

Interim condensed consolidated financial statements of

EVERTZ TECHNOLOGIES LIMITED

Three month and Six month periods ended October 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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EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Financial Position
(Unaudited)

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

	October 31, 2016	April 30, 2016
Assets		
Current assets		
Cash and cash equivalents	\$ 133,359	\$ 123,102
Trade and other receivables	101,479	97,435
Prepaid expenses	4,059	6,307
Inventories	165,233	155,957
Income tax receivable	-	4,256
	404,130	387,057
Property, plant and equipment (note 3)	42,011	42,971
Goodwill	17,950	18,286
	\$ 464,091	\$ 448,314
Liabilities		
Current liabilities		
Trade and other payables	\$ 41,499	\$ 49,815
Provisions (note 4)	3,614	3,563
Deferred revenue	17,614	18,529
Current portion of long term debt	238	238
Income tax payable	2,720	-
	65,685	72,145
Long term debt	793	888
Deferred income taxes	3,577	5,545
	70,055	78,578
Equity		
Capital stock (note 5)	118,389	100,483
Share based payment reserve	10,603	13,835
Accumulated other comprehensive (loss) earnings	(1,113)	1,567
Retained earnings	262,444	250,320
	261,331	251,887
Total equity attributable to shareholders	390,323	366,205
Non-controlling interest	3,713	3,531
	394,036	369,736
	\$ 464,091	\$ 448,314

See accompanying notes to the interim condensed consolidated financial statements.

EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Changes in Equity
(Unaudited)

Six month periods ended October 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 period	-	-	-	37,897	37,897	320	38,217
Foreign currency translation adjustment	-	-	2,646	-	2,646	170	2,816
Total comprehensive earnings for the period	\$ -	\$ -	\$ 2,646	\$ 37,897	\$ 40,543	\$ 490	\$ 41,033
Dividends declared	-	-	-	(26,844)	(26,844)	(625)	(27,469)
Share based compensation expense	-	1,451	-	-	1,451	-	1,451
Exercise of employee stock options	4,128	-	-	-	4,128	-	4,128
Transfer on stock option exercise	1,123	(1,123)	-	-	-	-	-
Repurchase of common shares	(699)	-	-	(7,671)	(8,370)	-	(8,370)
Balance at October 31, 2015	\$ 100,260	\$ 12,746	\$ 5,723	\$ 245,650	\$ 364,379	\$ 3,254	\$ 367,633
Balance at April 30, 2016	\$ 100,483	\$ 13,835	\$ 1,567	\$ 250,320	\$ 366,205	\$ 3,531	\$ 369,736
Net earnings for the period	-	-	-	38,976	38,976	407	39,383
Foreign currency translation adjustment	-	-	(2,680)	-	(2,680)	125	(2,555)
Total comprehensive earnings for the period	\$ -	\$ -	\$ (2,680)	\$ 38,976	\$ 36,296	\$ 532	\$ 36,828
Dividends declared	-	-	-	(26,852)	(26,852)	(350)	(27,202)
Share based compensation expense	-	857	-	-	857	-	857
Exercise of employee stock options	13,817	-	-	-	13,817	-	13,817
Transfer on stock option exercise	4,089	(4,089)	-	-	-	-	-
Balance at October 31, 2016	\$ 118,389	\$ 10,603	\$ (1,113)	\$ 262,444	\$ 390,323	\$ 3,713	\$ 394,036

See accompanying notes to the interim condensed consolidated financial statements.

EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Earnings
(Unaudited)

Three month and six month periods ended October 31, 2016 and 2015
(In thousands of Canadian dollars, except per share amounts)

	Three month period ended October 31,		Six month period ended October 31,	
	2016	2015	2016	2015
Revenue	\$ 99,592	\$ 100,560	\$ 186,618	\$ 185,429
Cost of goods sold	42,481	43,026	79,641	80,066
Gross margin	57,111	57,534	106,977	105,363
Expenses				
Selling, administrative and general (note 6)	17,306	16,470	34,142	32,867
Research and development	17,780	16,127	35,273	32,379
Investment tax credits	(2,411)	(2,411)	(5,060)	(4,895)
Foreign exchange (gain) loss	(3,450)	633	(10,054)	(7,079)
	29,225	30,819	54,301	53,272
	27,886	26,715	52,676	52,091
Finance income	464	180	780	338
Finance costs	(69)	(200)	(122)	(322)
Other income (expenses)	(32)	188	37	150
Earnings before income taxes	28,249	26,883	53,371	52,257
Provision for (recovery of) income taxes				
Current	6,969	7,995	15,641	15,968
Deferred	520	(731)	(1,653)	(1,928)
	7,489	7,264	13,988	14,040
Net earnings for the period	\$ 20,760	\$ 19,619	\$ 39,383	\$ 38,217
Net earnings attributable to non-controlling interest	177	133	407	320
Net earnings attributable to shareholders	20,583	19,486	38,976	37,897
Net earnings for the period	\$ 20,760	\$ 19,619	\$ 39,383	\$ 38,217
Earnings per share (note 11)				
Basic	\$ 0.28	\$ 0.26	\$ 0.52	\$ 0.51
Diluted	\$ 0.27	\$ 0.26	\$ 0.52	\$ 0.51

See accompanying notes to the interim condensed consolidated financial statements.

EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Comprehensive Earnings
(Unaudited)

Three month and six month periods ended October 31, 2016 and 2015
(In thousands of Canadian dollars)

	Three month period ended		Six month period ended	
	October 31,		October 31,	
	2016	2015	2016	2015
Net earnings for the period	\$ 20,760	\$ 19,619	\$ 39,383	\$ 38,217
Items that may be reclassified to net earnings:				
Foreign currency translation adjustment	(1,079)	(412)	(2,555)	2,816
Comprehensive earnings	\$ 19,681	\$ 19,207	\$ 36,828	\$ 41,033
Comprehensive earnings attributable to non-controlling interest	\$ 227	\$ 136	\$ 532	\$ 490
Comprehensive earnings attributable to shareholders	\$ 19,454	\$ 19,071	\$ 36,296	\$ 40,543
Comprehensive earnings	\$ 19,681	\$ 19,207	\$ 36,828	\$ 41,033

See accompanying notes to the interim condensed consolidated financial statements.

EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

Three month and six month periods ended October 31, 2016 and 2015
(In thousands of Canadian dollars)

	Three month period ended October 31,		Six month period ended October 31,	
	2016	2015	2016	2015
Operating activities				
Net earnings for the period	\$ 20,760	\$ 19,619	\$ 39,383	\$ 38,217
Add: Items not involving cash				
Depreciation of property, plant and equipment	2,680	2,580	5,315	5,395
(Gain) loss on disposal of property, plant and equipment	(3)	(52)	(17)	(52)
Share based compensation	399	766	857	1,451
Interest expense	8	9	16	18
Deferred income tax expense	520	(731)	(1,653)	(1,928)
	24,364	22,191	43,901	43,101
Current tax expenses, net of investment tax credits	4,312	5,584	10,581	11,073
Income taxes paid	(2,166)	(6,153)	(4,108)	(14,167)
Changes in non-cash working capital items (note 7)	(13,885)	2,073	(17,801)	(8,558)
Cash provided by operating activities	12,625	23,695	32,573	31,449
Investing activities				
Acquisition of property, plant and equipment	(2,419)	(1,185)	(3,869)	(2,130)
Proceeds from disposal of property, plant and equipment	21	71	70	71
Cash used in investing activities	(2,398)	(1,114)	(3,799)	(2,059)
Financing activities				
Repayment of long term debt	(59)	(55)	(121)	(164)
Interest paid	(8)	(9)	(16)	(18)
Dividends paid	(13,496)	(13,402)	(26,852)	(26,844)
Dividends paid by subsidiaries to non-controlling interests	-	(625)	(350)	(625)
Capital stock repurchase	-	(7,488)	-	(8,370)
Capital stock issued	13,672	-	13,817	4,128
Cash provided by (used in) financing activities	109	(21,579)	(13,522)	(31,893)
Effect of exchange rates on cash and cash equivalents	(2,360)	(639)	(4,995)	(687)
Increase (decrease) in cash and cash equivalents	7,976	363	10,257	(3,190)
Cash and cash equivalents beginning of period	125,383	97,128	123,102	100,681
Cash and cash equivalents end of period	\$ 133,359	\$ 97,491	\$ 133,359	\$ 97,491

See accompanying notes to the interim condensed consolidated financial statements.

EVERTZ TECHNOLOGIES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Three month and six month periods ended October 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 December 1, 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

	October 31, 2016			April 30, 2016		
	Cost	Accumulated Depreciation	Carrying Amount	Cost	Accumulated Depreciation	Carrying Amount
Office furniture and equipment	\$ 3,262	\$ 1,860	\$ 1,402	\$ 3,065	\$ 1,783	\$ 1,282
Research and development equipment	29,846	22,283	7,563	29,469	20,672	8,797
Airplanes	19,727	11,812	7,915	19,727	10,975	8,752
Machinery and equipment	53,514	41,088	12,426	51,787	39,226	12,561
Leaseholds	7,321	4,881	2,440	6,208	4,595	1,613
Land	2,328	-	2,328	2,238	-	2,238
Buildings	10,199	2,262	7,937	9,847	2,119	7,728
	\$ 126,197	\$ 84,186	\$ 42,011	\$ 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	(1)	74	73
Foreign exchange differences	5	(27)	(22)
Balance as at October 31, 2016	\$ 3,342	\$ 272	\$ 3,614

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	1,159,750	13,817
Transferred on stock option exercise	-	4,089
Balance as at October 31, 2016	75,348,496	\$ 118,389

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 period (2015 – 543,200 common shares were purchased and cancelled at a weighted average price of \$15.41 over the six month period).

Dividends Per Share

During the quarter, \$0.18 in dividends per share was declared (2015 - \$0.18) and during the six month period, \$0.36 in dividends per share was declared (2015 - \$0.36).

6. SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

	Three month period ended		Six month period ended	
	October 31,		October 31,	
	2016	2015	2016	2015
Selling and administrative	\$ 15,289	\$ 14,827	\$ 30,175	\$ 29,629
Share based compensation (note 8)	1,101	766	2,177	1,451
Depreciation of property, plant and equipment (non-production)	916	877	1,790	1,787
	\$ 17,306	\$ 16,470	\$ 34,142	\$ 32,867

7. STATEMENT OF CASH FLOWS

Changes in non-cash working capital items

	Three month period ended		Six month period ended	
	October 31,		October 31,	
	2016	2015	2016	2015
Trade and other receivables	\$ (1,951)	\$ (3,500)	\$ (3,759)	\$ (2,350)
Prepaid expenses	3,462	2,547	1,985	2,407
Inventories	(8,267)	(1,566)	(9,482)	(4,924)
Trade and other payables	(8,979)	(1,266)	(5,681)	(7,796)
Deferred revenue	1,819	5,336	(915)	3,539
Provisions	31	522	51	566
	\$ (13,885)	\$ 2,073	\$ (17,801)	\$ (8,558)

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
Granted	50,000	17.38
Exercised	(1,159,750)	11.91
Forfeited	(58,000)	16.13
Balance as at October 31, 2016	3,238,750	\$ 15.74

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 - \$14.14	\$ 12.98	816,250	0.5	363,750	\$ 11.88
\$15.00 - \$16.29	\$ 15.71	751,000	2.5	204,000	\$ 16.09
\$17.03	\$ 17.03	1,486,000	1.4	-	\$ -
\$17.19 - \$18.07	\$ 17.62	185,500	3.5	-	\$ -
Totals	\$ 15.74	3,238,750	1.4	567,750	\$ 13.39

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 October 31, 2016	557,000

As at October 31, 2016, the average remaining contractual life for outstanding RSUs is 2.5 years.

Compensation expense

Stock Option Plan

The share based compensation expense that has been charged against earnings over the six month and three month period ended is \$857 (2015 - \$1,451) and \$399 (2015 - \$766). Share based compensation expense was calculated using a weighted average forfeiture rate of 25% (2015 – 22%).

	Six month period ended October 31, 2016	Six month period ended October 31, 2015
Risk-free interest rate	0.66%	1.07%
Dividend yield	4.14%	4.69%
Expected life	5 years	5 years
Expected volatility	16%	21%
Weighted average grant-date fair value:		
Where the exercise price equaled the market price	\$1.13	\$1.48

Restricted Share Unit Plan

The share based compensation expense that has been charged against earnings over the six month and three month period ended is \$1,320 (2015 - Nil) and \$702 (2015 – Nil). Share based compensation expense was calculated using a weighted average forfeiture rate of 3% (2015 – Nil). As at October 31, 2016, the total liability included within trade and other payables is \$1,556 (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		Six month period ended	
	October 31,		October 31,	
Revenue	2016	2015	2016	2015
United States	\$ 57,281	\$ 57,557	\$ 101,356	\$ 103,632
International	37,283	39,328	72,183	74,237
Canada	5,028	3,675	13,079	7,560
	\$ 99,592	\$ 100,560	\$ 186,618	\$ 185,429

	October 31, 2016		April 30, 2016	
	Property, Plant and Equipment	Goodwill	Property, Plant and Equipment	Goodwill
United States	\$ 11,290	\$ 383	\$ 11,813	\$ 359
International	9,690	17,567	9,750	17,927
Canada	21,031	-	21,408	-
	\$ 42,011	\$ 17,950	\$ 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 \$2,037 committed over the remaining term. During the six and three month periods, rent paid for the leased principal premises amounted to \$432 (2015 – \$421) and \$216 (2015 - \$210) with no outstanding amounts due as at October 31, 2016.

The Company also leases property where two shareholders indirectly own 100% interest. This lease expires in 2021 with a total of \$1,247 committed over the remaining term. During the six and three month periods, rent paid was \$123 (2015 – \$123) and \$62 (2015 - \$62) with no outstanding amounts due as at October 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 \$1,737 committed over the remaining term. During the six and three month periods, rent paid for the leased principal premises amounted to \$397 (2015 - \$397) and \$199 (2015 - \$199) with no outstanding amounts due as at October 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 \$1,200 committed over the remaining term. During the six and three month periods, rent paid was \$231 (2015 - \$231) and \$115 (2015 - \$115) with no outstanding amounts due as at October 31, 2016.

Note #10 continued ...

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 \$305 committed over the remaining term. During the six and three month periods, rent paid was \$71 (2015 - \$71) and \$35 (2015 - \$35) with no outstanding amounts due as at October 31, 2016.

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 \$9,564 committed over the remaining term. During the six and three month periods, rent paid was \$484 (2015 - Nil) and \$242 (2015 - Nil) with no outstanding amounts due as at October 31, 2016.

On August 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 \$2,572 committed over the remaining term. During the six and three month periods, rent paid was \$41 (2015 - nil), with no outstanding amounts due as at October 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		Six month period ended	
	October 31,		October 31,	
	2016	2015	2016	2015
Weighted average common shares outstanding	74,733,872	74,482,081	74,463,363	74,537,638
Dilutive effect of stock options	406,483	313,846	537,966	414,824
Diluted weighted average common shares outstanding	75,140,355	74,795,927	75,001,329	74,952,462

The weighted average number of diluted common shares excludes 115,500 options because they were anti-dilutive during the period (2015 - 2,107,500).

12. SUBSEQUENT EVENT

On December 1, 2016 the Company declared a quarterly dividend of \$0.18 and a special dividend of \$1.10, both with a record date of December 12, 2016 and a payment date of December 19, 2016.