



## **FIRST QUARTER RESULTS**

### **Unaudited Condensed Interim Consolidated Financial Statements**

For the three months ended September 30, 2018



## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited interim consolidated financial statements of Vecima Networks Inc. (the "Company") have been prepared and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the CPA Canada Handbook for a review of interim financial statements by an entity's auditor.

**VECIMA NETWORKS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(unaudited - in thousands of Canadian Dollars)

	Notes	September 30, 2018	June 30, 2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 12,247	\$ 11,034
Short-term investments		41,139	46,660
Accounts receivable	12	15,257	17,997
Income tax receivable		2,535	2,519
Inventories	4	17,459	15,020
Prepaid expenses		1,972	1,658
Contract assets	12	435	-
		<b>91,044</b>	<b>94,888</b>
<b>Non-current assets</b>			
Property, plant and equipment	5	11,747	12,105
Goodwill		14,755	14,903
Intangible assets	6	63,758	62,324
Other long-term assets		974	788
Investment tax credit		23,321	22,692
Deferred tax asset		2,431	2,339
		<b>\$ 208,030</b>	<b>\$ 210,039</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 12,612	\$ 12,151
Provisions		576	520
Deferred revenue	12	3,146	4,206
Other current liabilities		1,230	358
Current portion of long-term debt	10	250	250
		<b>17,814</b>	<b>17,485</b>
<b>Non-current liabilities</b>			
Deferred revenue	12	1,086	524
Provisions		389	352
Deferred tax liability		407	414
Long-term debt	10	1,917	1,979
		<b>21,613</b>	<b>20,754</b>
<b>Shareholders' equity</b>			
Share capital	11	1,756	1,756
Reserves		4,075	4,041
Retained earnings		179,927	182,411
Accumulated other comprehensive income		659	1,077
		<b>186,417</b>	<b>189,285</b>
		<b>\$ 208,030</b>	<b>\$ 210,039</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**VECIMA NETWORKS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME**  
**AND OTHER COMPREHENSIVE INCOME**  
(unaudited - in thousands of Canadian dollars except net income per share data)

	Notes	Three months ended	
		September 30, 2018	2017
<b>Sales</b>	12, 16	\$ 21,335	\$ 14,882
<b>Cost of sales</b>		10,144	6,404
<b>Gross profit</b>		11,191	8,478
<b>Operating expenses</b>			
Research and development		4,604	3,163
Sales and marketing		3,200	1,108
General and administrative		4,003	2,610
Restructuring costs		757	-
Stock-based compensation	11	34	13
Other (income) expense	13	(88)	(82)
		12,510	6,812
<b>Operating (loss) income</b>		(1,319)	1,666
Finance income		222	298
Foreign exchange loss	8	(517)	(670)
<b>(Loss) income before income taxes</b>		(1,614)	1,294
Income tax (benefit) expense	7	(518)	330
<b>Net (loss) income from continuing operations</b>		(1,096)	964
<b>Net income from discontinued operations</b>		-	7,062
<b>Net (loss) income</b>		\$ (1,096)	\$ 8,026
<b>Other comprehensive loss</b>			
Item that may be subsequently reclassified to net income			
Exchange differences on translating foreign operations		(418)	-
<b>Comprehensive (loss) income</b>		(1,514)	8,026
<b>Net (loss) income per share</b>			
Continuing operations		(0.05)	0.04
Discontinued operations		-	0.32
<b>Total basic net (loss) income per share</b>	11	\$ (0.05)	\$ 0.36
Continuing operations		(0.05)	0.04
Discontinued operations		-	0.32
<b>Total diluted net (loss) income per share</b>	11	\$ (0.05)	\$ 0.36
<b>Weighted average number of common shares</b>			
Shares outstanding - basic	11	22,373,122	22,379,651
Shares outstanding - diluted	11	22,385,384	22,440,546

The accompanying notes are an integral part of these consolidated financial statements.

**VECIMA NETWORKS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(unaudited - in thousands of Canadian dollars)

	Share Capital	Reserves	Retained Earnings	Accumulated Other Comprehensive Income	Total
<b>Balance as at June 30, 2017</b>	\$ 803	\$ 3,965	\$ 177,474	\$ -	\$ 182,242
Net income	-	-	8,026	-	8,026
Dividends	-	-	(1,231)	-	(1,231)
Shares repurchased and cancelled	-	-	(7)	-	(7)
Share-based payment expense	-	13	-	-	13
<b>Balance as at September, 2017</b>	\$ 803	\$ 3,978	\$ 184,262	\$ -	\$ 189,043
<b>Balance as at June 30, 2018</b>	\$ 1,756	\$ 4,041	\$ 182,411	\$ 1,077	\$ 189,285
IFRS 15 transition impact (Note 2)	\$ -	\$ -	\$ (102)	\$ -	\$ (102)
<b>Adjusted balance as at June 30, 2018</b>	\$ 1,756	\$ 4,041	\$ 182,309	\$ 1,077	\$ 189,183
Net loss	-	-	(1,096)	-	(1,096)
Other comprehensive loss	-	-	-	(418)	(418)
Dividends	-	-	(1,230)	-	(1,230)
Shares repurchased and cancelled	-	-	(56)	-	(56)
Share-based payment expense	-	34	-	-	34
<b>Balance as at September 30, 2018</b>	\$ 1,756	\$ 4,075	\$ 179,927	\$ 659	\$ 186,417

*The accompanying notes are an integral part of these consolidated financial statements.*

**VECIMA NETWORKS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited - in thousands of Canadian dollars)

	Notes	Three months ended	
		September 30,	
		2018	2017
<b>Cash flows from operating activities</b>			
Net (loss) income from continuing operations		\$ (1,096)	\$ 964
Adjustments to reconcile net income to cash from operating activities	14	1,991	1,610
Decrease in other long-term assets		19	-
Increase (decrease) in provisions		104	(154)
Increase in investment tax credit		(27)	(67)
Net change in non-cash operating working capital relating to operations	15	(410)	6,347
Interest paid		(24)	(21)
Interest received		281	319
Income tax received		262	-
Income tax paid		(351)	-
Net cash provided by continuing operations		749	8,998
Net cash provided by discontinued operations		-	75
<b>Net cash provided by operations</b>		<b>749</b>	<b>9,073</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(740)	(218)
Proceeds from sale of property, plant and equipment		-	3
Purchase of short-term investments		(206)	(5,946)
Proceeds on sale of short-term investments		5,727	22,700
Deferred development costs	6	(4,343)	(3,542)
Purchase of indefinite and finite-life intangible assets	6	(31)	(22)
Net cash provided by continuing operations		407	12,975
Net cash provided by discontinued operations		-	8,732
<b>Net cash provided by investing</b>		<b>407</b>	<b>21,707</b>
<b>Cash flows from financing activities</b>			
Proceeds from government grants		-	41
Repurchase and cancellation of shares	11	(56)	-
Repayment of long-term debt	10	(62)	(41)
<b>Net cash used from financing</b>		<b>(118)</b>	<b>-</b>
Increase in cash and cash equivalents during the period		1,038	30,780
Effect of movements in exchange rates on cash held		175	-
Cash, beginning of period		11,034	3,517
Cash and cash equivalents, end of period		\$ 12,247	\$ 34,297

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**Three months ended September 30, 2018**  
(unaudited - in thousands of Canadian dollars except as otherwise noted)

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**VECIMA NETWORKS INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**Three months ended September 30, 2018**  
**(unaudited - in thousands of Canadian dollars except as otherwise noted)**

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**1. NATURE OF OPERATIONS**

Vecima Networks Inc. ("Vecima" or the "Company") is a company continued under the Canadian Business Corporations Act ("CBCA") and commenced operations in 1988. The Company's registered office is located at 771 Vanalman Avenue, Victoria, B.C., V8Z 3B8. The Company's common shares are traded on the Toronto Stock Exchange under the trading symbol "VCM".

The Company's Video and Broadband business designs, manufactures and sells products for the cable industry that allow service providers a cost-effective "last mile" solution for both video and broadband access, especially in the business services market segment. The Company's Content Delivery and Storage business, includes solutions and software for industries and customers that focus on storing, protecting, transforming, and delivering high-value media assets. The Company's Telematics business also provides fleet managers the key information and analytics they require to optimally manage their business. The Company's Discontinued Operations represented the YourLink operating assets that were sold in the prior year.

**2. BASIS OF PRESENTATION**

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as set out in the CPA Canada Handbook. In the opinion of management, all adjustments and disclosures considered necessary for fair presentation have been included in these unaudited condensed interim consolidated financial statements.

These unaudited condensed interim consolidated financial statements are based on IFRS issued and outstanding as of September 30, 2018 and were approved by the Company's Board of Directors on November 6, 2018.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as issued by the International Accounting Standards Board. The same accounting policies and methods of computation have been followed in these unaudited condensed interim consolidated financial statements as were followed in the annual audited financial statements for the year ended June 30, 2018 except as described below.

**(a) Initial Application of New Accounting Standards**

The Company adopted the following new and amended accounting standards effective July 1, 2018.

**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 and measurement of share-based transactions. The standard is effective for periods beginning on or after January 1, 2018. The adoption of the amendments had no impact on the Company's consolidated financial statements.

**IFRS 9 - Financial Instruments**

The Company has adopted IFRS 9 – *Financial Instruments* (IFRS 9) which replaces IAS 39 – *Financial Instruments: Recognition and Measurement*. The new standard simplifies the measurement and classification of financial assets by reducing the number of measurement categories and provides for a fair value option in the designation of a non-derivative financial liability. Under the new rules, all financial assets and liabilities of the Company are now classified as subsequently measured at amortized cost. The adoption of IFRS 9 had no impact on the consolidated financial statements.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**Three months ended September 30, 2018**  
**(unaudited - in thousands of Canadian dollars except as otherwise noted)**

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**2. BASIS OF PRESENTATION continued**

**(a) Initial Application of New Accounting Standards continued**

**IFRS 15 - Revenue from Contracts with Customers**

IFRS 15 - *Revenue from Contracts with Customers* (IFRS 15) provides a single, principles-based, five-step model for recognizing revenue from contracts with customers. This standard applies to all of the Company's contracts with customers excluding lease contracts accounted for under IAS 17. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods and services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods and services. The standard also provides guidance relating to the treatment of the costs to acquire and to fulfil a contract.

The Company recognizes revenue when it transfers control over a product or service to a customer. Depending on the performance obligations under the terms of the contract with the customer, revenue recognition can occur at a point in time or over time. When the sale consists of multiple components where delivery is over different periods of time, the Company separates the arrangement into its performance obligation components and the transaction price is allocated to the separate identifiable components based on the stand-alone selling price.

The Company adopted IFRS 15 on a modified retrospective approach with the cumulative effect of any adjustments recognized in the opening balance of retained earnings as of July 1, 2018. The comparative information has not been restated and continues to be reported under previous accounting standards.

The following table provides information about net change to contract assets and contract liabilities from contracts with customers plus the net adjustment to opening retained earnings upon adoption. The Company has elected to utilize the practical expedient that allows the Company to not apply this standard retrospectively for completed contracts as of June 30, 2018.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**Three months ended September 30, 2018**  
(unaudited - in thousands of Canadian dollars except as otherwise noted)

**2. BASIS OF PRESENTATION continued**

As of June 30, 2018				
	Reference	As previously reported	Adjustments	As currently reported
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents		\$ 11,034	\$ -	\$ 11,034
Short-term investments		46,660	-	46,660
Accounts receivable		17,997	-	17,997
Income tax receivable		2,519	-	2,519
Inventories		15,020	-	15,020
Prepaid expenses		1,658	-	1,658
Contract assets	i.	-	338	338
		94,888	338	95,226
<b>Non-current assets</b>				
Property, plant and equipment		12,105	(430)	11,675
Goodwill		14,903	-	14,903
Intangible assets		62,324	-	62,324
Other long-term assets		788	217	1,005
Investment tax credit		22,692	-	22,692
Deferred tax asset		2,339	-	2,339
		\$ 210,039	\$ 125	\$ 210,164
<b>Liabilities</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 12,151	\$ -	\$ 12,151
Provisions		520	-	520
Other current liabilities		358	-	358
Deferred revenue	ii.	4,206	(169)	4,037
Current portion of long-term debt		250	-	250
		17,485	(169)	17,316
<b>Non-current liabilities</b>				
Deferred revenue	ii.	524	396	920
Provisions		352	-	352
Deferred tax liability		414	-	414
Long-term debt		1,979	-	1,979
		20,754	227	20,981
<b>Shareholders' equity</b>				
Share capital		1,756	-	1,756
Reserves		4,041	-	4,041
Retained earnings		182,411	(102)	182,309
Other comprehensive income		1,077	-	1,077
		189,285	(102)	189,183
		\$ 210,039	\$ 125	\$ 210,164

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**Three months ended September 30, 2018**  
**(unaudited - in thousands of Canadian dollars except as otherwise noted)**

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**2. BASIS OF PRESENTATION continued**

**i. Contract Asset**

Contract assets arise primarily as a result of the difference between revenue recognized on the fulfillment of a non-recurring performance obligation at the onset of a term contract and the cash collected or receivable at the point of sale. Recognition of revenue requires the estimation of total consideration over the contract term and the allocation of that consideration to all performance obligations in the contract based on the stand-alone selling prices. The Company reclassifies contract assets to receivable once customer is invoiced and right to consideration is unconditional.

Contract assets also arise due to the treatment of costs incurred in acquiring customer contracts. IFRS 15 requires contract acquisition costs, such as sales commissions, to be recognized as an asset and amortized into cost of sales expense over time. Previously, the Company expensed such costs as incurred. Commission costs paid to internal and external representatives as a result of obtaining contracts with customers are deferred and amortized to cost of sales expense consistent with the transfer of goods and services to the customer. Telematics deferred commission costs attributable to subscription service is amortized over 24 or 36 consecutive months. The Company has elected to utilize the practical expedient that allows the Company to recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that would have been recognized would have been 12 months or less.

**ii. Deferred Revenue**

The Company records deferred revenue when payment is received from a customer in advance of providing goods and services. The allocation of consideration in multiple element transactions that involves delivery of multiple services and products that occur at different points in time or over different periods of time also results in deferred revenue. Although the underlying transaction economics do not differ, the timing of the certain service revenue under IFRS 15 is deferred. Timing of revenue to be recognized relating to unsatisfied performance obligations is included in Note 12.

**(b) Accounting Standards Issued But Not Yet Applied:**

**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. The Company is currently reviewing the standard to determine the potential impact on its consolidated financial statements.

**IFRIC 23 - Uncertainty over Income Tax Treatments**

In June 2017, the IASB issued IFRIC 23. IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances where there is uncertainty over income tax treatments. The standard is effective for periods beginning on or after January 1, 2019 with earlier application permitted. The Company is currently reviewing the standard to determine the potential impact on its consolidated financial statements.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**Three months ended September 30, 2018**  
(unaudited - in thousands of Canadian dollars except as otherwise noted)

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**3. USE OF JUDGMENT AND ESTIMATES**

The preparation of the Company's unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions 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. Uncertainty about these assumptions and estimates could result in outcomes that require material adjustments to the carrying amount of the affected asset or liability. In preparing these financial statements, the significant assumptions and judgments made by management were the same as those applied to the audited consolidated financial statements for the year ended June 30, 2018, except for those related to revenue recognition, which are disclosed in Note 12.

**4. INVENTORIES**

	<b>September 30, 2018</b>	<b>June 30, 2018</b>
Raw materials	\$ 6,968	\$ 6,707
Work in progress	1,739	799
Finished goods	8,752	7,514
	<b>\$ 17,459</b>	<b>\$ 15,020</b>

During the three months ended September 30, 2018, inventories of \$7,384 (three months ended September 30, 2017 - \$5,668) were expensed through cost of sales. Write-downs of inventory for the three months ended September 30, 2018 were \$246 (three months ended September 30, 2017 - \$182) and were included in cost of sales. Reversals of write-downs were \$nil during the three months ended September 30, 2018 (\$nil for the three months ended September 30, 2017). The carrying amount of inventory recorded at net realizable value was \$908 at September 30, 2018 (June 30, 2018 - \$1,107) with the remaining inventory recorded as cost.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**Three months ended September 30, 2018**  
(unaudited - in thousands of Canadian dollars except as otherwise noted)

**5. PROPERTY, PLANT AND EQUIPMENT**

	Land	Land improvements & buildings	Lab, operating & production equipment	Other equipment <sup>(1)</sup>	Total
<b>Cost</b>					
<b>At July 1, 2018</b>	\$ 621	\$ 8,710	\$ 20,012	\$ 10,892	\$ 40,235
<b>IFRS 15 transition (Note 2)</b>	-	-	(956)	-	(956)
<b>Adjusted opening balance</b>	<b>621</b>	<b>8,710</b>	<b>19,056</b>	<b>10,892</b>	<b>39,279</b>
Additions	-	233	304	203	740
Disposals	-	-	(118)	-	(118)
Effect of foreign exchange	-	(4)	(34)	(5)	(43)
<b>At September 30, 2018</b>	<b>\$ 621</b>	<b>\$ 8,939</b>	<b>\$ 19,208</b>	<b>\$ 11,090</b>	<b>\$ 39,858</b>
<b>Accumulated depreciation and impairment</b>					
<b>At July 1, 2018</b>	\$	3,025	\$	15,097	\$
<b>IFRS 15 transition (Note 2)</b>	\$	-	\$	(526)	\$
<b>Adjusted opening balance</b>	<b>\$</b>	<b>3,025</b>	<b>\$</b>	<b>14,571</b>	<b>\$</b>
Depreciation charge for the year		82		454	611
Disposals		-		(92)	(92)
Effect of foreign exchange		(1)		(10)	(12)
<b>At September 30, 2018</b>	<b>\$</b>	<b>3,106</b>	<b>\$</b>	<b>14,923</b>	<b>\$</b>
<b>Carrying amount</b>					
<b>At June 30, 2018</b>	\$ 621	\$ 5,685	\$ 4,915	\$ 884	\$ 12,105
<b>At September 30, 2018</b>	<b>\$ 621</b>	<b>\$ 5,833</b>	<b>\$ 4,285</b>	<b>\$ 1,008</b>	<b>\$ 11,747</b>

The following estimated useful lives have been applied to property, plant and equipment assets at September 30, 2018 and June 30, 2018:

	Estimated useful life
Land improvements and buildings	5 to 40 years
Lab, operating and production equipment	3 to 7 years
Other equipment <sup>(1)</sup>	1 to 5 years

<sup>(1)</sup>Other equipment includes furniture, computer hardware, and automotive equipment.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**Three months ended September 30, 2018**  
(unaudited - in thousands of Canadian dollars except as otherwise noted)

**5. PROPERTY, PLANT AND EQUIPMENT continued**

Depreciation of property, plant and equipment included in cost of sales, research and development, sales and marketing, general and administrative expenses and discontinued operations is as follows:

	Three months ended	
	September 30, 2018	2017
Cost of sales	\$ 80	\$ 135
Research and development	195	72
Sales and marketing	125	-
General and administrative	211	197
	<b>\$ 611</b>	<b>\$ 404</b>

There were no impairment losses or recoveries during the three months ended September 30, 2018 or 2017.

**6. INTANGIBLE ASSETS**

	Indefinite-life intangible assets		Finite-life intangible assets				Total
	Trademarks and Other Licenses	Customer Contracts and Relationships	Patents	Intellectual Property and Technology	Deferred Development Costs		
<b>Cost</b>							
<b>At July 1, 2018</b>	\$ 106	\$ 20,528	\$ 648	\$ 9,990	\$ 46,374		\$77,646
Additions	-	-	4	27	4,343		4,374
Investment tax credits	-	-	-	-	(462)		(462)
Effect of foreign exchange	-	(261)	(3)	(112)	(26)		(402)
<b>At September 30, 2018</b>	<b>\$ 106</b>	<b>\$ 20,267</b>	<b>\$ 649</b>	<b>\$ 9,905</b>	<b>\$ 50,229</b>		<b>\$81,156</b>
<b>Amortization and impairment</b>							
<b>At July 1, 2018</b>	\$ -	\$ 2,039	\$ 366	\$ 1,639	\$ 11,278		\$15,322
Amortization recognized	-	586	21	334	1,169		2,110
Effect of foreign exchange	-	(20)	(1)	(11)	(2)		(34)
<b>At September 30, 2018</b>	<b>\$ -</b>	<b>\$ 2,605</b>	<b>\$ 386</b>	<b>\$ 1,962</b>	<b>\$ 12,445</b>		<b>\$17,398</b>
<b>Net book value</b>							
At June 30, 2018	\$ 106	\$ 18,489	\$ 282	8,351	\$ 35,096		\$62,324
<b>At September 30, 2018</b>	<b>\$ 106</b>	<b>\$ 17,662</b>	<b>\$ 263</b>	<b>\$ 7,943</b>	<b>\$ 37,784</b>		<b>\$63,758</b>

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**Three months ended September 30, 2018**  
(unaudited - in thousands of Canadian dollars except as otherwise noted)

**6. INTANGIBLE ASSETS continued**

Amortization of customer contracts, patents and intellectual property and technology is recognized in general and administrative expenses. Amortization of deferred development costs is recognized in research and development expenses.

The aggregate amount of research and development expenditure during the three months ending September 30, 2018 is \$7,806 (September 30, 2017 - \$5,818).

There were no impairment losses or recoveries recorded during the three months ending September 30, 2018 or September 30, 2017.

**7. OTHER LONG-TERM ASSETS**

	2018	2017
Contract assets	\$ 207	\$ -
Long-term security deposits and other long-term assets	247	221
Spare parts	520	567
	<b>\$ 974</b>	<b>\$ 788</b>

**8. OTHER CURRENT LIABILITIES**

	2018	2017
Dividends payable	\$ 1,230	\$ -
Income tax payable	-	358
	<b>\$ 1,230</b>	<b>\$ 358</b>

**9. CONTINGENT LIABILITY**

In January 2017, the Company received a re-assessment from the Canada Revenue Agency ("CRA") regarding the 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 spectrum licenses as active business income, which would result in additional income taxes, interest and penalties payable of approximately \$4.1 million. The Company and its advisors have reviewed the applicable tax law and believe the original treatment of these gains was appropriate. The Company was required to pay \$2.0 million towards this re-assessment in Q3 fiscal 2017. The Company filed a Notice of Objection in Q3 fiscal 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.

In March 2017, the Company received a re-assessment from the CRA regarding the eligibility of certain Scientific Research and Experimental Development ("SR&ED") claims on its 2015 tax return. The CRA re-assessment would result in a reduction of SR&ED expenditures claimed of \$1,289. The Company and its advisors have reviewed the applicable tax law and believe its original treatment of these SR&ED claims was appropriate. The Company filed a Notice of Objection in Q4 fiscal 2017 in regards to this matter. 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.

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**10. LONG-TERM DEBT**

	September 30, 2018	June 30, 2018
Term credit facility	\$ 2,167	\$ 2,229
Less current portion	(250)	(250)
	<b>\$ 1,917</b>	<b>\$ 1,979</b>

The term credit facility is from a Canadian chartered bank, repayable in monthly installments of \$21 principal and interest at prime, (3.45% at September 30, 2018), expires in October 2019 and is collateralized by a general security agreement. The Company has an authorized loan amount of \$3,792.

Long-term debt is recorded at amortized cost. The Company's long-term debt is at an interest rate that floats based on prime and the carrying value of the principal is considered to be fair value.

Future principal payments for the fiscal years ending are as follows assuming that the existing payment terms are the same as renewal.

2019	\$ 188
2020	250
2021	250
2022	250
2023	250
Remaining	979
	<b>\$ 2,167</b>

**11. SHARE CAPITAL**

(in thousands of Canadian dollars except common share data)

**(a) Share capital**

The Company has the following authorized share capital: an unlimited number of common shares with no par value and an unlimited number of preferred shares with no par value. The table below provides details of common shares outstanding and their carrying value:

	Number of Shares	Carrying Value
Balance at July 1, 2018	22,377,288	\$ 1,756
Shares repurchased and cancelled	(6,667)	-
<b>Balance at September 30, 2018</b>	<b>22,370,621</b>	<b>\$ 1,756</b>

The Company did not issue any shares through the exercise of options during the three months ended September 30, 2018 (three months ended September 30, 2017 - nil).

Each holder of a common share is entitled to one vote per share at shareholder meetings and to receive dividends, as and when declared by the Board of Directors. There are no pre-emptive, retraction, surrender, redemption, repurchase for cancellation or conversion rights attached to the common shares.

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**11. SHARE CAPITAL continued**

(in thousands of Canadian dollars except common share data)

Preferred shares may be issued from time to time with designation, rights, privileges, restrictions and conditions, which will be determined by the Board of Directors at the time of issue (none issued).

The following table sets forth the calculation of basic and diluted net (loss) income per share:

	<b>Three months ended</b>	
	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
Net (loss) income: basic and diluted	\$ (1,096)	\$ 8,026
Weighted average number of shares outstanding:		
Basic	22,373,122	22,379,651
Dilutive stock options	12,262	60,895
Diluted	22,385,384	22,440,546
Net (loss) income per share: basic	\$ (0.05)	\$ 0.36
Net (loss) income per share: diluted	\$ (0.05)	\$ 0.36

Stock options could potentially dilute basic net income per share in the future. Options to purchase 417,863 common shares were vested and outstanding at September 30, 2018 (September 30, 2017 - 422,136). Dilutive stock options are calculated using the treasury stock method.

**(b) Reserves**

Reserves within shareholders' equity represent equity settled employee benefits reserves.

**(c) Stock option plan**

The Company has established a stock option plan pursuant to which options to acquire common shares may be issued to officers, directors and employees of the Company. The term, vesting period, exercise price, and number of common shares, relating to each option will be determined by the Company's Board of Directors at the time options are granted, but will not be more favourable than those permitted under applicable securities legislation and/or regulation. Typically, options are granted for six years with vesting based on either time-based service or performance and are equity settled. The Company's stock option plan is subject to the rules and policies of any stock exchange on which the common shares are listed. The total number of common shares of the Company that will be issued pursuant to the Company's stock option plan will not exceed 10% of the issued and outstanding shares of the Company at any given time. Options granted under the Company's stock option plan are not assignable.

The changes in options and the number of options outstanding for the three months ended September 30, 2018 are as follows:

	<b>Number of</b>	<b>Weighted</b>
	<b>options</b>	<b>average exercise</b>
		<b>price</b>
Outstanding, July 1, 2018	518,491	\$ 8.91
Granted	-	-
<b>Outstanding, September 30, 2018</b>	<b>518,491</b>	<b>\$ 8.91</b>
<b>Vested and exercisable, September 30, 2018</b>	<b>417,863</b>	<b>\$ 8.75</b>

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**11. SHARE CAPITAL continued**

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For all stock options granted, the Company determined compensation expense based on the estimated fair values at the grant date of the stock options using the Black-Scholes and binomial option-pricing models. The estimated fair value of the stock options is amortized to stock-based compensation over the vesting period of the options. The stock-based compensation expense was \$34 for the three months ended September 30, 2018 (three months ended September 30, 2017 - \$13).

**12. REVENUE FROM CONTRACTS WITH CUSTOMERS**

**(a) Revenue**

*Nature of goods and services*

The Company earns revenue from the sale of goods and the rendering of services. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Many products and services are sold in bundled arrangements. Items in these arrangements are accounted for as separate performance obligations if the items meets the definition of a distinct good or service. In transactions such as these, the Company allocates revenue to each performance obligation and is measured using stand-alone selling price.

Revenue for each performance obligation is recognized either over time or at a point in time. For performance obligations performed over time, revenue is recognized as the service is provided. These services are typically provided, and thus recognized, on a monthly basis. Revenue for performance obligations satisfied at a point in time is recognized when control of the product or service transfers to the customer under the terms and conditions of the contract. Outlined below are the various performance obligations from contracts with customers and when completed performance obligations are recognized.

Revenue type	Timing of satisfaction of the performance obligation
<i>Product sales:</i>	
Hardware products with right-to-use software license	When transfer of control has occurred
<i>Provision of services:</i>	
After-sales support and maintenance; extended warranty	Over the course of the applicable service term
Monthly subscription services	As the service is provided over time
Consulting, engineering and installation services	When the service is performed

As a practical expedient, the Company does not adjust the contracted amount of consideration for the effects of financing component when at the inception of the contract the expected effect of the financing component is not significant at the individual contract level or the period between the transfer of goods or services and the customer's payment is expected to be 12 months or less.

*Significant judgments*

Significant judgment may be required to determine the distinct performance obligations within a contract and the allocation of transaction price to multiple element performance obligations. When multiple performance obligations are identified in a contract, the transaction price is allocated based on stand-alone selling price for each. If stand-alone selling price is not observable, the Company estimates the stand-alone selling price for each distinct performance obligation based on related cost plus margin, taking into account reasonably available information relating to the market conditions, entity-specific factors, and the class of customer.

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**12. REVENUE FROM CONTRACTS WITH CUSTOMERS continued**

**(b) Disaggregated revenue**

In the following table, gross revenue from contracts with customers is disaggregated by reporting segment and type. Refer to Note 16 for additional segmented financial information.

For three months ended September 30, 2018				
	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Total
Product sales	\$ 9,492	\$ 5,382	\$ 313	\$ 15,187
Provision of services	1,853	3,244	1,051	6,148
	<b>\$ 11,345</b>	<b>\$ 8,626</b>	<b>\$ 1,364</b>	<b>\$ 21,335</b>

**(c) Accounts receivable**

	September 30 2018	June 30 2018
Customer accounts receivable	\$ 14,851	\$ 17,719
Less allowance for doubtful accounts	(23)	(8)
	<b>14,828</b>	17,711
Goods and services tax	407	271
Other receivables	22	5
	<b>\$ 15,257</b>	<b>\$ 17,987</b>

**(d) Contract assets**

Contract assets arise primarily as a result of the difference between revenue recognized on the fulfillment of a non-recurring performance obligation at the onset of a term contract and the cash collected or receivable at the point of sale. Recognition of revenue requires the estimation of total consideration over the contract term and the allocation of that consideration to all performance obligations in the contract based on the stand-alone selling prices. The Company reclassifies contract assets to receivable once customer is invoiced and right to consideration is unconditional.

Contract assets also arise due to the treatment of costs incurred in acquiring customer contracts. IFRS 15 requires contract acquisition costs, such as sales commissions, to be recognized as an asset and amortized into cost of sales expense over time. Previously, the Company expensed such costs as incurred. Commission costs paid to internal and external representatives as a result of obtaining contracts with customers are deferred and amortized to cost of sales expense consistent with the transfer of goods and services to the customer. Telematics deferred commission costs attributable to subscription service is amortized over 24 or 36 consecutive months. The Company has elected to utilize the practical expedient that allows the Company to recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets that would have been recognized would have been 12 months or less.

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**12. REVENUE FROM CONTRACTS WITH CUSTOMERS continued**

**(d) Contract assets continued**

	September 30 2018
Balance, beginning of period	\$ -
IFRS transition <sup>15</sup> (Note 2)	555
<b>Adjusted opening balance</b>	<b>555</b>
Net additions arising from operations	160
Amounts billed in period and reclassified as accounts receivable	(4)
Deferred cost recognized as expense in the period	(69)
<b>Balance, end of period</b>	<b>642</b>
Less: current portion:	-
To be billed and thus reclassified to accounts receivable during next 12 months	155
Deferred costs to be recognized as expense during the next 12 months	280
	<b>\$ 207</b>

**(e) Deferred revenue**

Contract liabilities represent the future performance obligations to customers in respect to services or customer activation fees for which consideration has been received upfront and is recognized over the expected term of the customer relationship. The Company has elected to apply the practical expedient that allows the Company to not disclose the unsatisfied portions of performance obligations under contracts where the revenue we recognize is equal to the amount invoiced to the customer. Contract liability balances, the changes in those balances and the future periods that performance obligations expected to be satisfied and revenue recognized are set out in the following table.

	September 30 2018
Balance, beginning of period	\$ 4,730
IFRS 15 transition (Note 2)	226
<b>Adjusted opening balance</b>	<b>4,956</b>
Revenue deferred in previous period and recognized in current period	(2,754)
Net additions arising from operations	2,082
Effect of changes in foreign currency exchange rates	(52)
<b>Balance, end of period</b>	<b>\$ 4,232</b>
<b>Revenue to be recognized in the future:</b>	
Within one year	\$ 3,146
Between two to five years	1,052
After five years	34
<b>Total</b>	<b>\$ 4,232</b>

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**13. OTHER (INCOME) EXPENSE**

	Three months ended September 30,	
	2018	2017
Loss on sale of PP&E	\$ 11	\$ 19
Lease revenue	(104)	(100)
Other	5	(1)
	<b>\$ (88)</b>	<b>\$ (82)</b>

**14. ADJUSTMENTS TO RECONCILE NET INCOME TO CASH FROM OPERATING ACTIVITIES**

		Three months ended September 30,	
	Notes	2018	2017
Loss on sale of PP&E	10	\$ 11	\$ 19
Depreciation of PP&E	5	611	404
Amortization of deferred development costs		1,169	907
Amortization of finite-life intangible assets		941	235
Stock-based compensation	9	34	13
Current income taxes (recovery)		(426)	47
Deferred income taxes		(92)	283
Interest expense		24	21
Interest income		(281)	(319)
		<b>\$ 1,991</b>	<b>\$ 1,610</b>

**15. NET CHANGE IN NON-CASH WORKING CAPITAL RELATING TO OPERATIONS**

Details of net change in each element of non-cash working capital relating to operations are as follows:

	Three months ended September 30,	
	2018	2017
<b>Decrease (increase) in current assets</b>		
Accounts receivable	\$ 2,639	\$ 4,818
Inventories	(2,494)	568
Prepaid expenses	(334)	205
Contract assets	(97)	-
	<b>(286)</b>	<b>5,591</b>
<b>Increase (decrease) in current liabilities</b>		
Accounts payable and accrued liabilities	549	1,492
Deferred revenue	(673)	(736)
	<b>(124)</b>	<b>756</b>
	<b>\$ (410)</b>	<b>\$ 6,347</b>

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**16. SEGMENTED FINANCIAL INFORMATION**

The Company's operations are organized into business units based on how the business is managed and has three reportable segments. The Video and Broadband Solutions segment designs, develops and distributes electronic communications products to cable and telecommunication markets. The Content Delivery and Storage segment develops advanced applications focused on storing, protecting, transforming and delivering visual media. The Telematics segment designs, develops and distributes fleet management products. The Discontinued Operations segment represents the YourLink business which provided cable television and internet services in British Columbia and Saskatchewan. The sale of YourLink was completed in the prior year. Inter-segment transactions take place at terms that approximate fair values. Almost all of the Company's operations, employees and assets are located in Canada and the US. The following highlights key financial information for the operation of these segments.

	Three months ended September 30, 2018					
	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Discontinued Operations	Inter Segment	Total
Sales - external customers	\$ 11,362	\$ 8,626	\$ 1,364	\$ -	\$ (17)	\$ 21,335
Cost of sales	5,866	3,853	442	-	(17)	10,144
<b>Gross profit</b>	<b>5,496</b>	<b>4,773</b>	<b>922</b>	<b>-</b>	<b>-</b>	<b>11,191</b>
Operating expenses	5,195	4,143	488	-	-	9,826
Depreciation and amortization	1,400	1,083	201	-	-	2,684
<b>Operating (loss) income</b>	<b>(1,099)</b>	<b>(453)</b>	<b>233</b>	<b>-</b>	<b>-</b>	<b>(1,319)</b>
Finance income	214	20	(12)	-	-	222
Foreign exchange loss	(482)	(15)	(20)	-	-	(517)
<b>(Loss) income before taxes</b>	<b>(1,367)</b>	<b>(448)</b>	<b>201</b>	<b>-</b>	<b>-</b>	<b>(1,614)</b>
Income tax (benefit) expense	(411)	(159)	52	-	-	(518)
<b>Net (loss) income</b>	<b>\$ (956)</b>	<b>\$ (289)</b>	<b>\$ 149</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,096)</b>
<b>Total assets</b>	<b>\$ 145,258</b>	<b>\$ 49,052</b>	<b>\$ 13,720</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 208,030</b>
<b>Total liabilities</b>	<b>\$ 11,721</b>	<b>\$ 9,061</b>	<b>\$ 831</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 21,613</b>

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**16. SEGMENTED FINANCIAL INFORMATION continued**

	Three months ended September 30, 2017						Total
	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Discontinued Operations	Inter Segment		
Sales - external customers	\$ 13,600	\$ -	\$ 1,282	\$ -	\$ -	\$ -	\$ 14,882
Cost of sales	6,039	-	365	-	-	-	6,404
<b>Gross profit</b>	<b>7,561</b>	<b>-</b>	<b>917</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,478</b>
Operating expenses	4,796	-	568	-	-	-	5,364
Depreciation and amortization	1,200	-	248	-	-	-	1,448
<b>Operating income</b>	<b>1,565</b>	<b>-</b>	<b>101</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,666</b>
Finance income	298	-	-	-	-	-	298
Foreign exchange loss	(645)	-	(25)	-	-	-	(670)
<b>Income before income taxes</b>	<b>1,218</b>	<b>-</b>	<b>76</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,294</b>
Income tax expense	311	-	19	-	-	-	330
<b>Net income from continuing operations</b>	<b>907</b>	<b>-</b>	<b>57</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>964</b>
<b>Net income from discontinued operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,062</b>	<b>-</b>	<b>-</b>	<b>7,062</b>
<b>Net income</b>	<b>\$ 907</b>	<b>\$ -</b>	<b>\$ 57</b>	<b>\$ 7,062</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,026</b>
<b>Total assets</b>	<b>\$ 188,179</b>	<b>\$ -</b>	<b>\$ 14,485</b>	<b>\$ -</b>	<b>\$ (181)</b>	<b>\$ -</b>	<b>\$ 202,483</b>
<b>Total liabilities</b>	<b>\$ 12,713</b>	<b>\$ -</b>	<b>\$ 727</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 13,440</b>

Inter-segment elimination of total assets represents the fair value adjustment of assets acquired in previous years' acquisitions.

**Geographical:**

	Three months ended September 30,	
	2018	2017
<b>Sales to external customers</b>		
United States	\$ 14,868	\$ 13,816
Canada	3,665	998
Europe	1,978	-
Japan	632	-
Other	192	68
	<b>\$ 21,335</b>	<b>\$ 14,882</b>

Geographic location is based on shipping location and customer knowledge.

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**16. SEGMENTED FINANCIAL INFORMATION continued**

	September 30, 2018	June 30, 2018
<b>Non-current assets</b>		
United States	30,997	32,264
Canada	84,633	81,656
Japan	1,356	1,231
	<b>\$ 116,986</b>	<b>\$ 115,151</b>
		<b>Three months ended September 30,</b>
		<b>2018      2017</b>
<b>Sales to major customers accounting for more than 10% of sales</b>		
Customer A	\$ 7,563	\$ 4,652
Customer B	2,673	4,862
Customer C	-	1,556
	<b>\$ 10,236</b>	<b>\$ 11,070</b>

The sales to these major customers are within the Video and Broadband Solutions and Content Delivery and Storage segments. Customer C was below 10% in the three months ended September 30, 2018 and the amounts are not shown.

**17. FINANCIAL INSTRUMENTS RISK MANAGEMENT**

**Financial Risks**

The Company is exposed in varying degrees to a variety of financial risks from its use of financial instruments: credit risk, liquidity risk, currency risk and interest rate risk. The source of risk exposure and how each is managed is outlined below.

**Credit Risk**

Cash and cash equivalents are placed with major financial institutions rated in the two highest grades by nationally recognized ratings agencies. Concentration of credit risk exists with respect to the Company's cash and cash equivalents, as all amounts are held at major financial institutions. Credit risk is also managed by maintaining short-term investments (short-term deposits in cashable Guaranteed Investment Certificates) with Canadian financial institutions rated in the two highest grades by nationally recognized ratings agencies and British Columbia Credit Unions. Deposits with credit unions are insured through the Credit Union Deposit Insurance Corporation. This insurance exceeds the amounts otherwise covered by the Canadian Deposit Insurance Corporation for bank deposits.

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**17. FINANCIAL INSTRUMENTS RISK MANAGEMENT continued**

**Credit Risk continued**

Credit risk also arises from the possibility that a customer would fail to fulfil its financial obligations, therefore the Company's credit risk lies in the collectability of its accounts receivable. Trade accounts receivable are recognized initially at fair value and subsequently measured at amortized cost less allowance for doubtful accounts. An allowance for doubtful accounts is established when there is a reasonable expectation that the Company will not be able to collect all amounts due according to the original terms of the receivable. The carrying amount of the trade accounts receivable is reduced through the use of the allowance account, and the amount of any increases in the allowance is recognized in the statement of income. The Company manages its credit risk related to its trade receivables and customer contract assets through a credit management program and all customer accounts are reviewed. Credit approval policies and procedures are in place guiding the granting of credit to new customers. The Company has an allowance for doubtful accounts at September 30, 2018 of \$47 (June 30, 2018 - \$8). At September 30, 2018, the Company had three major customers (June 30, 2018 - three) who accounted for approximately 48% (June 30, 2018 - 51%) of the period-end accounts receivable balance. Customer contract assets not considered to be impaired to be billed and thus reclassified as accounts receivable within next 12 months are \$155, and long-term are \$47.

The aging of trade accounts receivables that are not considered to be impaired are as follows:

	2018	June 30, 2018
Current	\$ 11,383	\$ 15,845
31 to 60 days	1,698	930
61 to 90 days	1,241	419
Over 90 days	506	517
	<b>\$ 14,828</b>	<b>\$ 17,711</b>

**Liquidity Risk**

Liquidity risk arises from the Company's general funding needs and in the management of its assets, liabilities and capital. The Company manages its liquidity risk to maintain sufficient liquid financial resources to fund its operations and meet its commitments and obligations in a cost-effective manner. The Company currently holds a significant balance of cash and short-term investments which helps to mitigate this risk. The Company has access to a credit facility in the amount of \$14,000 with a Canadian chartered bank. As of September 30, 2018, the remaining amount available to be drawn under this credit facility is \$14,000.

The table below presents a maturity analysis of the Company's financial liabilities:

	Carrying Amount of Liability	Payments due within		
		1 year	1-3 years	Thereafter
Accounts payable and accrued liabilities	\$ 12,612	\$ 12,612	\$ -	\$ -
Long-term debt obligations	2,167	250	750	1,167
	<b>\$ 14,779</b>	<b>\$ 12,862</b>	<b>\$ 750</b>	<b>\$ 1,167</b>

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**17. FINANCIAL INSTRUMENTS RISK MANAGEMENT continued**

**Currency Risk**

Approximately 95% (September 30, 2017 - 95%) of the Company's sales are denominated in US\$. The Company periodically enters into forward foreign exchange contracts to manage foreign currency exchange risk related to exposures of the exchange rates for the Canadian dollar. These contracts are considered "held for trading" instruments. Changes in the value of these contracts are recorded as an element of foreign exchange gain.

Changes in fair value of these instruments are included in foreign exchange gain in the current year. As at September 30, 2018, the Company has an unrealized net gain of \$nil (June 30, 2018 - \$nil net gain) on outstanding forward purchase contracts.

For the three months ended September 30, 2018, if the Canadian dollar had weakened or strengthened by 1% against the US dollar with all other variables held constant, net income before income taxes would have been \$77 (September 30, 2017 - \$95) higher or lower.

**Interest Rate Risk**

The Company is exposed to floating interest rate risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. This risk is limited to the line of credit and long-term debt. The Company is also exposed to changes in interest rates related to its short-term investments, as the income received from these investments fluctuates based on interest rates received when the investments are made. A 1% movement in the interest rate received would have resulted in a \$108 change to net income before income taxes for the three months ended September 30, 2018 (September 30, 2017 - \$187).

**18. SUBSEQUENT EVENTS**

On November 6, 2018, the Board of Directors declared a dividend of \$0.055 per common share, payable on December 17, 2018 to shareholders of record as at November 23, 2018 consistent with its previously announced dividend policy.