EXFO Inc.
Condensed Unaudited Interim Consolidated Balance Sheets

(in thousands of US dollars)

	As at May 31, 2017	As at August 31, 2016
Assets		
Current assets		
Cash	$ 34,373	$ 43,208
Short-term investments	3,337	4,087
Accounts receivable		
Trade	41,358	42,993
Other	2,107	2,474
Income taxes and tax credits recoverable	5,090	4,208
Inventories	32,124	33,004
Prepaid expenses	3,781	3,099
	122,170	133,073
Tax credits recoverable	33,718	34,594
Property, plant and equipment	36,718	35,978
Intangible assets (note 3)	11,969	3,391
Goodwill (note 3)	32,756	21,928
Deferred income tax assets	6,705	8,240
Other assets	455	589
	$ 244,491	$ 237,793
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 41,966	$ 37,174
Provisions	296	299
Income taxes payable	610	971
Deferred revenue	11,556	9,486
	54,428	47,930
Deferred revenue	6,211	5,530
Deferred income tax liabilities	2,720	2,857
Other liabilities	31	75
	63,390	56,392
Shareholders' equity		
Share capital (note 6)	90,376	85,516
Contributed surplus	17,721	18,150
Retained earnings	126,316	126,309
Accumulated other comprehensive loss	(53,312)	(48,574)
	181,101	181,401
	$ 244,491	$ 237,793

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

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Earnings

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

	Three months ended May 31, 2017	Nine months ended May 31, 2017	Three months ended May 31, 2016	Nine months ended May 31, 2016
Sales	$ 58,505	$ 180,320	$ 60,896	$ 169,725
Cost of sales (1) (note 7)	24,555	70,357	23,880	62,921
Selling and administrative (note 7)	22,572	65,422	20,798	60,615
Net research and development (note 7)	13,263	35,841	11,303	31,398
Depreciation of property, plant and equipment	1,029	2,894	958	2,857
Amortization of intangible assets	1,046	2,241	294	880
Interest and other (income) expense	57	28	(309)	(716)
Foreign exchange (gain) loss	(1,725)	(1,965)	957	(454)
Earnings (loss) before income taxes	(2,292)	5,502	3,015	12,224
Income taxes (note 8)	2,012	5,495	2,096	5,576
Net earnings (loss) for the period	$ (4,304)	$ 7	$ 919	$ 6,648
Basic and diluted net earnings (loss) per share	$ (0.08)	$ 0.00	$ 0.02	$ 0.12
Basic weighted average number of shares outstanding (000s)	54,593	54,328	53,940	53,894
Diluted weighted average number of shares outstanding (000s) (note 9)	54,593	55,479	54,813	54,655

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

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

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Comprehensive Income (Loss)

(in thousands of US dollars)

	Three months ended May 31, 2017	Nine months ended May 31, 2017	Three months ended May 31, 2016	Nine months ended May 31, 2016
Net earnings (loss) for the period	$ (4,304)	$ 7	$ 919	$ 6,648
Other comprehensive income (loss), net of income taxes				
Items that will not be reclassified subsequently to net earnings				
Foreign currency translation adjustment	(2,568)	(4,766)	5,488	775
Items that may be reclassified subsequently to net earnings				
Unrealized gains/losses on forward exchange contracts	(127)	(362)	1,045	825
Reclassification of realized gains/losses on forward exchange contracts in net earnings	39	359	666	2,383
Deferred income tax effect of gains/losses on forward exchange contracts	39	31	(434)	(824)
Other comprehensive income (loss)	(2,617)	(4,738)	6,765	3,159
Comprehensive income (loss) for the period	$ (6,921)	$ (4,731)	$ 7,684	$ 9,807

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

EXFO Inc.

Condensed Unaudited Interim Consolidated Statements of Changes in Shareholders' Equity

(in thousands of US dollars)

	Nine months ended May 31, 2016				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at September 1, 2015	$ 86,045	$ 17,778	$ 117,409	$ (52,005)	$ 169,227
Redemption of share capital (note 6)	(457)	55	–	–	(402)
Reclassification of stock-based compensation costs (note 6)	1,238	(1,238)	–	–	–
Stock-based compensation costs	–	1,040	–	–	1,040
Net earnings for the period	–	–	6,648	–	6,648
Other comprehensive income					
Foreign currency translation adjustment	–	–	–	775	775
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of $824	–	–	–	2,384	2,384
Total comprehensive income for the period					9,807
Balance as at May 31, 2016	$ 86,826	$ 17,635	$ 124,057	$ (48,846)	$ 179,672

	Nine months ended May 31, 2017				
	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive loss	Total shareholders' equity
Balance as at September 1, 2016	$ 85,516	$ 18,150	$ 126,309	$ (48,574)	$ 181,401
Issuance of share capital (notes 3 and 6)	3,490	–	–	–	3,490
Reclassification of stock-based compensation costs (note 6)	1,370	(1,370)	–	–	–
Stock-based compensation costs	–	941	–	–	941
Net earnings for the period	–	–	7	–	7
Other comprehensive income (loss)					
Foreign currency translation adjustment	–	–	–	(4,766)	(4,766)
Changes in unrealized gains/losses on forward exchange contracts, net of deferred income taxes of $31	–	–	–	28	28
Total comprehensive loss for the period					(4,731)
Balance as at May 31, 2017	$ 90,376	$ 17,721	$ 126,316	$ (53,312)	$ 181,101

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

EXFO Inc.
Condensed Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended May 31, 2017	Nine months ended May 31, 2017	Three months ended May 31, 2016	Nine months ended May 31, 2016
Cash flows from operating activities				
Net earnings (loss) for the period	$ (4,304)	$ 7	$ 919	$ 6,648
Add (deduct) items not affecting cash				
Stock-based compensation costs	372	983	386	1,076
Depreciation and amortization	2,075	5,135	1,252	3,737
Deferred revenue	79	3,026	1,203	4,876
Deferred income taxes	704	1,163	611	1,285
Changes in foreign exchange gain/loss	(524)	(955)	626	(333)
	(1,598)	9,359	4,997	17,289
Changes in non-cash operating items				
Accounts receivable	(901)	1,701	(5,887)	3,394
Income taxes and tax credits	(842)	(1,232)	(301)	632
Inventories	315	(9)	(759)	(6,627)
Prepaid expenses	(863)	(761)	(452)	(418)
Other assets	(103)	(127)	–	203
Accounts payable, accrued liabilities, provisions and other liabilities	1,169	1,756	4,670	6,347
	(2,823)	10,687	2,268	20,820
Cash flows from investing activities				
Additions to short-term investments	(2,571)	(2,887)	(3,109)	(3,130)
Proceeds from disposal and maturity of short-term investments	3,298	3,596	–	501
Purchases of capital assets	(2,555)	(5,448)	(1,138)	(3,374)
Business combinations, net of cash acquired (note 3)	(7,479)	(12,479)	–	–
	(9,307)	(17,218)	(4,247)	(6,003)
Cash flows from financing activities				
Bank loan	–	–	–	468
Repayment of long-term debt (note 3)	(1,480)	(1,480)	–	–
Redemption of share capital (note 6)	–	–	(215)	(402)
	(1,480)	(1,480)	(215)	66
Effect of foreign exchange rate changes on cash	(360)	(824)	1,049	1,526
Change in cash	(13,970)	(8,835)	(1,145)	16,409
Cash – Beginning of the period	48,343	43,208	43,418	25,864
Cash – End of the period	$ 34,373	$ 34,373	$ 42,273	$ 42,273
Supplementary information				
Income taxes paid	$ 627	$ 2,188	$ 505	$ 1,621
Additions to capital assets	$ 1,779	$ 5,441	$ 1,011	$ 3,386

As at May 31, 2016 and 2017, unpaid purchases of capital assets amounted to $389 and $492 respectively.

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

1 Nature of Activities and Incorporation

EXFO Inc. and its subsidiaries (collectively "EXFO" or the "company") design, manufacture and market test, service assurance and network visibility solutions for fixed and mobile network operators, web-scale service providers as well as equipment manufacturers in the global telecommunications industry.

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

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on June 29, 2017.

2 Basis of Presentation

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

New IFRS Pronouncements Not Yet Adopted

Financial Instruments

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

Revenue from Contracts with Customers

IFRS 15, "Revenue from Contracts with Customers", was issued in May 2014. The objective of this new standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability. This new standard contains principles that an entity will apply to determine the measurement of revenue and timing of when it is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. This new standard is effective for annual periods beginning on or after January 1, 2018. The company will adopt this new standard on September 1, 2018 and is currently assessing the impact that the new standard will have on its consolidated financial statements. The company has not yet determined the method of transition (modified retrospective or full retrospective) that will be applied at that time.

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

Leases

IFRS 16, "Leases", was issued in January 2016. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer (lessee) and the supplier (lessor). IFRS 16 will supersede IAS 17, "Leases", and related Interpretations. This new standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15, is also applied. The company has not yet assessed the impact that the new standard will have on its consolidated financial statements.

3 Business Combinations

Absolute Analysis Inc.

On October 31, 2016, the company acquired substantially all the assets of Absolute Analysis Inc. (Absolute), a privately held company located in the United States, supplying solutions for radio frequency testing of fiber-based radio access networks. The acquisition-date fair value of the total consideration transferred amounted to $8,490,000 and consisted of $5,000,000 in cash and the issuance of 793,070 subordinate voting shares, valued at $3,490,000.

This acquisition was accounted for by applying the acquisition method as required by IFRS 3, "Business Combinations", and the requirements of IFRS 10, "Consolidated Financial Statements"; consequently, the fair value of the total consideration transferred was allocated to the assets acquired and liability assumed based on management's estimate of their fair value as at the acquisition date. The results of operations of the acquired business have been included in the consolidated financial statements of the company since October 31, 2016, being the date of acquisition.

The fair value of the total consideration transferred was allocated based on an estimate of fair value of acquired net assets at the date of acquisition as follows:

Assets acquired		
Core technology	$	4,130
Other assets		236
		4,366
Liability assumed		
Deferred income taxes		279
Net identifiable assets acquired		4,087
Goodwill		4,403
Fair value of the total consideration transferred	$	8,490

Intangible assets are amortized on a straight-line basis over their estimated useful lives of one to five years.

Acquired goodwill mainly represents synergies with the company's products as well as Absolute acquired workforce. Acquired goodwill is deductible for tax purposes. Goodwill is allocated to the EXFO cash generating unit.

Ontology Partners Limited

On March 2, 2017, the company acquired all issued and outstanding shares of Ontology Partners Limited (Ontology), a privately held company located in the United Kingdom, a supplier of real-time network topology discovery and service-chain mapping. The acquisition-date fair value of the total consideration transferred amounted to $9,119,000 and consisted of $7,719,000 in cash, net of Ontology's cash of $2,156,000 at the acquisition date, plus a cash contingent consideration based on certain sales volumes of Ontology products over the 12-month period following the acquisition, valued at $1,400,000 at the acquisition date.

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

This acquisition was accounted for by applying the acquisition method as required by IFRS 3, "Business Combinations", and the requirements of IFRS 10, "Consolidated Financial Statements"; consequently, the fair value of the total consideration transferred was allocated to the assets acquired and liabilities assumed based on management's preliminary estimate of their fair value as at the acquisition date. The results of operations of the acquired business have been included in the consolidated financial statements of the company since March 2, 2017, being the date of acquisition.

The fair value of the total consideration transferred was allocated based on a preliminary estimate of fair value of acquired net assets at the date of acquisition as follows:

Assets acquired		
Accounts receivable	$	1,701
Intangible assets		5,998
Other assets		37
		7,736
Liability assumed		
Accounts payable and accrued liabilities		3,343
Deferred revenue		211
Long-term debt		1,480
Net identifiable assets acquired		2,702
Goodwill		6,417
Fair value of the total consideration transferred, net of cash acquired	$	9,119

Acquired intangible assets are amortized on a straight-line basis over their estimated useful life of five years.

Acquired goodwill mainly represents synergies with the company's products as well as Ontology acquired workforce. Acquired goodwill is not deductible for tax purposes.

The allocation of the fair value of the total consideration transferred is preliminary because the acquisition was closed during the quarter and because certain information required to complete the final allocation remains outstanding. The company expects to complete the final allocation for this acquisition in the fourth quarter of fiscal 2017. Assets and liabilities likely to change upon completing a more detailed valuation and the finalization of the allocation are accounts receivable, intangible assets, goodwill and the related deferred income tax effects.

The functional currency of Ontology is the British pound and as such it is considered a foreign operation. The financial statements of Ontology were translated into Canadian dollars as follows: assets and liabilities were translated at the exchange rate in effect on the date of the balance sheet; revenue and expenses were translated at the monthly average exchange rate. The foreign currency translation adjustment arising from such translation is included in accumulated other comprehensive income in shareholders' equity.

The following table summarizes changes in goodwill during the three and nine months ended May 31, 2017:

		Three months ended May 31, 2017		**Nine months ended May 31, 2017**
Balance – beginning of the period	$	26,094	$	21,928
Business combinations		6,417		10,820
Foreign currency translation adjustment		245		8
Balance – end of the period	$	32,756	$	32,756

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

4 Restructuring Charges

In May 2017, the company implemented a restructuring plan to streamline its monitoring solutions portfolio. This plan will result in one-time expenses totaling $4 million, mainly for severance expenses and inventory write-offs. During the three months ended May 31, 2017, the company recorded severance expenses of $2,783,000 and inventory write-offs of $1,030,000, for total restructuring charges of $3,813,000 during the quarter (note 7). The remaining of the restructuring charges of approximately $0.2 million will be recorded during the fourth quarter of fiscal 2017.

As at May 31, 2017, unpaid severance expenses amounted to $2,576,000.

5 Financial Instruments

Fair Value of Financial Instruments

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

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

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

Level 3: Unobservable inputs for the asset or liability

The company's short-term investments, forward exchange contracts and contingent liability are measured at fair value at each balance sheet date. The company's short-term investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets. The company's forward exchange contracts are classified within Level 2 of the fair value hierarchy because they are valued using quoted prices and forward exchange rates at the balance sheet dates. The company's contingent liability is classified within level 3 of the fair value hierarchy because it is valued using unobservable inputs such as expected future sales of Ontology.

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

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

	As at May 31, 2017			As at August 31, 2016		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Short-term investments	$ 3,337	$ –	$ –	$ 4,087	$ –	$ –
Forward exchange contracts	$ –	$ 480	$ –	$ –	$ 980	$ –
Financial liabilities						
Forward exchange contracts	$ –	$ 476	$ –	$ –	$ 1,120	$ –
Contingent liability (note 3)	$ –	$ –	$ 1,400	$ –	$ –	$ –

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

Derivative Financial Instruments

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

As at May 31, 2017, the company held contracts to sell US dollars for Canadian dollars and Indian rupees at various forward rates, which are summarized as follows:

US dollars – Canadian dollars

Expiry dates	**Contractual amounts**	**Weighted average contractual forward rates**
June 2017 to August 2017	$ 6,000	1.3059
September 2017 to August 2018	18,300	1.3407
September 2018 to August 2019	10,900	1.3426
Total	$ 35,200	1.3353

US dollars – Indian rupees

Expiry dates	**Contractual amounts**	**Weighted average contractual forward rates**
June 2017 to August 2017	$ 1,600	69.66
September 2017 to August 2018	3,400	69.49
Total	$ 5,000	69.54

The carrying amount of forward exchange contracts is equal to fair value, which is based on the amount at which they could be settled based on estimated current market rates. The fair value of forward exchange contracts amounted to a net loss of $140,000 as at August 31, 2016, and to a net gain of $4,000 as at May 31, 2017.

As at May 31, 2017, forward exchange contracts in the amount of $386,000 are presented as current assets in other accounts receivable; forward exchange contracts in the amount of $94,000 are presented as long-term assets in other long-term assets; and forward exchange contracts in the amount of $476,000 are presented as current liabilities in accounts payable and accrued liabilities in the consolidated balance sheet. Forward exchange contracts of $172,000 included in accounts payable and accrued liabilities, for which related hedged sales are recognized, are recorded in the consolidated statement of earnings; otherwise, other forward exchange contracts are not yet recorded in the consolidated statement of earnings and are recorded in other comprehensive income.

Based on the portfolio of forward exchange contracts as at May 31, 2017, the company estimates that the portion of the net unrealized gains 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, amounted to $82,000.

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

During the three and nine months ended May 31, 2016 and 2017, the company recognized within its sales the following foreign exchange losses on forward exchange contracts:

	Three months ended May 31, 2017	Nine months ended May 31, 2017	Three months ended May 31, 2016	Nine months ended May 31, 2016
Losses on forward exchange contracts	$ 180	$ 525	$ 438	$ 2,287

6 Share Capital

The following tables summarize changes in share capital for the nine months ended May 31, 2016 and 2017.

	Nine months ended May 31, 2016				
	Multiple voting shares		Subordinate voting shares		
	Number	Amount	Number	Amount	Total amount
Balance as at September 1, 2015	31,643,000	$ 1	22,092,034	$ 86,044	$ 86,045
Redemption of restricted share units	–	–	155,784	–	–
Redemption of deferred share units	–	–	653	–	–
Redemption of share capital	–	–	(200)	(1)	(1)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	723	723
Balance as at November 30, 2015	31,643,000	1	22,248,271	86,766	86,767
Redemption of restricted share units	–	–	119,973	–	–
Redemption of share capital	–	–	(62,442)	(243)	(243)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	507	507
Balance as at February 29, 2016	31,643,000	1	22,305,802	87,030	87,031
Redemption of restricted share units	–	–	1,807	–	–
Redemption of share capital	–	–	(54,369)	(213)	(213)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	8	8
Balance as at May 31, 2016	31,643,000	$ 1	22,253,240	$ 86,825	$ 86,826

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

	Nine months ended May 31, 2017				
	Multiple voting shares		Subordinate voting shares		
	Number	Amount	Number	Amount	Total amount
Balance as at September 1, 2016	31,643,000	$ 1	21,917,942	$ 85,515	$ 85,516
Issuance of share capital (note 3)	–	–	793,070	3,490	3,490
Redemption of restricted share units	–	–	88,371	–	–
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	346	346
Balance as at November 30, 2016	31,643,000	1	22,799,383	89,351	89,352
Redemption of restricted share units	–	–	97,900	–	–
Redemption of deferred share units	–	–	29,456	–	–
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	489	489
Balance as at February 28, 2017	31,643,000	1	22,926,739	89,840	89,841
Redemption of restricted share units	–	–	132,422	–	–
Redemption of deferred share units	–	–	450	–	–
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	535	535
Balance as at May 31, 2017	31,643,000	$ 1	23,059,611	$ 90,375	$ 90,376

7 Statements of Earnings

Net research and development expenses comprise the following:

	Three months ended May 31, 2017	Nine months ended May 31, 2017	Three months ended May 31, 2016	Nine months ended May 31, 2016
Gross research and development expenses	$ 14,710	$ 40,067	$ 12,612	$ 35,363
Research and development tax credits and grants	(1,447)	(4,226)	(1,309)	(3,965)
Net research and development expenses for the period	$ 13,263	$ 35,841	$ 11,303	$ 31,398

Inventory write-down is as follows:

	Three months ended May 31, 2017	Nine months ended May 31, 2017	Three months ended May 31, 2016	Nine months ended May 31, 2016
Inventory write-down for the period	$ 1,464	$ 2,440	$ 596	$ 2,052

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

Depreciation and amortization expenses by functional area are as follows:

	Three months ended May 31, 2017	Nine months ended May 31, 2017	Three months ended May 31, 2016	Nine months ended May 31, 2016
Cost of sales				
Depreciation of property, plant and equipment	$ 374	$ 1,104	$ 325	$ 960
Amortization of intangible assets	927	1,896	179	524
	1,301	3,000	504	1,484
Selling and administrative expenses				
Depreciation of property, plant and equipment	130	387	125	385
Amortization of intangible assets	23	59	19	55
	153	446	144	440
Net research and development expenses				
Depreciation of property, plant and equipment	525	1,403	508	1,512
Amortization of intangible assets	96	286	96	301
	621	1,689	604	1,813
	$ 2,075	$ 5,135	$ 1,252	$ 3,737
Depreciation of property, plant and equipment	$ 1,029	$ 2,894	$ 958	$ 2,857
Amortization of intangible assets	1,046	2,241	294	880
Total depreciation and amortization expenses for the period	$ 2,075	$ 5,135	$ 1,252	$ 3,737

Employee compensation comprises the following:

	Three months ended May 31, 2017	Nine months ended May 31, 2017	Three months ended May 31, 2016	Nine months ended May 31, 2016
Salaries and benefits	$ 30,565	$ 88,587	$ 28,983	$ 83,741
Restructuring charges (note 4)	2,783	2,783	–	–
Stock-based compensation costs	372	983	386	1,076
Total employee compensation for the period	$ 33,720	$ 92,353	$ 29,369	$ 84,817

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

Restructuring charges by functional area are as follows (note 4):

	Three months ended May 31, 2017	Nine months ended May 31, 2017	Three months ended May 31, 2016	Nine months ended May 31, 2016
Cost of sales [1]	$ 1,582	$ 1,582	$ –	$ –
Selling and administrative expenses	919	919	–	–
Net research and development expenses	1,312	1,312	–	–
Total restructuring charges for the period	$ 3,813	$ 3,813	$ –	$ –

(1) Includes $1,030,000 in inventory write-off.

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

	Three months ended May 31, 2017	Nine months ended May 31, 2017	Three months ended May 31, 2016	Nine months ended May 31, 2016
Cost of sales	$ 33	$ 87	$ 25	$ 80
Selling and administrative expenses	251	681	285	775
Net research and development expenses	88	215	76	221
Total stock-based compensation for the period	$ 372	$ 983	$ 386	$ 1,076

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

8 Income Taxes

For the three and nine months ended May 31, 2016 and 2017, 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 consolidated financial statements is as follows:

	Three months ended May 31, 2017	Nine months ended May 31, 2017	Three months ended May 31, 2016	Nine months ended May 31, 2016
Income tax (recovery) provision at combined Canadian federal and provincial statutory tax rate (27%)	$ (619)	$ 1,486	$ 814	$ 3,300
Increase (decrease) due to:				
Foreign income taxed at different rates	(60)	(640)	(212)	(612)
Non-deductible loss (non-taxable income)	(226)	(37)	(203)	(273)
Non-deductible expenses	225	578	171	486
Change in tax rates	15	(10)	–	–
Foreign exchange effect of translation of foreign subsidiaries in the functional currency	27	(91)	227	328
Utilization of previously unrecognized deferred income tax assets	234	(55)	32	–
Unrecognized deferred income tax assets on temporary deductible differences and unused tax losses	2,222	4,202	1,340	2,682
Other	194	62	(73)	(335)
Income tax provision for the period	$ 2,012	$ 5,495	$ 2,096	$ 5,576

The income tax provision consists of the following:

	Three months ended May 31, 2017	Nine months ended May 31, 2017	Three months ended May 31, 2016	Nine months ended May 31, 2016
Current	$ 1,308	$ 4,332	$ 1,485	$ 4,291
Deferred	704	1,163	611	1,285
	$ 2,012	$ 5,495	$ 2,096	$ 5,576

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

9 Earnings per Share

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

	Three months ended May 31, 2017	**Nine months ended May 31, 2017**	**Three months ended May 31, 2016**	**Nine months ended May 31, 2016**
Basic weighted average number of shares outstanding (000s)	54,593	54,328	53,940	53,894
Add - dilutive effect of (000s):				
Restricted share units	1,018	999	735	635
Deferred share units	145	152	138	126
Diluted weighted average number of shares outstanding (000s)	55,756	55,479	54,813	54,655
Stock awards excluded from the calculation of diluted weighted average number of shares because their exercise price was greater than the average market price of the common shares (000s)	–	–	–	101

For the three months ended May 31, 2017, the diluted amount per share was the same amount as the basic amount per share since the dilutive effect of restricted share units and deferred share units was not included in the calculation; otherwise, the effect would have been antidilutive. Accordingly, the diluted amount per share for this period was calculated using the basic weighted average number of shares outstanding.