Independent Auditor's Report

To the Shareholders of
EXFO Inc.

We have completed integrated audits of EXFO Inc.'s and its subsidiaries 2013 and 2012 consolidated financial statements and their internal control over financial reporting as at August 31, 2013 and an audit of their 2011 consolidated financial statements. Our opinions, based on our audits, are presented below.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of EXFO Inc. and its subsidiaries, which comprise the consolidated balance sheets as at August 31, 2013 and August 31, 2012 and the consolidated statements of earnings, comprehensive income (loss), changes in shareholders' equity and cash flows for each of the three years in the period ended August 31, 2013, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of EXFO Inc. and its subsidiaries as at August 31, 2013 and August 31, 2012 and their financial performance and their cash flows for each of the three years in the period ended August 31, 2013 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on internal control over financial reporting
We have also audited EXFO Inc.'s and its subsidiaries' internal control over financial reporting as at August 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibility for internal control over financial reporting
Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the section "Management's Annual Report on Internal Control over Financial Reporting" included in Item 15 b) of the Annual Report on Form 20-F.

Auditor's responsibility
Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the company's internal control over financial reporting.

Definition of internal control over financial reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent limitations
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Opinion
In our opinion, EXFO Inc. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as at August 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by COSO.

PricewaterhouseCoopers LLP[1]

November 25, 2013
Montréal, Quebec, Canada

[1] CPA auditor, CA, public accountancy permit No. A115888

EXFO Inc.
Consolidated Balance Sheets

(in thousands of US dollars)

	As at August 31, 2013	As at August 31, 2012
Assets		
Current assets		
Cash	$ 45,386	$ 58,868
Short-term investments (note 6)	4,868	8,236
Accounts receivable (note 6)		
Trade	50,117	37,643
Other	2,778	4,283
Income taxes and tax credits recoverable (note 21)	6,525	9,024
Inventories (note 7)	35,705	41,212
Prepaid expenses	2,561	3,800
	147,940	163,066
Tax credits recoverable (note 21)	41,719	38,397
Property, plant and equipment (notes 8 and 23)	45,523	49,848
Intangible assets (notes 9 and 23)	7,543	14,132
Goodwill (notes 9 and 23)	27,313	29,160
Deferred income tax assets (note 21)	10,807	12,080
Other assets	693	–
	$ 281,538	$ 306,683
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	$ 26,253	$ 32,392
Provisions (note 11)	756	952
Income taxes payable	679	917
Current portion of long-term debt (note 13)	296	565
Deferred revenue	9,467	10,583
	37,451	45,409
Deferred revenue	3,932	4,997
Long-term debt (note 13)	–	282
Deferred income tax liabilities (note 21)	3,226	2,105
Other liabilities	477	609
	45,086	53,402
Commitments (note 14)		
Shareholders' equity		
Share capital (note 15)	109,837	110,965
Contributed surplus	17,186	17,298
Retained earnings	112,852	111,511
Accumulated other comprehensive income (loss) (note 16)	(3,423)	13,507
	236,452	253,281
	$ 281,538	$ 306,683

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

On behalf of the Board

/s/ Germain Lamonde
GERMAIN LAMONDE
Chairman, President and CEO

/s/ Guy Marier
GUY MARIER
Chairman, Audit Committee

EXFO Inc.

Consolidated Statements of Earnings

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

	Years ended August 31,		
	2013	**2012**	**2011**
Sales (note 23)	$ 242,150	$ 249,966	$ 269,743
Cost of sales [1] (note 19)	92,469	91,792	100,296
Selling and administrative (note 19)	88,756	94,139	87,062
Net research and development (note 19)	45,444	49,854	47,927
Depreciation of property, plant and equipment (note 19)	6,028	6,169	6,655
Amortization of intangible assets (note 19)	6,643	7,819	9,183
Changes in fair value of cash contingent consideration (note 12)	–	(311)	(2,685)
Interest and other income	(113)	(131)	(511)
Foreign exchange (gain) loss	(4,082)	657	3,808
Earnings (loss) before income taxes	7,005	(22)	18,008
Income taxes (note 21)	5,664	3,571	8,814
Net earnings (loss) from continuing operations	1,341	(3,593)	9,194
Net earnings from discontinued operations (note 3)	–	–	12,926
Net earnings (loss) for the year	$ 1,341	$ (3,593)	$ 22,120
Basic and diluted net earnings (loss) from continuing operations per share	$ 0.02	$ (0.06)	$ 0.15
Basic net earnings (loss) per share	$ 0.02	$ (0.06)	$ 0.37
Diluted net earnings (loss) per share	$ 0.02	$ (0.06)	$ 0.36
Basic weighted average number of shares outstanding (000's)	60,323	60,453	60,000
Diluted weighted average number of shares outstanding (000's) (note 22)	61,110	60,453	61,488

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

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

EXFO Inc.

Consolidated Statements of Comprehensive Income (Loss)

(in thousands of US dollars)

	Years ended August 31,		
	2013	2012	2011
Net earnings (loss) for the year	$ 1,341	$ (3,593)	$ 22,120
Other comprehensive income (loss), net of income taxes			
Items that will not be reclassified subsequently to net earnings			
Foreign currency translation adjustment	(15,830)	(6,875)	19,123
Items that may be reclassified subsequently to net earnings			
Reclassification of realized losses on short-term investments in net earnings	–	–	2
Unrealized gains/losses on forward exchange contracts	(1,256)	185	3,413
Reclassification of realized gains/losses on forward exchange contracts in net earnings	(247)	(1,108)	(2,191)
Deferred income tax effect of gains/losses on forward exchange contracts	403	256	(314)
Other comprehensive income (loss)	(16,930)	(7,542)	20,033
Comprehensive income (loss) for the year	$ (15,589)	$ (11,135)	$ 42,153

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

EXFO Inc.
Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

	Year ended August 31, 2011				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance as at September 1, 2010	$ 106,126	$ 18,563	$ 92,984	$ 1,016	$ 218,689
Exercise of stock options (note 15)	1,452	–	–	–	1,452
Reclassification of stock-based compensation costs (note 15)	2,763	(2,763)	–	–	–
Stock-based compensation costs	–	2,217	–	–	2,217
Net earnings for the year	–	–	22,120	–	22,120
Other comprehensive income					
Foreign currency translation adjustment	–	–	–	19,123	19,123
Changes in unrealized losses on short-term investments	–	–	–	2	2
Changes in unrealized gains on forward exchange contracts, net of deferred income taxes of $314	–	–	–	908	908
Total comprehensive income for the year	–	–	22,120	20,033	42,153
Balance as at August 31, 2011	$ 110,341	$ 18,017	$ 115,104	$ 21,049	$ 264,511

	Year ended August 31, 2012				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance as at September 1, 2011	$ 110,341	$ 18,017	$ 115,104	$ 21,049	$ 264,511
Exercise of stock options (note 15)	310	–	–	–	310
Redemption of share capital (note 15)	(1,696)	(540)	–	–	(2,236)
Reclassification of stock-based compensation costs (note 15)	2,010	(2,010)	–	–	–
Stock-based compensation costs	–	1,831	–	–	1,831
Net loss for the year	–	–	(3,593)	–	(3,593)
Other comprehensive loss					
Foreign currency translation adjustment	–	–	–	(6,875)	(6,875)
Changes in unrealized gains on forward exchange contracts, net of deferred income taxes of $256	–	–	–	(667)	(667)
Total comprehensive loss for the year	–	–	(3,593)	(7,542)	(11,135)
Balance as at August 31, 2012	$ 110,965	$ 17,298	$ 111,511	$ 13,507	$ 253,281

	Year ended August 31, 2013				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity
Balance as at September 1, 2012	$ 110,965	$ 17,298	$ 111,511	$ 13,507	$ 253,281
Exercise of stock options (note 15)	87	–	–	–	87
Redemption of share capital (note 15)	(2,565)	(531)	–	–	(3,096)
Reclassification of stock-based compensation costs (note 15)	1,350	(1,350)	–	–	–
Stock-based compensation costs	–	1,769	–	–	1,769
Net earnings for the year	–	–	1,341	–	1,341
Other comprehensive loss					
Foreign currency translation adjustment	–	–	–	(15,830)	(15,830)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of $403	–	–	–	(1,100)	(1,100)
Total comprehensive income (loss) for the year	–	–	1,341	(16,930)	(15,589)
Balance as at August 31, 2013	$ 109,837	$ 17,186	$ 112,852	$ (3,423)	$ 236,452

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

EXFO Inc.
Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Years ended August 31,		
	2013	2012	2011
Cash flows from operating activities			
Net earnings (loss) for the year	$ 1,341	$ (3,593)	$ 22,120
Add (deduct) items not affecting cash			
Change in discount on short-term investments	–	45	(42)
Stock-based compensation costs	1,768	1,862	2,256
Depreciation and amortization	12,671	13,988	15,856
Gain on disposal of discontinued operations (note 3)	–	–	(13,212)
Gain on disposal of capital assets	–	–	(568)
Changes in fair value of cash contingent consideration (note 12)	–	(311)	(2,685)
Deferred revenue	(1,266)	(506)	(1,262)
Deferred income taxes	2,951	2,050	7,063
Changes in foreign exchange gain/loss	(1,091)	(1,510)	2,130
	16,374	12,025	31,656
Changes in non-cash operating items			
Accounts receivable	(14,765)	7,974	10,066
Income taxes and tax credits	(4,205)	(5,570)	(6,714)
Inventories	2,916	10,879	(8,751)
Prepaid expenses	993	(589)	(232)
Other assets	(703)	–	–
Accounts payable and accrued liabilities and provisions	(2,373)	643	(2,775)
Other liabilities	(258)	(105)	60
	(2,021)	25,257	23,310
Cash flows from investing activities			
Additions to short-term investments	(54,489)	(115,886)	(516,674)
Proceeds from disposal and maturity of short-term investments	57,514	152,797	481,945
Additions to capital assets (notes 8 and 9)	(8,026)	(23,849)	(12,164)
Proceeds from disposal of capital assets	–	–	568
Net proceeds from disposal of discontinued operations (note 3)	–	–	22,063
Business combination	–	–	(1,049)
	(5,001)	13,062	(25,311)
Cash flows from financing activities			
Bank loan	–	(782)	772
Repayment of long-term debt	(589)	(577)	(619)
Exercise of stock options	87	310	1,452
Redemption of share capital	(3,096)	(2,236)	–
	(3,598)	(3,285)	1,605
Effect of foreign exchange rate changes on cash	(2,862)	1,063	1,058
Change in cash	(13,482)	36,097	662
Cash – Beginning of year	58,868	22,771	22,109
Cash – End of year	$ 45,386	$ 58,868	$ 22,771
Supplementary information			
Interest received	$ 668	$ 591	$ 554
Interest paid	$ 37	$ 76	$ 159
Income taxes paid	$ 1,373	$ 1,494	$ 1,878

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

EXFO Inc.
Notes to Consolidated Financial Statements

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

1 Nature of Activities and Incorporation

EXFO Inc. and its subsidiaries (together "EXFO" or the company) design, manufacture and market test and service assurance solutions for wireless and wireline network operators and equipment manufacturers in the global telecommunications industry. The company offers core-to-edge solutions to assess the performance and reliability of converged Internet protocol (IP) fixed and mobile networks.

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

These consolidated financial statements were authorized for issue by the Board of Directors on October 8, 2013.

2 Basis of Presentation

These consolidated financial statements have been prepared in accordance with the *International Financial Reporting Standards* (IFRS), as issued by the *International Accounting Standard Board* (IASB). The company has consistently applied the same accounting policies through all periods presented.

These IFRS consolidated financial statements have been prepared based on the following accounting policies:

Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of derivative financial instruments and available-for-sale investments.

Consolidation

These consolidated financial statements include the accounts of the company and its domestic and international subsidiaries. Intercompany accounts and transactions have been eliminated.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in the ordinary course of business.

Sales of goods

Revenue from the sales of goods, which represents the majority of the sales of the company, is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually upon delivery of the goods. Revenue is recorded based on the price specified in the sales arrangement.

Maintenance contracts

Maintenance contracts are usually offered to customers for periods of 12 to 36 months. They generally include the right to unspecified upgrades and enhancements on a when-and-if-available basis as well as customer service. Revenue from these contracts is recognized ratably over the terms of the maintenance contracts on a straight-line basis.

Extended warranties

Extended warranties are usually offered to customers for periods of 12 to 48 months. Revenue from these extended warranties is recognized ratably over the warranty period on a straight-line basis.

Multiple-component arrangements

When a sales arrangement includes multiple separately identifiable components such as goods, extended warranties, maintenance contracts and installation, the revenue recognition criteria are applied to each separately identifiable component. A component is considered separately identifiable if the delivered item has value to the customer on a stand-alone basis and the fair value associated with the component can be measured reliably. The company allocates the selling price of a multiple-component arrangement to each component based on the fair value of each component in relation to the fair value of the arrangement as a whole.

Sales arrangements may include acceptance clauses. When a sales arrangement does include an acceptance provision, acceptance occurs upon the earliest of receipt of a written customer acceptance or expiration of the acceptance period. For these sales arrangements, the sale is recognized when acceptance occurs.

Presentation currency

The functional currency of the company is the Canadian dollar. The company has adopted the US dollar as its presentation currency as it is the most commonly used reporting currency in its industry. The consolidated financial statements are translated into the presentation currency as follows: assets and liabilities are translated at the exchange rate in effect on the date of the balance sheet; revenues and expenses are translated at the monthly average exchange rate. The foreign currency translation adjustment arising from such translation is included in accumulated other comprehensive income in the shareholders' equity.

Foreign currency translation

a) *Foreign currency transactions*

Transactions denominated in currencies other than the functional currency are translated into the relevant functional currency as follows: monetary assets and liabilities are translated at the exchange rate in effect on the date of the balance sheet, and revenues and expenses are translated at the exchange rate in effect on the date of the transaction. Non-monetary assets and liabilities measured at historical cost and denominated in a foreign currency are translated using the exchange rate at the date of the transaction; and non-monetary items that are measured at fair value and denominated in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange gains and losses arising from such translation are included in the consolidated statements of earnings.

b) *Foreign operations*

Each foreign operation determines its own functional currency and items included in the financial statements of each foreign operation are measured using that functional currency. The financial statements of each foreign operation that has a functional currency different from the company are translated into Canadian dollars as follows: assets and liabilities are translated at the exchange rate in effect on the date of the balance sheet; revenues and expenses are translated at the monthly average exchange rate. The foreign currency translation adjustment arising from such translation is included in accumulated other comprehensive income in the shareholders' equity.

Financial instruments

The classification of financial instruments depends on the intended purpose when the financial instruments were acquired or issued, as well as on their characteristics and designation by the company.

Classification

Financial assets

Cash	Loans and receivables
Short-term investments	Available for sale
Accounts receivable	Loans and receivables
Other assets	Loans and receivables

Financial liabilities

Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities
Other liabilities	Other financial liabilities

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale, or are not classified in any of the other categories. They are initially recognized at fair value plus transaction costs and they are subsequently measured at fair value. After their initial recognition, any changes in their fair value are reflected in other comprehensive income.

Interest on available-for-sale financial assets, calculated using the effective interest method, is recognized in the consolidated statements of earnings.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After their initial measurement at fair value plus transaction costs, they are carried at amortized cost, using the effective interest rate method, which generally corresponds to the nominal amount due to their short-term maturity.

Other financial liabilities

Other financial liabilities are non-derivative financial liabilities initially measured at fair value plus transaction costs and they are subsequently carried at amortized cost, using the effective interest rate method, which generally corresponds to the nominal amount due to their short-term maturity.

Derivative financial instruments and hedging activities

Forward exchange contracts are utilized by the company to manage its foreign currency exposure. Forward exchange contracts are entered into by the company to hedge anticipated US-dollar-denominated sales and the related accounts receivable. The company's policy is not to utilize those derivative financial instruments for trading or speculative purposes.

The company's forward exchange contracts, which are designated as cash flow hedging instruments, qualify for hedge accounting.

They are initially recorded at fair value plus transaction costs and they are subsequently measured at fair value. After initial recognition, the effective portion of changes in their fair value is reflected in other comprehensive income. Any ineffective portion is recognized immediately in the consolidated statements of earnings. Upon the recognition of related hedged sales, accumulated changes in fair value are reclassified in sales in the consolidated statements of earnings.

At the inception of a hedge relationship, the company formally designates and documents the hedge relationship to which the company wishes to apply hedge accounting, the risk management objectives, the hedging instrument, the hedged item and the method used to test effectiveness. The company assesses effectiveness of the hedge relationship at inception and on an ongoing basis using the dollar-offset method.

Fair value hierarchy

The company'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 hierarchy because they are valued using quoted prices and forward foreign exchange rates at the balance sheet date.

Short-term investments

All investments with original terms to maturity of three months or less and that are not required for the purposes of meeting short-term cash requirements are classified as short-term investments. Short-term investments are classified as available-for-sale financial assets; therefore, they are carried at fair value in the balance sheet, and any changes in their fair value are reflected in other comprehensive income. Upon the disposal or maturity of these assets, accumulated changes in their fair value are reclassified in the consolidated statements of earnings.

Inventories

Inventories are valued on an average cost basis, at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

The cost of work in progress and finished goods includes material, labor and an allocation of manufacturing overhead.

Property, plant and equipment and depreciation

Property, plant and equipment are recorded at cost, net of accumulated depreciation and accumulated impairment losses. Such cost is reduced by related research and development tax credits.

Depreciation is provided on a straight-line basis over the estimated useful lives of the asset as follows:

	Term
Land improvements	5 years
Buildings	20 to 60 years
Equipment	3 to 15 years
Leasehold improvements	The lesser of useful life and remaining lease term

The assets' residual values and useful lives are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

Intangible assets, goodwill and amortization

Intangible assets

Intangible assets with finite useful lives primarily include the cost of core technology, customer relationships, brand names and software. The cost of intangible assets acquired in a business combination is the fair value of the assets at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is provided on a straight-line basis over the estimated useful lives of five years for core technology, customer relationships and brand names, and four and ten years for software. None of the company's intangible assets was developed internally.

The amortization method and the useful lives of intangible assets are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of net identifiable assets acquired, and is allocated to each cash-generating unit (CGU) or group of CGUs that are expected to benefit from the related business combination. A group of CGUs represents the lowest level within the company at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment. Goodwill is not amortized but must be tested for impairment on an annual basis or more frequently if events or circumstances indicate that it might be impaired.

Research and development

All costs related to research are expensed as incurred, net of related tax credits and grants. Development costs are expensed as incurred, net of related tax credits and grants, unless they meet the recognition criteria of intangible assets of IAS 38, "*Intangible Assets*'', in which case they are capitalized, net of related tax credits and grants and amortized on a straight-line basis over the estimated benefit period. Research and development expenses are mainly comprised of salaries and related expenses, material costs as well as fees paid to third-party consultants. As at August 31, 2012 and 2013, the company had not capitalized any development costs.

The company elected to account for non-refundable research and development tax credits under IAS 20, "*Accounting for Governmental Grants and Disclosures of Governmental Assistance*'', and as such, these tax credits are presented against gross research and development expenses in the consolidated statements of earnings.

Impairment of non-financial assets

The company assesses at each reporting date whether there is an indication that the carrying value of property, plant and equipment and finite-life intangible assets may not be recoverable. Non-financial assets that are not amortized (such as goodwill) are subject to an annual impairment test. If any indication exists, or when annual impairment testing is required, the company estimates the asset or asset group's recoverable amount. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). The recoverable amount is the higher of an asset or CGU's fair value less costs to sell and its value in use. Where the carrying value of an asset or CGU exceeds its recoverable amount, the asset or the CGU is considered impaired and is written down to its recoverable amount. The company performs its annual goodwill impairment test in the fourth quarter of each fiscal year.

For property, plant and equipment and finite-life intangible assets, the reversal of impairment is limited so that the carrying value of the asset does not exceed its recoverable amount, nor exceed the carrying value that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior periods. Impairment losses on goodwill are not reversed.

Leases

Operating leases are leases where the company does not assume substantially all the risks and rewards of ownership of the asset. Operating lease rentals are charged to the consolidated statements of earnings on a straight-line basis over the lease term.

As at August 31, 2012 and 2013, all significant leases of the company were classified as operating leases.

Government grants

Grants related to operating expenses are included in earnings when the related expenses are incurred. Grants related to capital expenditures are deducted from the related assets. Grants are included in earnings or deducted from the related assets, provided there is reasonable assurance that the company has complied and will comply with all the conditions related to the grant and that the grants will be received.

Warranty

The company offers its customers basic warranties of one to three years, depending on the specific products and terms of the purchase agreement. The company's typical warranties require it to repair or replace defective products during the warranty period at no cost to the customer. Costs related to basic warranties are accrued at the time of shipment, based upon estimates of expected rework and warranty costs to be incurred. Costs associated with separately priced extended warranties are expensed as incurred.

Income taxes

Income taxes comprise current and deferred income taxes.

Current income taxes

The current income tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered or paid to the taxation authorities. The income tax rates used to calculate the amount are those that are enacted or substantively enacted at the balance sheet dates in the tax jurisdiction where the company generates taxable income/loss.

Deferred income taxes

The company provides for deferred income taxes using the liability method. Under this method, deferred income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities as well as the carry-forward of unused tax losses and deductions, using enacted or substantively enacted income tax rates at the balance sheet dates, that are expected to be in effect for the years in which the assets are expected to be recovered or the liabilities to be settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available against which the deductible temporary differences as well as unused tax losses and deductions can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences and for taxable temporary differences arising on investments in subsidiaries, except where the reversal of the temporary differences can be controlled and it is probable that the differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current in the consolidated balance sheets.

Uncertain tax positions

The company is subject to taxation in numerous jurisdictions. There are many transactions and calculations during the course of business for which the ultimate tax determination is uncertain. The company maintains provisions for uncertain tax positions that it believes appropriately reflect its risk. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The company reviews the adequacy of these provisions at the end of the reporting periods. However, it is possible that at some future date, liabilities in excess of the company's provisions could result from audits by, or litigation with, the relevant taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will be recognized in the statement of earnings in the period in which such determination is made.

Earnings per share

Basic earnings per share are calculated by dividing net earnings attributable to common equity holders of the company by the weighted average number of common shares outstanding during the year.

Diluted earnings per share are calculated by dividing net earnings attributable to common equity holders of the company by the weighted average number of common shares outstanding during the year, plus the effect of dilutive potential common shares outstanding during the year. This method requires that diluted earnings per share be calculated (using the treasury stock method) as if all dilutive potential common shares had been exercised at the latest at the beginning of the year or on the date of issuance, as the case may be, and that the funds obtained thereby (plus an amount equivalent to the unamortized portion of related stock-based compensation costs) be used to purchase common shares of the company at the average market price of the common shares during the year.

Stock-based compensation costs

Equity-settled awards

The company's stock options, restricted share units and deferred share units are equity-settled awards. The company accounts for stock-based compensation costs on equity-settled awards using the Black-Scholes option valuation model. The fair value of equity-settled awards is measured at the date of grant. Stock-based compensation costs are amortized to expense over the vesting periods together with a corresponding change in contributed surplus in the shareholders' equity. For equity-settled awards with graded vesting, each tranche is considered a separate grant with a different vesting date and fair value, and each tranche is accounted for separately.

Cash-settled awards

The company's stock appreciation rights are cash-settled awards. The company accounts for stock-based compensation costs on cash-settled awards using the Black-Scholes option valuation model. The fair value of the cash-settled awards is remeasured at the end of each reporting period, with any changes in the fair value recognized in the consolidated statements of earnings.

Critical accounting judgments and estimates

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those judgments, estimates and assumptions.

Critical judgments, estimates and assumptions are the following:

Critical judgments

a) *Determination of functional currency*

The company operates in multiple countries and generates revenue and incurs expenses in several currencies, namely the Canadian dollar, the US dollar, the euro, the British Pound, the Indian rupee and the CNY (Chinese currency). The determination of the functional currency of the company and its subsidiaries may require significant judgment. In determining the functional currency of the company and its subsidiaries, management takes into account primary, secondary and tertiary indicators. When indicators are mixed and the functional currency is not obvious, management uses its judgment to determine the functional currency.

For the years ended August 31, 2011 and 2012, the company had one foreign operation (NetHawk) having the euro as its functional currency. During the year ended August 31, 2013, following changes in the organizational structure affecting this subsidiary and centralization of certain of its activities into those of the parent company (note 9) and based on the analysis of relevant indicators, management has determined that the functional currency of this subsidiary is now the Canadian dollar. In accordance with IAS 21, "The *Effects of Changes in Foreign Exchange Rates*", this change has been accounted for prospectively from the date of the change.

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.

During the year ended August 31, 2013, following changes in the organizational structure affecting the NetHawk CGU and centralization of certain of its activities into those of the parent company, management applied judgment in reallocating the goodwill associated with the NetHawk CGU to the parent company's operations (note 9). The reallocation of goodwill did not trigger impairment.

Critical estimates and assumptions

a) *Inventories*

The company states its inventories at the lower of cost, determined on an average cost basis, and net realizable value, and provides reserves for excess and obsolete inventories. The company determines its reserves for excess and obsolete inventories based on the quantities on hand at the reporting dates compared to foreseeable needs over the next 12 months, taking into account changes in demand, technology or market.

b) Income taxes

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

c) Tax credits recoverable

Tax credits are recorded provided that there is reasonable assurance that the company has complied and will comply with all the conditions related to the tax credits and that the tax credits will be received. The ultimate recovery of the company's non-refundable-long-term tax credits is dependent upon the generation of sufficient future taxable income during the tax credits carry-forward periods. Management has made reasonable estimates and assumptions to determine the amount of non-refundable-long-term tax credits that can be recognized in the consolidated financial statements, based upon the likely timing and level of anticipated future taxable income together with tax planning strategies (note 21).

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 to sell and its value in use. The fair value less costs to sell calculation is based on available data from a binding sales agreement in an arm's length transaction, available data from observable active market prices less incremental costs for disposing of the asset, the company's stock price, or data from recent transactions of similar assets, within the same industry, when available. When such information is not available, or to supplement this information, the company uses discounted cash flows. The establishment of discounted cash flows requires the use of estimates and assumptions, including management's expectations of future revenue growth, operating costs and profit margins as well as discount rates for each CGU. Estimates and assumptions used to establish discounted cash flows are described in note 9.

i) Growth rates

The assumptions used are based on the company's historical growth, internal budget, expectations of future revenue growth 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), plus a premium to take into account specific risks of the CGU, as the case may be.

New IFRS pronouncements and amendments

Adopted during the year

Financial statement presentation

The *International Accounting Standard Board* (IASB) amended IAS 1, "*Financial Statement Presentation*". The amendments to IAS 1 require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to the statement of earnings in the future. Items that will not be reclassified will be presented separately from items that may be reclassified in the future, such as unrealized gains and losses on cash-flow hedges. The amendments are effective for annual periods beginning on or after July 1, 2012. The company adopted these amendments on September 1, 2012 and classified items of other comprehensive income accordingly.

Issued but not yet adopted

Financial instruments

IFRS 7, "*Financial Instruments: Disclosures*", has been amended to enhance disclosure requirements related to offsetting of financial assets and liabilities. The amendments are applicable retrospectively for annual periods beginning on or after January 1, 2013. The company will adopt these amendments on September 1, 2013 and expects their adoption to have no significant impact on its consolidated financial statements.

IFRS 9, "*Financial Instruments*", was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39, "*Financial Instruments – Recognition and Measurement*", for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return on investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added to IFRS 9 in October 2010, and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. This standard is effective for annual periods beginning on or after January 1, 2015. The company has not yet assessed the impact that this new standard is likely to have on its consolidated financial statements.

The IASB issued the following standards: IFRS 10, "*Consolidated Financial Statements*", IFRS 11, "*Joint Arrangements*", IFRS 12, "*Disclosure of Interests in Other Entities*", and IFRS 13, "*Fair Value Measurement*". Each of these new standards is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The company will adopt these new standards on September 1, 2013 and does not expect them to have a significant impact on its consolidated financial statements.

The following is a brief summary of these new standards:

Consolidation

IFRS 10, "*Consolidated Financial Statements*", requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when a company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces Standing Interpretations Committee ("SIC") 12, "*Consolidation – Special Purpose Entities*", and parts of IAS 27, "*Consolidated and Separate Financial Statements*".

Joint arrangements

IFRS 11, "*Joint Arrangements*", requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operations. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation, the venturer will recognize its share of the assets, liabilities, revenues and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity-account for interests in joint ventures. IFRS 11 replaces IAS 31, "*Interests in Joint Ventures*" and SIC 13, "*Jointly Controlled Entities–Non-Monetary Contributions by Venturers*".

Disclosure of interests in other entities

IFRS 12, "*Disclosure of Interests in Other Entities*", establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates and structured entities. This standard carries forward existing disclosures and introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

Fair value measurement

IFRS 13, "*Fair Value Measurement*", is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and, in many cases, does not reflect a clear measurement basis or consistent disclosures.

3 Discontinued Operations

On October 1, 2010, the company closed the sale of the Life Sciences and Industrial Division for total proceeds of $21,623,000, net of a bank overdraft of $303,000, selling costs of $909,000 and deferred income taxes of $141,000. As such, revenues and expenses were presented as discontinued operations for the year ended August 31, 2011.

The results of the discontinued operations are as follows:

	Year ended August 31, 2011 (30 days)
Sales	$ 1,991
Cost of goods sold and operating expenses	$ 1,997
Gain from disposal of discontinued operations	$ 13,212
Net earnings from discontinued operations	$ 12,926
Basic net earnings from discontinued operations per share	$ 0.22
Diluted net earnings from discontinued operations per share	$ 0.21

4 Restructuring charges

In June 2012, the company implemented a restructuring plan to align its cost structure to the challenging market environment. This plan resulted in one-time severance expenses of $2,418,000. During the year ended August 31, 2012, the company recorded charges of $2,329,000 in severance expenses under that plan. The remaining of the expenses of $89,000 was recorded during the year ended August 31, 2013 (note 19).

5 Capital Disclosures

The company is not subject to any external restrictions on its capital.

The company's objectives when managing capital are:

- To maintain a flexible capital structure that optimizes the cost of capital at acceptable risk;
- To sustain future development of the company, including research and development activities, market development, and potential acquisitions of complementary businesses or products; and
- To provide the company's shareholders with an appropriate return on their investment.

No changes were made in the objectives and policies during the years ended August 31, 2012 and 2013.

The company defines its capital as shareholders' equity, excluding accumulated other comprehensive income (loss). The capital of the company amounted to $239,774,000 and $239,875,000 as at August 31, 2012 and 2013 respectively.

6 Financial Instruments

The following tables summarize financial instruments by category:

	As at August 31, 2013				
	Loans and receivable	Available for sale	Other financial liabilities	Derivatives used for hedging	Total
Financial assets					
Cash	$ 45,386	$ –	$ –	$ –	$ 45,386
Short-term investments	$ –	$ 4,868	$ –	$ –	$ 4,868
Accounts receivable	$ 52,895	$ –	$ –	$ –	$ 52,895
Other assets	$ 167	$ –	$ –	$ –	$ 167
Financial liabilities					
Accounts payable and accrued liabilities	$ –	$ –	$ 25,679	$ –	$ 25,679
Forward exchange contracts	$ –	$ –	$ –	$ 722	$ 722
Long-term debt	$ –	$ –	$ 296	$ –	$ 296

	As at August 31, 2012				
	Loans and receivable	Available for sale	Other financial liabilities	Derivatives used for hedging	Total
Financial assets					
Cash	$ 58,868	$ –	$ –	$ –	$ 58,868
Short-term investments	$ –	$ 8,236	$ –	$ –	$ 8,236
Accounts receivable	$ 41,128	$ –	$ –	$ –	$ 41,128
Forward exchange contracts	$ –	$ –	$ –	$ 798	$ 798
Financial liabilities					
Accounts payable and accrued liabilities	$ –	$ –	$ 32,392	$ –	$ 32,392
Long-term debt	$ –	$ –	$ 847	$ –	$ 847
Other liabilities	$ –	$ –	$ 163	$ –	$ 163

Fair value

Based on market value, the fair value of short-term investments amounted to $8,236,000 and $4,868,000 as at August 31, 2012 and 2013 respectively.

Cash, accounts receivable and accounts payable and accrued liabilities are financial instruments whose carrying values approximate their fair values due to their short-term maturities. The fair value of other assets, the long-term debt and other liabilities approximates their carrying value due to their relatively short-term maturities.

The carrying value of forward exchange contracts is equal to fair value, which represents the amount at which they could be settled based on estimated current market rates. The fair value of forward exchange contracts amounted to net gains of $932,000 as at August 31, 2012 and net losses of $808,000 as at August 31, 2013.

Based on the portfolio of forward exchange contracts as at August 31, 2013, the company estimates that the portion of unrealized losses on these contracts as of that date, which will be realized and reclassified from accumulated other comprehensive income to net earnings over the next 12 months, amounts to $574,000.

As at August 31, 2013, forward-exchange contracts of $574,000 are presented as current liabilities in accounts payable and accrued liabilities and forward-exchange contracts of $148,000 are presented as long-term liabilities in other long-term liabilities in the balance sheet. These forward exchange contracts are not yet recorded within sales.

As at August 31, 2012, forward exchange contracts of $798,000 were presented as current assets in other receivable in the balance sheet.

For the years ended August 31, 2011, 2012 and 2013, the company recognized within its sales foreign exchange gains on forward exchange contracts of $2,795,000, $1,125,000 and $380,000 respectively.

Market risk

Currency risk

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

As at August 31, 2012 and 2013, the company held contracts to sell US dollars for Canadian dollars at various forward rates, which are summarized as follows:

Expiry dates	Contractual amounts	Weighted average contractual forward rates
As at August 31, 2012		
September 2012 to August 2013	$ 23,000	1.0228
September 2013 to August 2014	3,600	1.0439
Total	$ 26,600	1.0256
As at August 31, 2013		
September 2013 to August 2014	$ 22,200	1.0280
September 2014 to August 2015	15,000	1.0529
September 2015 to August 2016	5,000	1.0716
Total	$ 42,200	1.0420

The following table summarizes significant derivative and non-derivative financial assets and liabilities that are subject to currency risk as at August 31, 2012 and 2013:

	As at August 31,			
	2013		2012	
	Carrying/nominal amount (in thousands of US dollars)	Carrying/nominal amount (in thousands of euros)	Carrying/nominal amount (in thousands of US dollars)	Carrying/nominal amount (in thousands of euros)
Financial assets				
Cash	$ 9,728	€ 2,106	$ 9,781	€ 1,555
Accounts receivable	33,191	5,284	27,996	4,313
	42,919	7,390	37,777	5,868
Financial liabilities				
Accounts payable and accrued liabilities	10,355	1,075	10,564	71
Forward exchange contracts (nominal value)	3,800	–	4,400	–
	14,155	1,075	14,964	71
Net exposure	$ 28,764	€ 6,315	$ 22,813	€ 5,797

The value of the Canadian dollar compared to the US dollar was CA$0.9863 = US$1.00 and CA$1.0530 = US$1.00 as at August 31, 2012 and 2013 respectively.

The value of the Canadian dollar compared to the euro was CA$1.2438 = €1.00 and CA$1.3936 = €1.00 as at August 31, 2012 and 2013 respectively.

The following sensitivity analysis summarizes the effect that a change in the value of the Canadian dollar (compared to the US dollar and euro) on derivative and non-derivative financial assets and liabilities denominated in US dollars and euros would have on net earnings, net earnings per diluted share and comprehensive income, based on the foreign exchange rates as at August 31, 2012 and 2013:

- An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the US dollar would decrease (increase) net earnings by $2,053,000, or $0.03 per diluted share, and $2,702,000, or $0.04 per diluted share, as at August 31, 2012 and 2013 respectively.
- An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the euro would decrease (increase) net earnings by $709,000, or $0.01 per diluted share, and $870,000, or $0.01 per diluted share, as at August 31, 2012 and 2013 respectively.
- An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the US dollar would increase (decrease) comprehensive income by $1,575,000 and $2,951,000 as at August 31, 2012 and 2013 respectively.

The impact of the change in the value of the Canadian dollar compared to the US dollar and the euro on these derivative and non-derivative financial assets and liabilities is recorded in the foreign exchange gain or loss line item in the consolidated statements of earnings, except for outstanding forward contracts, which impact is recorded in other comprehensive income. The change in the value of the Canadian dollar compared to the US dollar and the euro also impacts the company's balances of income tax and tax credits recoverable or payable, as well as deferred income tax assets and liabilities denominated in US dollars and euros; this may result in additional and significant foreign exchange gains or losses. However, these tax-related assets and liabilities are not considered financial instruments and are excluded from the sensitivity analysis above. The foreign exchange rate fluctuations also flow through the statements of earnings line items, as a significant portion of the company's cost of sales and operating expenses is denominated in Canadian dollars, euros and Indian rupees, and the company reports its results in US dollars; that effect is not reflected in the sensitivity analysis above.

Interest rate risk

The company has limited exposure to interest rate risk. The company is mainly exposed to interest rate risks through its cash, short-term investments and long-term debt.

Cash

As at August 31, 2012 and 2013, the company's cash balances included an amount of $36,166,000 and $30,392,000 that bears interest at a rate of 1.3% and 1.5% respectively.

Short-term investments

Short-term investments consist of the following:

	As at August 31	
	2013	2012
Commercial paper denominated in Canadian dollars, bearing interest at an annual rate of 1.2%, maturing in October 2013	$ 4,868	$ –
Bankers acceptance denominated in Canadian dollars, bearing interest at an annual rate of 1.1%, maturing in September 2012	–	8,236
	$ 4,868	$ 8,236

Due to their short-term maturity of usually three months or less, the company's short-term investments are not subject to a significant fair value interest rate risk. Accordingly, changes in fair value have been nominal to the degree that amortized cost approximates the fair value. Any change in the fair value of the company's short-term investments, all of which are classified as available for sale, is recorded in other comprehensive income.

Long-term debt

As at August 31, 2013, the company's long-term debt, in the amount of $296,000 ($847,000 as at August 31, 2012) bears interest at an annual rate of 2.95% and matures in December 2013 (note 13).

Other financial instruments

Accounts receivable, other assets, accounts payable and accrued liabilities and other liabilities are non-interest-bearing financial assets and liabilities.

Credit risk

Financial instruments that potentially subject the company to credit risk consist of cash, short-term investments, accounts receivable and forward exchange contracts (with a positive fair value). As at August 31, 2013, the company's short-term investments consist of a debt instrument issued by a (two as at August 31, 2012) high-credit quality corporation. This debt instrument is not expected to be affected by a significant liquidity risk. The company's cash and forward exchange contracts are held with or issued by high-credit quality financial institutions; therefore, the company considers the risk of non-performance on these instruments to be limited.

Generally, the company does not require collateral or other security from customers for trade accounts receivable; however, credit is extended to customers following an evaluation of creditworthiness. In addition, the company performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts receivable when accounts are determined to be uncollectible. Allowance for doubtful accounts amounted to $583,000 and $766,000 as at August 31, 2012 and 2013 respectively.

For the years ended August 31, 2012 and 2013, no customer represented more than 10% of sales.

The following table summarizes the age of trade accounts receivable:

	As at August 31,	
	2013	2012
Current	$ 41,557	$ 31,856
Past due, 0 to 30 days	6,210	3,770
Past due, 31 to 60 days	2,088	1,048
Past due, more than 60 days, net of allowance for doubtful accounts of $583 and $766 as at August 31, 2012 and 2013 respectively	262	969
	$ 50,117	$ 37,643

Changes in the allowance for doubtful accounts are as follows:

	Years ended August 31,	
	2013	2012
Balance – Beginning of year	$ 583	$ 1,245
Addition charged to earnings	323	267
Write-off of uncollectible accounts	(140)	(873)
Recovery of uncollectible accounts	–	(56)
Balance – End of year	$ 766	$ 583

Liquidity risk

Liquidity risk is defined as the potential that the company cannot meet its obligations as they become due.

The following tables summarize the contractual maturity of the company's derivative and non-derivative financial liabilities:

	As at August 31, 2013		
	0-12 months	13-24 Months	25-36 months
Accounts payable and accrued liabilities	$ 25,679	$ –	$ –
Long-term debt	296	–	–
Forward exchange contracts			
Outflow	22,200	15,000	5,000
Inflow	(21,673)	(14,999)	(5,088)
Total	$ 26,502	$ 1	$ (88)

	As at August 31, 2012	
	0-12 months	13-24 months
Accounts payable and accrued liabilities	$ 32,392	$ –
Long-term debt	565	282
Other liabilities	–	163
Forward exchange contracts		
Outflow	23,000	3,600
Inflow	(23,851)	(3,810)
Total	$ 32,106	$ 235

As at August 31, 2013, the company had $50,254,000 in cash and short-term investments and $52,895,000 in accounts receivable. In addition to these financial assets, the company has unused available lines of credit totaling $15,640,000 for working capital and other general corporate purposes, including potential acquisitions and its share repurchase program as well as unused lines of credit of $21,908,000 for foreign currency exposure related to its forward exchange contracts (note 10).

7 Inventories

	As at August 31,	
	2013	2012
Raw materials	$ 16,645	$ 19,786
Work in progress	1,179	1,511
Finished goods	17,881	19,915
	$ 35,705	$ 41,212

The cost of sales comprised almost exclusively the amount of inventory recognized as an expense during the reporting years, except for the related depreciation and amortization, which are shown separately in operating expenses (note 19).

Inventory write-down amounted to $3,577,000, $3,838,000 and $4,120,000 for the years ended August 31, 2011, 2012 and 2013 respectively.

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

8 Property, Plant and Equipment

	Land and land improvements	Buildings	Equipment	Leasehold improvements	Asset under construction	Total
Cost as at September 1, 2011	$ 4,705	$ 18,973	$ 44,034	$ 3,255	$ 2,942	$ 73,909
Reclassification	–	2,942	–	–	(2,942)	–
Additions	918	16,419	6,064	804	–	24,205
Disposals	–	–	(2,255)	(1,745)	–	(4,000)
Foreign currency translation adjustment	(38)	21	119	53	–	155
Cost as at August 31, 2012	5,585	38,355	47,962	2,367	–	94,269
Additions	5	866	3,824	167	–	4,862
Disposals	–	–	(6,569)	–	–	(6,569)
Foreign currency translation adjustment	(358)	(2,439)	(2,661)	(171)	–	(5,629)
Cost as at August 31, 2013	$ 5,232	$ 36,782	$ 42,556	$ 2,363	$ –	$ 86,933
Accumulated depreciation as at September 1, 2011	$ 1,317	$ 5,985	$ 32,470	$ 2,061	$ –	$ 41,833
Depreciation for the year	10	430	5,411	318	–	6,169
Disposals	–	–	(2,082)	(1,654)	–	(3,736)
Foreign currency translation adjustment	(10)	(173)	372	(34)	–	155
Accumulated depreciation as at August 31, 2012	1,317	6,242	36,171	691	–	44,421
Depreciation for the year	62	664	4,935	367	–	6,028
Disposals	–	–	(6,423)	–	–	(6,423)
Foreign currency translation adjustment	(71)	(437)	(2,033)	(75)	–	(2,616)
Accumulated depreciation as at August 31, 2013	$ 1,308	$ 6,469	$ 32,650	$ 983	$ –	$ 41,410
Net carrying value as at:						
August 31, 2012	$ 4,268	$ 32,113	$ 11,791	$ 1,676	$ –	$ 49,848
August 31, 2013	$ 3,924	$ 30,313	$ 9,906	$ 1,380	$ –	$ 45,523

As at August 31, 2012 and 2013, unpaid purchases of property, plant and equipment amounted to $2,896,000 and $231,000 respectively.

9 Intangible Assets and Goodwill

Intangible assets

	Core technology	Customer relationships	Brand name	Software	Total
Cost as at September 1, 2011	$ 27,215	$ 7,519	$ 749	$ 13,722	$ 49,205
Additions	128	–	–	653	781
Disposals	–	–	–	(53)	(53)
Foreign currency translation adjustment	(1,266)	(937)	(93)	(253)	(2,549)
Cost as at August 31, 2012	26,077	6,582	656	14,069	47,384
Additions	145	–	–	515	660
Disposals	–	–	–	(66)	(66)
Foreign currency translation adjustment	(1,349)	(416)	(42)	(1,509)	(3,316)
Cost as at August 31, 2013	$ 24,873	$ 6,166	$ 614	$ 13,009	$ 44,662
Accumulated amortization as at September 1, 2011	$ 14,455	$ 2,211	$ 220	$ 9,418	$ 26,304
Amortization for the year	4,929	1,351	135	1,404	7,819
Disposals	–	–	–	(19)	(19)
Foreign currency translation adjustment	(262)	(310)	(31)	(249)	(852)
Accumulated amortization as at August 31, 2012	19,122	3,252	324	10,554	33,252
Amortization for the year	4,068	1,285	128	1,162	6,643
Disposals	–	–	–	(51)	(51)
Foreign currency translation adjustment	(1,334)	(258)	(26)	(1,107)	(2,725)
Accumulated amortization as at August 31, 2013	$ 21,856	$ 4,279	$ 426	$ 10,558	$ 37,119
Net carrying value as at:					
August 31, 2012	$ 6,955	$ 3,330	$ 332	$ 3,515	$ 14,132
August 31, 2013	$ 3,017	$ 1,887	$ 188	$ 2,451	$ 7,543
Remaining amortization period as at August 31, 2013	1 year	2 years	2 years	3 years	

Goodwill

	Years ended August 31,	
	2013	2012
Balance – Beginning of year	$ 29,160	$ 30,942
Foreign currency translation adjustment	(1,847)	(1,782)
Balance – End of year	$ 27,313	$ 29,160

NetHawk, acquired in 2010, was identified as a separate cash generating unit (CGU) and the resulting goodwill, recognized upon the acquisition, was allocated to this CGU. During the year ended August 31, 2013, changes in the organizational structure of NetHawk's operations and the centralization of certain of its activities into those of the parent company affected the CGUs of the company, resulting in NetHawk related goodwill being reallocated to the parent company CGU (EXFO CGU), which represents the lowest level at which goodwill is monitored.

In the fourth quarter of fiscal 2013, the company performed its annual goodwill impairment test for its two CGUs, EXFO (formerly NetHawk CGU) and Brix.

For the year ended August 31, 2013, the company used a market-based approach (sales multiples) based on recent comparable transactions in its industry, supplemented by an analysis of its enterprise value derived from its market capitalization to assess the recoverable amount of the EXFO CGU. For the years ended August 31, 2011 and 2012, the company used a combination of a market-based approach (sales multiples), based on recent comparable transactions in its industry, and discounted cash flows to assess the recoverable amount of the NetHawk CGU.

For all reporting years, the company used a combination of a market-based approach (sales multiples), based on recent comparable transactions in its industry, and discounted cash flows to assess the recoverable amount of the Brix CGU.

The sales multiple of recent comparable transactions for both CGUs ranged between 1.2 and 4 times sales. These comparable transactions occurred in calendar 2012 and 2013.

Discounted cash flows for the Brix CGU were based on five-year management projections, using a five-year sales compound annual growth rate (CAGR) of 23% and a perpetual growth rate of 2% thereafter. The company used a discount rate of 18%.

As at August 31, 2013, the recoverable amount for both CGUs exceeded their carrying value.

For the purposes of the impairment test, goodwill was allocated as follows to the two CGUs:

	As at August 31,	
	2013	**2012**
EXFO CGU	$ 10,791	$ 11,520
Brix CGU	16,522	17,640
Total	$ 27,313	$ 29,160

10 Credit Facilities

The company has lines of credit that provide for advances of up to CA$15,000,000 (US$14,245,000) and up to US$2,000,000. These lines of credit bear interest at the Canadian prime rate. As at August 31, 2013, an amount of CA$637,000 (US$605,000) was drawn from these lines of credit for letters of guarantee in the normal course of the company’s operations for its own selling and purchase requirements. These lines of credit are subject to a negative pledge whereby the company has agreed with the bank not to pledge its assets to any other party without its consent.

Finally, the company has lines totaling credit of $27,600,000 for the foreign currency risk exposure related to its forward exchange contracts (note 6). As at August 31, 2013, an amount of $5,692,000 was reserved from these lines of credit. These lines of credit are unsecured.

11 Accounts Payable and Accrued Liabilities and Provisions

Accounts payable and accrued liabilities

	As at August 31,	
	2013	2012
Trade	$ 10,002	$ 16,998
Salaries and social benefits	12,883	13,084
Forward exchange contracts (note 6)	574	–
Other	2,794	2,310
	$ 26,253	$ 32,392

Provisions

	As at August 31,	
	2013	2012
Warranty	$ 721	$ 675
Other	35	277
	$ 756	$ 952

Changes in the warranty provision are as follows:

	Years ended August 31,	
	2013	2012
Balance – Beginning of year	$ 675	$ 1,402
Provision	650	861
Settlements	(604)	(1,588)
Balance – End of year	$ 721	$ 675

12 Contingent consideration arrangement

In connection with the acquisition of NetHawk Oyj in fiscal 2010, the company had a cash contingent consideration of up to €8,700,000 based on a sales volume of certain NetHawk products over a three-year period ended on December 2012. The company recorded the cash contingent consideration payable at fair value in each balance sheet date based on actual and forecasted sales over the period of the contingent consideration. Changes in the fair value of the cash contingent consideration payable were recorded in the consolidated statements of earnings.

As at August 31, 2012, the fair value of the cash contingent consideration payable was estimated to nil based on actual and forecasted sales of certain NetHawk products over the period of the contingent consideration; the resulting change in the fair value during the year ended August 31, 2012, in the amount of $311,000 (€235,000), has been recorded in the consolidated statements of earnings for that year. As at August 31, 2011, the fair value of the cash contingent consideration payable was estimated to $338,000 (€235,000), which resulted in a change in the fair value of $2,685,000, recorded in the statement of earnings for the year ended August 31, 2011.

13 Long-Term Debt

	As at August 31,	
	2013	2012
Loan collateralized by assets of NetHawk Oyj denominated in euros (€224), bearing interest at 2.95%, repayable in semi-annual instalments of $296 (€224), maturing in December 2013	$ 296	$ 847
Less: current portion	296	565
	$ –	$ 282

14 Commitments

The company entered into operating leases for certain of its premises and equipment, which expire at various dates through April 2022. Minimum rentals payable under operating leases are as follows:

	As at August 31	
	2013	2012
No later than 1 year	$ 3,845	$ 3,628
Later than 1 year and no later than 5 years	5,465	4,711
Later than 5 years	517	676
	$ 9,827	$ 9,015

For the years ended August 31, 2011, 2012 and 2013, rental expenses amounted to $5,303,000 $4,308,000 and $3,533,000 respectively.

15 Share Capital

Authorized – unlimited as to number, without par value

Subordinate voting and participating, bearing a non-cumulative dividend to be determined by the Board of Directors, ranking *pari passu* with multiple voting shares

Multiple voting and participating, entitling to 10 votes each, bearing a non-cumulative dividend to be determined by the Board of Directors, convertible at the holder's option into subordinate voting shares on a one-for-one basis, ranking *pari passu* with subordinate voting shares

The following table summarizes the share capital activity:

	Multiple voting shares		Subordinate voting shares		
	Number	Amount	Number	Amount	Total amount
Balance as at September 1, 2010	36,643,000	$ 1	22,936,709	$ 106,125	$ 106,126
Conversion of multiple voting shares into subordinate voting shares	(5,000,000)	–	5,000,000	–	–
Exercise of stock options (note 17)	–	–	306,825	1,452	1,452
Redemption of restricted share units (note 17)	–	–	340,974	–	–
Redemption of deferred shares units (note 17)	–	–	37,491	–	–
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	2,763	2,763
Balance as at August 31, 2011	31,643,000	1	28,621,999	110,340	110,341
Exercise of stock options (note 17)	–	–	109,700	310	310
Redemption of restricted share units (note 17)	–	–	418,086	–	–
Redemption of share capital	–	–	(438,894)	(1,696)	(1,696)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	2,010	2,010
Balance as at August 31, 2012	31,643,000	1	28,710,891	110,964	110,965
Exercise of stock options (note 17)	–	–	30,675	87	87
Redemption of restricted share units (note 17)	–	–	286,426	–	–
Redemption of deferred share units (note 17)	–	–	37,054	–	–
Redemption of share capital	–	–	(663,256)	(2,565)	(2,565)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	1,350	1,350
Balance as at August 31, 2013	31,643,000	$ 1	28,401,790	$ 109,836	$ 109,837

a) On November 7, 2011, the company announced that its Board of Directors had approved the renewal of its share repurchase program, by way of a normal course issuer bid on the open market of up to 2% of its issued and outstanding subordinate voting shares, representing 575,690 subordinate voting shares at the prevailing market price. The normal course issuer bid started on November 10, 2011, and ended on November 9, 2012. All shares repurchased under the bid were cancelled.

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

b) On November 7, 2012, the company announced that its Board of Directors approved the renewal of its share repurchase program, by way of a normal course issuer bid on the open market of up to 10% of the issued and outstanding subordinate voting shares, representing 2,072,721 subordinate voting shares at the prevailing market price. The normal course issuer bid started on November 12, 2012, and will end on November 11, 2013. All shares repurchased under the bid are cancelled.

16 Accumulated Other Comprehensive Income (loss)

Changes in accumulated other comprehensive incomes (loss) are as follows:

	Foreign currency translation adjustment	Available-for-sale financial instruments	Cash-flow hedge	Accumulate other comprehensive income (loss)
Balance as at September 1, 2010	$ –	$ (2)	$ 1,018	$ 1,016
Foreign currency translation adjustment	19,123	–	–	19,123
Changes in unrealized losses on short-term investments	–	2	–	2
Changes in unrealized gains on forward exchange contracts, net of deferred income taxes	–	–	908	908
Balance as at August 31, 2011	19,123	–	1,926	21,049
Foreign currency translation adjustment	(6,875)	–	–	(6,875)
Changes in unrealized gains on forward exchange contracts, net of deferred income taxes	–	–	(667)	(667)
Balance as at August 31, 2012	12,248	–	1,259	13,507
Foreign currency translation adjustment	(15,830)	–	–	(15,830)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes	–	–	(1,100)	(1,100)
Balance as at August 31, 2013	$ (3,582)	$ –	$ 159	$ (3,423)

17 Stock-Based Compensation Plans

The following table summarizes the stock-based compensation costs recognized for employee services received during the years ended August 31, 2011, 2012 and 2013:

	Years ended August 31,		
	2013	2012	2011
Stock-based compensation costs arising from equity-settled awards	$ 1,769	$ 1,831	$ 2,217
Stock-based compensation costs arising from cash-settled awards	(1)	31	39
	$ 1,768	$ 1,862	$ 2,256

The maximum number of additional subordinate voting shares issuable under the Long-Term Incentive Plan and the Deferred Share Unit Plan cannot exceed 6,306,153 shares. The maximum number of subordinate voting shares that may be granted to any individual on an annual basis cannot exceed 5% of the number of outstanding subordinate voting shares. The company settles stock options and redeems restricted share units and deferred share units through the issuance of common shares from treasury.

Long-Term Incentive Plan

The company established the Long-Term Incentive Plan for its directors, executive officers and employees and those of its subsidiaries, as determined by the Board of Directors. The plan, which includes stock options and restricted share units, was approved by the shareholders of the company.

Stock Options

The exercise price of stock options granted under the Long-Term Incentive Plan is the market price of the common shares on the date of grant. Stock options granted under the plan expire 10 years from the date of grant and generally vest over a four-year period, being the required period of service from employees, generally with 25% vesting on an annual basis commencing on the first anniversary of the date of grant. As at August 31, 2012 and 2013, all stock options outstanding were vested.

The following table summarizes stock option activity for the years ended August 31, 2011, 2012 and 2013:

	Years ended August 31,					
	2013		2012		2011	
	Number	Weighted average exercise price (CA$)	Number	Weighted average exercise price (CA$)	Number	Weighted average exercise price (CA$)
Outstanding – Beginning of year	244,354	$ 5	641,357	$ 9	1,348,787	$ 19
Exercised	(30,675)	3	(109,700)	3	(306,825)	5
Forfeited	(2,000)	6	(1,500)	5	(43,541)	14
Expired	(10,425)	5	(285,803)	15	(357,064)	48
Outstanding – End of year	201,254	$ 6	244,354	$ 5	641,357	$ 9
Exercisable – End of year	201,254	$ 6	244,354	$ 5	641,357	$ 9

The weighted-average market price of the shares at the date of exercise of stock options for the years ended August 31, 2011, 2012 and 2013 was $4.90, $5.84 and $5.08 respectively.

The following table summarizes information about stock options as at August 31, 2013:

	Stock options outstanding and exercisable		
Exercise price (CA$)	**Number**	**Weighted average exercise price (CA$)**	**Weighted average remaining contractual life**
$4.64 to $6.28	201,254	$ 5.59	1 year

Restricted Share Units (RSUs)

RSUs are stock awards that rise and fall in value based on the market price of the company's subordinate voting shares and are redeemable for actual subordinate voting shares or cash at the discretion of the Board of Directors as determined on the date of grant. Vesting dates are also established by the Board of Directors on the date of grant. The vesting dates are subject to a minimum term of three years and a maximum term of 10 years from the award date, being the required period of service from employees. Fair value of RSUs equals the market price of the common shares on the date of grant.

The following table summarizes RSU activity for the years ended August 31, 2011, 2012 and 2013:

	Years ended August 31,		
	2013	**2012**	**2011**
Outstanding – Beginning of year	1,337,730	1,551,658	1,603,048
Granted	316,160	334,878	350,382
Redeemed	(286,426)	(418,086)	(340,974)
Forfeited	(34,372)	(130,720)	(60,798)
Outstanding – End of year	1,333,092	1,337,730	1,551,658

None of the RSUs outstanding, as at August 31, 2012 and 2013 were redeemable. The weighted average grant-date fair value of RSUs granted during the years ended August 31, 2011, 2012 and 2013 amounted to $7.26, $5.90 and $5.31 respectively.

The weighted-average market price of the shares at the date of redemption of RSUs redeemed during the years ended August 31, 2011, 2012 and 2013 was $7.48, $6.07 and $5.15 respectively.

Deferred Share Unit Plan

The company established a Deferred Share Unit (DSU) Plan for the members of the Board of Directors as part of their annual retainer fees. Each DSU entitles the Board members to receive one subordinate voting share. DSUs are acquired on the date of grant and are redeemed in subordinate voting shares when the Board member ceases to be Director of the company. This plan was approved by the shareholders of the company.

The following table summarizes DSU activity for the years ended August 31, 2011, 2012 and 2013:

	Years ended August 31,		
	2013	2012	2011
Outstanding – Beginning of year	133,090	110,298	135,003
Granted	23,872	22,792	12,786
Redeemed	(37,054)	–	(37,491)
Outstanding – End of year	119,908	133,090	110,298

As at August 31, 2012 and 2013, 31,668 and 38,010 DSUs were redeemable respectively. The weighted average grant-date fair value of DSUs granted during the years ended August 31, 2011, 2012 and 2013 amounted to $7.87, $5.86 and $4.84 respectively.

The weighted-average market price of the shares at the date of redemption of DSUs redeemed during the years ended August 31, 2011 and 2013 was $8.68 and $4.94 respectively.

Stock Appreciation Rights Plan

The company established the Stock Appreciation Rights Plan for certain employees. Under that plan, eligible employees are entitled to receive a cash amount equivalent to the difference between the market price of the common shares on the date of exercise and the exercise price determined on the date of grant. Stock appreciation rights granted under the plan expire 10 years from the date of grant and generally vest over a four-year period, being the required period of service from employees, generally with 25% vesting on an annual basis commencing on the first anniversary of the date of grant. This plan was approved by the shareholders of the company.

The following table summarizes stock appreciation rights activity for the years ended August 31, 2011, 2012 and 2013:

	Years ended August 31,					
	2013		2012		2011	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding – Beginning of year	33,124	$ 3	29,124	$ 3	44,374	$ 8
Granted	4,100	–	4,000	–	4,500	–
Forfeited	–	–	–	–	(14,750)	5
Expired	–	–	–	–	(5,000)	34
Outstanding – End of year	37,224	$ 3	33,124	$ 3	29,124	$ 3
Exercisable – End of year	22,624	$ 4	15,787	$ 4	10,075	$ 5

The liability arising from stock appreciation rights as at August 31, 2012 and 2013 amounted to $109,000 and $107,000 respectively and is recorded in accounts payable and accrued liabilities in the balance sheets.

The following table summarizes information about stock appreciation rights as at August 31, 2013:

	Stock appreciation rights outstanding		Stock appreciation rights exercisable
Exercise price	**Number**	**Weighted average remaining contractual life**	**Number**
$ –	12,600	8 years	–
$2.36	9,674	5 years	9,674
$3.74 to $4.65	10,500	3 years	8,500
$6.28 to $6.50	4,450	3 years	4,450
	37,224	5 years	22,624

18 Related Party Disclosures

Compensation of key management personnel

	Years ended August 31,		
	2013	**2012**	**2011**
Salaries and short-term employee benefits	$ 3,442	$ 3,398	$ 3,643
Restructuring charges	–	177	–
Stock-based compensation costs	907	793	853
	$ 4,349	$ 4,368	$ 4,496

Key management personnel includes senior management and directors.

19 Statements of earnings

Net research and development

Net research and development expenses comprise the following:

	Years ended August 31,		
	2013	**2012**	**2011**
Gross research and development expenses	$ 54,334	$ 59,282	$ 57,226
Research and development tax credits and grants	(8,890)	(9,428)	(9,299)
	$ 45,444	$ 49,854	$ 47,927

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

Depreciation and amortization

Depreciation and amortization expenses by functional area are as follows:

	Years ended August 31, 2013	2012	2011
Cost of sales			
Depreciation of property, plant and equipment	$ 1,651	$ 2,009	$ 1,975
Amortization of intangible assets	4,027	5,076	6,093
	5,678	7,085	8,068
Selling and administrative expenses			
Depreciation of property, plant and equipment	1,100	1,037	1,341
Amortization of intangible assets	1,687	1,806	2,092
	2,787	2,843	3,433
Net research and development expenses			
Depreciation of property, plant and equipment	3,277	3,123	3,339
Amortization of intangible assets	929	937	998
	4,206	4,060	4,337
	$ 12,671	$ 13,988	$ 15,838
Depreciation of property, plant and equipment	$ 6,028	$ 6,169	$ 6,655
Amortization of intangible assets	6,643	7,819	9,183
	$ 12,671	$ 13,988	$ 15,838

Employee compensation

Employee compensation comprises the following:

	Years ended August 31, 2013	2012	2011
Salaries and benefits	$ 122,433	$ 127,007	$ 122,828
Restructuring charges	89	2,329	–
Stock-based compensation costs	1,768	1,862	2,256
	$ 124,290	$ 131,198	$ 125,084

Restructuring charges by functional area are as follows:

	Years ended August 31, 2013	2012	2011
Cost of sales	$ –	$ 264	$ –
Selling and administrative expenses	–	1,181	–
Net research and development costs	89	884	–
	$ 89	$ 2,329	$ –

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

	Years ended August 31,		
	2013	2012	2011
Cost of sales	$ 226	$ 248	$ 224
Selling and administrative expenses	1,160	1,145	1,281
Net research and development expenses	382	469	487
Net earnings from discontinued operations	–	–	264
	$ 1,768	$ 1,862	$ 2,256

20 Other Disclosures

Government grants

The company is entitled to receive grants on certain eligible research and development projects conducted in Finland from TEKES, a Finnish technology organization, which is funding Finnish companies' high technology, research and innovations. The company's eligible research and development projects must be pre-approved by TEKES and the grant is subject to certain conditions. In the event a condition is not met, TEKES can require reimbursement of a portion or the entire amount of the grant received. A liability to repay the funding is recognized in the period in which conditions arise that will cause the funding to be repayable. As at August 31, 2013, the company was in compliance with the conditions of the funding. This funding is accounted for as a reduction of gross research and development expenses in the statements of earnings. For the years ended August 31, 2011, 2012 and 2013, the company recorded $2,085,000, $1,903,000 and $1,498,000 respectively, under that program in the statements of earnings.

Defined contribution plans

The company maintains separate defined contribution plans for certain eligible employees. These plans, which are accounted for on an accrual basis, are summarized as follows:

- Deferred profit-sharing plan

  The company maintains a plan for certain eligible employees residing in Canada, under which the company may elect to match the employees' contributions up to a maximum of 3% of an employee's gross salary. Cash contributions to this plan and expenses for the years ended August 31, 2011, 2012 and 2013, amounted to $911,000, $1,178,000 and $1,165,000 respectively.

- 401K plan

  The company maintains a 401K plan for eligible employees residing in the U.S. Under this plan, the company must contribute an amount equal to 3% of an employee's current compensation. In addition, eligible employees may contribute up to the lesser of 1% of eligible compensation or the statutorily prescribed annual limit to the 401K plan. The 401K plan permits, but does not require the company 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. During the years ended August 31, 2011, 2012 and 2013, the company recorded cash contributions and expenses totaling $680,000, $693,000 and $632,000 respectively.

21 Income Taxes

The reconciliation of the income tax provision calculated using the combined Canadian federal and provincial statutory income tax rate with the income tax provision in the financial statements is as follows:

	Years ended August 31,		
	2013	**2012**	**2011**
Income tax provision at combined Canadian federal and provincial statutory tax rate (27% in 2013 and 2012 and 29% in 2011)	$ 1,891	$ (6)	$ 5,222
Increase (decrease) due to:			
Foreign income taxed at different rates	(249)	285	(402)
Non-taxable (income)/loss	(2,077)	535	(4,102)
Non-deductible expenses	792	1,028	916
Foreign exchange effect of translation of foreign subsidiaries	148	(2,205)	2,541
Recognition of previously unrecognized deferred income tax assets	–	(557)	–
Utilization of previously unrecognized deferred income tax assets	–	–	(61)
Unrecognized deferred income tax assets on temporary deductible differences and unused tax losses	4,385	4,509	5,111
Other	774	(18)	(411)
	$ 5,664	$ 3,571	$ 8,814

The income tax provision consists of the following:

	2013	2012	2011
Current			
Current income taxes	$ 2,713	$ 1,521	$ 1,986
Benefit arising from previously unrecognized tax losses and deductible temporary differences	–	–	(61)
	2,713	1,521	1,925
Deferred			
Deferred income taxes relating to the origination and reversal of temporary differences	(1,434)	(1,902)	1,778
Benefit arising from previously unrecognized tax losses and deductible temporary differences	–	(557)	–
	(1,434)	(2,459)	1,778
Unrecognized deferred income tax assets on temporary deductible differences and unused tax losses	4,385	4,509	5,111
	2,951	2,050	6,889
	$ 5,664	$ 3,571	$ 8,814

The income tax provision for the discontinued operations is as follows:

	2013	2012	2011
Current	$ –	$ –	$ 27
Deferred	–	–	174
	$ –	$ –	$ 201

Deferred taxes

	As at August 31, 2013	2012
Deferred income tax assets		
Deferred income tax assets recoverable within 12 months	$ 3,193	$ 4,002
Deferred income tax assets recoverable after 12 months	7,614	8,078
	10,807	12,080
Deferred income tax liabilities		
Deferred income tax liabilities payable within 12 months	252	108
Deferred income tax liabilities payable after 12 months	2,974	1,997
	3,226	2,105
Deferred income tax assets net	$ 7,581	$ 9,975

The changes in deferred income tax assets and liabilities for the year ended August 31, 2012 are as follows:

	Balance as at September 1, 2011	Credited (charged) to the statement of earnings	Credited (charged) to shareholders' equity	Foreign currency translation adjustment	Balance as at August 31, 2012
Deferred income tax assets					
Long-lived assets	$ 4,644	$ (211)	$ 2	$ (46)	$ 4,389
Provisions and accruals	2,925	274	256	(24)	3,431
Deferred revenue	1,983	71		(10)	2,044
Research and development expenses	2,598	(209)	–	(27)	2,362
Losses carried forward	9,614	(412)	–	5	9,207
Deferred income tax liabilities					
Long-lived assets	(232)	(254)	(2)	(6)	(494)
Research and development tax credits	(9,698)	(1,309)	–	43	(10,964)
Total	$ 11,834	$ (2,050)	$ 256	$ (65)	$ 9,975
Classified as follows:					
Deferred income tax assets	$ 16,913				$ 12,080
Deferred income tax liabilities	(5,079)				(2,105)
	$ 11,834				$ 9,975

The changes in deferred income tax assets and liabilities for the year ended August 31, 2013 are as follows:

	Balance as at September 1, 2012	Credited (charged) to the statement of earnings	Credited (charged) to shareholders' equity	Foreign currency translation adjustment	Balance as at August 31, 2013
Deferred income tax assets					
Long-lived assets	$ 4,389	$ (449)	$ –	$ (201)	$ 3,739
Provisions and accruals	3,431	213	403	(197)	3,850
Deferred revenue	2,044	(164)	–	(85)	1,795
Research and development expenses	2,362	(608)	–	(125)	1,629
Losses carried forward	9,207	(808)	–	(8)	8,391
Deferred income tax liabilities					
Long-lived assets	(494)	45	–	28	(421)
Research and development tax credits	(10,964)	(1,180)	–	742	(11,402)
Total	$ 9,975	$ (2,951)	$ 403	$ 154	$ 7,581
Classified as follows:					
Deferred income tax assets	$ 12,080				$ 10,807
Deferred income tax liabilities	(2,105)				(3,226)
	$ 9,975				$ 7,581

Unrecognized deferred income tax assets on temporary deductible differences, unused tax losses and research and development expenses are as follows:

	As at August 31	
	2013	**2012**
Temporary deductible differences	$ 205	$ 270
Losses carried forward	35,914	33,135
Research and development expenses	1,370	2,347
	$ 37,489	$ 35,752

As at August 31, 2013, the year of expiry of operating losses and research and development expenses for which no deferred income tax assets were recognized in the balance sheets are as follows by tax jurisdiction:

	Canada				
Year of expiry	Federal	Provincial	Finland	United States	Other
2014	$ –	$ –	$ 665	$ 1,404	$ –
2015	–	1,131	2,650	997	–
2016	–	–	–	553	–
2017	–	–	4	–	–
2018	–	–	384	–	–
2019	–	–	–	741	–
2020	–	–	8,782	3,470	–
2021	–	–	7,609	10,202	–
2022	–	–	13,192	7,435	–
2023	–	–	8,444	1,972	–
2024	–	–	–	1,351	–
2025	–	–	–	1,351	–
2026	–	1,021	–	1,351	–
2027	–	1,295	–	1,351	–
2028	–	–	–	2,447	–
2030	11	11	–	2,713	–
2031	36	36	–	109	–
2032	9	9	–	–	–
2033	45	45	–	4,920	–
Indefinite	–	–	–	–	2,222
	$ 101	$ 3,548	$ 41,730	$ 42,367	$ 2,222

Furthermore, as at August 31, 2013, the company had available capital losses in Canada amounting to $64,895,000 at the federal level and $69,028,000 at the provincial level for which no deferred tax assets were recognized. These losses can be carried forward indefinitely against capital gains.

As at August 31, 2013, non-refundable research and development tax credits recognized in the balance sheet amounted to $42,411,000. In order to recover these non-refundable research and development tax credits, the company needs to generate approximately $275,000,000 (CA$290,000,000) in pre-tax earnings at the Canadian federal level and approximately $11,000,000 at the Canadian provincial level. In order to generate $275,000,000 in pre-tax earnings at the Canadian Federal level over the estimated recovery period of 16 years, the company needs to generate a pre-tax earnings compound annual growth rate (CAGR) of 5%, which the company believes is probable. The company's non-refundable research and development tax credits can be carried forward over a twenty-year period.

In addition, as at August 31, 2013, the company had deferred income tax assets in the balance sheet in the amount of $10,807,000 mainly in the United States. In order to recover these deferred income tax assets, the company needs to generate $27,000,000 in pre-tax earnings at the United States level. In order to generate $27,000,000 in pre-tax earnings at the United State level over the estimated recovery period of seven years, the company needs to generate a pre-tax earnings CAGR of 9%, which the company believes is probable.

As at August 31, 2013, taxable temporary differences of $7,111,000 were not recognized for taxes that would be payable on the unremitted earnings of certain of the company's subsidiaries, as the company has determined that:

(1) undistributed profits of its foreign subsidiaries will not be distributed in the foreseeable future; and
(2) undistributed profits of its domestic subsidiaries will not be taxable when distributed.

22 Earnings per Share

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

	Years ended August 31,		
	2013	2012	2011
Basic weighted average number of shares outstanding (000's)	60,323	60,453	60,000
Plus dilutive effect of (000's):			
Stock options	24	149	266
Restricted share units	648	910	1,106
Deferred share units	115	118	116
Diluted weighted average number of shares outstanding (000's)	61,110	61,630	61,488
Stock awards excluded from the calculation of the diluted weighted average number of shares outstanding because their exercise price was greater than the average market price of the common shares (000's)	75	54	381

For the year ended August 31, 2012, the diluted amount per share was the same amount as the basic amount per share since the dilutive effect of stock options, restricted share units and deferred share units was not included in the calculation; otherwise, the effect would have been antidilutive. Accordingly, the diluted amount per share for that year was calculated using the basic weighted average number of shares outstanding.

23 Segment Information

The company has only one reportable segment.

Sales to external customers by geographic region are detailed as follows:

	Years ended August 31,		
	2013	2012	2011
United States	$ 87,145	$ 83,401	$ 89,240
Canada	26,073	29,944	30,986
Other	14,910	17,838	17,303
Americas	128,128	131,183	137,529
United Kingdom	13,206	9,862	15,617
Other	53,802	61,449	69,698
Europe, Middle-East and Africa	67,008	71,311	85,315
China	21,778	21,802	28,184
Other	25,236	25,670	18,715
Asia-Pacific	47,014	47,472	46,899
	$ 242,150	$ 249,966	$ 269,743

Sales were allocated to geographic regions based on the country of residence of the related customers.

Long-lived assets by geographic region are detailed as follows:

	As at August 31, 2013			As at August 31, 2012		
	Property, plant and equipment	**Intangible assets**	**Goodwill**	**Property, plant and equipment**	**Intangible assets**	**Goodwill**
Canada	$ 34,833	$ 2,274	$ –	$ 38,436	$ 2,858	$ –
United States	1,305	186	16,522	1,335	2,067	17,640
Finland	589	4,762	10,791	849	8,265	11,520
India	6,190	42	–	5,866	16	–
China	1,517	25	–	2,094	43	–
Other	1,089	254	–	1,268	883	–
	$ 45,523	$ 7,543	$ 27,313	$ 49,848	$ 14,132	$ 29,160