

Interim condensed consolidated financial statements of

## **EVERTZ TECHNOLOGIES LIMITED**

Three month and Nine month periods ended January 31, 2020 and 2019  
(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

Index to Financial Statements  
(Unaudited)

Interim condensed consolidated financial statements  
Three month and Nine month periods ended January 31, 2020 and 2019

Interim Condensed Consolidated Statements of Financial Position .....	4
Interim Condensed Consolidated Statements of Changes in Equity .....	5
Interim Condensed Consolidated Statements of Earnings .....	6
Interim Condensed Consolidated Statements of Comprehensive Earnings .....	7
Interim Condensed Consolidated Statements of Cash Flows .....	8
Notes to the Interim Condensed Consolidated Financial Statements .....	9-17

# EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Financial Position  
(Unaudited)

As at January 31, 2020 and April 30, 2019  
(In thousands of Canadian dollars)

	January 31, 2020	April 30, 2019
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 51,653	\$ 104,583
Marketable securities	-	4,023
Trade and other receivables	95,050	81,498
Contract assets	11,884	22,348
Prepaid expenses	9,987	9,045
Inventories	168,626	171,271
Income tax receivable	-	708
	337,200	393,476
Property, plant and equipment (note 3)	47,357	48,887
Right-of-use assets (note 13)	30,006	-
Goodwill	20,682	20,716
Intangibles	1,604	1,952
Deferred income taxes	489	1,566
	\$ 437,338	\$ 466,597
<b>Liabilities</b>		
Current liabilities		
Trade and other payables	\$ 60,365	\$ 63,647
Provisions (note 4)	4,652	4,171
Deferred revenue	40,613	42,843
Current portion of long term debt	252	294
Current portion of lease obligations (note 13)	4,219	-
Income tax payable	2,133	-
	112,234	110,955
Long-term lease obligations (note 13)	26,615	-
Long-term debt	36	239
	138,885	111,194
<b>Equity</b>		
Capital stock (note 5)	144,201	139,865
Share based payment reserve	8,168	8,245
Accumulated other comprehensive earnings	2,073	1,729
Retained earnings	141,786	203,284
	143,859	205,013
Total equity attributable to shareholders	296,228	353,123
Non-controlling interest	2,225	2,280
	298,453	355,403
	\$ 437,338	\$ 466,597

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 January 31, 2020 and 2019  
(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, 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	-	-	-	59,313	59,313	564	59,877
Foreign currency translation adjustment	-	-	(1,059)	-	(1,059)	(30)	(1,089)
Total comprehensive earnings for the period	\$ -	\$ -	\$ (1,059)	\$ 59,313	\$ 58,254	\$ 534	\$ 58,788
Dividends declared	-	-	-	(41,315)	(41,315)	(375)	(41,690)
Impact of change in accounting policy	-	-	-	(21)	(21)	-	(21)
Share based compensation expense	-	406	-	-	406	-	406
Exercise of employee stock options	587	-	-	-	587	-	587
Transfer on stock option exercise	97	(97)	-	-	-	-	-
<b>Balance at January 31, 2019</b>	<b>\$ 139,359</b>	<b>\$ 8,194</b>	<b>\$ 1,090</b>	<b>\$ 198,495</b>	<b>\$ 347,138</b>	<b>\$ 2,215</b>	<b>\$ 349,353</b>
<b>Balance at April 30, 2019</b>	<b>\$ 139,865</b>	<b>\$ 8,245</b>	<b>\$ 1,729</b>	<b>\$ 203,284</b>	<b>\$ 353,123</b>	<b>\$ 2,280</b>	<b>\$ 355,403</b>
Net earnings for the period	-	-	-	52,707	52,707	427	53,134
Foreign currency translation adjustment	-	-	344	-	344	(32)	312
Total comprehensive earnings for the period	\$ -	\$ -	\$ 344	\$ 52,707	\$ 53,051	\$ 395	\$ 53,446
Dividends declared	-	-	-	(110,564)	(110,564)	(450)	(111,014)
Share based compensation expense	-	314	-	-	314	-	314
Exercise of employee stock options	4,372	-	-	-	4,372	-	4,372
Transfer on stock option exercise	391	(391)	-	-	-	-	-
Repurchase of common shares	(427)	-	-	(3,641)	(4,068)	-	(4,068)
<b>Balance at January 31, 2020</b>	<b>\$ 144,201</b>	<b>\$ 8,168</b>	<b>\$ 2,073</b>	<b>\$ 141,786</b>	<b>\$ 296,228</b>	<b>\$ 2,225</b>	<b>\$ 298,453</b>

See accompanying notes to the interim condensed consolidated financial statements.

# EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Earnings  
(Unaudited)

Three month and nine month periods ended January 31, 2020 and 2019  
(In thousands of Canadian dollars, except per share amounts)

	Three month period ended		Nine month period ended	
	January 31,		January 31,	
	2020	2019	2020	2019
Revenue (notes 9 and 10)	\$ 121,226	\$ 120,942	\$ 344,425	\$ 336,311
Cost of goods sold	53,377	53,245	148,102	145,678
Gross margin	67,849	67,697	196,323	190,633
Expenses				
Selling, administrative and general (note 6)	19,976	19,712	58,940	55,414
Research and development	23,993	21,571	69,625	63,974
Investment tax credits	(2,056)	(2,136)	(6,037)	(6,072)
Foreign exchange (gain) loss	(270)	382	2,637	(1,528)
	41,643	39,529	125,165	111,788
	26,206	28,168	71,158	78,845
Finance income	84	295	896	964
Finance costs	(511)	(152)	(1,375)	(661)
Other (expenses) income	162	1,081	303	1,221
Earnings before income taxes	25,941	29,392	70,982	80,369
Provision for (recovery of) income taxes				
Current	6,798	8,033	18,072	21,527
Deferred	(258)	(576)	(224)	(1,035)
	6,540	7,457	17,848	20,492
Net earnings for the period	\$ 19,401	\$ 21,935	\$ 53,134	\$ 59,877
Net earnings attributable to non-controlling interest	143	241	427	564
Net earnings attributable to shareholders	19,258	21,694	52,707	59,313
Net earnings for the period	\$ 19,401	\$ 21,935	\$ 53,134	\$ 59,877
Earnings per share (note 12)				
Basic	\$ 0.25	\$ 0.28	\$ 0.69	\$ 0.78
Diluted	\$ 0.25	\$ 0.28	\$ 0.69	\$ 0.78

See accompanying notes to the interim condensed consolidated financial statements.

## **EVERTZ TECHNOLOGIES LIMITED**

Interim Condensed Consolidated Statements of Comprehensive Earnings  
(Unaudited)

Three month and nine month periods ended January 31, 2020 and 2019  
(In thousands of Canadian dollars)

	<b>Three month period ended</b>		<b>Nine month period ended</b>	
	<b>January 31,</b>		<b>January 31,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Net earnings for the period	\$ 19,401	\$ 21,935	\$ 53,134	\$ 59,877
Items that may be reclassified to net earnings:				
Foreign currency translation adjustment	598	212	312	(1,089)
Comprehensive earnings	\$ 19,999	\$ 22,147	\$ 53,446	\$ 58,788
Comprehensive earnings attributable to non-controlling interest	\$ 141	\$ 253	\$ 395	\$ 534
Comprehensive earnings attributable to shareholders	\$ 19,858	\$ 21,894	\$ 53,051	\$ 58,254
Comprehensive earnings	\$ 19,999	\$ 22,147	\$ 53,446	\$ 58,788

See accompanying notes to the interim condensed consolidated financial statements.

# EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Cash Flows  
(Unaudited)

Three month and nine month periods ended January 31, 2020 and 2019  
(In thousands of Canadian dollars)

	Three month period ended		Nine month period ended	
	January 31,		January 31,	
	2020	2019	2020	2019
<b>Operating activities</b>				
Net earnings for the period	\$ 19,401	\$ 21,935	\$ 53,134	\$ 59,877
Add: Items not involving cash				
Depreciation of property, plant and equipment	2,768	2,857	7,896	8,307
Amortization of right-of-use assets (note 13)	1,267	-	3,875	-
Amortization of intangibles	110	-	318	-
Gain on disposal of property, plant and equipment	(104)	-	(165)	(67)
Unrealized gain on marketable securities	-	(1,006)	-	(1,058)
Realized gain on marketable securities	-	(585)	(33)	(585)
Share based compensation (note 8)	162	233	314	406
Interest expense	322	23	985	37
Deferred income tax recovery	(258)	(576)	(224)	(1,035)
	23,668	22,881	66,100	65,882
Current tax expenses, net of investment tax credits	4,741	5,779	12,034	15,455
Income taxes paid	(3,464)	(4,991)	(9,402)	(12,966)
Changes in non-cash working capital items (note 7)	42,340	24,469	(6,494)	(3,580)
Cash provided by operating activities	67,285	48,138	62,238	64,791
<b>Investing activities</b>				
Acquisition of property, plant and equipment	(3,015)	(2,917)	(6,921)	(8,271)
Proceeds from disposal of property, plant and equipment	172	2	254	130
Business acquisition	-	(6,635)	-	(6,635)
Acquisition of marketable securities	-	(4,000)	-	(17,708)
Proceeds from disposal of marketable securities	-	4,068	4,056	4,068
Cash used in investing activities	(2,843)	(9,482)	(2,611)	(28,416)
<b>Financing activities</b>				
Repayment of long term debt	(113)	(104)	(232)	(287)
Principle payments of lease liabilities	(994)	-	(3,047)	-
Interest paid	(322)	(23)	(985)	(37)
Dividends paid	(13,807)	(13,774)	(110,564)	(41,315)
Dividends paid by subsidiaries to non-controlling interests	-	-	(450)	(375)
Capital stock repurchased	(3,578)	-	(4,068)	-
Capital stock issued	-	-	4,372	587
Cash used in financing activities	(18,814)	(13,901)	(114,974)	(41,427)
Effect of exchange rates on cash and cash equivalents	576	(1,061)	2,417	(249)
Increase (Decrease) in cash and cash equivalents	46,204	23,694	(52,930)	(5,301)
Cash and cash equivalents beginning of period	5,449	65,189	104,583	94,184
Cash and cash equivalents end of period	\$ 51,653	\$ 88,883	\$ 51,653	\$ 88,883

See accompanying notes to the interim condensed consolidated financial statements.



## EVERTZ TECHNOLOGIES LIMITED

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three month and nine month ended January 31, 2020 and 2019  
(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, 2019, except for new accounting policies that were adopted on May 1, 2019 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, 2019 annual consolidated financial statements.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on March 11, 2020.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

##### Changes in Accounting Policies

IFRS 16, *Leases* (“IFRS 16”) was issued by the IASB in January 2016 to replace IAS 17, *Leases* and *IFRIC 4, Determining whether an arrangement contains a lease*. IFRS 16 introduced a single accounting model for lessees to bring leases on-balance sheet, while leaving lessor accounting largely unchanged. The Company adopted IFRS 16 on May 1, 2019 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 *Leases* and *IFRIC 4 Determining whether an arrangement contains a lease*. The impact resulting from adoption of IFRS 16 is disclosed in Note 13.

#### 3. PROPERTY, PLANT AND EQUIPMENT

	January 31, 2020			April 30, 2019		
	Cost	Accumulated Depreciation	Carrying Amount	Cost	Accumulated Depreciation	Carrying Amount
Office furniture and equipment	\$ 4,734	\$ 3,119	\$ 1,615	\$ 4,252	\$ 2,586	\$ 1,666
Research and development equipment	37,855	23,985	13,870	34,549	22,029	12,520
Airplanes	11,526	8,431	3,095	11,348	7,992	3,356
Machinery and equipment	66,218	51,544	14,674	64,858	48,266	16,592
Leaseholds	8,913	5,425	3,488	8,770	5,078	3,692
Land	2,316	-	2,316	2,379	-	2,379
Buildings	11,157	2,858	8,299	11,488	2,806	8,682
	<u>\$ 142,719</u>	<u>\$ 95,362</u>	<u>\$ 47,357</u>	<u>\$ 137,644</u>	<u>\$ 88,757</u>	<u>\$ 48,887</u>

#### 4. PROVISIONS

	Warranty and Returns	Lease/Retirement Obligations	Total
<b>Balance as at April 30, 2019</b>	<b>\$ 3,629</b>	<b>\$ 542</b>	<b>\$ 4,171</b>
Net additions	451	78	529
Foreign exchange differences	(50)	2	(48)
<b>Balance as at January 31, 2020</b>	<b>\$ 4,030</b>	<b>\$ 622</b>	<b>\$ 4,652</b>

##### *Warranty and Returns*

The provision relates to estimated future costs associated with standard 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, 2019</b>	<b>76,545,246</b>	<b>\$ 139,865</b>
Issued on exercise of stock options	284,000	4,372
Cancelled pursuant to NCIB (note 5)	(227,600)	(427)
Transferred on stock option exercise	-	391
<b>Balance as at January 31, 2020</b>	<b>76,601,646</b>	<b>\$ 144,201</b>

##### *Dividends Per Share*

During the quarter, \$0.18 in dividends per share was declared (2019 - \$0.18).

##### *Normal Course Issuer Bid*

In October 2019, the Company filed a Normal Course Issuer Bid ("NCIB") with the TSX to repurchase, at the Company's discretion, until October 23, 2020 up to 3,830,252 outstanding common shares on the open market or as otherwise permitted, subject to normal terms and limitations of such bids. During the quarter, the Company purchased and cancelled 200,000 common shares at a weighted average price of \$17.88. During the nine month period ended, the Company purchased and cancelled 227,600 common shares at a weighted average price of \$17.89.

## 6. SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

	Three month period ended		Nine month period ended	
	January 31,		January 31,	
	2020	2019	2020	2019
Selling and administrative	\$ 17,863	\$ 17,570	\$ 52,197	\$ 49,864
General:				
Share based compensation (note 8)	1,186	1,245	4,058	3,152
Amortization of intangibles	110	-	318	-
Depreciation of property, plant and equipment (non-production)	817	897	2,367	2,398
	\$ 19,976	\$ 19,712	\$ 58,940	\$ 55,414

## 7. STATEMENT OF CASH FLOWS

### Changes in non-cash working capital items

	Three month period ended		Nine month period ended	
	January 31,		January 31,	
	2020	2019	2020	2019
Trade and other receivables	\$ 29,645	\$ 7,567	\$ (19,171)	\$ (26,122)
Contract assets	2,787	6,118	10,464	16,473
Prepaid expenses	(1,033)	(987)	(1,051)	(2,479)
Inventories	4,462	1,106	2,238	(2,918)
Trade and other payables	5,713	2,833	(2,333)	(2,474)
Deferred revenue	924	7,622	2,878	13,784
Provisions	(158)	210	481	156
	\$ 42,340	\$ 24,469	\$ (6,494)	\$ (3,580)

## 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, 2019</b>	<b>1,413,500</b>	<b>\$ 16.13</b>
Granted	555,000	17.94
Exercised	(284,000)	15.39
Forfeited	(70,000)	15.95
Expired	(45,500)	17.58
<b>Balance as at January 31, 2020</b>	<b>1,569,000</b>	<b>\$ 16.87</b>

Note #8 continued ...

Stock options outstanding as at January 31, 2020 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
\$15.20 - \$15.37	\$ 15.36	99,000	0.4	20,000	\$ 15.37
\$15.61 - \$15.80	\$ 15.69	460,000	3.8	-	\$ -
\$16.08 - \$17.38	\$ 16.74	285,000	2.8	33,000	\$ 17.28
\$17.39 - \$18.63	\$ 17.87	725,000	4.2	57,000	\$ 17.82
Totals	\$ 16.87	1,569,000	3.6	110,000	\$ 17.21

#### 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, 2019</b>	<b>812,500</b>
Granted	219,500
Forfeited	(6,500)
Exercised	(301,000)
<b>Balance as at January 31, 2020</b>	<b>724,500</b>

As at January 31, 2020, the average remaining contractual life for outstanding RSUs is 2.0 years (2019 – 0.6 years).

#### Compensation expense

##### Stock Option Plan

The share based compensation expense that has been charged against earnings over the nine month and three month period is \$314 (2019 - \$406) and \$162 (2019 - \$233). Compensation expense on grants during the period was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	Nine month period ended January 31, 2020	Nine month period ended January 31, 2019
Risk-free interest rate	1.62%	2.12%
Dividend yield	4.01%	4.57%
Expected life	5 years	5 years
Expected volatility	15%	15%
Weighted average grant-date fair value	\$1.28	\$1.10

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 8% (2019 – 18%).

##### Restricted Share Unit Plan

The share based compensation expense that has been charged against earnings over the nine month and three month period is \$3,744 (2019 - \$2,745) and \$1,023 (2019 - \$1,012). Share based compensation expense was calculated using a weighted average forfeiture rate of 7% (2019 - 6%). As at January 31, 2020, the total liability included within trade and other payables is \$4,610 (2019 - \$10,280).

## 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		Nine month period ended	
	January 31,		January 31,	
Revenue	2020	2019	2020	2019
United States	\$ 68,361	\$ 76,938	\$ 224,140	\$ 219,059
International	51,679	39,457	114,097	102,100
Canada	1,186	4,547	6,188	15,152
	\$ 121,226	\$ 120,942	\$ 344,425	\$ 336,311

  

	January 31, 2020			April 30, 2019		
	Property, Plant and Equipment	Goodwill	Intangible Assets	Property, Plant and Equipment	Goodwill	Intangible Assets
United States	\$ 5,154	\$ 1,339	\$ 1,604	\$ 5,713	\$ 1,361	\$ 1,952
International	11,452	17,760	-	11,590	17,772	-
Canada	30,751	1,583	-	31,584	1,583	-
	\$ 47,357	\$ 20,682	\$ 1,604	\$ 48,887	\$ 20,716	\$ 1,952

## 10. REVENUE

	Three month period ended		Nine month period ended	
	January 31,		January 31,	
	2020	2019	2020	2019
Hardware, software including related services, training and commissioning	\$ 105,387	\$ 116,506	\$ 303,546	\$ 323,687
Long term contract revenue	15,839	4,436	40,879	12,624
	\$ 121,226	\$ 120,942	\$ 344,425	\$ 336,311

## 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 16% interest in the Company's leased premises in Ontario. This lease expires in 2029 with a total of \$9,872 committed over the remaining term. During the nine month and three month periods, rent paid for the leased principal premises amounted to \$764 (2019 – \$664) and \$255 (2019 - \$221) with no outstanding amounts due as at January 31, 2020.

The Company also leases property where two shareholders indirectly own 100% interest. This lease expires in 2021 with a total of \$427 committed over the remaining term. During the nine month and three month periods, rent paid for the leased principal premises amounted to \$198 (2019 – \$198) and \$66 (2019 - \$66) with no outstanding amounts due as at January 31, 2020.

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 \$7,945 committed over the remaining term. During the nine month and three month periods, rent paid for the leased principal premises amounted to \$631 (2019 – \$628) and \$210 (2019 - \$210) with no outstanding amounts due as at January 31, 2020.

Note #11 continued ...

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 \$5,054 committed over the remaining term. During the nine month and three month periods, rent paid for the leased principal premises amounted to \$380 (2019 – \$364) and \$126 (2019 - \$121) with no outstanding amounts due as at January 31, 2020.

The Company also leases a property where two shareholders indirectly own 100% interest. The lease expires in 2023 with a total of \$445 committed over the remaining term. During the nine month and three month periods, rent paid for the leased principal premises amounted to \$114 (2019 – \$107) and \$38 (2019 - \$36) with no outstanding amounts due as at January 31, 2020.

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 \$6,395 committed over the remaining term. During the nine month and three month periods, rent paid for the leased principal premises amounted to \$736 (2019 – \$736) and \$245 (2019 - \$245) with no outstanding amounts due as at January 31, 2020.

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 \$1,767 committed over the remaining term. During the nine month and three month periods, rent paid for the leased principal premises amounted to \$190 (2019 – \$187) and \$63 (2019 - \$63) with no outstanding amounts due as at January 31, 2020.

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		Nine month period ended	
	January 31,		January 31,	
	2020	2019	2020	2019
Weighted average common shares outstanding	76,714,745	76,519,746	76,666,791	76,505,007
Dilutive effect of stock options	66,051	8,974	79,138	14,378
Diluted weighted average common shares outstanding	76,780,796	76,528,720	76,745,929	76,519,385

The weighted average number of diluted common shares excludes 537,500 options because they were anti-dilutive during the period (2019 – 1,764,000).

## 13. EXPLANATION OF ADOPTION OF IFRS 16, LEASES

IFRS 16, *Leases* (“IFRS 16”) was issued by the IASB in January 2016 to replace IAS 17, *Leases* and *IFRIC 4, Determining whether an arrangement contains a lease*. IFRS 16 introduced a single accounting model for lessees to bring leases on-balance sheet, while leaving lessor accounting largely unchanged. The details of the primary changes on adoption of IFRS 16 are set out below.

A lessee is now required to recognize, on its statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments.

Note #13 continued ...

The Company has adopted IFRS 16, effective May 1, 2019, using the modified retrospective approach. Under this approach, the Company has applied IFRS 16 to all contracts that are not complete on the date of initial application, without restatement of comparative figures as previously reported for 2019. Therefore, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. At transition, the Company applied the practical expedient available to us as lessee that allows the Company to maintain its lease assessments made under IAS 17 and IFRIC 4 for existing contracts. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed after May 1, 2019.

When applying IFRS 16 to leases previously classified as operating leases, the Company has followed practical expedients that allow a single discount rate to a portfolio of leases with similar characteristics; allow the exclusion of initial direct costs from measuring the right-of-use asset as at May 1, 2019; allow the use of hindsight in determining the lease term where the lease contract contains purchase, extension, or termination options; and reliance upon the Company's assessment of whether leases are onerous under the requirements of IAS 37, *Provisions, contingent liabilities and contingent assets* as at May 1, 2019 as an alternative to reviewing the Company's right-of-use assets for impairment. The Company has also elected to account for all short-term leases and all leases for which the underlying asset is of low value as expenses on either a straight-line basis over the lease term or another systematic basis, and thus not recognize a lease liability and a right-of-use asset at the date of initial application.

For remaining leases previously classified as operating leases under IAS 17, the lease liability has been measured at the present value of the remaining lease payments, discounted using the related incremental borrowing rate as at May 1, 2019. The weighted average discount rate applied to the total lease liabilities recognized on transition was 3.95%. The associated right-of-use asset has been measured at an amount equal to the lease liability, adjusted by the amount of any lease retirement obligations, lease incentives previously received, and prepaid or accrued lease payments recognized in the statement of financial position immediately before the date of initial application.

As a result of adopting IFRS 16, the Company has recognized a significant increase to both right-of-use assets and lease liabilities on the Consolidated Statements of Financial Position, with no net impact on retained earnings. The impact on the Consolidated Income Statement is a decrease in operating lease expenses and an increase in amortization of the right-of-use asset and interest costs on the lease liability. Amortization of right-of-use assets and operating lease expenses are recorded in the same line items within the Consolidated Income Statement.

Prior to adopting IFRS 16, the Company had a total amount of future lease commitments as at May 1, 2019 of \$39,197. The difference between the total lease liabilities recognized on transition of \$33,621 and future lease commitments of \$39,197 as disclosed in the Company's 2019 Annual Consolidated Financial Statements, was mainly a result of discounting on the minimum lease payments and the exclusion of short-term leases and leases for which the underlying asset is of low value from the total lease liability recognized upon transition.

The Company had no leases previously classified as finance leases under IAS 17, as at May 1, 2019. There was no significant impact for contracts in which the Company is the lessor.

Below is the effect of transition to IFRS 16 on our condensed consolidated statement of financial position as at May 1, 2019:

Note #13 continued ...

(In thousands of Canadian dollars)

	As reported as at April 30, 2019	Effect of IFRS 16 transition	Subsequent to transition as at May 1, 2019
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 104,583	\$ -	\$ 104,583
Marketable securities	4,023	-	4,023
Trade and other receivables	81,498	-	81,498
Contract assets	22,348	-	22,348
Prepaid expenses	9,045	-	9,045
Inventories	171,271	-	171,271
Income tax receivable	708	-	708
	393,476	-	393,476
Property, plant and equipment	48,887	-	48,887
Right of use assets	-	33,621	33,621
Goodwill	20,716	-	20,716
Intangibles	1,952	-	1,952
Deferred income taxes	1,566	-	1,566
	\$ 466,597	\$ 33,621	\$ 500,218
<b>Liabilities</b>			
Current liabilities			
Trade and other payables	\$ 63,647	\$ -	\$ 63,647
Provisions	4,171	-	4,171
Deferred revenue	42,843	-	42,843
Current portion of long term debt	294	-	294
Current portion of lease obligations	-	4,117	4,117
	110,955	4,117	115,072
Long-term lease obligations	-	29,504	29,504
Long term debt	239	-	239
	111,194	33,621	144,815
<b>Equity</b>			
Capital stock	139,865	-	139,865
Share based payment reserve	8,245	-	8,245
Accumulated other comprehensive earnings	1,729	-	1,729
Retained earnings	203,284	-	203,284
	205,013	-	205,013
Total equity attributable to shareholders	353,123	-	353,123
Non-controlling interest	2,280	-	2,280
	355,403	-	355,403
	\$ 466,597	\$ 33,621	\$ 500,218

During the nine month and three month periods ended January 31, 2020, the Company recognized amortization of right-of-use assets of \$3,875 and \$1,267 as well as finance costs on lease liabilities of \$963 and \$311. In the Consolidated Statement of Cash Flows, additional line items were added that related to the amortization of the right-of-use assets and principle payments of lease liabilities.



#### **14. SUBSEQUENT EVENT**

On March 11, 2020 the Company declared a quarterly dividend of \$0.18 with a record date of March 20, 2020 and a payment date of March 27, 2020.