Corporate Governance

Both the Board of Directors and management recognize the importance of having appropriate structures and procedures in place to permit good corporate governance. Our present Board members were elected in May and June 2000, just prior to our Initial Public Offering. At such time an Audit Committee and a Human Resources Committee were appointed to form the starting point of a structure that will be defined and refined to continue to ensure good corporate governance.

Early in the mandate of the Board members, EXFO provided them with two full days of orientation and education relating to our activities, structures, policies and processes, which included a visit of our facilities and meetings with management.

Responsibilities of the Board

The Board is responsible for the stewardship of the business and affairs of EXFO by reviewing, discussing and approving our strategic direction and organizational structure, and supervising management. The Board, which receives regular updates from management, annually reviews and approves EXFO's strategic planning process and internal control and management information systems. The Board has identified the principal risks of our business and has reviewed present risk management systems. Over the next fiscal year, the Board will analyze additional risk management strategies for the future. In addition, the Board has identified the following objectives for the coming fiscal year: the elaboration and implementation of a succession planning process by the Human Resources Committee and the establishment and implementation of a communications policy for EXFO.

The Board grants final approval with respect to each of the following matters, in addition to those that require Board approval under applicable laws: (i) the strategic direction of EXFO; (ii) material contracts, acquisitions or dispositions of our assets; and (iii) the annual operational plan and capital and operating budgets.

The Board is responsible for the establishment and functioning of all Board committees, the appointment of members to serve on such committees, their compensation and their good standing. At regularly scheduled meetings of the Board, the Directors receive, consider and discuss Board committee reports.

As of September 30, 2000, the Board had met five times since EXFO became a public company in June 2000.

EXFO does not currently have a member of the Board that is responsible for ensuring that the Board properly discharges its duties, independent of management. At the present time, EXFO has no formal procedures in place for recruiting new Directors.

Composition of the Board

Our articles of incorporation provide for a Board of Directors with a minimum of three and a maximum of 12 Directors. Our Board presently consists of five Directors, four of whom are independent of management and free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act with a view to the best interests of EXFO, other than interests arising from shareholding. Our Directors are elected at the annual meeting of shareholders for one-year terms and serve until their successors are elected or appointed, unless they resign or are removed earlier. Under the Canada Business Corporations Act, a majority of the Directors and of the members of any committee of the Board of Directors must be composed of Canadian residents.

Our Chairman of the Board, Mr. Germain Lamonde, is a significant shareholder in EXFO as he has the ability to exercise a majority of the votes for the election of the Board of Directors. Since the other four Board members do not have interests in or relationships with either EXFO or Mr. Lamonde, we believe that the interests of investors in EXFO other than Mr. Lamonde are fairly represented.

Committees of the Board

To facilitate the fulfillment of some responsibilities and to assist its decision-making, the Board of Directors has formed an Audit Committee and a Human Resources Committee. These committees are appointed annually and, in addition, the Board may appoint ad hoc committees periodically as needed. EXFO has a practice of permitting the Board, any committee thereof and any individual Director to engage independent, external advisors at EXFO's expense. All committees of the Board are entirely comprised of unrelated Directors.

The following is a general description of the composition and general duties of each Board committee as contained in its mandate as of the year ended August 31, 2000.

Audit Committee

The Audit Committee approves the release of interim in-house financial statements and reviews all annual audited financial statements and related disclosure documents with management and the external auditors. The Committee meets regularly with external auditors, with and without management, to consider the scope and results of their audits, including analysis of the adequacy of the internal controls and the effect of the procedures relating to the outside auditors' independence. The Committee also recommends to the Board the selection of the external auditors for appointment by the shareholders. The Audit Committee is composed of Mr. André Tremblay, Mr. Michael Unger and Mr. Pierre Marcouiller. The Chairman of the Audit Committee is Mr. André Tremblay.

Human Resources Committee

Our Human Resources Committee is responsible for assessing the performance and establishing the annual compensation of all our senior officers, including the CEO. This Committee also reviews and submits to the Board the salary structure and the short-term and long-term incentive compensation programs for all our employees. The Committee is responsible for the review and approval of the employees that will receive options to purchase shares of EXFO, in accordance with policies established by the Board and the terms of the Stock Option Plan. In addition, the Committee reports annually to the Board on the organizational structure and the succession plan for senior management. The Board's corporate governance practices are monitored by the Human Resources Committee, as is the functioning of the Board and the powers, mandates and performance of the committees. The remuneration to be paid by EXFO to the Directors is recommended to the Board by the Human Resources Committee. The Human Resources Committee is composed of Dr. David A. Thompson, Mr. Michael Unger and Mr. Pierre Marcouiller. The Chairman of the Human Resources Committee is Mr. Michael Unger.

Shareholder/Investor Communications and Feedback

EXFO has an Investor Relations Manager who is responsible for facilitating communications between senior management and EXFO's current and potential shareholders and financial analysts. Communications to shareholders are disseminated through annual and quarterly reports, the general meeting and investor presentations. The Investor Relations Manager receives and responds to all shareholders' inquiries in an appropriate and timely manner. In communications to management, the Investor Relations Manager provides feedback from the shareholders to senior management.