

Interim condensed consolidated financial statements of

EVERTZ TECHNOLOGIES LIMITED

Three months ended July 31, 2016 and 2015
(Unaudited)

MANAGEMENT REPORT

The management of Evertz Technologies Limited (“Evertz” or 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, 2016 and 2015

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EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Financial Position
(Unaudited)

As at July 31, 2016 and April 30, 2016
(In thousands of Canadian dollars)

	July 31,		April 30,
	2016		2016
Assets			
Current assets			
Cash and cash equivalents	\$ 125,383	\$	123,102
Trade and other receivables	99,542		97,435
Prepaid expenses	7,755		6,307
Inventories	157,074		155,957
Income tax receivable	-		4,256
	389,754		387,057
Property, plant and equipment (note 3)	42,051		42,971
Goodwill	18,110		18,286
	\$ 449,915	\$	448,314
Liabilities			
Current liabilities			
Trade and other payables	\$ 52,015	\$	49,815
Provisions (note 4)	3,583		3,563
Deferred revenue	15,795		18,529
Current portion of long term debt	238		238
Income tax payable	102		-
	71,733		72,145
Long term debt	844		888
Deferred income taxes	3,557		5,545
	76,134		78,578
Equity			
Capital stock (note 5)	100,659		100,483
Share based payment reserve	14,263		13,835
Accumulated other comprehensive earnings	16		1,567
Retained earnings	255,357		250,320
	255,373		251,887
Total equity attributable to shareholders	370,295		366,205
Non-controlling interest	3,486		3,531
	373,781		369,736
	\$ 449,915	\$	448,314

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, 2016 and 2015
(In thousands of Canadian dollars)

	Capital stock	Share-based payment reserve	Accumulated other comprehensive earnings	Retained earnings	Total equity attributable to shareholders	Non- controlling interest	Total Equity
Balance at April 30, 2015	\$ 95,708	\$ 12,418	\$ 3,077	\$ 242,268	\$ 353,471	\$ 3,389	\$ 356,860
Net earnings for the year	-	-	-	18,411	18,411	187	18,598
Foreign currency translation adjustment	-	-	3,061	-	3,061	167	3,228
Total comprehensive earnings for the year	\$ -	\$ -	\$ 3,061	\$ 18,411	\$ 21,472	\$ 354	\$ 21,826
Dividends declared	-	-	-	(13,442)	(13,442)	-	(13,442)
Share based compensation expense	-	685	-	-	685	-	685
Exercise of employee stock options	4,128	-	-	-	4,128	-	4,128
Transfer on stock option exercise	1,123	(1,123)	-	-	-	-	-
Repurchase of common shares	(71)	-	-	(811)	(882)	-	(882)
Balance at July 31, 2015	\$ 100,888	\$ 11,980	\$ 6,138	\$ 246,426	\$ 365,432	\$ 3,743	\$ 369,175
Balance at April 30, 2016	\$ 100,483	\$ 13,835	\$ 1,567	\$ 250,320	\$ 366,205	\$ 3,531	\$ 369,736
Net earnings for the year	-	-	-	18,393	18,393	230	18,623
Foreign currency translation adjustment	-	-	(1,551)	-	(1,551)	75	(1,476)
Total comprehensive earnings for the year	\$ -	\$ -	\$ (1,551)	\$ 18,393	\$ 16,842	\$ 305	\$ 17,147
Dividends declared	-	-	-	(13,356)	(13,356)	(350)	(13,706)
Share based compensation expense	-	458	-	-	458	-	458
Exercise of employee stock options	146	-	-	-	146	-	146
Transfer on stock option exercise	30	(30)	-	-	-	-	-
Balance at July 31, 2016	\$ 100,659	\$ 14,263	\$ 16	\$ 255,357	\$ 370,295	\$ 3,486	\$ 373,781

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, 2016 and 2015
(In thousands of Canadian dollars, except per share amounts)

	Three months July 31, 2016	Three months July 31, 2015
Revenue	\$ 87,026	\$ 84,869
Cost of goods sold	37,160	37,040
Gross margin	49,866	47,829
Expenses		
Selling, administrative and general (note 6)	16,836	16,397
Research and development	17,493	16,252
Investment tax credits	(2,649)	(2,484)
Foreign exchange gain	(6,604)	(7,712)
	25,076	22,453
	24,790	25,376
Finance income	316	158
Finance costs	(53)	(122)
Other income and expenses	69	(38)
Earnings before income taxes	25,122	25,374
Provision for (recovery of) income taxes		
Current	8,672	7,973
Deferred	(2,173)	(1,197)
	6,499	6,776
Net earnings for the period	18,623	18,598
Net earnings attributable to non-controlling interest	230	187
Net earnings attributable to shareholders	18,393	18,411
Net earnings for the period	\$ 18,623	\$ 18,598
Earnings per share (note 11)		
Basic	\$ 0.25	\$ 0.25
Diluted	\$ 0.25	\$ 0.25

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, 2016 and 2015
(In thousands of Canadian dollars)

	Three months ended July 31, 2016	Three months ended July 31, 2015
Net earnings for the period	\$ 18,623	\$ 18,598
Items that may be reclassified to net earnings:		
Foreign currency translation adjustment	(1,476)	3,228
Comprehensive earnings	\$ 17,147	\$ 21,826
Comprehensive earnings attributable to non-controlling interest	\$ 305	\$ 354
Comprehensive earnings attributable to shareholders	16,842	21,472
Comprehensive earnings	\$ 17,147	\$ 21,826

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, 2016 and 2015
(In thousands of Canadian dollars)

	Three months ended July 31, 2016	Three months ended July 31, 2015
Operating activities		
Net earnings for the period	\$ 18,623	\$ 18,598
Add: Items not involving cash		
Depreciation of property, plant and equipment	2,635	2,815
(Gain) loss on disposal of property, plant and equipment	(14)	-
Share-based compensation (note 8)	458	685
Interest expense	8	9
Deferred income tax expense	(2,173)	(1,197)
	19,537	20,910
Current tax expenses, net of investment tax credits	6,269	5,489
Income taxes paid	(1,942)	(8,014)
Changes in non-cash working capital items (note 7)	(3,916)	(10,631)
Cash provided by operating activities	19,948	7,754
Investing activities		
Acquisition of property, plant and equipment	(1,450)	(945)
Proceeds from disposal of property, plant and equipment	49	-
Cash used in investing activities	(1,401)	(945)
Financing activities		
Repayment of long term debt	(62)	(109)
Interest paid	(8)	(9)
Dividends paid	(13,356)	(13,442)
Dividends paid by subsidiaries to non-controlling interests	(350)	-
Capital stock repurchase	-	(882)
Capital stock issued	146	4,128
Cash used in financing activities	(13,630)	(10,314)
Effect of exchange rates on cash and cash equivalents	(2,636)	(48)
Increase (decrease) in cash and cash equivalents	2,281	(3,553)
Cash and cash equivalents beginning of period	123,102	100,681
Cash and cash equivalents end of period	\$ 125,383	\$ 97,128

See accompanying notes to the interim condensed consolidated financial statements.

EVERTZ TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Three months ended July 31, 2016 and 2015

(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 supplier of software, equipment and technology solutions to content creators, broadcasters, specialty channels and television service providers. The Company designs, manufactures and distributes video and audio infrastructure solutions 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, 2016.

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, 2016 annual consolidated financial statements.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on September 6, 2016.

2. SIGNIFICANT ACCOUNTING POLICIES

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 adoption of the following standards.

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 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, 2018.

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.

3. PROPERTY, PLANT AND EQUIPMENT

	July 31, 2016			April 30, 2016		
	Cost	Accumulated Depreciation	Carrying Amount	Cost	Accumulated Depreciation	Carrying Amount
Office furniture and equipment	\$ 3,200	\$ 1,837	\$ 1,363	\$ 3,065	\$ 1,783	\$ 1,282
Research and development equipment	30,048	21,482	8,566	29,469	20,672	8,797
Airplanes	19,727	11,391	8,336	19,727	10,975	8,752
Machinery and equipment	52,001	40,037	11,964	51,787	39,226	12,561
Leaseholds	6,443	4,759	1,684	6,208	4,595	1,613
Land	2,288	-	2,288	2,238	-	2,238
Buildings	10,045	2,195	7,850	9,847	2,119	7,728
	\$ 123,752	\$ 81,701	\$ 42,051	\$ 122,341	\$ 79,370	\$ 42,971

4. PROVISIONS

	Warranty and Returns	Lease/Retirement Obligations	Total
Balance as at April 30, 2016	\$ 3,338	\$ 225	\$ 3,563
Net additions	2	28	30
Foreign exchange differences	4	(14)	(10)
Balance as at July 31, 2016	\$ 3,344	\$ 239	\$ 3,583

Warranty and Returns

The provision relates to estimated 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.

5. CAPITAL STOCK

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

	Number of Common Shares	Amount
Balance as at April 30, 2016	74,188,746	\$ 100,483
Issued on exercise of stock options	9,000	146
Transferred on stock option exercise	-	30
Balance as at July 31, 2016	74,197,746	\$ 100,659

Normal Course Issuer Bid

In June 2015, the Company filed a Normal Course Issuer Bid (NCIB) with the TSX to repurchase, at the Company's discretion, until June 28, 2016 up to 3,722,967 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 quarter (2015 – 55,400 common shares at a weighted average price of \$15.93).

Dividends Per Share

During the quarter, \$0.18 in dividends per share was declared.

6. SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

	Three month period ended July 31, 2016		Three month period ended July 31, 2015	
Selling and administrative	\$	14,886	\$	14,802
Share-based compensation		1,076		685
Depreciation of property, plant and equipment (non-production)		874		910
	\$	16,836	\$	16,397

7. STATEMENT OF CASH FLOWS

Changes in non-cash working capital items

	Three month period ended July 31, 2016		Three month period ended July 31, 2015	
Trade and other receivables	\$	(1,808)	\$	1,150
Inventories		(1,215)		(3,358)
Prepaid expenses		(1,477)		(140)
Trade and other payables		3,298		(5,696)
Deferred revenue		(2,734)		(2,631)
Provisions		20		44
	\$	(3,916)	\$	(10,631)

8. SHARE BASED PAYMENTS

Stock Option Plan

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

	Number of Options	Weighted Average Exercise Price
Balance as at April 30, 2016	4,406,500	\$ 14.72
Exercised	(9,000)	16.21
Forfeited	(35,000)	15.72
Balance as at July 31, 2016	4,362,500	\$ 14.71

Note #8 continued ...

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	1,514,500	0.2	-	\$ -
\$12.23 - \$14.24	\$ 13.87	452,500	1.0	-	\$ -
\$15.00 - \$16.29	\$ 15.72	761,000	1.4	213,600	\$ 16.13
\$17.03 - \$18.07	\$ 17.09	1,634,500	2.7	-	\$ -
Totals	\$ 14.71	4,362,500	1.7	213,600	\$ 16.13

Restricted Share Unit Plan

The Company established, in March 2016, a restricted share unit (“RSU”) plan to provide an incentive to participants; including key executives of the Company, by rewarding such participants with equity-based compensation. Under the terms of the plan, RSU’s are issued to the participant with a vesting period of three years. On the vesting date, all RSU’s will be redeemed in cash at the fair market value at the date of vest plus any accrued dividends. The changes in the number of outstanding RSUs are as follows:

	Number of RSUs
Balance as at April 30, 2016	210,000
Granted	347,000
Balance as at July 31, 2016	557,000

As at July 31, 2016, the average remaining contractual life for outstanding RSUs is 2.7 years.

Compensation expense

Stock Option Plan

The share based compensation expense that has been charged against earnings over the three month period is \$458 (2015 - \$685). Share based compensation expense was calculated using a weighted average forfeiture rate of 25% (2015 - 21%).

Restricted Share Unit Plan

The share based compensation expense that has been charged against earnings over the three month period is \$617 (2015 - Nil). Share based compensation expense was calculated using a weighted average forfeiture rate of 3% (2015 – Nil). As at July 31, 2016, the total liability included within trade and other payables is \$853 (2015 – Nil).

9. 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		Three month period ended	
Revenue	July 31, 2016		July 31, 2015	
United States	\$	44,075	\$	46,075
International		34,900		34,909
Canada		8,051		3,885
	\$	87,026	\$	84,869

	July 31, 2016			April 30, 2016				
	Property, Plant and Equipment		Goodwill	Property, Plant and Equipment		Goodwill		
United States	\$	11,613	\$	373	\$	11,813	\$	359
International		9,712		17,737		9,750		17,927
Canada		20,726		-		21,408		-
	\$	42,051	\$	18,110	\$	42,971	\$	18,286

10. 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 \$2,253 committed over the remaining term. During the period, rent paid for the leased principal premises amounted to \$216 (2015 – \$210) with no outstanding amounts due as at July 31, 2016.

The Company also leases property where two shareholders indirectly own 100% interest. This lease expires in 2016 with a total of \$62 committed over the remaining term. During the period, rent paid was \$62 (2015 – \$62) with no outstanding amounts due as at July 31, 2016.

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 \$1,936 committed over the remaining term. During the period, rent paid for the leased principal premises amounted to \$199 (2015 - \$199) with no outstanding amounts due as at July 31, 2016.

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 \$341 committed over the remaining term. During the period, rent paid was \$35 (2015 - \$35) with no outstanding amounts due as at July 31, 2016.

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 \$1,316 committed over the remaining term. During the period, rent paid was \$115 (2015 - \$115) with no outstanding amounts due as at July 31, 2016.

Note #10 continued ...

On May 1, 2016 the Company entered into a property lease agreement with two shareholders who each indirectly hold an indirect interest. This lease expires in 2026 with a total of \$9,805 committed over the remaining term. During the period, rent paid was \$242 (2015 - Nil) with no outstanding amounts due as at July 31, 2016.

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

11. EARNINGS PER SHARE

	Three month period ended July 31, 2016	Three month period ended July 31, 2015
Weighted average common shares outstanding	74,193,833	74,593,296
Dilutive effect of stock options	604,219	467,257
Diluted weighted average common shares outstanding	74,798,052	75,060,553

The weighted average number of diluted common shares excludes 40,000 options because they were anti-dilutive during the period (2015 – 1,765,000).

12. SUBSEQUENT EVENT

On September 6, 2016 the Company declared a dividend of \$0.18 with a record date of September 16, 2016 and a payment date of September 23, 2016.