

Interim condensed consolidated financial statements of

EVERTZ TECHNOLOGIES LIMITED

Three months ended July 31, 2017 and 2016
(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, 2017 and 2016

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EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Financial Position
(Unaudited)

As at July 31, 2017 and April 30, 2017
(In thousands of Canadian dollars)

	July 31, 2017	April 30, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 72,788	\$ 54,274
Trade and other receivables	103,199	111,664
Prepaid expenses	5,476	4,075
Inventories	177,524	178,208
Income tax receivable	1,399	-
	360,386	348,221
Property, plant and equipment (note 3)	43,922	44,152
Goodwill	17,936	18,195
	\$ 422,244	\$ 410,568
Liabilities		
Current liabilities		
Trade and other payables	\$ 57,082	\$ 50,321
Provisions (note 4)	4,168	3,817
Deferred revenue	32,881	28,272
Current portion of long term debt	273	280
Income tax payable	-	945
	94,404	83,635
Long term debt	673	733
Deferred income taxes	2,860	4,427
	97,937	88,795
Equity		
Capital stock (note 5)	130,506	124,695
Share based payment reserve	9,080	10,091
Accumulated other comprehensive (loss) earnings	(369)	747
Retained earnings	181,686	182,297
	181,317	183,044
Total equity attributable to shareholders	320,903	317,830
Non-controlling interest	3,404	3,943
	324,307	321,773
	\$ 422,244	\$ 410,568

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, 2017 and 2016
(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, 2016	\$ 100,483	\$ 13,835	\$ 1,567	\$ 250,320	\$ 366,205	\$ 3,531	\$ 369,736
Net earnings for the period	-	-	-	18,393	18,393	230	18,623
Foreign currency translation adjustment	-	-	(1,551)	-	(1,551)	75	(1,476)
Total comprehensive earnings for the period	\$ -	\$ -	\$ (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
Balance at April 30, 2017	\$ 124,695	\$ 10,091	\$ 747	\$ 182,297	\$ 317,830	\$ 3,943	\$ 321,773
Net earnings for the period	-	-	-	13,078	13,078	114	13,192
Foreign currency translation adjustment	-	-	(1,116)	-	(1,116)	(153)	(1,269)
Total comprehensive earnings for the period	\$ -	\$ -	\$ (1,116)	\$ 13,078	\$ 11,962	\$ (39)	\$ 11,923
Dividends declared	-	-	-	(13,689)	(13,689)	(500)	(14,189)
Share based compensation expense	-	241	-	-	241	-	241
Exercise of employee stock options	4,559	-	-	-	4,559	-	4,559
Transfer on stock option exercise	1,252	(1,252)	-	-	-	-	-
Balance at July 31, 2017	\$ 130,506	\$ 9,080	\$ (369)	\$ 181,686	\$ 320,903	\$ 3,404	\$ 324,307

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, 2017 and 2016
(In thousands of Canadian dollars, except per share amounts)

	Three months July 31, 2017	Three months July 31, 2016
Revenue	\$ 109,009	\$ 87,026
Cost of goods sold	47,848	37,160
Gross margin	61,161	49,866
Expenses		
Selling, administrative and general (note 6)	17,924	16,836
Research and development	19,272	17,493
Investment tax credits	(2,451)	(2,649)
Foreign exchange loss (gain)	8,244	(6,604)
	42,989	25,076
	18,172	24,790
Finance income	101	316
Finance costs	(48)	(53)
Other income and expenses	29	69
Earnings before income taxes	18,254	25,122
Provision for (recovery of) income taxes		
Current	5,855	8,672
Deferred	(793)	(2,173)
	5,062	6,499
Net earnings for the period	13,192	18,623
Net earnings attributable to non-controlling interest	114	230
Net earnings attributable to shareholders	13,078	18,393
Net earnings for the period	\$ 13,192	\$ 18,623
Earnings per share (note 11)		
Basic	\$ 0.17	\$ 0.25
Diluted	\$ 0.17	\$ 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, 2017 and 2016
(In thousands of Canadian dollars)

	Three months ended July 31, 2017	Three months ended July 31, 2016
Net earnings for the period	\$ 13,192	\$ 18,623
Items that may be reclassified to net earnings:		
Foreign currency translation adjustment	(1,269)	(1,476)
Comprehensive earnings	\$ 11,923	\$ 17,147
Comprehensive earnings attributable to non-controlling interest	\$ (39)	\$ 305
Comprehensive earnings attributable to shareholders	11,962	16,842
Comprehensive earnings	\$ 11,923	\$ 17,147

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, 2017 and 2016
(In thousands of Canadian dollars)

	Three months ended July 31, 2017	Three months ended July 31, 2016
Operating activities		
Net earnings for the period	\$ 13,192	\$ 18,623
Add: Items not involving cash		
Depreciation of property, plant and equipment	2,856	2,635
(Gain) loss on disposal of property, plant and equipment	(1)	(14)
Share-based compensation (note 8)	241	458
Interest expense	7	8
Deferred income tax expense	(793)	(2,173)
	15,502	19,537
Current tax expenses, net of investment tax credits	3,404	6,269
Income taxes paid	(5,755)	(1,942)
Changes in non-cash working capital items (note 7)	19,044	(3,916)
Cash provided by operating activities	32,195	19,948
Investing activities		
Acquisition of property, plant and equipment	(3,102)	(1,450)
Proceeds from disposal of property, plant and equipment	4	49
Cash used in investing activities	(3,098)	(1,401)
Financing activities		
Repayment of long term debt	(57)	(62)
Interest paid	(7)	(8)
Dividends paid	(13,689)	(13,356)
Dividends paid by subsidiaries to non-controlling interests	(500)	(350)
Capital stock issued	4,559	146
Cash used in financing activities	(9,694)	(13,630)
Effect of exchange rates on cash and cash equivalents	(889)	(2,636)
Increase in cash and cash equivalents	18,514	2,281
Cash and cash equivalents beginning of period	54,274	123,102
Cash and cash equivalents end of period	\$ 72,788	\$ 125,383

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, 2017 and 2016

(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 International Accounting Standard (“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, 2017.

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, 2017 annual consolidated financial statements.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on September 12, 2017.

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, 2017			April 30, 2017		
	Cost	Accumulated Depreciation	Carrying Amount	Cost	Accumulated Depreciation	Carrying Amount
Office furniture and equipment	\$ 3,673	\$ 2,065	\$ 1,608	\$ 3,685	\$ 2,083	\$ 1,602
Research and development equipment	33,270	24,853	8,417	31,831	24,168	7,663
Airplanes	19,727	13,080	6,647	19,727	12,665	7,062
Machinery and equipment	57,205	44,296	12,909	56,482	43,395	13,087
Leaseholds	9,461	5,152	4,309	9,316	4,961	4,355
Land	2,302	-	2,302	2,388	-	2,388
Buildings	10,126	2,396	7,730	10,376	2,381	7,995
	\$ 135,764	\$ 91,842	\$ 43,922	\$ 133,805	\$ 89,653	\$ 44,152

4. PROVISIONS

	Warranty and Returns	Lease/Retirement Obligations	Total
Balance as at April 30, 2017	\$ 3,470	\$ 347	\$ 3,817
Net additions	639	7	646
Foreign exchange differences	(271)	(24)	(295)
Balance as at July 31, 2017	\$ 3,838	\$ 330	\$ 4,168

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, 2017	75,742,746	\$ 124,695
Issued on exercise of stock options	328,000	4,559
Transferred on stock option exercise	-	1,252
Balance as at July 31, 2017	76,070,746	\$ 130,506

Dividends Per Share

During the quarter, \$0.18 in dividends per share was declared (2016 - \$0.18).

6. SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

	Three month period ended July 31, 2017	Three month period ended July 31, 2016
Selling and administrative	\$ 15,827	\$ 14,886
Share-based compensation	1,201	1,076
Depreciation of property, plant and equipment (non-production)	896	874
	\$ 17,924	\$ 16,836

7. STATEMENT OF CASH FLOWS

Changes in non-cash working capital items

	Three month period ended July 31, 2017	Three month period ended July 31, 2016
Trade and other receivables	\$ 7,661	\$ (1,808)
Inventories	81	(1,215)
Prepaid expenses	(1,817)	(1,477)
Trade and other payables	8,159	3,298
Deferred revenue	4,609	(2,734)
Provisions	351	20
	\$ 19,044	\$ (3,916)

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, 2017	2,878,500	\$ 16.29
Granted	25,000	16.87
Exercised	(328,000)	13.90
Forfeited	(13,000)	17.18
Balance as at July 31, 2017	2,562,500	\$ 16.59

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
\$13.84 - \$14.14	\$ 13.91	410,000	0.3	-	\$ -
\$15.00 - \$16.82	\$ 15.86	827,000	1.8	236,000	\$ 16.24
\$17.03	\$ 17.03	1,456,000	1.4	873,600	\$ 17.03
\$17.19 - \$18.07	\$ 17.62	185,500	3.0	6,000	\$ 15.00
Totals	\$ 16.29	2,878,500	1.9	1,115,600	\$ 16.85

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, 2017	546,500
Granted	20,000
Balance as at July 31, 2017	566,500

As at July 31, 2017, the average remaining contractual life for outstanding RSUs is 1.8 years.

Compensation expense

Stock Option Plan

The share based compensation expense that has been charged against earnings over the three month period is \$241 (2016 - \$458). Compensation expense on grants during the three month period was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	July 31, 2017
Risk-free interest rate	1.15%
Dividend yield	4.27%
Expected life	5 years
Expected volatility	16%
Weighted average grant-date fair value:	
Where the exercise price equaled the market price	\$1.16

Expected volatility is based on historical share price volatility over the past five years of the Company. Share based compensation expense was calculated using a weighted average forfeiture rate of 22% (2016 – 25%).

Restricted Share Unit Plan

The share based compensation expense that has been charged against earnings over the three month period is \$960 (2016 - \$617). Share based compensation expense was calculated using a weighted average forfeiture rate of 6% (2016 – 3%). As at July 31, 2017, the total liability included within trade and other payables is \$4,637.

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, 2017		July 31, 2016	
United States	\$	60,783	\$	44,075
International		43,647		34,900
Canada		4,579		8,051
	\$	109,009	\$	87,026

	July 31, 2017		April 30, 2017	
	Property, Plant and Equipment	Goodwill	Property, Plant and Equipment	Goodwill
United States	\$ 9,732	\$ 357	\$ 10,486	\$ 390
International	9,357	17,579	9,690	17,805
Canada	24,833	-	23,976	-
	\$ 43,922	\$ 17,936	\$ 44,152	\$ 18,195

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 \$1,389 committed over the remaining term. During the period, rent paid for the leased principal premises amounted to \$216 (2016 - \$216) with no outstanding amounts due as at July 31, 2017.

The Company also leases property where two shareholders indirectly own 100% interest. This lease expires in 2021 with a total of \$1,058 committed over the remaining term. During the period, rent paid was \$66 (2016 - \$62) with no outstanding amounts due as at July 31, 2017.

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 \$1,114 committed over the remaining term. During the period, rent paid for the leased principal premises amounted to \$209 (2016 - \$199) with no outstanding amounts due as at July 31, 2017.

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 \$848 committed over the remaining term. During the period, rent paid was \$121 (2016 - \$115) with no outstanding amounts due as at July 31, 2017.

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 \$200 committed over the remaining term. During the period, rent paid was \$35 (2016 - \$35) with no outstanding amounts due as at July 31, 2017.

On May 1, 2016 the Company entered into a property lease agreement with two shareholders who each hold an indirect interest. This lease expires in 2026 with a total of \$8,838 committed over the remaining term. During the period, rent paid was \$242 (2016 - \$242) with no outstanding amounts due as at July 31, 2017.

Note #10 continued ...

On August 1, 2016 the Company entered into a property lease agreement where two shareholders indirectly own 100% interest. This lease expires in 2026 with a total of \$2,390 committed over the remaining term. During the period, rent paid was \$61 (2016 – Nil) with no outstanding amounts due as at July 31, 2017.

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, 2017	Three month period ended July 31, 2016
Weighted average common shares outstanding	75,905,270	74,193,833
Dilutive effect of stock options	114,292	604,219
Diluted weighted average common shares outstanding	76,019,562	74,798,052

The weighted average number of diluted common shares excludes 122,500 options because they were anti-dilutive during the period (2016 – 40,000).

12. SUBSEQUENT EVENT

On September 12, 2017 the Company declared a quarterly dividend of \$0.18 with a record date of September 22, 2017 and a payment date of September 29, 2017.