

Interim condensed consolidated financial statements of

# **EVERTZ TECHNOLOGIES LIMITED**

Three months ended July 31, 2018 and 2017  
(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, 2018 and 2017

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# EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Financial Position  
(Unaudited)

As at July 31, 2018 and April 30, 2018  
(In thousands of Canadian dollars)

	July 31, 2018	April 30, 2018
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 91,720	\$ 94,184
Marketable securities (note 2)	10,942	-
Trade and other receivables	74,496	64,241
Contract assets (note 13)	16,016	21,830
Prepaid expenses	6,863	5,506
Inventories	167,109	168,070
	367,146	353,831
Property, plant and equipment (note 3)	47,261	47,915
Goodwill	18,070	18,168
Deferred income taxes	738	1,201
	\$ 433,215	\$ 421,115
<b>Liabilities</b>		
Current liabilities		
Trade and other payables	\$ 64,926	\$ 56,377
Provisions (note 4)	4,030	3,981
Deferred revenue	27,976	28,502
Current portion of long term debt	481	383
Income tax payable	1,306	74
	98,719	89,317
Long term debt	436	515
	99,155	89,832
<b>Equity</b>		
Capital stock (note 9)	138,976	138,675
Share based payment reserve	7,916	7,885
Accumulated other comprehensive earnings	1,042	2,149
Retained earnings	184,000	180,518
	185,042	182,667
Total equity attributable to shareholders	331,934	329,227
Non-controlling interest	2,126	2,056
	334,060	331,283
	\$ 433,215	\$ 421,115

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, 2018 and 2017  
(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
<b>Balance at April 30, 2017</b>	<b>\$ 124,695</b>	<b>\$ 10,091</b>	<b>\$ 747</b>	<b>\$ 182,297</b>	<b>\$ 317,830</b>	<b>\$ 3,943</b>	<b>\$ 321,773</b>
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)	-	-	-	-	-
<b>Balance at July 31, 2017</b>	<b>\$ 130,506</b>	<b>\$ 9,080</b>	<b>\$ (369)</b>	<b>\$ 181,686</b>	<b>\$ 320,903</b>	<b>\$ 3,404</b>	<b>\$ 324,307</b>
<b>Balance at April 30, 2018</b>	<b>\$ 138,675</b>	<b>\$ 7,885</b>	<b>\$ 2,149</b>	<b>\$ 180,518</b>	<b>\$ 329,227</b>	<b>\$ 2,056</b>	<b>\$ 331,283</b>
Net earnings for the period	-	-	-	17,273	17,273	88	17,361
Foreign currency translation adjustment	-	-	(1,107)	-	(1,107)	(18)	(1,125)
Total comprehensive earnings for the period	\$ -	\$ -	\$ (1,107)	\$ 17,273	\$ 16,166	\$ 70	\$ 16,236
Dividends declared	-	-	-	(13,770)	(13,770)	-	(13,770)
Impact of change in accounting policy (note 13)	-	-	-	(21)	(21)	-	(21)
Share based compensation expense	-	80	-	-	80	-	80
Exercise of employee stock options	252	-	-	-	252	-	252
Transfer on stock option exercise	49	(49)	-	-	-	-	-
<b>Balance at July 31, 2018</b>	<b>\$ 138,976</b>	<b>\$ 7,916</b>	<b>\$ 1,042</b>	<b>\$ 184,000</b>	<b>\$ 331,934</b>	<b>\$ 2,126</b>	<b>\$ 334,060</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, 2018 and 2017  
(In thousands of Canadian dollars, except per share amounts)

	<b>Three months July 31, 2018</b>	<b>Three months July 31, 2017</b>
Revenue (note 10 and 13)	\$ 103,089	\$ 109,009
Cost of goods sold	44,311	47,848
Gross margin	58,778	61,161
Expenses		
Selling, administrative and general (note 6)	17,244	17,924
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
	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 (note 12)		
Basic	\$ 0.23	\$ 0.17
Diluted	\$ 0.23	\$ 0.17

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, 2018 and 2017  
(In thousands of Canadian dollars)

	<b>Three months ended July 31, 2018</b>	<b>Three months ended July 31, 2017</b>
Net earnings for the period	\$ 17,361	\$ 13,192
Items that may be reclassified to net earnings:		
Foreign currency translation adjustment	(1,125)	(1,269)
Comprehensive earnings	\$ 16,236	\$ 11,923
Comprehensive earnings attributable to non-controlling interest	\$ 70	\$ (39)
Comprehensive earnings attributable to shareholders	16,166	11,962
Comprehensive earnings	\$ 16,236	\$ 11,923

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, 2018 and 2017  
(In thousands of Canadian dollars)

	Three months ended July 31, 2018	Three months ended July 31, 2017
<b>Operating activities</b>		
Net earnings for the period	\$ 17,361	\$ 13,192
Add: Items not involving cash		
Depreciation of property, plant and equipment	2,663	2,856
(Gain) loss on disposal of property, plant and equipment	(53)	(1)
Unrealized (gain) loss on marketable securities	(103)	-
Share-based compensation (note 8)	80	241
Interest expense	3	7
Deferred income tax expense	378	(793)
	20,329	15,502
Current tax expenses, net of investment tax credits	3,615	3,404
Income taxes paid	(2,467)	(5,755)
Changes in non-cash working capital items (note 7)	2,760	19,044
<b>Cash provided by operating activities</b>	<b>24,237</b>	<b>32,195</b>
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(2,266)	(3,102)
Proceeds from disposal of property, plant and equipment	106	4
Acquisition of marketable securities	(10,839)	-
<b>Cash used in investing activities</b>	<b>(12,999)</b>	<b>(3,098)</b>
<b>Financing activities</b>		
Repayment of long term debt	35	(57)
Interest paid	(3)	(7)
Dividends paid	(13,770)	(13,689)
Dividends paid by subsidiaries to non-controlling interests	-	(500)
Capital stock issued	252	4,559
<b>Cash used in financing activities</b>	<b>(13,486)</b>	<b>(9,694)</b>
Effect of exchange rates on cash and cash equivalents	(216)	(889)
(Decrease) increase in cash and cash equivalents	(2,464)	18,514
Cash and cash equivalents beginning of period	94,184	54,274
<b>Cash and cash equivalents end of period</b>	<b>\$ 91,720</b>	<b>\$ 72,788</b>

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, 2018 and 2017

(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, 2018, except for new accounting policies that were adopted on May 1, 2018 as described 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, 2018 annual consolidated financial statements.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on September 11, 2018.

### 2. 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. See Note 13 for the new policy and further details.

During the quarter ended July 31, 2018, marketable securities were acquired. The available for sale financial assets are initially measured at cost, plus any transaction costs attributable to their acquisition. After initial recognition, marketable securities are measured at their fair value with changes being recorded through profit or loss. Fair value is obtained through quoted prices in active markets for identical assets.

Note #2 continued ...

## 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. 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 note 13 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.

## 3. PROPERTY, PLANT AND EQUIPMENT

	July 31, 2018			April 30, 2018		
	Cost	Accumulated Depreciation	Carrying Amount	Cost	Accumulated Depreciation	Carrying Amount
Office furniture and equipment	\$ 3,910	\$ 2,291	\$ 1,619	\$ 3,881	\$ 2,262	\$ 1,619
Research and development equipment	37,174	24,319	12,855	36,756	23,529	13,227
Airplanes	10,806	7,624	3,182	10,806	7,514	3,292
Machinery and equipment	62,147	46,847	15,300	61,880	46,654	15,226
Leaseholds	8,725	4,633	4,092	8,620	4,486	4,134
Land	2,395	-	2,395	2,430	-	2,430
Buildings	10,422	2,604	7,818	10,603	2,616	7,987
	\$ 135,579	\$ 88,318	\$ 47,261	\$ 134,976	\$ 87,061	\$ 47,915

## 4. PROVISIONS

	Warranty and Returns	Lease/Retirement Obligations	Total
<b>Balance as at April 30, 2018</b>	\$ 3,544	\$ 437	\$ 3,981
Net additions	(3)	27	24
Foreign exchange differences	40	(15)	25
<b>Balance as at July 31, 2018</b>	\$ 3,581	\$ 449	\$ 4,030

### *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
<b>Balance as at April 30, 2018</b>	<b>76,481,746</b>	<b>\$ 138,675</b>
Issued on exercise of stock options	16,000	252
Transferred on stock option exercise	-	49
<b>Balance as at July 31, 2018</b>	<b>76,497,746</b>	<b>\$ 138,976</b>

### *Dividends Per Share*

During the quarter, \$0.18 in dividends per share was declared (2017 - \$0.18).

## 6. SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

	Three month period ended July 31, 2018	Three month period ended July 31, 2017
Selling and administrative	\$ 15,905	\$ 15,827
Share-based compensation	601	1,201
Depreciation of property, plant and equipment (non-production)	738	896
	\$ 17,244	\$ 17,924

## 7. STATEMENT OF CASH FLOWS

### Changes in non-cash working capital items

	Three month period ended July 31, 2018	Three month period ended July 31, 2017
Trade and other receivables	\$ (10,633)	\$ 8,996
Contract assets	5,814	(1,335)
Inventories	640	81
Prepaid expenses	(1,418)	(1,817)
Trade and other payables	8,950	8,159
Deferred revenue	(642)	4,609
Provisions	49	351
	\$ 2,760	\$ 19,044

## 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
<b>Balance as at April 30, 2018</b>	<b>2,241,000</b>	<b>\$ 16.78</b>
Granted	20,000	17.24
Exercised	(16,000)	15.79
Forfeited	(3,000)	17.03
<b>Balance as at July 31, 2018</b>	<b>2,242,000</b>	<b>\$ 16.79</b>

Stock options outstanding as at July 31, 2018 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
\$15.00 - \$15.37	\$ 15.35	405,000	1.3	233,000	\$ 15.36
\$16.30 - \$16.87	\$ 16.82	135,000	1.5	-	\$ -
\$17.03	\$ 17.03	1,367,000	1.4	1,077,800	\$ 17.03
\$17.19 - \$18.63	\$ 17.53	335,000	1.4	83,500	\$ 17.69
Totals	\$ 16.79	2,242,000	1.4	1,394,300	\$ 16.79

### *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
<b>Balance as at April 30, 2017</b>	<b>690,000</b>
Granted	0
Forfeited	(5,000)
<b>Balance as at July 31, 2018</b>	<b>685,000</b>

As at July 31, 2018, the average remaining contractual life for outstanding RSUs is 1.1 years (2017 – 1.8 years).

Note #8 continued ...

## Compensation expense

### Stock Option Plan

The share based compensation expense that has been charged against earnings over the three month period is \$80 (2017 - \$241). Compensation expense on grants during the year was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>July 31, 2018</b>
Risk-free interest rate	2.02%
Dividend yield	4.18%
Expected life	5 years
Expected volatility	16%
Weighted average grant-date fair value:	
Where the exercise price equaled the market price	\$1.42

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 21% (2017 – 22%).

### Restricted Share Unit Plan

The share based compensation expense that has been charged against earnings over the three month period is \$521 (2017 - \$960). Share based compensation expense was calculated using a weighted average forfeiture rate of 5% (2017 – 6%). As at July 31, 2018, the total liability included within trade and other payables is \$8,056 (2017 - \$7,535).

## 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.

	<b>Three month period ended</b>		<b>Three month period ended</b>	
Revenue	<b>July 31, 2018</b>		<b>July 31, 2017</b>	
United States	\$	69,935	\$	60,783
International		27,893		43,647
Canada		5,261		4,579
	\$	103,089	\$	109,009

	<b>July 31, 2018</b>				<b>April 30, 2018</b>			
	<b>Property, Plant and Equipment</b>		<b>Goodwill</b>		<b>Property, Plant and Equipment</b>		<b>Goodwill</b>	
United States	\$	5,201	\$	372	\$	5,297	\$	367
International		10,528		17,698		10,250		17,801
Canada		31,532		-		32,368		-
	\$	47,261	\$	18,070	\$	47,915	\$	18,168

## 10. REVENUE

	Three month period ended July 31, 2018	Three month period ended July 31, 2017
Hardware, software including related services, training and commissioning	\$ 99,027	\$ 99,336
Long term contract revenue	4,062	9,673
	\$ 103,089	\$ 109,009

## 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 2029 with a total of \$11,322 committed over the remaining term. During the period, rent paid for the leased principal premises amounted to \$221 (2017 – \$216) with no outstanding amounts due as at July 31, 2018.

The Company also leases property where two shareholders indirectly own 100% interest. This lease expires in 2021 with a total of \$805 committed over the remaining term. During the period, rent paid for the leased principal premises amounted to \$66 (2017 – \$66) with no outstanding amounts due as at July 31, 2018.

On December 1, 2008 the Company entered into a property lease agreement where two shareholders each indirectly hold a 20% interest in the Company's leased premises in Ontario. This lease expires in 2028 with a total of \$9,205 committed over the remaining term. During the period, rent paid for the leased principal premises amounted to \$209 (2017 – \$209) with no outstanding amounts due as at July 31, 2018.

On May 1, 2009 the Company entered into a property lease agreement where two shareholders each indirectly hold a 35% interest. This lease expires in 2029 with a total of \$5,798 committed over the remaining term. During the period, rent paid for the leased principal premises amounted to \$121 (2017 – \$121) with no outstanding amounts due as at July 31, 2018.

On December 15, 2013 the Company renewed a property lease agreement where a director indirectly owns 100% interest. The lease expires in 2023 with a total of \$821 committed over the remaining term. During the period, rent paid for the leased principal premises amounted to \$35 (2017 – \$35) with no outstanding amounts due as at July 31, 2018.

On May 1, 2016 the Company entered into a property lease agreement where two shareholders each hold a 46.6% interest. This lease expires in 2026 with a total of \$7,867 committed over the remaining term. During the period, rent paid for the leased principal premises amounted to \$245 (2017 – \$242) with no outstanding amounts due as at July 31, 2018.

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 \$2,147 committed over the remaining term. During the period, rent paid for the leased principal premises amounted to \$61 (2017 – \$61) with no outstanding amounts due as at July 31, 2018.

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

	Three month period ended July 31, 2018	Three month period ended July 31, 2017
Weighted average common shares outstanding	76,488,876	75,905,270
Dilutive effect of stock options	25,632	114,292
Diluted weighted average common shares outstanding	76,514,508	76,019,562

The weighted average number of diluted common shares excludes 1,832,000 options because they were anti-dilutive during the period (2017 – 122,500).

## 13. EXPLANATION OF ADOPTION OF IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS AND IFRS 9, FINANCIAL INSTRUMENTS

### *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 five-step recognition model used to apply the standard includes; 1) identify the contract(s) with the customer; 2) identify the separate performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to separate performance obligations; and 5) recognize revenue when (or as) each performance obligation is satisfied. The Company has adopted IFRS 15, effective May 1, 2018, using the modified retrospective approach. Under this approach, the Company has recognized the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings as at May 1, 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11.

The details of the primary changes on adoption of IFRS 15 are set out below.

#### A. Software license arrangements:

Under the Company’s previous revenue recognition policies, license revenue from term-based licenses was generally deferred and amortized on a ratable basis over the license term. Under IFRS 15, the Company has deemed certain licenses to be generally distinct from other performance obligations. Revenue allocated to the distinct license is recognized at the time that both the right-to-use the software has commenced for the term and the software has been made available to the customer. As a result of the change, the Company recognized a \$95 decrease in deferred revenue and a corresponding increase to retained earnings within shareholders equity effective May 1, 2018. In addition, the change has resulted in a decrease of revenue of \$17 during the three month quarter ended July 31, 2018 and a decrease of deferred revenue of \$78 as at July 31, 2018.

#### B. Contract assets and costs to obtain a contract:

Under IFRS 15, certain contract acquisition costs, such as sales commissions paid to employees or third parties, are to be recognized as an asset and amortized into operating expenses over time. Under the Company’s previous accounting policies, such costs were expensed as incurred. As a result of the change, the Company recognized a \$262 increase in contract assets and a corresponding increase to trade and other payables, effective May 1, 2018. The inclusion of sales commissions within the definition of contract costs did not have a significant impact on the three month quarter ended July 31, 2018.

For comparative purposes, as at April 30, 2018 contract assets of \$21,830 previously classified in trade and other receivables have been reclassified to contract assets.

Note #13 continued ...

The application of IFRS 15 does not affect our cash flows from operations or the methods and underlying economics through which we transact with our customers.

### ***Financial Instruments***

IFRS 9, *Financial instruments* (“IFRS 9”) was issued by the IASB in July 2014 to 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. Under IFRS 9, the loss allowance for trade receivables must be calculated using the expected lifetime credit loss and recorded at the time of initial recognition. A portion of our trade receivables required an incremental loss allowance in order to comply with the requirements of IFRS 9. As a result, the Company recognized a \$116 decrease in accounts receivable and a corresponding decrease to retained earnings within shareholders equity effective May 1, 2018. In addition, the expected loss allowance using the lifetime credit loss approach is applied to contract assets under IFRS 15. The new impairment model under IFRS 9 did not have a significant impact on the three month quarter ended July 31, 2018.

Below is a summary showing the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of financial instruments as at May 1, 2018. The new carrying amounts under IFRS 9 are the same as the original carrying amounts under IAS 39, except as described above.

<b>Financial Assets/Liabilities</b>	<b>IAS 39</b>	<b>IFRS 9</b>
Cash and cash equivalents	Loans and receivables	Amortized cost
Marketable securities	Available for sale	Fair value through earnings
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

### ***Impact to Retained Earnings***

The table below provides a reconciliation of retained earnings as at May 1, 2018 from amounts previously reported in 2018 due to the above changes in IFRS 9 and IFRS 15. The below changes did not have a significant impact on tax assets or liabilities.

<b>Impact to opening retained earnings, upon adoption of IFRS 9 and IFRS 15</b>	<b>May 1, 2018</b>
Timing of revenue recognition (IFRS 15)	\$ 95
Expected credit loss impairment model (IFRS 9)	(116)
<b>Total opening impact to retained earnings, upon adoption of IFRS 9 and IFRS 15</b>	<b>\$ (21)</b>

## **14. SUBSEQUENT EVENT**

On September 11, 2018 the Company declared a quarterly dividend of \$0.18 with a record date of September 21, 2018 and a payment date of September 28, 2018.