EXFO Inc.

Condensed Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

	As at May 31, 2019	As at August 31, 2018
Assets		
Current assets		
Cash	$ 13,623	$ 12,758
Short-term investments	1,691	2,282
Accounts receivable		
Trade	52,876	47,273
Other	3,384	4,137
Income taxes and tax credits recoverable	2,985	4,790
Inventories	37,859	38,589
Prepaid expenses	5,492	5,291
Other assets	2,945	2,279
	120,855	117,399
Tax credits recoverable	46,271	47,677
Property, plant and equipment	40,509	44,310
Intangible assets	22,875	29,866
Goodwill	38,517	39,892
Deferred income tax assets	5,229	4,714
Other assets	911	686
	$ 275,167	$ 284,544
Liabilities		
Current liabilities		
Bank loan	$ 5,000	$ 10,692
Accounts payable and accrued liabilities	48,903	47,898
Provisions	1,181	2,954
Income taxes payable	1,040	873
Deferred revenue	24,943	16,556
Other liabilities	1,624	3,197
Current portion of long-term debt (note 5)	2,579	2,921
	85,270	85,091
Provisions	2,830	2,347
Deferred revenue	9,086	6,947
Long-term debt (note 5)	3,876	5,907
Deferred income tax liabilities	3,638	5,910
Other liabilities	625	421
	105,325	106,623
Shareholders' equity		
Share capital (note 6)	92,889	91,937
Contributed surplus	18,734	18,428
Retained earnings	112,400	114,906
Accumulated other comprehensive loss	(54,181)	(47,350)
	169,842	177,921
	$ 275,167	$ 284,544

The accompanying notes are an integral part of these condensed unaudited interim consolidated financial statements.

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Earnings

(in thousands of US dollars, except share and per share data)

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Sales	$ 73,587	$ 216,715	$ 72,217	$ 200,330
Cost of sales (1)	30,458	88,417	28,963	77,578
Selling and administrative	23,761	75,610	25,957	74,066
Net research and development	11,970	39,410	16,101	40,440
Depreciation of property, plant and equipment	1,368	4,187	1,555	3,972
Amortization of intangible assets	2,072	7,142	4,210	8,385
Change in fair value of cash contingent consideration	–	–	–	(716)
Interest and other (income) expense (note 3)	698	(439)	198	870
Foreign exchange (gain) loss	(146)	55	(160)	(1,386)
Share in net loss of an associate	–	–	–	2,080
Gain on the deemed disposal of the investment in an associate	–	–	–	(2,080)
Earnings (loss) before income taxes	3,406	2,333	(4,607)	(2,879)
Income taxes (notes 3 and 8)	3,385	4,586	1,363	5,424
Net earnings (loss) for the period	21	(2,253)	(5,970)	(8,303)
Net loss for the period attributable to non-controlling interest	–	–	–	(352)
Net earnings (loss) for the period attributable to parent interest	$ 21	$ (2,253)	$ (5,970)	$ (7,951)
Basic and diluted net earnings (loss) attributable to parent interest per share	$ 0.00	$ (0.04)	$ (0.11)	$ (0.14)
Basic weighted average number of shares outstanding (000's)	55,392	55,306	55,099	54,959
Diluted weighted average number of shares outstanding (000's) (note 9)	56,437	55,306	55,099	54,959

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

The accompanying notes are an integral part of these condensed unaudited interim consolidated financial statements.

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Comprehensive Loss

(in thousands of US dollars)

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Net earnings (loss) for the period	$ 21	$ (2,253)	$ (5,970)	$ (8,303)
Other comprehensive income (loss), net of income taxes				
Items that may be reclassified subsequently to net earnings				
Foreign currency translation adjustment	(4,611)	(6,160)	(3,189)	(5,033)
Unrealized gains/losses on forward exchange contracts	(1,046)	(1,237)	(486)	(971)
Reclassification of realized gains/losses on forward exchange contracts in net earnings	(91)	210	(232)	(840)
Deferred income taxes on gains/losses on forward exchange contracts	314	356	155	418
Other comprehensive loss	(5,434)	(6,831)	(3,752)	(6,426)
Comprehensive loss for the period	(5,413)	(9,084)	(9,722)	(14,729)
Comprehensive loss for the period attributable to non-controlling interest	–	–	–	(352)
Comprehensive loss for the period attributable to parent interest	$ (5,413)	$ (9,084)	$ (9,722)	$ (14,377)

The accompanying notes are an integral part of these condensed unaudited interim consolidated financial statements.

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

	Nine months ended May 31, 2018					
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Non-controlling interest	Total shareholders' equity
Balance as at September 1, 2017	$ 90,411	$ 18,184	$ 127,160	$ (38,965)	$ –	$ 196,790
Reclassification of stock-based compensation costs (note 6)	1,499	(1,499)	–	–	–	–
Stock-based compensation costs	–	1,322	–	–	–	1,322
Business combination	–	–	–	–	(3,662)	(3,662)
Acquisition of non-controlling interest	–	–	(352)	–	4,014	3,662
Net loss for the period	–	–	(7,951)	–	(352)	(8,303)
Other comprehensive loss						
Foreign currency translation adjustment	–	–	–	(5,033)	–	(5,033)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of $418	–	–	–	(1,393)	–	(1,393)
Comprehensive loss for the period						(14,729)
Balance as at May 31, 2018	$ 91,910	$ 18,007	$ 118,857	$ (45,391)	$ –	$ 183,383

	Nine months ended May 31, 2019				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at September 1, 2018	$ 91,937	$ 18,428	$ 114,906	$ (47,350)	$ 177,921
Adoption of IFRS 9 (note 2)	–	–	(253)	–	(253)
Adjusted balance as at September 1, 2018	91,937	18,428	114,653	(47,350)	177,668
Reclassification of stock-based compensation costs (note 6)	1,078	(1,078)	–	–	–
Redemption of share capital (note 6)	(126)	21	–	–	(105)
Stock-based compensation costs	–	1,363	–	–	1,363
Net loss for the period	–	–	(2,253)	–	(2,253)
Other comprehensive loss					
Foreign currency translation adjustment	–	–	–	(6,160)	(6,160)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of $356	–	–	–	(671)	(671)
Total comprehensive loss for the period					(9,084)
Balance as at May 31, 2019	$ 92,889	$ 18,734	$ 112,400	$ (54,181)	$ 169,842

The accompanying notes are an integral part of these condensed unaudited interim consolidated financial statements.

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Cash flows from operating activities				
Net earnings (loss) for the period	$ 21	$ (2,253)	$ (5,970)	$ (8,303)
Add (deduct) items not affecting cash				
Stock-based compensation costs	475	1,354	440	1,280
Depreciation and amortization	3,440	11,329	5,765	12,357
Gain on disposal of capital assets (note 3)	–	(1,732)	–	–
Write-off of capital assets	–	261	77	325
Change in fair value of cash contingent consideration	–	–	–	(716)
Deferred revenue	1,676	11,619	(552)	1,682
Deferred income taxes	(142)	(2,295)	389	2,533
Share in net loss of an associate	–	–	–	2,080
Gain on deemed disposal of the investment in an associate	–	–	–	(2,080)
Changes in foreign exchange gain/loss	143	(310)	(603)	(239)
	5,613	17,973	(454)	8,919
Changes in non-cash operating items				
Accounts receivable	(12,857)	(7,038)	2,353	7,693
Income taxes and tax credits	1,596	1,629	172	(2,787)
Inventories	(306)	(668)	1,162	(12)
Prepaid expenses	(585)	(380)	16	205
Other assets	(664)	(1,003)	(245)	(769)
Accounts payable, accrued liabilities and provisions	1,995	2,013	1,821	5
Other liabilities	(6)	(1,527)	(109)	101
	(5,214)	10,999	4,716	13,355
Cash flows from investing activities				
Additions to short-term investments	(286)	(578)	–	(482)
Proceeds from disposal of short-term investments	826	1,168	–	234
Purchases of capital assets	(1,639)	(6,318)	(3,431)	(7,680)
Proceeds from disposal of capital assets (note 3)	–	3,318	–	–
Investment in an associate	–	–	–	(12,530)
Business combinations, net of cash acquired	–	–	–	(19,120)
	(1,099)	(2,410)	(3,431)	(39,578)
Cash flows from financing activities				
Bank loan	(3,808)	(5,052)	9,184	11,250
Repayment of long-term debt	(713)	(2,165)	(757)	(1,027)
Redemption of share capital (note 6)	–	(105)	–	–
Acquisition of non-controlling interest	–	–	(3,657)	(3,657)
	(4,521)	(7,322)	4,770	6,566
Effect of foreign exchange rate changes on cash	(306)	(402)	(119)	(289)
Change in cash during the period	(11,140)	865	5,936	(19,946)
Cash – Beginning of the period	24,763	12,758	12,553	38,435
Cash – End of the period	$ 13,623	$ 13,623	$ 18,489	$ 18,489
Supplementary information				
Income taxes paid	$ 391	$ 1,877	$ 426	$ 1,695
Additions to capital assets	$ 1,898	$ 5,269	$ 3,371	$ 8,959

As at May 31, 2018 and 2019, unpaid purchases of capital assets amounted to $1,801 and $739 respectively.

The accompanying notes are an integral part of these condensed unaudited interim consolidated financial statements.

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

1 Nature of Activities and Incorporation

EXFO Inc. and its subsidiaries (together "EXFO" or the "company") develops, manufactures and markets smart network test, monitoring and analytics solutions for fixed and mobile communications service providers (CSPs), web-scale operators, as well as network equipment manufacturers in the global telecommunications industry.

EXFO is a company incorporated under the Canada Business Corporations Act and is domiciled in Canada. The address of its headquarters is 400 Godin Avenue, Quebec City, Quebec, Canada, G1M 2K2.

These condensed unaudited interim consolidated financial statements were authorized for issue by the Board of Directors on July 10, 2019.

2 Basis of Presentation

These condensed unaudited interim consolidated financial statements have been prepared in accordance with the *International Financial Reporting Standards* (IFRS), as issued by the *International Accounting Standards Board* (IASB) applicable to the preparation of interim financial statements, including IAS 34, "*Interim Financial Reporting*", and using the same accounting policies and methods used in the preparation of the company's most recent annual consolidated financial statements, except as described below. Consequently, these condensed unaudited interim consolidated financial statements should be read in conjunction with the company's most recent annual consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB.

Recently Issued IFRS Pronouncements

Recently issued IFRS Pronouncements Adopted in Fiscal 2019

Financial instruments

The final version of IFRS 9, "*Financial Instruments*", was issued in July 2014 replaces 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 its financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. Requirements relating to hedge accounting, representing a new hedge accounting model, have also been added to IFRS 9. The new standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively. The company adopted this new standard on September 1, 2018 using the modified retrospective method. The following table summarizes the impact of its adoption on the company's consolidated balance sheet as at September 1, 2018:

	As reported as at August 31, 2018	Adjustments	As adjusted as at September 1, 2018
Accounts receivable – Trade	$ 47,273	$ (303)	$ 46,970
Income taxes recoverable	$ 4,790	$ 50	$ 4,840
Total assets	$ 284,544	$ (253)	$ 284,291
Retained earnings	$ 114,906	$ (253)	$ 114,653
Shareholders' equity	$ 177,921	$ (253)	$ 177,668

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

In addition, the company's financial instruments are accounted for as follows under IFRS 9 as compared to the company's previous accounting policy with IAS 39:

Financial assets	*Classification – IAS 39*	*Classification – IFRS 9*
Cash	Loans and receivables	Amortized cost
Short-term investments	Available for sale	Fair value through other comprehensive income
Accounts receivable	Loans and receivables	Amortized cost
Other assets	Loans and receivables	Amortized cost
Forward exchange contracts	Derivatives used for hedging	Derivatives used for hedging
Financial liabilities		
Bank loan	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Other liabilities	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Forward exchange contracts	Derivatives used for hedging	Derivatives used for hedging

Hedge accounting

All existing hedge relationships that were designated as effective hedging relationships under IAS 39, were re-designated, and continue to qualify for hedge accounting under IFRS 9. The adoption of IFRS 9 did not change the application of hedge accounting for the company's effective hedges.

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 must apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity recognizes 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. The company adopted this new standard on September 1, 2018 using the modified retrospective method. The company applied this standard retrospectively only to contracts that were not completed at the date of initial application.

The company concluded that the main areas of impact 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" the company's intellectual property. The adoption of the new standard had no material impact on the company's 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. The company adopted this interpretation retrospectively on September 1, 2018 and its adoption did not have a material impact on its consolidated financial statements.

Recently issued IFRS Pronouncements Not Yet Adopted

Leases

IFRS 16, "*Leases*", was issued in January 2016. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer (lessee) and the supplier (lessor). IFRS 16 will supersede IAS 17, "*Leases*", and related interpretations. Under IFRS 16, lessees will recognize a right-of-use asset and a lease liability measured at the present value of lease payments for virtually all of their leases. Short-term leases with a term of 12 months or less are not required to be recognized. This new standard is effective for annual periods beginning on or after January 1, 2019.

The company will adopt this new standard on September 1, 2019, using the modified retrospective method, which does not require adjustments to comparative periods. The company will apply IFRS 16 at the adoption date and recognize right-of-use assets and lease liabilities in the period of adoption. The new standard provides a number of optional practical expedients in transition. Upon implementation of the new standard, the company intends to elect the practical expedients to combine lease and non-lease components, and to not recognize right-of-use assets and lease liabilities for short-term leases. The company is in the process of identifying appropriate changes to its accounting policies, information technology systems, business processes, and related internal controls to support recognition and disclosure requirements under IFRS 16. While the company is not yet able to assess the full impact of the application of this new standard, the company expects that its adoption will materially increase the assets and liabilities recorded on its consolidated balance sheets. However, the company does not expect the adoption of this standard to have a significant impact on the net earnings. The lease expense, previously recorded under cost of sales, selling and administrative expenses and net research and development expenses will be recorded as depreciation and amortization expenses of the right-of-use asset and as interest expenses on the lease liability in the consolidated statements of earnings. In addition, lease payments for the right-of-use asset, previously reported in cash flow from operating activities will be reported in cash flow from financing activities in the consolidated statements of cash flows.

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. The company will adopt this interpretation on September 1, 2019 and is currently assessing the impact that it will have on its consolidated financial statements.

New Accounting Policy upon Adoption of Recently Issued IFRS

Revenue Recognition under IFRS 15

The company exercises judgment and use estimates in connection with determining the amounts of product and services revenues to be recognized in each accounting period.

The company accounts for revenue once a legally enforceable contract with a customer has been approved by the parties and the related promises to transfer products or services have been identified. A contract is defined by the company as an arrangement with commercial substance identifying payment terms, each party's rights and obligations regarding the products or services to be transferred and collection is probable. The company's contracts usually take form of a customer purchase order.

Customer contracts may include promises to transfer multiple products and services to a customer. Determining whether the products and services are considered distinct performance obligations that should be accounted for separately or as one single performance obligation may require significant judgment. The company assesses whether each promised good or service is distinct for the purpose of identifying the various performance obligations in each contract. Promised goods and services are considered distinct provided that: (i) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer; and (ii) the company's promise to transfer the good or service to the customer is separately identifiable or distinct from other promises in the contract. The company derives revenues from goods and services. Sales of goods, which represent the majority of the sales of the company, consist of standalone hardware products, hardware products with embedded software that are essential to providing customers the intended functionality of the solutions, stand-alone software licenses, as well as hardware products bundled with a software license. Sales of services mainly consist of professional services, consulting, stand-ready software-as-a-service (SAAS), maintenance contracts, extended warranties, installation, integration and training. The company's performance obligations consist of a variety of products and services.

Revenue is recognized when control of the products or services are transferred to the customers in an amount that reflects the consideration the company expects to be entitled to in exchange for products and services. Revenue is recognized at the point in time control is transferred to the customer. For hardware sales, transfer of control to the customer typically occurs at the point the product is shipped or delivered to the customer's designated location. For ''right of use'' software license sales, transfer of control to the customer typically occurs upon shipment, electronic delivery, or when the software is available for download by the customer. For instances where software is sold along with essential services, such as integration or installation, transfer of control occurs, and revenue is typically recognized upon customer acceptance. In certain instances, acceptance is deemed to have occurred if all acceptance provisions lapse, or if the company has evidence that all acceptance provisions will be, or have been, satisfied. Revenue from software and hardware support is recognized ratably over the support period. Support services generally include rights to unspecified upgrades (when and if available), telephone and internet-based support, updates, bug fixes and hardware repair and replacement. SAAS services are recognized ratably over the contract term.

If the contract contains a single performance obligation, the entire transaction price is attributed to that performance obligation. Some of the company's contracts include multiple distinct performance obligations with a combination of products and services, maintenance and support, professional services and/or training. The company allocates the transaction price among the performance obligations in an amount that depicts the relative standalone selling prices (SSP) of each obligation. Judgment is required to determine the SSP for each distinct performance obligation. The company assesses SSP based on historical pricing for products and services, whether sold alone or as part of a multiple element transaction. The company reviews sales of the product and services elements on a regular basis and updates, when appropriate, its SSP for such elements to ensure that it reflects recent pricing experience.

Financial Instruments

Financial assets are measured at amortized cost if they are held within a business model whose objective is to hold assets to collect contractual cash flows, and their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Otherwise, they are designated at fair value through profit or loss.

Financial liabilities are measured at amortized cost unless they must be measured at fair value through profit or loss or if the company elects to measure them at fair value through profit or loss.

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

3 Restructuring Charges

In August 2018, the company implemented a restructuring plan to accelerate the integration of its newly acquired monitoring and analytics technologies from EXFO Solutions S.A.S., (formerly Astellia S.A.) and simplify its cost structure and optimize resources as the company converges toward fewer sites and reduces its workforce.

The following table summarizes changes in restructuring charges payable during the three months and nine months ended May 31, 2019:

	Three months ended May 31, 2019	Nine months ended May 31, 2019
Balance – Beginning of the period	$ 1,795	$ 3,167
Additions and reversals (note 7)	(13)	3,305
Payments	(357)	(5,047)
Balance – End of the period	$ 1,425	$ 1,425

On September 9, 2018, as part of its fiscal 2018 restructuring plan and the shutdown of its facilities in Toronto, Canada, the company entered into a binding agreement to sell one of its buildings for net proceeds of $3,318,000. The transfer of ownership occurred in the second quarter of fiscal 2019, as the company continued to use the facility to finalize projects until then. The transaction resulted in a pre-tax gain of $1,732,000 that was recorded in the condensed unaudited interim consolidated statements of earnings for the three months ended February 28, 2019 and the nine months ended May 31, 2019.

In addition, during the three months ended February 28, 2019, as part of its fiscal 2018 restructuring plan and the shutdown of some of its facilities in the United States, the company transferred the ownership of certain intellectual properties held in the United States to Canada. This created a deductible tax asset in Canada and resulted in the recognition of a deferred income tax recovery of $2,383,000 during the three months ended February 28, 2019 as the recovery of this asset is probable. This deferred income tax recovery was recorded in the condensed unaudited interim consolidated statements of earnings for the three months ended February 28, 2019 and the nine months ended May 31, 2019.

4 Financial Instruments

Fair Value of Financial Instruments

The company classifies its derivative and non-derivative financial assets and liabilities measured at fair value using the fair value hierarchy as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

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

The company's short-term investments and forward exchange contracts are measured at fair value at each balance sheet date. The company's short-term investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets. The company's forward exchange contracts are classified within Level 2 of the fair value hierarchy because they are valued using quoted prices and forward exchange rates at the balance sheet dates.

The fair value of forward exchange contracts represents the amount at which they could be settled based on estimated current market rates.

The fair value of derivative and non-derivative financial assets and liabilities measured at fair value by level of fair value hierarchy, is as follows:

	As at May 31, 2019		As at August 31, 2018	
	Level 1	Level 2	Level 1	Level 2
Financial assets				
Short-term investments	$ 1,691	$ –	$ 2,282	$ –
Forward exchange contracts	$ –	$ 33	$ –	$ 318
Financial liabilities				
Forward exchange contracts	$ –	$ 1,837	$ –	$ 807

Derivative Financial Instruments

The functional currency of the company is the Canadian dollar. The company is exposed to currency risk as a result of its export sales of products manufactured in Canada, China, France and Finland, the majority of which are denominated in US dollars and euros. This risk is partially hedged by forward exchange contracts and certain cost of sales and operating expenses (US dollars and euros). In addition, the company is exposed to currency risk as a result of its research and development activities in India (Indian rupees). This risk is partially hedged by forward exchange contracts. The company's forward exchange contracts, which are designated as cash flow hedging instruments, qualify for hedge accounting.

As at May 31, 2019, the company held contracts to sell US dollars for Canadian dollars and Indian rupees at various forward rates, which are summarized below:

US dollars – Canadian dollars

Expiry dates	Contractual amounts	Weighted average contractual forward rates
June 2019 to August 2019	$ 8,700	1.2984
September 2019 to August 2020	33,600	1.3001
September 2020 to August 2021	15,300	1.3067
September 2021 to April 2022	4,500	1.3208
Total	$ 62,100	1.3030

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

US dollars – Indian rupees

Expiry dates	Contractual amounts	Weighted average contractual forward rates
June 2019 to August 2019	600	74.31
September 2019 to May 2020	1,200	72.00
Total	$ 1,800	72.77

The carrying amount of forward exchange contracts is equal to their 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 $489,000 as at August 31, 2018, and $1,804,000 as at May 31, 2019.

As at May 31, 2019, forward exchange contracts in the amount of $33,000 are presented as current assets in other accounts receivable, forward exchange contracts in the amount of $1,347,000 are presented as current liabilities in accounts payable and accrued liabilities, and forward exchange contracts in the amount of $490,000 are presented as long-term liabilities in other long-term liabilities in the consolidated balance sheet. Forward exchange contracts of $224,000 included in accounts payable and accrued liabilities, for which related hedged sales are recognized, are recorded in the consolidated statement of earnings; otherwise, other forward exchange contracts are not yet recorded in the consolidated statement of earnings and are recorded in other comprehensive income.

Based on its portfolio of forward exchange contracts as at May 31, 2019, the company estimates that the portion of the net unrealized losses on these contracts as of that date, which will be realized and reclassified from accumulated other comprehensive loss to net earnings (sales) over the next 12 months, amounts to $1,090,000.

For the three and nine months ended May 31, 2018 and 2019, the company recognized within its sales the following foreign exchange gains or losses on forward exchange contracts:

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Gains (losses) on forward exchange contracts	$ (241)	$ (401)	$ 179	$ 797

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

5 Long-term Debt

	As at May 31, 2019	As at August 31, 2018
Unsecured, non-interest-bearing loans, denominated in euros, repayable in quarterly instalments, maturing in March 2024 and March 2025	$ 895	$ 883
Unsecured loans, denominated in euros, repayable in monthly, quarterly or bi-annual instalments, bearing interest at annual rates of nil to 5.0%, maturing at different dates between March 2020 and September 2023	3,471	4,853
Loans, secured by the universality of the assets of a subsidiary, denominated in euros, repayable in monthly instalments, bearing interest at annual rates of 0.7% to 2.0%, maturing at different dates between June 2019 and August 2022	533	828
Loans, secured by the universality of the assets of a subsidiary, denominated in euros, repayable in monthly or quarterly instalments, bearing interest at annual rates of 1.1% to 2.9%, maturing at different dates between March 2020 and July 2022	1,556	2,264
	6,455	8,828
Current portion of long-term debt	2,579	2,921
	$ 3,876	$ 5,907

Principal repayments of long-term debt over the forthcoming years are as follows:

	As at May 31, 2019	As at August 31, 2018
No later than one year	$ 2,579	$ 2,921
Later than one year and no later than five years	3,774	5,745
Later than five years	102	162
	$ 6,455	$ 8,828

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

6 Share Capital

The following tables summarize changes in share capital for the nine months ended May 31, 2018 and 2019.

	Nine months ended May 31, 2018				
	Multiple voting shares		Subordinate voting shares		
	Number	Amount	Number	Amount	Total amount
Balance as at September 1, 2017	31,643,000	$ 1	23,068,777	$ 90,410	$ 90,411
Redemption of restricted share units	–	–	155,619	–	–
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	598	598
Balance as at November 30, 2017	31,643,000	1	23,224,396	91,008	91,009
Redemption of restricted share units	–	–	182,725	–	–
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	675	675
Balance as at February 28, 2018	31,643,000	1	23,407,121	91,683	91,684
Redemption of restricted share units	–	–	58,335	–	–
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	226	226
Balance as at May 31, 2018	31,643,000	$ 1	23,465,456	$ 91,909	$ 91,910

	Nine months ended May 31, 2019				
	Multiple voting shares		Subordinate voting shares		
	Number	Amount	Number	Amount	Total amount
Balance as at September 1, 2018	31,643,000	$ 1	23,472,995	$ 91,936	$ 91,937
Redemption of restricted share units	–	–	176,729	–	–
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	643	643
Balance as at November 30, 2018	31,643,000	1	23,649,724	92,579	92,580
Redemption of restricted share units	–	–	129,571	–	–
Redemption of share capital	–	–	(32,232)	(126)	(126)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	424	424
Balance as at February 28, 2019	31,643,000	1	23,747,063	92,877	92,878
Redemption of restricted share units	–	–	2,856	–	–
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	11	11
Balance as at May 31, 2019	31,643,000	$ 1	23,749,919	$ 92,888	$ 92,889

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

On January 8, 2019, the company announced that its Board of Directors had approved a share repurchase program, by way of a normal course issued bid on the open market of up to 6.3% of the issued and outstanding subordinate voting shares, representing 1,200,000 subordinate voting shares at the prevailing market price. The normal course issuer bid started on January 14, 2019 and will end on January 13, 2020 or earlier if the company repurchases the maximum number of shares permitted. All shares repurchased under the bid will be cancelled.

7 Statements of Earnings

Sales are as follows:

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Test and measurement	$ 54,359	$ 154,530	$ 49,864	$ 149,934
Service assurance, systems and services	19,469	62,586	22,174	49,599
Foreign exchange gains (losses) on forward exchange contracts	(241)	(401)	179	797
Total sales for the period	$ 73,587	$ 216,715	$ 72,217	$ 200,330

Net research and development expenses comprise the following:

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Gross research and development expenses	$ 13,901	$ 45,283	$ 18,393	$ 46,636
Research and development tax credits	(1,931)	(5,873)	(2,292)	(6,196)
Net research and development expenses for the period	$ 11,970	$ 39,410	$ 16,101	$ 40,440

Inventory write-down is as follows:

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Inventory write-down for the period	$ 390	$ 2,338	$ 681	$ 1,950

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

Depreciation and amortization expenses by functional area are as follows:

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Cost of sales				
Depreciation of property, plant and equipment	$ 462	$ 1,422	$ 583	$ 1,521
Amortization of intangible assets	1,665	5,710	3,879	7,606
	2,127	7,132	4,462	9,127
Selling and administrative expenses				
Depreciation of property, plant and equipment	371	1,077	280	647
Amortization of intangible assets	236	869	174	421
	607	1,946	454	1,068
Net research and development expenses				
Depreciation of property, plant and equipment	535	1,688	692	1,804
Amortization of intangible assets	171	563	157	358
	706	2,251	849	2,162
	$ 3,440	$ 11,329	$ 5,765	$ 12,357
Depreciation of property, plant and equipment	$ 1,368	$ 4,187	$ 1,555	$ 3,972
Amortization of intangible assets	2,072	7,142	4,210	8,385
Total depreciation and amortization expenses for the period	$ 3,440	$ 11,329	$ 5,765	$ 12,357

Employee compensation comprises the following:

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Salaries and benefits	$ 33,742	$ 104,589	$ 38,699	$ 101,848
Restructuring charges	67	2,800	–	–
Stock-based compensation costs	475	1,354	440	1,280
Total employee compensation for the period	$ 34,284	$ 108,743	$ 39,139	$ 103,128

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

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

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Cost of sales	$ 36	$ 107	$ 36	$ 107
Selling and administrative expenses	350	1,015	297	882
Net research and development expenses	89	232	107	291
Total stock-based compensation for the period	$ 475	$ 1,354	$ 440	$ 1,280

Restructuring charges by functional area are as follows:

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Cost of sales	$ –	$ 304	$ –	$ –
Selling and administrative expenses	–	495	–	–
Net research and development expenses	(13)	2,506	–	–
Income taxes	(21)	(63)	–	–
Total restructuring charges for the period	$ (34)	$ 3,242	$ –	$ –

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

8 Income Taxes

For the three months and nine months ended May 31, 2018 and 2019, the reconciliation of the income tax provision (recovery) calculated using the combined Canadian federal and provincial statutory income tax rate with the income tax provision in the financial statements is as follows:

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Income tax provision (recovery) at combined Canadian federal and provincial statutory tax rate (27%)	$ 920	$ 630	$ (1,244)	$ (777)
Increase (decrease) due to:				
Foreign income taxed at different rates	248	236	44	(26)
Non-deductible loss (non-taxable income)	46	79	147	(60)
Non-deductible expenses	174	425	239	1,189
Change in tax rates	–	–	–	167
Effect of the US tax reform	–	–	–	1,528
Foreign exchange effect of translation of foreign subsidiaries in the functional currency	(100)	(384)	(131)	(366)
Recognition of previously unrecognized deferred income tax assets (note 3)	–	(2,383)	–	–
Utilization of previously unrecognized deferred income tax assets	333	(58)	(112)	(394)
Unrecognized deferred income tax assets on temporary deductible differences and unused tax losses	1,442	4,797	2,411	4,744
Other	322	1,244	9	(581)
Income tax provision for the period	$ 3,385	$ 4,586	$ 1,363	$ 5,424

The income tax provision consists of the following:

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Current	$ 3,527	$ 6,881	$ 974	$ 2,891
Deferred	(142)	(2,295)	389	2,533
	$ 3,385	$ 4,586	$ 1,363	$ 5,424

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

9 Earnings per Share

The following table summarizes the reconciliation of the basic weighted average number of shares outstanding to the diluted weighted average number of shares outstanding:

	Three months ended May 31, 2019	Nine months ended May 31, 2019	Three months ended May 31, 2018	Nine months ended May 31, 2018
Basic weighted average number of shares outstanding (000's)	55,392	55,306	55,099	54,959
Plus dilutive effect of (000's):				
Restricted share units	826	–	–	–
Deferred share units	219	–	–	–
Diluted weighted average number of shares outstanding (000's)	56,437	55,306	55,099	54,959
Stock awards excluded from the calculation of diluted weighted average number of shares because their exercise price was greater than the average market price of the common shares, or their inclusion would be antidilutive (000's)	1,706	1,698	1,796	1,802

For the three months ended May 31, 2018 and the nine months ended May 31, 2018 and 2019, the diluted amount per share was the same amount as the basic amount per share since the dilutive effect of restricted share units and deferred share units was not included in the calculation; otherwise, the effect would have been antidilutive. Accordingly, the diluted amount per share for these periods was calculated using the basic weighted average number of shares outstanding.