# EVERTZ TECHNOLOGIES LIMITED
# MANAGEMENT'S DISCUSSION AND ANALYSIS
# For the First Quarter ended July 31, 2018

The following management's discussion and analysis is a review of results of the operations and the liquidity and capital resources of the Company. It should be read in conjunction with the selected consolidated financial information and other data and the Company's consolidated financial statements and the accompanying notes contained on SEDAR. The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars. The fiscal year of the Company ends on April 30 of each year. Certain information contained herein is forward-looking and based upon assumptions and anticipated results that are subject to risks, uncertainties and other factors. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected.

## FORWARD-LOOKING STATEMENTS

The report contains forward-looking statements reflecting Evertz's objectives, estimates and expectations. Such forward-looking statements use words such as "may", "will", "expect", "believe", "anticipate", "plan", "intend", "project", "continue" and other similar terminology of a forward-looking nature or negatives of those terms.

Although management of the Company believes that the expectations reflected in such forward-looking statements are reasonable, all forward-looking statements address matters that involve known and unknown risks, uncertainties and other factors. Accordingly, there are or will be a number of significant factors which could cause the Company's actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

The report is based on information available to management on September 11, 2018.

## OVERVIEW

Evertz is a leading solutions provider to the television broadcast, telecommunications and new-media industries. Founded in 1966, Evertz is a leading supplier of software, equipment and technology solutions to content creators, broadcasters, specialty channels and television service providers. Evertz designs, manufactures and markets video and audio infrastructure solutions for the production, post-production and transmission of television content. The Company's solutions are purchased by content creators, broadcasters, specialty channels and television service providers to support their increasingly complex multi-channel digital and high definition television ("HDTV/Ultra HD") and next generation high bandwidth low latency IP network environments and by telecommunications and new-media companies. The Company's products allow its customers to generate additional revenue while reducing costs through efficient signal routing, distribution, monitoring and management of content as well as the automation and orchestration of more streamlined and agile workflow processes on premise and in the "Cloud".

The Company made early research and development investments to establish itself as the leading supplier to the broadcast industry addressing the ongoing technical transition to IP and IT based production, workflow and distribution systems helping to create more efficient and agile workflows enabling the proliferation of high quality video emerging Ultra HD, High Dynamic range initiatives. The Company has maintained its track record of rapid innovation; is a leader in the expanding Internet

Protocol Television ("IPTV") market and a leader in Software Defined Video Network ("SDVN") technology. The Company is committed to maintaining its leadership position, and as such, a significant portion of the Company's staff is focused on research and development to ensure that the Company's products are at the forefront of the industry. This commitment contributes to the Company being consistently recognized as a leading broadcast and video networking industry innovator by its customers.

## SIGNIFICANT ACCOUNTING POLICIES

### Changes in Accounting Policies

#### *Financial Instruments*

IFRS 9, *Financial instruments* ("IFRS 9") was issued by the IASB in July 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 includes a logical model for classification and measurement of financial assets; a single, forward looking "expected credit loss" impairment model and a substantially reformed approach to hedge accounting to better link the economics of risk management with its accounting treatment. The Company adopted IFRS 9 on May 1, 2018 and did not have a significant impact on the Company's interim condensed consolidated financial statements and related disclosures. See interim condensed consolidated financial statement as at July 31, 2018 for the new policy and further details.

#### *Revenue*

IFRS 15, *Revenue from contracts with customers* ("IFRS 15") was issued by the IASB in May 2014 to replace IAS 11, *Construction Contracts* and IAS 18, *Revenue* and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers to determine how and when to recognize revenue. The Company has adopted IFRS 15 with an initial adoption date of May 1, 2018 and did not have a significant impact on the Company's interim condensed consolidated financial statements and related disclosures.

The Company utilized the modified retrospective approach to adopt the new standard and therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. See interim condensed consolidated financial statement as at July 31, 2018 for the new policy and further details.

### New and Revised IFRSs Issued but Not Yet Effective

#### Leases

IFRS 16, *Leases* ("IFRS 16") was issued by the IASB in January 2016 and will replace IAS 17, *Leases.* IFRS 16 introduces a single accounting model for lessees to bring leases on-balance sheet while lessor accounting remains largely unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The total amount of future lease commitments as at July 31, 2018 is $40,215. The Company has not yet determined the final impact of the adoption of the following standards and intends to disclose the estimated financial effects of the adoption of IFRS 16 in our 2019 annual consolidated financial statements.

## QUARTER END HIGHLIGHTS

Revenue was $103.1 million for the first quarter ended July 31, 2018; a decrease of $5.9 million, when compared to $109.0 million for the same period ended July 31, 2017. Revenue increased in the United States/Canada region by 15% and revenue decreased in the International region by 36%.

For the first quarter ended July 31, 2018, net earnings were $17.4 million, an increase from $13.2 million for the first quarter ended July 31, 2017. Fully diluted earnings per share were $0.23 an increase from $0.17 for the first quarter ended July 31, 2017.

For the first quarter ended July 31, 2018, foreign exchange gain during the quarter was $1.1 million, predominately driven by the increase in value of the US dollar against the Canadian dollar since January 31, 2018.

Gross margin during the first quarter ended July 31, 2018 was 57.0% as compared to 56.1% for the first quarter ended July 31, 2017.

Selling and administrative expenses for the first quarter ended July 31, 2018 was $15.9 million as compared to the first quarter ended July 31, 2017 of $15.8 million. As a percentage of revenue, selling and administrative expenses totaled 15.4% for the first quarter ended July 31, 2018 as opposed to $14.5% for the first quarter ended July 31, 2017.

Research and development expenses were $21.3 million for the first quarter ended July 31, 2018 as compared to $19.3 million for the first quarter ended July 31, 2017.

**Selected Consolidated Financial Information**
(in thousands of dollars except earnings per share and share data)

| | Three months ended July 31, 2018 | Three months ended July 31, 2017 |
|---|---|---|
| Revenue | $ 103,089 | $ 109,009 |
| Cost of goods sold | 44,311 | 47,848 |
| Gross margin | $ 58,778 | $ 61,161 |
| | | |
| Expenses | | |
| Selling and administrative | 15,905 | 15,827 |
| General | 1,339 | 2,097 |
| Research and development | 21,320 | 19,272 |
| Investment tax credits | (2,003) | (2,451) |
| Foreign exchange (gain) loss | (1,072) | 8,244 |
| | 35,489 | 42,989 |
| Earnings before undernoted | $ 23,289 | $ 18,172 |
| | | |
| Finance income | 359 | 101 |
| Finance costs | (426) | (48) |
| Other income and expenses | 135 | 29 |
| Earnings before income taxes | $ 23,357 | $ 18,254 |
| | | |
| Provision for (recovery of) income taxes | | |
| Current | 5,618 | 5,855 |
| Deferred | 378 | (793) |
| | $ 5,996 | $ 5,062 |
| | | |
| Net earnings for the period | $ 17,361 | $ 13,192 |
| | | |
| Net earnings attributable to non-controlling interest | 88 | 114 |
| Net earnings attributable to shareholders | 17,273 | 13,078 |
| Net earnings for the period | $ 17,361 | $ 13,192 |
| | | |
| Earnings per share: | | |
| Basic | $ 0.23 | $ 0.17 |
| Diluted | $ 0.23 | $ 0.17 |

| Consolidated Balance Sheet Data | As at July 31, 2018 | As at April 30, 2018 |
|---|---|---|
| Cash and cash equivalents | $ 91,720 | $ 94,184 |
| Inventory | $ 167,109 | $ 168,070 |
| Working capital | $ 268,427 | $ 264,514 |
| Total assets | $ 433,215 | $ 421,115 |
| Shareholders' equity | $ 331,934 | $ 329,227 |
| | | |
| Number of common shares outstanding: | | |
| Basic | 76,497,746 | 76,481,746 |
| Fully-diluted | 78,739,746 | 78,722,746 |
| | | |
| Weighted average number of shares outstanding: | | |
| Basic | 76,488,876 | 76,211,007 |
| Fully-diluted | 76,514,508 | 76,347,750 |

| **Consolidated Statement of Operations Data**<br>(in thousands of dollars except earnings per share and share data) | **Three months ended July 31, 2018** | | **Three months ended July 31, 2017** | |
|---|---|---|---|---|
| Revenue | | 100.0% | | 100.0% |
| Cost of goods sold | | 43.0% | | 43.9% |
| Gross margin | | 57.0% | | 56.1% |
| | | | | |
| Expenses | | | | |
| Selling and administrative | | 15.4% | | 14.5% |
| General | | 1.2% | | 1.9% |
| Research and development | | 20.7% | | 17.7% |
| Investment tax credits | | (1.9%) | | (2.3%) |
| Foreign exchange (gain) loss | | (1.0%) | | 7.6% |
| | | 34.4% | | 39.4% |
| Earnings before undernoted | | 22.6% | | 16.7% |
| | | | | |
| Finance income | | 0.4% | | 0.1% |
| Finance costs | | (0.4%) | | 0.0% |
| Other income and expenses | | 0.1% | | 0.0% |
| Earnings before income taxes | | 22.7% | | 16.8% |
| | | | | |
| Provision for (recovery of) income taxes | | | | |
| Current | | 5.4% | | 5.4% |
| Deferred | | 0.4% | | (0.7%) |
| | | 5.8% | | 4.7% |
| | | | | |
| Net earnings for the period | | 16.9% | | 12.1% |
| | | | | |
| Net earnings attributable to non-controlling interest | | 0.1% | | 0.1% |
| Net earnings attributable to shareholders | | 16.8% | | 12.0% |
| Net earnings for the period | | 16.9% | | 12.1% |
| | | | | |
| Earnings per share: | | | | |
| Basic | $ | 0.23 | $ | 0.17 |
| Diluted | $ | 0.23 | $ | 0.17 |

## REVENUE AND EXPENSES

### *Revenue*

The Company generates revenue principally from the sale of software, equipment, and technology solutions to content creators, broadcasters, specialty channels and television service providers.

The Company markets and sells its products and services through both direct and indirect sales strategies. The Company's direct sales efforts focus on large and complex end-user customers. These customers have long sales cycles typically ranging from four to eight months before an order may be received by the Company for fulfillment.

The Company monitors revenue performance in two main geographic regions: (i) United States/Canada and (ii) International.

The Company currently generates approximately 65% to 75% of its revenue in the United States/Canada. The Company recognizes the opportunity to more aggressively target markets in other geographic regions and intends to invest in personnel and infrastructure in those markets.

While a significant portion of the Company's expenses are denominated in Canadian dollars, the Company collects substantially all of its revenues in currencies other than the Canadian dollar and therefore has significant exposure to fluctuations in foreign currencies, in particular the US dollar. Approximately 70% to 80% of the Company's revenues are denominated in US dollars.

***Revenue***

| (In thousands of Canadian dollars) | Three months ended July 31, 2018 | Three months ended July 31, 2017 | % Increase (Decrease) |
|---|---|---|---|
| United States/Canada | $ 75,196 | $ 65,362 | 15% |
| International | 27,893 | 43,647 | (36%) |
| | $ 103,089 | $ 109,009 | (5%) |

Total revenue for the first quarter ended July 31, 2018 was $103.1 million, a decrease of $5.9 million or 5% as compared to revenue of $109.0 million for the first quarter ended July 31, 2017.

Revenue in the United States/Canada region was $75.2 million for the first quarter ended July 31, 2018, an increase of $9.8 million or 15% when compared to revenue of $65.4 million for the first quarter ended July 31, 2017.

Revenue in the International region was $27.9 million for the first quarter ended July 31, 2018, a decrease of $15.7 million or 36% as compared to revenue of $43.6 million for the first quarter ended July 31, 2017.

***Cost of Sales***

Cost of sales consists primarily of costs of manufacturing and assembly of products. A substantial portion of these costs is represented by components and compensation costs for the manufacture and assembly of products as well as inventory obsolescence and write-offs. Cost of sales also includes related overhead, certain depreciation, final assembly, quality assurance, inventory management and support costs. Cost of sales also includes the costs of providing services to clients, primarily the cost of service-related personnel.

***Gross Margin***

| (In thousands of Canadian dollars, except for percentages) | Three months ended July 31, 2018 | Three months ended July 31, 2017 | % Increase (Decrease) |
|---|---|---|---|
| Gross margin | $ 58,778 | $ 61,161 | (4%) |
| Gross margin % of sales | 57.0% | 56.1% | |

Gross margin for the first quarter ended July 31, 2018 was $58.8 million, compared to $61.2 million for the first quarter ended July 31, 2017. As a percentage of revenue, the gross margin was 57.0% for the first quarter ended July 31, 2018, as compared to 56.1% for the first quarter ended July 31, 2017.

Gross margins vary depending on the product mix, geographic distribution and competitive pricing pressures and currency fluctuations. For the first quarter ended July 31, 2018 the gross margin, as a percentage of revenue, was in the Company's projected range. The pricing environment continues to be very competitive with substantial discounting by our competition.

The Company expects that it will continue to experience competitive pricing pressures. The Company continually seeks to build its products more efficiently and enhance the value of its product and service offerings in order to reduce the risk of declining gross margin associated with the competitive environment.

### *Operating Expenses*

The Company's operating expenses consist of: (i) selling, administrative and general; (ii) research and development and (iii) foreign exchange.

Selling expenses primarily relate to remuneration of sales and technical personnel. Other significant cost components include trade show costs, advertising and promotional activities, demonstration material and sales support. Selling and administrative expenses relate primarily to remuneration costs of related personnel, legal and professional fees, occupancy and other corporate and overhead costs. The Company also records certain depreciation and share based compensation charges as general expenses. For the most part, selling, and administrative expenses are fixed in nature and do not fluctuate directly with revenue. The Company has certain selling expenses that tend to fluctuate in regards to the timing of trade shows.

The Company invests in research and development to maintain its position in the markets it currently serves and to enhance its product portfolio with new functionality and efficiencies. Although the Company's research and development expenditures do not fluctuate directly with revenues, it monitors this spending in relation to revenues and adjusts expenditures when appropriate. Research and development expenditures consist primarily of personnel costs and material costs. Research and development expenses are presented on a gross basis (without deduction of research and development tax credits). Research and development tax credits associated with research and development expenditures are shown separately under research and development tax credits.

### *Selling and Administrative*

| (In thousands of Canadian dollars, except for percentages) | Three months ended July 31, 2018 | Three months ended July 31, 2017 | % Increase (Decrease) |
|---|---|---|---|
| Selling and administrative | $ 15,905 | $ 15,827 | 0% |
| Selling and administrative % of sales | 15.4% | 14.5% | |

Selling and administrative expenses excludes stock based compensation, operation of non-production property, plant and equipment, and amortization of intangibles. Selling and administrative expenses for the first quarter ended July 31, 2018 were $15.9 million or 15.4% of revenue, as compared to selling and administrative expenses of $15.8 million or 14.5% of revenue for the first quarter ended July 31, 2017.

### *Share Based Compensation*

In March 2016, the Company adopted a restricted share unit (RSU) plan to attract, motivate and compensate persons who are integral to the growth and success of the Company. During the first quarter ended July 31, 2018, share based compensation expense associated with the plan was $0.5 million as compared to $1.0 million for the first quarter ended July 31, 2017.

### *Research and Development (R&D)*

| (In thousands of Canadian dollars, except for percentages) | | Three months ended July 31, 2018 | | Three months ended July 31, 2017 | % Increase (Decrease) |
|---|---|---|---|---|---|
| Research and development expenses | $ | 21,320 | $ | 19,272 | 11% |
| Research and development % of sales | | 20.7% | | 17.7% | |

For the first quarter ended July 31, 2018, gross R&D expenses were $21.3 million, an increase of 11% or $2.0 million as compared to an expense of $19.3 million for the first quarter ended July 31, 2017.

The increase of $2.0 million was predominantly a result of planned growth of R&D personnel and a corresponding increase in prototypes and materials.

### *Foreign Exchange*

For the first quarter ended July 31, 2018, the foreign exchange gain was $1.1 million, as compared to a foreign exchange loss for the first quarter ended July 31, 2017 of $8.2 million. The current period gain was predominantly driven by the increase in the value of the US dollar against the Canadian dollar since April 30, 2018.

### *Finance Income, Finance Costs, Other Income and Expenses*

For the first quarter ended July 31, 2018, finance income, finance costs, other income and expenses netted to a gain of $0.1 million.

## LIQUIDITY AND CAPITAL RESOURCES

| Liquidity and Capital Resources<br>(in thousands of dollars except ratios)<br>Key Balance Sheet Amounts and Ratios: | | As at July 31, 2018 | | As at Aprl 30, 2018 |
|---|---|---|---|---|
| Cash and cash equivalents | $ | 91,720 | $ | 94,184 |
| Working capital | $ | 268,427 | $ | 264,514 |
| Long-term assets | $ | 65,331 | $ | 66,083 |
| Long-term debt | $ | 436 | $ | 515 |
| Days sales outstanding in accounts receivable | | 69 | | 58 |

| Statement of Cash Flow Summary | | Three months ended July 31, 2018 | | Three months ended July 31, 2017 |
|---|---|---|---|---|
| Operating activities | $ | 24,237 | $ | 32,195 |
| Investing activities | $ | (12,999) | $ | (3,098) |
| Financing activities | $ | (13,486) | $ | (9,694) |
| Net (decrease) increase in cash | $ | (2,464) | $ | 18,514 |

### *Operating Activities*

For the first quarter ended July 31, 2018, the Company generated cash from operations of $24.2 million, compared to $32.2 million for the first quarter ended July 31, 2017. Excluding the effects of the changes in non-cash working capital and current taxes, the Company generated cash from operations of $20.3 million for the first quarter ended July 31, 2018 compared to $15.5 million for the first quarter ended July 31, 2017.

### *Investing Activities*

The Company used cash for investing activities of $13.0 million for the first quarter ended July 31, 2018 which was principally driven by the acquisition of marketable securities for $10.8 million and capital assets of $2.3 million.

### *Financing Activities*

For the first quarter ended July 31, 2018, the Company used cash from financing activities of $13.5 million, which was principally driven by dividends paid of $13.8 million, partially offset by the issuance of Capital Stock pursuant to the Company's Stock Option Plan of $0.3 million.

## WORKING CAPITAL

As at July 31, 2018, the Company had cash and cash equivalents of $91.7 million, compared to $94.2 million at April 30, 2018.

The Company had working capital of $268.4 million as at July 31, 2018 compared to $264.5 million as at April 30, 2017.

The Company believes that the current balance in cash and plus future cash flow from operations will be sufficient to finance growth and related investment and financing activities in the foreseeable future.

Day sales outstanding in accounts receivable were 69 days at July 31, 2018 as compared to 58 for April 30, 2018. Upon the adoption of IFRS 15, contract assets have been segregated from trade and other receivables within the financial statements. For comparative purposes, day sales outstanding in accounts receivable have been recalculated for April 30, 2018 using the same methodology.

## SHARE CAPITAL STRUCTURE

Authorized capital stock consists of an unlimited number of common and preferred shares.

| | **As at July 31, 2018** | **As at April 30, 2018** |
|---|---|---|
| Common shares | 76,497,746 | 76,481,746 |
| Stock options granted and outstanding | 2,242,000 | 2,241,000 |

## FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables and long term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The Company estimates the fair value of these instruments approximates the carrying values as listed below.

***Fair Values and Classification of Financial Instruments:***

The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments:

I. Quoted prices (unadjusted) in active markets for identical assets or liabilities.
II. Inputs other than quoted prices included in level I that are observable for the asset or liability, either directly or indirectly. Cash and cash equivalents, trade and other receivables, trade and other payables, and long-term debt fair value measurements have been measured within level II.
III. Inputs for the asset or liability that are not based on observable market data.

## CONTRACTUAL OBLIGATIONS

The following table sets forth the Company's contractual obligations as at July 31, 2018:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| (In thousands) | Total | Less than 1 Year | 2-3 Years | 4-5 Years | Thereafter |
| Operating leases | $ 40,215 | $ 4,919 | $ 9,317 | $ 7,873 | $ 18,106 |
| Other long-term debt | 917 | 481 | 389 | 47 | - |
| | $ 41,132 | $ 5,400 | $ 9,706 | $ 7,920 | $ 18,106 |

## OFF-BALANCE SHEET FINANCING

The Company does not have any off-balance sheet arrangements.

## RELATED PARTY TRANSACTIONS

In the normal course of business, we may enter into transactions with related parties. These transactions occur under market terms consistent with the terms of transactions with unrelated arms-length third parties. The Company continues to lease a premise from a company in which two shareholders' each indirectly hold a 10% interest, continues to lease a facility from a company in which two shareholders each indirectly hold a 20% interest, continues to lease two facilities for manufacturing where two shareholders indirectly own 100% interest, continues to lease a facility from a company in which two shareholders each indirectly own a 35% interest, continues to lease a facility with a director who indirectly owns 100% and continues to lease a facility where two shareholders each indirectly own 46.6%.

## SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following table sets out selected consolidated financial information for each of the eight quarters ended July 31, 2018. In the opinion of management, this information has been prepared on the same basis as the audited consolidated financial statements. The operating results for any quarter should not be relied upon as any indication of results for any future period.

| | Quarter Ending | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands) | 2018 | | | 2017 | | | | 2016 |
| (Unaudited) | July 31 | Apr 30 | Jan 31 | Oct 31 | July 31 | Apr 30 | Jan 31 | Oct 31 |
| Revenue | $103,089 | $ 92,988 | $ 99,574 | $ 101,261 | $109,009 | $ 106,734 | $ 91,080 | $ 99,592 |
| Cost of goods sold | 44,311 | 43,979 | 43,595 | 44,509 | 47,848 | 46,690 | 39,957 | 42,481 |
| Gross margin | $ 58,778 | $ 49,009 | $ 55,979 | $ 56,752 | $ 61,161 | $ 60,044 | $ 51,123 | $ 57,111 |
| Operating expenses | 35,489 | 37,406 | 38,944 | 32,878 | 42,989 | 32,531 | 38,704 | 29,225 |
| Earnings from operations | $ 23,289 | $ 11,603 | $ 17,035 | $ 23,874 | $ 18,172 | $ 27,513 | $ 12,419 | $ 27,886 |
| Non-operating income | 68 | 89 | 2,169 | (58) | 82 | (116) | 359 | 363 |
| Earnings before taxes | $ 23,357 | $ 11,692 | $ 19,204 | $ 23,816 | $ 18,254 | $ 27,397 | $ 12,778 | $ 28,249 |
| Net earnings | $ 17,273 | $ 8,190 | $ 14,532 | $ 17,286 | $ 13,078 | $ 20,547 | $ 9,637 | $ 20,583 |
| Net earnings per share: | | | | | | | | |
| Basic | $ 0.23 | $ 0.11 | $ 0.19 | $ 0.23 | $ 0.17 | $ 0.27 | $ 0.13 | $ 0.28 |
| Diluted | $ 0.23 | $ 0.11 | $ 0.19 | $ 0.23 | $ 0.17 | $ 0.27 | $ 0.13 | $ 0.27 |
| Dividends per share: | $ 0.18 | $ 0.18 | $ 0.18 | $ 0.18 | $ 0.18 | $ 0.18 | $ 1.28 | $ 0.18 |

The Company's revenue and corresponding earnings can vary from quarter to quarter depending on the delivery requirements of our customers. Our customers can be influenced by a variety of factors including upcoming sports or entertainment events as well as their access to capital. Net earnings represent net earnings attributable to shareholders.

## DISCLOSURE CONTROLS AND PROCEDURES

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52-109 of the Canadian Securities Administrators) as of July 31, 2018.

Management has concluded that, as of July 31, 2018, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Company would be made known to them by others within the Company, particularly during the period in which this report was being prepared.

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for and has designed internal controls over financial reporting, or caused it to be designed under management's supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management has concluded that, as of July 31, 2018, the Company's internal controls over financial reporting were effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

## CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes to the Company’s internal controls over financial reporting during the period ended April 30, 2018 that have materially affected, or reasonably likely to materially affect, its internal controls over financial reporting.

On May 15, 2013 the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) released *Internal Control-Integrated Framework: 2013*, which is an update to the internal control framework previously issued in 1992. Management is currently operating under the 1992 Framework and is transitioning to the updated Framework. While no significant changes to the Company’s internal control system are expected to result from the transition, any modifications to such expectation will be reported by the Company within the following MD&A.

## OUTLOOK

Management expects on an annual basis that the Company’s revenues will continue to outpace industry growth. Gross margin percentages may vary depending on the mix of products sold, the Company’s success in winning more complete projects, utilization of manufacturing capacity and the competitiveness of the pricing environment. R&D will continue to be a key focus as the Company invests in new product development.

## RISKS AND UNCERTAINTIES

The Company risk factors are outlined in our AIF filed on SEDAR.