

Interim condensed consolidated financial statements of

EVERTZ TECHNOLOGIES LIMITED

Three month and Six month periods ended October 31, 2017 and 2016
(Unaudited)

MANAGEMENT REPORT

The management of Evertz Technologies Limited (“Evertz” or the “Company”) is responsible for the preparation of the accompanying interim condensed consolidated financial statements. The interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and are considered by management to present fairly the consolidated financial position, operating results and cash flows of the Company.

These interim condensed consolidated financial statements have not been reviewed by the auditor. These interim condensed consolidated financial statements are unaudited and include all adjustments, consisting of normal and recurring items, that management considers necessary for the fair presentation of the consolidated financial position, results of operations and cash flows.

EVERTZ TECHNOLOGIES LIMITED

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(Unaudited)

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EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Financial Position
(Unaudited)

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

	October 31, 2017	April 30, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 54,022	\$ 54,274
Trade and other receivables	111,252	111,664
Prepaid expenses	6,419	4,075
Inventories	174,895	178,208
Income tax receivable	1,543	-
	348,131	348,221
Property, plant and equipment (note 3)	44,087	44,152
Goodwill	18,067	18,195
	\$ 410,285	\$ 410,568
Liabilities		
Current liabilities		
Trade and other payables	\$ 43,002	\$ 50,321
Provisions (note 4)	3,963	3,817
Deferred revenue	30,350	28,272
Current portion of long term debt	291	280
Income tax payable	-	945
	77,606	83,635
Long term debt	617	733
Deferred income taxes	2,590	4,427
	80,813	88,795
Equity		
Capital stock (note 5)	132,519	124,695
Share based payment reserve	8,828	10,091
Accumulated other comprehensive earnings	977	747
Retained earnings	185,327	182,297
	186,304	183,044
Total equity attributable to shareholders	327,651	317,830
Non-controlling interest (note 12)	1,821	3,943
	329,472	321,773
	\$ 410,285	\$ 410,568

See accompanying notes to the interim condensed consolidated financial statements.

EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Changes in Equity
(Unaudited)

Six month periods ended October 31, 2017 and 2016
(In thousands of Canadian dollars)

	Capital stock	Share-based payment reserve	Accumulated other comprehensive earnings	Retained earnings	Total equity attributable to shareholders	Non- controlling interest	Total Equity
Balance at April 30, 2016	\$ 100,483	\$ 13,835	\$ 1,567	\$ 250,320	\$ 366,205	\$ 3,531	\$ 369,736
Net earnings for the period	-	-	-	38,976	38,976	407	39,383
Foreign currency translation adjustment	-	-	(2,680)	-	(2,680)	125	(2,555)
Total comprehensive earnings for the period	\$ -	\$ -	\$ (2,680)	\$ 38,976	\$ 36,296	\$ 532	\$ 36,828
Dividends declared	-	-	-	(26,852)	(26,852)	(350)	(27,202)
Share based compensation expense	-	857	-	-	857	-	857
Exercise of employee stock options	13,817	-	-	-	13,817	-	13,817
Transfer on stock option exercise	4,089	(4,089)	-	-	-	-	-
Balance at October 31, 2016	\$ 118,389	\$ 10,603	\$ (1,113)	\$ 262,444	\$ 390,323	\$ 3,713	\$ 394,036
Balance at April 30, 2017	\$ 124,695	\$ 10,091	\$ 747	\$ 182,297	\$ 317,830	\$ 3,943	\$ 321,773
Net earnings for the period	-	-	-	30,364	30,364	257	30,621
Foreign currency translation adjustment	-	-	230	-	230	(121)	109
Total comprehensive earnings for the period	\$ -	\$ -	\$ 230	\$ 30,364	\$ 30,594	\$ 136	\$ 30,730
Dividends declared	-	-	-	(27,401)	(27,401)	(500)	(27,901)
Acquisition of non-controlling interest (note 12)	-	-	-	67	67	(1,758)	(1,691)
Share based compensation expense	-	398	-	-	398	-	398
Exercise of employee stock options	6,163	-	-	-	6,163	-	6,163
Transfer on stock option exercise	1,661	(1,661)	-	-	-	-	-
Balance at October 31, 2017	\$ 132,519	\$ 8,828	\$ 977	\$ 185,327	\$ 327,651	\$ 1,821	\$ 329,472

See accompanying notes to the interim condensed consolidated financial statements.

EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Earnings
(Unaudited)

Three month and six month periods ended October 31, 2017 and 2016
(In thousands of Canadian dollars, except per share amounts)

	Three month period ended October 31,		Six month period ended October 31,	
	2017	2016	2017	2016
Revenue	\$ 101,261	\$ 99,592	\$ 210,270	\$ 186,618
Cost of goods sold	44,509	42,481	92,357	79,641
Gross margin	56,752	57,111	117,913	106,977
Expenses				
Selling, administrative and general (note 6)	18,396	17,306	36,320	34,142
Research and development	20,214	17,780	39,486	35,273
Investment tax credits	(2,850)	(2,411)	(5,301)	(5,060)
Foreign exchange (gain) loss	(2,882)	(3,450)	5,362	(10,054)
	32,878	29,225	75,867	54,301
	23,874	27,886	42,046	52,676
Finance income	174	464	275	780
Finance costs	(157)	(69)	(205)	(122)
Other income (expenses)	(75)	(32)	(46)	37
Earnings before income taxes	23,816	28,249	42,070	53,371
Provision for (recovery of) income taxes				
Current	6,515	6,969	12,370	15,641
Deferred	(128)	520	(921)	(1,653)
	6,387	7,489	11,449	13,988
Net earnings for the period	\$ 17,429	\$ 20,760	\$ 30,621	\$ 39,383
Net earnings attributable to non-controlling interest	143	177	257	407
Net earnings attributable to shareholders	17,286	20,583	30,364	38,976
Net earnings for the period	\$ 17,429	\$ 20,760	\$ 30,621	\$ 39,383
Earnings per share (note 11)				
Basic	\$ 0.23	\$ 0.28	\$ 0.40	\$ 0.52
Diluted	\$ 0.23	\$ 0.27	\$ 0.40	\$ 0.52

See accompanying notes to the interim condensed consolidated financial statements.

EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Comprehensive Earnings
(Unaudited)

Three month and six month periods ended October 31, 2017 and 2016
(In thousands of Canadian dollars)

	Three month period ended		Six month period ended	
	October 31,		October 31,	
	2017	2016	2017	2016
Net earnings for the period	\$ 17,429	\$ 20,760	\$ 30,621	\$ 39,383
Items that may be reclassified to net earnings:				
Foreign currency translation adjustment	1,378	(1,079)	109	(2,555)
Comprehensive earnings	\$ 18,807	\$ 19,681	\$ 30,730	\$ 36,828
Comprehensive earnings attributable to non-controlling interest	\$ 175	\$ 227	\$ 136	\$ 532
Comprehensive earnings attributable to shareholders	\$ 18,632	\$ 19,454	\$ 30,594	\$ 36,296
Comprehensive earnings	\$ 18,807	\$ 19,681	\$ 30,730	\$ 36,828

See accompanying notes to the interim condensed consolidated financial statements.

EVERTZ TECHNOLOGIES LIMITED

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

Three month and six month periods ended October 31, 2017 and 2016
(In thousands of Canadian dollars)

	Three month period ended		Six month period ended	
	October 31,		October 31,	
	2017	2016	2017	2016
Operating activities				
Net earnings for the period	\$ 17,429	\$ 20,760	\$ 30,621	\$ 39,383
Add: Items not involving cash				
Depreciation of property, plant and equipment	2,682	2,680	5,538	5,315
Gain on disposal of property, plant and equipment	(3)	(3)	(4)	(17)
Share based compensation	157	399	398	857
Interest expense	9	8	16	16
Deferred income tax (recovery) expenses	(128)	520	(921)	(1,653)
	20,146	24,364	35,648	43,901
Current tax expenses, net of investment tax credits	3,665	4,312	7,069	10,581
Income taxes paid	(4,080)	(2,166)	(9,835)	(4,108)
Changes in non-cash working capital items (note 7)	(22,489)	(13,885)	(3,445)	(17,801)
Cash (used in) provided by operating activities	(2,758)	12,625	29,437	32,573
Investing activities				
Acquisition of property, plant and equipment	(2,491)	(2,419)	(5,593)	(3,869)
Proceeds from disposal of property, plant and equipment	29	21	33	70
Acquisition of non-controlling interest (note 12)	(1,691)	-	(1,691)	-
Cash used in investing activities	(4,153)	(2,398)	(7,251)	(3,799)
Financing activities				
Repayment of long term debt	(57)	(59)	(114)	(121)
Interest paid	(9)	(8)	(16)	(16)
Dividends paid	(13,712)	(13,496)	(27,401)	(26,852)
Dividends paid by subsidiaries to non-controlling interests	-	-	(500)	(350)
Capital stock issued	1,604	13,672	6,163	13,817
Cash (used in) provided by financing activities	(12,174)	109	(21,868)	(13,522)
Effect of exchange rates on cash and cash equivalents	319	(2,360)	(570)	(4,995)
(Decrease) increase in cash and cash equivalents	(18,766)	7,976	(252)	10,257
Cash and cash equivalents beginning of period	72,788	125,383	54,274	123,102
Cash and cash equivalents end of period	\$ 54,022	\$ 133,359	\$ 54,022	\$ 133,359

See accompanying notes to the interim condensed consolidated financial statements.

EVERTZ TECHNOLOGIES LIMITED

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Three month and six month periods ended October 31, 2017 and 2016
(in thousands of Canadian dollars, except for “number of common shares”, “number of options” and “per share”
information)

Evertz Technologies Limited (“Evertz” or the “Company”) is incorporated under the *Canada Business Corporations Act*. The Company is incorporated and domiciled in Canada and the registered head office is located at 5292 John Lucas Drive, Burlington, Ontario, Canada. The Company is a leading supplier of software, equipment and technology solutions to content creators, broadcasters, specialty channels and television service providers. The Company designs, manufactures and distributes video and audio infrastructure solutions for the production, post-production, broadcast and telecommunications markets.

1. STATEMENT OF COMPLIANCE

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and under International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” using the same accounting policies as described in the Company’s consolidated financial statements for the year ended April 30, 2017.

These interim condensed consolidated financial statements do not include all information and note disclosures required by IFRS for annual financial statements, and therefore; should be read in conjunction with the April 30, 2017 annual consolidated financial statements.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on December 14, 2017.

2. SIGNIFICANT ACCOUNTING POLICIES

New and Revised IFRSs Issued but Not Yet Effective

Following is a listing of amendments, revisions and new International Financial Reporting Standards issued but not yet effective. Unless otherwise indicated, earlier application is permitted. The Company has not yet determined the impact of the adoption of the following standards.

Financial Instruments

IFRS 9, *Financial instruments* (“IFRS 9”) was issued by the IASB in July 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 introduces new requirements for the financial reporting of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Revenue

IFRS 15, *Revenue from contracts with customers* (“IFRS 15”) was issued by the IASB in May 2014 and will replace IAS 11, *Construction Contracts* and IAS 18, *Revenue*. IFRS 15 specifies how and when revenue will be recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

Leases

IFRS 16, *Leases* (“IFRS 16”) was issued by the IASB in January 2016 and will replace IAS 17, *Leases*. IFRS 16 introduces a single accounting model for lessees to bring leases on-balance sheet while lessor accounting remains largely unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

3. PROPERTY, PLANT AND EQUIPMENT

	October 31, 2017			April 30, 2017		
	Cost	Accumulated Depreciation	Carrying Amount	Cost	Accumulated Depreciation	Carrying Amount
Office furniture and equipment	\$ 3,725	\$ 2,043	\$ 1,682	\$ 3,685	\$ 2,083	\$ 1,602
Research and development equipment	33,802	25,057	8,745	31,831	24,168	7,663
Airplanes	19,727	13,466	6,261	19,727	12,665	7,062
Machinery and equipment	58,306	45,394	12,912	56,482	43,395	13,087
Leaseholds	8,609	4,352	4,257	9,316	4,961	4,355
Land	2,371	-	2,371	2,388	-	2,388
Buildings	10,348	2,489	7,859	10,376	2,381	7,995
	\$ 136,888	\$ 92,801	\$ 44,087	\$ 133,805	\$ 89,653	\$ 44,152

4. PROVISIONS

	Warranty and Returns	Lease/Retirement Obligations	Total
Balance as at April 30, 2017	\$ 3,470	\$ 347	\$ 3,817
Net additions	124	32	156
Foreign exchange differences	-	(10)	(10)
Balance as at October 31, 2017	\$ 3,594	\$ 369	\$ 3,963

Warranty and Returns

The provision relates to estimated future costs associated with warranty repairs and returns on hardware solutions. The provision is based on historical data associated with similar products. The warranty and returns are expected to be incurred within the next twelve months.

Lease/Retirement Obligations

The provision relates to estimated restoration costs expected to be incurred upon the conclusion of Company leases.

5. CAPITAL STOCK

Authorized capital stock consists of:
 Unlimited number of preferred shares
 Unlimited number of common shares

	Number of Common Shares	Amount
Balance as at April 30, 2017	75,742,746	\$ 124,695
Issued on exercise of stock options	437,500	6,163
Transferred on stock option exercise	-	1,661
Balance as at October 31, 2017	76,180,246	\$ 132,519

Dividends Per Share

During the quarter, \$0.18 in dividends per share was declared (2016 - \$0.18) and during the six month period, \$0.36 in dividends per share were declared (2016 - \$0.36).

6. SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

	Three month period ended		Six month period ended	
	October 31,		October 31,	
	2017	2016	2017	2016
Selling and administrative	\$ 16,026	\$ 15,289	\$ 31,853	\$ 30,175
Share based compensation (note 8)	1,425	1,101	2,626	2,177
Depreciation of property, plant and equipment (non-production)	945	916	1,841	1,790
	\$ 18,396	\$ 17,306	\$ 36,320	\$ 34,142

7. STATEMENT OF CASH FLOWS

Changes in non-cash working capital items

	Three month period ended		Six month period ended	
	October 31,		October 31,	
	2017	2016	2017	2016
Trade and other receivables	\$ (7,354)	\$ (1,951)	\$ 307	\$ (3,759)
Prepaid expenses	(625)	3,462	(2,442)	1,985
Inventories	3,067	(8,267)	3,148	(9,482)
Trade and other payables	(14,841)	(8,979)	(6,682)	(5,681)
Deferred revenue	(2,531)	1,819	2,078	(915)
Provisions	(205)	31	146	51
	\$ (22,489)	\$ (13,885)	\$ (3,445)	\$ (17,801)

8. SHARE BASED PAYMENTS

Stock Option Plan

The Company established, in June 2006, a stock option plan to attract, retain, motivate and compensate employees, officers and eligible directors who are integral to the growth and success of the Company. A number of shares equal to 10% of the Company's outstanding common shares are to be reserved for issuance under the stock option plan.

The Board of Directors administers the stock option plan and will determine the terms of any options granted. The exercise price of an option is to be set by the Board of Directors at the time of grant but shall not be lower than the market price as defined in the option plan at the time of grant. The term of the option cannot exceed 10 years. Stock options currently granted normally fully vest and expire by the end of the fifth year.

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

	Number of Options	Weighted Average Exercise Price
Balance as at April 30, 2017	2,878,500	\$ 16.29
Granted	25,000	16.87
Exercised	(437,500)	14.09
Forfeited	(27,500)	17.10
Balance as at October 31, 2017	2,438,500	\$ 16.68

Note #8 continued ...

Exercise Price	Weighted Average Exercise Price	Number of Outstanding Options	Weighted Average Remaining Contractual Life	Number of Options Exercisable	Weighted Average Exercise Price of Exercisable Options
\$15.00 - \$15.37	\$ 15.34	415,000	2.6	13,000	\$ 15.02
\$16.21 - \$16.87	\$ 16.40	429,000	1.5	225,000	\$ 16.21
\$17.03	\$ 17.03	1,412,000	1.4	839,400	\$ 17.03
\$17.19 - \$18.07	\$ 17.62	182,500	2.6	12,000	\$ 17.30
Totals	\$ 16.68	2,438,500	1.7	1,089,400	\$ 16.84

Restricted Share Unit Plan

The Company established, in March 2016, a restricted share unit (“RSU”) plan to provide an incentive to participants; including key executives of the Company, by rewarding such participants with equity-based compensation. Under the terms of the plan, RSU’s are issued to the participant with a vesting period of three years. On the vesting date, all RSU’s will be redeemed in cash at the fair market value at the date of vest plus any accrued dividends. The changes in the number of outstanding RSUs are as follows:

	Number of RSUs
Balance as at April 30, 2017	546,500
Granted	30,000
Forfeited	(12,500)
Balance as at October 31, 2017	564,000

As at October 31, 2017, the average remaining contractual life for outstanding RSUs is 1.4 years.

Compensation expense

Stock Option Plan

The share based compensation expense that has been charged against earnings over the six month and three month periods is \$398 (2016 - \$857) and \$157 (2016 - \$399) respectively. Compensation expense on grants during the six month and three month period was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	Six month period ended October 31, 2017	Six month period ended October 31, 2016
Risk-free interest rate	1.15%	0.66%
Dividend yield	4.27%	4.14%
Expected life	5 years	5 years
Expected volatility	16%	16%
Weighted average grant-date fair value	\$1.16	\$1.13

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

Note #8 continued ...

Restricted Share Unit Plan

The share based compensation expense that has been charged against earnings over the six month and three month period ended is \$2,229 (2016 - \$1,320) and \$1,269 (2016 - \$702) respectively. Share based compensation expense was calculated using a weighted average forfeiture rate of 6% (2016 - 3%). As at October 31, 2017, the total liability included within trade and other payables is \$5,906.

9. SEGMENTED INFORMATION

The Company reviewed its operations and determined that it operates a single reportable segment, the television broadcast equipment market. The single reportable operating segment derives its revenues from the sale of hardware and software solutions including related services, training and commissioning.

	Three month period ended October 31,		Six month period ended October 31,	
	2017	2016	2017	2016
Revenue				
United States	\$ 63,044	\$ 57,281	\$ 123,827	\$ 101,356
International	35,291	37,283	78,938	72,183
Canada	2,926	5,028	7,505	13,079
	\$ 101,261	\$ 99,592	\$ 210,270	\$ 186,618

	October 31, 2017		April 30, 2017	
	Property, Plant and Equipment	Goodwill	Property, Plant and Equipment	Goodwill
United States	\$ 9,627	\$ 368	\$ 10,486	\$ 390
International	9,554	17,699	9,690	17,805
Canada	24,906	-	23,976	-
	\$ 44,087	\$ 18,067	\$ 44,152	\$ 18,195

10. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

Related Party Transactions

Two shareholders each indirectly hold a 10% interest in the Company's leased premises in Ontario. This lease expires in 2019 with a total of \$1,174 committed over the remaining term. During the six and three month periods, rent paid for the leased principal premises amounted to \$432 (2016 - \$432) and \$216 (2016 - \$216) with no outstanding amounts due as at October 31, 2017.

The Company also leases property where two shareholders indirectly own 100% interest. This lease expires in 2021 with a total of \$995 committed over the remaining term. During the six and three month periods, rent paid for the leased principal premises amounted to \$132 (2016 - \$123) and \$66 (2016 - \$62) with no outstanding amounts due as at October 31, 2017.

On December 1, 2008 the Company entered into an agreement with two shareholders who each indirectly hold a 20% interest in the Company's leased premises in Ontario. This lease expires in 2018 with a total of \$905 committed over the remaining term. During the six and three month periods, rent paid for the leased principal premises amounted to \$418 (2016 - \$397) and \$209 (2016 - \$199) with no outstanding amounts due as at October 31, 2017.

Note #10 continued ...

On May 1, 2009 the Company entered into a property lease agreement with two shareholders who each indirectly hold a 35% interest. This lease expires in 2019 with a total of \$727 committed over the remaining term. During the six and three month periods, rent paid for the leased principal premises amounted to \$242 (2016 - \$231) and \$121 (2016 - \$115) with no outstanding amounts due as at October 31, 2017.

On December 15, 2013 the Company renewed a property lease agreement with a director who indirectly owns 100% interest. The lease expires in 2018 with a total of \$165 committed over the remaining term. During the six and three month periods, rent paid for the leased principal premises amounted to \$71 (2016 - \$71) and \$35 (2016 - \$35) with no outstanding amounts due as at October 31, 2017.

On May 1, 2016 the Company entered into a property lease agreement with two shareholders who each hold an indirect interest. This lease expires in 2026 with a total of \$8,596 committed over the remaining term. During the six and three month periods, rent paid for the leased principal premises amounted to \$484 (2016 - \$484) and \$242 (2016 - \$242) with no outstanding amounts due as at October 31, 2017.

On August 1, 2016 the Company entered into a property lease agreement where two shareholders indirectly own 46.6% interest. This lease expires in 2026 with a total of \$2,086 committed over the remaining term. During the six and three month periods, rent paid for the leased principal premises amounted to \$122 (2016 - \$61) and \$61 (2016 - \$61) with no outstanding amounts due as at October 31, 2017.

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

11. EARNINGS PER SHARE

	Three month period ended		Six month period ended	
	October 31, 2017	2016	October 31, 2017	2016
Weighted average common shares outstanding	76,132,235	74,733,872	76,018,084	74,463,363
Dilutive effect of stock options	181,206	406,483	152,561	537,966
Diluted weighted average common shares outstanding	76,313,441	75,140,355	76,170,645	75,001,329

The weighted average number of diluted common shares excludes 40,000 options because they were anti-dilutive during the period (2016 - 115,500).

12. NON-CONTROLLING INTEREST

In September 2017 the Company purchased the 20% non-controlling interest portion of Antenna Technology Communications, Inc. ("ATCI") for \$1,691 in cash. At the time of purchase, the non-controlling interest was valued at \$1,758, resulting in a gain of \$67, which was recorded directly to retained earnings. There are now non-controlling interests of 25% of Truform Metal Fabrication Ltd., located in Canada and 10% with Studiotech Poland Sp. z.o.o., located in Poland.

13. SUBSEQUENT EVENT

On December 14, 2017 the Company declared a quarterly dividend of \$0.18 with a record date of December 22, 2017 and a payment date of December 29, 2017.