange rates, notably the increase of the US dollar versus a basket of currencies like the Canadian dollar and Euro in 2015 and 2016. The Index, meanwhile, suffered from the European financial crisis in 2012 and lower prices for natural resources in 2015, but it was less perturbed by unsteady macro-economic conditions from 2012 to 2014 and in 2016. Due to the relatively small size of the Corporation and its market capitalization, its Subordinate Voting Shares tend to be more volatile and more severely impacted, either positively or negatively, than the Index.

The bar chart illustrates that over the same five-year period, the total level of compensation received by the NEOs, as expressed in Canadian dollars, followed the Corporation's share price performance in 2012 and 2016, but not between 2013 and 2015. The following information should be considered when analyzing the chart:

- The Corporation's share performance decreased from the financial year that began on September 1, 2011 to the financial year ended August 31, 2012. Total compensation received by the NEOs during this period was aligned with the decrease in the Corporation's share price.

- Despite the relative stability of the Corporation's share price as at August 31, 2013 compared to the previous financial year, total compensation to the NEOs decreased. This decrease in NEOs compensation reflected financial results below expectations for financial 2013 and consequently was aligned with shareholders' interests.

- The Corporation's share price remained relatively flat as at August 31, 2014 compared to the previous financial year, but total NEO compensation increased for that year. This rise in NEO compensation can be explained mainly by the progressive adjustment of the CEO's base salary, as he no longer received equity-based compensation, as well as adjustments to align executive compensation with the Target Compensation Positioning offered within a reference market of comparable companies similar in size to the Corporation. This was deemed necessary to maintain a competitive position within the marketplace and retain key executives.

- The Corporation's share price decreased as at August 31, 2015 compared to the previous financial year, while total NEO compensation as expressed in Canadian dollars remained flat for the same period. It should be noted, however, three out of five NEOs were remunerated in currencies other than the Canadian dollar. On a constant currency basis, total NEO compensation would have decreased by about CA$100,000 year-over-year. As a result, total compensation received by the NEOs for this period was aligned with share price performance.

- The Corporation's share performance increased from September 1, 2015 to August 31, 2016. Total compensation received by the NEOs during this period also increased but at a higher rate than the Corporation's share price. It should be noted that the Corporation hired an executive to the newly created position of Chief Operating Officer in the early part of the financial year, which also contributed to the increase in total compensation received by the NEOs during this period.

Total compensation to NEOs of the Corporation is defined as the aggregate of base salary, short-term compensation and long-term compensation. Base salary is established at the beginning of each financial year, according to recommendations made by the Board of Directors' Human Resources Committee. Short-term compensation, which varies from one year to the next, is contingent upon the achievement of pre-established objectives measured against corporate and individual targets for a given financial year. For more information about short-term compensation, refer to the heading entitled "Short Term Incentive Compensation." Long-term compensation, which is provided in the form of RSUs, vests over a three- to five-year period, depending on the achievement of pre-established corporate goals. For more information about long-term compensation, refer to the heading entitled "Long-Term Incentive Plan".

Consequently, base salary and short-term compensation do not necessarily track the market value of our share price. Long-term compensation, however, is directly aligned with share-price performance, since the market value of RSUs is equal to the market value of our shares on any vesting day. Accordingly, the market value of the Corporation's share price will affect the planned value of NEOs' total compensation, thereby partially aligning their experience with that of shareholders.

Indemnification of Directors and Executive Officers and Limitation of Liability

Our by-laws require us, subject to the limitations provided by law, to indemnify our present or former Directors and officers or any persons who act or acted at our request as Directors or officers of a body corporate for all costs, losses, charges and expenses that arose or may arise by reason of their status as Directors or officers of us or such body corporate. We maintain a Directors' and officers' liability insurance policy, which insures our Directors and officers and those of our subsidiaries against liability incurred by, arising from or against them for certain of their acts, errors or omissions. Accordingly, we maintain insurance protection against liability incurred by the Corporation's officers and directors as well as those of its subsidiaries in the performance of their duties. The entire premium, amounting to US$103,000 from September 30, 2016 to September 30, 2017, is paid by the Corporation. The aggregate limit of liability in respect of any and all claims is US$10 million per year, subject to a deductible of US$250,000. A separate excess director and officer liability policy (Chubb Executive Elite) with aggregate limit of US$5 million provides broad form side A coverage, featuring difference-in-conditions (DIC) drop-down coverage that fills in potential coverage gaps that may exist under restrictive or unresponsive underlying insurance. This specific policy provides coverage for personal directors and officers liability if the organization fails or refuses to indemnify, or is financially unable to do so, or is prevented by law from indemnifying and will also respond if the primary D&O policy limit is consumed.

C. Board Practices

Board of Directors

Our Directors are elected at the annual meeting of shareholders for one-year terms and serve until their successors are elected or appointed, unless they resign or are removed earlier. We plan to hold our next annual meeting of shareholders on January 11, 2017. Our articles of incorporation provide for a Board of Directors of a minimum of three (3) and a maximum of twelve (12) Directors. Our Board of Directors presently consists of six Directors. Under the Canada Business Corporations Act, twenty-five percent of the Directors and of the members of any committee of the Board of Directors must be resident Canadians. We have no arrangements with any of our Directors providing for the payment of benefits upon their termination of service as Director except for the vesting of their respective Deferred Share Units as detailed above.

The following charts and notes set out the name of each of the individuals proposed to be nominated at the Meeting for election as a director of the Corporation. Included in these charts is information relating to the proposed directors' committee memberships, meeting attendance, period of service as a director, principal directorships with other organizations and equity ownership (or securities over which each of them exercises control or direction) in the Corporation.

Table of Contents

GERMAIN LAMONDE

St-Augustin-de-Desmaures, Quebec, Canada Director since September 1985 Not Independent (Management) Principal Occupation: Chairman of the Board of Directors, President and Chief Executive Officer of the Corporation	Germain Lamonde, a founder of EXFO, has been President and Chief Executive Officer of EXFO since its inception in 1985. He has also been Chairman of the Board since EXFO went public in 2000. Responsible for the overall management and strategic direction of EXFO, Mr. Lamonde has grown the company from the ground up into a global leader in the test, service assurance and analytics markets. Mr. Lamonde has served on the board of directors of several organizations such as the Canadian Institute for Photonic Innovations, the POLE QCA Economic Development Corporation, the National Optics Institute of Canada (INO) and Université Laval in Quebec City, to name a few. Mr. Lamonde has also been involved in numerous charity organizations such as United Way and served as honorary President for the Leucan Shaved Head initiative for the Quebec City Region. Germain Lamonde holds a bachelor's degree in engineering physics from the University of Montreal's School of Engineering (École Polytechnique), a master's degree in optics from Université Laval, and is also a graduate of the Ivey Executive Management Program offered by the University of Western Ontario.

Board/Committee Membership	Attendance (1)		Board Memberships of Another Reporting Issuer
Chairman of the Board of Directors	6/6	100%	–

Securities Held

As at	Subordinate Voting Shares (#)	Multiple Voting Shares (#)	RSUs (#)	Total Shares (2) and RSUs (#)	Total Market Value (3) of Shares (2) and RSUs (US$)
August 31, 2016	4,316,247 (4)	31,643,000 (5)	53,261	36,012,508	118,841,276

(1) From September 1, 2015 until November 1, 2016, Mr. Lamonde attended five (5) board meetings in person and one (1) board meeting by telephone.
(2) Includes both Subordinate Voting Shares and Multiple Voting Shares.
(3) The value of unvested RSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2016, which was US$3.30 (CA$4.33). The market value of the Subordinate Voting Shares and Multiple Voting Shares was calculated by using the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ National Market on August 31, 2016 using the noon buying rate of the Bank of Canada to convert either the NASDAQ National Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars as required. The actual gains on vesting of RSUs

will depend on the value of the Subordinate Voting Shares on the date of vesting. There can be no assurance that these values will be realized.

(4) Mr. Lamonde exercises control over 4,000,000 of Subordinate Voting Shares through G. Lamonde Investissements Financiers Inc., a company controlled by Mr. Lamonde.

(5) Mr. Lamonde exercises control over this number of Multiple Voting Shares through G. Lamonde Investissements Financiers Inc., a company controlled by Mr. Lamonde and through Fiducie Germain Lamonde, a family trust for the benefit of Mr. Lamonde's family.

Table of Contents

PIERRE-PAUL ALLARD

Pleasanton, California, USA Director since September 2008 Independent Principal Occupation: Senior Vice-President, Worldwide Sales and President Global Field Operations, Check Point Software Technologies Inc. [1]	Pierre-Paul Allard was appointed a member of our Board of Directors in September 2008 and has been a board member of many other technology companies in Canada and in the US. Mr. Allard is Senior Vice-President, Worldwide Sales and President Global Field Operations at Check Point Software Technologies Inc. As Chief Revenue Officer, Mr. Allard is responsible for all go-to-market at Check Point. Prior to joining Check Point in July 2016, Mr. Allard led the go to market and sales teams at Avaya Inc. for 4 years. Prior to this, he worked for nineteen (19) years at Cisco Systems, Inc., where he most recently held the position of Vice-President, Sales and Operations, Global Enterprise. Previously, Mr. Allard was President of Cisco Systems Canada, and before that he held various management roles at IBM Canada for twelve (12) years. In 2002, Mr. Allard co-chaired the Canadian e-Business Initiative, a private-public partnership aiming to measure the role e-Business plays in increasing productivity levels, job creation and competitive position. In 1998, he was the laureate of the Arista-Sun life Award, for Top Young Entrepreneur in Large Enterprise, conferred by the Montreal Chamber of Commerce. In 2003, he received the Queen's Golden Jubilee Medal, which highlights significant contributions to Canada. In the same year, he was also awarded the prestigious Trudeau Medal from the University of Ottawa, Telfer School of Management. Pierre-Paul Allard holds a bachelor's and masters' degree in business administration from the University of Ottawa, Canada.

Board/Committee Membership	Attendance [2]		Board Memberships of Another Reporting Issuer
Board of Directors	5/6	83%	–
Audit Committee	4/5	80%	
Human Resources Committee	4/5	80%	
Independent Board of Directors	4/5	80%	

Securities Held

As at	DSUs (#)

	Subordinate Voting Shares (#)		Total Shares and DSUs (#)	Total Market Value (3) of Shares (4) and DSUs (US$)
August 31, 2016	8,000	48,883	56,883	187,714

(1) Check Point Software Technologies Inc. is an international provider of software products for IT security, including network security, endpoint security, data security and security management

(2) From September 1, 2015 until November 1, 2016, Mr. Allard attended four (4) board meetings in person and one (1) board meeting by telephone.

(3) The value of unvested DSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2016, which was US$3.30 (CA$4.33). The market value of the Subordinate Voting Shares was calculated by using the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ National Market on August 31, 2016 using the noon buying rate of the Bank of Canada to convert either the NASDAQ National Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars as required. The actual gains on vesting of DSUs will depend on the value of the Subordinate Voting Shares on the date of vesting. There can be no assurance that these values will be realized.

(4) Refers to Subordinate Voting Shares.

Table of Contents

FRANÇOIS CÔTÉ

Montreal, Quebec, Canada Director since January 2015 Lead Director Independent Principal Occupation: Director	François Côté is a director as a full-time occupation, for corporations in the public, private and non-profit sectors, bringing his expertise in strategy, M&A, governance and passion for growth. Mr. Côté held a variety of executive positions at Bell Canada prior to becoming President and Chief Executive Officer of Emergis. Following the acquisition of Emergis by TELUS in January 2008, he was appointed President of TELUS Quebec, TELUS Health and TELUS Ventures. In this role, Mr. Côté was responsible for broadening TELUS Quebec's presence and driving the company's national health strategy through timely investments in information technology and innovative wireless solutions. Mr. Côté holds a Bachelor's degree in Industrial Relations from Laval University. In 2007, he was named Entrepreneur of the Year by Ernst & Young, in the Corporate Restructuring category for the province of Quebec. Mr. Côté serves on the boards of Alithya and Lumenpulse Inc. (LMP) as well as the Advisory Board of the McGill Centre for the Convergence of Health and Economics (MCCHE). He is also Chairman of the Board for Norda Stelo, Vice-President of the Board of the Foundation Dr. Julien and Board member of the Fondation Martin Matte. In June 2013, Mr. Côté was named Honourary Lieutenant-Colonel of the Canadian Armed Forces' 34th Signal Regiment.

Board/Committee Membership	Attendance (2)		Board Memberships of Another Reporting Issuer
Board of Directors	5/6	83%	Lumenpulse Inc.
Audit Committee	5/5	100%	
Human Resources Committee	5/5	100%	
Independent Board of Directors	5/5	100%	

Securities Held

As at	Subordinate Voting Shares (#)	DSUs (#)	Total Shares and DSUs (#)	Total Market Value (3) of Shares (4) and DSUs (US$)

August 31, 2016	3,000	10,809	13,809	45,570

(1) From September 1, 2015 until November 1, 2016, Mr. Côté attended five (5) board meetings in person and no board meeting by telephone.

(2) The value of unvested DSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2016, which was US$3.30 (CA$4.33). The market value of the Subordinate Voting Shares was calculated by using the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ National Market on August 31, 2016 using the noon buying rate of the Bank of Canada to convert either the NASDAQ National Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars as required. The actual gains on vesting of DSUs will depend on the value of the Subordinate Voting Shares on the date of vesting. There can be no assurance that these values will be realized.

(3) Refers to Subordinate Voting Shares.

Table of Contents

ANGELA LOGOTHETIS

Bath United Kingdom Proposed nominee for Director to the January 2017 shareholders' meeting Independent Principal Occupation: Vice-President, Head of Technology and Services Amdocs [(1)]	Angela Logothetis has more than 25 years of international experience in the telecommunications industry. She has been strategically engaged in the industry's major network transformations. Ms. Logothetis has an outstanding software pedigree having worked for market-leading software companies including Amdocs, Cramer, PricewaterhouseCoopers and Accenture as well as start-up software companies Clarity and Time Quantum Technology. She has held senior leadership positions in ANZ, APAC and EMEA and has held global responsibility for the past 10 years. Ms. Logothetis is the Head of Network Strategy, Technology and Services for Amdocs. Amdocs is the market leader in customer experience software solutions and services for the world's largest communications, entertainment and media service providers. Ms. Logothetis has held several senior leadership positions at Amdocs including Head of OSS Product and Technology, Vice-President of OSS Product Management and Executive Site Lead for Amdocs Bath. She has chaired high-caliber software forums in Amdocs including the Divisional Leadership Team, the Technical Advisory Council, and has served as an executive on the Product Business Management Team and the Product Leadership Forum. Ms. Logothetis holds a Bachelor of Science degree, with first class honors, in Business Information Technology from the University of NSW, Australia. She completed dual majors in accountancy and information technology.

Board/Committee Membership	Attendance [(2)]		Board Memberships of Another Reporting Issuer
Board of Directors	N/A	N/A	–
Audit Committee	N/A	N/A	
Human Resources Committee	N/A	N/A	
Independent Board of Directors	N/A	N/A	

Securities Held

As at	Subordinate Voting Shares (#)	DSUs (#)	Total Shares and DSUs (#)	Total Market Value [(3)] of Shares [(4)] and DSUs (US$)

August 31, 2016 –		–	–	–

(1) Amdocs is a market leader in software solutions and services for communications, media and entertainment service providers.

(2) Ms. Logothetis, if elected, will join our Board of Directors on January 11, 2017. Hence, from September 1, 2015 until November 1, 2016, Ms. Logothetis did not attend any meetings.

Table of Contents

CLAUDE SÉGUIN

Westmount, Quebec, Canada Director since February 2013 Independent Principal Occupation: Special Advisor to the Founder and Executive Chairman, CGI Group Inc. (1)	Claude Séguin was appointed a member of EXFO's Board of Directors in February 2013. He brings to EXFO nearly forty (40) years of corporate, financial, executive and provincial government experience gained through senior management positions in major corporations and government departments. Mr. Séguin is currently Special advisor to the Founder and Executive Chairman at CGI Group Inc., a global leader in information technology and business process services. He was, until October 2016, Senior Vice-President, Corporate Development and Strategic Investments. In this position, he was responsible for all merger and acquisition activities. Prior to joining CGI in 2003, he served as President of CDP Capital—Private Equity, and prior to this position, he served as Teleglobe Inc.'s Executive Vice-President, Finance and Chief Financial Officer, a position that he held from 1992 to 2000. Mr. Séguin also has extensive senior-level government experience, having served as Deputy Finance Minister of the Province of Québec from 1987 to 1992, in addition to Assistant Deputy Finance Minister. Prior to that, he has been Director of Planning and Assistant Director of Social Programs at the Province of Quebec Treasury Board. Mr. Séguin is a member of the boards of HEC-Montréal and Centraide of Greater Montreal Foundation as well as being Chairman of the Board of Finance – Montreal, an organization regrouping financial institutions in the Province of Quebec. Claude Séguin graduated from HEC-Montréal and earned a master's and a Ph.D. in public administration from Syracuse University in New York State. He also followed the Advanced Management Program at Harvard Business School.

Board/Committee Membership	Attendance (2)		Board Memberships of Another Reporting Issuer
Board of Directors	6/6	100%	–
Audit Committee	5/5	100%	
Human Resources Committee	5/5	100%	
Independent Board of Directors	5/5	100%	

Securities Held

As at	Subordinate Voting Shares (#)	DSUs (#)	Total Shares and DSUs (#)	Total Market Value (3) of Shares (4) and DSUs (US$)
August 31, 2016	–	21,755	21,755	71,792

(1) CGI Group Inc. is an information technology consulting, systems integration, outsourcing and solutions company.

(2) From September 1, 2015 until November 1, 2016, Mr. Séguin attended five (5) board meetings in person and one (1) board meeting by telephone.

(3) The value of unvested DSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2016, which was US$3.30 (CA$4.33). The market value of the Subordinate Voting Shares was calculated by using the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ National Market on August 31, 2016 using the noon buying rate of the Bank of Canada to convert either the NASDAQ National Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars as required. The actual gains on vesting of DSUs will depend on the value of the Subordinate Voting Shares on the date of vesting. There can be no assurance that these values will be realized.

(4) Refers to Subordinate Voting Shares.

Table of Contents

RANDY E. TORNES

Frisco, Texas, USA Director since February 2013 Independent Principal Occupation: Vice-President, Strategic Alliances, Juniper Networks [(1)]	Randy E. Tornes was appointed a member of EXFO's Board of Directors in February 2013. He brings to EXFO over thirty (30) years of telecommunications experience gained through senior management positions at leading network equipment manufacturers. Mr. Tornes is Vice-President, Strategic Alliances at Juniper Networks, a worldwide leader in high-performance networking and telecommunications equipment. Prior to his current role at Juniper, he was the Operating Area Leader for AT&T and responsible for all sales, service and support of Juniper products and services. Prior to joining Juniper Networks in May 2012, he spent two (2) years at Ericsson, where he was Vice-President Sales (AT&T account). Previous to that position, he worked for Nortel for twenty-six (26) years, holding various sales management positions, including Vice-President Sales, GSM Americas. Mr. Tornes also served as member of the Board of Governors at 3G Americas LLC. Randy E. Tornes holds a Bachelor of Science degree in business—organizational development and production and operations management, from the University of Colorado in Colorado Springs.

Board/Committee Membership	Attendance [(2)]		Board Memberships of Another Reporting Issuer
Board of Directors	5/6	83%	–
Audit Committee	5/5	100%	
Human Resources Committee	5/5	100%	
Independent Board of Directors	4/5	80%	

Securities Held

As at	Subordinate Voting Shares (#)	DSUs (#)	Total Shares and DSUs (#)	Total Market Value [(3)] of Shares [(4)] and DSUs (US$)
August 31, 2016	–	49,463	49,463	163,228

(1) Juniper Networks is a manufacturer of networking equipment.

(2) From September 1, 2015 until November 1, 2016, Mr. Tornes attended four (4) board meetings in person and one (1) board meeting by telephone.

(3) The value of unvested DSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2016, which was US$3.30 (CA$4.33). The market value of the Subordinate Voting Shares was calculated by using the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and on the NASDAQ National Market on August 31, 2016 using the noon buying rate of the Bank of Canada to convert either the NASDAQ National Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars as required. The actual gains on vesting of DSUs will depend on the value of the Subordinate Voting Shares on the date of vesting. There can be no assurance that these values will be realized.

(4) Refers to Subordinate Voting Shares.

Table of Contents

The information as to Subordinate Voting Shares and Multiple Voting Shares beneficially owned or over which the above-named individuals exercise control or direction is not within the direct knowledge of the Corporation and has been furnished by the respective individuals. The information as to the Principal Board Memberships is also not within the direct knowledge of the Corporation and has been furnished by the respective individuals.

None of the individuals who are proposed to be nominated at the Meeting for election as a director of the Corporation:

a) is, as at the date hereof, or has been, within ten (10) years before the date hereof, a director, chief executive officer or chief financial officer of any company that (i) was subject to an order that was issued while such individual was acting in the capacity as director, chief executive officer or chief financial officer, or (ii) was subject to an order that was issued after such individual ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer;

b) is, as at the date hereof, or has been within ten (10) years before the date hereof, a director or executive officer of any company that, while such individual was acting in that capacity, or within a year of that individual ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;

c) has, within the ten (10) years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his assets; or

d) has been subject to (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for such individual.

From September 1, 2015 through November 1, 2016, the Board met a total of six (6) times. Each member attended all meetings except for Mr. Allard, Mr. Côté and Mr. Tornes who were absent at one (1) meeting.

Committees of the Board of Directors

Our Board of Directors has established an audit committee, a human resources committee and a disclosure committee.

Our audit committee will recommend a firm to be appointed as independent auditors to audit financial statements and to perform services related to the audit, review the scope and results of the audit with the independent auditors, review with management and the independent auditors our annual operating results and consider the adequacy of the internal accounting procedures and the effect of the procedures relating to the auditors' independence. Further to changes to NASDAQ corporate governance rules and Securities and Exchange Act rules flowing from the adoption of the Sarbanes-Oxley Act, we review our audit committee charter annually to ensure that we comply with all new requirements. Accordingly, in October 2016, the Audit Committee reviewed and amended the Audit Committee Charter, a copy of which is filed as Exhibit 11.5 to this Annual Report and is also readily available from EXFO's website at www.EXFO.com. Information on our Web site is not incorporated by reference in this Annual Report. As at November 1, 2016, the audit committee is composed of five independent Directors: Pierre-Paul Allard, François Côté, Darryl Edwards, Claude Séguin and Randy E. Tornes. The chairperson of the audit committee is Claude Séguin.

Table of Contents

From September 1, 2015 through November 1, 2016, the Audit Committee met a total of five (5) times. Each member attended all meetings except for Mr. Allard and Mr. Edwards who were absent at one (1) meeting.

Our human resources committee will evaluate, review and supervise our procedures with regards to human resources and will assess the performance of our executive officers and the chief executive officer. This committee will also review annually the remuneration of the Directors and will recommend to the Board of Directors general remuneration policies regarding salaries, bonuses and other forms of remuneration for our Directors, executive officers and employees as a whole. Finally, the human resources committee will review our organizational structure annually and the development and maintenance of a succession plan. In October 2014, the Human Resources Committee reviewed and amended the Human Resources Committee Charter which integrates the Compensation Committee Charter and the Nominating and Governance Committee Charter, copy of which is filed as Exhibit 11.6 to our 2014 Annual Report and is also readily available from EXFO's website at www.EXFO.com. Information on our Web site is not incorporated by reference in this Annual Report. As at November 1, 2016, the human resources committee is composed of five (5) independent Directors: Pierre-Paul Allard, François Côté, Darryl Edwards, Claude Séguin and Randy E. Tornes. The chairperson of the Human Resources Committee is François Côté.

From September 1, 2015 through November 1, 2016, the Human Resources committee met a total of five (5) times and all members attended all meetings except Mr. Allard and Mr. Edwards who were absent at one (1) meeting.

The disclosure committee is responsible for overseeing our disclosure practices. This committee consists of the chief executive officer, the chief financial officer, the director of investor relations, the director of financial reporting and accounting as well as our general counsel and corporate secretary.

Furthermore, our independent Directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. The independent Directors hold as many meetings, as needed, annually and any Director may request such meeting at any time. From September 1, 2015 through November 1, 2016, five (5) meetings of independent Directors without management occurred and all members attended all meetings except Mr. Allard, Mr. Edwards and Mr. Tornes who were absent at one (1) meeting. In June 2011, an Independent Members Committee Charter was adopted. A copy of this Independent Members Committee Charter has been filed as Exhibit 11.9 to our 2011 Annual Report.

REPORT ON CORPORATE GOVERNANCE PRACTICES

Corporate Governance Developments in Canada

In January 2004, the Canadian Securities Administrators (the "CSA") adopted Multilateral Instrument 52-110—Audit Committees, which was last amended in November 2015 ("MI 52 110"). MI 52 110 sets forth certain requirements regarding Audit Committee composition and responsibilities, as well as reporting obligations with respect to audit-related matters. The disclosure of the MI 52-110 requirements is included in our 2016 Annual Information Form on Form 20-F under Exhibit 11.5 (Audit Committee Charter), Items 6.A (Directors and Senior Management) and 16.C (Principal Accountant Fees and Services) available as described below. For the composition of the Audit Committee, refer to the table provided under heading "Nominees for Election as Directors and their Beneficial Ownership of Voting Securities".

Effective June 30, 2005, the CSA also adopted National Instrument 58-101—Disclosure of Corporate Governance Practices ("NI 58 101") and National Policy 58 201—Effective Corporate Governance ("NP 58 201" and, together with MI 52 110, the "CSA Corporate Governance Standards"). NP 58 201 provides guidance to Canadian issuers with respect to corporate governance practices, while NI 58 101 requires issuers to make certain disclosures regarding their governance practices. The CSA Corporate Governance Standards, particularly NI 58 101 and NP 58 201, have replaced the former guidelines of the Toronto Stock Exchange that had, prior to the coming into force of the CSA Corporate Governance Standards, served as the primary source of codified recommendations in respect of corporate governance practices in Canada.

Table of Contents

Corporate Governance Practices

In accordance with NI 58 101, we are required to disclose information with respect to our system of corporate governance. Over the past few years, we have undertaken a comprehensive review of our corporate governance practices in order to best comply with and, whenever practicable, exceed the CSA Standards.

We adopted in March 2005, and are updating on a regular basis, a number of charters and policies, including an Audit Committee Charter, a Board of Directors Corporate Governance Guidelines, a Code of Ethics for our Principal Executive Officer and Senior Financial Officers, a Disclosure Guidelines, an Ethics and Business Conduct Policy, a Human Resources Committee Charter, a Securities Trading Policy and a Statement on Reporting Ethical Violations (Whistleblower Policy). We adopted in October 2006 a policy regarding Hiring Employees and Former Employees of Independent Auditor. We adopted in June 2011 an Independent Members Committee Charter. We also adopted in October 2011 a majority voting policy for the election of our Directors and amended it in order to comply with the TSX Rules in March 2016. We amended in October 2012 the Human Resources Committee Charter in order to expressly reflect the responsibility of the Human Resources Committee to conduct an annual assessment of the risks associated with the Corporation's executive compensation policies and procedures.

We amended in January 2013 and in October 2014 the Human Resources Committee Charter in order to respectively receive and discuss suggestions from shareholders for potential Directors' nominees and to adapt it to the latest NASDAQ Rules on compensation committee along with an update on the nomination of Directors process. We adopted in January 2013 a Policy Regarding Conflict Minerals. We amended our Ethics and Business Conduct Policy and our Statement on Reporting Ethical Violations (Whistleblower Policy) in June 2013 and adopted in September 2013 the Agent Code of Conduct to formalize our anti-corruption compliance program. We adopted also in September 2013 a Director Share Ownership Policy. We also amended in October 2014 the Audit Committee Charter in order to harmonize its terminology with MI 52-110. We are also implementing best practices such as Best Practice regarding the Granting Date of Stock Incentive Compensation and the establishment of guidelines regarding the filing and disclosure of material contracts. We refer to our Board of Directors and Committee Charters as our "Corporate Governance Rules".

We are of the view that adopting and implementing good corporate governance practices is a cornerstone of our corporate and management practices and policies and that our existing corporate governance practices already meet the prevailing corporate governance standards. We further believe that the measures we have adopted with respect to corporate governance comply substantially with the CSA Standards.

We encourage our shareholders to consult our Corporate Governance Rules and Ethics and Business Conduct Policy available on our website (www.EXFO.com) and also available in print to any shareholder who requests copies by contacting our Corporate Secretary.

We are dedicated to updating our corporate governance practices on an ongoing basis in order to respond to the evolution of best practices. We and our Board of Directors are of the view that our corporate governance practices, as summarized in the Exhibit 11.7 attached to this Annual Report, are in substantial compliance with the CSA Corporate Governance Standards. Copies of our Corporate Governance Rules and all related policies (including those mentioned above) are available on our website (www.EXFO.com) as mentioned in Exhibit 11.7.

Table of Contents

D. Employees

We have fostered a corporate culture where growth and change are strongly encouraged. In fact, employees are constantly evolving with the rapid pace of technology to meet new challenges and realities. We believe that we possess a good cross-section of experience and youth to handle these inevitable changes in the industry.

As of November 1, 2016, we had a total of 1,551 employees, up from a total of 1,499 on November 1, 2015. We have 722 employees in Canada, primarily based in Quebec, and 829 employees based outside of Canada. 598 are involved in research and development, 341 in manufacturing, 302 in sales and marketing, 190 in general administrative positions and 120 in communications and customer support. We have agreements with almost all of our employees covering confidentiality and non-competition. Only our 90 manufacturing employees based in Quebec City plants are represented by a collective bargaining agreement through "Syndicat des employé(e)s d'EXFO". We have never experienced a work stoppage. We believe that relations with our employees and bargaining unit are good.

E. Share Ownership

The following table presents information regarding the ownership of Subordinate Voting Shares, Exercisable "in-the-money" and "out-the-money" options and the beneficial ownership of our share capital as at November 1, 2016 by our Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, our Directors, our two other most highly compensated executive officers, our other executive officers as a group, all of our Directors and executive officers as a group.

Each multiple voting share is convertible at the option of the holder into one subordinate voting share. Holders of our subordinate voting shares are entitled to one (1) vote per share and holders of our multiple voting shares are entitled to ten (10) votes per share.

Name	Subordinate Voting Shares Owned		Currently Exercisable Options Owned as at November 1, 2016				Total Subordinate Voting Shares Beneficially Owned [1]		Multiple Voting Shares Beneficially Owned [1]		Total Percentage of Voting Power
			"In-the-money"		Out-the-money						
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Percent
Germain Lamonde	4,316,247 [2]	18.93	–	*	–	*	4,316,247	18.93	31,643,000 [3]	100	94.55
Philippe Morin	–	*	–	*	–	*	–	*	–	–	*
Pierre Plamondon	127,951 [4]	*	–	*	–	*	127,951	*	–	–	*

Pierre-Paul Allard	8,000	*	–	*	–	*	8,000	*	–	–	*
François Côté	3,000	*	–	*	–	*	3,000	*	–	–	*
Darryl Edwards	–	*	–	*	–	*	–	*	–	–	*
Claude Séguin	–	*	–	*	–	*	–	*	–	–	*
Randy E. Tornes	–	*	–	*	–	*	–	*	–	–	*
Jon Bradley	–	*	–	*	–	*	–	*	–	–	*
Dana Yearian	34,181	*	–	*	–	*	34,181	*	–	–	*
Other executive officers as a group	66,463	*	–	*	–	*	66,463	*	–	–	*
All of our Directors and executive officers as a group	4,555,842	19.98	–	*	–	*	4,555,842	19.98	31,643,000	100	94.62

*Less than 1%.

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Options that are currently exercisable or exercisable within sixty (60) days as at November 1, 2016 (including options that have an exercise price above the market price) are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Accordingly, DSUs and RSUs are not included.

(2) The number of shares held by Germain Lamonde includes 4,000,000 subordinate voting shares held of record by G. Lamonde Investissements financiers Inc.

(3) The number of shares held by Germain Lamonde includes 1,900,000 multiple voting shares held of record by Fiducie Germain Lamonde and 29,743,000 multiple voting shares held of record by G. Lamonde Investissements Financiers Inc.

(4) The number of shares held by Pierre Plamondon includes 6,874 subordinate voting shares held of record by Fiducie Pierre Plamondon.

There are no options outstanding as at November 1, 2016.

The following table presents information regarding Deferred Share Units and Restricted Share Units held by our Chief Executive Officer, our Chief Operating Officer, our Chief Financial Officer, our Directors, our two other most highly compensated executive officers, our other executive officers as a group, all of our Directors and executive officers as a group, as at November 1, 2016.

Name	DSUs Number		DSUs Percentage		Estimated Average Value at the time of grant US$/DSU (1)	RSUs Number		RSUs Percentage		Fair Value at the time of grant US$/RSU (2)
Germain Lamonde	–		–		–	53,261	(3)	3.13	%	5.43
	–		–		–	109,890	(4)	6.46	%	3.43
Philippe Morin	–		–		–	54,945	(5)	3.23	%	3.43
	–		–		–	47,529	(6)	2.79	%	4.01
	–		–		–	19,740	(7)	1.16	%	5.06
	–		–		–	19,839	(8)	1.17	%	5.28
Pierre Plamondon	–		–		–	27,729	(9)	1.63	%	3.71
	–		–		–	29,046	(10)	1.71	%	3.23
	–		–		–	25,162	(6)	1.48	%	4.01
Pierre-Paul Allard	48,883	(11)	30.72	%	4.31	–		–		–
François Côté	10,809	(11)	6.79	%	3.32	–		–		–
Darryl Edwards	28,217	(11)	17.73	%	4.25	–		–		–
Claude Séguin	21,755	(11)	13.67	%	3.86	–		–		–
Randy E. Tornes	49,463	(11)	31.09	%	3.75	–		–		–
	–		–		–	271	(3)	0.02	%	5.43
	–		–		–	3,140	(7)	0.18	%	5.06
Jon Bradley	–		–		–	5,961	(8)	0.35	%	5.28

	–	–	–	14,028	(9)	0.82 %	3.71
	–	–	–	21,848	(10)	1.28 %	3.23
	–	–	–	15,322	(3)	0.90 %	5.43
	–	–	–	17,994	(7)	1.06 %	5.06
Dana Yearian	–	–	–	17,676	(8)	1.04 %	5.28
	–	–	–	25,706	(9)	1.51 %	3.71
	–	–	–	30,058	(10)	1.77 %	3.23
	–	–	–	24,744	(6)	1.45 %	4.01
	–	–	–	26,801	(3)	1.57 %	5.43
	–	–	–	109,834	(6)	6.45 %	4.01
	–	–	–	70,626	(7)	4.15 %	5.06
	–	–	–	69,470	(8)	4.08 %	5.28
	–	–	–	98,804	(9)	5.80 %	3.71
	–	–	–	120,694	(10)	7.09 %	3.23
	–	–	–	6,330	(12)	0.37 %	6.55
Other executive officers as a group	–	–	–	1,429	(13)	0.08 %	7.06
	–	–	–	2,200	(14)	0.13 %	5.61
	–	–	–	3,850	(15)	0.23 %	4.36
	–	–	–	5,000	(16)	0.29 %	3.55
	–	–	–	1,946	(17)	0.11 %	3.27
	–	–	–	2,500	(18)	0.15 %	3.00
	–	–	–	10,000	(19)	0.59 %	3.33
	–	–	–	4,000	(20)	0.23 %	4.01
Total	159,127	100 %	4.00	1,097,373		64.46 %	4.11

99

Table of Contents

Name	DSUs Number	DSUs Percentage	DSUs Estimated Average Value at the time of grant US$/DSU (1)	RSUs Number		RSUs Percentage	RSUs Fair Value at the time of grant US$/RSU (2)
All of the directors and executive officers as a group	–	–	–	95,655	(3)	5.62 %	5.43
	–	–	–	109,890	(4)	6.46 %	3.43
	–	–	–	54,945	(5)	3.23 %	3.43
	–	–	–	207,269	(6)	12.18 %	4.01
	–	–	–	111,500	(7)	6.55 %	5.06
	–	–	–	112,946	(8)	6.63 %	5.28
	–	–	–	166,267	(9)	9.77 %	3.71
	–	–	–	201,646	(10)	11.84 %	3.23
	–	–	–	6,330	(12)	0.37 %	6.55
	–	–	–	1,429	(13)	0.08 %	7.06
	–	–	–	2,200	(14)	0.13 %	5.61
	–	–	–	3,850	(15)	0.23 %	4.36
	–	–	–	5,000	(16)	0.29 %	3.55
	–	–	–	1,946	(17)	0.11 %	3.27
	–	–	–	2,500	(18)	0.15 %	3.00
	–	–	–	10,000	(19)	0.59 %	3.33
	–	–	–	4,000	(20)	0.23 %	4.01
Total	159,127	100 %	4.00	1,097,373		64.46 %	4.11

(1) The estimated average value at the time of grant of a DSU is the average of the estimated value at the time of grant of a DSU which is determined based on the highest of the closing prices of the Subordinate Voting Shares on the Toronto Stock Exchange and the NASDAQ National Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada on the grant date to convert either the NASDAQ National Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars, as required. The value at vesting of a DSU is equivalent to the market value of a Subordinate Voting Share when a DSU is converted to such Subordinate Voting Share.

(2) The fair value at the time of grant of a RSU is equal to the market value of Subordinate Voting Shares at the time RSUs are granted.

(3) Those RSUs will vest on the fifth anniversary date of the grant in October 2011 but are subject to early vesting on the third and fourth anniversary date of the grant on the attainment of performance objectives as determined by the Board of Directors. Accordingly, subject to the attainment of performance objectives, the first early vesting is up to 1/3 of the units on the third anniversary date of the grant and the second early vesting is up to 50% of the remaining units on the fourth anniversary date of the grant.

(4) Those RSUs will vest at a rate of 1/2 annually commencing on the third anniversary date of the grant in November 2015.

(5) Those RSUs will vest on the fifth anniversary date of the grant in November 2015 but are subject to early vesting on the third and fourth anniversary date of the grant on the attainment of performance objectives as determined by

the Board of Directors. Accordingly, subject to the attainment of performance objectives, the first early vesting is up to 1/3 of the units on the third anniversary date of the grant and the second early vesting is up to 50% of the remaining units on the fourth anniversary date of the grant.

(6) Those RSUs will vest on the fifth anniversary date of the grant in October 2016 but are subject to early vesting on the third and fourth anniversary date of the grant on the attainment of performance objectives as determined by the Board of Directors. Accordingly, subject to the attainment of performance objectives, the first early vesting is up to 1/3 of the units on the third anniversary date of the grant and the second early vesting is up to 50% of the remaining units on the fourth anniversary date of the grant.

(7) Those RSUs will vest on the fifth anniversary date of the grant in October 2012 but are subject to early vesting on the third and fourth anniversary date of the grant on the attainment of performance objectives as determined by the Board of Directors. Accordingly, subject to the attainment of performance objectives, the first early vesting is up to 1/3 of the units on the third anniversary date of the grant and the second early vesting is up to 50% of the remaining units on the fourth anniversary date of the grant.

(8) Those RSUs will vest on the fifth anniversary date of the grant in October 2013 but are subject to early vesting on the third and fourth anniversary date of the grant on the attainment of performance objectives as determined by the Board of Directors. Accordingly, subject to the attainment of performance objectives, the first early vesting is up to 1/3 of the units on the third anniversary date of the grant and the second early vesting is up to 50% of the remaining units on the fourth anniversary date of the grant.

(9) Those RSUs will vest on the fifth anniversary date of the grant in October 2014 but are subject to early vesting on the third and fourth anniversary date of the grant on the attainment of performance objectives as determined by the Board of Directors. Accordingly, subject to the attainment of performance objectives, the first early vesting is up to 1/3 of the units on the third anniversary date of the grant and the second early vesting is up to 50% of the remaining units on the fourth anniversary date of the grant.

(10) Those RSUs will vest on the fifth anniversary date of the grant in October 2015 but are subject to early vesting on the third and fourth anniversary date of the grant on the attainment of performance objectives as determined by the Board of Directors. Accordingly, subject to the attainment of performance objectives, the first early vesting is up to 1/3 of the units on the third anniversary date of the grant and the second early vesting is up to 50% of the remaining units on the fourth anniversary date of the grant.

(11) Those DSUs will vest at the time Director ceases to be a member of the Board of the Corporation.

(12) Those RSUs will vest on the fifth anniversary date of the grant in January 2012 but are subject to early vesting on the third and fourth anniversary date of the grant on the attainment of performance objectives as determined by the Board of Directors. Accordingly, subject to the attainment of performance objectives, the first early vesting is up to 1/3 of the units on the third anniversary date of the grant and the second early vesting is up to 50% of the remaining units on the fourth anniversary date of the grant.

Table of Contents

(13) Those RSUs will vest on the fifth anniversary date of the grant in April 2012 but are subject to early vesting on the third and fourth anniversary date of the grant on the attainment of performance objectives as determined by the Board of Directors. Accordingly, subject to the attainment of performance objectives, the first early vesting is up to 1/3 of the units on the third anniversary date of the grant and the second early vesting is up to 50% of the remaining units on the fourth anniversary date of the grant.

(14) Those RSUs will vest at a rate of 1/2 annually commencing on the third anniversary date of the grant in January 2013.

(15) Those RSUs will vest at a rate of 1/2 annually commencing on the third anniversary date of the grant in January 2014.

(16) Those RSUs will vest at a rate of 1/2 annually commencing on the third anniversary date of the grant in January 2015.

(17) Those RSUs will vest on the fifth anniversary date of the grant in July 2015 but are subject to early vesting on the third and fourth anniversary date of the grant on the attainment of performance objectives as determined by the Board of Directors. Accordingly, subject to the attainment of performance objectives, the first early vesting is up to 1/3 of the units on the third anniversary date of the grant and the second early vesting is up to 50% of the remaining units on the fourth anniversary date of the grant.

(18) Those RSUs will vest at a rate of 1/2 annually commencing on the third anniversary date of the grant in January 2016.

(19) Those RSUs will vest at a rate of 1/2 annually commencing on the third anniversary date of the grant in August 2016.

(20) Those RSUs will vest at a rate of 1/2 annually commencing on the third anniversary date of the grant in October 2016.

Escrowed Securities

To our knowledge as at November 1, 2016, 793,070 subordinate voting shares of the Company were held in escrow.

Table of Contents

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table presents information regarding the beneficial ownership of our share capital as at November 1, 2016 by persons or groups of affiliated persons known by us to own more than 5% of our voting shares.

	Multiple Voting Shares Beneficially Owned [1]		Subordinate Voting Shares Beneficially Owned [1]		Total Percentage of Voting Power
Name	Number	Percent	Number	Percent	Percent
Germain Lamonde [2]	31,643,000	100.00%	4,316,247	18.93 %	94.55 %
Fiducie Germain Lamonde [3]	1,900,000	6.00 %	–	–	5.60 %
G. Lamonde Investissements Financiers Inc. [4]	29,743,000	94.00 %	4,000,000	17.54 %	88.86 %
EdgePoint Investment Group, Inc.	–	–	4,193,500	18.39 %	1.24 %
Renaissance Technologies	–	–	1,282,700	5.63 %	*

* Less than 1%

(1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Options that are currently exercisable within 60 days of November 1, 2016 (including options that have an exercise price above the market price) are deemed to be outstanding and to be beneficially owned by the person holding such options for the purpose of computing the percentage ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(2) The number of shares held by Germain Lamonde includes 1,900,000 multiple voting shares held of record by Fiducie Germain Lamonde, 29,743,000 multiple voting shares held of record by G. Lamonde Investissements Financiers Inc. and 4,000,000 subordinate voting shares held of record by G. Lamonde Investissements Financiers Inc.

(3) Fiducie Germain Lamonde is a family trust for the benefit of Mr. Lamonde and members of his family.

(4) G. Lamonde Investissements Financiers Inc. is a company controlled by Mr. Lamonde.

Each multiple voting share is convertible at the option of the holder into one subordinate voting share. Holders of our subordinate voting shares are entitled to one vote per share and holders of our multiple voting shares are entitled to ten votes per share.

Ever since EXFO became a publicly traded company in June 2000, including the most recent three-year period, Mr. Lamonde and his related companies have maintained majority ownership. Mr. Lamonde converted five million multiple voting shares into subordinate voting shares in fiscal 2011 and sold one million of those subordinate voting shares on the open market. (Only subordinate voting shares can be traded on the open market). According to publicly available information, EdgePoint Investment Group remains EXFO's second-largest shareholder with 4.2 million subordinate voting shares or 18,4% of the public float. Renaissance Technologies holds 5.6% of the public float (1.3 million shares).

As at November 14, 2016, 22,799,383 subordinate voting shares were outstanding. Approximately 95.56% (21,787,090) of our subordinate voting shares were held in bearer form and the remainder (1,012,293 subordinate voting shares) was held by 222 record holders. As at November 14, 2016, we believe approximately 60.24% of our outstanding subordinate voting shares were held in the United States.

Table of Contents

B. Related Party Transactions

Indebtedness of Directors, Executive Officers and Employees

From September 1, 2015 through the date of this Annual Report, none of our directors, executive officers, associates or affiliates had any material interest in any transaction with us or in any proposed transaction which has materially affected or could materially affect us.

C. Interests of Experts and Counsel

Not applicable.

Table of Contents

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

See Item 18, "Financial Statements" for certain other information required by this item.

Export Sales

Export and domestic sales in thousands of US dollars and as a percentage of sales are as follows:

	Years ended August 31, 2016		2015		2014	
Export Sales	$214,566	92 %	$202,367	91 %	$211,324	92 %
Domestic Sales	18,027	8	19,722	9	19,482	8
	$232,583	100%	$222,089	100%	$230,806	100%

Legal Proceedings

There are no legal or arbitration proceedings pending or threatened of which we are aware which may have or have had a significant effect on our financial position.

Dividend Policy

We do not currently anticipate paying dividends for at least the next three years. Our current intention is to reinvest any earnings in our business long-term growth. Any future determination by us to pay dividends will be at the discretion of our Board of Directors and in accordance with the terms and conditions of any outstanding indebtedness and will depend on our financial condition, results of operations, capital requirements and such other functions as our Board of Directors considers relevant.

B. Significant Changes

On October 31, 2016, we acquired substantially all the assets of Absolute Analysis Inc., a privately held company located in United States, supplying solutions for radio frequency testing of fiber-based radio access networks. This acquisition was settled for a total consideration of approximately $8.5 million, excluding acquisition-related costs. The consideration paid consisted of $5 million in cash and the issuance of 793,070 subordinate voting shares, valued at $3.5 million.

Table of Contents

Item 9. The Offer and Listing

Not Applicable, except for Item 9A (4) and Item 9C.

A. Offer and Listing Details

	NASDAQ (US$)		TSX (CA$)	
	High	Low	High	Low
September 1, 2011 to August 31, 2012	8.23	4.56	8.24	4.59
September 1, 2012 to August 31, 2013	5.90	4.00	5.86	4.14
September 1, 2013 to August 31, 2014	5.70	4.13	5.88	4.51
September 1, 2014 to August 31, 2015	4.40	2.45	4.92	3.32
September 1, 2015 to August 31, 2016	4.32	2.57	5.44	3.61
September 1, 2014 to November 30, 2014 (2015 1st Quarter)	4.40	3.26	4.80	3.63
December 1, 2014 to February 28, 2015 (2015 2nd Quarter)	3.80	3.17	4.70	3.68
March 1, 2015 to May 31, 2015 (2015 3rd Quarter)	3.94	3.29	4.92	3.99
June 1, 2015 to August 31, 2015 (2015 4th Quarter)	3.54	2.45	4.40	3.32
September 1, 2015 to November 30, 2015 (2016 1st Quarter)	3.43	2.77	4.55	3.61
December 1, 2015 to February 29, 2016 (2016 2nd Quarter)	3.42	2.57	4.51	3.70
March 1, 2016 to May 31, 2016 (2016 3rd Quarter)	4.32	2.85	5.44	3.85
June 1, 2016 to August 31, 2016 (2016 4th Quarter)	4.08	3.16	5.25	4.12
May 2016	4.18	3.70	5.23	4.94
June 2016	4.08	3.46	5.25	4.47
July 2016	3.61	3.27	4.53	4.27
August 2016	3.70	3.16	4.48	4.12
September 2016	3.72	3.42	4.90	4.41
October 2016	4.40	3.75	5.83	4.98
November 2016 (until November 14)	4.45	4.15	6.00	5.69

C. Markets

Our subordinate voting shares have been quoted on the NASDAQ National Market under the symbol EXFO and listed on The Toronto Stock Exchange under the symbol EXF since our initial public offering on June 29, 2000. Prior to that time, there was no public market for our subordinate voting shares. The table above sets forth, for the periods indicated, the high and low closing sales prices per subordinate voting share as reported on the NASDAQ National Market and the Toronto Stock Exchange.

On November 14, 2016, the last reported sale price for our subordinate voting shares on the NASDAQ National Market was US$4.35 per share and the last reported sale price for our subordinate voting shares on the Toronto Stock Exchange was CA$5.86 per share.

105

Table of Contents

Item 10. Additional Information

A. Share Capital

Not Applicable

B. Memorandum and Articles of Association

Our Amended Articles of Incorporation and By-laws are incorporated by reference to our registration statement on Form F-1 dated June 9, 2000 (File No. 333 38956) and amendments to our Articles by reference to Exhibit 1.4 to our fiscal year 2009 Annual Report on Form 20-F and Exhibit 1.5 to our fiscal year 2010 Annual Report on Form 20-F.

C. Material Contracts

Except as otherwise disclosed in this Annual Report and our consolidated financial statements and notes included elsewhere in this Annual Report, we have no other material contracts.

D. Exchange Controls

Subject to the following paragraph, there is no law or governmental decree or regulation in Canada that restricts the export or import of capital, or affects the remittance of dividends, interest or other payments to non-resident holders of our subordinate voting shares, other than withholding tax requirements.

There is no limitation imposed by Canadian law or by our articles of incorporation or our other charter documents on the right of a non-resident to hold or vote subordinate voting shares, other than as provided by the Investment Canada Act, the North American Free Trade Agreement Implementation Act (Canada) and the World Trade Organization Agreement Implementation Act. The Investment Canada Act requires notification and, in certain cases, advance review and approval by the Government of Canada of an investment to establish a new Canadian business by a non-Canadian or of the acquisition by a "non-Canadian" of "control" of a "Canadian business", all as defined in the Investment Canada Act. Generally, the threshold for review will be higher in monetary terms for a member of the World Trade Organization or North American Free Trade Agreement.

E. Taxation

United States Taxation

The information set forth below under the caption "United States Taxation" is a summary of the material U.S. federal income tax consequences of the ownership and disposition of subordinate voting shares by a U.S. Holder, as defined below. These discussions are not a complete analysis or listing of all of the possible tax consequences of such transactions and do not address all tax considerations that may be relevant to particular holders in light of their personal circumstances or to persons that are subject to special tax rules. In particular, the information set forth under the caption "United States Taxation" deals only with U.S. Holders that hold subordinate voting shares as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"), and who do not at any time own individually, nor are treated as owning, 10% or more of the total combined voting power of all classes of our stock entitled to vote.

Table of Contents

In addition, this description of U.S. tax consequences does not address the tax treatment of special classes of U.S. Holders, such as financial institutions, regulated investment companies, traders in securities who elect to mark-to-market their securities, tax-exempt entities, insurance companies, partnerships, persons holding subordinate voting shares as part of a hedging, integrated or conversion transaction or as part of a "straddle," U.S. expatriates, persons subject to the alternative minimum tax, persons who acquired their subordinate voting shares through the exercise or cancellation of employee stock options or otherwise as compensation for services, dealers or traders in securities or currencies and holders whose "functional currency" is not the U.S. dollar. This summary does not address U.S. estate and gift tax consequences or tax consequences under any state and local tax laws or non-U.S. tax laws.

As used in this section, the term "U.S. Holder" means a beneficial owner of subordinate voting shares that is for U.S. federal income tax purposes:

(a) an individual citizen or resident of the United States;

(b) a corporation created or organized under the laws of the United States or any state thereof and the District of Columbia;

(c) an estate the income of which is subject to United States federal income taxation regardless of its source;

(d) a trust if (1) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons as described in Section 7701 (a) (30) of the Code have authority to control all substantial decisions of the trust or (2) the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person; or

(e) any other person whose worldwide income or gain is otherwise subject to U.S. federal income taxation on a net income basis.

If a partnership or other flow-through entity holds subordinate voting shares, the U.S. federal income tax treatment of a partner will generally depend upon the status of the partner or other owner and upon the activities of the partnership or other flow-through entity. If you are a partner of a partnership holding subordinate voting shares, you should consult your tax advisor.

Holders of subordinate voting shares who are not U.S. Holders, sometimes referred to as "Non-U.S. Holders", should also consult their own tax advisors, particularly as to the applicability of any tax treaty.

The following discussion is based upon:

- the Code;
- U.S. judicial decisions;
- administrative pronouncements;
- existing and proposed Treasury regulations; and
- the Canada – U.S. Income Tax Treaty.

Any of the above is subject to change, possibly with retroactive effect, so as to result in U.S. federal income tax consequences different from those discussed below. We have not requested, and will not request, a ruling from the U.S. Internal Revenue Service (the "IRS") with respect to any of the U.S. federal income tax consequences described below, and as a result, there can be no assurance that the IRS will not disagree with or challenge any of the conclusions we have reached and described here.

Table of Contents

The following discussion is for general information only and is not intended to be, nor should it be construed to be, legal or tax advice to any holder of subordinate voting shares and no opinion or representation with respect to the U.S. federal income tax consequences to any holder is made. Holders of subordinate voting shares are urged to consult their tax advisors as to the particular consequences to them under U.S. federal, state, local and applicable non-U.S. tax laws of the acquisition, ownership and disposition of subordinate voting shares.

Dividends

Subject to the discussion of passive foreign investment companies below, the gross amount of any distribution paid by us to a U.S. Holder will generally be subject to U.S. federal income tax as foreign source dividend income to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Such income will be includable in the gross income of a U.S. Holder on the day received by the U.S. Holder. The amount of any distribution of property other than cash will be the fair market value of such property on the date of the distribution. In the case of a taxable corporate U.S. Holder, such dividends will be taxable as ordinary income and will not be eligible for the corporate dividends received deduction, which is generally allowed to U.S. corporate shareholders on dividends received from a domestic corporation. In the case of a non-corporate U.S. Holder, including individuals, such dividends should generally be eligible for a maximum tax rate of 23.8% provided, as we believe to be the case, that we are not a "passive foreign investment company". To the extent that an amount received by a U.S. Holder exceeds such holder's allocable share of our current and accumulated earnings and profits, such excess will be applied first to reduce such U.S. Holder's tax basis in his subordinate voting shares, thereby increasing the amount of gain or decreasing the amount of loss recognized on a subsequent disposition of the subordinate voting shares. Then, to the extent such distribution exceeds such U.S. Holder's tax basis, it will be treated as capital gain. We do not currently maintain calculations of our earnings and profits for U.S. federal income tax purposes.

The gross amount of distributions paid in Canadian dollars, or any successor or other foreign currency, will be included in the income of such U.S. Holder in a U.S. dollar amount calculated by reference to the spot exchange rate in effect on the day the distributions are paid regardless of whether the payment is in fact converted into U.S. dollars. If the Canadian dollars, or any successor or other foreign currency, are converted into U.S. dollars on the date of the payment, the U.S. Holder should not be required to recognize any foreign currency gain or loss with respect to the receipt of Canadian dollars as distributions. The U.S. Holder will have a basis in any Canadian dollars or other foreign currency distributed equal to their U.S. dollar value on the payment date. If, instead, the Canadian dollars are converted at a later date, any currency gains or losses resulting from the conversion of the Canadian dollars will be treated as U.S. source ordinary income or loss. U.S. Holders are urged to consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of Canadian dollars.

A U.S. Holder may be entitled to deduct, or claim a foreign tax credit for, Canadian taxes that are withheld on dividends received by the U.S. Holder, subject to applicable limitations in the Code. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, such dividends should generally constitute foreign source "passive category income" or, in the case of certain U.S. Holders, "general category income". The rules governing the foreign tax credit are complex. U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

A Non-U.S. Holder of subordinate voting shares generally will not be subject to U.S. federal income or withholding tax on dividends received on subordinate voting shares unless such income is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States.

Table of Contents

Sale or Exchange

A U.S. Holder's initial tax basis in the subordinate voting shares will generally be cost to the holder. A U.S. Holder's adjusted tax basis in the subordinate voting shares will generally be the same as cost, but may differ for various reasons including the receipt by such holder of a distribution that was not made up wholly of earnings and profits as described above under the heading "Dividends." Subject to the discussion of passive foreign investment companies below, gain or loss realized by a U.S. Holder on the sale or other disposition of subordinate voting shares will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference (if any) between the U.S. Holder's adjusted tax basis (determined in U.S. dollars) in the subordinate voting shares and the U.S. dollar value of the amount realized on the disposition of such subordinate voting shares. Capital gains of non-corporate U.S. Holders, including individuals, derived with respect to a sale, exchange or other disposition of subordinate voting shares held for more than one year are subject to a maximum federal income tax rate of 23.8%. The deductibility of capital losses is subject to limitations. In the case of a non-corporate U.S. Holder, the federal tax rate applicable to capital gains will depend upon:

- the holder's holding period for the subordinate voting shares, with a preferential rate available for subordinate voting shares held for more than one year; and
- the holder's marginal tax rate for ordinary income.

Any gain realized will generally be treated as U.S. source gain, and loss realized by a U.S. Holder generally also will be treated as from sources within the United States.

The ability of a U.S. Holder to utilize foreign taxes as a credit to offset U.S. taxes is subject to complex limitations and conditions. The consequences of the separate limitation calculation will depend upon the nature and sources of each U.S. Holder's income and the deductions allocable thereto. Alternatively, a U.S. Holder may elect to claim all foreign taxes paid as an itemized deduction in lieu of claiming a foreign tax credit. A deduction does not reduce U.S. tax on a dollar-for-dollar basis like a tax credit, but the availability of the deduction is not subject to the same conditions and limitations applicable to foreign tax credits.

If a U.S. Holder receives any foreign currency on the sale of subordinate voting shares, such U.S. Holder may recognize ordinary income or loss as a result of currency fluctuations between the date of the sale of subordinate voting shares and the date the sale proceeds are converted into U.S. dollars.

A Non-U.S. Holder of subordinate voting shares generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of such subordinate voting shares unless:

- such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States; or
- in the case of any gain realized by an individual Non-U.S. Holder, such Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of such sale and certain other conditions are met.

Passive Foreign Investment Company

We believe that our subordinate voting shares should not currently be treated as stock of a passive foreign investment company for United States federal income tax purposes, but this conclusion is a factual determination made annually and thus may be subject to change based on future operations as well as the composition and valuation of our assets. In particular, a significant portion of our gross assets is comprised of cash and short-term investments, which the PFIC rules treat as passive without regard to the purpose for which we hold those assets. If the proportion of these passive assets were to increase relative to the fair market value of our other assets, we may be treated as a passive foreign investment company. In general, we will be a passive foreign investment company with respect to a U.S. Holder if, for any taxable year in which the U.S. Holder holds our subordinate voting shares, either:

Table of Contents

- at least 75% of our gross income for the taxable year is passive income; or
- at least 50% of the average value of our assets is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income includes, among other things, income such as:

- dividends;
- interest;
- rents or royalties, other than certain rents or royalties derived from the active conduct of trade or business;
- annuities; and
- gains from assets that produce passive income.

If a non-U.S. corporation owns at least 25% by value of the stock of another corporation, the non-U.S. corporation is treated for purposes of the passive foreign investment company tests as owning its proportionate share of the assets of the other corporation and as receiving directly its proportionate share of the other corporation's income.

If we are treated as a passive foreign investment company, a U.S. Holder that did not make a qualified electing fund election, if available, or a mark-to-market election, as described below, would be subject to special rules with respect to:

- any gain realized on the sale or other disposition of subordinate voting shares; and
- any "excess distribution" by us to the U.S. Holder.

Generally, "excess distributions" are any distributions to the U.S. Holder in respect of the subordinate voting shares during a single taxable year that are greater than 125% of the average annual distributions received by the U.S. Holder in respect of the subordinate voting shares during the three preceding taxable years or, if shorter, the U.S. Holder's holding period for the subordinate voting shares.

Under the passive foreign investment company rules,

- the gain or excess distribution would be allocated ratably over the U.S. Holder's holding period for the subordinate voting shares;
- the amount allocated to the taxable year in which the gain or excess distribution was realized and to taxable years prior to the first year in which we were classified as a PFIC would be taxable as ordinary income; and
- the amount allocated to each other prior year would be subject to tax as ordinary income at the highest tax rate in effect for that year, and the interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such year.

A U.S. Holder owning actually or constructively "marketable stock" of a passive foreign investment company may be able to avoid the imposition of the passive foreign investment company tax rules described above by making a mark-to-market election. Generally, pursuant to this election, a U.S. Holder would include in ordinary income or, subject to the following sentence, loss, for each taxable year during which such stock is held, an amount equal to the difference as of the close of the taxable year between the fair market value of its stock and its adjusted tax basis in such stock. Any mark-to-market loss is treated as an ordinary deduction, but only to the extent of the ordinary income that the U.S. Holder has included pursuant to the election in prior taxable years. The electing U.S. Holder's basis in its stock would be adjusted to reflect any of these income or loss amounts. Holders desiring to make the mark-to-market election should consult their tax advisors with respect to the application and effect of making such election.

110

Table of Contents

In the case of a U.S. Holder who does not make a mark-to-market election, the special passive foreign investment company tax rules described above will not apply to such U.S. Holder if the U.S. Holder makes an election to have us treated as a qualified electing fund and we provide certain required information to holders. For a U.S. Holder to make a qualified electing fund election, we would have to satisfy certain reporting requirements. We have not determined whether we will undertake the necessary measures to be able to satisfy such requirements in the event that we were treated as a passive foreign investment company.

A U.S. Holder that makes a qualified electing fund election will be currently taxable on its pro rata share of our ordinary earnings and net capital gain, at ordinary income and capital gains rates, respectively, for each of our taxable years, regardless of whether or not distributions were received. The U.S. Holder's basis in the subordinate voting shares will be increased to reflect taxed but undistributed income. Distributions of income that had previously been taxed will result in a corresponding reduction of basis in the subordinate voting shares and will not be taxed again as a distribution to the U.S. Holder. U.S. Holders desiring to make a qualified electing fund election should consult their tax advisors with respect to the advisability of making such election.

United States Backup Withholding and Information Reporting

A U.S. Holder will generally be subject to information reporting with respect to dividends paid on, or proceeds of the sale or other disposition of, our subordinate voting shares that are paid within the United States or through some U.S. related financial intermediaries to U.S. Holders, unless the U.S. Holder is a corporation or comes within certain other categories of exempt recipients. A U.S. Holder that is not an exempt recipient will generally be subject to backup withholding with respect to the proceeds from the sale or the disposition of, or with respect to dividends on, subordinate voting shares unless the U.S. Holder timely provides a taxpayer identification number and complies with the other applicable requirements of the backup withholding rules. A U.S Holder who fails to provide a correct taxpayer identification number may be subject to penalties imposed by the United States Internal Revenue Service.

Non-U.S. Holders will generally be subject to information reporting and possible backup withholding with respect to the proceeds of the sale or other disposition of subordinate voting shares effected within the United States, unless the holder certifies to its foreign status or otherwise establishes an exemption and the broker does not have actual knowledge or reason to know that the holder is a U.S. Holder. Payments of dividends on or proceeds from the sale of subordinate voting shares within the United States by a payor within the United States to a non-exempt U.S. or Non-U.S. Holder will be subject to backup withholding if such holder fails to provide appropriate certification. In the case of such payments by a payor within the United States to a foreign partnership other than a foreign partnership that qualifies as a "withholding foreign partnership" within the meaning of such Treasury regulations, the partners of such partnership will be required to provide the certification discussed above in order to establish an exemption from backup withholding tax and information reporting requirements.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against a holder's U.S. federal income tax liability, provided that the required information is furnished to the IRS.

Canadian Federal Income Tax Considerations

The following is a summary of the material Canadian federal income tax considerations generally applicable to a U.S. person who holds subordinate voting shares and who, for the purposes of the Income Tax Act (Canada) (the "ITA"), and the Canada-United States Income Tax Convention (1980) (the "Convention"), as applicable and at all relevant times:

- is resident in the United States and not resident in Canada;
- holds the subordinate voting shares as capital property;
- does not have a "permanent establishment" or "fixed base" in Canada, as defined in the Convention; and

Table of Contents

- deals at arm's length with us. Special rules, which are not discussed below, may apply to "financial institutions", as defined in the ITA, and to non-resident insurers carrying on an insurance business in Canada and elsewhere.

This discussion is based on the current provisions of the ITA and the Convention and on the regulations promulgated under the ITA, all specific proposals to amend the ITA or the regulations promulgated under the ITA announced by or on behalf of the Canadian Minister of Finance prior to the date of this Annual Report and the current published administrative practices of the Canada Revenue Agency. It does not otherwise take into account or anticipate any changes in law or administrative practice nor any income tax laws or considerations of any province or territory of Canada or any jurisdiction other than Canada, which may differ from the Canadian federal income tax consequences described in this document.

Under the ITA and the Convention, dividends paid or credited, or deemed to be paid or credited, on the subordinate voting shares to a U.S. person who owns less than 10% of the voting shares will be subject to Canadian withholding tax at the rate of 15% of the gross amount of those dividends or deemed dividends. If a U.S. person is a corporation and owns 10% or more of the voting shares, the rate is reduced from 15% to 5%. Subject to specified limitations, a U.S. person may be entitled to credit against U.S. federal income tax liability for the amount of tax withheld by Canada.

Under the Convention, dividends paid to specified religious, scientific, charitable and similar tax exempt organizations and specified organizations that are resident and exempt from tax in the United States and that have complied with specified administrative procedures are exempt from this Canadian withholding tax.

A capital gain realized by a U.S. person on a disposition or deemed disposition of the subordinate voting shares will not be subject to tax under the ITA unless the subordinate voting shares constitute taxable Canadian property within the meaning of the ITA at the time of the disposition or deemed disposition. In general, the subordinate voting shares will not be "taxable Canadian property" to a U.S. person if they are listed on a prescribed stock exchange, which includes The Toronto Stock Exchange, unless, at any time within the five-year period immediately preceding the disposition, the U.S. person, persons with whom the U.S. person did not deal at arm's length, or the U.S. person together with those persons, owned or had an interest in or a right to acquire more than 25% of any class or series of our shares.

If the subordinate voting shares are taxable Canadian property to a U.S. person, any capital gain realized on a disposition or deemed disposition of those subordinate voting shares will generally be exempt from tax by virtue of the Convention if the value of the subordinate voting shares at the time of the disposition or deemed disposition is not derived principally from real property, as defined by the Convention, situated in Canada. The determination as to whether Canadian tax would be applicable on a disposition or deemed disposition of the subordinate voting shares must be made at the time of the disposition or deemed disposition.

Holders of subordinate voting shares are urged to consult their own tax advisors to determine the particular tax consequences to them, including the application and effect of any state, local or foreign income and other tax laws, of the acquisition, ownership and disposition of subordinate voting shares.

F. Dividends and Paying Agents

Not Applicable.

G. Statement by Experts

Not Applicable.

Table of Contents

H. Documents on Display

Any statement in this Annual Report about any of our contracts or other documents is not necessarily complete. If the contract or document is filed as an exhibit to the registration statement, the contract or document is deemed to modify the description contained in this Annual Report. You must review the exhibits themselves for a complete description of the contract or document.

You may review a copy of our filings with the SEC, including exhibits and schedules filed with it, at the SEC's public reference facilities at 100 F Street, N.E., Washington, D.C. 20549 and at the regional offices of the SEC located at 233 Broadway, New York, New York 10279 and at the Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may also obtain copies of such materials from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. You may call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. The SEC maintains a Web site (http://www.sec.gov) that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC.

You may read and copy any reports, statements or other information that we file with the SEC at the addresses indicated above and you may also access them electronically at the Web site set forth above. These SEC filings are also available to the public from commercial document retrieval services.

We are required to file reports and other information with the SEC under the Securities Exchange Act of 1934. Reports and other information filed by us with the SEC may be inspected and copied at the SEC's public reference facilities described above. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. Under the Exchange Act, as a foreign private issuer, we are not required to publish financial statements as frequently or as promptly as United States companies.

I. Subsidiary Information

See Item 4.C. of this Annual Report.

Table of Contents

Item 11. Qualitative and Quantitative Disclosures about Market Risk

Market Risk

Currency Risk

Our functional currency is the Canadian dollar. We have adopted the US dollar as our reporting currency as it is the most commonly used reporting currency in our industry. We are exposed to a currency risk as a result of our export sales of products manufactured in Canada, China and Finland, the majority of which are denominated in US dollars and euros. This risk is partially hedged by forward exchange contracts and certain cost of sales and operating expenses (US dollars and euros). In addition, we are exposed to a currency risk as a result of our research and development activities in India (Indian rupees). This risk is partially hedged by forward exchange contracts. We do not enter into forward exchange contracts for trading or speculative purposes. Forward exchange contracts, which are designated as cash flow hedging instruments, qualify for hedge accounting.

The following tables summarize the forward exchange contracts in effect as at August 31, 2016, classified by expected transaction dates, none of which exceed three fiscal years, as well as the notional amounts of such contracts (in thousands of US dollars) along with the weighted average contractual forward rates under such contracts. The notional amounts of such contracts are used to calculate the contractual payments to be made under these contracts.

US dollars – Canadian dollars forward exchange contracts

	Years ending August 31,		
	2017	2018	2019
Forward exchange contracts to sell US dollars in exchange for Canadian dollars			
Contractual amounts	$22,200	$9,900	$1,900
Weighted average contractual forward rates	1.2784	1.3367	1.3639

US dollars – Indian rupees forward exchange contracts

	Year ending August 31, 2017
Forward exchange contracts to sell US dollars in exchange for Indian rupees	
Contractual amounts	$ 3,800
Weighted average contractual forward rate	70.92

Fair Value

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 $4.2 million and $140,00 as at August 31, 2015 and 2016.

Table of Contents

The following table summarizes significant derivative and non-derivative financial assets and liabilities that are subject to currency risk as at August 31, 2016 and for which such risk is charged to earnings:

	Carrying/nominal amount (in thousands of US dollars)	Carrying/nominal amount (in thousands of euros)
Financial assets		
Cash	$ 13,090	€ 2,927
Accounts receivable	30,141	5,963
	43,231	8,890
Financial liabilities		
Accounts payable and accrued liabilities	14,251	1,081
Forward exchange contracts (nominal amount)	4,000	
	18,251	1,081
Net exposure	$ 24,980	€ 7,809

In addition to these assets and liabilities, we have derivatives financial liabilities for our outstanding forward exchange contracts in the amount (nominal value) of $29.9 million and $33.8 million as at August 31, 2015 and 2016 respectively, for which the currency risk is charged to other comprehensive income.

The value of the Canadian dollar compared to the US dollar was CA$1.3116 = US$1.00 as at August 31, 2016.

The value of the Canadian dollar compared to the euro was CA$1.4601 = €1.00 as at August 31, 2016.

The following sensitivity analysis summarizes the effect that a change in the value of the Canadian dollar (compared to the US dollar and euro) on derivatives and non-derivatives financial assets and liabilities denominated in US dollars and euros, would have on net earnings, net earnings per diluted share and comprehensive income, based on the foreign exchange rates as at August 31, 2016:

- An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the US dollar would decrease (increase) net earnings by and $2.7 million, or $0.05 per diluted share, as at August 31, 2016.

- An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the euro would decrease (increase) net earnings by $830,000 or $0.02 per diluted share, as at August 31, 2016.

- An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the US dollar would increase (decrease) comprehensive income by $2.2 million as at August 31, 2016.

The impact of the change in the value of the Canadian dollar compared to the US dollar and the euro on these derivative and non-derivative financial assets and liabilities is recorded in the foreign exchange gain or loss line item in the consolidated statements of earnings, except for outstanding forward contracts, which impact is recorded in other comprehensive income. The change in the value of the Canadian dollar compared to the US dollar and the euro also impacts our balances of income tax recoverable or payable, as well as deferred income tax assets and liabilities denominated in US dollars and euros; this may result in additional and significant foreign exchange gains or losses. However, these tax-related assets and liabilities are not considered financial instruments and are excluded from the sensitivity analysis above. The foreign exchange rate fluctuations also flow through the statements of earnings line items, as a significant portion of our cost of sales and operating expenses is denominated in Canadian dollars, euros and Indian rupees, and we report our results in US dollars; that effect is not reflected in the sensitivity analysis above.

Table of Contents

Interest rate risk

We have limited exposure to interest risk. We are mainly exposed to interest rate risks through our cash and short-term investments.

Cash

As at August 31, 2016, our cash balances included an amount of $23.3 million that bears interest at a rate of 1.2%.

Short-term investments

As at August 31, 2016, our short-term investments, in the amount of $4.1 million, consist of a term deposit of $2.7 million denominated in Canadian dollars, bearing interest at an annual rate of 1.5%, maturing in May 2017 and of term deposits of $1.4 million denominated in Indian rupees, bearing interest at annual rates of 6.0% to 7.3%, maturing on different dates between November 2016 and October 2018.

Due to their short-term maturity, our short-term investments are not subject to significant fair value interest rate risk. Accordingly, changes in fair value have been nominal to the degree that amortized cost approximates the fair value. Any change in the fair value of our short-term investments, all of which are classified as available for sale, is recorded in other comprehensive income. Based on market value, the fair value of our short-term investments amounted to $4.1 million as at August 31, 2016.

Other financial instruments

Accounts receivable, other assets and accounts payable and accrued liabilities are non-interest-bearing financial assets and liabilities. Accounts receivable, other assets and accounts payable are financial instruments whose carrying value approximates their fair value due to their relatively short-term maturity.

Credit risk

Financial instruments that potentially subject us to credit risk consist of cash, short-term investments, accounts receivable, other assets and forward exchange contracts (with a positive fair value). As at August 31, 2016, our short-term investments consist of debt instruments issued by high-credit quality corporations. These debt instruments are not expected to be affected by a significant credit risk. Our cash and forward exchange contracts are held with or issued by high-credit quality financial institutions; therefore, we consider the risk of non-performance on these instruments to be limited.

Generally, we do not require collateral or other security from our customers for trade accounts receivable; however, credit is extended to customers following an evaluation of creditworthiness. In addition, we perform ongoing credit reviews of all our customers and establish an allowance for doubtful accounts receivable when accounts are determined to be uncollectible. Allowance for doubtful accounts amounted to $3.8 million as at August 31, 2016.

In fiscal 2016, no customer represented more than 10% of our sales.

The following table summarizes the age of trade accounts receivable as at August 31, 2016 (in thousands of US dollars):

Current	$38,411

Past due, 0 to 30 days	1,286
Past due, 31 to 60 days	868
Past due, more than 60 days, less allowance for doubtful accounts of $3,752	2,428
Total trade accounts receivable	$42,933

Table of Contents

Liquidity risk

Liquidity risk is defined as the potential that we cannot meet our obligations as they become due.

The following table summarizes the contractual maturity of our derivative and non-derivative financial liabilities as at August 31, 2016 (in thousands of US dollars):

	0-12 months	13-24 months	25-36 Months
Accounts payable and accrued liabilities	$36,099	$–	$–
Forward exchange contracts			
Outflow (nominal amount)	26,000	9,900	1,900
Inflow	(25,653)	(10,089)	(1,976)
Total	$36,446	$(189)	$(76)

As at August 31, 2016, we had $47.3 million in cash and short-term investments and $45.5 million in accounts receivable. In addition to these financial assets, we have unused available lines of credit totaling $14.9 million for working capital and other general corporate purposes, including potential acquisitions and our share repurchase program as well as unused lines of credit of $21.6 million for foreign currency exposure related to our forward exchange contracts.

Item 12. Description of Securities Other than Equity Securities

Not Applicable.

PART II.

Item 13. Defaults, Dividend Arrearages and Delinquencies

Not Applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

Not Applicable.

Table of Contents

Item 15. Controls and Procedures

(a) Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by EXFO under applicable securities legislation is gathered and reported to senior management, including our Chief Executive Officer and Chief Financial Officer on a timely basis so that appropriate decisions can be made regarding public disclosure.

As of the end of the Company's fiscal year ended August 31, 2016, an evaluation of the effectiveness of the Company's disclosure controls and procedures was carried out by management with the participation of our Chief Executive Officer and Chief Financial Officer. Based on that evaluation, as originally filed on November 28, 2016, our Chief Executive Officer and our Chief Financial Officer concluded that these disclosure controls and procedures were effective as at August 31, 2016.

Subsequent to this evaluation and conclusion, EXFO's Chief Executive Officer and Chief Financial Officer determined that EXFO had a material weakness in internal control over financial reporting. As a result of the material weakness described below in Management's Annual Report on Internal Control over Financial Reporting (restated), the Chief Executive Officer and Chief Financial Officer have concluded that EXFO's disclosure controls and procedures were not effective as of August 31, 2016.

Our management, including the Chief Executive Officer and Chief Financial Officer, believe that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only a reasonable and not absolute assurance that the objectives of the control system are met. Further, the design of a control system reflects the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls is also based in part on certain assumptions about the likelihood of certain events, and there can be no assurance that any design can achieve its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

(b) Management's Annual Report on Internal Control over Financial Reporting (restated)

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

EXFO's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of EXFO; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of EXFO; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of EXFO's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an evaluation of the effectiveness of EXFO's internal control over financial reporting based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, as originally filed on November 28, 2016, management concluded that EXFO's internal control over financial reporting was effective as of August 31, 2016 and had certified the company's annual filing with the Securities and Exchange Commission on Form 20-F, as required by the United States Sarbanes-Oxley Act and with Canadian securities regulatory authorities.

Subsequently, our management re-evaluated the effectiveness of EXFO's internal control over financial reporting using the COSO criteria, and based on this re-evaluation, management concluded that EXFO's internal control over financial reporting was not effective as of August 31, 2016 as a result of the subsequent identification of a material weakness. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness resulted in errors in our amount of bad debt expense, as more fully described in Note 1, Revision of Consolidated Financial Statements, to the consolidated financial statements included in Item 18 of Amendment No. 1 to the Annual Report on Form 20-F/A. Specifically, the company did not maintain sufficient controls over the trade accounts receivable ledger, which included failure to maintain appropriate segregation of duties and lack of supervisory review and monitoring of journal entries recorded to the trade accounts receivable ledger. Although management has determined that the errors were not material to the previously issued consolidated financial statements (and therefore have been adjusted by a "revision" to our previously issued consolidated financial statements), management has determined that the identified control deficiencies could have resulted in a material misstatement of the aforementioned account balances or disclosures that would not have been prevented or detected.

The results of management's assessment have been reviewed with EXFO's Audit Committee and Board of Directors.

The material weakness described above was identified after the end of the period covered by the initial management assessment of internal controls over financial reporting, as originally filed on November 28, 2016. EXFO is in the process of implementing remediation plans to address the material weakness, which includes additional segregation of duties and supervisory review and monitoring of journal entries recorded to the trade accounts receivable ledger. The implementation of the remediation plan has commenced and is expected to be completed in the second quarter of fiscal 2017. The material weakness cannot be considered remediated until the remedial controls operate for a sufficient period of time and management has time to conclude, through testing, that these controls are operating effectively.

(c) Attestation Report of the Independent Auditor

PricewaterhouseCoopers LLP, independent auditor, has been engaged to audit and provide independent opinions on the Company's consolidated financial statements and the effectiveness of the internal control over financial reporting as of August 31, 2016. PricewaterhouseCoopers LLP has expressed an unqualified opinion on the Company's consolidated financial statements included in Item 18 of this Annual Report on Form 20-F/A and an adverse opinion on the company's internal control over financial reporting as of August 31, 2016.

(d) Changes in Internal Control over Financial Reporting

During the year ended August 31, 2016, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, other than the identification of the material weakness described above in Management's Annual Report on Internal

Control over Financial Reporting (restated).

Table of Contents

Item 16. [Reserved]

Item 16A. Audit Committee Financial Expert

Our Board of Directors has determined that Mr. Claude Séguin, chairman of our Audit Committee, is an Audit Committee financial expert. Mr. Séguin is independent of management, in accordance with the CSA Standards as described in Item 6C – Board Practices of this Annual Report. For a description of Mr. Séguin's education and experience, please refer to Item 6A. The other members of the Audit Committee are Mr. Pierre-Paul Allard, Mr. François Côté, Mr. Darryl Edwards and Mr. Randy E. Tornes, all of whom are independent. For a description of their respective education and experience, please also refer to Item 6A.

Item 16B. Code of Ethics

In 2003, we adopted a code of ethics that applies to our chief executive officer, our chief financial officer and our manager of financial reporting and accounting. A copy of this code of ethics has been filed as exhibit 11.1 to our 2010 Annual Report. In March 2005, the Board adopted and, in 2010 and 2013, updated the following policies:

- Code of Ethics for our Principal Executive Officer and Senior Financial Officers;
- Board of Directors Corporate Governance Guidelines;
- Ethics and Business Conduct Policy;
- Statement of Reporting Ethical Violations (Whistleblower).

A copy of those policies has been filed respectively as exhibits 11.1 and 11.2 inclusively to our 2010 Annual Report and as exhibits 11.3 and 11.4 to our 2013 Annual Report. All these policies are also readily available on our website at www.EXFO.com. Accordingly, we believe that our corporate governance practices are in alignment to current regulatory requirements. We will provide without charge to each person, on the written or oral request of such person, a copy of our code of ethics. Requests for such copies should be directed to us at the following address: 400 Godin Avenue, Quebec, Quebec, G1M 2K2, Canada, Attention: Corporate Secretary, telephone number (418) 683-0211.

Item 16C. Principal Accountant Fees and Services

Audit Fees

During the financial years ended August 31, 2015 and 2016, our principal accountant, PricewaterhouseCoopers LLP, billed us aggregate amounts of $426,000 and $415,000 respectively for the audit of our annual consolidated financial statements and services in connection with statutory and regulatory filings.

Audit-Related Fees

During the financial years ended August 31, 2015 and 2016, our principal accountant, PricewaterhouseCoopers LLP, billed us aggregate amounts of $83,000 and $45,000 respectively for audit-related fees namely for the quarterly review of interim consolidated financial statements.

Tax Fees

During the financial years ended August 31, 2015 and 2016, our principal accountant, PricewaterhouseCoopers LLP, billed us aggregate amounts of $124,000 and $154,000 respectively for services related to tax compliance, tax advice and tax planning.

All Other Fees

No other fees were billed in fiscal 2015 and 2016.

Table of Contents

Audit Committee Pre-Approval Policies and Procedures

Our Audit Committee Charter requires that the Audit Committee give prior approval of the annual audit plan (refer to Item 6C for further details on the Audit Committee Charter). In the event any adjustments to the audit plan may be required during the course of a financial year, such adjustments shall be approved by the chairman of the Audit Committee, acting alone, and shall be reported to the full Audit Committee at its next meeting.

In the case of non-audit services (excluding tax matters), the policy provides that proposals shall be submitted to the chairman of the Audit Committee and our chief financial officer at the same time and the chairman of the Audit Committee will be responsible for approval of such proposal, subject to any modifications that he may require. The chairman will make a report to the full Audit Committee at its next meeting.

As concerns tax services to be provided by our principal accountant, our policy provides that the principal accountant will present to the Audit Committee for pre-approval, on or before the beginning of each financial year, an engagement for tax matters that are foreseeable for the upcoming year and the Audit Committee shall be responsible for pre-approval thereof, subject to any modifications it may make to such proposals. In the event tax services are required that were not pre-approved by the Audit Committee, the procedure set forth in the previous paragraph will apply.

During the financial year ended on August 31, 2016, 100% of tax fees were approved by the Audit Committee pursuant to this policy. During the financial year ended on August 31, 2016, only full-time permanent employees of our principal accountant, PricewaterhouseCoopers LLP, performed work to audit our financial statements.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not Applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Issuer Purchases of Equity Securities

On March 25, 2015, we announced that our Board of Directors approved the renewal of our share repurchase program, by way of a normal course issuer bid on the open market of up to 10% of our issued and outstanding subordinate voting shares, representing 1,397,598 subordinate voting shares at the prevailing market price. The period of the normal course issuer bid commenced on March 27, 2015 and ended on March 26, 2016 ("2015 NCIB"). From September 1, 2015 to March 26, 2016, we had repurchased for cancellation 62,642 shares under that program for an aggregate net purchase price of $185,000.

On March 29, 2016, we announced that our Board of Directors approved the renewal of our share repurchase program, by way of a normal course issuer bid on the open market of up to 6.6% of our issued and outstanding subordinate voting shares, representing 900,000 subordinate voting shares at the prevailing market price. The period of the normal course issuer bid commenced on April 1, 2016 and will end on March 31, 2017. As of the date of this filing, this program is still in effect ("2016 NCIB").

From September 1, 2015 through November 14, 2016, we spent approximately US$1.6 million (including fees) to repurchase 452,550 subordinate voting shares.

Table of Contents

Period	(a) Total Number of Shares (or Units) Purchased (#)	(b) Average Price Paid per Share (or Units) NASDAQ (US$)	(b) Average Price Paid per Share (or Units) TSX (CA$)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (#)	(d) Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (#)
From September 1, 2015 To September 30, 2015					1,265,851
From October 1, 2015 To October 31, 2015	200		3.00	200	1,265,651
From November 1, 2015 To November 30, 2015					1,265,651
From December 1, 2015 To December 31, 2015					1,265,651
From January 1, 2016 To January 31, 2016	41,291	2.87	4.05	41,291	1,224,360
From February 1, 2016 To February 29, 2016	21,151	2.99	4.16	21,151	1,203,209

From March 1, 2016 To March 26, 2016					1,203,209
From March 27, 2016 To March 31, 2016					
From April 1, 2016 To April 30, 2016					900,000
From May 1, 2016 To May 31, 2016	54,369	3.94	5.06	54,369	845,631
From June 1, 2016 To June 30, 2016					845,631
From July 1, 2016 To July 31, 2016	213,840	3.41	4.47	213,840	631,791
From August 1, 2016 To August 31, 2016	121,699	3.38	4.42	121,699	510,902
From September 1, 2016 To September 30, 2016					510,902
From October 1, 2016					510,902

To October 31, 2016				
From November 1, 2016 To November 14, 2016				510,902
Total	452,550		452,550	510,902

Table of Contents

Item 16F. Change in Registrant's Certifying Accountant

Not Applicable.

Item 16G. Corporate Governance

The Corporation's corporate governance practices do not differ significantly from the practices followed by United States domestic companies listed on the NASDAQ National Market. A copy of the Corporation's Corporate Governance Policies is included as Exhibits 11.1 and 11.2 to our 2010 Annual Report on Form 20-F; as Exhibit 11.9 to our 2011 Annual Report on Form 20-F, as Exhibit 11.3, 11.4, 11.10, 11.11 and 11.12, to our 2013 Annual Report on Form 20-F, as Exhibit 11.6 to our 2014 Annual Report and as Exhibits 11.5, 11.7 and 11.8 to this Annual Report on Form 20-F.

Item 16H. Mine Safety Disclosure

Not Applicable.

PART III.

Item 17. Financial Statements

Not Applicable.

Item 18. Financial Statements

See pages F-4 to F-44.

Table of Contents

Item 19. Exhibits

Number	Exhibit
1.1	Amended Articles of Incorporation of EXFO (incorporated by reference to Exhibit 3.1 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).
1.2	Amended By-laws of EXFO (incorporated by reference to Exhibit 1.2 of EXFO's Annual Report on Form 20F dated January 15, 2003, File No. 000-30895).
1.3	Amended and Restated Articles of Incorporation of EXFO (incorporated by reference to Exhibit 1.3 of EXFO's Annual Report on Form 20-F dated January 18, 2001, File No. 000-30895).
1.4	Certificate of Amendment, Canada Business Corporations Act (incorporated by reference to Exhibit 10.1 of EXFO's Annual Report on Form 20-F dated November 25, 2009, File No. 000-30895).
1.5	Certificate of Amendment (Change of Name), Canada Business Corporations Act (incorporated by reference to Exhibit 1.5 of EXFO's Annual Report on Form 20-F dated November 24, 2010, File No. 000-30895).
2.1	Form of Subordinate Voting Share Certificate (incorporated by reference to Exhibit 4.1 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).
2.2	Form of Registration Rights Agreement between EXFO and Germain Lamonde dated July 6, 2000) (incorporated by reference to Exhibit 10.13 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).
3.1	Form of Trust Agreement among EXFO, Germain Lamonde, GEXFO Investissements Technologiques Inc., Fiducie Germain Lamonde and G. Lamonde Investissements Financiers Inc. (incorporated by reference to Exhibit 4.2 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).
4.1	Agreement of Merger and Plan of Reorganization, dated as of November 4, 2000, by and among EXFO, EXFO Sub, Inc., EXFO Burleigh Instruments, Inc., Robert G. Klimasewski, William G. May, Jr., David J. Farrell and William S. Gornall (incorporated by reference to Exhibit 4.1 of EXFO's Annual Report on Form 20-F dated January 18, 2001, File No. 000-30895).
4.2	Amendment No. 1 to Agreement of Merger and Plan of Agreement, dated as of December 20, 2000, by and among EXFO, EXFO Sub, Inc., EXFO Burleigh Instruments, Inc., Robert G. Klimasewski, William G. May, Jr., David J. Farrell and William S. Gornall (incorporated by reference to Exhibit 4.2 of EXFO's Annual Report on Form 20-F dated January 18, 2001, File No. 000-30895).
4.3	Agreement of Merger, dated as of August 20, 2001, by and among EXFO, Buyer Sub, and Avantas Networks Corporation and Shareholders of Avantas Networks corporation (incorporated by reference to Exhibit 4.3 of EXFO's Annual Report on Form 20-F dated January 18, 2002, File No. 000-30895).
4.4	Amendment No. 1 dated as of November 1, 2002 to Agreement of Merger, dated as of August 20, 2001, by and among EXFO, 3905268 Canada Inc., Avantas Networks Corporation and Shareholders of Avantas Networks (incorporated by reference to Exhibit 4.4 of EXFO's Annual Report on Form 20-F dated January 18, 2002, File No. 000-30895).

4.5	Offer to purchase shares of Nortech Fibronic Inc., dated February 6, 2000 among EXFO, Claude Adrien Noel, 9086-9314 Québec Inc., Michel Bédard, Christine Bergeron and Société en Commandite Capidem Québec Enr. and Certificate of Closing, dated February 7, 2000 among the same parties (including summary in English) (incorporated by reference to Exhibit 10.2 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).
4.6	Share Purchase Agreement, dated as of March 5, 2001, among EXFO Electro-Optical Engineering, Inc., John Kennedy, Glenn Harvey and EFOS Corporation (incorporated by reference to Exhibit 4.1 of EXFO's Registration Statement on Form F-3 filed on July 13, 2001, File No. 333-65122).

Table of Contents

Number	Exhibit
4.7	Amendment Number One, dated as of March 15, 2001, to Share Purchase Agreement, dated as of March 5, 2001, among EXFO Electro-Optical Engineering, Inc., John Kennedy, Glenn Harvey and EFOS Corporation. (incorporated by reference to Exhibit 4.2 of EXFO's Registration Statement on Form F-3 filed on July 13, 2001, File No. 333-65122).
4.8	Share Purchase Agreement, dated as of November 2, 2001 between JDS Uniphase Inc. and 3905268 Canada Inc. (incorporated by reference to Exhibit 4.8 of EXFO's Annual Report on Form 20-F dated January 18, 2002, File No. 000-30895).
4.9	Intellectual Property Assignment and Sale Agreement between EFOS Inc., EXFO Electro-Optical Engineering, Inc., John Kennedy, Glenn Harvey and EFOS Corporation. (incorporated by reference to Exhibit 4.3 of EXFO's Registration Statement on Form F-3 filed on July 13, 2001, File No. 333-65122).
4.10	Offer to acquire a building, dated February 23, 2000, between EXFO and Groupe Mirabau Inc. and as accepted by Groupe Mirabau Inc. on February 24, 2000 (including summary in English) (incorporated by reference to Exhibit 10.3 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).
4.11	Lease Agreement, dated December 1, 1996, between EXFO and GEXFO Investissements Technologiques Inc., as assigned to 9080-9823 Québec Inc. on September 1, 1999 (including summary in English) (incorporated by reference to Exhibit 10.4 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).
4.12	Lease Agreement, dated March 1, 1996, between EXFO and GEXFO Investissements Technologiques Inc., as assigned to 9080-9823 Québec Inc. on September 1, 1999 (including summary in English) (incorporated by reference to Exhibit 10.5 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).
4.13	Lease renewal of the existing leases between 9080-9823 Québec Inc. and EXFO, dated November 30, 2001(incorporated by reference to Exhibit 4.13 of EXFO's Annual Report on Form 20-F dated January 18, 2002, File No. 000-30895).
4.14	Loan Agreement between EXFO and GEXFO Investissements Technologiques Inc., dated May 11, 1993, as assigned to 9080-9823 Québec Inc. on September 1, 1999 (including summary in English) (incorporated by reference to Exhibit 10.9 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).
4.15	Resolution of the Board of Directors of EXFO, dated September 1, 1999, authorizing EXFO to acquire GEXFO Distribution Internationale Inc. from GEXFO Investissements Technologiques Inc. (including summary in English) (incorporated by reference to Exhibit 10.10 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).
4.16	Form of Promissory Note of EXFO issued to GEXFO Investissements Technologiques Inc. dated June 27, 2000) (incorporated by reference to Exhibit 10.12 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).
4.17	

Term Loan Offer, dated March 28, 2000, among EXFO and National Bank of Canada as accepted by EXFO on April 3, 2000 (including summary in English) (incorporated by reference to Exhibit 10.11 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).

4.18 Employment Agreement of Germain Lamonde dated May 29, 2000 (incorporated by reference to Exhibit 10.15 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).

4.19 Employment Agreement of Bruce Bonini dated as of September 1, 2000 (incorporated by reference to Exhibit 4.24 of EXFO's Annual Report on Form 20-F dated January 18, 2002, File No. 000-30895).

4.20 Employment Agreement of Juan-Felipe Gonzalez dated as of September 1, 2000 (incorporated by reference to Exhibit 4.25 of EXFO's Annual Report on Form 20-F dated January 18, 2002, File No. 000-30895).

Table of Contents

Number	Exhibit
4.21	Employment Agreement of David J. Farrell dated as of December 20, 2000 (incorporated by reference to Exhibit 4.26 of EXFO's Annual Report on Form 20-F dated January 18, 2002, File No. 000-30895).
4.22	Deferred Profit Sharing Plan, dated September 1, 1998 (incorporated by reference to Exhibit 10.6 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).
4.23	Stock Option Plan, dated May 25, 2000 (incorporated by Reference to Exhibit 10.7 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).
4.24	Share Plan, dated April 3, 2000 (incorporated by reference to Exhibit 10.8 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).
4.25	Directors' Compensation Plan (incorporated by reference to Exhibit 10.17 of EXFO's Registration Statement on Form F-1 filed on June 9, 2000, File No. 333-38956).
4.26	Restricted Stock Award Plan, dated December 20, 2000 (incorporated by reference to Exhibit 4.21 of EXFO's Annual Report on Form 20-F dated January 18, 2001, File No. 000-30895).
4.27	Asset Purchase Agreement by and Among EXFO Electro-Optical Engineering Inc., EXFO Gnubi Products Group Inc., gnubi communications, L.P., gnubi communications General Partner, LLC, gnubi communications Limited Partner, LLC, gnubi communications, Inc., Voting Trust created by The Irrevocable Voting Trust Agreement Among Carol Abraham Bolton, Paul Abraham and James Ray Stevens, James Ray Stevens and Daniel J. Ernst dated September 5, 2002 (incorporated by reference to Exhibit 4.30 of EXFO's Annual Report on Form 20-F dated January 15, 2003, File No. 000-30895).
4.28	EXFO Protocol Inc. Executive Employment Agreement with Sami Yazdi signed November 2, 2001 (incorporated by reference to Exhibit 4.28 of EXFO's Annual Report on Form 20-F dated January 15, 2003, File No. 000-30895).
4.29	Second Amending Agreement to the Employment Agreement of Bruce Bonini dated as of September 1, 2002, (incorporated by reference to Exhibit 4.29 of EXFO's Annual Report on Form 20-F dated January 15, 2004, File No. 000-30895).
4.30	Severance and General Release Agreement with Bruce Bonini dated August 8, 2003, (incorporated by reference to Exhibit 4.30 of EXFO's Annual Report on Form 20-F dated January 15, 2004, File No. 000-30895).
4.31	Separation Agreement and General Release with Sami Yazdi dated April 1, 2003, (incorporated by reference to Exhibit 4.31 of EXFO's Annual Report on Form 20-F dated January 15, 2004, File No. 000-30895).
4.32	Executive Employment Agreement of James Stevens dated as of October 4, 2003, (incorporated by reference to Exhibit 4.32 of EXFO's Annual Report on Form 20-F dated January 15, 2004, File No. 000-30895).
4.33	Termination Terms for John Holloran Jr. dated May 28, 2003, (incorporated by reference to Exhibit 4.33 of EXFO's Annual Report on Form 20-F dated January 15, 2004, File No. 000-30895).
4.34	Employment Agreement of Pierre Plamondon dated as of September 1, 2002, (incorporated by reference to Exhibit 4.34 of EXFO's Annual Report on Form 20-F dated January 15, 2004, File No. 000-30895).

4.35	Long-Term Incentive Plan, dated May 25, 2000, amended in October 2004 and effective January 12, 2005 (incorporated by reference to Exhibit 4.35 of EXFO's Annual Report on Form 20-F dated November 29, 2005, File No. 000-30895).
4.36	Deferred Share Unit Plan, effective January 12, 2005 (incorporated by reference to Exhibit 4.36 of EXFO's Annual Report on Form 20-F dated November 29, 2005, File No. 000-30895).

126

Table of Contents

Number	Exhibit
4.37	Asset Purchase Agreement by and Among EXFO Electro-Optical Engineering Inc., Consultronics Limited., Andre Rekai, Consultronics Europe Limited, Consultronics Development Kft. and Consultronics Inc. dated January 5, 2006 (incorporated by reference to Exhibit 4.37 of EXFO's Annual Report on Form 20-F dated November 23, 2006, File No. 000-30895).
4.38	Share Repurchase Program by Way of Normal Course Issuer Bid dated November 6, 2007 (incorporated by reference to EXFO's report on Form 6-K dated November 6, 2007, file No. 000-30895).
4.39	Share Purchase Agreement by and Among EXFO Electro-Optical Engineering Inc., Navtel Communications Inc. and Vengrowth Investment Fund, BDC Capital Inc. and others, dated March 26, 2008 (incorporated by reference to Exhibit 4.38 of EXFO's Annual Report on Form 20-F dated November 26, 2008, File No. 000-30895).
4.40	Agreement and Plan of Merger by and among Gexfo Distribution Internationale Inc., EXFO Service Assurance Inc. and Brix Networks, Inc. and Charles River Ventures, LLC dated April 2, 2008 (incorporated by reference to EXFO's Material Change Report on Form 6-K dated May 2, 2008, File No. 000-30895).
4.41	Issuer Tender Offer, Letter of Transmittal and Notice of Guaranteed Delivery dated November 10, 2008 (incorporated by reference as Exhibits (a) (1) (i), (a) (1) (ii) and (a) (1) (iii) to EXFO's Schedule TO dated November 10, 2008, File No. 000-30895).
4.42	Renewal of EXFO's Share Repurchase Program by Way of Normal Course Issuer Bid dated November 6, 2008 (incorporated by reference to EXFO's report on Form 6-K dated November 6, 2008, file No. 000-30895).
4.43	Final results of Issuer Bid Tender Offer, dated December 18, 2009 (incorporated by reference to EXFO's Material Change Report on Form 6-K dated December 19, 2008, file No. 000-30895).
4.44	Share Transfer Agreement by and among GEXFO Distribution Internationale Inc. and AWS Holding AB (PicoSolve AB) and Patent Transfer Agreement by and among EXFO Electro-Optical Engineering Inc. and Starta Eget Boxen 11629 AB dated February 5, 2009 (incorporated by reference to Exhibit 4.44 of EXFO's Annual Report on Form 20-F dated November 25, 2009, File No. 000-30895).
4.45	Renewal of EXFO's Share Repurchase Program by Way of Normal Course Issuer Bid dated November 10, 2009 (incorporated by reference to EXFO's report on Form 6-K dated November 6, 2009, file No. 000-30895).
4.46	Share Purchase Agreement by and among EXFO Finland Oy and NetHawk Oyj's majority shareholders dated March 12, 2010 (incorporated by reference to EXFO's Material Change Report on Form 6-K dated March 19, 2010, File No. 000-30895).
4.47	Share Purchase Agreement by and among EXFO Inc. and Photonic Acquisition Inc. dated October 1, 2010 (incorporated by reference to EXFO's Material Change Report on Form 6-K dated October 8, 2010, File No. 000-30895).
4.48	Renewal of EXFO's Share Repurchase Program by Way of Normal Course Issuer Bid dated November 5, 2010 (incorporated by reference to EXFO's report on Form 6-K dated November 5, 2010, file No. 000-30895).
4.49	

Renewal of EXFO's Share Repurchase Program by Way of Normal Course Issuer Bid dated November 7, 2011 (incorporated by reference to EXFO's report on Form 6-K dated November 7, 2011, file No. 000-30895).

4.50 Renewal of EXFO's Share Repurchase Program by Way of Normal Course Issuer Bid dated November 7, 2012 (incorporated by reference to EXFO's report on Form 6-K dated November 7, 2012, file No. 000-30895).

4.51 Renewal of EXFO's Share Repurchase Program by Way of Normal Course Issuer Bid dated January 8, 2014 (incorporated by reference to EXFO's report on Form 6-K dated January 9, 2014, file No. 000-30895).

Table of Contents

Number	Exhibit
4.52	Final results of Issuer Bid Tender Offer, dated February 20, 2015 (incorporated by reference to EXFO's Material Change Report on Form 6-K dated February 24, 2015, file No. 000-30895).
4.53	Renewal of EXFO's Share Repurchase Program by Way of Normal Course Issuer Bid dated March 25, 2015 (incorporated by reference to EXFO's report on Form 6-K dated March 25, 2015, file No. 000-30895).
4.54	Nomination of Mr. Philippe Morin as Chief Operation Officer, dated August 26, 2015 (incorporated by reference to EXFO's Material Change Report on Form 6-K dated August 28 2015, file No. 000-30895).
4.55	Long-Term Incentive Plan, dated May 25, 2000, amended in October 2004 and effective January 12, 2005 (incorporated by reference to Exhibit 4.55 of EXFO's Annual Report on Form 20-F dated November 28, 2016, File No. 000-30895).
4.56	Renewal of EXFO's Share Repurchase Program by Way of Normal Course Issuer Bid dated April 1, 2016 (incorporated by reference to EXFO's report on Form 6-K dated March 30, 2016, file No. 000-30895).
8.1	Subsidiaries of EXFO (list included in Item 4C of this Annual Report).
11.1	Code of Ethics for our Principal Executive Officer and Senior Financial Officers (incorporated by reference to Exhibit 11.1 of EXFO's Annual Report on Form 20-F dated November 24, 2010, File No. 000-30895).
11.2	Board of Directors Corporate Governance Guidelines (incorporated by reference to Exhibit 11.2 of EXFO's Annual Report on Form 20-F dated November 24, 2010, File No. 000-30895).
11.3	Ethics and Business Conduct Policy (incorporated by reference to Exhibit 11.3 of EXFO's Annual Report on Form 20-F dated November 25, 2013, File No. 000-30895).
11.4	Statement of Reporting Ethical Violations (Whistleblower) (incorporated by reference to Exhibit 11.4 of EXFO's Annual Report on Form 20-F dated November 25, 2013, File No. 000-30895).
11.5	Audit Committee Charter (incorporated by reference to Exhibit 11.5 of EXFO's Annual Report on Form 20-F dated November 28, 2016, File No. 000-30895).
11.6	Human Resources Committee Charter (incorporated by reference to Exhibit 11.6 of EXFO's Annual Report on Form 20-F dated November 24, 2014, File No. 000-30895).
11.7	Corporate Governance Practices (incorporated by reference to Exhibit 11.7 of EXFO's Annual Report on Form 20-F dated November 28, 2016, File No. 000-30895).
11.8	Majority Voting Policy (incorporated by reference to Exhibit 11.8 of EXFO's Annual Report on Form 20-F dated November 28, 2016, File No. 000-30895).
11.9	Independent Members Committee Charter (incorporated by reference to Exhibit 11.9 of EXFO's Annual Report on Form 20-F dated November 23, 2011, File No. 000-30895).
11.10	Agent Code of Conduct (incorporated by reference to Exhibit 11.10 of EXFO's Annual Report on Form 20-F dated November 25, 2013, File No. 000-30895).

11.11	Policy Regarding Conflict Minerals (incorporated by reference to Exhibit 11.11 of EXFO's Annual Report on Form 20-F dated November 25, 2013, File No. 000-30895).
11.12	Director Share Ownership Policy (incorporated by reference to Exhibit 11.12 of EXFO's Annual Report on Form 20-F dated November 25, 2013, File No. 000-30895).
12.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
12.2	Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
13.1	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
13.2	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

EXFO INC.

By: /s/ Germain Lamonde
Name: Germain Lamonde
Title: Chairman of the Board, President
and Chief Executive Officer

Date: January 9, 2017

Table of Contents

Independent Auditor's Report

To the Shareholders of
EXFO Inc.

We have completed integrated audits of EXFO Inc.'s and its subsidiaries' 2016, 2015 and 2014 consolidated financial statements and their internal control over financial reporting as at August 31, 2016. Our opinions, based on our audits are presented below.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of EXFO Inc. and its subsidiaries (the company), which comprise the consolidated balance sheets as at August 31, 2016 and August 31, 2015 and the consolidated statements of earnings, comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended August 31, 2016, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Table of Contents

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of EXFO Inc. and its subsidiaries as at August 31, 2016 and August 31, 2015 and their financial performance and their cash flows for each of the three years in the period ended August 31, 2016 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Revision to Consolidated Financial Statements

Without modifying our opinion on the consolidated financial statements, we draw attention to Note 1 to these consolidated financial statements, which explains that the consolidated financial statements for the year ended August 31, 2016 have been revised from those on which we originally reported on November 28, 2016.

Report on internal control over financial reporting

We have also audited EXFO Inc.'s and its subsidiaries' internal control over financial reporting as at August 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibility for internal control over financial reporting

Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in "Management's Annual Report on Internal Control over Financial Reporting (restated)" appearing under Item 15b) of the Annual Report on Form 20-F/A for the fiscal year ended August 31, 2016.

Auditor's responsibility

Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the company's internal control over financial reporting.

Definition of internal control over financial reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Table of Contents

Inherent limitations
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Opinion
In our opinion, EXFO Inc. and its subsidiaries did not maintain, in all material respects, effective internal control over financial reporting as at August 31, 2016, based on criteria established in Internal Control – Integrated Framework (2013) issued by COSO because a material weakness in internal control over financial reporting existed at that date related to the failure to maintain appropriate controls over the accounts receivable ledger, which included the lack of appropriate segregation of duties and supervisory review and monitoring of journal entries recorded in the trade account receivable ledger. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described under "Management's Annual Report on Internal Control over Financial Reporting (restated)" appearing under Item 15(b) of the Annual Report on Form 20-F/A for the fiscal year ended August 31, 2016. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the August 31, 2016 consolidated financial statements, and our opinion regarding the effectiveness of the EXFO Inc.'s internal control over financial reporting does not affect our opinion on those consolidated financial statements.

Management and we previously concluded that EXFO Inc. and its subsidiaries maintained effective internal control over financial reporting as at August 31, 2016. However, management has subsequently determined that the material weakness described above existed as at August 31, 2016. Accordingly, Management's Report on Internal Control over Financial Reporting has been restated and our present opinion on internal control over financial reporting, as presented herein, is different from that expressed in our previous report.

Montréal, Quebec
January 9, 2017

[1] CPA auditor, CA, public accountancy permit No. A119427

Table of Contents

EXFO Inc.
Consolidated Balance Sheets

(in thousands of US dollars)

	As at August 31, 2016	2015
Assets		
Current assets		
Cash	$43,208	$25,864
Short-term investments (note 5)	4,087	1,487
Accounts receivable (note 5)		
Trade	42,993	45,985
Other	2,474	2,384
Income taxes and tax credits recoverable (note 18)	4,208	3,855
Inventories (note 6)	33,004	27,951
Prepaid expenses	3,099	2,801
	133,073	110,327
Tax credits recoverable (note 18)	34,594	35,625
Property, plant and equipment (notes 7 and 20)	35,978	35,695
Intangible assets (notes 8 and 20)	3,391	4,096
Goodwill (notes 8 and 20)	21,928	21,860
Deferred income tax assets (note 18)	8,240	9,459
Other assets	589	416
	$237,793	$217,478
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 10)	$37,174	$34,126
Provisions	299	427
Income taxes payable	971	779
Deferred revenue	9,486	7,647
	47,930	42,979
Deferred revenue	5,530	2,957
Deferred income tax liabilities (note 18)	2,857	1,524
Other liabilities	75	791
	56,392	48,251
Commitments (note 11)		
Shareholders' equity		

Share capital (note 12)	85,516	86,045
Contributed surplus	18,150	17,778
Retained earnings	126,309	117,409
Accumulated other comprehensive loss (note 13)	(48,574)	(52,005)
	181,401	169,227
	$237,793	$217,478

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

On behalf of the Board

/s/ Germain Lamonde	/s/ Claude Séguin
Germain Lamonde	Claude Séguin
Chairman, President and CEO	Chairman, Audit Committee

Table of Contents

EXFO Inc.
Consolidated Statements of Earnings

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

	Years ended August 31, 2016	2015	2014
Sales (note 20)	$232,583	$222,089	$230,806
Cost of sales [(1)] (note 16)	87,066	85,039	86,836
Selling and administrative [(2)] (note 16)	82,169	82,200	86,429
Net research and development (note 16)	42,687	44,003	44,846
Depreciation of property, plant and equipment (note 16)	3,814	4,835	4,995
Amortization of intangible assets (note 16)	1,172	2,883	4,398
Interest and other income	(828)	(155)	(326)
Foreign exchange gain	(161)	(7,212)	(1,634)
Unusual charge (note 1)	–	603	720
Earnings before income taxes	16,664	9,893	4,542
Income taxes (note 18)	7,764	5,036	4,286
Net earnings for the year	$8,900	$4,857	$256
Basic net earnings per share	$0.17	$0.09	$0.00
Diluted net earnings per share	$0.16	$0.08	$0.00
Basic weighted average number of shares outstanding (000's)	53,863	56,804	60,329
Diluted weighted average number of shares outstanding (000's) (note 19)	54,669	57,457	61,015

(1) The cost of sales is exclusive of depreciation and amortization, shown separately.
(2) Selling and administrative is exclusive of unusual charge, which represents bad debt expenses.

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

Table of Contents

EXFO Inc.
Consolidated Statements of Comprehensive Income (Loss)

(in thousands of US dollars)

	Years ended August 31,		
	2016	2015	2014
Net earnings for the year	$8,900	$4,857	$256
Other comprehensive income (loss), net of income taxes			
Items that will not be reclassified subsequently to net earnings			
Foreign currency translation adjustment	707	(39,175)	(7,086)
Items that may be reclassified subsequently to net earnings			
Unrealized gains/losses on forward exchange contracts	862	(5,583)	(618)
Reclassification of realized gains/losses on forward exchange contracts in net earnings	2,797	2,107	959
Deferred income tax effect of gains/losses on forward exchange contracts	(935)	905	(91)
Other comprehensive income (loss)	3,431	(41,746)	(6,836)
Comprehensive income (loss) for the year	$12,331	$(36,889)	$(6,580)

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

Table of Contents

EXFO Inc.
Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

Year ended August 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	$112,296	$ (3,423)	$ 235,896
Exercise of stock options (note 12)	225	–	–	–	225
Redemption of share capital (note 12)	(831)	(106)	–	–	(937)
Reclassification of stock-based compensation costs (note 12)	2,260	(2,260)	–	–	–
Stock-based compensation costs	–	1,683	–	–	1,683
Net earnings for the year	–	–	256	–	256
Other comprehensive income (loss)					
Foreign currency translation adjustment	–	–	–	(7,086)	(7,086)
Changes in unrealized losses on forward exchange contracts, net of deferred income taxes of $91	–	–	–	250	250
Total comprehensive loss for the year					(6,580)
Balance as at August 31, 2014	$111,491	$ 16,503	$112,552	$ (10,259)	$ 230,287

Year ended August 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	$112,552	$ (10,259)	$ 230,287
Redemption of share capital (note 12)	(26,827)	1,333	–	–	(25,494)
Reclassification of stock-based compensation costs (note 12)	1,381	(1,381)	–	–	–
Stock-based compensation costs	–	1,323	–	–	1,323
Net earnings for the year	–	–	4,857	–	4,857
Other comprehensive loss					
Foreign currency translation adjustment	–	–	–	(39,175)	(39,175)
Changes in unrealized losses on forward exchange contracts, net of deferred income taxes of $905	–	–	–	(2,571)	(2,571)
Total comprehensive loss for the year					(36,889)

Balance as at August 31, 2015	$86,045	$ 17,778	$117,409	$ (52,005)	$ 169,227

Year ended August 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	$117,409	$ (52,005)	$ 169,227
Redemption of share capital (note 12)	(1,768)	217	–	–	(1,551)
Reclassification of stock-based compensation costs (note 12)	1,239	(1,239)	–	–	–
Stock-based compensation costs	–	1,394	–	–	1,394
Net earnings for the year	–	–	8,900	–	8,900
Other comprehensive income (loss)					
Foreign currency translation adjustment	–	–	–	707	707
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of $935	–	–	–	2,724	2,724
Total comprehensive income for the year					12,331
Balance as at August 31, 2016	$85,516	$ 18,150	$126,309	$ (48,574)	$ 181,401

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

Table of Contents

EXFO Inc.
Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Years ended August 31,		
	2016	2015	2014
Cash flows from operating activities			
Net earnings for the year	$8,900	$4,857	$256
Add (deduct) items not affecting cash			
Stock-based compensation costs	1,378	1,295	1,696
Depreciation and amortization	4,986	7,718	9,393
Unusual charge	–	603	720
Deferred revenue	4,238	396	(804)
Deferred income taxes	1,578	403	698
Changes in foreign exchange gain/loss	(332)	(3,842)	(491)
	20,748	11,430	11,468
Changes in non-cash operating items			
Accounts receivable	2,682	(10,828)	3,578
Income taxes and tax credits	939	(2,062)	1,447
Inventories	(4,713)	820	(734)
Prepaid expenses	(280)	(982)	210
Other assets	170	61	92
Accounts payable and accrued liabilities and provisions	4,882	8,132	3,832
Other liabilities	(65)	(87)	(107)
	24,363	6,484	19,786
Cash flows from investing activities			
Additions to short-term investments	(3,546)	(20,067)	(34,222)
Proceeds from disposal and maturity of short-term investments	873	23,685	33,208
Purchases of capital assets (notes 7 and 8)	(4,356)	(5,933)	(7,931)
	(7,029)	(2,315)	(8,945)
Cash flows from financing activities			
Repayment of long-term debt			(307)
Exercise of stock options (note 12)			225
Redemption of share capital (note 12)	(1,551)	(25,494)	(937)
	(1,551)	(25,494)	(1,019)
Effect of foreign exchange rate changes on cash	1,561	(6,932)	(1,087)
Change in cash	17,344	(28,257)	8,735
Cash – Beginning of year	25,864	54,121	45,386
Cash – End of year	$43,208	$25,864	$54,121
Supplementary information			
Income taxes paid	$2,015	$1,491	$1,272

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

Table of Contents

EXFO Inc.
Notes to 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 analytics solutions for fixed and mobile network operators, communications service providers, web-scale operators as well as network 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 consolidated financial statements were authorized for issue by the Board of Directors on January 9, 2017.

Revision of Consolidated Financial Statements

The company has revised its previously issued consolidated financial statements (filed on November 28, 2016) to properly record a bad debt expense associated with a single trade receivable account. During the first quarter of fiscal 2017, the company identified certain errors in the aging of the trade accounts receivable ledger which were traced back to an outstanding trade receivable balance arising from one customer, which dated back to the period from 2012 to 2015. This resulted in an understatement of the prior years' allowance for doubtful accounts against this trade receivable account and a corresponding adjustment to deferred taxes as a result of the additional expense.

The company evaluated the aggregate effects of the errors to its previously issued consolidated financial statements in accordance with IAS 8 - Accounting Policies, Accounting Estimates and Errors ("IAS 8"), as well as and in consideration of the guidance in SEC Staff Accounting Bulletins No. 99 and No. 108. Based upon quantitative and qualitative factors, the company has determined that the errors were not material to the previously issued consolidated financial statements and disclosures in its Annual Report on Form 20-F for the year ended August 31, 2016. However, the cumulative effect of the errors may be significant to our financial results for the year ending August 31, 2017. Accordingly, the company has revised its previously issued consolidated financial statements for the year ended August 31, 2016.

All financial information presented in the accompanying notes to these consolidated financial statements was revised to reflect the correction of these errors.

The following tables present the effect of the aforementioned revisions on the company's consolidated balance sheets and the consolidated statement of earnings for each period. These revisions are non-cash and therefore do not impact the company's statement of cash flows for any prior period. The revision also does not impact the consolidated statement of earnings for the year ended August 31, 2016:

	As at August 31, 2016		
	As reported	Adjustment	Revised
Revision to Consolidated Balance Sheet			

Accounts receivable - Trade	$45,076	$ (2,083)	$42,993
Deferred income tax assets	$7,681	$ 559	$8,240
Retained earnings	$127,833	$ (1,524)	$126,309
Total assets	$239,317	$ (1,524)	$237,793
Shareholders' equity	$182,925	$ (1,524)	$181,401

Table of Contents

EXFO Inc.
Notes to Consolidated Financial Statements

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

	As at and for the year ended August 31, 2015		
	As reported	Adjustment	Revised
Revision to Consolidated Balance Sheet			
Accounts receivable - Trade	$48,068	$ (2,083)	$45,985
Deferred income tax assets	$8,900	$ 559	$9,459
Retained earnings	$118,933	$ (1,524)	$117,409
Total assets	$219,002	$ (1,524)	$217,478
Shareholders' equity	$170,751	$ (1,524)	$169,227
Revision to Consolidated Statement of Earnings and Consolidated Statement of Comprehensive Income (Loss)			
Unusual charge (1)	$–	$ 603	$603
Earnings before income taxes	$10,496	$ (603)	$9,893
Deferred income tax expense	$565	$ (162)	$403
Net earnings for the year	$5,298	$ (441)	$4,857
Basic net earnings per share for the year	$0.09	$ –	$0.09
Diluted net earnings per share for the year	$0.09	$ (0.01)	$0.08
Comprehensive loss for the year	$(36,448)	$ (441)	$(36,889)

(1) Adjustment to recognize bad debt expense in connection with a past due trade receivable balance, for which, upon correction of the aging, management would have provided an allowance in accordance with the company's credit provision policies.

	As at and for the year ended August 31, 2014		
	As reported	Adjustment	Revised
Revision to Consolidated Balance Sheet			
Retained earnings	$113,635	$ (1,083)	$112,552
Revision to Consolidated Statement of Earnings and Consolidated Statement of Comprehensive Income (Loss)			
Unusual charge (2)	$–	$ 720	$720
Earnings before income taxes	$5,262	$ (720)	$4,542

Deferred income tax expense	$891	$ (193)	$698
Net earnings for the year	$783	$ (527)	$256
Basic and diluted net earnings per share for the year	$0.01	$ (0.01)	$0.00
Comprehensive loss for the year	$(6,053)	$ (527)	$(6,580)

(2) Adjustment to recognize bad debt expense in connection with a past due trade receivable balance, for which, upon correction of the aging, management would have provided an allowance in accordance with the company's credit provision policies.

Table of Contents

EXFO Inc.
Notes to Consolidated Financial Statements

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

	As at August 31, 2013		
	As reported	Adjustment	Revised
Revision to Consolidated Balance Sheet			
Retained earnings (3)	$112,852	$ (556)	$112,296

(3) Adjustment to opening retained earnings as at September 1, 2013 in connection with a past due trade receivable balance, for which, upon correction of the aging, management would have provided an allowance in accordance with the company's credit provision policies.

2 Basis of Presentation

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). The company has consistently applied the same accounting policies through all periods presented.

These IFRS consolidated financial statements have been prepared based on the following accounting policies:

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of derivative financial instruments and available-for-sale investments.

Consolidation

These consolidated financial statements include the accounts of the company and its domestic and foreign subsidiaries. Intercompany accounts and transactions have been eliminated.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of business.

Sales of goods

Revenue from the sales of goods, which represents the majority of the sales of the company, is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually upon delivery of the goods. Revenue is recorded based on the price specified in the sales arrangements.

Maintenance contracts

Maintenance contracts are usually offered to customers for periods of 12 to 36 months. They generally include the right to unspecified software upgrades and enhancements on a when-and-if-available basis as well as customer service. Revenue from these contracts is recognized ratably over the terms of the maintenance contracts on a straight-line basis.

EXFO Inc.
Notes to Consolidated Financial Statements

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

Extended warranties

Extended warranties are usually offered to customers for periods of 6 to 48 months. Revenue from these extended warranties is recognized ratably over the warranty period on a straight-line basis.

Multiple-component arrangements

When a sales arrangement includes multiple separately identifiable components such as goods, extended warranties, maintenance contracts, installation and training, the revenue recognition criteria are applied to each separately identifiable component. A component is considered separately identifiable if the delivered item has value to the customer on a stand-alone basis and the fair value associated with the component can be measured reliably. The company allocates the selling price of a multiple-component arrangement to each component based on the fair value of each component in relation to the fair value of the arrangement as a whole.

Sales arrangements may include acceptance clauses. When a sales arrangement does include an acceptance provision, acceptance occurs upon the earliest of receipt of a written customer acceptance or expiration of the acceptance period. For these sales arrangements, the sale is recognized when acceptance occurs.

Presentation currency

The functional currency of the company is the Canadian dollar. The company has adopted the US dollar as its presentation currency as it is the most commonly used reporting currency in its industry. The consolidated financial statements are translated into the presentation currency as follows: assets and liabilities are translated at the exchange rate in effect on the date of the balance sheet; revenues and expenses are translated at the monthly average exchange rate. The foreign currency translation adjustment arising from such translation is included in accumulated other comprehensive income in the shareholders' equity.

Foreign currency transactions

Transactions denominated in currencies other than the functional currency are translated into the relevant functional currency as follows: Monetary assets and liabilities are translated at the exchange rate in effect on the date of the balance sheet, and revenues and expenses are translated at the exchange rate in effect on the date of the transaction. Non-monetary assets and liabilities measured at historical cost and denominated in a foreign currency are translated using the exchange rate at the date of the transaction, whereas non-monetary items that are measured at fair value and denominated in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange gains and losses arising from such translation are included in the consolidated statements of earnings.

Financial instruments

The classification of financial instruments depends on the intended purpose when the financial instruments were acquired or issued, as well as on their characteristics and designation by the company.

Classification

Financial assets

Cash	Loans and receivables
Short-term investments	Available for sale
Accounts receivable	Loans and receivables
Other assets	Loans and receivables

Table of Contents

EXFO Inc.
Notes to Consolidated Financial Statements

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

Financial liabilities

Accounts payable and accrued liabilities Other financial liabilities

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale, or are not classified in any of the other categories. They are initially recognized at fair value plus transaction costs and they are subsequently measured at fair value. After their initial recognition, any changes in their fair value are reflected in other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After their initial measurement at fair value plus transaction costs, they are carried at amortized cost, using the effective interest rate method, which generally corresponds to the nominal amount due to their short-term maturity.

Other financial liabilities

Other financial liabilities are non-derivative financial liabilities initially measured at fair value plus transaction costs and they are subsequently carried at amortized cost, using the effective interest rate method, which generally corresponds to the nominal amount due to their short-term maturity.

Derivative financial instruments and hedging activities

Forward exchange contracts are utilized by the company to manage its foreign currency exposure. Forward exchange contracts are entered into by the company to hedge anticipated US-dollar-denominated sales and the related accounts receivable as well as Indian-rupee-denominated operating expenses and the related accounts payable. The company's policy is not to utilize those derivative financial instruments for trading or speculative purposes.

The company's forward exchange contracts, which are designated as cash flow hedging instruments, qualify for hedge accounting.

They are initially recorded at fair value plus transaction costs and they are subsequently measured at fair value. The fair value of forward exchange contracts is determined using quoted prices and forward exchange rates at the balance sheet date, with the resulting value discounted back to present value. After initial recognition, the effective portion of changes in their fair value is reflected in other comprehensive income. Any ineffective portion is recognized immediately in the consolidated statements of earnings. Upon the recognition of related hedged sales and operating expenses, accumulated changes in fair value of forward exchange contracts are respectively reclassified in sales and net research and development expenses in the consolidated statements of earnings.

At the inception of a hedge relationship, the company formally designates and documents the hedge relationship to which the company wishes to apply hedge accounting, the risk management objectives, the hedging instrument, the hedged item and the method used to test effectiveness. The company assesses effectiveness of the hedge relationship at inception and on an ongoing basis using the dollar-offset method.

Fair value hierarchy

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

Table of Contents

EXFO Inc.
Notes to Consolidated Financial Statements

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

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 foreign exchange rates at the balance sheet dates.

Short-term investments

All investments with original terms to maturity of three months or less and that are not required for the purposes of meeting short-term cash requirements are classified as short-term investments. Short-term investments are classified as available-for-sale financial assets; therefore, they are carried at fair value in the balance sheet, and any changes in their fair value are reflected in other comprehensive income. Upon the disposal or maturity of these assets, accumulated changes in their fair value are reclassified in the consolidated statements of earnings.

Inventories

Inventories are valued on an average cost basis, at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

The cost of work in progress and finished goods includes material, labor and an allocation of manufacturing overhead.

Property, plant and equipment and depreciation

Property, plant and equipment are recorded at cost, net of accumulated depreciation and accumulated impairment losses. Such cost is reduced by related research and development tax credits.

Depreciation is provided on a straight-line basis over the estimated useful lives of the asset as follows:

	Term
Land improvements	15 years
Buildings	20 to 60 years
Equipment	3 to 15 years
Leasehold improvements	The lesser of useful life and remaining lease term

The assets' residual values and useful lives are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

Table of Contents

EXFO Inc.
Notes to Consolidated Financial Statements

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

Intangible assets, goodwill and amortization

Intangible assets

Intangible assets with finite useful lives primarily include the cost of core technology, customer relationships, brand name and software. The cost of intangible assets acquired in a business combination is the fair value of the assets at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is provided on a straight-line basis over the estimated useful lives of five years for core technology, customer relationships and brand name, and four and eight years for software. None of the company's intangible assets were developed internally.

The amortization method and the useful lives of intangible assets are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of net identifiable assets acquired, and is allocated to each cash-generating unit (CGU) or group of CGUs that are expected to benefit from the related business combination. A group of CGUs represents the lowest level within the company at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment. Goodwill is not amortized but must be tested for impairment on an annual basis or more frequently if events or circumstances indicate that it might be impaired.

Research and development

All costs related to research are expensed as incurred, net of related tax credits and grants. Development costs are expensed as incurred, net of related tax credits and grants, unless they meet the recognition criteria of IAS 38, "Intangible Assets", in which case they are capitalized, net of related tax credits and grants and amortized on a straight-line basis over the estimated benefit period. Research and development expenses are mainly comprised of salaries and related expenses, material costs as well as fees paid to third-party consultants. As at August 31, 2015 and 2016, the company had not capitalized any development costs.

The company elected to account for non-refundable research and development tax credits under IAS 20, "Accounting for Governmental Grants and Disclosures of Governmental Assistance", and as such, these tax credits are presented against gross research and development expenses in the consolidated statements of earnings. Non-refundable research and development tax credits are included in earnings or deducted from the related assets, provided there is reasonable assurance that the company has complied and will comply with the conditions related to the tax credits and that the tax credits will be received.

Impairment of non-financial assets

The company assesses at each reporting date whether there is an indication that the carrying value of property, plant and equipment and finite-life intangible assets may not be recoverable. Non-financial assets that are not amortized (such as goodwill) are subject to an annual impairment test. If any indication exists, or when annual impairment testing is required, the company estimates the asset or asset group's recoverable amount. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). The recoverable amount is the higher of an asset or CGU's fair value less costs of disposal and its value in use. Where the carrying value of an asset or CGU exceeds its recoverable amount, the asset or the CGU is considered impaired and is written down to its recoverable amount. The company performs its annual goodwill impairment test in the fourth quarter of each fiscal year.

Table of Contents

EXFO Inc.
Notes to Consolidated Financial Statements

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

For property, plant and equipment and finite-life intangible assets, the reversal of impairment is limited so that the carrying value of the asset does not exceed its recoverable amount, nor exceed the carrying value that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior periods. Impairment losses on goodwill are not reversed.

Leases

Operating leases are leases for which the company does not assume substantially all the risks and rewards of ownership of the asset. Operating lease rentals are charged to the consolidated statements of earnings on a straight-line basis over the lease term.

As at August 31, 2015 and 2016, all significant leases of the company were classified as operating leases.

Government grants

Grants related to operating expenses are included in earnings when the related expenses are incurred. Grants related to capital expenditures are deducted from the related assets. Grants are included in the consolidated statements of earnings or deducted from the related assets, provided there is reasonable assurance that the company has complied and will comply with all the conditions related to the grants and that the grants will be received.

Warranty

The company offers its customers basic warranties of one to three years, depending on the specific products and terms of the purchase agreement. The company's typical warranties require it to repair or replace defective products during the warranty period at no cost to the customer. Costs related to basic warranties are accrued at the time of shipment, based upon estimates of expected rework and warranty costs to be incurred. Costs associated with separately priced extended warranties are expensed as incurred.

Income taxes

Income taxes comprise current and deferred income taxes.

Current income taxes

Current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered or paid to the taxation authorities. Income tax rates used to calculate the amount are those that are enacted or substantively enacted at the balance sheet dates in the tax jurisdictions where the company generates taxable income/loss.

Deferred income taxes

The company provides for deferred income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities as well as the carry-forward of unused tax losses and deductions, using enacted or substantively enacted income tax rates at the balance sheet dates, that are expected to be in effect for the years in which the assets are expected to be recovered or the liabilities to be settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available against which the deductible temporary differences as well as unused tax losses and deductions can be utilized.

EXFO Inc.
Notes to Consolidated Financial Statements

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

Deferred tax liabilities are recognized for all taxable temporary differences and for taxable temporary differences arising on investments in subsidiaries, except where the reversal of these temporary differences can be controlled and it is probable that the differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current in the consolidated balance sheets.

Uncertain tax positions

The company is subject to income tax laws and regulations in several jurisdictions. There are many transactions and calculations during the course of business for which the ultimate tax determination is uncertain. The company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The company reviews the adequacy of these provisions at the end of the reporting periods and any changes in the provisions are recognized in the consolidated statements of earnings when they occur. However, it is possible that at some future dates, liabilities in excess of the company's provisions could result from audits by, or litigation with, the relevant taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will be recognized in the consolidated statement of earnings in the period in which such determination is made.

Earnings per share

Basic earnings per share are calculated by dividing net earnings attributable to common equity holders of the company by the weighted average number of common shares outstanding during the year.

Diluted earnings per share are calculated by dividing net earnings attributable to common equity holders of the company by the weighted average number of common shares outstanding during the year, plus the effect of dilutive potential common shares outstanding during the year. This method requires that diluted earnings per share be calculated (using the treasury stock method) as if all dilutive potential common shares had been exercised at the latest at the beginning of the year or on the date of issuance, as the case may be, and that the funds obtained thereby (plus an amount equivalent to the unamortized portion of related stock-based compensation costs) be used to purchase common shares of the company at the average market price of the common shares during the year.

Stock-based compensation

Equity-settled awards

The company's stock options, restricted share units and deferred share units are equity-settled awards. The company accounts for stock-based compensation costs on equity-settled awards using the Black-Scholes option valuation model. The fair value of equity-settled awards is measured at the date of grant. Stock-based compensation costs are amortized to expense over the vesting periods together with a corresponding change in contributed surplus in the shareholders' equity. For equity-settled awards with graded vesting, each tranche is considered a separate grant with a different vesting date and fair value, and each tranche are accounted for separately.

Cash-settled awards

The company's stock appreciation rights are cash-settled awards. The company accounts for stock-based compensation costs on cash-settled awards using the Black-Scholes option valuation model. The fair value of the cash-settled awards is remeasured at the end of each reporting period, with any changes in the fair value recognized in the consolidated statements of earnings.

Table of Contents

EXFO Inc.
Notes to Consolidated Financial Statements

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

Operating segments

Operating segments are defined as components of an entity engaged in business activities from which it may earn revenues and incur expenses, and whose operating results are regularly reviewed by the chief operating decision maker (CODM) to make decisions about resources to be allocated to segments and assess their performance and for which discrete information is available. The function of the CODM is performed by the Chief Executive Officer who reviews consolidated results for the purposes of allocating resources and evaluating performance. Accordingly, the company determines that it has one operating segment as of, and for the years ended August 31, 2014, 2015 and 2016. Entity-wide disclosures are presented in note 20.

Critical accounting judgments in applying accounting policies and estimates

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those judgments, estimates and assumptions.

Critical judgments, estimates and assumptions are the following:

Critical judgments in applying accounting policies

(a) Determination of functional currency

The company operates in multiple countries and generates revenue and incurs expenses in several currencies, namely the Canadian dollar, the US dollar, the euro, the British pound, the Indian rupee and the CNY (Chinese currency). The determination of the functional currency of the company and its subsidiaries may require significant judgment. In determining the functional currency of the company and its subsidiaries, management takes into account primary, secondary and tertiary indicators. When indicators are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency.

(b) Determination of cash generating units and allocation of goodwill

For the purpose of impairment testing, goodwill must be allocated to each CGU or group of CGUs that are expected to benefit from the synergies of the business combination. Initial allocation and possible reallocation of goodwill to a CGU or a group of CGUs requires judgment.

Critical estimates and assumptions

(a) Inventories

The company states its inventories at the lower of cost, determined on an average cost basis, and net realizable value, and provides reserves for excess and obsolete inventories. The company determines its reserves for excess and obsolete inventories based on the quantities on hand at the reporting dates compared to foreseeable needs, taking into account changes in demand, technology or market.

EXFO Inc.
Notes to Consolidated Financial Statements

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

(b) Income taxes

The company is subject to income tax laws and regulations in several jurisdictions. Under these laws and regulations, uncertainties exist with respect to the interpretation of complex tax laws and regulations and the amount and timing of future taxable income. The company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk based on its interpretation of laws and regulations. In addition, management has made reasonable estimates and assumptions to determine the amount of deferred tax assets that can be recognized in the consolidated financial statements, based upon the likely timing and level of anticipated future taxable income together with tax planning strategies. The ultimate realization of the company's deferred income tax assets is dependent upon the generation of sufficient future taxable income during the periods in which those assets are expected to be realized.

(c) Tax credits recoverable

Tax credits are recorded provided that there is reasonable assurance that the company has complied and will comply with all the conditions related to the tax credits and that the tax credits will be received. The ultimate recovery of the company's non-refundable tax credits is dependent upon the generation of sufficient future taxable income during the tax credits carry-forward periods. Management has made reasonable estimates and assumptions to determine the amount of non-refundable tax credits that can be recognized in the consolidated financial statements, based upon the likely timing and level of anticipated future taxable income together with tax planning strategies (note 18).

(d) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or group of assets (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation for the company's CGUs is based on a market approach that relies on unobservable inputs based on valuation multiples and recent transactions for comparable assets or businesses, within the same industry. The company applies judgment in making adjustments to the unobservable inputs for factors such as size, risk profile or profitability. The company also considers the company's value derived from its market capitalization, adjusting for a control premium considered appropriate based on other comparable companies with significant controlling interests. Depending on the market evidence available, the company, from time to time, may further supplement this market approach with an income approach that considers discounted cash flows to determine fair value less costs of disposal. The discounted cash flow model involves significant judgment with respect to estimating cash flows (based on market participant assumptions) and the appropriate discount rate.

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.

Table of Contents

EXFO Inc.
Notes to Consolidated Financial Statements

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

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 early adopt the new standard.

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 fiscal 2015, the company implemented a restructuring plan to align its cost structure to the challenging market environment. This plan resulted in one-time severance expenses of $1,637,000 for employees laid off during the fourth quarter of 2015 (notes 10 and 16). These expenses were fully paid in fiscal 2016.

4 Capital Disclosures

The company is not subject to any external restrictions on its capital.

The company's objectives when managing capital are:

- To maintain a flexible capital structure that optimizes the cost of capital at acceptable risk;
- To sustain future development of the company, including research and development activities, market development and potential acquisitions of complementary businesses or products; and
- To provide the company's shareholders with an appropriate return on their investment.

No changes were made to the objectives and policies during the years ended August 31, 2015 and 2016.

The company defines its capital as shareholders' equity, excluding accumulated other comprehensive loss. The capital of the company amounted to $221,232,000 and $229,975,000 as at August 31, 2015 and 2016 respectively.

Table of Contents

EXFO Inc.
Notes to Consolidated Financial Statements

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

5 Financial Instruments

The following tables summarize financial instruments by category:

	As at August 31, 2016				
	Loans and receivable	Available for sale	Other financial liabilities	Derivatives used for hedging	Total
Financial assets					
Cash	$43,208	$ –	$ –	$ –	$43,208
Short-term investments	$–	$ 4,087	$ –	$ –	$4,087
Accounts receivable	$45,467	$ –	$ –	$ –	$45,467
Other assets	$35	$ –	$ –	$ –	$35
Forward exchange contracts	$–	$ –	$ –	$ 980	$980
Financial liabilities					
Accounts payable and accrued liabilities	$–	$ –	$ 36,099	$ –	$36,099
Forward exchange contracts	$–	$ –	$ –	$ 1,120	$1,120

	As at August 31, 2015				
	Loans and receivable	Available for sale	Other financial liabilities	Derivatives used for hedging	Total
Financial assets					
Cash	$25,864	$ –	$ –	$ –	$25,864
Short-term investments	$–	$ 1,487	$ –	$ –	$1,487
Accounts receivable	$48,369	$ –	$ –	$ –	$48,369
Other assets	$103	$ –	$ –	$ –	$103
Financial liabilities					
Accounts payable and accrued liabilities	$–	$ –	$ 29,029	$ –	$29,029
Forward exchange contracts	$–	$ –	$ –	$ 4,154	$4,154

Fair value

Cash, accounts receivable and accounts payable and accrued liabilities are financial instruments whose carrying values approximate their fair values due to their short-term maturities. The fair value of other assets approximates their carrying value due to their relatively short-term maturities.

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

	As at August 31, 2016		As at August 31, 2015	
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Short-term investments	$4,087	$–	$1,487	$–
Forward exchange contracts	$–	$980	$–	$–
Financial liabilities				
Forward exchange contracts	$–	$1,120	$–	$4,154

F-21

Table of Contents

EXFO Inc.
Notes to Consolidated Financial Statements

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

Market risk

Currency risk

The functional currency of the company is the Canadian dollar. The company is exposed to a 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 a 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 August 31, 2015 and 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
As at August 31, 2015		
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	$ 29,800	1.1326
As at August 31, 2016		
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