



FIRST QUARTER RESULTS

Management's Discussion & Analysis

For the three months ended September 30, 2017

VECIMA NETWORKS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

November 9, 2017

This Management's Discussion and Analysis (MD&A) provides a review of significant developments that have affected the performance of Vecima Networks Inc. ("Vecima" or the "Company") during the three months ended September 30, 2017.

Our MD&A supplements, but does not form part of, our unaudited condensed interim consolidated financial statements and related notes for the three months ended September 30, 2017. Consequently, the following discussion and analysis of the financial condition and results of operations should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes for the three months ended September 30, 2017 and September 30, 2016 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Our MD&A also includes certain non-IFRS financial measures which we use as supplemental indicators of our operating performance and financial position, as well as for internal planning purposes.

The content of this MD&A contains forward-looking statements, which are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements. Forward-looking statements include, but are not limited to our expectations related to general economic conditions and market trends and their anticipated effects on our business segments, as well as our expectations related to customer demand. For additional information related to forward-looking statements and material risks associated with them, please see the "Additional Information" section of this MD&A.

Additional information regarding Vecima, including our Annual Information Form, can be found on SEDAR at www.sedar.com.

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Company Overview

Vecima Networks Inc. (TSX:VCM) is a Canadian company founded in 1988 with offices in Saskatoon, SK, Burnaby, BC and Victoria, BC. We also have a software development facility in Mangalore, India, operated through a majority owned subsidiary.

We are a globally recognized leader in creating breakthrough technology solutions that empower network service providers to connect people and enterprises to information and entertainment worldwide. Our products

incorporate complex hardware and software developed within our research and development facilities. Our main products for the cable industry allow service providers a cost-effective Last Mile Solution® for both video and broadband access, especially in the demanding business services market segment.

Our business is organized into two segments: (1) Video and Broadband Solutions and (2) Telematics:

1. Video and Broadband Solutions include platforms and modules that process data from the cable network and deliver it in formats suitable to be consumed on televisions and Internet devices. Terrace and TerraceQAM are two key product families in this segment which meet the needs of the business services vertical including MDU (multi-unit dwellings) and Hospitality (including hotels, motels and resorts).
2. Telematics provides fleet managers with the key information and analytics they require to optimally manage their mobile and fixed assets under the Contigo, Nero Global Tracking, and FleetLynx brands.

We are focused on the development of next-generation platforms that respond to the major cable industry shift to distributed access architectures (DAA) under the new DOCSIS 3.1 standard. This standard unlocks gigabit broadband speeds over existing coaxial cable, making it comparable to the speed provided by fiber optic connections, but without the added infrastructure cost. According to the latest industry analysis, 80% of cable operators have committed to DAA deployment plans.

We are addressing this industry transition through the development of our next generation platform, Entra, which uses distributed access architectures.

Entra Distributed Access Platform

The Entra Distributed Access solution comprises three components:

- An access node that provides a modular platform for deployment of access technologies. The Access Node can operate as Remote PHY (R-PHY) or Remote MACPHY (R-MACPHY);
- A virtual controller software application for unified management of access nodes; and,
- A Legacy QAM Adapter that provides a simple solution to adapt existing video QAM infrastructure for distributed access.

Entra Access Switch

The Entra family also includes the Entra Access Switch, an 8 port x 10 GbE weatherproof switch capable of supporting Carrier Ethernet services in almost any deployment environment. It is designed to extend the capacity of networks with insufficient fibers while minimizing the use of expensive digital optics.

Ongoing customer engagement continues to validate our plan for the Entra family. The response from Tier 1 operators remains highly encouraging with Entra's high Ethernet capacity, full support for legacy digital video, and distributed architecture approach generating significant customer interest.

First Quarter 2018 Highlights

- Achieved significant progress on our new DOCSIS 3.1 Entra platform:
 - Demonstrated Entra Remote PHY node interoperability at industry events with the top two CCAP vendors.
 - Delivered Entra Legacy QAM solution into customer labs for evaluation.
- Began sales of the upgraded Digital Video Access Platform (DVAP) software upgrade enabling the platform to support distributed access architecture.
- Completed the sale of YourLink's Saskatchewan assets for proceeds of \$8.7 million.
- Declared a quarterly dividend of \$0.055 per share.
- Ended the quarter in a strong financial position, including record cash balances of \$103.2 million.

Subsequent Events

Concurrent Acquisition

On October 16, 2017, we signed an agreement to acquire the assets of the video content and delivery business of Concurrent Computer Corporation (Concurrent) for US\$29.0 million in cash subject to certain closing adjustments relating to working capital. Concurrent is a US-based software and solutions company operating in the Video on Demand and IP Video Content Delivery space and supplies its technologies to many of the same Tier One Cable MSOs that we service.

The business combination supports and accelerates our ability to respond to the rapidly growing demand for IP-driven technologies and multi-screen services. Our own organic development of gigabit Internet access platforms like Entra, together with Concurrent's industry-leading IPTV delivery platforms, unlock numerous synergistic opportunities in the evolving IP video space. Our two companies together will be aligned to serve a global footprint including the Americas, Europe and Asia.

BTR Diamond Technology Reviews Awards

On October 20, 2017, our Entra Access Switch was honoured with the top award in the Optical Transport/Carrier Ethernet category in BTR's (Broadband Technology Report) Diamond Technology Reviews. In addition, our Entra Distributed Access Platform and Terrace DVB product were named finalists in the CCAP Systems and the Video Distribution Systems categories, respectively.

AirIQ Inc. Purchase

On October 24, 2017 we purchased 5,582,000 common shares of AirIQ Inc. ("AirIQ"), a Canadian-based wireless asset management company operating in the fleet management space. As consideration for the AirIQ shares, we issued an aggregate of 96,443 common shares of Vecima, at a deemed value of \$0.949 million. The shares were acquired for investment purposes and represent 21.3% of AirIQ.

Outlook

Vecima anticipates a year of transition in fiscal 2018 as the North American cable industry prepares for the DOCSIS 3.1 standard. Based on current customer feedback, field trials of various components of Vecima's new Entra family of DOCSIS 3.1 products are expected to commence in calendar year 2018. Management notes, however, that the plans and priorities of major MSOs continue to evolve, making it difficult to project timelines with certainty.

Demand for some of Vecima's legacy products is expected to taper off as market saturation is reached and customers focus on next generation products and technologies. Management expects fiscal 2018 to be a year of continued investment and development as it positions Vecima for industry leadership in the emerging DOCSIS 3.1 market and the IP video and content delivery space.

With a strong financial foundation, Vecima is well positioned to pursue its product strategies while also continuing to assess attractive acquisitions that provide significant accretion and give rapid access to technologies that will help drive the Company's growth and success.

Assets Held For Sale and Discontinued Operations

On July 13, 2017, we completed the second transaction on the sale of the telecommunication assets of the YourLink business in Saskatchewan for total consideration of \$8.7 million. Assets connected with this transaction (\$0.6 million) were previously classified as held for sale.

Financial results attributable to the disposal of all YourLink assets have been presented as discontinued operations.

Consolidated Results of Operations

Amounts are presented in thousands of Canadian dollars except percentages, employees, dividends and per share amounts. This information should be read in conjunction with our financial statements for the relevant periods, including the related notes, and the balance of this MD&A.

Consolidated Statements of Comprehensive Income Data	Three months ended			
	September 30,			
	2017		2016	
Sales	\$ 14,882	100 %	\$ 20,886	100 %
Cost of sales	6,404	43 %	10,017	48 %
Gross profit	8,478	57 %	10,869	52 %
Operating expenses				
Research and development ⁽¹⁾	3,163	21 %	2,849	13 %
Sales and marketing	1,108	7 %	1,297	6 %
General and administrative	2,610	18 %	2,464	12 %
Stock-based compensation	13	- %	68	- %
Other (income) expense	(82)	- %	3	- %
	6,812	46 %	6,681	31 %
Operating income	1,666	11 %	4,188	21 %
Finance income	298	2 %	253	1 %
Foreign exchange (loss) gain	(670)	(4)%	483	2 %
Income before income taxes	1,294	9 %	4,924	24 %
Income tax expense	330	2 %	1,368	7 %
Net and comprehensive income from continuing operations	964	7 %	3,556	17 %
Net and comprehensive income from discontinued operations	7,062	47 %	487	2 %
Net and total comprehensive income	\$ 8,026	54 %	\$ 4,043	19 %
Net and total comprehensive income per share⁽²⁾				
Basic	\$ 0.36		\$ 0.18	
Basic from continuing operations	\$ 0.04		\$ 0.16	
Diluted	\$ 0.36		\$ 0.18	
Diluted from continuing operations	\$ 0.04		\$ 0.16	
Other Data				
Total research and development expenditures ⁽³⁾	\$ 5,818	39 %	\$ 4,725	23 %
Adjusted EBITDA ⁽⁴⁾	\$ 2,874	19 %	\$ 7,091	34 %
Adjusted earnings per share ⁽⁵⁾	\$ 0.04		\$ 0.17	
Number of employees ⁽⁶⁾	334		451	

(1) Net of investment tax credits and capitalized development costs

(2) Based on weighted average number of common shares outstanding

(3) See "Total Research and Development Expenditures"

(4) Adjusted EBITDA does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. See "Adjusted EBITDA"

(5) Adjusted EPS does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. See "Adjusted Earnings per Share"

(6) The number of employees is determined as of the end of the period

Consolidated Statements of Financial Position Data

(unaudited - in thousands of dollars except number of common shares)	September 30, 2017	June 30, 2017
Cash and cash equivalents	\$ 34,297	\$ 3,517
Short-term investments	\$ 68,921	\$ 85,675
Working capital	\$ 116,342	\$ 110,457
Total assets	\$ 202,483	\$ 193,995
Long-term debt	\$ 2,167	\$ 2,208
Shareholder's equity	\$ 189,043	\$ 182,242
Number of common shares outstanding ⁽¹⁾	22,379,651	22,402,904

⁽¹⁾ Based on weighted average number of common shares outstanding

Adjusted Earnings per Share

The following table reconciles net income for the period to adjusted net income as well as earnings per share to adjusted earnings per share. The term "adjusted net income" refers to net income or net loss as reported in the IFRS financial statements, excluding any amounts included in net income or net loss for gains and losses on sale of non-core property, plant and equipment ("PPE"), intangible assets, and assets held for resale, impairments of intangible assets, and the tax effect of these adjusted items. We believe that adjusted earnings and adjusted earnings per share provides supplemental information for management and our investors because it provides for the analysis of our results exclusive of certain items which do not directly correlate to our business of selling broadband access products or supplying Telematic services. Adjusted earnings and adjusted earnings per share do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

Calculation of Adjusted Earnings Per Share (unaudited - in thousands of dollars except per share amounts)	Three months ended September 30,	
	2017	2016
Net and comprehensive income	\$ 8,026	\$ 4,043
Gain on sale of non-core PPE, net of taxes	(7,076)	(345)
Adjusted net and comprehensive income	\$ 950	\$ 4,043
Earnings per share	\$ 0.36	\$ 0.18
Gain on sale of assets held for resale, net of taxes	(0.32)	(0.01)
Adjusted earnings per share	\$ 0.04	\$ 0.17

EBITDA and Adjusted EBITDA

The following table reconciles net income for the period to EBITDA and Adjusted EBITDA. The term "EBITDA" refers to net income or net loss as reported in the IFRS financial statements, excluding any amounts included in net income or net loss for income taxes, interest expense, and depreciation and amortization for property plant and equipment and intangible assets. The term "Adjusted EBITDA" refers to EBITDA adjusted for: gains and losses on sale of property, plant and equipment, intangible assets, and assets held for sale; impairment of property, plant, and equipment; impairment of deferred development costs; restructuring costs; and stock compensation expense. We believe that Adjusted EBITDA is useful supplemental information for management and for our investors because it provides for the analysis of our results exclusive of certain non-cash items and other items which do not directly correlate to our business of selling broadband access products or supplying Telematic services. Adjusted EBITDA is not a recognized measure under IFRS and, accordingly, investors are cautioned that Adjusted EBITDA should not be construed as an alternative to net income, determined in accordance with IFRS, or as an indicator of our financial performance or as a measure of our liquidity and cash flows.

Calculation of Adjusted EBITDA	Three months ended September 30,	
	2017	2016
Net and total comprehensive income	\$ 8,026	\$ 4,043
Income tax expense	1,358	1,367
Interest expense	21	28
Depreciation of property, plant and equipment	404	689
Amortization of deferred development costs	907	885
Amortization of finite-life intangible assets	235	334
EBITDA	10,951	7,346
Gain on sale of assets held for sale	(8,109)	(329)
Loss on sale of PPE	19	6
Stock-based compensation	13	68
Adjusted EBITDA	\$ 2,874	\$ 7,091
Adjusted EBITDA margin (%)	19 %	34 %

Total Research and Development Expenditures

The following table reconciles research and development expense reported in accordance with IFRS as shown on the consolidated statements of comprehensive income to our actual cash research and development expenditures.

Calculation of Research and Development Expenditures	Three months ended September 30,	
	2017	2016
Research and development per statement of income	\$ 3,163	\$ 2,849
Deferred development costs	3,542	2,846
Investment tax credits	69	34
Amortization of deferred development costs	(907)	(885)
Government grant	(49)	(119)
Total research and development expenditure	\$ 5,818	\$ 4,725
Percentage of sales	39 %	23 %

Summary of Quarterly Results of Operations

The following information has been derived from our consolidated financial statements for the three months ended September 30, 2017, fiscal 2017, and fiscal 2016 in accordance with IFRS. This information should be read in conjunction with those financial statements and their related notes as well as with the balance of this MD&A.

	2018		Fiscal Year 2017				Fiscal Year 2016			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2		
Sales	14,882	14,629	15,718	20,227	20,886	21,868	28,637	24,561		
Cost of sales	6,404	7,170	7,499	9,753	10,017	9,918	12,292	11,262		
Gross profit	8,478	7,459	8,219	10,474	10,869	11,950	16,345	13,299		
Operating expenses										
Research and development	3,163	3,074	2,969	2,857	2,849	2,939	3,136	2,383		
Sales and marketing	1,108	1,423	1,404	1,161	1,297	1,429	1,807	1,146		
General and administrative	2,610	2,514	2,453	2,444	2,464	2,116	2,567	1,974		
Impairment of intangible assets	-	174	-	-	-	-	-	-		
Impairment of PPE	-	-	-	-	-	337	-	-		
Restructuring costs	-	986	-	-	-	-	-	-		
Stock-based compensation	13	120	67	66	68	138	114	115		
Other (income) expense	(82)	(157)	(163)	41	3	6	3	2		
	6,812	8,134	6,730	6,569	6,681	6,965	7,627	5,620		
Operating income (loss)	1,666	(675)	1,489	3,905	4,188	4,985	8,718	7,679		
Finance income	298	771	48	62	253	370	157	177		
Foreign exchange (loss) gain	(670)	(331)	150	493	483	134	(1,183)	499		
Income (loss) before income taxes	1,294	(235)	1,687	4,460	4,924	5,489	7,692	8,355		
Income tax expense	330	(89)	604	1,162	1,368	1,917	1,919	2,076		
Net and comprehensive income (loss) from continuing operations	964	(146)	1,083	3,298	3,556	3,572	5,773	6,279		
Net and comprehensive income (loss) from discontinued operations	7,062	3	9,292	475	487	(150)	216	236		
Net and total comprehensive income (loss)	\$ 8,026	\$ (143)	\$ 10,375	\$ 3,773	\$ 4,043	\$ 3,422	\$ 5,989	\$ 6,515		
Net and total comprehensive income (loss) per share										
Basic	\$ 0.36	\$ (0.01)	\$ 0.46	\$ 0.17	\$ 0.18	\$ 0.15	\$ 0.27	\$ 0.29		
Diluted	0.36	(0.01)	0.46	0.17	0.18	0.15	0.27	0.29		
Adjusted EBITDA as reported	\$ 2,874	\$ 2,415	\$ 3,430	\$ 7,360	\$ 7,091	\$ 7,745	\$ 10,323	\$ 10,106		

Quarter-to-Quarter Sales Variances

There are many factors that contribute to the overall variances of our sales. One of the main factors is that we continually develop new products to replace products that are reaching the end of their lifecycle. The timing of development can vary based on the size of the projects. The timing of regulatory certification and customer acceptance of new products can also affect the timing of sales.

Within the industry, spending by cable operators is impacted by new technology adoption such as the planned industry migration to DOCSIS 3.1. The budgeting cycles of larger cable operators can also result in quarter to quarter variability in customer orders around their budgeting season and installation schedules.

We are currently experiencing a slowdown in demand for our legacy products as customers complete their digital networks and prepare to migrate to DOCSIS 3.1. We expect our sales to recover as our new products in the DOCSIS 3.1 Entra platform are commercialized.

Segmented Information

Sales

Segment	Three months ended September 30,	
	2017	2016
Video and Broadband Solutions	\$ 13,600	\$ 19,515
Telematics	1,282	1,371
Total sales	\$ 14,882	\$ 20,886

We generated total sales of \$14.9 million in the first quarter of fiscal 2018 compared to \$20.9 million in the same period last year and \$14.6 million in Q4 fiscal 2017, representing a 29% decline and 2% increase respectively.

Video and Broadband Solutions sales were \$13.6 million in the first quarter of fiscal 2018, compared to \$19.5 million in the Q1 fiscal 2017 and \$13.5 million in Q4 fiscal 2017.

- Sales of the Terrace family of products decreased 20% to \$7.3 million, from \$9.1 million in the first quarter of fiscal 2017 as customers neared completion of their network digital upgrades and sales of the TC1200 and TC600 slowed. On a sequential quarterly basis, sales of Terrace family products increased 15% from \$6.4 million in Q4 fiscal 2017, reflecting strong purchasing activity by a Tier One MSO for the TC600E as part of a continued network-wide all-digital conversion.
- First quarter fiscal 2018 sales of TerraceQAM were \$3.4 million, compared to \$7.7 million in the first quarter of 2017, a 56% decrease. On a sequential quarterly basis, sales of TerraceQAM decreased 41% from \$5.7 million in Q4 fiscal 2017. The lead MSO customer for TerraceQAM purchased significant quantities of new platforms and upgrades in the first half of fiscal 2017 and as expected, has subsequently been drawing down inventory. While we believe our customer's need for new systems is nearing saturation, we have delivered a further platform enhancement to the lead customer which frees up network capacity by supporting a new digital audio format. This latest enhancement, combined with our earlier transcoding upgrade, may result in further upgrade related sales in the future as the compression format rolls out, serving to partially offset the anticipated slowdown in system sales and upgrade kits.
- Digital Video Access Platform (DVAP) sales increased to \$1.6 million in the first quarter of 2017, from \$nil in both Q1 and Q4 fiscal 2017. The year-over-year and quarter-over-quarter increase reflects sales of a new software upgrade that prepares this platform to support distributed access architecture. Along with increased demand from our OEM customer, we expect this upgrade will increase the pace of DVAP deployment among MSOs as they prepare for distributed access architecture which cannot be supported by legacy devices.

Telematics sales were \$1.3 million in the first quarter of fiscal 2018, compared to \$1.4 million in Q1 fiscal 2017 and \$1.2 million in Q4 fiscal 2017. Lower legacy product sales in the current year resulted in lower sales year-over-year. An accounting estimate change for deferred revenue introduced in Q4 fiscal 2017 accounts for the quarter-over-quarter change.

Cost of Sales

Cost of sales consists primarily of product manufacturing and assembly expenses, with component parts, employee and third-party supplier costs representing a significant portion of these costs. Costs associated with Video and Broadband Solutions sales include related overhead, compensation, final assembly, quality assurance and inventory management costs, as well as support costs and payments to contract manufacturers that perform printed circuit board assembly functions. Costs associated with Telematics sales consist of hardware amortization, inventory management costs, order fulfillment, wireless fees, server hosting services, and mapping licenses.

Gross Profit and Gross Margin

Segment	Three months ended September 30,	
	2017	2016
Video and Broadband Solutions	\$ 7,561	\$ 9,966
Telematics	917	903
Total gross profit	\$ 8,478	\$ 10,869
Video and Broadband Solutions	55.6 %	51.1 %
Telematics	71.5 %	65.9 %
Total gross margin	57.0 %	52.0 %

For the three months ended September 30, 2017, we achieved gross margin of 57%, providing a total gross profit of \$8.5 million. This compares to a gross margin of 52% and a total gross profit of \$10.9 million in the same period last year, and a gross margin of 51% and a total gross profit of \$7.5 million in Q4 fiscal 2017.

Gross margin from the Video and Broadband Solutions segment increased to 56% (gross profit of \$7.6 million) in the first quarter of fiscal 2018, from 51% (gross profit of \$10.0 million) during the same period in fiscal 2017. Results from the segment were positively impacted by DVAP software sales, which carry a higher gross margin, as well as by operating efficiencies achieved as a result of an operational restructuring completed early in the quarter. On a quarter-over-quarter basis, Q1 fiscal 2018 gross margin was higher than the 48% gross margin achieved in Q4 fiscal 2017 for the same reasons noted above.

The Telematics segment achieved a gross margin of 72% (gross profit of \$0.9 million) in the first quarter of fiscal 2018, up from a gross margin of 66% (gross profit of \$0.9 million) in Q1 fiscal 2017. Sequentially, Telematics gross margin decreased from 86% in Q4 fiscal 2017 and gross profit was \$0.1 million lower as a result of the change in estimate for the capitalized equipment amortization recorded in Q4 fiscal 2017.

Operating Expenses

Segment	Three months ended September 30,	
	2017	2016
Video and Broadband Solutions	\$ 5,973	\$ 5,803
Telematics	839	878
Total operating expense	\$ 6,812	\$ 6,681

For the three months ended September 30, 2017, total operating expenses increased slightly to \$6.8 million, from \$6.7 million last year, but decreased from \$8.1 million in Q4 2017.

Video and Broadband Solutions operating expenses increased to \$6.0 million in Q1 fiscal 2018, from \$5.8 million in Q1 fiscal 2017. The year-over-year increase reflects a \$0.2 million increase in research and development costs and a \$0.2 million increase in G&A expenses as a result of higher acquisition-related costs in the current period, partially offset by a \$0.1 million decrease in sales and marketing expenses reflecting higher inventory allowances in the prior-year period and also offset by \$0.1 million increase in other income period-over-period. On a sequential quarterly basis, first quarter operating expenses were \$1.3 million lower than the \$8.1 million recorded in Q4 fiscal 2017, mainly representing onetime restructuring costs of \$1.0 million and a \$0.2 million impairment of intangibles, both of which were recorded in the Q4 fiscal 2017 period.

Telematics operating expenses decreased slightly to \$0.8 million in Q1 fiscal 2018, from \$0.9 million in Q1 fiscal 2017. Sequentially, Telematics operating expenses were \$0.4 million lower than the \$1.2 million recorded in Q4 2017 due to lower deferred development costs in Q4 fiscal 2017 and a one-time impairment of \$0.2 million in prior deferred development costs.

Research and development expenses for the three months ended September 30, 2017 increased to \$3.2 million, or 21% of sales, from \$2.8 million, or 13% of sales in the same period of fiscal 2017. We continue to invest in research and development to support the launch of our new products. Until these products are in commercial production, the development costs are deferred to future periods. Total research and development costs before deferrals, amortization of deferred development costs and income tax credits for the three months ended September 30, 2017 increased to \$5.8 million, or 39% of sales, from \$4.7 million, or 23% of sales in Q1 fiscal 2017. The increase was primarily the result of higher subcontracting and prototyping costs in the current period. Research and development costs were up slightly from the \$5.7 million at Q4 fiscal 2017.

Sales and marketing expenses decreased to \$1.1 million, or 7% of sales in Q1 fiscal 2018, from \$1.3 million, or 6% of sales last year. This decrease reflects higher allowances for slow moving finished goods inventory and warranty costs in the fiscal 2017 period. On a sequential quarterly basis, Q1 fiscal 2018 expenses were down from the \$1.4 million recorded in Q4 2017, reflecting lower finished goods inventory allowances quarter over quarter.

General and administrative expenses increased to \$2.6 million in Q1 fiscal 2018, from \$2.5 million in Q1 and Q4 fiscal 2017. The increase reflects higher acquisition-related costs in the current period, partially offset by lower amortization and staffing costs.

Stock-based compensation expense was \$0.0 compared to \$0.1 million in Q1 fiscal 2017.

Other income increased to \$0.1 million for the three months ended September 30, 2017, from \$0.0 in the same period last year. This increase represents increased lease income in the current period.

Operating Income

	Three months ended	
	September 30,	
	2017	2016
Video and Broadband Solutions	\$ 1,588	\$ 4,163
Telematics	78	25
Total operating income	\$ 1,666	\$ 4,188

We generated operating income of \$1.7 million in Q1 fiscal 2018, compared to operating income of \$4.2 million in Q1 fiscal 2017. The 60% decrease was driven by lower sales and gross profit in the current period, together with an increase in total operating costs. On a sequential quarterly basis, operating income increased by \$2.4 million from an operating loss of \$0.7 million in Q4 2017. This mainly reflects higher gross profit quarter-over-quarter, together with lower operating expenses resulting from restructuring costs in the prior quarter.

First quarter Video and Broadband Solutions operating income declined to \$1.6 million, from \$4.2 million in Q1 fiscal 2017. The year-over-year change reflects the \$5.9 million reduction in sales, the related \$2.4 million decrease in gross profit and the \$0.2 million increase in operating expenses. Sequentially, operating income was

\$2.1 million higher than the operating loss of \$0.5 million recorded in Q4 fiscal 2017, mainly reflecting higher gross profit of \$0.1 million and the non-repeat of \$1.0 million in restructuring costs incurred in Q4 fiscal 2017.

Telematics operating income increased to \$0.1 million in Q1 fiscal 2018, a \$0.1 million improvement from Q1 fiscal 2017. Slightly higher gross profit and operating expenses were the main reasons for the increase. Sequentially, operating income from the Telematics segment was up \$0.3 million from an operating loss of \$0.2 million in Q4 2017, reflecting the one-time impairment of deferred development costs recorded in Q4 2017.

Finance income was \$0.3 million in Q1 fiscal 2018, consistent with results from the same period last year.

Foreign exchange (loss) gain was a loss of \$0.7 million in Q1 fiscal 2018, compared to a gain of \$0.5 million in Q1 fiscal 2017.

Income tax expense decreased to \$0.3 million in Q1 fiscal 2018 from \$1.4 million at Q1 fiscal 2017.

Net income from discontinued operations increased to \$7.1 million in Q1 fiscal 2018 from \$0.5 million in Q1 fiscal 2017. The current period reflects the gain on sale related to the second closing of the sale of YourLink operations in Saskatchewan. The prior year period primarily reflects the gain on sale related to the sale of YourLink BC. Discontinued operations represent the YourLink operations in Saskatchewan sold in Q3 fiscal 2017 and the YourLink operations in British Columbia sold in Q1 fiscal 2017.

Net and total comprehensive income for Q1 fiscal 2018 increased to \$8.0 million or \$0.36 per share, from net income of \$4.0 million or \$0.18 per share in Q1 fiscal 2017.

Cash from Operating Activities

For the three months ended September 30, 2017, cash flow from operating activities provided cash of \$9.1 compared to cash of \$11.0 million for the three months ended September 30, 2016. The \$1.9 million decrease reflects a \$4.3 million decrease in operating cash flow partially offset by the \$2.3 million increase in cash flow from non-cash working capital.

Investing Activities

Cash flow provided by investing activities increased to \$21.7 million in Q1 fiscal 2018 from cash used in investing activities of \$12.3 million in Q1 fiscal 2017. The cash used by investing activities represents the net sale of short-term investments of \$16.8 million (Q1 fiscal 2017 net purchase of short-term investments - \$9.3 million), deferred development expenditures of \$3.5 million (Q1 fiscal 2017 - \$2.8 million), and purchase of property, plant and equipment of \$0.2 million (Q1 fiscal 2017 - \$0.4 million).

Financing Activities

For the three months ended September 30, 2017 we repaid \$0.04 million of our long-term debt (Q1 fiscal 2017 - \$0.06 million repaid). We received proceeds of government grants of \$0.04 million (Q1 fiscal 2017 - \$0.1 million).

Liquidity and Capital Resources

We manage our liquidity and capital resources to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. We believe we have the flexibility to obtain from internal sources the funds needed to fulfil our cash requirements during the following financial year. Our liquidity requirements are met primarily by funds generated from operations. In Q1 fiscal 2018, our liquidity requirements were also met as a result of the proceeds on the second closing of the sale of YourLink assets in Saskatchewan.

As at September 30, 2017, we had access to our full revolving loan facility of \$14.0 million (\$14.0 million at June 30, 2017), of which no amount was drawn as an operating line of credit (June 30, 2017 - \$nil was drawn). We had term credit of \$2.4 million as at September 30, 2017 (June 30, 2017 - \$2.5 million). We believe that our current cash and short term investments of \$103.2 million together with anticipated cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future.

Capital expenditures for Q1 fiscal 2018 were \$0.2 million compared to \$0.3 million in Q1 fiscal 2017. Capital expenditures for fiscal 2018 are expected to be approximately \$2.0 million.

Working Capital

Working capital represents our current assets less current liabilities. Our working capital increased to \$116.3 million at September 30, 2017, from \$110.5 million at June 30, 2017. This largely reflects proceeds received from the second closing of the sale of the YourLink assets in Saskatchewan. We note that working capital balances can also be subject to significant swings from quarter to quarter. Our product shipments are "lumpy", reflecting the requirements of our major customers. It is not unusual to ship \$5 or \$6 million of product in a one-week period. If this level of sales occurs in the first week of a succeeding quarter, we would expect to experience an increase in inventory levels and a drop in receivables in the prior quarter. Other timing issues, like contracts with greater than 30 day payment terms, also affect working capital, particularly if shipments are backend weighted for a quarter.

Accounts receivable balance decreased to \$8.0 million at September 30, 2017 from \$13.0 million at June 30, 2017. This decrease reflects the timing of sales, with more orders shipping earlier in the quarter. As a result, related accounts receivable were collected during the quarter.

Income tax receivable balance was flat at \$2.0 million at June 30, 2017 compared to \$2.0 million at September 30, 2017. This balance represents income tax paid in respect of a January 2017 CRA re-assessment (see Commitments below for details).

Inventory decreased by \$0.5 million to \$13.4 million at September 30, 2017 from \$13.9 million as at June 30, 2017. Finished goods inventories were \$6.4 million at September 30, 2017, compared to \$8.1 million at June 30, 2017. Raw material inventory increased to \$4.9 million at September 30, 2017, compared to \$4.5 million at June 30, 2017. Work in process inventories increased to \$2.1 million as at September 30, 2017 compared to \$1.3 million at June 30, 2017. We manufacture and assemble products, with the result that inventory levels will be substantially higher than for other companies in the industry that outsource manufacturing and assembly.

Investment tax credits were \$19.9 million at September 30, 2017 down from \$20.1 million at June 30, 2017. For every dollar we spend on eligible research and development in Canada, we generate approximately fifteen cents in income tax credits. These credits are used to offset our income tax payable.

Accounts payable and accrued liabilities increased 22% to \$7.8 million at September 30, 2017 representing 102 days for payables to be outstanding. This compares to \$6.4 million at June 30, 2017, representing an average of 60 days for payables to be outstanding. This dollar increase reflects the timing of purchases in the quarter.

Long-term debt, including current portion, decreased to \$2.4 million at September 30, 2017 from \$2.5 million at June 30, 2017.

Dividends

Declaration Date	Dividend Amount (per share)	Record Date	Payable Date
November 8, 2016	\$0.055	November 24, 2016	December 20, 2016
February 7, 2017	\$0.055	February 27, 2017	March 20, 2017
May 8, 2017	\$0.055	May 26, 2017	June 20, 2017
September 25, 2017	\$0.055	October 13, 2017	November 3, 2017

Contractual Obligations

We have lease commitments for production equipment, service vehicles and facilities amounting to \$1.3 million within one year, \$3.1 million after one year but not more than five years and \$nil thereafter.

Commitments

In January 2017, we received a re-assessment from the Canada Revenue Agency ("CRA") regarding our tax treatment of gains on the sale of radio spectrum licenses in 2012 to 2014. The CRA has re-assessed the gains on the sale of these radio spectrum licenses as active business income, which would result in additional income taxes, penalties and interest payable of approximately \$4.1 million. We and our advisors have reviewed the applicable tax law and believe our original treatment of these sales as capital gains was appropriate. We filed a Notice of Objection in March 2017. The outcome of this matter cannot be determined at this time with reasonable certainty. No provision for this matter has been recognized in the financial statements. To avoid

further penalties, 50% of the re assessment was paid.

In March 2017, we received a re-assessment from the CRA regarding the eligibility of certain Scientific Research and Experimental Development ("SR&ED") claims on our 2015 tax return. The CRA re-assessment would result in a reduction of SR&ED expenditures claimed of \$1.3 million (\$0.4 million tax affected). We and our advisors have reviewed the applicable tax law and believe our original treatment of these SR&ED claims was appropriate. We filed a Notice of Objection in regards to this matter in June 2017. The outcome of this matter cannot be determined at this time with reasonable certainty. No provision for this matter has been recognized in the financial statements.

Foreign Exchange

Approximately 95% of our revenues are denominated in U.S. dollars. We translate U.S. dollar sales to Canadian dollars on the date of delivery and subsequently when the account receivable is collected. If the U.S. dollar appreciates relative to the Canadian dollar after we collect the accounts receivable in U.S. dollars, we will receive more Canadian dollars when the U.S. dollars are converted to Canadian dollars in subsequent months. We also enjoy a natural hedge since the majority of our materials and components purchases are in U.S. dollars.

During the quarter, the exchange rate on the Canadian dollar weakened to \$1.246 against the U.S. dollar as of September 30, 2017 from Canadian \$1.296 against the U.S. dollar as at June 30, 2017. This \$0.050 exchange difference decreased the value of our \$30.8 million U.S. dollar net assets by approximately \$1.5 million Canadian.

Effective March 3, 2017, we entered into a range bonus accumulator with a Canadian chartered bank. As at September 30, 2017, we received 16 of 26 weekly bonus payments for a total of \$0.04 million. The contract ended on September 1, 2017.

Financial Instruments

We periodically enter into forward contracts to partially manage our exposure to currency fluctuations between Canadian and U.S. dollars. Forward contracts are entered into based on our projected requirements for converting U.S. to Canadian dollars. We do not recognize these contracts in the consolidated financial statements when they are entered into, nor do we account for them as hedges. Instead, the contracts are marked to fair value at each balance sheet date. Changes to fair value are recorded in income. The fair value of these contracts is included in accounts receivable when in an asset position or accounts payable when in a liability position.

As at September 30, 2017, we did not have any forward contracts (June 30, 2017 - \$nil).

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial performance or financial conditions.

Transactions Between Related Parties

We lease a building in Saskatoon under a 10-year lease from Dr. Surinder Kumar, the Chairman of Vecima. The lease was entered into in 2010 at prevailing market rates at that time and expires in 2019. The rental expense from this transaction was \$0.1 million for the three months ended September 30, 2017 (September 30, 2016 - \$0.1 million).

Proposed Transactions

Other than those mentioned in this MD&A, there are no proposed asset or business acquisitions or dispositions that our Board of Directors have decided to proceed with or for which our senior management believes confirmation by the Board of Directors is probable.

Critical Accounting Estimates

The preparation of our unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Use of judgment and estimates are disclosed in Note 3 of the unaudited condensed interim consolidated financial statements for the three months ended September 30, 2017.

Accounting Pronouncements

Amendments to IFRS 2 – Share-Based Payment

In June 2016, the IASB issued amendments to IFRS 2 *Share-Based Payment*. The amendments were issued to provide clarification on the classification and measurement of share-based transactions. The standard is effective for periods beginning on or after January 1, 2018 with earlier application permitted. The Company is currently reviewing the standard to determine the potential impact on its consolidated financial statements.

IFRS 9 Financial Instruments

In November 2009, the IASB issued guidance relating to the classification and measurement for financial assets followed by requirements for financial liabilities and derecognition which were added in 2010. IFRS 9 was amended in 2013 to add new general hedge accounting requirements. The standard must be applied retrospectively and is effective for annual periods beginning after January 1, 2018, with earlier application permitted. We have completed a preliminary review of the standard to determine the potential impact on our consolidated financial statements, and do not expect any material impacts.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB published a new standard, IFRS 15 Revenue from Contracts with Customers. This standard supersedes current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard may be applied retrospectively or with a modified transition approach and is effective for reporting periods beginning on or after January 1, 2018, with earlier application permitted. We have a plan to ensure compliance with IFRS 15 by the required adoption date, which includes identifying differences between existing policies and IFRS 15, ensuring the data collection process is sufficient and appropriate and communicating the changes with various stakeholders. We are currently executing on our transition plan and continue to assess the impact of this standard on the consolidated financial statements. We expect to apply the standard retrospectively with cumulative effect applied on adoption date, subject to permitted and elected practical expedients.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases. IFRS 16 eliminates the current dual model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. The standard is effective for periods beginning on or after January 1, 2019 with earlier application permitted. We are currently reviewing the standard to determine the potential impact on our consolidated financial statements.

Disclosure Controls and Procedures

Our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have designed, or caused to be designed, disclosure controls and procedures to provide reasonable assurance that material information relating to Vecima is made known by us to others, particularly during the period in which annual filings are being prepared, and information required to be disclosed by us in our annual filings, interim filings or other reports filed or submitted by us under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Our CEO and CFO have evaluated the effectiveness of our disclosure controls and procedures as defined under rules adopted by the Canadian securities regulatory authorities. Based on that evaluation, our CEO and CFO

have concluded that our disclosure controls and procedures were effective as at September 30, 2017.

Internal Control over Financial Reporting

Our CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS. There are inherent limitations to the effectiveness of any system of internal controls, including the possibility of human error and the circumvention or overriding of internal controls. Because of its inherent limitations, internal controls of financial reporting may not prevent or detect misstatements. Accordingly, even if internal controls are effective, they can only provide reasonable assurance of achieving their controls.

Our CEO and CFO have evaluated the effectiveness of the internal control over financial reporting as at September 30, 2017 in accordance with Internal Control - Integrated Framework (2013), published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, our CEO and CFO have determined that the internal control over financial reporting is effective as at September 30, 2017.

Legal Proceedings

From time to time, we may be involved in certain claims and litigation arising out of the ordinary course and conduct of business. Management assesses such claims and, if considered likely to result in a loss and, when the amount of the loss is quantifiable, provisions for loss are made, based on management's assessment of the most likely outcome. We do not provide for claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable.

If it becomes probable that we will be held liable for claims against our Company, we will recognize a provision during the period in which the change in probability occurs, which could be material to our consolidated statements of income or consolidated statements of financial position.

Risk and Uncertainties

Our financial performance, share price, business prospects and financial condition are subject to numerous risks and uncertainties, and are affected by various factors outside the control of management. Prior to making any investment decision regarding Vecima, investors should carefully consider, among other things, the risks described herein (including the factors outlined under the heading "Forward-Looking Information" below) and the risk factors set forth in our Annual Information Form for its most recently completed fiscal year, which are incorporated by reference herein. These risks and uncertainties are not the only ones that we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business. If any of such risks actually occur, our financial performance, share price, business prospects and financial condition could be materially adversely affected.

Outstanding Share Data

As at November 9, 2017, we had 22,475,294 common shares outstanding as well as options outstanding that are exercisable for an additional 449,891 common shares.

On October 25, 2016, we filed a notice of intention with the Toronto Stock exchange to acquire for cancellation, by way of normal course issuer bid, up to 600,000 common shares of the Company. We acquired 800 common shares of Vecima for cancellation during the first quarter of fiscal 2018. The normal course issuer bid expired on October 27, 2017.

Additional Information

Financial Governance

Our management is responsible for the preparation and presentation of the annual audited consolidated financial statements and notes thereto and the MD&A. Additionally, it is management's responsibility to ensure that we comply with the laws and regulations applicable to our activities.

Our management is accountable to the Board of Directors, each member of which is elected annually by the shareholders of the Company. The Board is responsible for reviewing and approving the annual audited consolidated financial statements and the MD&A, after receiving the recommendation of the Audit Committee, which is composed of two directors (one vacancy), both of whom are independent.

The auditors are appointed annually by the shareholders to conduct an audit of the annual consolidated financial statements in accordance with generally accepted auditing standards. The external auditors have complete access to the Audit Committee to discuss audit, financial reporting and related matters resulting from the annual audit, as well as to assist the members of the Audit Committee in discharging their responsibilities.

Forward-Looking Information

This MD&A contains "forward looking information" within the meaning of applicable securities laws. Forward looking information is generally identifiable by use of the words "believes", "may", "plans", "will", "anticipates", "intends", "could", "estimates", "expects", "forecasts", "projects" and similar expressions, and the negative of such expressions.

Forward looking information in this MD&A includes, but is not limited to statements that we believe that our current cash and short term investments of \$103.2 million together with anticipated cash flow from operations will be sufficient to meet our working capital requirements and capital expenditure requirements for the foreseeable future. We are also strongly focused on development of next generation platforms that respond to the major cable industry shift to distributed access architectures (DAA) under the new DOCSIS 3.1 standard. Ongoing customer engagement continues to validate our plan for the Entra family. The response from Tier 1 operators remains highly encouraging with Entra's high Ethernet capacity, full support for legacy digital video, and distributed architecture approach generating significant customer interest. Capital expenditures for fiscal 2018 are expected to be approximately \$2.0 million. Forward looking information also includes our Recent Industry Developments and our Outlook in this MD&A.

In connection with the forward looking information contained in this MD&A, we have made numerous assumptions, regarding, among other things: the strength of our balance sheet; the present or potential value of our core technologies, business operations and asset holdings; we are able to continue our relationships with a few key customers; we are able to deliver products associated with key contracts; we can manage our business and growth successfully; we can meet customers' requirements for manufacturing capacity; we are able to develop new products and enhance its existing products; we can expand current distribution channels and can develop new distribution channels; we are able to recruit and retain management and other qualified personnel crucial to our business; we are not required to change our pricing models to compete successfully; our third party suppliers and contract manufacturers upon which we rely continue to meet our needs; our intellectual property is not infringed upon; we are not subject to warranty or product liability claims that harm our business; we are able to successfully implement acquisitions; we are able to manage risks associated with our international operations; currency fluctuations do not adversely affect us; growth in our key markets continues; we are able to adapt to technological change, new products and standards; we are not subject to increased competition that has an adverse effect on our business; continued growth in the converged wired solutions market; we are not subject to competition from new or existing technologies that adversely affect our business; we are not subject to any material new government regulation of our products; and, no third parties allege that we infringe on their intellectual property. While we consider these assumptions to be reasonable, these assumptions are inherently subject to significant uncertainties and contingencies.

There are known and unknown risk factors which could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward looking information contained in this MD&A. Known risk factors include, among others: our statement of financial position, as well as the value of our core technologies, business operations and asset holdings may be significantly weaker than we currently estimate; our operating results are expected to fluctuate; we derive a substantial part of our revenue from a few key customers; we may be unable to deliver products associated with

key contracts; failure to manage our business or growth successfully may adversely affect our operating results; if we cannot meet our customers' requirements for manufacturing capacity, sales may suffer; our success depends on our ability to develop new products and enhance our existing products; we are dependent on the expansion of our current distribution channels and the development of new distribution channels; the budgeting cycles of larger cable operators can also result in quarter to quarter variability in customer orders generally large in volume, while availability of parts and production capacity can influence the timing of product deliveries; our ability to recruit and retain management and other qualified personnel is crucial to our business; if we are required to change our pricing models to compete successfully, our margins and operating results may be adversely affected; our reliance on third party suppliers and contract manufacturers reduces our control over our performance; our revenues are substantially concentrated in a single market category; if our intellectual property is not adequately protected, we may lose our competitive advantage; successful warranty or product liability claims could harm our business; acquisitions could divert management's attention and financial resources, may negatively affect our operating results and could cause significant dilution to shareholders; risks associated with our international operations; currency fluctuations may adversely affect us; growth in our key markets may not continue; our inability to adapt to technological change, new products and standards could harm our business; increased competition could have an adverse effect on our business; our future success depends on growth in the converged wired solutions market; competition from new or existing technologies may adversely affect our business; government regulation of our products and new government regulation could harm our business; and, third parties may allege that we infringe on their intellectual property. A more complete discussion of the risks and uncertainties facing us is disclosed under the heading "Risks and Uncertainties" above and under the heading "Risk Factors" in our Annual Information Form for our most recently completed fiscal year, as well as in our continuous disclosure filings with Canadian securities regulatory authorities available at www.sedar.com. All forward looking information in this MD&A is qualified in its entirety by this cautionary statement and we disclaim any obligation to revise or update such forward looking information to reflect future results, events or developments, except as required by law.