

EXFO INC.  
Form 20-F  
November 24, 2017

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

FORM 20-F

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, 2017; or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ 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)

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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  
(Title of Class)

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

None  
(Title of Class)

As of August 31, 2017, the registrant had 23,068,777 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, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer
		Emerging growth company

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
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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

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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 to 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; our ability to successfully integrate businesses that we acquire; capacity to adapt our future product offering to future technological changes; limited visibility with regard 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; 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.

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## Item 3. Key Information

## A. Selected Financial Data

The consolidated statements of earnings data for the years ended August 31, 2015, 2016 and 2017 and the consolidated balance sheets data as at August 31, 2016 and 2017 have been derived from our audited consolidated financial statements that are included elsewhere in this Annual Report on Form 20-F. Consolidated statement of earnings data for the years ended August 31, 2013 and 2014 and consolidated balance sheets data as at August 31, 2013, 2014 and 2015 have been derived from our audited consolidated financial statements not included in this Annual Report on Form 20-F.

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 audited consolidated financial statements and the related notes thereto, included in this Annual Report on Form 20-F.

	Years ended August 31,				
	2017	2016	2015	2014	2013
	(in thousands of US dollars, except share and per share data)				
<b>Consolidated Statements of Earnings Data:</b>					
Sales	\$243,301	\$232,583	\$222,089	\$230,806	\$242,150
Cost of sales <sup>(1)</sup>	94,329	87,066	85,039	86,836	92,469
Selling and administrative <sup>(2)</sup>	86,256	82,169	82,200	86,429	88,756
Net research and development	47,168	42,687	44,003	44,846	45,444
Depreciation of property, plant and equipment	3,902	3,814	4,835	4,995	6,028
Amortization of intangible assets	3,289	1,172	2,883	4,398	6,643
Changes in fair value of cash contingent consideration	(383 )				
Interest and other (income) expense	303	(828 )	(155 )	(326 )	(113 )
Foreign exchange (gain) loss	978	(161 )	(7,212 )	(1,634 )	(4,082 )
Unusual charge <sup>(2)</sup>			603	720	540
Earnings before income taxes	7,459	16,664	9,893	4,542	6,465
Income taxes	6,608	7,764	5,036	4,286	5,519
Net earnings for the year	\$851	\$8,900	\$4,857	\$256	\$946
Basic net earnings per share	\$0.02	\$0.17	\$0.09	\$0.00	\$0.02
Diluted net earnings per share	\$0.02	\$0.16	\$0.08	\$0.00	\$0.02
Basic weighted average number of shares used in per share calculations (000's)	54,423	53,863	56,804	60,329	60,323
Diluted weighted average number of shares used in per share calculations (000's)	55,555	54,669	57,457	61,015	61,110
<b>Other Consolidated Statements of Earnings Data:</b>					
Gross research and development	\$53,124	\$47,875	\$50,148	\$52,423	\$54,334
Net research and development	\$47,168	\$42,687	\$44,003	\$44,846	\$45,444





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	As at August 31,				
	2017	2016	2015	2014	2013
	(in thousands of US dollars)				
Consolidated Balance Sheets Data:					
Cash	\$38,435	\$43,208	\$25,864	\$54,121	\$45,386
Short-term investments	775	4,087	1,487	5,726	4,868
Total assets	259,241	237,793	217,478	276,948	280,982
Share capital	90,411	85,516	86,045	111,491	109,837
Shareholders' equity	\$196,790	\$181,401	\$169,227	\$230,287	\$235,896

(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 bad debt expenses.

#### B. Capitalization and Indebtedness

Not Applicable.

#### C. Reasons for the Offer and Use of Proceeds

Not Applicable.

#### D. Risk Factors

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

Our business is subject to general global and regional economic conditions, particularly those 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. If global and/or regional economic and market conditions, or economic conditions in key markets, remain uncertain or deteriorate, we may experience material adverse effects 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 unforeseeable effects, are difficult to forecast and mitigate. As a result, we may experience material adverse effects on our business, operating results, financial condition, and stock price.

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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.

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.

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, Fortive Corporation (Fluke Networks), and Viavi Solutions, as well as other players such as AFL Noyes, Keysight (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, Keysight (IXIA), NetScout Systems, Inc., Radcom, Spirent Communications plc and Viavi Solutions.

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.

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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 develop products internally or purchase technologies through acquisitions 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 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. For example, we made two technology acquisitions in fiscal 2017, namely Absolute Analysis and Ontology Systems. Following the year-end, we closed the acquisition of Yenista Optics and are in the process of acquiring publicly held Astellia via a public tender offer. 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 and be required to comply with debt covenants;
- 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.



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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, 2017, customers outside of Canada accounted for 90.7% 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, including NAFTA renegotiations;
- 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.





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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 gradually 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 virtualizing their networks or specific network functions. While we are devoting substantial resources to meet these needs, this trend may result in lower demand for our hardware test equipment. Additionally, barriers to entry are generally lower for such software-based solutions, which may lead to increased competition for our products and services. 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 due to lapses in our product development, our business would suffer.

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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;
- 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.

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:

- 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.

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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, 2017, our records indicated that we held the following portfolio of utility patents: 75 active granted US patents, 50 granted or validated patents in countries of the European Union, 8 patents in Canada, 15 patents in China, and 7 patents in other jurisdictions. In addition, we have 21 utility patent applications (including provisional applications) pending in the US, 26 patent applications at the European Patent Office or directly entered at the national patent office of an EU member country, 3 applications in Canada, 14 applications in China and 7 applications in other countries. The expiration dates of our active issued patents range from 2018 to 2037, with no significant active patent expiring in the near future.

Our records also indicated that, as of August 31, 2017, we held 26 active granted design patents, as well as 4 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 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.

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.

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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.

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.



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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.

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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.

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). As previously disclosed, we identified a material weakness in our internal control over financial reporting as at August 31, 2016, resulting in the improper aging of our trade accounts receivable ledger which led to incorrect assessment of bad debt expense against a single trade receivable. This material weakness has been remediated.

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 will ensure that we design, implement and maintain adequate controls over our financial processes and reporting in the future. Our failure 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.

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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.

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 11.2% of our gross research and development expenses for the year ended August 31, 2017.

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.

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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, 2017, Germain Lamonde, our Executive Chairman of the Board, held 94.27% 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.

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, 2017, we held \$39.2 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, 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.

On September 8, 2017, we acquired a 33.1% interest in Astellia SA (Astellia) for a cash consideration of €8.6 million (US\$10.3 million). In addition, on October 2, 2017, we acquired all issued and outstanding shares of Yenista Optics S.A.S. (Yenista) in an all cash deal of €8.3 million (US\$9.7 million), net of cash acquired. These two acquisitions reduced our cash by US\$20.0 million in the first quarter of fiscal 2018.

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Finally, on October 10, 2017, we reached an agreement with Astellia to acquire Astellia's remaining shares for a total cash consideration of €17.3 million (approximately US\$20.0 million) by way of a public tender offer. To finance this acquisition, we modified certain of our credit facilities, which increased available financing to approximately US\$29.0 million.

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.

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 retaining 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.

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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 2017, our closing stock price on NASDAQ ranged from a high of \$6.05 per share to a low of \$3.42 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.

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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, 13<sup>th</sup> Floor, New York, New York 10011. Our Transfer Agent and Registrar is AST Trust Company (Canada) (AST), 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, 2016 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 October 31, 2016, we acquired substantially all the assets of Absolute Analysis Inc., a privately held company located in the United States, supplying solutions for radio frequency testing of fiber-based radio access networks which will extend our commitment to meet the needs of mobile network operators deploying fiber-based fronthaul networks and radio access networks architectures. This acquisition-date fair value of the total consideration transferred equaled \$8.5 million and consisted of \$5.0 million in cash and the issuance of 793,070 subordinate voting shares, valued at \$3.5 million.

On March 2, 2017, we acquired all issued and outstanding shares of Ontology Partners Limited (Ontology), a privately held company located in the United Kingdom, a supplier of real-time network topology discovery and service-chain mapping. The acquisition-date fair value of the total consideration equaled \$9.2 million and consisted of \$7.8 million in cash, net of Ontology's cash of \$2.2 million at the acquisition date, plus cash contingent consideration based on certain sales volume of Ontology products over the 12-month period following the acquisition, valued at \$1.4 million at the acquisition date.

On March 29, 2017, we announced the appointment of Philippe Morin as our new Chief Executive Officer (CEO), effective April 1, 2017. Mr. Morin, who has more than 25 years of experience in the telecommunications industry, initially was named EXFO's Chief Operating Officer in November 2015. Prior to joining EXFO, Mr. Morin was Senior Vice-President of Worldwide Sales and Field Operations at Ciena. He also held senior management positions at Nortel Networks, including President of the Optical Networking Division. EXFO founder Germain Lamonde, who had fulfilled the roles of CEO and Chairman of the Board for more than 30 years, became Executive Chairman. He maintains leadership of EXFO's acquisition strategy and remains actively involved in defining EXFO's growth initiatives, customer outreach as well as corporate governance.

On May 2, 2017, we announced a restructuring plan to streamline our passive monitoring solutions portfolio, which falls under our protocol-layer product line. This plan resulted in severance expenses of \$4.1 million and inventory write-offs of \$1.0 million, for total restructuring charges of \$5.1 million during the year. As result of this plan, we

expect annual savings of approximately \$9 million.

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On September 8, 2017, we acquired 33.1% of all issued and outstanding shares of Astellia SA ("Astellia"), a publicly traded company on the NYSE Euronext Paris stock exchange. Astellia is a provider of network and subscriber intelligence enabling mobile operators to drive service quality, maximize operational efficiency, reduce churn and develop revenue. Its vendor-independent, real-time monitoring and troubleshooting solution is used to optimize networks end-to-end from radio to core. The acquisition-date fair value of the consideration transferred equaled €8.6 million (US\$10.3 million) in an all-cash deal.

On October 2, 2017, we acquired all issued and outstanding shares of Yenista Optics S.A.S (Yenista), a privately held company located in France, a supplier of advanced optical test equipment for the research and development and manufacturing markets. Its portfolio includes benchtop optical spectrum analyzers, tunable lasers, tunable filters and passive optical component test systems for NEMs and optical component vendors. The acquisition-date fair value of the total consideration equaled €9.4 million (US\$11.1 million) and consisted of €8.3 million (US\$9.7 million) in cash, net of Yenista's cash of €1.1 million (US\$1.4 million) at the acquisition date.

On October 10, 2017, we reached an agreement with Astellia to acquire Astellia's remaining shares at a share price of €10, for total consideration of €17.3 million (approximately US\$20 million) by way of a public tender offer. The public offering will open in late calendar 2017 or early 2018, subject to the approval of French foreign investment authorities and permission from l'Autorité des marchés financiers. If the public tender offering is successful, the settlement of the acquisition is expected to take place early in calendar 2018.

On October 25, 2017, we modified certain credit facilities whereby existing lines of credits, that provided advances up to CA\$4.8 million (US\$3.8 million) and up to US\$6.0 million for operating purposes, were cancelled and replaced by credit facility of CA\$28.9 million (US\$23.1 million) mainly for the acquisition of the remaining shares of Astellia under the public tender offer.

## 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 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 optical testing in terms of global market share and have deployed the largest active, probe-based service assurance solution worldwide.

We target high-growth market opportunities related to increasing bandwidth and improving quality of experience on network infrastructures: 5G and Internet of Things (IoT), 4G/LTE (long-term evolution), wireless backhaul, small cells and distributed antenna systems (DAS), 400G and 100G network upgrades as well as 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, radio frequency (RF) test technologies for fiber-based radio access networks (RANs), automated network topology

discovery software and optical test equipment for lab and research applications.

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We launched 16 new products and/or major enhancements in fiscal 2017, addressing four key technology areas: fiber, Cloud, network virtualization and 5G. New product introductions included a 400 Gbit/s optical transport test solution for the lab and manufacturing markets; an automated inspection probe for testing multi-fiber connectors in data centers and radio access networks; a software-based solution, Universal Virtual Synch, enabling communications service providers to accurately and cost-effectively measure network latency; and optical RF over OBSAI (open base station architecture initiative) link test capabilities to complement optical RF over CPRI (common public radio interface) test technology for centralized radio access networks.

### Industry Background

Market conditions continued to improve in fiscal 2017 as CSPs deployed fiber deeper in their networks and at higher speeds to address growing Internet usage, proliferation of smart phones and tablets, and explosion in videos services. As such, the 100G optical investment cycle moved into metropolitan networks and data centers from long-haul networks. With the advent of new technologies like 5G wireless and Internet of Things (IoT), CSPs also increased spending on front-haul and backhaul networks to support the ultra-high speeds and low-latency requirements of tomorrow's network infrastructures. The transition towards virtualized network functions, however, did not take full flight as CSPs grappled with the complex architectures required to manage hybrid networks, both physical and virtualized.

These market drivers within the telecommunications industry in 2017 were affected by consolidation issues among large CSPs in the Americas, slowing growth in the Asia-Pacific region, especially China, and a mixed economic environment in Europe, Middle East and Africa (EMEA).

### 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, webscale companies and NEMs must make considerable investments to transform their network infrastructures.

Our growth strategy focuses on internal investments and acquisitions in four key technology areas: fiber, the Cloud, network virtualization and 5G.

First, fiber is being deployed everywhere, supporting 1G data transmission rates in the home, 100G in Metro links and data centers, and even 400G in lab environments. As the market leader in optical and high-speed transport testing, EXFO will continue to leverage the 100G investment cycle. We also believe we are well positioned for the next wave of customer spending with a commercially available 400G test solution and high-end optical instruments from the recent Yenista Optics acquisition.

Second, the Cloud. EXFO is helping webscale companies deliver reliable cloud services with a dedicated test offering for inside and outside their data centers. For interconnecting data centers, our 100G test solutions ensure smooth fiber deployments and quality of service. Inside data centers, solutions like our new automated multifiber inspection probe are significantly improving efficiency and reducing operating expenses.

Third, network virtualization. As telecom networks are increasingly becoming virtualized to increase service agility and save on costs, EXFO has taken the lead to enable a virtualized world. We have designed virtual verifiers that are released on generic, white-label servers alongside virtual network functions. In 2017, we evolved from a proof-of-concept to commercial deployment phase for our virtual monitoring solutions. We also acquired real-time network topology discovery technology from Ontology Systems to complement our active service assurance offering.

Ontology Systems' software uses semantic searches to build real-time views of network services and their related elements. This mapping is essential for automated root cause analysis, especially because networks can change on the fly in a virtualized environment.



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Finally, 5G represents the next technology milestone for mobile networks. CSPs are investing heavily in fiber, fronthaul, and backhaul network initiatives to get prepared for 5G mobility. Early in fiscal 2017, we acquired from Absolute Analysis optical RF technology for testing fiber-based mobile networks. These solutions are critical for analyzing RF interference issues in fiber to the antenna, distributed antenna systems, remote radio heads and baseband units that support 4G/LTE and upcoming 5G networks.

We are also in the process of acquiring Astellia, a leading provider of network and subscriber intelligence for mobile operators. Should this friendly takeover bid be successful, we believe it would allow EXFO to strengthen its service assurance offering with passive wireless monitoring, rich subscriber analytics and professional services. Equally important, we believe it would provide EXFO with a strong foothold with global mobile operators, who are investing in high-speed, low-latency 5G wireless infrastructures.

### 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 2017, our top customer accounted for 10.1% of our sales and our top three customers represented 18.4%. In comparison, our top customer accounted for 7.1% of sales and our top three customers represented 15.6% in 2016, while our top customer accounted for 7.1% of sales and our top three customers represented 14.4% in 2015.

### Products

We offer an extensive range of wireline and wireless test, service assurance and analytics solutions for the global telecommunications industry. We believe our success has been largely predicated on our core expertise in developing test equipment for optical networks. Over the years, we have completed acquisitions in adjacent markets including copper, wireless and optical RF testing, service assurance, real-time network topology discovery and analytics.

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.

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Our field-test platforms, namely the FTB-1 Pro Platform, FTB-1 Platform, FTB-2 Pro Platform, FTB-4 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.

Our FTB-2 Pro 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.

The FTB-4 Pro, the latest addition to our platform family, supports as many as four modules for tests in high-speed networks, data centers and R&D labs. It provides field technicians with a combination of 400 Gbit/s commissioning, turn-up and troubleshooting tools on a single platform for both transport and advanced dispersion testing.

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 five 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 wireless node (EPC, IMS) functional and network 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.

In addition, we provide optical radio frequency (RF) test equipment for analyzing RF interference issues in fiber to the antenna, distributed antenna systems, remote radio heads and baseband units that support 4G/LTE and upcoming 5G networks.

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### 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 virtualized solutions. The EXFO Worx solution offers a variety of software-based probes, enabling the interworking with virtualized network architectures and functions.

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:

- Layer 2-7 service performance monitoring and analysis for business and residential services;
- mobile backhaul and metro Ethernet service activation and assurance;
- IP/MPLS core monitoring and analysis;
- IP video service assurance;
- advanced data correlation and analysis engine with comprehensive northbound APIs;
- 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 addition to our service assurance offering, we provide complementary root-cause analysis solutions to help service providers troubleshoot network performance and quality of service issues.

### Products for Network Equipment Manufacturers (NEMs)

#### Wireline Test Equipment

Our network equipment manufacturer (NEM) solutions, mainly built around our 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. In March 2017, we introduced a 400G test solution for the LTB-8 platform that is dedicated to the lab and manufacturing markets.

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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 as well as high-end test equipment for labs and research facilities.

### 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, Pune, India and London, UK. Gross research and development expenditures totaled \$53.1 million in fiscal 2017 compared to \$47.9 million in 2016 and \$50.1 million in 2015.

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 combined with an Agile methodology. 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.

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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.

The Agile methodology allows for software development to be done in small increments with constant validation with lead customers. Efficient execution is done through collaborative teams called SCRUM team ensuring that each increment is fully tested and validated.

### 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 a direct sales force covering strategic accounts in EMEA and Asia-Pacific and distribution partners for smaller customers from lower revenue-generating regions.

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 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 our chief executive officer (CEO), 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.

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.

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Sales to customers in the Americas represented 55% of our sales in fiscal 2017, while sales to customers in EMEA and Asia-Pacific accounted for 26% and 19% of our sales, respectively. In comparison, the Americas, EMEA and Asia-Pacific accounted for 55%, 25% and 20% of our sales in 2016, respectively, and 54%, 26% and 20% in 2015, respectively.

### Product Management, Marketing/Communications and Global Services

#### Product Management

All product management duties fall under the leadership of our CEO, who is supported by two vice-presidents 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

Likewise, all marketing and communications activities fall under the leadership of our CEO. Our marketing-communications team, which mainly consists of a director, group managers, project managers, marketing writers, translators and graphic artists, supports our product management team by producing marketing and corporate documentation in-house. Literature includes specification sheets, application notes, product catalogues, advertising copy and an electronic corporate newsletter. This Marketing-Communications team also provides the 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 engaging with key industry analysts and media as well as for field marketing, campaign management and digital marketing activities.

#### Global Services

EXFO's Global Services operation 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;
- 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;

Technical Support – Provide post-sales technical support to Test & Measurement product end-users, by providing software fixes and upgrades, troubleshooting malfunction or wrong usage of equipment and suggesting ways to improve equipment productivity and performance.

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- 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 125,000 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.

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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 in telecommunications are highly competitive and subject to rapid change because 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.



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Main competitors in the test equipment environment include global suppliers like Anritsu Corporation, Fortive Corporation (Fluke Networks), and Viavi Solutions, as well as other players such as AFL Noyes, Keysight (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, Keysight (IXIA), NetScout Systems, Inc., Radcom, Spirent Communications plc and Viavi Solutions. 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, 2017, we had 1,577 full-time employees compared to 1,551 and 1,499 for the same periods in 2016 and 2015, respectively. Our workforce as of November 1, 2017 included 341 employees in manufacturing, 636 employees in research and development, and 600 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 interference (EMI) 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-ionizing 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 Innovation, Science and Economic Development 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 and Wireless products 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.

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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. as well as other foreign (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 to 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, 2017, our records indicated that we held the following portfolio of utility patents: 75 active granted US patents, 50 granted or validated patents in countries of the European Union, 8 patents in Canada, 15 patents in China, and 7 patents in other jurisdictions. In addition, we have 21 utility patent applications (including provisional applications) pending in the US, 26 patent applications at the European Patent Office or directly entered at the national patent office of an EU member country, 3 applications in Canada, 14 applications in China and 7 applications in other countries. The expiration dates of our active issued patents range from 2018 to 2037, with no significant active patent expiring in the near future.

Our records also indicated that, as of August 31, 2017, we held 26 active granted design patents, as well as 4 pending design patent applications, in the United States and several other international jurisdictions.

We consider seven of our inventions for which patents either are 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;

a method for determining the optical signal-to-noise ratio on polarization-multiplexed signals used in high-bandwidth DWDM optical networks by employing an optical spectrum analyzer. This invention employs a reference trace acquired with one channel being turned off. This invention is a key value-added option to our FTB/IQS-5240S-P and FTB/IQS-5240BP series of optical spectrum analyzers;

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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.

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C. Organizational Structure

As of November 1, 2017, 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.

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## 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), 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, 2017.

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 95%	Owned
400 Godin Avenue Quebec (Quebec) G1M 2K2	Occupied for research and development, customer services, repair/calibration services, manufacturing, management and administration	(1)	129,000 85%	Owned
2500 Alfred-Nobel Montreal (Quebec) H4S 2C3	Occupied for research and development, management and administration		75,000 70%	Owned
2500 Alfred-Nobel Montreal (Quebec) H4S 2C3	Leased to a third party		10,000 100%	Owned
2500 Alfred-Nobel Montreal (Quebec) H4S 2C3	Available for rent		40,000 0%	Owned
160 Drumlin Circle Concord (Ontario) L4K 3E5	Occupied for research and development, product management and administration		23,500 40%	Owned

250 Apollo Drive Chelmsford, MA 01824 United States	Occupied for research and development, manufacturing, management and administration	25,400 75%	Leased
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(1)Including the warehouse space. Premises without the warehouse are approximately 115,000 square feet.



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Location	Use of Space	Square Footage	% of Utilization	Type of Interest
4 rue de Louis de Broglie Lannion 22300 France	Occupied for research and development, management and administration	24,800	50%	Leased
Phoenix Yard 65-69 Kings Cross Raod London WC1X 9LW United Kingdom	Occupied for research and development, management and administration	2,423	100%	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	85%	Leased
3 <sup>rd</sup> 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	85%	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 55% Leased

Item 4A. Unresolved Staff Comments

Not applicable.

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Item 5. Operating and Financial Review and Prospects

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 to 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; our ability to successfully integrate businesses that we acquire; capacity to adapt our future product offering to future technological changes; limited visibility with regard 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; 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, on Form 20-F. 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.

The following discussion and analysis of financial condition and results of operations is dated November 24, 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 (NEMs) 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: 5G, Internet of Things (IoT), 4G/LTE (long-term evolution), wireless backhaul, small cells and distributed antenna systems (DAS), 100G and 400G network upgrades, as well as fiber-to-the-home (FTTH)/fiber-to-the-curb (FTTC)/fiber-to-the-node (FTTN) deployments.



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Our success has been largely predicated on our core expertise in developing test equipment for fixed 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 can 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 have expanded our product portfolio into fiber monitoring, service assurance for next-generation IP (Internet protocol) networks and test equipment for 2G, 3G, 4G/LTE and soon 5G mobile networks. Our fiber monitoring solution leverages EXFO's expertise and market leadership in optical time domain reflectometry (OTDR) by using them as remote test units (RTUs) to monitor an optical plant 24 hours per day, seven days per week. As such, this fiber monitoring solution proactively detects any fiber degradation or locates any fiber cut to optimize quality of service along long-haul, metro and access networks. Our service assurance solution, called the Brix System, is a probe-based hardware and software offering that delivers 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, analytics software and network discovery topology 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 fixed and mobile networks.

Our mobile network portfolio mainly consists of network simulators and optical radio frequency (RF) test solutions. 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 mobile networks and services are deployed. Our optical RF test solutions are dedicated to tuning up and troubleshooting fiber-based mobile networks. These solutions are critical for locating and analyzing RF interference issues in FTFA, DAS, remote radio heads and baseband units that support 4G/LTE and upcoming 5G networks. These software applications can be combined with optical and Ethernet modules in our FTB-1 Pro platform to create an all-in-one test solution for cell technicians and maintenance engineers.

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

We have a staff of approximately 1,600 people in 25 countries, supporting more than 2,000 customers 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 six main research and development expertise centers in Boston, Toronto, Montreal, Quebec City, Oulu and London, supported by a software development center in India.

We launched 16 new products and/or major enhancements in fiscal 2017, addressing four key technology areas: fiber, Cloud, network virtualization and 5G. New product introductions included a 400 Gbit/s optical transport test solution for the lab and manufacturing markets; an automated inspection probe for testing multi-fiber connectors in data centers and radio access networks; a software-based solution, Universal Virtual Synch, enabling communications service providers to accurately and cost-effectively measure network latency; and optical RF over OBSAI (open base station architecture initiative) link test capabilities to complement optical RF over CPRI (common public radio

interface) test technology for centralized radio access networks.

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Our sales increased 4.6% to \$243.3 million in fiscal 2017 compared to \$232.6 million in 2016. Bookings, which represent purchase orders received from customers, increased 4.8% to \$251.8 million in fiscal 2017 compared to \$240.3 million in 2016, for a book-to-bill ratio of 1.03.

Net earnings amounted to \$0.9 million, or \$0.02 per diluted share, in fiscal 2017, compared to \$8.9 million, or \$0.16 per diluted share, in fiscal 2016. Net earnings in fiscal 2017 included net expenses totaling \$10.6 million comprising \$2.7 million in after-tax amortization of intangible assets, \$1.4 million in stock-based compensation costs, \$4.8 million in after-tax restructuring charges, \$0.4 million in positive change in the fair value of the cash contingent consideration, \$1.1 million in after-tax acquisition-related costs, and a foreign exchange loss of \$1.0 million. Net earnings in fiscal 2016 included net expenses totaling \$2.3 million comprising \$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.

Adjusted EBITDA (net earnings before interest, income taxes, depreciation and amortization, stock-based compensation costs, restructuring charges, change in fair value of cash contingent consideration, and foreign exchange gain or loss) amounted to \$22.0 million, or 9.1% of sales, in fiscal 2017, compared to \$22.0 million, or 9.5% of sales, in 2016. As disclosed in the third quarter of fiscal 2017, expected adjusted EBITDA for fiscal 2017 amounted to approximately \$20 million, based on the midpoint of our earnings guidance for the fourth quarter. In the fourth quarter of fiscal 2017, actual sales were at the high end of our earnings guidance, which explains higher than expected Adjusted EBITDA for the whole fiscal year. See page 55 of this document for a complete reconciliation of adjusted EBITDA and IFRS net earnings.

On October 31, 2016, we acquired substantially all the assets of Absolute Analysis Inc. (Absolute), a privately held company located in the United States, supplying solutions for radio frequency testing of fiber-based radio access networks. The acquisition-date fair value of the total consideration amounted to \$8.5 million, and consisted of \$5.0 million in cash and the issuance of 793,070 subordinate voting shares valued at \$3.5 million. This acquisition was accounted for by applying the acquisition method as required by IFRS 3, "Business Combinations", and the requirements of IFRS 10, "Consolidated Financial Statements"; consequently, the fair value of the total consideration was allocated to the assets acquired and liabilities assumed based on management's estimate of their fair value as at the acquisition date. The results of operations of the acquired business have been included in our consolidated financial statements since October 31, 2016, being the date of acquisition. For additional disclosure on the accounting for the acquisition, see note 3 to our fiscal 2017 consolidated financial statements.

On March 2, 2017, we acquired all issued and outstanding shares of Ontology Partners Limited (Ontology), a privately held company located in the United Kingdom, a supplier of real-time network topology discovery and service-chain mapping. The acquisition-date fair value of the total consideration amounted to \$9.2 million and consisted of \$7.8 million in cash, net of Ontology's cash of \$2.2 million at the acquisition date, plus a cash contingent consideration based on certain sales volume of Ontology products over the 12-month period following the acquisition, valued at \$1.4 million at the acquisition date. This acquisition was accounted for by applying the acquisition method as required by IFRS 3, "Business Combinations", and the requirements of IFRS 10, "Consolidated Financial Statements"; consequently, the fair value of the total consideration transferred was allocated to the assets acquired and liabilities assumed based on management's estimate of their fair value as at the acquisition date. The results of operations of the acquired business were included in our consolidated financial statements since March 2, 2017, being the date of acquisition. For additional disclosure on the accounting for the acquisition, see note 3 to our fiscal 2017 consolidated financial statements.

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On March 29, 2017, we announced the appointment of Philippe Morin as our new Chief Executive Officer (CEO), effective April 1, 2017. Mr. Morin, who has more than 25 years of experience in the telecommunications industry, initially was named EXFO's Chief Operating Officer in November 2015. Prior to joining EXFO, Mr. Morin was Senior Vice-President of Worldwide Sales and Field Operations at Ciena. He also held senior management positions at Nortel Networks, including President of the Optical Networking Division. EXFO founder Germain Lamonde, who had fulfilled the roles of CEO and Chairman of the Board for more than 30 years, became Executive Chairman. He maintains leadership of EXFO's acquisition strategy and remains actively involved in defining EXFO's growth initiatives, customer outreach as well as corporate governance.

On May 2, 2017, we announced a restructuring plan to streamline our passive monitoring solutions portfolio, which falls under our protocol-layer product line. This plan resulted in severance expenses of \$4.1 million and inventory writeoffs of \$1.0 million, for total restructuring charges of \$5.1 million during the year. As a result of this plan, we expect annual savings of approximately \$9 million.

On September 8, 2017, we acquired 33.1% of all issued and outstanding shares of Astellia SA ("Astellia"), a publicly traded company on the NYSE Euronext Paris stock exchange. Astellia is a provider of network and subscriber intelligence enabling mobile operators to drive service quality, maximize operational efficiency, reduce churn and develop revenue. Its vendor-independent, real-time monitoring and troubleshooting solution is used to optimize networks end-to-end from radio to core. The acquisition-date fair value of the consideration transferred amounted to €8.6 million (US\$10.3 million) in an all-cash deal.

On October 2, 2017, we acquired all issued and outstanding shares of Yenista Optics S.A.S (Yenista), a privately held company located in France, a supplier of advanced optical test equipment for the research and development and manufacturing markets. Its portfolio includes benchtop optical spectrum analyzers, tunable lasers, tunable filters and passive optical component test systems for NEMs and optical component vendors. The acquisition-date fair value of the total consideration amounted to €9.4 million (US\$11.1 million) and consisted of €8.3 million (US\$9.7 million) in cash, net of Yenista's cash of €1.1 million (US\$1.4 million) at the acquisition date. This acquisition will be accounted for by applying the acquisition method as required by IFRS 3, "Business Combinations", and the requirements of IFRS 10, "Consolidated Financial Statements"; consequently, the fair value of the total consideration transferred will be allocated to the assets acquired and liabilities assumed based on management's estimate of their fair value as at the acquisition date. The results of operations of the acquired business will be included in our consolidated financial statements starting October 2, 2017, being the date of acquisition.

On October 10, 2017, we reached an agreement with Astellia to acquire Astellia's remaining shares at a share price of €10, for total consideration of €17.3 million (approximately US\$20 million) by way of a public tender offer. The public offering will open in late calendar 2017 or early 2018, subject to the approval of French foreign investment authorities and permission from l'Autorité des marchés financiers. If the public tender offering is successful, the settlement of the acquisition is expected to take place early in calendar 2018.

On October 25, 2017, we modified certain credit facilities whereby existing lines of credits, that provided advances up to CA\$4.8 million (US\$3.8 million) and up to US\$6.0 million for operating purposes, were cancelled and replaced by a credit facility of CA\$28.9 million (US\$23.1 million) mainly for the acquisition of the remaining shares of Astellia under the public tender offer.

## 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.

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In fiscal 2015 and 2016, no customer accounted for more than 10% of our sales, with our top customer representing 7.1% and 7.1% of our sales respectively. In fiscal 2017, our top customer represented 10.1% of our sales, with our top three customers representing 18.4% of our sales.

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 consolidated 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.

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 on research and development activities carried out in Canada. All related research and development tax credits are recorded as a reduction of gross research and development expenses.

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## RESULTS OF OPERATIONS

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

Consolidated statement of earnings data <sup>(1)</sup> :	Years ended August 31,					
	2017	2016	2015	2017	2016	2015
Sales	\$243,301	\$232,583	\$222,089	100.0%	100.0%	100.0%
Cost of sales <sup>(2)</sup>	94,329	87,066	85,039	38.8	37.4	38.3
Selling and administrative <sup>(3)</sup>	86,256	82,169	82,200	35.5	35.3	37.0
Net research and development	47,168	42,687	44,003	19.4	18.4	19.8
Depreciation of property, plant and equipment	3,902	3,814	4,835	1.6	1.6	2.2
Amortization of intangible assets	3,289	1,172	2,883	1.4	0.5	1.3
Change in fair value of cash contingent consideration	(383 )	–	–	(0.2 )	–	–
Interest and other (income) expense	303	(828 )	(155 )	0.1	(0.4 )	(0.1 )
Foreign exchange (gain) loss	978	(161 )	(7,212 )	0.4	–	(3.2 )
Unusual charge <sup>(3)</sup>	–	–	603	–	–	0.3
Earnings before income taxes	7,459	16,664	9,893	3.0	7.2	4.4
Income taxes	6,608	7,764	5,036	2.7	3.4	2.2
Net earnings for the year	\$851	\$8,900	\$4,857	0.3 %	3.8 %	2.2 %
Basic net earnings per share	\$0.02	\$0.17	\$0.09			
Diluted net earnings per share	\$0.02	\$0.16	\$0.08			
Other selected information:						
Gross margin before depreciation and amortization <sup>(4)</sup>	\$148,972	\$145,517	\$137,050	61.2 %	62.6 %	61.7 %
Research and development data:						
Gross research and development	\$53,124	\$47,875	\$50,148	21.8 %	20.6 %	22.6 %
Net research and development	\$47,168	\$42,687	\$44,003	19.4 %	18.4 %	19.8 %
Restructuring charges included in:						
Cost of sales	\$1,697	\$–	\$290	0.7 %	– %	0.1 %
Selling and administrative expenses	\$1,150	\$–	\$586	0.5 %	– %	0.3 %
Net research and development expenses	\$2,232	\$–	\$761	0.9 %	– %	0.3 %
Adjusted EBITDA <sup>(4)</sup>	\$22,041	\$22,039	\$13,779	9.1 %	9.5 %	6.2 %
Consolidated balance sheet data <sup>(1)</sup> :						
Total assets	\$259,241	\$237,793	\$217,478			

(1) Consolidated statement of earnings and balance sheet data has been derived from our consolidated financial statements prepared according with IFRS, as issued by the IASB, except for non-IFRS measures <sup>(4)</sup>.

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

(3) Selling and administrative is exclusive of a one-time charge relating to an unusual bad debt in fiscal 2015.

(4) Refer to page 55 for non-IFRS measures.



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## 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,		
	2017	2016	2015
Physical-layer product line	\$ 161,864	\$ 151,910	\$ 144,060
Protocol-layer product line	81,905	83,324	80,591
	243,769	235,234	224,651
Foreign exchange losses on forward exchange contracts	(468 )	(2,651 )	(2,562 )
Total sales	\$ 243,301	\$ 232,583	\$ 222,089

## Bookings

	Years ended August 31,		
	2017	2016	2015
Physical-layer product line	\$ 165,886	\$ 155,320	\$ 144,673
Protocol-layer product line	86,348	87,631	80,948
	252,234	242,951	225,621
Foreign exchange losses on forward exchange contracts	(468 )	(2,651 )	(2,562 )
Total bookings	\$ 251,766	\$ 240,300	\$ 223,059

## Fiscal 2017 vs. 2016

In fiscal 2017, our sales increased 4.6% to \$243.3 million, compared to \$232.6 million in 2016, while our bookings increased 4.8% year-over-year to \$251.8 million in 2017 from \$240.3 million in 2016, for a book-to-bill ratio of 1.03 (1.03 in 2016).

## Sales

In fiscal 2017, we made progress in sales (6.6%) for our physical-layer product line (optical and copper testing), mainly in the Americas, compared to 2016, mostly due to our leadership position in portable optical testing, a 100G investment cycle among CSPs in this region, and growing business with web-scale operators for their data center interconnects. In addition, in fiscal 2017, we benefited to some extent from calendar year-end budget spending on the part of some CSPs in the Americas, versus a nominal amount in 2016. To a lesser extent, sales of our physical-layer product line increased in Europe, Middle East and Africa (EMEA) despite the decrease in the average value of the British pound and the euro compared to the US dollar year-over-year, which had to some extent a negative impact on our sales and bookings to this region in 2017 compared to 2016. In the Asia-Pacific (APAC) region, sales of our physical-layer product line decreased year-over-year in fiscal 2017, especially in China, mainly due to delayed investments from NEMs.



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In fiscal 2017, sales of our protocol-layer product line decreased 1.7% year-over-year, mainly in the Americas, despite the positive impact of newly acquired Absolute. In fiscal 2016, we also had recognized a large order from a North American Tier-1 network operator for our EXFO Xtract solution, and we did not close such large order in fiscal 2017. In addition, the streamlining of our passive monitoring product line in fiscal 2017 had a negative impact on our sales in 2017 compared to 2016. Furthermore, in fiscal 2016, our transport and datacom product line (a subgroup within our protocol-layer product line) benefited, to a greater extent, from the 100G investment cycle, especially in the United States, compared to 2017. Otherwise, sales of our protocol-layer product line increased in the EMEA year-over-year, mainly due to the positive impact of recently acquired Ontology, despite the decrease in the average value of the British pound and the euro compared to the US dollar year-over-year. Sales of our protocol-layer product line were flat overall in APAC year-over-year in fiscal 2017.

Finally, in fiscal 2017, we reported lower losses on our forward exchange contracts, which had a \$2.2 million positive impact on our total sales year-over-year.

Overall, the year-over-year increase in total sales in fiscal 2017 comes from the Americas, mainly in Canada and to a lesser extent in the United States, and from the EMEA. On the other hand, sales to APAC slightly decreased year-over-year, as sales to China decreased year-over-year after a robust performance in 2016.

## Bookings

In fiscal 2017, we reported a year-over-year increase in total bookings, which mainly comes from the Americas for our physical-layer product line and from the EMEA for our protocol-layer product line, despite negative currency impacts from the British pound and the euro.

In fiscal 2017, our physical-layer product line reported significant year-over-year increase in bookings in the Americas as we benefited from 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, as mentioned earlier, in fiscal 2017, we have benefited to some extent from calendar year-end budget spending on the part of some CSPs in the Americas, versus a nominal amount in 2016. Otherwise, bookings for our physical-layer product line were flat in the EMEA and APAC year-over-year. The EMEA was to some extent negatively impacted by the decrease in the average value of the British pound and the euro compared to the US dollar year-over-year. In APAC, bookings were negatively impacted by the decrease in bookings in China, mainly due to delayed investments from NEMs, offset by traction gained in the rest of APAC.

Our protocol-layer product lines reported decrease in total bookings in fiscal 2017 compared to 2016. Most of the decrease comes from the Americas, despite the positive impact our newly acquired Absolute and Ontology businesses, as our transport and datacom product line (a subgroup within our protocol-layer product line) did not reach the same level of orders from the 100G investment cycle, especially in the United States compared to 2016. In addition, in 2016, we received a large order from a North American Tier 1 network operator for our EXFO Xtract solution, and we did not close such large order in 2017. Otherwise, we made progress in bookings in the EMEA thanks to the recent acquisition of Ontology. In addition, in fiscal 2017, bookings in APAC slightly increased year-over-year. Finally, the streamlining of our passive monitoring product line in fiscal 2017 negatively impacted the bookings of our protocol-layer product line compared to 2016.

## 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).



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### Sales

In fiscal 2016, despite year-over-year sales increase, we suffered from a 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 (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 is mainly due to our leadership position in portable optical testing and a 100G investment cycle among CSPs, especially in the United States. This 100G investment cycle also benefited our transport and datacom product line (a subgroup 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 subgroup 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 the United States, and from APAC, namely China. Both the United States and China delivered a 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. The United Kingdom, however, delivered a strong sales increase in 2016, after a steady decline in sales over the last couple of years.

### Bookings

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. This has been amplified with the recent acquisition of Ontology.

### Sales by geographic region

The following table summarizes sales by geographic region:

Years ended August  
31,

	2017	2016	2015
Americas	55 %	55 %	54 %
EMEA	26	25	26
APAC	19	20	20
	100%	100%	100%

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### GROSS MARGIN BEFORE DEPRECIATION AND AMORTIZATION

(non-IFRS measure – refer to page 55 of this document)

Gross margin before depreciation and amortization (gross margin) amounted to 61.2%, 62.6% and 61.7% of sales in fiscal 2017, 2016 and 2015 respectively.

#### Fiscal 2017 vs. 2016

In fiscal 2017, gross margin included \$1.7 million or 0.7% of sales in restructuring charges for severance expenses and inventory writeoffs. Excluding those charges, gross margin would have amounted to 61.9% of sales in fiscal 2017, slightly lower (0.7%) compared to 2016.

In fiscal 2017, our gross margin (excluding the impact of our restructuring charges) was unfavorably affected by product mix within both product lines compared to 2016. In particular, in fiscal 2016, we recognized a large order with a Tier-1 network operator for our EXFO Xtract solution, which had a positive impact on our gross margin during that year as this product delivers strong margins. We did not have such high-margin deals this year. In addition, in fiscal 2017, 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 (protocol-layer products have a richer software content), which had a negative impact on our gross margin year-over-year.

However, in fiscal 2017, we recorded in our sales lower foreign exchange losses on our forward exchange contracts, compared to 2016, which contributed to increase our gross margin by 0.3% year-over-year.

In addition, in fiscal 2017, we recorded lower inventory writeoffs compared to 2016, which contributed to increase our gross margin by an additional 0.2% year-over-year.

#### 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 writeoffs 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 by 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.

### SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses amounted to \$86.3 million, \$82.2 million and \$82.2 million for fiscal 2017, 2016 and 2015 respectively. As a percentage of sales, selling and administrative expenses amounted to 35.5%, 35.3% and 37.0% for fiscal 2017, 2016 and 2015 respectively.



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### Fiscal 2017 vs. 2016

In fiscal 2017, our selling and administrative expenses increased \$4.1 million year-over-year due to restructuring charges of \$1.2 million, additional expenses following the acquisitions of Absolute and Ontology and to support the growth of our business, inflation, salary increases, as well as one-time acquisition-related costs of \$1.1 million following the recent business acquisitions.

Excluding restructuring charges and acquisition-related costs for business combinations, which represent 0.9% of sales, our selling and administrative expenses would have represented 34.6% of sales, lower compared to 35.3% of sales in 2016.

### 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, as well as by 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.

## RESEARCH AND DEVELOPMENT EXPENSES

### Gross research and development expenses

Gross research and development expenses totaled \$53.1 million, \$47.9 million and \$50.1 million for fiscal 2017, 2016 and 2015 respectively. As a percentage of sales, gross research and development expenses amounted to 21.8%, 20.6% and 22.6% for fiscal 2017, 2016 and 2015 respectively, while net research and development expenses accounted for 19.4%, 18.4% and 19.8% of sales for these respective years.

### Fiscal 2017 vs. 2016

In fiscal 2017, our gross research and development expenses increased \$5.2 million year-over-year due to restructuring charges of \$2.2 million, additional expenses following the acquisitions of Absolute and Ontology and to support the growth of our business, inflation, salary increases, as well as a shift in the mix and timing of research and development projects, compared to 2016.

Excluding restructuring charges, which represent 0.9% of sales, our gross research and development expenses would have represented 20.9% of sales, almost flat compared to 20.6% of sales in 2016.

### 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.

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As a 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.

### 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 \$6.0 million, \$5.2 million and \$6.1 million for fiscal 2017, 2016 and 2015 respectively. As a percentage of gross research and development expenses, tax credits and grants reached 11.2%, 10.8% and 12.3% for fiscal 2017, 2016 and 2015 respectively.

#### Fiscal 2017 vs. 2016

The increase in our tax credits and grants in fiscal 2017, compared to 2016, mainly results from the increase in our gross research and development expenses year-over-year.

In fiscal 2017, the increase in tax credits and grants as a percentage of gross research and development expenses, compared to 2016, mainly comes from the shift in mix of eligible projects.

#### 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.

### DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Depreciation of property, plant and equipment totaled \$3.9 million, \$3.8 million and \$4.8 million for fiscal 2017, 2016 and 2015 respectively.

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, we recorded intangible assets primarily consisting of core technology and customer relationships. In addition, intangible assets include software. These intangible assets resulted in amortization expenses of \$3.3 million, \$1.2 million and \$2.9 million for fiscal 2017, 2016 and 2015 respectively.

Fiscal 2017 vs. 2016

The increase in our amortization expense in fiscal 2017, compared to 2016, was due to the acquisitions of Absolute (October 31, 2016) and Ontology (March 2, 2017).

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## Fiscal 2016 vs. 2015

The decrease in our amortization expense 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 expense is incurred in this currency and we report our results in US dollars.

## FOREIGN EXCHANGE GAIN (LOSS)

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 loss of \$1.0 million in fiscal 2017 compared to gain of \$0.2 million in 2016 and \$7.2 million in 2015.

## Fiscal 2017

In fiscal 2017, the period-end value of the Canadian dollar increased versus the US dollar compared to the previous year-end, which resulted in a foreign exchange loss of \$1.0 million during the year. The period-end value of the Canadian dollar increased 4.6% versus the US dollar to CA\$1.2536 = US\$1.00 in fiscal 2017 compared to CA\$1.3116 = US\$1.00 at the end of the previous year. In fiscal 2017, the average value of the Canadian dollar versus the US dollar was CA\$1.3212 = US\$1.00.

## 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 CA\$1.3116 = US\$1.00 in fiscal 2016 compared to CA\$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.

## 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.

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 our cost of sales and operating items are denominated in

Canadian dollars, euros, Indian rupees and British pounds and we report our results in US dollars. 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. In fiscal 2017, overall, there were no significant changes in the average value of our main currencies compared to the US dollar, which had no significant impact on our financial results during the year compared to 2016.

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### INCOME TAXES

In fiscal 2017, we reported income tax expenses of \$6.6 million on earnings before income taxes of \$7.5 million, compared to income tax expenses of \$7.8 million on earnings before income taxes of \$16.7 million in 2016 and income tax expenses of \$5.0 million on earnings before income taxes of \$9.9 million in 2015.

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, a significant portion of our restructuring charges recorded in fiscal 2017 related to these subsidiaries, and acquisition-related costs for business combinations are non-deductible for tax purposes. In addition, we had some other non-deductible losses and expenses, such as stock-based compensation costs. However, a significant portion of our foreign exchange gain or loss was a result of the translation of financial statements of our foreign subsidiaries from their local currency to the functional currency, and was therefore non-taxable or deductible. 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 19 to our consolidated financial statements for a full reconciliation of our income tax provision.

### LIQUIDITY AND CAPITAL RESOURCES

#### Cash Requirements and Capital Resources

As at August 31, 2017, cash and short-term investments totaled \$39.2 million, while our working capital was at \$74.4 million. Our cash and short-term investments decreased \$8.1 million in fiscal 2017, compared to 2016. In fiscal 2017, we made cash payments of \$12.8 million for the acquisitions of Absolute and Ontology, \$7.2 million for the purchase of capital assets and \$1.5 million for the repayment of the long-term debt assumed as part of the Ontology acquisition. Otherwise, in fiscal 2017, we generated \$12.9 million in cash flows from operating activities and we recorded an unrealized foreign exchange gain on our cash and short-term investments of \$0.5 million. This unrealized foreign exchange gain resulted from the translation, into 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.

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, and for potential acquisitions. As at August 31, 2017, cash balances included an amount of \$6.7 million that bears interest at an annual rate of 1.2%.

We believe that our cash balances and short-term investments of \$39.2 million will be sufficient to meet our liquidity and capital requirements for the foreseeable future, including the payment of \$10.3 million for the 33.1% investment in Astellia, the payment of \$9.7 million for the acquisition of Yenista, and any potential payment for the cash contingent consideration related to the acquisition of Ontology. In addition, on October 25, 2017, to finance the potential acquisition of the remaining share of Astellia under the public tender offer, we modified certain credit facilities whereby existing lines of credits, that provided advances up to CA\$4.8 million (US\$3.8 million) and up to US\$6.0 million for operating purposes, were cancelled and replaced by a credit facility of CA\$28.9 million (US\$23.1 million). Finally, we have unused available lines of credit totaling \$6.2 million for working capital and other general corporate purposes, and unused lines of credit of \$25.7 million for foreign currency exposure related to

forward exchange contracts.

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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, 2017, our commitments under operating leases and license agreements amount to \$3.5 million in 2018, \$2.2 million in 2019, \$2.1 million in 2020, \$2.0 million in 2021 and \$3.0 million in 2022 and after, for total commitments of \$12.8 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 \$12.9 million in fiscal 2017, compared to \$24.4 million in 2016 and \$6.5 million in 2015.

#### Fiscal 2017 vs. 2016

Cash flows provided by operating activities in fiscal 2017 were attributable to the net earnings after items not affecting cash of \$13.0 million, slightly offset by the negative net change in non-cash operating items of \$0.1 million; this was mainly due to the positive effect on cash of the decrease of \$4.0 million in our accounts receivable due to the timing of receipts and sales during the year and by the positive effect on cash of the decrease of \$0.9 million in our inventories due to improved inventory turns during the year; these positive effects on cash were more than offset by the negative effect on cash of the \$2.4 million increase in our income tax and tax credits recoverable due to tax credits earned during the year not yet recovered, the negative effect on cash of the increase of \$0.9 million in our prepaid expenses due to timing of payments during the year, and by the negative effect on cash of the decrease of \$1.7 million in our accounts payable, accrued liabilities and provisions due to timing of purchases and payments during the year.

#### 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 positive effect on cash of 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 positive effect on cash of 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.

#### Investing activities

Cash flows used by investing activities amounted to \$16.5 million in fiscal 2017, compared to \$7.0 million in 2016 and \$2.3 million in 2015.



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### Fiscal 2017

In fiscal 2017, we made cash payments of \$12.8 million and \$7.2 million respectively for the acquisitions of Absolute and Ontology and the purchase of capital assets. Otherwise, we disposed (net of acquisitions) of \$3.5 million worth of short-term investments.

### 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.

### Financing activities

Cash flows used by financing activities amounted to \$1.5 million in fiscal 2017, compared to \$1.6 million in 2016 and \$25.5 million in 2015.

### Fiscal 2017

In fiscal 2017, we repaid the long-term debt of \$1.5 million assumed as part of the acquisition of Ontology.

### 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.

## 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, 2017, we held forward exchange contracts to sell US dollars for Canadian dollars and Indian rupees at various forward rates, which are summarized as follows:





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## US dollars – Canadian dollars

Expiry dates	Contractual amounts	Weighted average contractual forward rates
September 2017 to August 2018	\$18,300,000	1.3407
September 2018 to August 2019	10,900,000	1.3426
Total	\$29,200,000	1.3414

## US dollars – Indian rupees

Expiry dates	Contractual amounts	Weighted average contractual forward rates
September 2017 to August 2018	\$3,400,000	69.49
September 2018 to February 2019	1,600,000	67.26
Total	\$5,000,000	68.78

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 \$0.1 million and net gains of \$2.3 million as at August 31, 2016 and 2017 respectively. The US dollar – Canadian dollar year-end exchange rate was CA\$1.2536 = US\$1.00 as at August 31, 2017.

## SHARE CAPITAL

As at November 13, 2017, EXFO had 31,643,000 multiple voting shares outstanding, entitling to 10 votes each and 23,224,396 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, 2017, our off-balance sheet arrangements consisted of letters of guarantee amounting to \$0.6 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, 2017, we did not have interests in any structured entities.



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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 assets and liabilities acquired in business combinations, 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.

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As at August 31, 2017, we had deferred income tax assets in the consolidated balance sheet in the amount of \$3.2 million for operating losses in the United States. To recover these deferred income tax assets, we need to generate approximately \$9.5 million in pre-tax earnings in the United States, and to do so over the estimated recovery period of three 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 20-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, 2017, our non-refundable research and development tax credits recognized in the consolidated balance sheet amounted to \$40.5 million. To recover these non-refundable research and development tax credits, we need to generate approximately \$262 million (CA\$328 million) in pre-tax earnings at the Canadian federal level and approximately \$12 million at the Canadian provincial level. To generate \$262 million in pre-tax earnings at the Canadian federal level over the estimated recovery period of 15 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 20-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 2017, we performed our annual goodwill impairment test for all CGUs.

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 CGUs:

EXFO CGU	\$ 13,772,000
Brix CGU	13,878,000
Ontology CGU	7,427,000
Total	\$ 35,077,000

In performing the goodwill impairment review of our CGUs, we determined the recoverable amount of goodwill based on fair value less costs of disposal. In estimating the recoverable amount of our CGUs, we used a market approach, which is based on sales multiples within the range of 0.6 to 2.9 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 our CGUs.



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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 our overall market capitalization, after adjustment for a control premium and the adjustment to deduct the recoverable amount of the Brix and Ontology CGUs. Based on this calculation, we calculated a recoverable amount which resulted in an implied sales multiple that was within the 0.6 to 2.9 times range, as used in our market approach described above.

As at August 31, 2017, the recoverable amount for all CGUs exceeded their carrying value. The recoverable amount of EXFO CGU, Brix CGU and Ontology CGU would equal their carrying value using sales multiples of 0.7, 0.6 and 2.2 times sales respectively.

### (e)Purchase price allocation in business combinations

The fair value of the total consideration transferred in business combinations (purchase price) must be allocated based on the estimated fair value of acquired net assets at the date of acquisition. Allocating the purchase price requires management to make estimates and judgments to determine assets acquired and liabilities assumed, useful lives of certain long-lived assets and the respective fair value of assets acquired and liabilities assumed; this may require the use of unobservable inputs, including management's expectations of future revenue growth, operating costs and profit margins as well as discount rates.

#### i)Growth rates

The assumptions used are based on acquired companies' historical growth, expectations of future revenue growth, expected synergies as well as industry and market trends.

#### ii)Discount rate

The company uses a discount rate to calculate the present value of estimated future cash flows, which represents its weighted average cost of capital (WACC).

## 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.





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### 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 have performed an assessment to identify significant areas of impact, if any, between our current accounting treatment under IAS 18, "Revenue" and the new requirements of IFRS 15. Based on the assessments to date, we anticipate that the main areas of impact will relate to the allocation of the transaction price to the various performance obligations under the contracts, the timing of revenue recognition for sales arrangement that contain customer acceptance clauses, and the sale of licenses that provide customers with the "right to use" our intellectual property. We will adopt this new standard on September 1, 2018 using the modified retrospective method, with the cumulative effect of the initial application of the standard recognized as an adjustment to the opening balance of retained earnings as at the date of initial application. We will apply this standard retrospectively only to contracts that are not completed at the date of initial application.

### 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, that is 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.

### Foreign Currency Transactions and Advance Consideration

IFRIC 22, "Foreign Currency Transactions and Advance Consideration", was issued in December 2016. IFRIC 22 addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) and on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018. Early adoption is permitted. We will adopt this interpretation on September 1, 2018 and are currently assessing the impact that it will have on our consolidated financial statements.

### Uncertainty over Income Tax Treatments

IFRIC 23, "Uncertainty over Income Tax Treatments", was issued in June 2017. IFRIC 23 provides guidance on how to value uncertain income tax positions based on the probability of whether the relevant tax authorities will accept the company's tax treatments. A company is to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. We will adopt this interpretation on September 1, 2019 and are currently assessing the impact that it will have on our consolidated financial statements.

## CONTROLS

As described in Form 20-F/A filed on January 9, 2017, we concluded that EXFO's internal control over financial reporting was not effective as at August 31, 2016, as a result of the identification of a material weakness as we did not maintain sufficient controls over the trade accounts receivable ledger, which included a failure to maintain appropriate segregation of duties and a lack of supervisory review and monitoring of journal entries recorded to the trade accounts receivable ledger. See item 15(b) of Form 20-F/A filed on January 9, 2017 for more details on the impact of the material weakness on EXFO's financial reporting.

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In the second quarter of fiscal 2017, we completed the implementation of our remediation plans to address the material weakness, which included additional segregation of duties. As at August 31, 2017, we concluded, through testing, that these controls were operating effectively and that the material weakness was considered remediated as of that date.

## 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 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, stock-based compensation costs, restructuring charges, change in fair value of cash contingent consideration, unusual charge, and foreign exchange gain or loss.

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

## Adjusted EBITDA

	Years ended August 31,		
	2017	2016	2015
IFRS net earnings for the year	\$851	\$8,900	\$4,857
Add (deduct):			
Depreciation of property, plant and equipment	3,902	3,814	4,835
Amortization of intangible assets	3,289	1,172	2,883
Interest and other (income) expense	303	(828 )	(155 )
Income taxes	6,608	7,764	5,036
Stock-based compensation costs	1,414	1,378	1,295
Restructuring charges	5,079	–	1,637

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Change in fair value of cash contingent consideration	(383 )	–	–
Unusual charge	–	–	603
Foreign exchange (gain) loss	978	(161 )	(7,212 )
Adjusted EBITDA for the year	\$22,041	\$22,039	\$13,779
Adjusted EBITDA in percentage of total sales	9.1 %	9.5 %	6.2 %

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## 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, 2017.

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
LUC GAGNON St-Augustin-de-Desmaures, Quebec	Vice President, Manufacturing and Global Services
GERMAIN LAMONDE St-Augustin-de-Desmaures, Quebec	Executive Chairman of the Board
ANGELA LOGOTHETIS Bath, United Kingdom	Independent Director
CLAUDIO MAZZUCA LaSalle, Quebec	Vice President, Systems and Analytics
PHILIPPE MORIN Senneville, Quebec	Chief Executive Officer
PIERRE PLAMONDON Quebec City, Quebec	Chief Financial Officer and Vice President, Finance
BENOIT RINGUETTE Boischatel, Quebec	General Counsel and Corporate Secretary
MICHAEL SCHEPPKE Singapore, Singapore	Vice President, Sales — Asia-Pacific
	Independent Director

CLAUDE SÉGUIN  
Westmount, Quebec

WILLEM JAN TE NIET  
Harfsen, Netherlands

Vice President, Europe Middle East and Africa

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.

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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.

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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, Aspire Food Group, CPU and of the Fondation Martin Matte. Mr. Côté is also on the Consultative Committee of Medfar Solutions and serves on the Advisor Committee of Groupe Morneau. Mr. Côté is also acting as advisor to different companies' CEO's.

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.

Angela Logothetis has more than twenty-five (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 ten (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 New South Wales, Australia. She completed dual majors in accountancy and information technology.

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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 Executive Officer (CEO) of EXFO in April 2017. He has more than 25 years of experience in the telecommunications industry, and became EXFO's Chief Operating Officer (COO) in November 2015, leading the company's global sales leadership, market development, marketing and product strategy. Before joining EXFO, Mr. Morin was Senior Vice-President of Worldwide Sales and Field Operations at Ciena. He previously held senior leadership roles at Nortel Networks, including President of Metro Ethernet Networks and Vice-President and General Manager of Optical Networks. Philippe Morin holds a bachelor's degree in electrical engineering from Université Laval in Quebec City, Canada, and a master's degree in business (MBA) from McGill University in Montréal, 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.

Michael Schepcke 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 expanding sales coverage with channel partners. Michael holds a bachelor of science degree in electrical engineering from the University of Florida.



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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 Quebec from 1987 to 1992, in addition to Assistant Deputy Finance Minister in prior years. 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. He also serves on the board of directors of Fonds de solidarité FTQ, a trade union sponsored investments fund. 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.

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.

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.



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### 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, 2017.

The following is a discussion of the compensation arrangements with the Corporation's Executive Chairman, Chief Executive Officer ("CEO"), 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 Executive Chairman, CEO and CFO, the "Named Executive Officers" or "NEOs"). The NEOs for the financial year ended August 31, 2017 were Mr. Germain Lamonde (Executive Chairman), Mr. Philippe Morin (CEO), Mr. Pierre Plamondon (CFO and Vice-President, Finance), Mr. Willem Jan te Niet (Vice-President, Sales — Europe Middle East and Africa) and Mr. Dana Yearian (Vice-President, Sales — Americas). Mr. Lamonde stepped down as CEO as of April 1, 2017 and was nominated Executive Chairman of the Corporation. Mr. Morin was promoted from Chief Operating Officer of the Corporation to CEO of the Corporation as of April 1, 2017.

##### Members of the Human Resources Committee

During the financial year ended August 31, 2017, the Human Resources Committee was composed of:

- Mr. François Côté (Chairman)
- Mr. Pierre-Paul Allard
- Mr. Darryl Edwards (until January 10, 2017)
- Ms. Angela Logothetis (since January 11, 2017)
- 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. François Côté held a variety of executive positions, including president and chief executive officer, for approximately twenty (20) years. Mr. Côté also holds a Bachelor's degree in Industrial Relations. Ms. Angela Logothetis holds a Bachelor of Science degree, with first class

honors, in Business Information Technology. She completed dual majors in accountancy and information technology. She has more than twenty-five (25) years of international experience in the telecommunications industry. 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.

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## 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 Executive Chairman 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, 2016 to August 31, 2017, 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 Executive Chairman, the CEO and the 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, 2016 to November 1, 2017, 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, 2016 to November 1, 2017:

## Meeting      Main Activities of the Human Resources Committee

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;

Selection of New Board Members;

Annual Sales Force Achievement and Key staffing update;

Review and approval of the retirement policy of the Corporation;

Annual Review of the Human Resources Committee Charter;

Review of the Risk Assessment of Executive Compensation disclosure obligations.

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Meeting Main Activities of the Human Resources Committee

Executive Chairman role, transition and compensation;

Review and approval of the Short-Term Incentive Plan of some executive officers for the financial year started September 1, 2016, including the CEO objectives;

Employee Survey Update;

January 10, 2017, Review of the quarterly results under the Short-Term Incentive Plan for the financial year started September 1, 2016 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, 2016;

Global Compensation and Board Members Compensation Review;

Leadership program and Talent Management.

Review of the quarterly results under the Short-Term Incentive Plan for the financial year started September 1, 2016 and being part of the Short-Term Incentive Plan;

Succession Planning;

Executive Chairman role, transition and compensation;

March 29, 2017, Review of the Key Human Resources Initiatives;  
Nomination and Compensation of new CEO;

Update on the key initiatives following Employee survey;

Board Members Compensation and stock ownership;

Review of the Talent Management and Leadership program.

Review of the quarterly results under the Short-Term Incentive Plan for the financial year started September 1, 2016 and being part of the Short-Term Incentive Plan;

Board Members stock ownership;  
Update on Restructuring;

June 29, 2017, Update on the Global Compensation Review;

Update on the Management Structure Review;

Update on the Talent Management Review;  
Update on the key initiatives following Employee survey;

Review of the Key Human Resources Initiatives.

Review of the Business Performance Measures results for the financial year ended August 31, 2017;

Review of the Business Performance Measures for the financial year started September 1, 2017;

Review of the Short-Term Incentive Plan results for the financial year ended August 31, 2017;

Update on the Short-Term Incentive Plan for the financial year started September 1, 2017;

Review of the proposed salary scales and salary increases for the year started September 1, 2017;

Review of the compensation plans of executive officers for the financial year started September 1, 2017 being the Base Salary, the Short-Term Incentive Plan and the stock-based compensation delivered through the Long-Term Incentive Plan;

October  
11, 2017

Review and approval of the executive compensation section of the Management proxy circular for the financial year ended August 31, 2017;

Review and approval of the CEO and Executive Chairman objectives and compensation plan;

Key staffing update;

Annual Sales Force Achievement;

Annual Review of the Human Resources Committee Charter;

Review of the Risk Assessment of Executive Compensation disclosure obligations.

#### 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".

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For the financial year that ended on August 31, 2017, the Human Resources Committee retained the services of Willis Towers Watson to evaluate the market competitiveness of the compensation package that is currently offered to the external members of its Board of Directors. The compensation elements covered by the analysis were: annual board retainer, committee chair and member retainers, board and committee meeting fees and stock-based compensation. Willis Towers Watson's work included assistance in benchmarking, assessing potential gaps between the market and the external Board members' compensation levels and proposing potential changes to ensure alignment with the market and with the Corporation's compensation policy. With a few exceptions, Willis Towers Watson used the same compensation group to benchmark the external members of the Board of Directors as it used to benchmark executive compensation (as further described below).

For the financial year that ended on August 31, 2017, the Human Resources Committee also retained the services of Willis Towers Watson to evaluate the market competitiveness of the compensation package that is currently offered to its Chief Executive Officer and its Executive Chairman. 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, 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 analysis covered 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. 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, 2017, this practice continued, and certain compensation adjustments were made as have been made in previous years.

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 years that ended on August 31, 2016 and 2017, the Corporation also retained the services of Willis Towers Watson, Mercer, Eckler, Aon, Great Place to Work, Lee Hecht Harrison Knightsbridge, OPEX Conseils, SMA Transformation, SPB Organizational Psychology, RecrutXL Inc., and Xactly Corporation 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 and United Kingdom. The services provided by Eckler related to pension plan analysis, retirement policy, governance and communication to employees. The services provided by 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 related to outplacement services.

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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 and RecrutXL Inc. for assistance with employees' training. The Corporation consulted SPB Organizational Psychology for tests before promoting. The Corporation consulted Xactly Corporation for the software improvement with respect to commission calculation. 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, Aon, Great Place to Work, Lee Hecht Harrison Knightsbridge, Mercer, OPEX Conseils, SMA Transformation, SPB Organizational Psychology, RecrutXL Inc. and Xactly Corporation 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, 2016 and 2017 were as follows:

Type of Fee	Financial 2016 Fees	Percentage of Financial 2016 Fees	Financial 2017 Fees	Percentage of Financial 2017 Fees
Executive Compensation - Related Fees	CA\$28,734	14%	CA\$25,107	10%
All Other Fees	CA\$175,202	86%	CA\$230,417	90%
Total	CA\$203,936	100%	CA\$255,524	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.

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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

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 b) 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.



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.

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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 and in October 2017 the Corporation amended the Human Resources Committee Charter in order to specifically add the compensation review of the Executive Chairman.

### 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, 2017, 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, 2017, 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, 2017. 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 2017 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 2017 executive compensation program.

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## Base Salaries

In establishing the base salaries of senior officers, including the Executive Chairman of the board of directors and the 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, 2017 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, Executive Chairman	65.0%
Philippe Morin, CEO	51.0%
Pierre Plamondon, CFO and Vice President, Finance	45.0%
Willem Jan te Niet, Vice President, Sales — EMEA	67.0%
Dana Yearian, Vice President, Sales — Americas	90.0%

Short-Term Incentive Plan

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

$$\text{Salary} = \text{Base Salary} \times \text{Annual Incentive Target (\%)} \times \text{Business Performance Measures (\%)} \times \text{Individual Performance Measures (\%)}$$

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:

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Business Performance Measures <sup>(1)</sup>	Weight	Result in % of the Result of the Metrics Weight	
Consolidated revenues <sup>(2)</sup>	30%	14.66%	US\$243.3 million
Profitability <sup>(3)</sup>	45%	13.64%	US\$23.0 million
Quality <sup>(4)</sup>	15%	13.95%	101%
Net Promoter Score <sup>(5)</sup>	5%	4.65%	67%
On-time delivery <sup>(6)</sup>	5%	2.43%	93.8%
Total	100%	49.33%	

The corporate Profitability result for the year must be positive (above 0) for the whole Business Performance Measure to trigger a payout. The corporate Profitability represents net earnings before interest, income taxes, depreciation and amortization, restructuring charges, change in fair value of cash contingent consideration, stock-based compensation costs, foreign exchange gain and certain one-time items.

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\$232.5 million) up to the target defined at the beginning of the financial year (US\$277.8 million).

For Profitability metric, results will be based on the achievement from 25% to 125%, calculated on a pro-rated basis, from the corporate Profitability attained in the previous financial year (US\$22.0 million) up to the target defined at the beginning of the financial year (US\$41.7 million).

For quality, results will range from nil to 100% of the weight upon attainment of a minimum threshold of 50% up to the annual target defined at the beginning of the financial year (106.25%) and from 100% to 125% of the weight from such annual target to the maximum threshold of 125%.

For Net Promoter Score metrics, results will range from nil to 100% of the weight upon attainment of a minimum threshold of 50% up to the annual target defined at the beginning of the financial year (68.75%) and from 100% to 125% of the weight from such annual target to the maximum threshold of 75%.

For on-time delivery, results will range from nil to 100% of the weight upon attainment of a minimum threshold of 92%, up to the annual target defined at the beginning of the financial year (97.78%) and from 100% to 125% of the weight from such annual target to the maximum threshold of 99.7%.

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 2017 within the overall Individual Performance Measures:

Germain Lamonde, Executive  
Chairman

Elements	Weight	Result
Individual Performance Measures <sup>1</sup>	From 0% to 160%	(%)

Financial objectives

Corporate revenues	From 0% to 40%	27.58%
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Corporate EBITDA	From 0% to 50%	19.72%
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Strategic contribution

Merger and Acquisition activities and a firming towards a Solutions oriented company	From 0% to 20%	20.00%
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Establishment and	From 0% to 20%	20.00%
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implementation  
of  
a  
strategic  
plan  
that  
will  
result  
in  
revenue  
growth  
in  
identified  
services  
and

products  
family

Employee Satisfaction	0% to 20%	20.00%
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Customer Satisfaction	0% to 10%	7.00%
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Total		114.30%
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Total of Business Performance Measures (49.33%) X Individual Performance Measures (114.30%)		56.38%
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(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 Executive Chairman will be at the discretion of the Human



Resources Committee.

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Philippe Morin, CEO

Elements  
of Weight Result  
Financial (From 0% to 150%) (%)  
Performance  
Measures<sup>1</sup>

Financial objectives

From 0% to 40% 17.72%  
Corporate  
EBITDA

From 0% to 30% 20.51%  
Corporate  
revenues

Strategic contribution

Expending  
corporate  
revenues,  
profitability  
From 0% to 30% 12.57%  
and  
positioning  
in  
selected  
strategic  
markets

From 0% to 30% 25.63%  
Delivering  
the  
strategies  
and  
objectives  
under

the  
NEO's  
responsibility  
as  
set  
forth  
in  
the  
Corporation's  
strategic  
plan

Positioning  
and  
transforming  
the  
Corporation  
to  
achieve ~~from~~ 0% to 20% 15.50%  
significant  
growth  
in  
Corporate  
EBITDA  
and  
revenues

Total 91.93%

Total  
of  
Business  
Performance  
Measures  
(49.33%) 45.35%  
X  
Individual  
Performance  
Measures  
(91.93%)

(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.

Pierre Plamondon, CFO and Vice President, Finance

Elements of Individual Performance Measures	Weight (from 0% to 150%)	Result (%)
Financial objectives	Weight	
Corporate EBITDA	40%	From 0% to 70% 32.18%
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%	
Delivering the objectives under the NEO's responsibility as set forth in the Corporation's operational plan	30%	From 0% to 80% 58.60%
Delivering a Strategic Contribution and Support in the Corporation's information technology management, investors relations and legal services	20%	
Total		90.78%
Total of Business Performance Measures (49.33%) X Individual Performance Measures (90.78%)		44.78%

**Sales Incentive Plan**

The SIP objectives for executive officers in the sales force are aimed to reward three (3) elements: two (2) 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:



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Willem Jan te Niet, Vice-President,  
Sales — EMEA

Business Performance (US\$ Results)

Contribution Margin		73,527
Bonus (1)		
Bonus on Billings (2)	22,727	
Bonus on Sales Objectives (3)	7,840	
Total	147,134	104,094

(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 up to 100% of the quarterly and annual 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 and annual 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 EMEA is based on the percentage of achievement up to 100% of the quarterly and annual 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. An additional amount of bonus based on the percentage of attainment from above 100% of the annual billings target is also payable.

(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.

Dana Yearian, Vice-President, Sales —  
Americas

Income Statement Results (US\$)

Contribution Margin	113,694
Bonus (1)	
Bonus on Billings (2)	39,340
Bonus on Sales Objectives (3)	3,641
Total	156,675

- (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 up to 100% of the quarterly and annual 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 and annual 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 up to 100% of the quarterly and annual 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. An additional amount of bonus based on the percentage of attainment from above 100% of the annual billings target is also payable.

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 (3) 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.

#### Long-Term Incentive Compensation

The long-term incentive compensation offered by the Corporation is made up of two (2) main initiatives: i) 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 DSU plan for non-employee directors of the Corporation.



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Long-Term Incentive Plan (LTIP)

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 of the Corporation and its subsidiaries 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 Executive Chairman 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 in January 2016.

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. Under the current amending provisions, 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. For a summary of the proposed new amending provisions, see "Amendments to the Long-Term Incentive Plan and the Deferred Share Unit Plan - Adoption of New Amending Provisions".

The LTIP provides for the issuance of options to purchase Subordinate Voting Shares and the issuance of Restricted Share Units ("RSUs") redeemable for Subordinate Voting Shares issued from treasury to participating directors, officers, employees and Consultants of the Corporation and its subsidiaries. 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, 2017, 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 Executive Chairman 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 <sup>(1)</sup> (% of Previous Year Base Salary)
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Philippe Morin, CEO	50.0%
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Pierre Plamondon, CFO and Vice President, Finance	45.0%
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Willem Jan te Niet, Vice President, Sales EMEA	30.0%
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Dana Yearian, Vice President, Sales Americas	42.5%
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(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.

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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.

RSUs are also used to attract and retain top executives, as well as in business acquisitions. For the year ended August 31, 2017, 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 Executive Chairman 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 Global Select Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada from September 1, 2016 to January 31, 2017 and the daily exchange rate of the Bank of Canada since February 1, 2017 on the grant date to convert either the NASDAQ Global Select 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, 2017 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 Global Select Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada from September 1, 2016 to January 31, 2017 and the daily exchange rate of the Bank of Canada since February 1, 2017 on the grant date to convert either the NASDAQ Global Select 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, 2017, there were a total of 1,675,374 RSUs granted and outstanding pursuant to the LTIP having a weighted average fair value at the time of grant of US\$3.97 (CA\$4.99) per RSU.

Prior to the adoption of the amendments to the LTIP and DSU Plan as proposed in this Annual Report, 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 11.5% of the Corporation's issued and outstanding voting shares as of November 1, 2017. From this total, 4,241,139 Subordinate Voting Shares have been issued and 1,849,653 Subordinate Voting Shares are issuable under actual awards held by participants, which represents 11.1% of the Corporation's issued and outstanding voting shares as of November 1, 2017, leaving 215,361 Subordinate Voting Shares available for grant under the LTIP and DSU Plan, representing 0.4% of the issued and outstanding voting shares as of November 1, 2017. If the proposed amendments are adopted, the aggregate number of Subordinate Voting Shares reserved for issuance under the LTIP and DSU Plan will be increased from 6,306,153 to 11,792,893 Subordinate Voting Shares. This would mean that Subordinate Voting Shares available for future grants under the LTIP and DSU Plan would then increase from 215,361 to 5,702,101, representing 10.4% of the total 54,867,396 issued and outstanding voting shares of the Corporation as of November 1, 2017.



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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, RSUs and DSUs 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 issuable at any time pursuant to options, RSUs and DSUs granted to insiders of the Corporation shall not exceed 10% of the total issued and outstanding Subordinate Voting Shares. The number of Subordinate Voting Shares issued to insiders, within a one (1) year period, pursuant to the exercise, settlement or redemption of options, RSUs and DSUs shall not exceed 10% of the number of issued and outstanding Subordinate Voting Shares, and the number of Subordinate Voting Shares issued to any one insider and such insider's associates, within a one-year period, pursuant to the exercise, settlement or redemption of options, RSUs and DSUs shall not exceed 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.

Financial Year Ended	Grant Date	RSUs Granted (#)	Fair Value at the Time of Grant (US\$/RSU)	Vesting Schedule
	October 19, 2016	38,300	4.01	
	January 18, 2017	153,700	5.10	50% on each of the third and fourth anniversary dates of the grant.
August 31, 2017	April 5, 2017	123,110	4.89	
	October 19, 2016	207,269	4.01	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.
	April 5, 2017	4,764	4.89	
	Total	527,143		
	October 15, 2015	36,900	3.23	
		109,890	3.43	

November 9, 2015				
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			
October 16, 2014	29,150	3.71		
January 14, 2015	163,400	3.55		
March 31, 2015	5,000	3.78	50% on each of the third and fourth anniversary dates of the grant.	
August 31, 2015	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 the Corporation, are fully attained.	
July 2, 2015	1,946	3.27		
Total	409,521			

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Financial Year Ended	Grant Date	RSUs Granted (#)	Fair Value at the Time of Grant (US\$/RSU)	Vesting Schedule
	October 16, 2013	36,950	5.28	
	January 15, 2014	132,000	4.36	50% on each of the third and fourth anniversary dates of the grant.
August 31, 2014	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		
	October 16, 2012	30,006	5.06	
	January 16, 2013	145,750	5.61	50% on each of the third and fourth anniversary dates of the grant.
August 31, 2013	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		

If any vesting dates fall into any blackout 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 blackout 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. If the proposed amendments are adopted, the LTIP will include a provision whereby the Option Period shall be automatically

extended if the date on which it is scheduled to terminate falls during a blackout period or within 10 business days after the last day of a blackout period. In such cases, the Option Period will terminate 10 business days after the last day of a blackout period. See "Amendments to the Long-Term Incentive Plan and the Deferred Share Unit Plan - Extension of the Option Period".

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. The LTIP provides that, in the event of death or permanent disability, any option held by the optionee lapses six (6) months after the date of permanent disability and 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. In the event of retirement, any option held by an employee lapses thirty (30) days after the date of any such 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.

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.



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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 for reasons not related to cause. The LTIP provides 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 also provides 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 current LTIP is included in our 2017 Annual Information Form on Form 20-F under Exhibit 4.57, which was filed on November 24, 2017 on SEDAR at [www.sedar.com](http://www.sedar.com) in Canada or on EDGAR at [www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml) in the U.S.

Restricted Share Unit Grants in Last Financial Year

The aggregate number of RSUs granted from September 1, 2016 to November 1, 2017, was 753,298 having a weighted average fair value at the time of grant of US\$4.38 (CA\$5.70) 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, 2017, there were a total of 1,675,374 RSUs granted and outstanding pursuant to the LTIP having a weighted average fair value at the time of grant of US\$3.97 (CA\$4.99) per RSU.

The RSUs are redeemed for Subordinate Voting Shares issued from treasury 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, 2017.

During the financial year ended August 31, 2017, the following RSUs were granted to the following NEOs:

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Name	RSUs Granted (#)	Percentage of Total RSUs Granted to Employees in Financial Year (%) <sup>(1)</sup>	Fair Value at the Time of Grant (US\$/RSU) <sup>(2)</sup>	Grant Date	Vesting Schedule <sup>(3)</sup>
	47,529	9.02%	4.01	October 19, 2016	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. <sup>(4)</sup>
Philippe Morin	38,110	7.23%	4.89	April 5, 2017	50% on each of the third and fourth anniversary dates of the grant.
	4,764	0.90%	4.89	April 5, 2017	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. <sup>(4)</sup>
Pierre Plamondon	25,162	4.77%	4.01	October 19, 2016	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. <sup>(4)</sup>
Willem Jan te Niet	16,681	3.16%	4.01	October 19, 2016	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

24,744 4.69%

4.01

October  
19, 2016

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)

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

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 Global Select Market on the last trading day

(2) preceding the grant date, using the noon buying rate of the Bank of Canada from September 1, 2016 to January 31, 2017 and the daily exchange rate of the Bank of Canada since February 1, 2017 on the grant date to convert either the NASDAQ Global Select 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.

Those RSUs granted in the financial year ended August 31, 2017 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

(4) 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, 2019; 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, 2019. 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, 2020.

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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, 2017:

	Number of RSUs (#)	% of Issued and Outstanding RSUs	Weighted Average Fair Value at the Time of Grant (\$US/RSU)
Executive Chairman (one (1) individual)	—	—	—
CEO (one (1) individual)	255,238	15.84%	3.78
Board of Directors (five (5) individuals)	—	—	—
Management and Corporate Officers (nine (9) individuals)	578,088	35.88%	4.08

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, 2017 and thereafter until November 1, 2017. As at November 1, 2017, there were no option granted and none outstanding.

Deferred Share Unit Plan (DSU 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 DSU 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 Global Select Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada from September 1, 2016 to January 31, 2017 and the daily exchange rate of the Bank of Canada since February 1, 2017 on the grant date to convert either the NASDAQ Global Select Market closing price to Canadian dollars or the Toronto Stock Exchange closing price to United States dollars, as required. DSUs entitle the holder thereof to dividends in the form of additional DSUs at the same rate as dividends on Subordinate Voting Shares. Any DSU issued is non-transferable, except by will or other testamentary document or according to the laws respecting the devolution and allotment of estates.

When a participant ceases to act as a director, the participant (or in the case of death, the beneficiary of the DSUs) may cause the Corporation to redeem the DSUs by filing a notice of redemption with the Corporation's Secretary specifying the redemption date. If the participant or his/her beneficiary or legal representative, as the case may be, fails to file such a notice, the redemption date shall be December 15 of the first calendar year commencing after the year the participant ceased to act as a director. Within ten business days after the redemption date, the participant shall

receive, at the discretion of the Corporation, in satisfaction of the number of DSUs credited to his or her account on such date, any of the following: (a) a number of Subordinate Voting Shares purchased on the open market having a value, net of any applicable withholdings, equal to the market value of a Subordinate Voting Share on the redemption rate multiplied by the number of DSUs credited to his or her notional account on the payment date, (b) a number of Subordinate Voting Shares issued by the Corporation equal to the number of DSUs credited to his or her notional account on the payment date, or (c) any combination of clauses (a) and (b). If a participant dies after ceasing to act as a director, but before filing a redemption notice, these provisions shall apply with such modifications as the circumstances require.

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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. There are additional limitations for insiders of the Corporation. The number of Subordinate Voting Shares issuable at any time pursuant to options, RSUs and DSUs granted to insiders of the Corporation shall not exceed 10% of the total issued and outstanding Subordinate Voting Shares. The number of Subordinate Voting Shares issued to insiders, within a one (1) year period, pursuant to the exercise, settlement or redemption of options, RSUs and DSUs shall not exceed 10% of the number of issued and outstanding Subordinate Voting Shares, and the number of Subordinate Voting Shares issued to any one insider and such insider's associates, within a one-year period, pursuant to the exercise, settlement or redemption of options, RSUs and DSUs shall not exceed 5% of the total issued and outstanding Subordinate Voting Shares of the Corporation.

Under the current amending provisions, the DSU 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. For a summary of the proposed new amending provisions, see "Amendments to the Long-Term Incentive Plan and the Deferred Share Unit Plan - Adoption of New Amending Provisions".

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, 2017 was 45,058. 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 Global Select Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada from September 1, 2016 to January 31, 2017 and the daily exchange rate of the Bank of Canada since February 1, 2017 on the grant date to convert either the NASDAQ Global Select 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, 2017, there were a total of 174,279 DSUs credited and outstanding pursuant to the DSU Plan having a weighted average fair value at the time of grant of US\$4.09 (CA\$4.94).

During the financial year ended August 31, 2017, 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
45,058	4.36	196,453	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, 2017:

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)
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Board of Directors (five (5) individuals)	174,279	100%	4.09	712,801
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### Number of Subordinate Voting Shares Reserved for Future Issuance

During the financial year ended August 31, 2017, 45,058 DSUs and 527,143 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 DSU Plan of which the maximum number of Subordinate Voting Shares issuable shall not exceed 6,306,153, which represents 11.5% of the Corporation's issued and outstanding voting shares as at November 1, 2017. As at November 1, 2017, the number of Subordinate Voting Shares reserved for future issuance is 215,361 representing 0.4% of the Corporation's issued and outstanding voting shares as at November 1, 2017. If the proposed increase is approved the aggregate number of Subordinate Voting Shares reserved for issuance under the LTIP and DSU Plan will increase from 6,306,153 to 11,792,893 Subordinate Voting Shares. This would mean that Subordinate Voting Shares available for future grants under the LTIP and the DSU Plan would increase from 215,361 to 5,702,101, representing 10.4% of the total 54,867,396 issued and outstanding voting shares of the Corporation as of November 1, 2017. See "Amendments to the Long-Term Incentive Plan and the Deferred Share Unit Plan - Increase in Shares Reserved for Issuance".

### 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.

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 Global Select Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada from September 1, 2016 to January 31, 2017 and the daily exchange rate of the Bank of Canada since February 1, 2017 on the grant date to convert either the NASDAQ Global Select 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 January 2014, October 2014, January 2015, October 2015, January 2016, October 2016 and January 2017.

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 2008 and October 2009.

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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, 2016 until November 1, 2017, 14,104 Stock Appreciation Rights ("SARs") were exercised.

During the financial year ended August 31, 2017, 7,900 SARs were granted to employees. As at August 31, 2017, there were 27,296 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.

With the exception of car allowances that are provided to the Corporation's Executive Chairman 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 Executive Chairman, under which the Corporation may elect to match the employees' contributions up to a maximum of 4% 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, 2015, 2016 and 2017 amounted to US\$1,492,000, US\$1,374,000 and US\$1,571,000, 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.

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## 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, 2015, 2016 and 2017, the Corporation made aggregate contributions of US\$628,000, US\$622,000 and US\$630,000 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.

## 2017 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 <sup>(1)</sup>
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October 16, 2013	October 16, 2017	3%
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October 16, 2014	October 16, 2017	6%
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(1)The vesting schedules are provided in the table under the heading "Long-Term Incentive Plan".

#### 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 Executive Chairman compensation structure. Following the evaluation of the share ownership of the Executive Chairman, it was decided by the Human Resources Committee that the Executive Chairman should no longer receive equity-based compensation within his compensation as the share ownership of the Executive Chairman 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.

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Executive Chairman 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 until April 1, 2017 and then as Executive Chairman 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.

2017(1) Compensation 2016 Elements	2015	Three-Year Total
Cash		
Base Salary	CA\$717,500	CA\$700,000
Short-Term Incentive	CA\$615,332	CA\$2,032,832
Equity		
Long-Term Incentive	CA\$272,962	CA\$331,115
	CA\$101,022	CA\$695,099
Total Direct Compensation	CA\$980,462	CA\$1,031,115
Contribution to DPSP	CA\$716,354	CA\$2,727,931
All	–	–

Other  
Compensation

Total  
Compensation

2017 <sup>(1)</sup>	2016 <sup>(2)</sup>	2015	2014
CA\$980,462	CA\$1,031,115	CA\$716,354	CA\$2,727,931

Annual Average	–	–	CA\$909,310
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Total  
Market  
Capitalization  
(CA\$  
billions)  
as  
at  
August  
31  
(2)

2017 <sup>(1)</sup>	2016 <sup>(2)</sup>	2015	2014
231.9	217.6	257.3	

Total  
Cost  
as  
a  
%  
of  
Market  
Capitalization

2017 <sup>(1)</sup>	2016 <sup>(2)</sup>	2015	2014
0.30%	0.44%	0.33%	0.35%

(1) On April 1, 2017, Mr. Germain Lamonde stepped down as CEO and became Executive Chairman of the Corporation.

(2) In fiscal year 2015, the Corporation redeemed 6,521,739 subordinate voting shares under its substantial issuer bid. CEO Performance Compensation during Last Three (3) Financial Years

The following table compares the compensation awarded to Mr. Philippe Morin in respect of his performance as COO until April 1, 2017 and then 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.

2017 <sup>(1)</sup>	2016 <sup>(2)</sup>	2015
---------------------	---------------------	------

Compensation Elements	Three-Year Total		
Cash			
Base Salary	US\$512,500	CA\$394,231	– CA\$906,731
Short-Term Incentive	US\$118,531	CA\$142,590	– CA\$261,121
Equity			
Long-Term Incentive	US\$71,256	CA\$749,999	– CA\$1,281,255
Total Direct Compensation	US\$1,162,287	CA\$1,286,820	– CA\$2,449,107
Contribution to DPSP	CA\$14,346	CA\$9,135	– CA\$23,481
All Other Compensation	–	–	–
Total Compensation	US\$1,176,633	CA\$1,295,955	– CA\$2,472,588
Annual	–	–	– CA\$1,236,294

Average

Total  
Market  
Capitalization

(CA\$ 322.3 millions)	231.9	–	277.1
-----------------------------	-------	---	-------

as  
at  
August  
31

Total  
Cost

0.37%	0.56%	–	0.45%
-------	-------	---	-------

%  
of  
Market  
Capitalization

- (1) Mr. Philippe Morin was nominated CEO on April 1, 2017.  
 (2) Mr. Philippe Morin was nominated COO on November 9, 2015.



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## 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 and US dollar and Euro 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 <sup>(1)</sup>		Share-Based Awards <sup>(2) (3)</sup>	Option-Based Awards <sup>(3)</sup>	Non-Equity Incentive Plan Compensation (\$)		Pension Value (\$)	All Other Compensation <sup>(2) (5)</sup>	Total Compensation (\$)
		<sup>(2)</sup> (\$)	<sup>(2)</sup> (\$)			Annual Incentive Plans <sup>(2)</sup> <sup>(4)</sup>	Long-Term Incentive Plan			
	2017	543,067 (US)	(US)			199,032 (US)				742,099 (US)
		717,500 (CA)	(CA)	—		262,962 (CA)	—	—	—	980,462 (CA)
Germain Lamonde, Executive Chairman <sup>(6)</sup>	2016	527,188 (US)	(US)			249,371 (US)				776,559 (US)
		700,000 (CA)	(CA)	—		331,115 (CA)	—	—	—	1,031,115 (CA)
	2015	508,833 (US)	(US)			83,537 (US)				592,370 (US)
		615,332 (CA)	(CA)	—		101,022 (CA)	—	—	—	716,354 (CA)
	2017	387,905 (US) <sup>(8)</sup>	402,101 (US)			89,715 (US)		10,858 (US)		890,579 (US)
		512,500 (CA)	531,256 (CA)	—		118,531 (CA)	—	—	14,346 (CA)	1,176,633 (CA)
Philippe Morin, CEO <sup>(7)</sup>	2016	296,905 (US) <sup>(8)</sup>	564,844 (US)			107,388 (US)		6,879 (US)		976,016 (US)
		394,231 (CA)	749,999 (CA)	—		142,589 (CA)	—	—	9,135 (CA)	1,295,954 (CA)

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Pierre Plamondon, CFO and Vice President, Finance	2017	228,841 (US)	100,176 (US)	–	46,116 (US)	–	–	11,006 (US)	386,139 (US)
		302,345 (CA)	132,352 (CA)	–	60,928 (CA)	–	–	14,541 (CA)	510,166 (CA)
	2016	221,502 (US)	91,220 (US)	–	82,291 (US)	–	–	9,064 (US)	404,077 (US)
		294,110 (CA)	121,122 (CA)	–	109,266 (CA)	–	–	12,035 (CA)	536,533 (CA)
	2015	235,665 (US)	95,847 (US)	–	31,095 (US)	–	–	12,212 (US)	374,819 (US)
		284,990 (CA)	115,907 (CA)	–	37,603 (CA)	–	–	14,768 (CA)	453,268 (CA)
Willem Jan te Niet, Vice President, Sales — EMEA	2017	226,587 (US)	66,891 (US)	–	104,094 (US)	–	–	7,912 (US)	405,484 (US)
		299,367 (CA)	88,376 (CA)	–	137,529 (CA)	–	–	10,454 (CA)	535,726 (CA)
		206,625 (€)	60,998 (€)	–	94,923 (€)	–	–	7,215 (€)	369,761 (€)
	2016	9,160 (US) (10)	32,384 (US)	–	–	–	–	–	41,544 (US)
		12,162 (CA)	43,000 (CA)	–	–	–	–	–	55,162 (CA)
		8,250 (€)	29,168 (€)	–	–	–	–	–	37,418 (€)
	2017	238,134 (US)	99,223 (US)	–	156,675 (US)	–	–	7,049 (US)	501,081 (US)
		314,623 (CA)	131,094 (CA)	–	206,999 (CA)	–	–	9,314 (CA)	662,030 (CA)
Dana Yearian, Vice President, Sales — Americas	2016	233,465 (US)	97,087 (US)	–	181,465 (US)	–	–	7,049 (US)	519,066 (US)
		309,995 (CA)	128,913 (CA)	–	240,949 (CA)	–	–	9,360 (CA)	689,217 (CA)
	2015	228,439 (US)	95,369 (US)	–	156,372 (US)	–	–	7,049 (US)	487,229 (US)
		276,251 (CA)	115,330 (CA)	–	189,100 (CA)	–	–	8,525 (CA)	589,206 (CA)

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

The compensation information for Canadian residents has been converted from Canadian dollars to US dollars based upon an average foreign exchange rate of CA\$1.3212 = US\$1.00 for the financial year ended August 31, 2017, CA\$1.3278 = US\$1.00 for the financial year ended August 31, 2016 and CA\$1.2093 = US\$1.00 for the

(2) financial year ended August 31, 2015. The compensation information for the Netherlands resident has been converted from Euros to US dollars based upon an average foreign exchange rate of €0.9119 = US\$1.00 for the financial year ended August 31, 2017 and €0.9007 = US\$1.00 for the financial year ended August 31, 2016 and the conversion from US dollars to Canadian dollars is made as described above.

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 Global Select Market on the last trading day preceding the grant date,

(3) using the noon buying rate of the Bank of Canada from September 1, 2016 to January 31, 2017 and the daily exchange rate of the Bank of Canada since February 1, 2017 on the grant date to convert either the NASDAQ Global Select 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".

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(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, 2017 <sup>(i)</sup> (\$)	Paid in the First Quarter of the Financial Year Ending on August 31, 2018 <sup>(i)</sup> (\$)	Total Bonus Earned during the Financial Year Ended August 31, 2017 <sup>(i)</sup> (\$)
Germain Lamonde	(US) (CA)	199,032 (US) 262,962 (CA)	199,032 (US) 262,962 (CA)
Philippe Morin	(US) (CA)	89,715 (US) 118,531 (CA)	89,715 (US) 118,531 (CA)
Pierre Plamondon	(US) (CA)	46,116 (US) 60,928 (CA)	46,116 (US) 60,928 (CA)
Willem Jan te Niet	61,371 (US) 81,084 (CA) 55,964 (€)	42,723 (US) 56,445 (CA) 38,959 (€)	104,094 (US) 137,529 (CA) 94,923 (€)
Dana Yearian	92,480 (US) 122,185 (CA)	64,195 (US) 84,814 (CA)	156,675 (US) 206,999 (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.

(6) Mr. Lamonde stepped down as CEO as of April 1, 2017 and was nominated Executive Chairman of the Corporation.

(7) Mr. Morin was promoted from Chief Operating Officer of the Corporation to CEO of the Corporation as of April 1, 2017. He joined the Corporation as COO on November 9, 2015.

(8) 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.

(9) Mr. Willem Jan te Niet joined the Corporation as Vice President, Sales — EMEA on August 15, 2016.

(10) This amount represents the salary paid to Mr. te Niet from August 15, 2016 to August 31, 2016 which is based on an annual salary of €198,000 (US\$219,829, CA\$291,889) 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, 2017, if any, including those granted before August 31, 2017.

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 that Have Not Vested (#)	Market or Payout Value of Share-Based Awards that Have Not Vested (US\$) <sup>(1)</sup>	Market or Payout Value of Vested Share-Based Awards Not Paid Out or Distributed (US\$)
Germain Lamonde	–	–	–	–	–	–	–
Philippe Morin	–	–	–	–	255,238	1,199,619	–
Pierre Plamondon	–	–	–	–	121,516	571,125	–
Willem Jan te Niet	–	–	–	–	26,681	125,401	–
Dana Yearian	–	–	–	–	116,178	546,037	–

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The value of unvested RSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2017, which was US\$4.70 (CA\$5.89). 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 Global Select Market on August 31, 2017 using the daily exchange rate of the (1) Bank of Canada to convert either the NASDAQ Global Select 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.

## Exercised Option-Based Awards

No option-based awards of the Corporation were held during the financial year ended August 31, 2017 by the NEOs.

## 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, 2017, if any, and the value of non-equity incentive plan compensation earned during the financial year ended August 31, 2017, if any.

Name	Share-Based Awards – Value Vested during the Year (US\$) <sup>(1)</sup>	Non-Equity Incentive Plan Compensation – Value Earned during the Year (US\$) <sup>(2)</sup>
Germain Lamonde	247,698	199,032
Philippe Morin		89,715
Pierre Plamondon	68,380	46,116
Willem Jan te Niet		104,094
Dana Yearian	71,384	156,675

(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 daily exchange 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, 2017 (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 Corporation's Executive Chairman. 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.

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The Corporation has an employment agreement with Mr. Philippe Morin, the Corporation's Chief Executive 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.

The Corporation has an employment agreement with Mr. Pierre Plamondon, the Corporation's CFO and Vice President, Finance. 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. Willem Jan te Niet, 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. te Niet's employment without cause, Mr. te Niet will be entitled to severance payments equal to one (1) month per year of service as a Vice-President of the Corporation with a minimum of six (6) months but in no case exceeding twelve (12) months of his current base salary. In addition, in the event Mr. te Niet'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 one (1) month per year of service as a Vice-President of the Corporation with a minimum of six (6) months but in no case exceeding twelve (12) months of his current rate of remuneration (base salary, SIP compensation and benefits) 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, 2017, which includes all payments, payables and benefits that would be given by the Corporation to a NEO upon such termination payment event.

Termination Payment Event

Named Executive Officer

Without Cause (\$) <sup>(2)</sup>	Change of Control (\$) <sup>(3) (4)</sup>	Voluntary (\$) <sup>(2)</sup>
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Germain Lamonde	1,672,966 <sup>(US)</sup> 2,097,230 <sup>(CA)</sup>	<sup>(5)</sup> 1,672,966 <sup>(US)</sup> 2,097,230 <sup>(CA)</sup>	0 <sup>(6)</sup>
Philippe Morin	837,045 <sup>(US)</sup> 1,049,144 <sup>(CA)</sup>	1,608,442 <sup>(US)</sup> 2,015,852 <sup>(CA)</sup>	—
Pierre Plamondon	550,685 <sup>(US)</sup> 690,213 <sup>(CA)</sup>	1,063,640 <sup>(US)</sup> 1,333,146 <sup>(CA)</sup>	—
Willem Jan te Niet	164,517 <sup>(US)</sup> 206,228 <sup>(CA)</sup> 139,115 (€)	261,991 <sup>(US)</sup> 328,381 <sup>(CA)</sup> 221,538 (€)	—
Dana Yearian	527,739 <sup>(US)</sup> 661,445 <sup>(CA)</sup>	1,175,436 <sup>(US)</sup> 1,473,303 <sup>(CA)</sup>	—

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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, 2017 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 (1) 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.

The aggregate amount for Canadian residents has been converted from Canadian dollars to US dollars based upon a foreign exchange rate of CA\$1.2536 = US\$1.00 as of August 31, 2017. The aggregate amount for Netherlands resident has been converted from Euros to US dollars based upon a foreign exchange rate of €0.8456 = US\$1.00 as of August 31, 2017.

(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.

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, 2017 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 (4) 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".

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, 2017 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 (5) "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) Mr. Lamonde did not hold any RSUs or options on August 31, 2017.

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. Since June 2017, our Directors have the obligation to elect to receive at least seventy-five (75%) of their Annual Retainer in form of DSUs until their cumulative Annual Retainers equal or exceed three (3) times the sum of: i) the Annual Retainer for Directors; ii) the Annual Retainer for Audit Committee Members; and iii) the Annual Retainer for Human Resources Committee Members. The significant terms of the DSU Plan are described herein under the section entitled "Long-Term Incentive Compensation – Deferred Share Unit Plan".

From September 1, 2016  
to February 28, 2017

From March 1, 2017  
to August 31, 2017

Annual  
Retainer  
for  
Directors  
(1)

CA\$57,000 <sup>(2)</sup> US\$43,143 <sup>(2)</sup> CA\$63,500 <sup>(3)</sup> US\$48,062 <sup>(4)</sup>

Annual  
Retainer  
for Lead  
Director

CA\$8,000 US\$6,055 CA\$9,000 US\$6,812 <sup>(4)</sup>

Annual  
Retainer  
for Audit  
Committee  
Chairman

CA\$8,000 US\$6,055 CA\$10,000 US\$7,569 <sup>(4)</sup>

Annual  
Retainer  
for Audit  
Committee  
Members

CA\$4,000 US\$3,028 CA\$4,250 US\$3,217 <sup>(5)</sup>

Annual  
Retainer  
for Human  
Resources  
Committee  
Chairman

CA\$6,000 US\$4,541 CA\$6,500 US\$4,920 <sup>(4)</sup>

Annual  
Retainer  
for Human  
Resources  
Committee  
Members

CA\$3,000 US\$2,271 CA\$3,750 US\$2,838 <sup>(5)</sup>

(1) All the Directors elected to receive 100% of their Annual Retainer for Directors in form of DSUs except Mr. Pierre-Paul Allard who elected to receive 50% of his Annual Retainer in form of DSUs and Mr. François Côté, Ms.

Angela Logothetis and Mr. Claude Seguin who elected to receive 50% of their Annual Retainer in form of DSUs until March 1, 2017 and Mr. François Côté who elected to receive 75% of his Annual Retainer in form of DSUs starting March 1, 2017.

(2) The Annual Retainer for Mr. Pierre-Paul Allard, Ms. Angela Logothetis and Mr. Randy E. Tornes is US\$57,000 (CA\$75,308).

(3) The Annual Retainer for Mr. Pierre-Paul Allard, Ms. Angela Logothetis and Mr. Randy E. Tornes is US\$63,500 (CA\$83,896).

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(4) The compensation information has been converted from Canadian dollars to US dollars based upon an average foreign exchange rate of CA\$1.3212 = US\$1.00 for the financial year ended August 31, 2017.

The Annual Retainer for Audit Committee Members is CA\$4,250 for Mr. François Côté and Mr. Claude Séguin and US\$4,250 (CA\$5,615) for Mr. Pierre-Paul Allard, Ms. Angela Logothetis and Mr. Randy Tornes since March (5) 2017. The Annual Retainer for Human Resources Committee Members is CA\$3,750 for Mr. François Côté and Mr. Claude Séguin and US\$3,750 (CA\$4,955) for Mr. Pierre-Paul Allard, Ms. Angela Logothetis and Mr. Randy Tornes since March 2017.

In the financial year ended August 31, 2017, the Directors who were not employees of the Corporation earned the following compensation:

Name	Fees Earned <sup>(1)</sup> (\$)	Share-Based Awards (\$)	Option-Based Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Pension Value (\$)	All Other Compensation (\$)	Total (\$)
Pierre-Paul Allard	62,899 <sup>(US)</sup> 83,102 <sup>(CA)</sup>	—	—	—	—	—	62,899 <sup>(US)</sup> 83,102 <sup>(CA)</sup>
François Côté	59,889 <sup>(US)</sup> 79,125 <sup>(CA)</sup>	—	—	—	—	—	59,889 <sup>(US)</sup> 79,125 <sup>(CA)</sup>
Darryl Edwards	17,627 <sup>(US)</sup> 23,289 <sup>(CA)</sup>	—	—	—	—	—	17,627 <sup>(US)</sup> 23,289 <sup>(CA)</sup>
Angela Logothetis	42,343 <sup>(US)</sup> 55,944 <sup>(CA)</sup>	—	—	—	—	—	42,343 <sup>(US)</sup> 55,944 <sup>(CA)</sup>
Claude Séguin	54,969 <sup>(US)</sup> 72,625 <sup>(CA)</sup>	—	—	—	—	—	54,969 <sup>(US)</sup> 72,625 <sup>(CA)</sup>
Randy E. Tornes	66,899 <sup>(US)</sup> 88,387 <sup>(CA)</sup>	—	—	—	—	—	66,899 <sup>(US)</sup> 88,387 <sup>(CA)</sup>

(1) The compensation information has been converted from Canadian dollars to US dollars based upon an average foreign exchange rate of CA\$1.3212 = US\$1.00 for the financial year ended August 31, 2017 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. Since March 1<sup>st</sup>, 2017, the compensation amounts paid to Mr. Pierre-Paul Allard, Ms. Angela Logothetis and Mr. Randy E. Tornes were paid in US dollars. 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 (\$) <sup>(i)</sup>	Cash (\$) <sup>(i)</sup>	Total (\$) <sup>(i)</sup>
Pierre-Paul Allard <sup>(ii)</sup>	30,125 <sup>(US)</sup>	32,774 <sup>(US)</sup>	62,899 <sup>(US)</sup>
	39,801 <sup>(CA)</sup>	43,301 <sup>(CA)</sup>	83,102 <sup>(CA)</sup>
François Côté <sup>(iii)</sup>	31,080 <sup>(US)</sup>	28,809 <sup>(US)</sup>	59,889 <sup>(US)</sup>
	41,063 <sup>(CA)</sup>	38,062 <sup>(CA)</sup>	79,125 <sup>(CA)</sup>
Darryl Edwards <sup>(ii)</sup>	7,850 <sup>(US)</sup>	9,777 <sup>(US)</sup>	17,627 <sup>(US)</sup>
	10,371 <sup>(CA)</sup>	12,918 <sup>(CA)</sup>	23,289 <sup>(CA)</sup>
Angela Logothetis <sup>(iv)</sup>	38,686 <sup>(US)</sup>	3,657 <sup>(US)</sup>	42,343 <sup>(US)</sup>
	51,112 <sup>(CA)</sup>	4,832 <sup>(CA)</sup>	55,944 <sup>(CA)</sup>
Claude Séguin <sup>(iv)</sup>	35,550 <sup>(US)</sup>	19,419 <sup>(US)</sup>	54,969 <sup>(US)</sup>
	46,969 <sup>(CA)</sup>	25,656 <sup>(CA)</sup>	72,625 <sup>(CA)</sup>
Randy E. Tornes <sup>(v)</sup>	60,250 <sup>(US)</sup>	6,649 <sup>(US)</sup>	66,899 <sup>(US)</sup>
	79,602 <sup>(CA)</sup>	8,785 <sup>(CA)</sup>	88,387 <sup>(CA)</sup>

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- 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 Global Select Market on the last trading day preceding the grant date, using the noon buying rate of the Bank of Canada from September 1, 2016 to January 31, 2017 and the daily exchange rate of the Bank of Canada since February 1, 2017 to convert either the
- (i) NASDAQ Global Select 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, until March 1, 2017, 50% and, thereafter, 75% of his Annual Retainer for Directors in form of DSUs.
  - (iv) Elected to receive, until March 1, 2017, 50% and, thereafter, 100% of his Annual Retainer for Directors in form of DSUs.
  - (v) Elected to receive 100% 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".

## 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, 2017, if any, including awards granted before August 31, 2017.

## Outstanding Share-Based Awards (DSUs)

Name	Number of Shares of Units of Share-Based Awards that Have Not Vested (#)	Market or Payout Value of Share-Based Awards that Have Not Vested (US\$) <sup>(1)</sup>	Market or Payout Value of Vested Share-Based Awards Not Paid Out or Distributed (US\$)
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Pierre-Paul Allard	55,452	260,624	
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François Côté	17,730	83,331	–
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Angela Logothetis	8,639	40,603	–
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Claude Séguin	29,855 140,319	–
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Randy E. Tornes	62,603 294,234	–
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The value of unvested DSUs at the financial year-end is the market value of the Subordinate Voting Shares on August 31, 2017, which was US\$4.70 (CA\$5.89). 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 Global Select Market on August 31, 2017 using the daily exchange rate of the (1) Bank of Canada to convert either the NASDAQ Global Select 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, 2017. On January 23, 2017 and March 24, 2017, Mr. Darryl Edwards converted 29,456 DSUs and 450 DSUs respectively into 29,906 Subordinate Voting Shares of the Corporation.

#### Exercised Share-Based Awards

In the financial year that ended August 31, 2017, none of the DSUs of Directors vested with the exception of Mr. Darryl Edwards, 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, 2017: