

Interim condensed consolidated financial statements of

**EVERTZ TECHNOLOGIES LIMITED**

Three months ended July 31, 2014 and 2013  
(Unaudited)

## **MANAGEMENT REPORT**

The management of Evertz Technologies Limited (the “Company”) is responsible for the preparation of the accompanying interim condensed consolidated financial statements. The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and are considered by management to present fairly the consolidated financial position, operating results and cash flows of the Company.

These interim condensed consolidated financial statements have not been reviewed by the auditor. These interim condensed consolidated financial statements are unaudited and include all adjustments, consisting of normal and recurring items, that management considers necessary for the fair presentation of the consolidated financial position, results of operations and cash flows.

# EVERTZ TECHNOLOGIES LIMITED

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(Unaudited)

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Three months ended July 31, 2014 and 2013

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# EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Financial Position  
(Unaudited)

As at July 31, 2014 and April 30, 2014  
(In thousands of Canadian dollars)

	July 31, 2014	April 30, 2014
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 103,368	\$ 101,956
Trade and other receivables	86,457	87,981
Prepaid expenses	5,154	4,704
Inventories	145,297	134,561
Income tax receivable	-	1,735
	340,276	330,937
Property, plant and equipment (note 3)	51,106	51,831
Goodwill (note 4)	18,246	18,269
Intangible assets	138	243
	\$ 409,766	\$ 401,280
<b>Liabilities</b>		
Current liabilities		
Trade and other payables	\$ 42,572	\$ 44,888
Provisions (note 5)	1,650	1,624
Deferred revenue	10,723	10,096
Current portion of long term debt	406	415
Income tax payable	4,245	-
	59,596	57,023
Long term debt	1,235	1,372
Deferred taxes	4,236	6,468
	65,067	64,863
<b>Equity</b>		
Capital stock (note 6)	92,987	92,931
Share based payment reserve	11,109	10,217
Accumulated other comprehensive earnings	2,522	2,966
Retained earnings	234,887	227,364
	237,409	230,330
Total equity attributable to shareholders	341,505	333,478
Non-controlling interest	3,194	2,939
	344,699	336,417
	\$ 409,766	\$ 401,280

See accompanying notes to the interim condensed consolidated financial statements.

## EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Changes in Equity  
(Unaudited)

Three month periods ended July 31, 2014 and 2013  
(In thousands of Canadian dollars)

	Capital stock	Share based payment reserve	Accumulated other comprehensive earnings (loss)	Retained earnings	Total equity attributable to shareholders	Non- controlling interest	Total Equity
<b>Balance at April 30, 2013</b>	<b>\$ 81,453</b>	<b>\$ 10,727</b>	<b>\$ (1,063)</b>	<b>\$ 315,680</b>	<b>\$ 406,797</b>	<b>\$ 2,938</b>	<b>\$ 409,735</b>
Net earnings for the period	-	-	-	11,733	11,733	83	11,816
Foreign currency translation adjustment	-	-	(111)	-	(111)	49	(62)
<b>Total comprehensive earnings for the period</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (111)</b>	<b>\$ 11,733</b>	<b>\$ 11,622</b>	<b>\$ 132</b>	<b>\$ 11,754</b>
Dividends declared	-	-	-	(11,826)	(11,826)	(600)	(12,426)
Share based compensation expense	-	716	-	-	716	-	716
Exercise of employee stock options	4,164	-	-	-	4,164	-	4,164
Transfer on stock option exercise	2,121	(2,121)	-	-	-	-	-
Repurchase of common shares	(4)	-	-	(40)	(44)	-	(44)
<b>Balance at July 31, 2013</b>	<b>\$ 87,734</b>	<b>\$ 9,322</b>	<b>\$ (1,174)</b>	<b>\$ 315,547</b>	<b>\$ 411,429</b>	<b>\$ 2,470</b>	<b>\$ 413,899</b>
<b>Balance at April 30, 2014</b>	<b>\$ 92,931</b>	<b>\$ 10,217</b>	<b>\$ 2,966</b>	<b>\$ 227,364</b>	<b>\$ 333,478</b>	<b>\$ 2,939</b>	<b>\$ 336,417</b>
Net earnings for the period	-	-	-	19,411	19,411	295	19,706
Foreign currency translation adjustment	-	-	(444)	-	(444)	(40)	(484)
<b>Total comprehensive earnings for the period</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (444)</b>	<b>\$ 19,411</b>	<b>\$ 18,967</b>	<b>\$ 255</b>	<b>\$ 19,222</b>
Dividends declared	-	-	-	(11,888)	(11,888)	-	(11,888)
Share based compensation expense	-	904	-	-	904	-	904
Exercise of employee stock options	44	-	-	-	44	-	44
Transfer on stock option exercise	12	(12)	-	-	-	-	-
<b>Balance at July 31, 2014</b>	<b>\$ 92,987</b>	<b>\$ 11,109</b>	<b>\$ 2,522</b>	<b>\$ 234,887</b>	<b>\$ 341,505</b>	<b>\$ 3,194</b>	<b>\$ 344,699</b>

See accompanying notes to the interim condensed consolidated financial statements.

# EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Earnings  
(Unaudited)

Three month periods ended July 31, 2014 and 2013  
(In thousands of Canadian dollars, except per share amounts)

	<b>Three months July 31, 2014</b>	<b>Three months July 31, 2013</b>
Revenue	\$ 98,014	\$ 63,858
Cost of goods sold	42,193	27,144
Gross margin	55,821	36,714
Expenses		
Selling, administrative and general (note 7)	15,209	13,074
Research and development	15,820	13,459
Investment tax credits	(2,466)	(2,857)
Foreign exchange loss (gain)	743	(2,509)
	29,306	21,167
	26,515	15,547
Finance income	193	621
Finance costs	(67)	(102)
Other income and expenses	140	7
Earnings before income taxes	26,781	16,073
Provision for (recovery of) income taxes		
Current	9,311	6,370
Deferred	(2,236)	(2,113)
	7,075	4,257
Net earnings for the period	19,706	11,816
Net earnings attributable to non-controlling interest	295	83
Net earnings attributable to shareholders	19,411	11,733
Net earnings for the period	\$ 19,706	\$ 11,816
Earnings per share (note 12)		
Basic	\$ 0.26	\$ 0.16
Diluted	\$ 0.26	\$ 0.16

See accompanying notes to the interim condensed consolidated financial statements.

## **EVERTZ TECHNOLOGIES LIMITED**

Interim Condensed Consolidated Statements of Comprehensive Earnings  
(Unaudited)

Three months ended July 31, 2014 and 2013  
(In thousands of Canadian dollars)

	<b>Three months ended July 31, 2014</b>	<b>Three months ended July 31, 2013</b>
Net earnings for the period	\$ 19,706	\$ 11,816
Items that may be reclassified to net earnings:		
Foreign currency translation adjustment	(484)	(62)
Comprehensive earnings	\$ 19,222	\$ 11,754
Comprehensive earnings attributable to non-controlling interest	\$ 255	\$ 132
Comprehensive earnings attributable to shareholders	18,967	11,622
Comprehensive earnings	\$ 19,222	\$ 11,754

See accompanying notes to the interim condensed consolidated financial statements.

# EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Cash Flows  
(Unaudited)

Three months ended July 31, 2014 and 2013  
(In thousands of Canadian dollars)

	Three months ended July 31, 2014	Three months ended July 31, 2013
<b>Operating activities</b>		
Net earnings for the period	\$ 19,706	\$ 11,816
Add: Items not involving cash		
Depreciation of property, plant and equipment	2,711	2,330
Amortization of intangible assets	103	89
Gain on instruments held for trading	-	(40)
Loss on disposal of property, plant and equipment	26	-
Share-based compensation	904	716
Interest expense	13	45
Deferred income tax expense	(2,236)	(2,113)
	21,227	12,843
Current tax expenses, net of investment tax credits	6,729	3,513
Income taxes paid	(821)	(435)
Changes in non-cash working capital items (note 8)	(11,846)	(13,216)
Cash provided by operating activities	15,289	2,705
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(2,493)	(3,519)
Proceeds from disposal of property, plant and equipment	20	-
Cash used in investing activities	(2,473)	(3,519)
<b>Financing activities</b>		
Repayment of long term debt	(73)	(115)
Interest paid	(13)	(45)
Dividends paid	(11,888)	(11,826)
Dividends paid by subsidiaries to non-controlling interests	-	(600)
Capital stock repurchase	-	(44)
Capital stock issued	44	4,164
Cash used in financing activities	(11,930)	(8,466)
Effect of exchange rates on cash and cash equivalents	526	(432)
Increase (decrease) in cash and cash equivalents	1,412	(9,712)
Cash and cash equivalents beginning of period	101,956	208,658
Cash and cash equivalents end of period	\$ 103,368	\$ 198,946

See accompanying notes to the interim condensed consolidated financial statements.



# EVERTZ TECHNOLOGIES LIMITED

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three months ended July 31, 2014 and 2013  
(in thousands of Canadian dollars, except for “number of common shares”, “number of options” and “per share”  
information)

Evertz Technologies Limited (“Evertz” or the “Company”) is incorporated under the *Canada Business Corporations Act*. The Company is incorporated and domiciled in Canada and the registered head office is located at 5292 John Lucas Drive, Burlington, Ontario, Canada. The Company is a leading equipment provider to the television broadcast industry. The Company designs, manufactures and distributes video and audio infrastructure equipment for the production, post-production, broadcast and telecommunications markets.

### 1. STATEMENT OF COMPLIANCE

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and under the IAS 34 “Interim Financial Reporting” using the same accounting policies as described in the Company’s consolidated financial statements for the year ended April 30, 2014, except as disclosed in Note 2.

These interim condensed consolidated financial statements do not include all information and note disclosures required by IFRS for annual financial statements, and therefore; should be read in conjunction with the April 30, 2014 annual consolidated financial statements.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on September 8, 2014.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Changes in Accounting Policies

##### *Financial Instruments*

Effective May 1, 2014, the Company adopted amendments to IAS 32, *Financial Instruments: Presentations* (“IAS 32”), which clarified certain aspects of the requirements to offset. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The adoption of the amendments did not have a material impact on the Interim Condensed Consolidated Financial Statements.

##### *Levies*

Effective May 1, 2014, the Company adopted IFRIC 21, *Levies* (“IFRIC 21”) which provides guidance on accounting for levies in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. IFRIC 21 did not have a material impact on the Interim Condensed Consolidated Financial Statements.

Note #2 continued ...

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

Following is a listing of amendments, revisions and new International Financial Reporting Standards issued but not yet effective. Unless otherwise indicated, earlier application is permitted. The Company has not yet determined the impact of the changes to the adoption of the following standards.

#### ***Financial Instruments***

IFRS 9, Financial instruments (“IFRS 9”) was issued by the IASB on November 12, 2009 and October 2010, and will replace IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 introduces new requirements for the financial reporting of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

#### ***Revenue***

IFRS 15, Revenue from contracts with customers (“IFRS 15”) was issued by the IASB in May 2014 and will replace IAS 11, Construction Contracts and IAS 18 Revenue. IFRS 15 specifies how and when revenue will be recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2017.

### **3. PROPERTY, PLANT AND EQUIPMENT**

	July 31, 2014			April 30, 2014		
	Cost	Accumulated	Carrying	Cost	Accumulated	Carrying
		Depreciation	Amount		Depreciation	Amount
Office furniture and equipment	\$ 2,703	\$ 1,489	\$ 1,214	\$ 2,507	\$ 1,413	\$ 1,094
Research and development equipment	27,670	13,511	14,159	25,839	12,410	13,429
Airplanes	19,727	8,389	11,338	19,727	7,966	11,761
Machinery and equipment	45,222	32,512	12,710	45,258	31,872	13,386
Leaseholds	5,225	3,551	1,674	5,165	3,423	1,742
Land	2,258	-	2,258	2,330	-	2,330
Buildings	9,605	1,852	7,753	9,973	1,884	8,089
	\$ 112,410	\$ 61,304	\$ 51,106	\$ 110,799	\$ 58,968	\$ 51,831

### **4. GOODWILL**

The changes in carrying amounts of goodwill are as follows:

	Cost
<b>Balance as at April 30, 2014</b>	\$ <b>18,269</b>
Foreign exchange differences	(23)
<b>Balance as at July 31, 2014</b>	\$ <b>18,246</b>

### **5. PROVISIONS**

	Warranty and Returns	Lease/Retirement Obligations	Total
<b>Balance as at April 30, 2014</b>	\$ <b>1,615</b>	\$ <b>9</b>	\$ <b>1,624</b>
Net additions	-	27	27
Foreign exchange differences	(1)	-	(1)
<b>Balance as at July 31, 2014</b>	\$ <b>1,614</b>	\$ <b>36</b>	\$ <b>1,650</b>

Note 5 continued ...

#### *Warranty and Returns*

The provision relates to estimate future costs associated with warranty repairs and returns on hardware solutions. The provision is based on historical data associated with similar products. The warranty and returns are expected to be incurred within the next twelve months.

#### *Lease/Retirement Obligations*

The provision relates to estimated restoration costs expected to be incurred upon the conclusion of company leases.

## 6. CAPITAL STOCK

Authorized capital stock consists of:  
Unlimited number of preferred shares  
Unlimited number of common shares

	Number of Common Shares	Amount
<b>Balance as at April 30, 2014</b>	<b>74,310,146</b>	<b>\$ 92,931</b>
Issued on exercise of stock options	3,000	44
Transferred on stock option exercise	-	12
<b>Balance as at July 31, 2014</b>	<b>74,313,146</b>	<b>\$ 92,987</b>

#### *Normal Course Issuer Bid*

In August 2013, the Company filed a Normal Course Issuer Bid (NCIB) with the TSX to repurchase, at the Company's discretion, until September 2, 2014 up to 3,700,397 outstanding common shares on the open market or as otherwise permitted, subject to normal terms and limitations of such bids. The Company did not purchase and cancel any shares during the first quarter of fiscal 2015.

#### *Dividends Per Share*

During the quarter, \$0.16 in dividends per share was declared.

## 7. SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

	Three month period ended July 31, 2014	Three month period ended July 31, 2013
Selling and administrative	\$ 13,399	\$ 11,612
Share-based compensation (note 9)	904	716
Depreciation of property, plant and equipment (non-production)	803	657
Amortization of intangibles	103	89
	<b>\$ 15,209</b>	<b>\$ 13,074</b>

## 8. STATEMENT OF CASH FLOWS

### Changes in non-cash working capital items

	Three month period ended July 31, 2014	Three month period ended July 31, 2013
Trade and other receivables	\$ 1,036	\$ 524
Prepaid expenses	(489)	(75)
Inventories	(11,342)	(798)
Trade and other payables	(1,704)	(11,964)
Deferred revenue	627	(923)
Provisions	26	20
	\$ (11,846)	\$ (13,216)

## 9. SHARE BASED PAYMENTS

The Company established, in June 2006, a stock option plan to attract, retain, motivate and compensate employees, officers and eligible directors who are integral to the growth and success of the Company. A number of shares equal to 10% of the Company's outstanding common shares are to be reserved for issuance under the stock option plan.

The Board of Directors administers the stock option plan and will determine the terms of any options granted. The exercise price of an option is to be set by the Board of Directors at the time of grant but shall not be lower than the market price as defined in the option plan at the time of grant. The term of the option cannot exceed 10 years. Stock options currently granted normally fully vest and expire by the end of the fifth year. The terms for all options prior to June 2006 were set by the Board of Directors at the grant date.

The changes in the number of outstanding share options are as follows:

	Number of Options	Weighted Average Exercise Price
<b>Balance as at April 30, 2014</b>	<b>5,203,700</b>	<b>\$ 14.41</b>
Granted	10,000	17.19
Exercised	(3,000)	14.61
Forfeited	(99,500)	13.06
<b>Balance as at July 31, 2014</b>	<b>5,111,200</b>	<b>\$ 14.44</b>

Stock options outstanding as at July 31, 2014 are:

Exercise Price	Weighted Average Exercise Price	Number of Outstanding Options	Weighted Average Remaining Contractual Life	Number of Options Exercisable	Weighted Average Exercise Price of Exercisable Options
\$11.88	\$ 11.88	1,834,500	1.9	-	\$ -
\$12.23 - \$13.84	\$ 13.30	678,000	2.4	3,000	\$ 13.14
\$14.14 - \$16.29	\$ 15.37	834,200	2.6	98,300	\$ 14.61
\$17.03 - \$19.34	\$ 17.11	1,764,500	4.6	-	\$ -
Totals	\$ 14.44	5,111,200	3.0	101,300	\$ 14.57

Note 9 continued ...

## Compensation expense

The share-based compensation expense that has been charged against earnings over the three month period ended is \$904 (2013 - \$716). Compensation expense on grants during the period was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three month period ended July 31, 2014	Three month period ended July 31, 2013
Risk-free interest rate	1.60%	1.63%
Dividend yield	3.72%	4.26%
Expected life	5 years	5 years
Expected volatility	24%	40%
Weighted average grant-date fair value: Where the exercise price equaled the market price	\$2.47	\$3.72

Expected volatility is based on historical share price volatility over the past 5 years of the Company. Share based compensation expense was calculated using a weighted average forfeiture rate of 17% (2013 - 18%).

## 10. SEGMENTED INFORMATION

The Company reviewed its operations and determined that it operates a single reportable segment, the television broadcast equipment market. The single reportable operating segment derives its revenues from the sale of hardware and software solutions including related services, training and commissioning.

	Three month period ended July 31, 2014	Three month period ended July 31, 2013
Revenue		
United States	\$ 49,304	\$ 29,049
International	42,508	27,931
Canada	6,202	6,878
	\$ 98,014	\$ 63,858

	July 31, 2014			April 30, 2014		
	Property, Plant and Equipment	Goodwill	Intangible Assets	Property, Plant and Equipment	Goodwill	Intangible Assets
United States	\$ 13,190	\$ 313	\$ -	\$ 13,415	\$ 313	\$ -
International	11,258	17,956	138	11,751	17,956	243
Canada	26,658	-	-	26,665	-	-
	\$ 51,106	\$ 18,269	\$ 138	\$ 51,831	\$ 18,269	\$ 243

## 11. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

### *Related Party Transactions*

Two shareholders each indirectly hold a 10% interest in the Company's leased premises in Ontario. This lease expires in 2019 with a total of \$3,945 committed over the remaining term. During the year, rent paid for the leased principal premises amounted to \$210 (2013 – \$205) with no outstanding amounts due as at July 31, 2014.

The Company also leases property where two shareholders indirectly own 100% interest. This lease expires in 2016 with a total of \$554 committed over the remaining term. During the year, rent paid was \$62 (2013 – \$62) with no outstanding amounts due as at July 31, 2014.

On December 1, 2008 the Company entered into an agreement with two shareholders who each indirectly hold a 20% interest in the Company's leased premises in Ontario. This lease expires in 2018 with a total of \$3,523 committed over the remaining term. During the year, rent paid for the leased principal premises amounted to \$189 (2013 - \$189) with no outstanding amounts due as at July 31, 2014.

On December 15, 2013 the Company renewed a property lease agreement with a director who indirectly owns 100% interest. The lease expires in 2018 with a total of \$624 committed over the remaining term. During the year, rent paid was \$35 (2013 - \$34) with no outstanding amounts due as at July 31, 2014.

On May 1, 2009 the Company entered into a property lease agreement with two shareholders who each indirectly hold a 35% interest. This lease expires in 2019 with a total of \$2,222 committed over the remaining term. During the year, rent paid was \$110 (2013 - \$110) with no outstanding amounts due as at July 31, 2014.

These transactions were in the normal course of business and recorded at an exchange value established and agreed upon by related parties.

## 12. EARNINGS PER SHARE

	<b>Three month period ended July 31, 2014</b>	<b>Three month period ended July 31, 2013</b>
Weighted average common shares outstanding	74,311,320	73,784,853
Dilutive effect of stock options	611,421	268,691
average common shares	74,922,741	74,053,544

The weighted average number of diluted common shares excludes 50,000 options because they were anti-dilutive during the period (2013 – 525,000).

## 13. SUBSEQUENT EVENT

On September 8, 2014 the Company declared a dividend of \$0.16 with a record date of September 19, 2014 and a payment date of September 26, 2014.