

# End-to-End Solutions



## OPERATING RESULTS

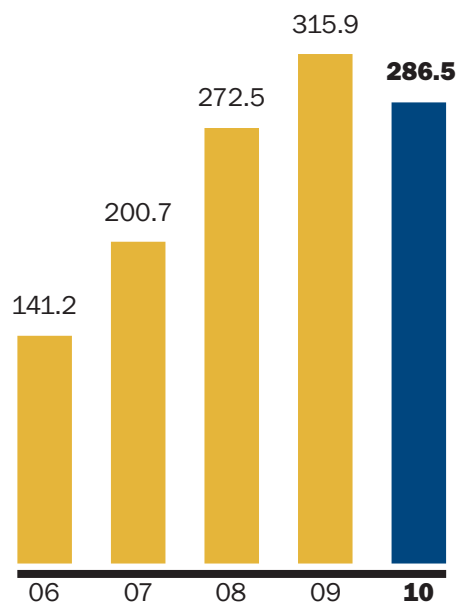
(in thousands of dollars except gross margin percentage)	2010	2009	2008
<b>OPERATING RESULTS</b>			
Sales	\$ <b>286,455</b>	\$ 315,905	\$ 272,505
Gross Margins	<b>166,973</b>	194,019	161,641
% of Sales	<b>58%</b>	61%	59%
<b>FINANCIAL POSITION</b>			
Net Earnings	\$ <b>61,502</b>	\$ 100,717	\$ 87,294
Working Capital	<b>264,161</b>	216,539	164,147
Inventory	<b>91,745</b>	86,518	53,760
Shareholders' Equity	<b>312,169</b>	268,376	188,220
<b>SHAREHOLDERS' EQUITY</b>			
Net Earnings:			
Basic	<b>0.84</b>	1.39	1.21
Fully Diluted	<b>0.83</b>	1.36	1.17

## FINANCIAL HIGHLIGHTS

Year ended April 30, 2010

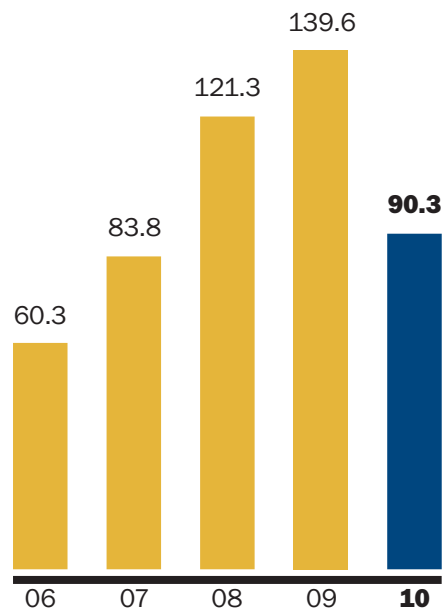
### SALES

\$ millions



### EARNINGS BEFORE INCOME TAXES

\$ millions



# A LETTER TO FELLOW SHAREHOLDERS

WHILE FISCAL 2010 WAS A DIFFICULT YEAR FOR OUR INDUSTRY, MARKED BY GLOBAL ECONOMIC CHALLENGES AND UNCERTAINTIES, WE ARE PLEASED TO REPORT EVERTZ RECORDED SOLID PROFITABLE RESULTS WITH CONTINUED EXPANSION OF OUR PRODUCT LINE AND INTERNATIONAL CHANNELS.

- Sales were \$286 million;
- Evertz international presence grew with sales rising 24% to over \$132 million;
- Earnings before income taxes of over \$90 million, despite \$8 million of foreign exchange losses;
- Quarterly cash dividends totaling \$0.32 per share for the fiscal year; and
- Annual investment in research and development increased 12% to \$32 million.

## FISCAL 2010

The recession had a significant impact on the broadcast industry, as television advertising revenue declined which translated into a much reduced level of capital expenditures for many of our customers. This offset the effects of Evertz growth drivers which include the transition to high definition television, IPTV deployments and the upgrade cycle in emerging markets. In fiscal 2010 we generated \$286.5 million of revenue, which is down 9% compared to 2009. The results for 2010 include a revenue increase of 24% for the international region, as compared to 2009. During the year, we maintained a gross margin of over 58% and a net margin before taxes of over 31%.

The year was dominated by the impact of the global economic crisis; however Evertz was prepared to face these challenges with our strong balance sheet and robust operating structure honed over a decade of disciplined management. We evaluated the economic and competitive landscape and adhered to our long-term strategic plan which positions Evertz for industry leadership through continued investment in R&D and selective expansion into targeted geographic and product markets.

## RESEARCH & DEVELOPMENT – FORGING INTO NEW TECHNOLOGIES

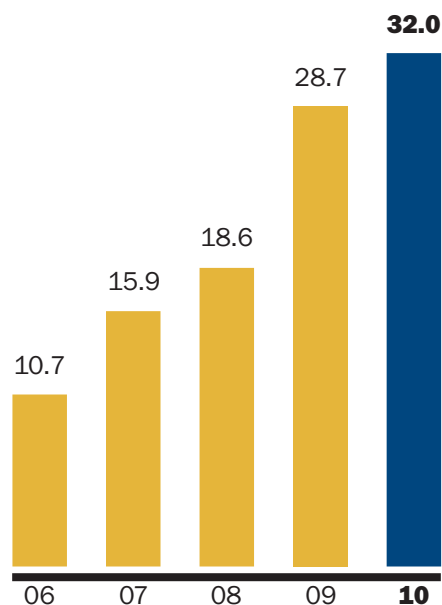
In contrast to many in the industry who have contracted their R&D budgets, Evertz continues to forge ahead with the recruitment of talented individuals and with the introduction of new leading edge technologies. In fact, during the past three years spanning the recession, Evertz has more than doubled our annual investment in R&D to over \$32 million.

We continued our accelerated pace of new technology introduction and product portfolio enhancement. This year alone, we launched:

- More than a dozen digital compression technology products;
- An advanced optical transport platform which leverages Evertz comprehensive signal processing and conversion capabilities;
- An innovative, bulk optical conversation platform; and
- 3D technology products which solidifies Evertz as the “Complete 3D Solution Provider” offering production workflow, contribution, acquisition and live production.

## R&D INVESTMENTS OVER 5 YEARS

\$ millions



## AWARDS AND ACHIEVEMENTS

Recognition for Evertz leadership commitment to innovation was exemplified this past year through several awards including:



**TV Technology** – Star Award to **Intelligain® Compressed Domain Technology** is the world's first loudness solution for IP and ASI compressed signals which provides a solution for television service providers who for years have faced their audience complaints about drastic variations in loudness between program and commercial and variations from channel to channel. This technology leverages Evertz baseband patent pending algorithms installed in thousands of channels globally. The software-based solution is offered as an option with various Evertz hardware products and is ideally suited for multi-channel playout facilities, Direct To Home Satellite, Cable and IPTV service providers.



**TV Technology Europe** – Star Award to **MViP™** an IP based multi-image display & monitoring solution which leverages Evertz award winning audio video monitoring technology and TSM technology providing the ability to monitor at the transport stream level. MViP™ supports all major video compression standards for use in digital headends, IPTV networks and can be used in almost any application where audio and video are transported over IP.



The Deloitte Technology Leadership Award recognizes Evertz Technologies Limited among four companies that are the elite members of the Canadian technology industry, whose ability to create a distinct competitive advantage in a high-growth market allows them to dominate their sector and quickly join the ranks of other Canadian global leaders.



## 2010 CANADIAN SOCIETY OF CINEMATOGRAPHERS: BILL HILSON AWARD

This prestigious award was presented to Evertz Technologies Limited for outstanding service contributing to the development of the motion picture industry. CSC awards committee wished to recognize Evertz Technologies' knowledge, vision, generous support of the Canadian motion picture industry through the development and manufacture of products such as the KeyKode Decoder, 4:4:4 HD/SD Film Footage Encoder, Evertz Fiber Optic Enabled Camera Adapter System, HD/SD Production afterburner and many more innovative products.

The recognition of our long-term commitment to innovation through such awards is a source of great pride for all Evertz employees. However, the real measure of success is demonstrated by customer adoption of Evertz complete solutions, securing new customers and gaining their repeat business.

## ON SOLID GROUND...AND GROWING STRONGER

We believe that Evertz is uniquely positioned to meet today's challenges head on and are very confident that Evertz is ready to lead the charge with an expanded and enhanced product offering.

The Company has both the operational and financial capability to not only weather these challenges, but to seize upon the most compelling opportunities that arise, building upon our solid foundations in research and development and expanding our market position.

Select goals for this year are to:

- Assertively launch and market our new product introductions;
- Build worldwide upon our renowned customer service team;
- Expand our industry leading development team by attracting and hiring the best talent available; and
- Provide the most compelling value and complete solutions to our customers with new product technologies highly interoperable and tightly integrated with our comprehensive product portfolio via Evertz industry leading SNMP network management and control system.

We would like to take this opportunity to thank our employees, channel partners, customers and shareholders for their ongoing support and look forward to an exciting, successful future.



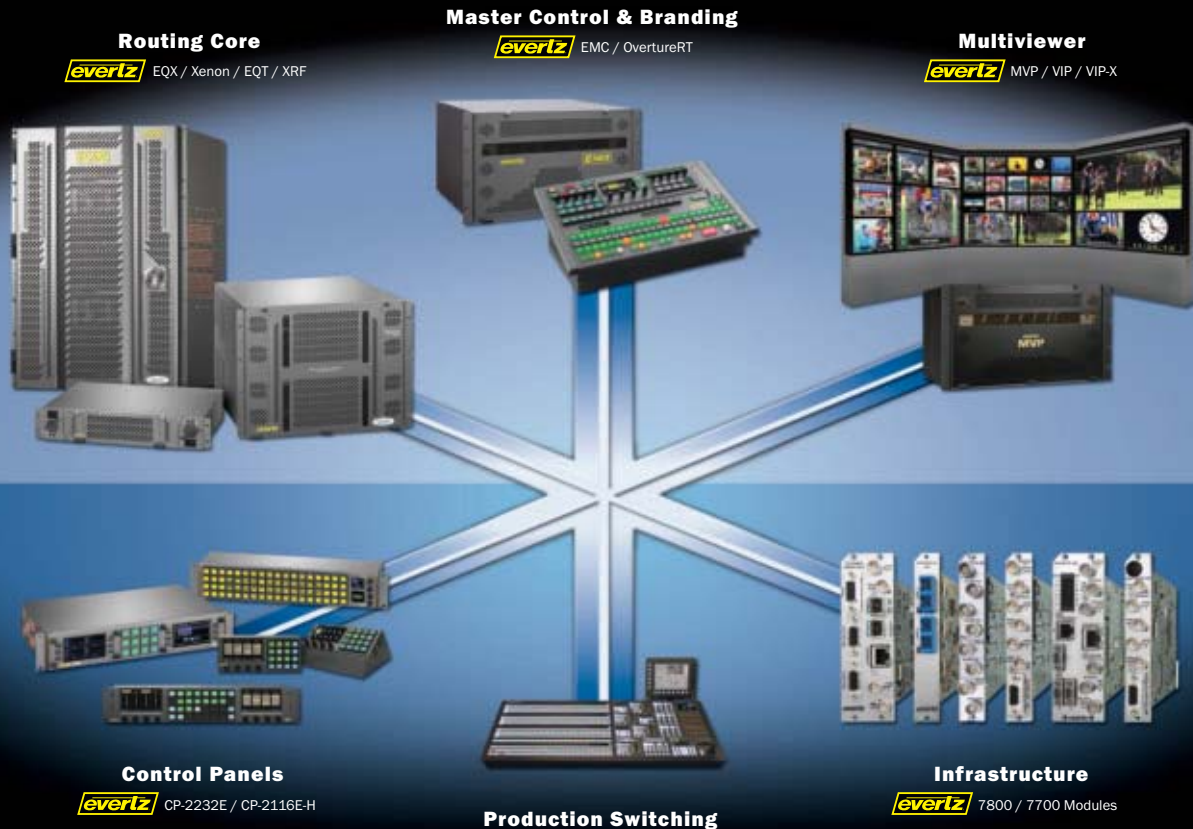
A blue ink signature of Douglas A. DeBruin.

**Douglas A. DeBruin**  
Executive Chairman



A blue ink signature of Romolo Magarelli.

**Romolo Magarelli**  
President & CEO



## EVERTZ – THE COMPLETE SOLUTIONS PROVIDER

THE COMPANY DEVELOPS, MANUFACTURES AND MARKETS A BROAD RANGE OF HIGH PERFORMANCE HARDWARE AND SOFTWARE PRODUCTS THAT HELP BROADCASTERS AND TELEVISION SERVICE PROVIDERS (CABLE, SATELLITE, IPTV) REDUCE COSTS, EXTEND THEIR SERVICES, GENERATE NEW REVENUES AS WELL AS TRANSITION TO AND OPERATE IN THE NEW DIGITAL BROADCASTING ENVIRONMENT. ESSENTIAL FUNCTIONS THAT THE COMPANY'S PRODUCTS PERFORM INCLUDE THE ABILITY TO:

- Implement advanced digital systems;
- Route, distribute, control and monitor video and audio signals throughout large broadcast, telecommunications, corporate and government operations;
- Deliver television services over telecommunications networks, widely known as IPTV;
- Migrate from single channel transmission to multi-channel media play out; and
- Transition from analog to digital infrastructure.

Many of the Company's core products work together in integrated systems. The Company's products may be grouped into the following categories:

### Infrastructure Equipment

The Company's infrastructure equipment is used across the broadcasting industry for various signal processing, routing and distribution functions, such as conversion from analog to digital, electrical to optical, from standard definition (SD) to high definition (HD) broadcasting, or encoded and decoded.

### Monitoring and Control Equipment

Monitoring and control products enable customers to view, monitor and manage a large number of broadcast signals locally or across their geographically dispersed infrastructure. These products include multi-image display processors for network control centres, and IP monitoring and control products for facility monitoring environments.

### Master Control and Branding Solutions

The Company's master control switchers allow a user to assemble programming from multiple input sources. Switching between the sources (e.g. programming and advertising) allows users to perform voice-overs, fades, wipes and a host of other functions. Channel Branding products enable the simultaneous or concurrent display of real-time graphics such as station logos, digital clocks and temperature indication.

### INFRASTRUCTURE EQUIPMENT

The Company markets interface products that address customers' needs for high quality conversion equipment for digital television and high definition broadcasting systems. These products are used by broadcasting industry participants in the creation and packaging of television content, as well as to carry out numerous signal processing functions, from analog to digital conversion through standard definition ("SD") to high definition ("HD") and 3D-TV. These interfaces include:

#### Interfacing and Distribution:

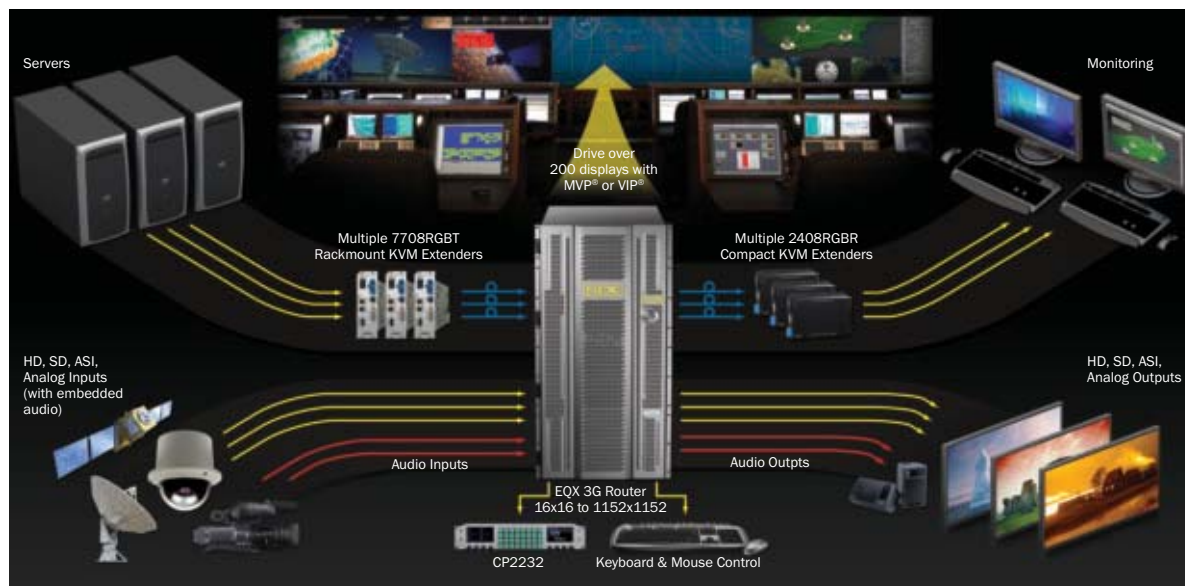
Interfacing and distribution products constitute essential parts of a broadcasting facility. The Company's modular products interface, distribute, convert and switch audio and video signals.

#### Production and Post-Production:

The Company's line of production and post-production equipment ranges from versatile fiber-optic enabled camera adapter systems, high definition video graticule generators, high quality down-converters, universal film data systems, multi-resolution film post production systems, high definition production metadata encoders through to graphical user interface software, which centralizes control of the film footage related data and provides extensive data management capabilities.

#### Signal Routing:

The Company's comprehensive portfolio of high quality routing products includes a wide variety of sizes, signal formats and transmission standards. The Company's flagship EQX Enterprise Class routers (up to 1152x1152 and 3Gb/s capable) is complemented by the well-established Xenon range of mid-size routers, which handles up to 128x128 inputs and outputs and the new small-sized EQT series. Management believes the EQX, designed for mission critical and demanding 24/7 environments including network, local broadcast, mobile production, cable, military, government and corporate applications to be the leading large scale routing platform in the industry. Evertz robust and resilient router family can be controlled using the Company's, unified Magnum Control System. Magnum



addresses the ever-growing challenges broadcasters face as facilities become larger, more complex and distributed. The Company designed Magnum to unify the control and operation of the routing core, master control, production switching, infrastructure and multi-viewer. Magnum bridges all of the major components within the broadcast path under a single control point. This approach allows broadcasters to simplify facility workflow gaining efficiency while reducing operational costs. All of these router types can be optionally ordered with full support for 3Gb/s data rate, needed for the 1920X1080p progressive scan television format. Evertz has expanded its routing line to also include a modular series that not only fit into the standard frame/chassis but also exhibit many similar routing and control features as the larger lines. Evertz/Quartz routers are trusted by and integrated into many of the world's major broadcast and telecommunications networks.

### FacilityLINK Fiber Optic Platform

Evertz well established and comprehensive set of fiber optic conversion and transmission products for video, audio, control and telecommunication applications is further enhanced by an innovative new compact, miniature SFP (small form-factor pluggable transceiver) format series of electrical/optical/electrical converters. Evertz high density bulk optical conversion platform with its SFP products, one rack unit SFP frame handling up to 32 optical conversions, CWDM mux/demux and passive splitter /combiner modules is an ideal solution for today's low cost, low power consumption, high density fiber optic distribution needs. The SFP platform provides the flexibility to handle the high-speed requirements of 3G and HDTV as well as SD and DVB-ASI. All components are hot swappable ensuring that the unit is serviceable in the field. In general, fiber optic transmission has many advantages over conventional copper wiring such as the ability to build much longer point-to-point links using fiber (up to several kilometres), the data carrying capacity is much higher, it is free from electromagnetic interference and optical fiber is lighter and occupies less space than conventional wiring. These advantages are frequently key requirements for applications including:

- Facility and studio linking;
- Metropolitan links;
- Studio to transmitter links;
- Outdoor or remote event connection; and
- Low cost signal aggregation.

### MULTI-IMAGE DISPLAY, MONITORING AND CONTROL SYSTEMS

Designed for continuous 24/7 operation, the Company's multi-image video display, monitoring and control products enable customers to efficiently display and monitor from a few to over a thousand television, video and high resolution signals. The applications range from Broadcast or Production facilities, to Network Operation Centers, Control Centers, Surveillance Systems and many other applications in demanding visualization environments.

#### Multi-image Video Processors



The Company offers several multi-image video processors through the full-featured MVP™ platform, the economical modular VIP-A™, to the VIPX which directly integrates core signal routing with modular multi-image display processing through Evertz proprietary X-LINK™. Evertz solutions offer unique, consolidated routing/monitoring features under a unified control system, thereby saving on space, complexity and overall system cost.



### Network Management Products

Evertz' VistaLINK SNMP-based (Simple Network Management Protocol) application communicates with Evertz' products and with selected other third party devices, to provide real time configuration and monitoring control. VistaLINK PRO and graphical VistaLINK PRO PLUS provide a complete, uncomplicated and cost-effective network monitoring and configuration solution. It is also an effective local and remote monitoring tool for both incoming and departing signals at strategic locations throughout a video network enterprise.

### MASTER CONTROL AND BRANDING



The Company's master control switchers allow users to assemble program streams and insert interstitials such as advertising and promotions for upcoming programs. Switching between the sources (e.g. programming and advertising) allows users to perform voice-overs, wipes, fades, fades to black and a host of other functions.

Channel Branding products allow users to create a consistent and unique look in order to brand or differentiate their content from that of their competition and to ensure that their content will not

be rebroadcast without consent. The Company's products enable the simultaneous display of graphics such as station logos, digital clocks, date logos, temperature logos, text teasers and information crawls.

### Master Control Systems

Master control is the heart of a broadcast facility. Traditional demands for reliability, signal protection, and serviceability continue to be essential. Evertz' master control family of products offers a unique approach to master control. With many options and a broad selection of configurable control panels, master control systems can be assembled to meet any size requirements as systems can scale from a single channel up to complex multi-channel installations. Evertz' master control family of products can be easily controlled under automation or with familiar manual control panels.

### Channel Branding Products

Channel Branding products allow users to create a consistent and unique look in order to brand or differentiate their content from that of their competition and to ensure that their content will not be rebroadcast without consent. The Company's products enable the simultaneous display of graphics such as station logos, digital clocks, date logos, temperature logos, text teasers and information crawls.

The new Overture™ is a new, real-time graphics engine that has been designed for the ever growing branding demands of Master Control. Overture™ provides a mixture of still graphics, multi-layer advanced graphics and character generation that allow users to create rich lower-third, weather and "Coming up next" graphics. Designed for 3D/HD/SD facilities, Overture™ is ideal for the dynamic data and multi-channel environments.

Overture™ integrates with master control systems via the key and fill inputs of the switcher.



## IPTV SOLUTIONS



Management believes that the Company has one of the most comprehensive suites of products for IPTV head-ends, network/video operation centers and video hub offices. Evertz is relied upon by its customers as a leading supplier of equipment and solutions for IPTV applications. The Company's products include solutions for:

- Signal and content ingest – satellite, terrestrial and fiber;
- Redundancy and protection switching;
- Signal conversion and processing;
- Signal distribution and routing;
- Multi-image display walls;
- Comprehensive local and remote signal monitoring;
- Monitoring of compressed and IP networks for improved quality of service (QoS);
- Thumbnails and streaming over IP;
- IP transport products; and
- Compressed content processors.

Along with the MVP and VIP multi-input display processors, Evertz offers a wide selection of 100% SNMP-enabled signal distribution, video and audio processors, converters, frame synchronizers, HD/SD routers and fiber equipment for IPTV deployments. VistaLINK PRO and VistaLINK PRO PLUS unify Evertz' SNMP-enabled equipment and other third party modules.

Through Evertz' VistaLINK, thousands of network nodes can be monitored and configured world-wide via SNMP. VistaLINK PRO and VistaLINK PRO PLUS unite SNMP-based equipment from Evertz and other equipment suppliers beyond providing monitoring and configuration capabilities for mission critical needs. Management believes VistaLINK is one of the most complete and comprehensive of all SNMP-based signal monitoring and equipment configuration solutions.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year ended April 30, 2010

THE FOLLOWING MANAGEMENT'S DISCUSSION AND ANALYSIS IS A REVIEW OF RESULTS OF THE OPERATIONS AND THE LIQUIDITY AND CAPITAL RESOURCES OF THE COMPANY. IT SHOULD BE READ IN CONJUNCTION WITH THE SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA AND THE COMPANY'S CONSOLIDATED AUDITED FINANCIAL STATEMENTS AND THE ACCOMPANYING NOTES CONTAINED ON SEDAR. THE CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY ARE PREPARED IN ACCORDANCE WITH CANADIAN GAAP. THE FISCAL YEAR OF THE COMPANY ENDS ON APRIL 30 OF EACH YEAR. CERTAIN INFORMATION CONTAINED HEREIN IS FORWARD-LOOKING AND BASED UPON ASSUMPTIONS AND ANTICIPATED RESULTS THAT ARE SUBJECT TO RISKS, UNCERTAINTIES AND OTHER FACTORS. SHOULD ONE OR MORE OF THESE UNCERTAINTIES MATERIALIZE OR SHOULD THE UNDERLYING ASSUMPTIONS PROVE INCORRECT, ACTUAL RESULTS MAY VARY SIGNIFICANTLY FROM THOSE EXPECTED.

## FORWARD-LOOKING STATEMENTS

The report contains forward-looking statements reflecting Evertz's objectives, estimates and expectations. Such forward-looking statements use words such as "may", "will", "expect", "believe", "anticipate", "plan", "intend", "project", "continue" and other similar terminology of a forward-looking nature or negatives of those terms.

Although management of the Company believes that the expectations reflected in such forward-looking statements are reasonable, all forward-looking statements address matters that involve known and unknown risks, uncertainties and other factors. Accordingly, there are or will be a number of significant factors which could cause the Company's actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

The report is based on information available to management on June 16, 2010.

## OVERVIEW

Evertz is a leading equipment provider to the television broadcast industry. Founded in 1966, Evertz designs, manufactures and distributes video and audio infrastructure equipment for the production, post-production, and transmission of television content. The Company's solutions are purchased by content creators, broadcasters, specialty channels and television service providers to enable and enhance the transition to a complex multi-channel digital and HDTV broadcast environment. The Company's equipment allows customers to generate additional revenue while reducing costs through the more efficient distribution and management of content as well as the automation of previously manual processes.

The Company's growth strategy is based on capitalizing on its strong customer position and innovative integrated product line. The Company's financial objectives are to achieve profitable growth with our existing customers and with new customers who were converting to HDTV, building out IPTV infrastructures, or in need of advanced solutions for traditional broadcasting facilities.

Our broadcast customers continue to operate in a challenging economic environment particularly in the United States and Canada which impacts their ability to incur capital expenditures and often results in projects being scaled back or postponed to later periods.

While it does appear that industry conditions are showing some improvement, it is unclear what the time frame will be for our customers to convert this to equipment purchases.

## SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles. Outlined below are those policies considered particularly significant:

**Revenue Recognition**

Revenue is derived from the sale of hardware and software solutions including related services, training and commissioning. Revenue is recognized upon shipment, provided the title to the goods is transferred to customers, persuasive evidence of an arrangement exists, there are no significant uncertainties surrounding product acceptance and collectability is reasonably assured. Service revenue is recognized as services are performed.

**Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly and partially owned subsidiaries and inter-company transactions and balances are eliminated on consolidation.

**Inventories**

Inventories consist of raw materials, work in progress and finished goods. Raw materials, work in progress and finished goods are stated at the lower of cost and net realizable value. Cost includes raw materials, the cost of direct labour applied to the product and the overhead expense. Cost is determined on a weighted average basis.

**Capital Assets**

Capital assets are recorded at acquisition cost. The Company provides for amortization at the following rates and methods that approximate the estimated useful lives of the related assets:

Office furniture and equipment	20% declining balance method
Research and development equipment	33% declining balance method
Airplanes	10% declining balance method
Machinery and equipment	20% and 30% declining balance method
Leaseholds	20% straight-line method
Buildings	3% to 6% declining balance method

**Impairment of Long Lived Assets**

Long-lived assets, which comprises of equipment and intellectual property with finite lives, must be tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Its carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected from its use and eventual disposal. An impairment loss should be measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

**Goodwill**

Goodwill represents the excess of acquisition cost of acquired companies over the fair value of the identifiable net assets acquired. Goodwill is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment.

**Intangible Assets**

Intangibles represent intellectual property acquired through business acquisitions and are recorded at cost and are amortized using the straight-line method over a four-year period. Intangible assets are tested for impairment whenever events or changes in circumstances indicate that the assets might be impaired.

**Foreign Currency Translation**

At the Company level, prior to consolidation, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the year-end. Non-monetary assets and liabilities denominated in foreign currencies are translated at historical exchange rates. Revenue and expenses denominated in foreign currencies are translated at average exchange rates. Translation differences arising from this policy are included in the statement of earnings in the current year.

### **Foreign Currency Translation (Continued)**

For foreign operations the accounts are translated as follows:

For the self-sustaining foreign subsidiaries, the accounts are translated into Canadian dollars using the current rate method. Under this method, the assets and liabilities are converted into Canadian dollars using the exchange rates prevailing at the end of the reporting period and the revenue and expenses are translated at average exchange rates. The adjustment arising from the translation of these accounts is included in other comprehensive income. Other comprehensive income reflects the effect of foreign exchange rate variations during the year upon the translation of the net assets of the self-sustaining foreign subsidiaries.

For integrated foreign subsidiaries, the accounts are translated to Canadian dollars using the temporal method. Under this method, monetary balance sheet items are translated at the rates of exchange in effect at year-end and non-monetary items are translated at historical exchange rates. Revenue and expenses (other than amortization, which is translated at the same rates as the related assets) are translated at the rates in effect on the transaction date or at the average rates of exchange for the period. Translation gains or losses are included in the statement of earnings.

### **Income Taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are calculated using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the assets will be realized.

### **Stock Based Compensation**

The Company has a stock option plan for employees and directors. The Company has adopted the CICA Handbook Section 3870 entitled "Stock-based Compensation and Other Stock-based Payments", which requires that the fair value method of accounting be applied to all stock-based compensation and other stock-based payments to employees.

The fair value method consists of recognizing the fair value of the options as compensation costs to earnings over the vesting period of the options. Any consideration paid by employees on the exercise of stock options, and the related contributed surplus, is recorded as share capital. The Company accounts for forfeitures as they occur. All stock options issued under this plan have an exercise price equal to or greater than the fair market value of the underlying common shares on the date of the grant. The stock option plan and related disclosures are described further in note 12.

### **Earnings per Share (EPS)**

Basic EPS is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated using the treasury stock method, which assumes that all outstanding stock options with an exercise price below the average market price are exercised and the assumed proceeds are used to purchase the Company's common shares at the average market price during the year.

### **Research and Development Expenses**

All research and development expenses are expensed in the year in which they are incurred unless a development project meets generally accepted accounting criteria for deferral and amortization. No development costs have been deferred to date.

### **Investment Tax Credits**

The Company is entitled to investment tax credits, which are earned as a percentage of eligible research and development expenditures incurred in each taxation year. Investment tax credits relate entirely to the Company's research and development expenses in the consolidated statement of earnings but are presented separately in the consolidated statement of earnings for information purposes.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Significant items subject to such estimates and assumptions include the determination of the allowance for doubtful accounts for accounts receivable, provision for inventory obsolescence, the useful life of assets for depreciation, amortization and evaluation of net recoverable amount of capital assets, intangibles assets, stock-based compensation, evaluating future income tax assets and liabilities and research and development tax credits and the likelihood of recoverability, and the determination of implied fair value of goodwill and implied fair value of assets and liabilities for purchase price allocation purposes and goodwill impairment test purposes and the determination of fair value of financial instruments. Consequently, actual results could differ from those estimates.

**Financial Instruments**

The Company's financial assets and liabilities are initially recorded at fair value and subsequently measured based on their assigned classifications as follows:

Asset/Liability	Category	Measurement
Cash	Held for trading	Fair value
Instruments held for trading	Held for trading	Fair value
Accounts receivable	Loans and receivable	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Current portion of long term debt	Other liabilities	Amortized cost
Long term debt	Other liabilities	Amortized cost

Other balance sheet accounts such as inventories, current and future income taxes, intangibles, goodwill, capital assets and income tax payable are not financial instruments.

Transaction costs related to financial assets and liabilities are recorded as an expense in the period incurred.

**Changes in Accounting Policies:**

*Goodwill and Intangible Assets*

CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaces CICA Handbook Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes the standards for recognition, measurement and disclosure of goodwill and intangible assets. Under these new standards, internally generated intangible assets may be recognized in the financial statements under certain circumstances. This standard was effective for the Company for interim and annual financial statements beginning on May 1, 2009. The adoption of this standard did not have any impact on the Consolidated Statement of Earnings.

*Financial Instruments*

CICA Handbook Section 3862, Financial Instruments and Disclosures, was amended by the CICA and adopted by the Company effective May 1, 2009. CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Company's investments. The hierarchy of inputs is summarized below:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (ie, as prices) or indirectly (ie, derived from prices) (level 2);
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

Inputs used at April 30, 2010 in valuing the Company's instruments held for trading were quoted prices in active markets for identical assets (level 1).

## **Future Accounting Changes:**

### *International Financial Reporting Standards*

The Canadian Accounting Standards Board (AcSB) has announced that Canadian publicly accountable enterprises will adopt IFRS as issued by the International Accounting Standards Board effective for fiscal years beginning on or after January 1, 2011 and therefore will commence in the first quarter of the Company's 2012 fiscal year.

The Company will follow a four phase approach to ensure successful conversion to International Financial Reporting Standards. The four phases, described in more detail in the Management's Discussion and Analysis are:

1. Awareness phase
2. Assessment phase
3. Design phase
4. Implementation phase

The Awareness and Assessment phases are now complete and the Design and Implementation phases are underway. It is not practically possible at this time to quantify the impact of IFRS adoption.

### *Business Combinations*

In January 2009, the CICA issued Section 1582 - Business Combinations. This section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. This section will become effective for the Company in fiscal 2012. This section replaces Section 1581 Business Combinations and harmonizes the Canadian standards with IFRS. The impact of the adoption of this standard on the Company's financial statements is not yet determinable.

### *Consolidated Financial Statements*

In January 2009, the CICA issued Section 1601 - Consolidated Financial statements. This section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted as of the beginning of the year. This section will become effective for the Company in fiscal 2012. This section, together with new Section 1602 - Non-controlling Interests, replaces Section 1600 - Consolidated Financial Statements and establishes standards for the preparation of consolidated financial statements. The Company does not expect that the adoption of these new sections will have a material impact on its consolidated financial statements.

### *Multiple Deliverable Revenue Arrangements*

In February 2010, the Emerging Issues Committee of the CICA issued EIC-175, Multiple Deliverable Revenue Arrangements ("EIC-175"). EIC-175 provides additional guidance on how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. This section applies to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 2011 which is our fiscal period beginning on May 1, 2011. The Company does not expect the adoption of this standard to have an impact on its consolidated financial statements.

## **YEAR END HIGHLIGHTS**

Sales decreased by 9% for the year ended April 30, 2010 when compared to the same year ended April 30, 2009.

Net earnings for the year ended April 30, 2010 were \$61.5 million as compared to \$100.7 million for the year ended April 30, 2009, a decrease of 39%. Fully-diluted earnings per share were \$0.83 for the year ended April 30, 2010 as compared to \$1.36 for the year ended April 30, 2009.

Gross margin during the year ended April 30, 2010 was 58.3% as compared to 61.4% for the year ended April 30, 2009.

Selling and administrative expenses for the year ended April 30, 2010 increased by \$1.6 million compared to the year ended April 30, 2009. As a percentage of revenue, selling and administrative expenses totaled 13.1% for the year ended April 30, 2010 as opposed to 11.4% for the year ended April 30, 2009.

**YEAR END HIGHLIGHTS (CONTINUED)**

Research and development ("R&D") expenses increased in the year ended April 30, 2010 by \$3.3 million or approximately 12% compared to the year ended April 30, 2009. The Company intends to continue to increase its R&D spending.

Cash and instruments held for trading were \$145.0 million and working capital was \$264.2 million as at April 30, 2010 as compared to cash and instruments held for trading of \$114.0 million and working capital of \$216.5 million as at April 30, 2009.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION**

(in thousands of dollars except earnings per share and share data)

**CONSOLIDATED STATEMENT OF EARNINGS DATA**

	Year Ended April 30,		
	2010	2009	2008
Sales	\$ 286,455	\$ 315,905	\$ 272,505
Cost of goods sold	119,482	121,886	110,864
Gross margin	\$ 166,973	\$ 194,019	\$ 161,641
Gross margin %	58.3%	61.4%	59.3%
Expenses			
Selling and administrative	37,550	35,907	26,681
Research and development	32,026	28,719	18,629
Investment tax credits	(8,270)	(8,377)	(7,643)
Foreign exchange loss (gain)	7,969	(4,802)	1,923
Amortization of intangibles	1,240	1,533	731
Stock-based compensation	6,525	3,781	2,514
	77,040	56,761	42,835
Earnings before undernoted	\$ 89,933	\$ 137,258	\$ 118,806
Interest and other income	\$ 342	\$ 2,889	\$ 2,974
Non-controlling interest	21	(523)	(464)
Earnings before income taxes	\$ 90,296	\$ 139,624	\$ 121,316
Net earnings	\$ 61,502	\$ 100,717	\$ 87,294
Net earnings per share:			
Basic	\$ 0.84	\$ 1.39	\$ 1.21
Fully-diluted	\$ 0.83	\$ 1.36	\$ 1.17



## SELECTED CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

### CONSOLIDATED BALANCE SHEET DATA

	As at April 30,		
	2010	2009	2008
Cash and short-term investments	\$ 145,029	\$ 114,020	\$ 95,543
Inventory	\$ 91,745	\$ 86,518	\$ 53,760
Working capital	\$ 264,161	\$ 216,539	\$ 164,147
Total assets	\$ 345,787	\$ 316,446	\$ 220,579
Shareholders' equity	\$ 312,169	\$ 268,376	\$ 188,220
Number of common shares outstanding:			
Basic	73,607,506	73,105,406	72,276,206
Fully-diluted	77,703,006	77,208,006	76,397,206
Weighted average number of shares outstanding:			
Basic	73,324,244	72,550,364	72,318,148
Fully-diluted <sup>1</sup>	74,223,642	74,269,089	74,707,530

Note:

<sup>(1)</sup> Based on weighted average number of Common Shares outstanding using the treasury stock method as per Canadian GAAP.

### CONSOLIDATED STATEMENT OF OPERATIONS DATA

(in thousands of dollars except earnings per share and share data)

	April 30,		
	2010	2009	2008
Sales	100.0%	100.0%	100.0%
Cost of goods sold	41.7%	38.6%	40.7%
Gross margin	58.3%	61.4%	59.3%
Expenses			
Selling and administrative	13.1%	11.4%	9.8%
Research and development	11.2%	9.1%	6.8%
Investment tax credits	(2.9%)	(2.7%)	(2.8%)
Foreign exchange loss (gain)	2.8%	(1.5%)	0.7%
Amortization of intangibles	0.4%	0.5%	0.3%
Stock-based compensation	2.3%	1.2%	0.9%
Total operating expenses	26.9%	18.0%	15.7%
Earnings from operations	31.4%	43.4%	43.6%
Interest and other income	0.1%	1.0%	1.1%
Non-controlling interest	0.0%	(0.2%)	(0.2%)
Earnings before income taxes	31.5%	44.2%	44.5%
Net earnings	21.5%	31.9%	32.0%
Net earnings	\$ 61,502	\$ 100,717	\$ 87,294
Net earnings per share:			
Basic earnings per share	\$ 0.84	\$ 1.39	\$ 1.21
Fully-diluted earnings per share	\$ 0.83	\$ 1.36	\$ 1.17

## REVENUE AND EXPENSES

### REVENUE

The Company generates revenue principally from the sale of its broadcast equipment solutions to content creators, broadcasters, specialty channels and television service providers.

The Company markets and sells its products and services through both direct and indirect sales strategies. The Company's direct sales efforts focus on large and complex end-user customers. These customers have long sales cycles typically ranging from four to eight months before an order may be received by the Company for fulfillment.

The Company monitors revenue performance in two main geographic regions: (i) United States/Canada and (ii) International.

The Company currently generates approximately 54% of its revenue in the United States/Canada. The Company recognizes the opportunity to more aggressively target markets in other geographic regions and intends to invest in personnel and infrastructure in those markets.

While a significant portion of the Company's expenses are denominated in Canadian dollars, the Company collects substantially all of its revenues in currencies other than the Canadian dollar and therefore has significant exposure to fluctuations in foreign currencies, in particular the US dollar. Approximately 75-80% of the Company's revenues are denominated in US dollars.

### SALES

(In thousands of dollars)	Year Ended April 30,		
	2010	2009	2008
United States/Canada	\$ 154,000	\$ 209,216	183,240
International	132,455	106,689	89,265
	\$ 286,455	\$ 315,905	272,505

Total sales for the year ended April 30, 2010 were \$286.5 million, a decrease of 9% or \$29.4 million as compared to sales of \$315.9 million for the year ended April 30, 2009.

Sales in the United States/Canada region decreased to \$154.0 million for the year ended April 30, 2010, a decrease of 26% or \$55.2 million as compared to sales of \$209.2 million for the year ended April 30, 2009.

Sales in the International region increased to \$132.5 million for the year ended April 30, 2010, an increase of 24% or \$25.8 million as compared to sales of \$106.7 million for the year ended April 30, 2009.

### Cost of Sales

Cost of sales consists primarily of costs of manufacturing and assembly of products. A substantial portion of these costs is represented by components and compensation costs for the manufacture and assembly of products. Cost of sales also includes related overhead, certain depreciation, final assembly, quality assurance, inventory management and support costs. Cost of sales also includes the costs of providing services to clients, primarily the cost of service-related personnel.

### GROSS MARGIN

(In thousands of dollars)	Year Ended April 30,		
	2010	2009	2008
Gross margin	\$ 166,973	\$ 194,019	161,641
Gross margin % of sales	58.3%	61.4%	59.3%

### Gross Margin (Continued)

Gross margin for the year ended April 30, 2010 was \$167.0 million, compared to \$194.0 million for the year ended April 30, 2009. As a percentage of sales, the gross margin was 58.3% for the year ended April 30, 2010, as compared to 61.4% for the year ended April 30, 2009.

Gross margins vary depending on the product mix, geographic distribution, manufacturing capacity or utilization and competitive pricing pressures. For the year ended April 30, 2010 the gross margin, as a percentage of revenue, was at the bottom of the Company's historical range. This year's margin was negatively affected by the lower utilization of manufacturing capacity due to the lower sales volume in the year. With the economic challenges currently being experienced by the broadcast industry, the pricing environment continues to be very competitive with greater than normal discounting by our competition.

The Company expects that it will continue to experience competitive pricing pressures. The Company continually seeks to build its products more efficiently and enhance the value of its product and service offerings in order to reduce the risk of declining gross margin associated with the competitive environment.

### Operating Expenses

The Company's operating expenses consist of: (i) selling and administrative; (ii) research and development, (iii) foreign exchange, (iv) stock based compensation and (v) amortization of intellectual property.

Selling expenses primarily relate to remuneration of sales and technical personnel. Other significant cost components include trade show costs, advertising and promotional activities, demonstration material and sales support. Selling and administrative expenses relate primarily to remuneration costs of related personnel, legal and professional fees, occupancy and other corporate and overhead costs. The Company also records certain amortization and financial charges as administrative expenses. For the most part, selling and administrative expenses are fixed in nature and do not fluctuate directly with revenue. The Company's selling expenses tend to fluctuate in regards to the timing of trade shows, sales activity and sales personnel.

The Company invests in research and development to maintain its position in the markets it currently serves and to enhance its product portfolio with new functionality and efficiencies. Although the Company's research and development expenditures do not fluctuate directly with revenues, it monitors this spending in relation to revenues and adjusts expenditures when appropriate. Research and development expenditures consist primarily of personnel costs and material costs. Research and development expenses are presented on a gross basis (without deduction of research and development tax credits). Research and development tax credits associated with research and development expenditures are shown separately under research and development tax credits.

Amortization of intangible assets pertains to intellectual property obtained through business acquisitions. Intellectual property is amortized using the straight-line method over a four-year period.

### SELLING AND ADMINISTRATIVE

(In thousands of dollars)	Year Ended April 30,		
	2010	2009	2008
Selling and administrative	\$ 37,550	\$ 35,907	26,681
Selling and administrative % of sales	13.1%	11.4%	9.8%

Selling and administrative expenses for the year ended April 30, 2010 were \$37.6 million or 13.1% of sales as compared to selling and administrative expenses of \$35.9 million or 11.4% of sales for the year ended April 30, 2009.

Annual selling and administrative expense increases were primarily attributable to increased sales staff, sales activities and general overhead increases in the international regions to support the increased growth. This was offset somewhat by decreases in selling expenses related to sales activities in the United States and Canada.

**RESEARCH AND DEVELOPMENT (R&D)**

(In thousands of dollars)	Year Ended April 30,		
	2010	2009	2008
Research and development expenses	\$ 32,026	\$ 28,719	18,629
Research and development % of sales	11.2%	9.1%	6.8%

For the year ended April 30, 2010, gross R&D expenses increased to \$32.0 million, an increase of 12% or \$3.3 million as compared to an expense of \$28.7 million for the year ended April 30, 2009.

The annual increases were predominantly due to planned growth of research and development personnel as well as small increases in the purchase of materials and supplies for prototype development.

**Foreign Exchange**

For the year ended April 30, 2010, the foreign exchange loss was \$8.0 million as compared to a foreign exchange gain for the same period ended April 30, 2009 of \$4.8 million. This change was primarily a result of the decline in the value of the U.S. dollar in relation to the Canadian dollar.

**LIQUIDITY AND CAPITAL RESOURCES**

**Liquidity and Capital Resources**

(in thousands of dollars except ratios)	Year Ended April 30,	
	2010	2009
Key Balance Sheet Amounts and Ratios:		
Cash and instruments held for trading	\$ 145,029	\$ 114,020
Working capital	\$ 264,161	\$ 216,539
Long-term assets	\$ 56,175	\$ 60,567
Long-term debt	\$ 2,732	\$ 3,519
Days sales outstanding in accounts receivable	59	63

<sup>(1)</sup> Using the quarterly sales annualized

**Statement of Cash Flow Summary**

	Year Ended April 30,	
	2010	2009
Operating activities	\$ 59,735	\$ 90,065
Investing activities	15,314	12,591
Financing activities	(22,984)	(30,679)
Net increase (decrease) in cash and instruments held for trading	31,009	18,477

**Operating Activities**

For the year ended April 30, 2010, the Company generated cash from operations of \$59.7 million. Excluding the effects of the changes in non-cash working capital, the Company generated cash from operations of \$81.9 million.

**Investing Activities**

The Company generated cash from investing activities of \$15.3 million. This was a result of a net sale of instruments held for trading of \$20.7 million offset by the acquisition of capital assets of \$5.4 million.

### Financing Activities

For the year ended April 30, 2010, the Company used cash from financing activities of \$23.0 million, which was principally a result of the payment of dividends.

### WORKING CAPITAL

As at April 30, 2010, the Company had cash and instruments held for trading of \$145.0 million, compared to \$114.0 million at April 30, 2009.

The Company had working capital of \$264.2 million as at April 30, 2010 compared to \$216.5 million as at April 30, 2009.

The Company believes that the current balance in cash and instruments held for trading plus future cash flow from operations will be sufficient to finance growth and related investment and financing activities in the foreseeable future.

Day sales outstanding in accounts receivable were 59 days at April 30, 2010 as compared to 63 for April 30, 2009.

### SHARE CAPITAL STRUCTURE

Authorized capital stock consists of an unlimited number of common and preferred shares.

	Year Ended April 30,	
	2010	2009
Common shares	73,607,506	73,105,406
Stock options granted and outstanding	4,095,500	4,102,600

### FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, instruments held for trading, accounts receivable and accounts payable and accrued liabilities and long term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The Company estimates that except for instruments held for trading, the fair value of these instruments approximate the carrying values due to their short-term nature.

#### Fair values and classification of financial instruments:

The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments:

- I. The fair values of instruments held for trading are determined by the quoted market values for each of the investments in an active market at the reporting date. Gains and losses are included in interest and other income.
- II. The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the short-term nature of these financial instruments.

The Company invests in marketable securities that are traded in an active market. Generally the investment is limited to no more than 15% of the total cash and instruments held for trading.

### CONTRACTUAL OBLIGATIONS

The following table sets forth the Company's lease obligations as at April 30, 2010.

(In thousands of dollars)	Payments Due by Period				
	Total	Less than 1 Year	2-3 Years	4-5 Years	Thereafter
Operating leases	\$ 22,964	\$ 3,277	\$ 6,104	\$ 5,063	\$ 8,520
Other long-term debt	\$ 3,120	\$ 388	\$ 778	\$ 746	\$ 1,208
	\$ 26,084	\$ 3,665	\$ 6,882	\$ 5,809	\$ 9,728

**OFF-BALANCE SHEET FINANCING**

The Company does not have any off-balance sheet arrangements.

**RELATED PARTY TRANSACTIONS**

In the normal course of business, we may enter into transactions with related parties. These transactions occur under market terms consistent with the terms of transactions with unrelated arms-length third parties. The Company continues to lease a premise from a company in which two shareholders' each indirectly hold a 10% interest, continues to lease a facility from a company in which two shareholders each indirectly hold a 20% interest, continues to lease a facility for manufacturing where two shareholders indirectly own 100% interest and continues to lease a facility with a director who indirectly owns 100%.

During the year, the Company entered into an agreement to lease a facility from a company in which two shareholders each indirectly own a 35% interest.

**SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION**

The following table sets out selected consolidated financial information for each of the eight quarters ended April 30, 2010. In the opinion of management, this information has been prepared on the same basis as the audited consolidated financial statements. The operating results for any quarter should not be relied upon as any indication of results for any future period.

(In thousands of dollars) (Unaudited)	Quarter Ending							
	2010		2009				2008	
	Apr. 30	Jan. 31	Oct. 31	July 31	Apr. 30	Jan. 31	Oct. 31	July 31
Sales	\$ 75,285	\$ 66,165	\$ 72,984	\$ 72,021	\$ 77,296	\$ 79,584	\$ 91,264	\$ 67,761
Cost of goods sold	31,860	28,387	30,630	28,605	29,642	30,794	35,222	26,228
Gross margin	\$ 43,425	\$ 37,778	\$ 42,354	\$ 43,416	\$ 47,654	\$ 48,790	\$ 56,042	\$ 41,533
Operating expenses	20,597	19,063	17,414	19,966	17,945	15,640	9,900	13,276
Earnings from operations	\$ 22,828	\$ 18,715	\$ 24,940	\$ 23,450	\$ 29,709	\$ 33,150	\$ 46,142	\$ 28,257
Non-operating income	1,441	(1,622)	298	246	206	565	824	771
Earnings before taxes	\$ 24,269	\$ 17,093	\$ 25,238	\$ 23,696	\$ 29,915	\$ 33,715	\$ 46,966	\$ 29,028
Net earnings	\$ 15,253	\$ 11,660	\$ 17,512	\$ 17,077	\$ 20,763	\$ 24,496	\$ 34,051	\$ 21,407
Net earnings per share:								
Basic	\$ 0.21	\$ 0.16	\$ 0.24	\$ 0.23	\$ 0.28	\$ 0.34	\$ 0.47	\$ 0.30
Diluted	\$ 0.21	\$ 0.16	\$ 0.23	\$ 0.23	\$ 0.28	\$ 0.33	\$ 0.46	\$ 0.29
Dividends per share:	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08

The Companies revenue and corresponding earnings can vary from quarter to quarter depending on the delivery requirements of our customers. Our customers can be influenced by a variety of factors including upcoming sports or entertainment events as well as their access to capital.

## **HIGHLIGHTS FROM THE FOURTH QUARTER**

Sales decreased by \$2.0 million or 2.6% for the three months ended April 30, 2010 when compared to the same period ended April 30, 2009. Sales decreased in the United States/Canada region by 28%. Sales increased in the International region by 41%.

Fully diluted EPS was \$0.21 for the three months ended April 30, 2010 as compared to \$0.28 for the period ended April 30, 2009.

Selling and administrative expenses decreased by \$1.6 million for the three months ended April 30, 2010 when compared to the same period ended April 30, 2009. Selling and administrative expenses were approximately 14% of revenue for the three months ended April 30, 2010 as compared to approximately 15% of revenue for the same period ended April 30, 2009.

Research and development expenses increased by \$0.7 million for the three months ended April 30, 2010 when compared to the same period ended April 30, 2009. Research and development expenses represented approximately 10% of revenue for the three months ended April 30, 2010 as compared to approximately 9% for the same period ended April 30, 2009.

The Company's scientific research tax credits were \$2.2 million for the three months ended April 30, 2010 as compared to \$3.7 million for the three months ended April 30, 2009.

## **DISCLOSURE CONTROLS AND PROCEDURES**

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators) as of April 30, 2010.

Management has concluded that, as of April 30, 2010, the Company's disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Company would be made known to them by others within the Company, particularly during the period in which this report was being prepared.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Management is responsible for and has designed internal controls over financial reporting, or caused it to be designed under management's supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management has concluded that, as of April 30, 2010, the Company's internal controls over financial reporting were effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

## **CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING**

There have been no changes to the Company's internal controls over financial reporting during the year ended April 30, 2010 that have materially affected, or reasonably likely to materially affect, its internal controls over financial reporting.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

The Canadian Accounting Standards Board (AcSB) has announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective for fiscal years beginning on or after January 1, 2011.

The Company's transition process from Canadian GAAP to IFRS commenced in the first quarter of 2010. The Company's IFRS project plan comprises four stages: awareness, assessment, design and implementation.

*Awareness Phase* – This phase involved the assignment of a project leader to research the requirements of IFRS and complete a project plan. The project plan includes education of key stakeholders regarding the requirements of IFRS and building a timetable for roll out.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)**

*Status:* This phase is complete. A project leader is in place and supporting IFRS team members have been assigned to specific areas according to a timetable rollout plan. External and in-house presentations have been provided to the financial area and executive levels in the organization.

*Assessment Phase* – This phase involved a high level review to identify differences between Canadian Generally Accepted Accounting Principles (GAAP) as adopted by the Company, and IFRS.

*Status:* This phase is complete. The findings of the diagnostic impact show several areas that may require a significant degree of effort to quantify the impact on the opening balance sheet and the implementation of procedures and controls to efficiently address the particular IFRS differences on an ongoing basis.

These areas include the following:

- Property Plant and Equipment
- Impairment of Assets
- Share Based Payments
- Financial Statement Presentation
- Business Combinations

*Design Phase* – This phase involves using the outputs from the assessment phase to design a master plan for the conversion project. This plan will include schedules, resource requirements and output specifications.

*Status:* This phase is underway and on schedule. Initial planning had taken place assigning each IFRS topic area to IFRS team members. The members have been meeting to provide input into the position paper. The position paper will address all key aspects of the rollout plan. To date, twenty position papers have been prepared with the appropriate action items identified to effectively rollout and implement the new standards.

*Implementation Phase* – This phase involves the implementation of the identified solutions in the design phase. The culmination of this phase will be the collection of all the financial information necessary to produce IFRS-compliant financial statements, embedding IFRS in business processes and Audit Committee approval of IFRS financial statements.

*Status:* This phase is well underway for the high risk areas as follows:

- Property Plant and Equipment – Cost Model chosen and information for component accounting is being collected and analyzed.
- Impairment of Assets – An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. In order to do this, the Company has identified its Cash Generating Units (CGU's) and is currently developing the model to assess impairment. Since goodwill is allocated to the CGU's, a goodwill impairment test will be done annually.
- Share Based Payments – Valuation technique has been determined and the Black Sholes' model will be used.
- Business Combinations – IFRS 3R is effective for all business combinations completed on or after the fiscal year commencing on or after April 01, 2010. The Company has elected under IFRS 1 to apply the standard prospectively.

The final stages of this phase are expected to be carried out between Q1 and Q4 of 2011.

The company has completed a preliminary assessment of the accounting and reporting, IT systems and processes, and business implications of this conversion; however, management has not yet finalized its determination of the impact of these differences. As this assessment is finalized, the Company intends to disclose such material impacts in its future consolidated financial statements.

The International Accounting Standards Board will continue to issue new accounting standards during the period of conversion. Therefore, the final impact of IFRS on the Company's consolidated financial statements will only be determined once all applicable standards at the conversion date are known.



# AUDITORS' REPORT

To the Shareholders of Evertz Technologies Limited

We have audited the consolidated balance sheets of Evertz Technologies Limited as at April 30, 2010 and 2009 and the consolidated statements of earnings, retained earnings, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at April 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte + Touche LLP*

**CHARTERED ACCOUNTANTS**  
**Licensed Public Accountants**

Burlington, Ontario  
June 16, 2010

# CONSOLIDATED BALANCE SHEETS

As at April 30,

(In thousands of dollars)	<b>2010</b>	2009
<b>ASSETS</b>		
Current assets		
Cash	\$ <b>133,755</b>	\$ 81,376
Instruments held for trading	<b>11,274</b>	32,644
Accounts receivable	<b>48,988</b>	53,144
Inventories (note 3)	<b>91,745</b>	86,518
Income tax receivable (note 7)	<b>3,850</b>	-
Future income taxes (note 7)	-	2,197
	<b>\$ 289,612</b>	\$ 255,879
Capital assets (note 4)	<b>\$ 39,768</b>	\$ 43,145
Goodwill (note 5)	<b>14,584</b>	14,359
Intangible assets (note 6)	<b>1,823</b>	3,063
	<b>\$ 345,787</b>	\$ 316,446
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ <b>23,899</b>	\$ 32,529
Income taxes payable (note 7)	-	5,303
Current portion of long term debt (note 8)	<b>388</b>	1,508
Future income taxes (note 7)	<b>1,164</b>	-
	<b>\$ 25,451</b>	\$ 39,340
Long term debt (note 8)	<b>\$ 2,732</b>	\$ 3,519
Future income taxes (note 7)	<b>4,027</b>	3,282
	<b>\$ 32,210</b>	\$ 46,141
Non-controlling interest	<b>1,408</b>	1,929
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (note 9)	\$ <b>51,035</b>	\$ 48,261
Contributed surplus (note 9)	<b>12,828</b>	6,769
Accumulated other comprehensive loss (note 9)	<b>(4,459)</b>	(1,403)
Retained earnings	<b>252,765</b>	214,749
	<b>\$ 248,306</b>	\$ 213,346
	<b>312,169</b>	268,376
	<b>\$ 345,787</b>	\$ 316,446

See accompanying notes to the financial statements.



Director



Director

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

Year ended April 30,

(In thousands of dollars)	2010	2009
Balance, beginning of year	\$ 214,749	\$ 139,530
Net earnings	61,502	100,717
Shares repurchased pursuant to NCIB	-	(1,789)
Dividends paid	(23,486)	(23,709)
Balance, end of year	\$ 252,765	\$ 214,749

See accompanying notes to the financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year ended April 30,

(In thousands of dollars)	2010	2009
Net earnings for the year	\$ 61,502	\$ 100,717
Translation of self-sustaining operations	(3,056)	(1,022)
Comprehensive income	\$ 58,446	\$ 99,695

See accompanying notes to the financial statements.

## CONSOLIDATED STATEMENTS OF EARNINGS

Year ended April 30,

(In thousands of dollars, except per share amounts)	<b>2010</b>		2009	
Sales	<b>\$</b>	<b>286,455</b>	\$	315,905
Cost of goods sold		<b>119,482</b>		121,886
Gross margin		<b>166,973</b>		194,019
Expenses				
Selling and administrative		<b>37,550</b>		35,907
Research and development		<b>32,026</b>		28,719
Investment tax credits		<b>(8,270)</b>		(8,377)
Foreign exchange loss (gain)		<b>7,969</b>		(4,802)
Amortization of intangibles		<b>1,240</b>		1,533
Stock-based compensation (note 12)		<b>6,525</b>		3,781
		<b>77,040</b>		56,761
Earnings before undernoted		<b>89,933</b>		137,258
Interest and other income		<b>342</b>		2,889
Non-controlling interest		<b>21</b>		(523)
Earnings before income taxes		<b>90,296</b>		139,624
Provision for income taxes				
Current		<b>24,391</b>		35,613
Future		<b>4,403</b>		3,294
		<b>28,794</b>		38,907
Net earnings for the year	<b>\$</b>	<b>61,502</b>	\$	100,717
Earnings per share (note 17)				
Basic	<b>\$</b>	<b>0.84</b>	\$	1.39
Diluted	<b>\$</b>	<b>0.83</b>	\$	1.36

See accompanying notes to the financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended April 30,

(In thousands of dollars)	<b>2010</b>	2009
<b>Operating activities</b>		
Net earnings	\$ <b>61,502</b>	\$ 100,717
Add: Items not involving cash		
Amortization of capital assets	<b>7,508</b>	6,316
Amortization of intangible assets	<b>1,240</b>	1,533
Amortization of deferred credit	<b>-</b>	(2,281)
Unrealized loss on instruments held for trading	<b>717</b>	-
Loss on disposal of capital assets	<b>6</b>	3
Non-controlling interest	<b>(21)</b>	523
Stock-based compensation	<b>6,525</b>	3,781
Future income taxes	<b>4,403</b>	3,294
	<b>81,880</b>	113,886
Changes in non-cash working capital items (note 10)	<b>(22,145)</b>	(23,821)
Cash provided by operating activities	<b>59,735</b>	90,065
<b>Investing activities</b>		
Acquisition of instruments held for trading	<b>(11,347)</b>	(30,796)
Proceeds from sale of instruments held for trading	<b>32,000</b>	83,500
Acquisition of capital assets	<b>(5,384)</b>	(14,862)
Proceeds from disposal of capital assets	<b>45</b>	23
Business acquisitions net of cash acquired (note 2)	<b>-</b>	(25,274)
Cash provided by investing activities	<b>15,314</b>	12,591
<b>Financing activities</b>		
Repayment of long term debt	<b>(1,306)</b>	(7,359)
Dividends paid	<b>(23,486)</b>	(23,709)
Dividends paid by subsidiaries to non-controlling interests	<b>(500)</b>	-
Capital stock issued (note 9)	<b>2,308</b>	2,264
Capital stock cancelled pursuant to NCIB	<b>-</b>	(1,875)
Cash used in financing activities	<b>(22,984)</b>	(30,679)
Effect of exchange rates on cash	<b>314</b>	(796)
Increase in cash	<b>52,379</b>	71,181
Cash beginning of year	<b>81,376</b>	10,195
Cash end of year	\$ <b>133,755</b>	\$ 81,376

See accompanying notes to the financial statements.

Supplementary information (note 10)

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended April 30, 2010 and 2009 (in thousands of dollars, except for “number of common shares” and “number of options”)

EVERTZ TECHNOLOGIES LIMITED (“EVERTZ” OR THE “COMPANY”) IS INCORPORATED UNDER THE CANADA BUSINESS CORPORATIONS ACT. THE COMPANY IS A LEADING EQUIPMENT PROVIDER TO THE TELEVISION BROADCAST INDUSTRY. THE COMPANY DESIGNS, MANUFACTURES AND DISTRIBUTES VIDEO AND AUDIO INFRASTRUCTURE EQUIPMENT FOR THE PRODUCTION, POST-PRODUCTION, BROADCAST AND TELECOMMUNICATIONS MARKETS.

## 1. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles. Outlined below are those policies considered particularly significant:

### Revenue Recognition

Revenue is derived from the sale of hardware and software solutions including related services, training and commissioning. Revenue is recognized upon shipment, provided the title to the goods is transferred to customers, persuasive evidence of an arrangement exists, there are no significant uncertainties surrounding product acceptance and collectability is reasonably assured. Service revenue is recognized as services are performed.

### Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly and partially owned subsidiaries and inter-company transactions and balances are eliminated on consolidation.

### Inventories

Inventories consist of raw materials, work in progress and finished goods. Raw materials, work in progress and finished goods are stated at the lower of cost and net realizable value. Cost includes raw materials, the cost of direct labour applied to the product and the overhead expense. Cost is determined on a weighted average basis.

### Capital Assets

Capital assets are recorded at acquisition cost. The Company provides for amortization at the following rates and methods that approximate the estimated useful lives of the related assets:

Office furniture and equipment	20% declining balance method
Research and development equipment	33% declining balance method
Airplanes	10% declining balance method
Machinery and equipment	20% and 30% declining balance method
Leaseholds	20% straight-line method
Buildings	3% to 6% declining balance method

### Impairment of Long Lived Assets

Long-lived assets, which comprises of equipment and intellectual property with finite lives, must be tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Its carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected from its use and eventual disposal. An impairment loss should be measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

### Goodwill

Goodwill represents the excess of acquisition cost of acquired companies over the fair value of the identifiable net assets acquired. Goodwill is tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment.

### **Intangible Assets**

Intangibles represent intellectual property acquired through business acquisitions and are recorded at cost and are amortized using the straight-line method over a four-year period. Intangible assets are tested for impairment whenever events or changes in circumstances indicate that the assets might be impaired.

### **Foreign Currency Translation**

At the Company level, prior to consolidation, monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the year-end. Non-monetary assets and liabilities denominated in foreign currencies are translated at historical exchange rates. Revenue and expenses denominated in foreign currencies are translated at average exchange rates. Translation differences arising from this policy are included in the statement of earnings in the current year.

For foreign operations the accounts are translated as follows:

For the self-sustaining foreign subsidiaries, the accounts are translated into Canadian dollars using the current rate method. Under this method, the assets and liabilities are converted into Canadian dollars using the exchange rates prevailing at the end of the reporting period and the revenue and expenses are translated at average exchange rates. The adjustment arising from the translation of these accounts is included in other comprehensive income. Other comprehensive income reflects the effect of foreign exchange rate variations during the year upon the translation of the net assets of the self-sustaining foreign subsidiaries.

For integrated foreign subsidiaries, the accounts are translated to Canadian dollars using the temporal method. Under this method, monetary balance sheet items are translated at the rates of exchange in effect at year-end and non-monetary items are translated at historical exchange rates. Revenue and expenses (other than amortization, which is translated at the same rates as the related assets) are translated at the rates in effect on the transaction date or at the average rates of exchange for the period. Translation gains or losses are included in the statement of earnings.

### **Income Taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are calculated using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the assets will be realized.

### **Stock Based Compensation**

The Company has a stock option plan for employees and directors. The Company has adopted the CICA Handbook Section 3870 entitled "Stock-based Compensation and Other Stock-based Payments", which requires that the fair value method of accounting be applied to all stock-based compensation and other stock-based payments to employees.

The fair value method consists of recognizing the fair value of the options as compensation costs to earnings over the vesting period of the options. Any consideration paid by employees on the exercise of stock options, and the related contributed surplus, is recorded as share capital. The Company accounts for forfeitures as they occur. All stock options issued under this plan have an exercise price equal to or greater than the fair market value of the underlying common shares on the date of the grant. The stock option plan and related disclosures are described further in note 12.

### **Earnings per Share (EPS)**

Basic EPS is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated using the treasury stock method, which assumes that all outstanding stock options with an exercise price below the average market price are exercised and the assumed proceeds are used to purchase the Company's common shares at the average market price during the year.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Years Ended April 30, 2010 and 2009 (in thousands of dollars, except for "number of common shares" and "number of options")

### Research and Development Expenses

All research and development expenses are expensed in the year in which they are incurred unless a development project meets generally accepted accounting criteria for deferral and amortization. No development costs have been deferred to date.

### Investment Tax Credits

The Company is entitled to investment tax credits, which are earned as a percentage of eligible research and development expenditures incurred in each taxation year. Investment tax credits relate entirely to the Company's research and development expenses in the consolidated statement of earnings but are presented separately in the consolidated statement of earnings for information purposes.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Significant items subject to such estimates and assumptions include the determination of the allowance for doubtful accounts for accounts receivable, provision for inventory obsolescence, the useful life of assets for depreciation, amortization and evaluation of net recoverable amount of capital assets, intangibles assets, stock-based compensation, evaluating future income tax assets and liabilities and research and development tax credits and the likelihood of recoverability, and the determination of implied fair value of goodwill and implied fair value of assets and liabilities for purchase price allocation purposes and goodwill impairment test purposes and the determination of fair value of financial instruments. Consequently, actual results could differ from those estimates.

### Financial Instruments

The Company's financial assets and liabilities are initially recorded at fair value and subsequently measured based on their assigned classifications as follows:

Asset/Liability	Category	Measurement
Cash	Held for trading	Fair value
Instruments held for trading	Held for trading	Fair value
Accounts receivable	Loans and receivable	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Current portion of long term debt	Other liabilities	Amortized cost
Long term debt	Other liabilities	Amortized cost

Other balance sheet accounts such as inventories, current and future income taxes, intangibles, goodwill, capital assets and income tax payable are not financial instruments.

Transaction costs related to financial assets and liabilities are recorded as an expense in the period incurred.

### CHANGES IN ACCOUNTING POLICIES:

#### Goodwill and Intangible Assets

CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaces CICA Handbook Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs, establishes the standards for recognition, measurement and disclosure of goodwill and intangible assets. Under these new standards, internally generated intangible assets may be recognized in the financial statements under certain circumstances. This standard was effective for the Company for interim and annual financial statements beginning on May 1, 2009. The adoption of this standard did not have any impact on the Consolidated Statement of Earnings.



## Financial Instruments

CICA Handbook Section 3862, Financial Instruments and Disclosures, was amended by the CICA and adopted by the Company effective May 1, 2009. CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Company's investments. The hierarchy of inputs is summarized below:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (ie, as prices) or indirectly (ie, derived from prices) (level 2);
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

Inputs used at April 30, 2010 in valuing the Company's instruments held for trading were quoted prices in active markets for identical assets (level 1).

## FUTURE ACCOUNTING CHANGES

### International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) has announced that Canadian publicly accountable enterprises will adopt IFRS as issued by the International Accounting Standards Board effective for fiscal years beginning on or after January 1, 2011 and therefore will commence in the first quarter of the Company's 2012 fiscal year.

The Company will follow a four phase approach to ensure successful conversion to International Financial Reporting Standards. The four phases, described in more detail in the Management's Discussion and Analysis are:

1. Awareness phase
2. Assessment phase
3. Design phase
4. Implementation phase

The Awareness and Assessment phases are now complete and the Design and Implementation phases are underway. It is not practically possible at this time to quantify the impact of IFRS adoption.

### Business Combinations

In January 2009, the CICA issued Section 1582 - Business Combinations. This section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. This section will become effective for the Company in fiscal 2012. This section replaces Section 1581 Business Combinations and harmonizes the Canadian standards with IFRS. The impact of the adoption of this standard on the Company's financial statements is not yet determinable.

### Consolidated financial statements

In January 2009, the CICA issued Section 1601 - Consolidated Financial statements. This section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier application is permitted as of the beginning of the year. This section will become effective for the Company in fiscal 2012. This section, together with new Section 1602 - Non-controlling Interests, replaces Section 1600 - Consolidated Financial Statements and establishes standards for the preparation of consolidated financial statements. The Company does not expect that the adoption of these new sections will have a material impact on its consolidated financial statements.

### Multiple Deliverable Revenue Arrangements

In February 2010, the Emerging Issues Committee of the CICA issued EIC-175, Multiple Deliverable Revenue Arrangements ("EIC-175"). EIC-175 provides additional guidance on how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and addresses how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. This section

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Years Ended April 30, 2010 and 2009 (in thousands of dollars, except for "number of common shares" and "number of options")

### Multiple Deliverable Revenue Arrangements (Continued)

applies to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011 which is our fiscal period beginning on May 1, 2011. The Company does not expect the adoption of this standard to have an impact on its consolidated financial statements.

## 2. BUSINESS ACQUISITIONS

On May 15, 2008 the Company completed the purchase of 100% of the share capital of a technology-based company for cash consideration of \$11,125, net of cash acquired of \$1,774. The acquisition was accounted for under the purchase method and its operating results have been included in these consolidated financial statements since the date of acquisition.

Working capital	\$	(4)
Equipment		79
Intangibles - intellectual property		3,500
Future income tax liability		(1,050)
Goodwill (not tax deductible)		8,600
	\$	11,125

In February 2009 the Company completed the purchases of 100% of the share capital of three technology-based companies and 90% of the share capital of a fourth company for total cash consideration of \$14,149. The acquisitions were accounted for under the purchase method and their operating results have been included in these consolidated financial statements since the date of acquisition.

The allocation of the purchase price is based on management's estimate of the fair value of assets acquired and liabilities assumed.

Working capital	\$	12,171
Capital assets		10,576
Bank loan and long-term debt		(12,386)
Future income tax liability		(896)
Goodwill (not tax deductible)		5,120
Non-controlling interest		(436)
	\$	14,149

The allocation of the purchase price was finalized during fiscal 2010. The change did not have a significant impact on the preliminary allocations as working capital was reduced and goodwill was increased by \$1,128, to \$6,248.

## 3. INVENTORIES

	2010	2009
Finished goods	\$ 29,796	\$ 32,983
Raw material and supplies	46,258	36,602
Work in progress	15,691	16,933
	\$ 91,745	\$ 86,518

Cost of sales for the year ended April 30, 2010 was comprised of \$81,978 of inventory (2009 - \$93,103) and \$962 of inventory write-offs (2009 - \$6,601).

#### 4. CAPITAL ASSETS

	2010		
	Cost	Accumulated Amortization	Net Book Value
Office furniture and equipment	\$ 1,300	\$ 884	\$ 416
Research and development equipment	7,100	4,272	2,828
Airplanes	11,119	4,942	6,177
Machinery and equipment	36,553	16,675	19,878
Leaseholds	3,456	1,292	2,164
Land	1,491	-	1,491
Building	7,795	981	6,814
	<b>\$ 68,814</b>	<b>\$ 29,046</b>	<b>\$ 39,768</b>

	2009		
	Cost	Accumulated Amortization	Net Book Value
Office furniture and equipment	\$ 1,284	\$ 921	\$ 363
Research and development equipment	6,130	3,134	2,996
Airplanes	9,964	4,319	5,645
Machinery and equipment	35,384	12,184	23,200
Leaseholds	2,219	844	1,375
Land	1,693	-	1,693
Building	8,766	893	7,873
	<b>\$ 65,440</b>	<b>\$ 22,295</b>	<b>\$ 43,145</b>

#### 5. GOODWILL

The changes in carrying amounts of goodwill are as follows:

	2010	2009
Balance, beginning of year	\$ 14,359	\$ 639
Business acquisitions	-	13,720
Impact of variation in exchange rates	(903)	-
Finalization of purchase price allocation (note 2)	1,128	-
	<b>\$ 14,584</b>	<b>\$ 14,359</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Years Ended April 30, 2010 and 2009 (in thousands of dollars, except for "number of common shares" and "number of options")

**6. INTANGIBLE ASSETS**

	<b>2010</b>		2009
Intellectual property:			
Cost			
Balance, beginning of year	\$ 6,423	\$	2,923
Business acquisitions (note 2)	-		3,500
Balance, end of year	\$ 6,423	\$	6,423
Accumulated Amortization			
Balance, beginning of year	\$ (3,360)	\$	(1,827)
Amortization	(1,240)		(1,533)
Balance, end of year	\$ (4,600)	\$	(3,360)
Net book value	\$ 1,823	\$	3,063

**7. INCOME TAXES**

The Company's effective income tax rate differs from the statutory combined Canadian income tax rate as follows:

	<b>2010</b>		2009
Expected income tax expense using statutory rates	\$ 27,694	\$	43,744
Difference in foreign tax rates	(919)		(506)
Non-deductible stock based compensation	2,132		1,260
Tax losses not previously recognized	-		(4,575)
Other	(113)		(1,016)
	\$ 28,794	\$	38,907

Components of future income taxes are summarized as follows:

	<b>2010</b>		2009
<b>Future income tax assets:</b>			
Research and development expenditures carried forward	-		3,600
Research and development tax credits	-		(1,888)
Harmonization transition credit	-		485
	-		2,197
Less: current portion	-		2,197
	\$ -	\$	-

**INCOME TAXES (CONTINUED)**

	<b>2010</b>	2009
<b>Future income tax liabilities:</b>		
Tax loss carried forward	\$ (516)	\$ -
Research and development tax credits	<b>1,652</b>	-
Equipment	<b>4,957</b>	3,841
Intangible assets	<b>547</b>	894
Harmonization transition credit	<b>(1,449)</b>	(1,453)
	<b>\$ 5,191</b>	\$ 3,282
Less: current portion	<b>1,164</b>	-
	<b>\$ 4,027</b>	\$ 3,282

For fiscal 2010, the Company recognized \$8,270 as investment tax credits (2009 - \$8,377) in the consolidated financial statements.

**8. LONG TERM DEBT**

## a) Credit Facilities

As at April 30, 2010, the Company had the following credit facilities available:

1. Credit facilities of \$15,000 and a treasury risk management facility up to \$10,000 available, bearing interest at prime, subject to certain covenants and secured by all Canadian based assets. Advances under these facilities bear interest at prime. There were no borrowings against either of these facilities as at April 30, 2010 and 2009.
2. Credit facility available of 510 Euros bearing interest at WIBOR plus 1.6% per annum. There were no borrowings outstanding under this facility as at April 30, 2010.

## b) Long Term Debt and Loans Acquired

As part of the February 2009 acquisitions (note 2), the Company acquired certain long-term debt and bank loans. These facilities are described as below:

	<b>2010</b>
1. Mortgage payable denominated in Euros, secured by buildings, bearing interest at LIBOR EUR three months fixed rate plus 1%, payable monthly, maturing in March 2021 with an option to end the contract prior to maturity upon payment of a penalty fee.	<b>\$ 1,914</b>
2. Loans payable denominated in Euros, secured by land and buildings, payable monthly, bearing interest at WIBOR plus 1% per annum, maturing on July 31, 2015.	<b>1,078</b>
3. Other	<b>128</b>
	<b>\$ 3,120</b>
Less current portion	<b>388</b>
	<b>\$ 2,732</b>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Years Ended April 30, 2010 and 2009 (in thousands of dollars, except for "number of common shares" and "number of options")

**LONG TERM DEBT (CONTINUED)**

Repayment schedule for long-term debt

2011	<b>\$ 388</b>
2012	<b>392</b>
2013	<b>386</b>
2014	<b>375</b>
2015	<b>371</b>
Thereafter	<b>1,208</b>
	<b>\$ 3,120</b>

**9. CAPITAL STOCK, CONTRIBUTED SURPLUS AND ACCUMULATED OTHER COMPREHENSIVE LOSS****CAPITAL STOCK**

Authorized capital stock consists of:

Unlimited number of preferred shares

Unlimited number of common shares

**ISSUED**

	<b>April 30, 2010</b>		April 30, 2009	
	<b>Number of Common Shares</b>	<b>Amount</b>	Number of Common Shares	Amount
Balance, beginning of year	<b>73,105,406</b>	<b>\$ 48,261</b>	72,276,206	\$ 45,687
Changes during the year:				
Issued on exercise of stock options	<b>502,100</b>	<b>2,308</b>	951,400	2,264
Cancelled pursuant to NCIB	-	-	(122,200)	(77)
Transferred from contributed surplus	-	<b>466</b>	-	387
	<b>73,607,506</b>	<b>\$ 51,035</b>	73,105,406	\$ 48,261

**CONTRIBUTED SURPLUS**

	<b>April 30, 2010</b>		April 30, 2009	
	<b>Amount</b>	<b>Amount</b>	Amount	Amount
Balance, beginning of year	<b>\$ 6,769</b>	\$ 6,769	\$ 3,384	3,384
Changes during the year:				
Stock-based compensation expensed	<b>6,525</b>	6,525	3,781	3,781
Transferred to Capital Stock on exercise of stock options	<b>(466)</b>	(466)	(387)	(387)
Cancelled pursuant to NCIB	-	-	(9)	(9)
Balance, end of year	<b>\$ 12,828</b>	\$ 12,828	\$ 6,769	6,769

## 9. CAPITAL STOCK, CONTRIBUTED SURPLUS AND ACCUMULATED OTHER COMPREHENSIVE LOSS (CONTINUED)

### ACCUMULATED OTHER COMPREHENSIVE LOSS

	<b>April 30, 2010</b>		April 30, 2009	
	<b>\$</b>	<b>Amount</b>	<b>\$</b>	Amount
Balance, beginning of year	<b>\$</b>	<b>(1,403)</b>	\$	(381)
Translation of self-sustaining operations		<b>(3,056)</b>		(1,022)
Balance, end of year	<b>\$</b>	<b>(4,459)</b>	\$	(1,403)

## 10. STATEMENT OF CASH FLOWS

### (a) Changes in non-cash working capital items

	<b>2010</b>		2009	
Accounts receivable	<b>\$</b>	<b>1,837</b>	\$	6,218
Inventories		<b>(7,744)</b>		(25,115)
Income taxes receivable/payable		<b>(9,303)</b>		(6,487)
Accounts payable and accrued liabilities		<b>(6,935)</b>		1,563
	<b>\$</b>	<b>(22,145)</b>	\$	(23,821)

### (b) Supplemental cash flow information

	<b>2010</b>		2009	
Interest paid	<b>\$</b>	<b>276</b>	\$	112
Income taxes paid	<b>\$</b>	<b>25,035</b>	\$	35,753

## 11. LEASE COMMITMENTS

The Company is committed under certain operating leases with minimum annual lease payments as follows:

2011	<b>\$</b>	<b>3,277</b>
2012		<b>3,141</b>
2013		<b>2,963</b>
2014		<b>2,668</b>
2015		<b>2,395</b>
Thereafter		<b>8,520</b>
	<b>\$</b>	<b>22,964</b>

## 12. STOCK OPTIONS

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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Years Ended April 30, 2010 and 2009 (in thousands of dollars, except for "number of common shares" and "number of options")

**STOCK OPTIONS (CONTINUED)**

Stock options currently granted normally fully vest and expire by the end of the fifth year. The terms for all options prior to June 2006 were set by the Board of Directors at the grant date.

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

	<b>April 30, 2010</b>		April 30, 2009	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	<b>4,102,600</b>	<b>\$ 9.60</b>	4,121,000	\$ 10.97
Granted	<b>510,000</b>	<b>14.55</b>	3,000,500	13.18
Exercised	<b>(502,100)</b>	<b>4.60</b>	(951,400)	2.38
Forfeited	<b>(15,000)</b>	<b>11.11</b>	(2,067,500)	20.85
Balance, end of year	<b>4,095,500</b>	<b>\$ 10.82</b>	4,102,600	\$ 9.60

The stock options outstanding as at April 30, 2010 are as follows:

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
\$ 2.00 - 2.50	\$ 2.42	360,000	0.6	47,200	\$ 2.19
\$ 8.50 - 10.25	\$ 8.67	925,000	1.3	443,800	\$ 8.57
\$ 11.00 - 14.61	\$ 11.76	2,445,500	3.1	203,400	\$ 11.08
\$ 17.88 - 18.10	\$ 17.99	355,000	2.7	-	\$ 0.00
\$ 29.58	\$ 29.58	10,000	2.8	-	\$ 0.00
Totals		4,095,500	2.42	694,400	\$ 8.87

**Compensation expense**

The stock-based compensation that has been charged against earnings is \$6,525 (2009 - \$3,781). Compensation cost was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>2010</b>	2009
Risk-free interest rate	<b>2.60%</b>	2.92%
Dividend yield	<b>2.20%</b>	2.56%
Expected life	<b>5.0 years</b>	4.3 years
Expected volatility	<b>35.00%</b>	30.17%
Weighted average grant-date fair value:		
Where the exercise price equaled the market price	<b>\$ 4.06</b>	\$ 4.49
Where the exercise price exceeded the market price	<b>\$ -</b>	\$ 1.73



### 13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash, instruments held for trading, accounts receivable and accounts payable and accrued liabilities and long term debt. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The Company estimates that except for instruments held for trading, the fair value of these instruments approximate the carrying values due to their short-term nature.

#### (a) Fair values and classification of financial instruments:

The following summarizes the significant methods and assumptions used in estimating the fair values of financial instruments:

- I. The fair values of instruments held for trading are determined by the quoted market values for each of the investments in an active market at the reporting date. Gains and losses are included in interest and other income.
- II. The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities and long term debt approximate their fair value due to the short-term nature of these financial instruments.

The fair value of financial assets and liabilities, together with the carrying amounts are as follows:

	April 30, 2010		April 30, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Held for trading:				
Cash	\$ 133,755	\$ 133,755	\$ 81,376	\$ 81,376
Instruments held for trading	11,991	11,274	32,644	32,644
Accounts receivable	48,988	48,988	53,144	53,144
<b>Financial Liabilities</b>				
Other liabilities:				
Accounts payable and accrued liabilities	23,899	23,899	32,529	32,529
Long term debt	3,120	3,120	5,027	5,027

#### (b) Financial risk management:

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at April 30, 2010:

##### Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash, instruments held for trading and accounts receivable. The Company performs evaluations of the financial situations of its customers. Management does not believe that there is significant credit concentration or risk.

The Company sets up an allowance for doubtful accounts based on the credit risks of the individual customer and the customer history. Approximately 89% of accounts receivable are outstanding for less than 90 days as at April 30, 2010. The amounts owing over 90 days are individually evaluated and provided for where appropriate in the allowance for doubtful accounts. The accounts receivable are presented as follows net of the allowance for doubtful accounts.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Years Ended April 30, 2010 and 2009 (in thousands of dollars, except for "number of common shares" and "number of options")

**Credit risk (Continued)**

	<b>April 30, 2010</b>	
Accounts receivable	\$	<b>49,684</b>
Allowance for doubtful accounts		<b>(696)</b>
	\$	<b>48,988</b>

The change in the allowance for doubtful accounts was as follows:

Balance at April 30, 2009	\$	<b>536</b>
Bad debt		<b>213</b>
Impact of variation in exchange rates		<b>(53)</b>
Balance at April 30, 2010	\$	<b>696</b>

**Exchange rate risk**

The Company transacts a significant portion of its business in U.S. dollars and is therefore exposed to currency fluctuations.

Our U.S. dollar balances for our financial instruments are as follows:

	<b>April 30, 2010</b>	
Cash	\$	<b>13,961</b>
Accounts receivable		<b>31,490</b>
Accounts payable and accrued liabilities		<b>(3,818)</b>
	\$	<b>41,633</b>

Based on the financial instruments as at April 30, 2010, a 5% change in the value of the U.S. dollar would result in a gain or loss of \$2,082 in net income before tax.

**Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's primary source of liquidity is its cash reserves. The Company also maintains certain credit facilities to support short term funding of operations and trade finance. The Company believes it has sufficient available funds to meet current and foreseeable financial requirements.

**Investment Risk**

The Company invests in marketable securities that are traded in an active market. Generally the investment is limited to no more than 15% of the total cash and instruments held for trading.

If the instruments held for trading were to decline by 10%, the result would be an investment loss of \$1.1 million in net income before tax based on holdings at April 30, 2010.

#### 14. 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.

#### SALES

	2010		2009	
United States	\$	132,121	\$	185,846
International		132,455		106,689
Canada		21,879		23,370
	\$	286,455	\$	315,905

	April 30, 2010			April 30, 2009		
	Capital Assets	Goodwill	Intellectual Property	Capital Assets	Goodwill	Intellectual Property
United States	\$ 6,315	\$ -	\$ -	\$ 5,806	\$ -	\$ -
International	9,206	14,584	1,823	10,771	14,359	3,063
Canada	24,247	-	-	26,568	-	-
	\$ 39,768	\$ 14,584	\$ 1,823	\$ 43,145	\$ 14,359	\$ 3,063

#### 15. RELATED PARTY TRANSACTIONS

Two shareholders each indirectly hold a 10% interest in the Company's leased premises in Ontario. This lease expires in 2019. During the year, rent paid for the leased principal premises amounted to \$779 (2009 - \$775).

The Company also leases property where two shareholders indirectly own 100% interest. This lease expires in 2011. During the year, rent paid was \$240 (2009 - \$240).

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. During the year, rent paid for the leased principal premises amounted to \$686 (2009 - \$107).

On December 15, 2008 the Company entered into a lease agreement with a director who indirectly owns 100% interest. The lease expires in 2013. During the year, rent paid was \$130 (2009 - \$32).

On May 1, 2009 the Company entered into an agreement with two shareholders who each indirectly hold a 35% interest. This lease expires in 2019. During the year, rent paid was \$399.

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

#### 16. CAPITAL DISCLOSURES

The Company's capital is composed of shareholders' equity. The Company's objective in managing capital is to ensure sufficient liquidity to finance increases in non-cash working capital, capital expenditures for capacity expansions, pursuit of selective acquisitions and the payment of quarterly dividends.

The Company takes a conservative approach towards financial leverage and management of financial risk and the Company currently satisfies their requirements out of its internally generated cash flows.

The Company is not subject to any capital requirements imposed by a regulator.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

Years Ended April 30, 2010 and 2009 (in thousands of dollars, except for "number of common shares" and "number of options")

**17. EARNINGS PER SHARE**

	<b>2010</b>	2009
Weighted average common shares outstanding	<b>73,324,244</b>	72,550,364
Dilutive effect of stock options	<b>899,398</b>	1,718,725
Diluted weighted average common shares outstanding	<b>74,223,642</b>	74,269,089

The weighted average number of diluted common shares excludes 365,000 options because they were anti-dilutive during the year.

**18. SUBSEQUENT EVENT**

On June 16, 2010 the Company declared a dividend of \$0.08 with a record date of July 14, 2010 and a payment date of July 23, 2010.

## 5-YEAR FINANCIAL HIGHLIGHTS

(all amounts in thousands, except share amounts),

### Consolidated Statement of Earnings Data

	Year Ended April 30,				
	2010	2009	2008	2007	2006
Sales	<b>\$ 286,455</b>	\$ 315,905	\$ 272,505	\$ 200,681	\$ 141,199
Earnings before income taxes	<b>90,296</b>	139,624	121,316	83,811	60,319
Selling and Administrative Expenses	<b>37,550</b>	35,907	26,681	25,199	18,279
Research and Development Expenses	<b>32,026</b>	28,719	18,629	15,946	10,715

### Consolidated Balance Sheet Data

	Year Ended April 30,				
	2010	2009	2008	2007	2006
Cash and short term investments	<b>\$ 145,029</b>	\$ 114,020	\$ 95,543	\$ 34,544	\$ (20,397)
Total assets	<b>345,787</b>	316,446	220,579	143,996	61,706
Shareholder's equity	<b>312,169</b>	268,376	188,220	112,444	7,979
Number of Common Shares					
Outstanding					
Basic	<b>73,607,506</b>	73,105,406	72,277,206	72,217,806	66,034,000
Fully-diluted	<b>77,703,006</b>	77,208,006	76,398,206	75,510,806	69,628,000

# CORPORATE AND SHAREHOLDER INFORMATION

## DIRECTORS AND EXECUTIVE OFFICERS

### Romolo Magarelli

Director, President and Chief Executive Officer

### Douglas DeBruin

Director, Chairman of the Board of Directors and Executive Vice-President Admin

### Christopher Colclough <sup>1,2</sup>

Director

### Dr. Thomas Pistor <sup>1</sup>

Director

### Dr. Ian McWalter <sup>1,2</sup>

Director

### Brian Campbell

Executive Vice-President, Business Development

### Rakesh Patel

Chief Technology Officer

### Anthony Gridley

Chief Financial Officer

<sup>1</sup> Member of the Audit Committee.

<sup>2</sup> Member of the Compensation Committee.

## AUDITORS

### Deloitte & Touche LLP,

Chartered Accountants

1005 Skyview Drive

Suite 202

Burlington, ON

L7P 5B1

T: (905) 315-6770

## LEGAL COUNSEL

### Macleod Dixon LLP

Toronto-Dominion Centre

Canadian Pacific Tower

100 Wellington Street West, Suite 500

P.O. Box 128, Toronto, ON

Canada

M5K 1H1

T: (416) 203-4460

## EXCHANGE LISTING

The common shares of the Company are listed on the Toronto Stock Exchange under the symbol ET

## INVESTOR RELATIONS

### Anthony Gridley

Chief Financial Officer

T: (905) 335-7580

email: ir@evertz.com

## ANNUAL SHAREHOLDERS MEETING

12:30 p.m.

Thursday, September 09, 2010

The Fairmont Royal York

Quebec Room

100 Front Street West

Toronto, ON

M5J 1E3

## REGISTRAR AND TRANSFER AGENT

### Computershare Investor Services Inc.

9th floor, 100 University Ave.,

Toronto, Canada

M5J 2Y1

email: service@computershare.com

T: 1-800-564-6253

www.computershare.com

# **EVERTZ TECHNOLOGIES LIMITED CORPORATION OFFICES**

## **CORPORATE HEAD OFFICE**

Evertz Technologies Ltd.

5292 John Lucas Dr.  
Burlington, ON  
L7L 5Z9  
T: (905) 335-3700

## **Evertz USA Inc. Offices**

### **Manassas**

10621 Gateway Blvd., Suite 206  
Manassas, VA  
20110  
T: (703) 330-8600  
F: (703) 330-5549

### **Burbank**

212 N. Evergreen Street  
Burbank, CA  
91505  
T: (818) 558-3910  
F: (818) 558-3906

## **Evertz UK**

59 Suttons Business Park  
Reading, Berkshire  
RG6 1AZ  
T: 011-44-118-926-0871  
F: 011-44-118-935-0202

## **Evertz Asia Ltd.**

Nan Fung Tower  
Room 601, 6/F  
173 Des Voeux RD Central  
Hong Kong  
T: (852) 2850-7989  
F: (852) 2850-7978

## **Sales Office**

**Burlington, ON**

**Huntsville, AL**

**Phoenix, AZ**

**Burbank, CA**

**New York City, NY**

**Manassas, VA**

**Reading, UK**

**Hong Kong**

**Singapore**

**Croatia**

**Beijing**

**Dubai, U.A.E**



**CORPORATE HEAD OFFICE**

5292 John Lucas Drive  
Burlington, Ontario  
Canada • L7L 5Z9  
905.335.3700  
1.877.995.3700  
[www.evertz.com](http://www.evertz.com)

