



**ANNUAL CONSOLIDATED  
FINANCIAL STATEMENTS**

Year ended June 30, 2018



---

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

September 27, 2018

The consolidated financial statements of Vecima Networks Inc. have been prepared by management and approved by the Board of Directors. Management of Vecima Networks Inc. is responsible for the preparation, objectivity and integrity of the information contained in these financial statements and other sections of this annual report. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, consistently applied. Management maintains the necessary systems of internal controls, policies and procedures to provide assurance that assets are safeguarded and that financial records are reliable and form a proper basis for the preparation of financial statements.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee which is composed of independent directors. This committee, which reports to the Board of Directors, meets with the independent auditors and reviews the consolidated financial statements.

Deloitte LLP, the Company's auditors, have examined these consolidated statements and their report follows.

"Sumit Kumar"

Sumit Kumar  
Chief Executive Officer

"John Hanna"

John Hanna  
Chief Financial Officer



Deloitte LLP  
Suite 400  
122 - 1st Avenue  
Saskatoon SK S7K 7E5  
Canada

Tel: 306-343-4400  
Fax: 306-343-4480  
www.deloitte.ca

## **Independent Auditor's Report**

To the Shareholders of  
Vecima Networks Inc.:

We have audited the accompanying consolidated financial statements of Vecima Networks Inc., which comprise the consolidated statements of financial position as at June 30, 2018 and 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Vecima Networks Inc. as at June 30, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants,  
Licensed Professional Accountants  
September 26, 2018

**VECIMA NETWORKS INC.**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(in thousands of Canadian dollars)

	Notes	June 30, 2018	June 30, 2017
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	\$ 11,034	\$ 3,517
Short-term investments	7, 31	46,660	85,675
Accounts receivable	8	17,997	12,972
Income tax receivable		2,519	2,011
Inventories	9	15,020	13,928
Assets held for sale	4	-	641
Prepaid expenses		1,658	1,258
		<b>94,888</b>	<b>120,002</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	12,105	11,109
Goodwill	12	14,903	6,111
Intangible assets	13	62,324	32,566
Other long-term assets		788	-
Investment tax credits	25	22,692	20,141
Deferred tax asset	24	2,339	4,066
		<b>\$ 210,039</b>	<b>\$ 193,995</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	15	\$ 12,151	\$ 6,377
Provisions	16	520	692
Income tax payable		358	-
Deferred revenue		4,206	2,226
Current portion of long-term debt	18	250	250
		<b>17,485</b>	<b>9,545</b>
<b>Non-current liabilities</b>			
Deferred revenue		524	-
Provisions	16	352	-
Deferred tax liability	24	414	-
Long-term debt	18	1,979	2,208
		<b>20,754</b>	<b>11,753</b>
<b>Shareholders' equity</b>			
Share capital	19	1,756	803
Reserves		4,041	3,965
Retained earnings		182,411	177,474
Accumulated other comprehensive income		1,077	-
		<b>189,285</b>	<b>182,242</b>
		<b>\$ 210,039</b>	<b>\$ 193,995</b>

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

The financial statements were approved by the Board of Directors and authorized for issue on September 25, 2018 and were signed on its behalf by:

(signed) Kent Elliott

Director

(signed) Ben Colabrese

Director

**VECIMA NETWORKS INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in thousands of Canadian dollars except net income and per share data)

	Notes	Years ended	
		June 30,	
		2018	2017
<b>Sales</b>	28	\$ 78,104	\$ 71,460
<b>Cost of sales</b>		<b>36,254</b>	34,439
<b>Gross profit</b>		<b>41,850</b>	37,021
<b>Operating expenses</b>			
Research and development		15,101	11,749
Sales and marketing		10,463	5,285
General and administrative		13,248	9,875
Impairment of intangible assets	13	22	174
Restructuring costs	20	-	986
Stock-based compensation	19	80	321
Other (income) expense	21	(317)	(276)
		<b>38,597</b>	28,114
<b>Operating income</b>		<b>3,253</b>	8,907
Finance income	22	1,132	1,134
Foreign exchange gain		930	795
<b>Income before income taxes</b>		<b>5,315</b>	10,836
Income tax expense	24	1,532	3,045
<b>Net income from continuing operations</b>		<b>3,783</b>	7,791
<b>Net income from discontinued operations</b>	4	<b>7,019</b>	10,257
<b>Net income</b>		<b>10,802</b>	18,048
<b>Other comprehensive income</b>			
Items that may be subsequently reclassified to net income			
Exchange differences on translating foreign operations		1,077	-
<b>Comprehensive income</b>		<b>\$ 11,879</b>	\$ 18,048
<b>Net income per share</b>			
Continuing operations		0.17	0.35
Discontinued operations		0.31	0.46
<b>Total basic net income per share</b>	19	<b>\$ 0.48</b>	\$ 0.81
Continuing operations		0.17	0.35
Discontinued operations		0.31	0.46
<b>Total diluted net income per share</b>	19	<b>\$ 0.48</b>	\$ 0.80
<b>Weighted average number of common shares</b>			
Shares outstanding - basic	19	22,414,944	22,385,574
Shares outstanding - diluted	19	22,456,821	22,434,282

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

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

	Share Capital	Reserves	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance as at June 30, 2016	\$ 739	\$ 3,662	\$ 164,642	\$ -	\$ 169,043
Net income and comprehensive income	-	-	18,048	-	18,048
Dividends	-	-	(4,924)	-	(4,924)
Shares repurchased and cancelled	(1)	-	(292)	-	(293)
Shares issued by exercising options	65	(18)	-	-	47
Share-based payment expense	-	321	-	-	321
<b>Balance as at June 30, 2017</b>	<b>803</b>	<b>3,965</b>	<b>177,474</b>	<b>-</b>	<b>182,242</b>
Net income	-	-	10,802	-	10,802
Other comprehensive income	-	-	-	1,077	1,077
Dividends	-	-	(4,932)	-	(4,932)
Shares repurchased and cancelled	(8)	-	(933)	-	(941)
Shares issued by exercising options	13	(4)	-	-	9
Shares issued in exchange for short-term investments	948	-	-	-	948
Share-based payment expense	-	80	-	-	80
<b>Balance as at June 30, 2018</b>	<b>\$ 1,756</b>	<b>\$ 4,041</b>	<b>\$ 182,411</b>	<b>\$ 1,077</b>	<b>\$ 189,285</b>

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

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

	Notes	Years ended	
		2018	June 30, 2017
<b>Cash flows from operating activities</b>			
Net income from continuing operations		\$ 3,783	\$ 7,791
Adjustments to reconcile net income to cash from operating activities	26	9,574	8,966
Decrease in provisions		(214)	(235)
Decrease in other long-term assets		(13)	-
(Increase) decrease in investment tax credit		(238)	57
Net change in non-cash working capital relating to operations	27	7,506	(2,888)
Interest paid		(92)	(85)
Interest received		1,174	1,109
Income tax received		-	11
Income tax paid		(503)	(26)
Net cash provided by continuing operations		20,977	14,700
Net cash provided (used) by discontinued operations		63	(714)
<b>Net cash provided by operations</b>		<b>21,040</b>	<b>13,986</b>
<b>Cash flows used in investing activities</b>			
Purchase of property, plant and equipment	11	(1,816)	(1,607)
Proceeds from the sale of property, plant and equipment		80	71
Purchase of short-term investments		(54,434)	(39,115)
Proceeds on sale of short-term investments		93,449	5,312
Deferred development costs	13	(16,407)	(12,950)
Purchase of indefinite and finite-life intangible assets	13	(134)	(232)
Business acquisition	5	(37,379)	-
Net cash used by continuing operations		(16,641)	(48,521)
Net cash provided by discontinued operations		8,732	19,586
<b>Net cash used in investing</b>		<b>(7,909)</b>	<b>(28,935)</b>
<b>Cash flows used in financing activities</b>			
Proceeds from shares issued through exercised options	19	9	47
Proceeds from issuing shares	19	948	-
Proceeds from government grants	14	49	367
Repurchase and cancellation of shares		(941)	(293)
Dividends paid		(4,932)	(4,924)
Repayment of long-term debt		(229)	(250)
Net cash used by continuing operations		(5,096)	(5,053)
Net cash provided by discontinued operations		-	1,297
<b>Net cash used by financing</b>		<b>(5,096)</b>	<b>(3,756)</b>
Increase (decrease) in cash and cash equivalents during the year		8,035	(18,705)
Effect of movements in exchange rates on cash held		(518)	-
Cash and cash equivalents, beginning of year		3,517	22,222
<b>Cash and cash equivalents, end of year</b>	<b>6</b>	<b>\$ 11,034</b>	<b>\$ 3,517</b>

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

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Year ended June 30, 2018  
(in thousands of Canadian dollars except as otherwise noted)

---

**Table of Contents**

1. NATURE OF OPERATIONS	8
2. BASIS OF PRESENTATION	8
3. USE OF JUDGMENT AND ESTIMATES	17
4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	19
5. BUSINESS COMBINATION	20
6. CASH AND CASH EQUIVALENTS	22
7. SHORT-TERM INVESTMENTS	22
8. ACCOUNTS RECEIVABLE	22
9. INVENTORIES	23
10. DERIVATIVE FINANCIAL INSTRUMENTS TO MANAGE FOREIGN EXCHANGE RISK	23
11. PROPERTY, PLANT AND EQUIPMENT	24
12. GOODWILL	25
13. INTANGIBLE ASSETS	27
14. GOVERNMENT GRANTS	28
15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	28
16. PROVISIONS	29
17. CONTINGENT LIABILITY	29
18. LONG-TERM DEBT	30
19. SHARE CAPITAL	30
20. RESTRUCTURING COSTS	33
21. OTHER (INCOME) EXPENSE	33
22. FINANCE INCOME (EXPENSE)	34
23. ADDITIONAL EXPENSE INFORMATION	34
24. INCOME TAXES	35
25. INVESTMENT TAX CREDIT	36
26. ADJUSTMENTS TO RECONCILE NET INCOME TO CASH FROM OPERATING ACTIVITIES	36
27. NET CHANGE IN NON-CASH WORKING CAPITAL RELATING TO OPERATIONS	37
28. SEGMENTED FINANCIAL INFORMATION	38
29. COMMITMENTS AND GUARANTEES	41
30. RELATED PARTY TRANSACTIONS	41
31. FAIR VALUE HIERARCHY	42
32. FINANCIAL INSTRUMENTS RISK MANAGEMENT	42
33. CAPITAL DISCLOSURES	45
34. SUBSEQUENT EVENTS	45

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
**(in thousands of Canadian dollars except as otherwise noted)**

---

**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 business which provided cable television and internet services in British Columbia and Saskatchewan. YourLink was 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.

These audited consolidated financial statements were prepared under the historical cost convention, except for certain items not carried at historical costs as discussed in the applicable accounting policies.

These audited consolidated financial statements are based on IFRS issued and outstanding as of June 30, 2018. The Company's Board of Directors authorized the statements for issue and approved the policies the Company adopted in its consolidated financial statements for the year ending June 30, 2018 on September 25, 2018.

The consolidated financial statements have been prepared in accordance with IFRS and include the following measurement bases and significant accounting policies:

**Significant Accounting Policies**

**(a) Consolidation**

The consolidated financial statements include the accounts of the Company and its subsidiaries, Vecima Networks (USA) Inc., Vecima Telecom India Private Ltd., 6105971 Canada Inc., Concurrent Technology Inc., Concurrent Technology (Canada) Inc., Concurrent Content Solutions Corporation, Concurrent Technology (UK) Ltd., Concurrent Technology GmbH, and Concurrent Technology B.V.

**(b) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and short-term deposits that have an original maturity of less than three months.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
**(in thousands of Canadian dollars except as otherwise noted)**

---

**2. BASIS OF PRESENTATION continued**

**(c) Revenue Recognition**

The Company earns revenue from the sale of goods and the rendering of services. Revenue is measured at the fair value of the consideration received or receivable for these goods supplied and services rendered net of taxes, freight, rebate, estimated returns or trade discounts. When a sale consists of multiple components where delivery is over different periods of time, the Company separates the arrangement into its component accounting units. The consideration of the arrangement is allocated to the separate identifiable components based on the relative fair value of each component. The appropriate revenue recognition policy, outlined below, is applied to each component.

*Revenue from product sales*

Revenue from the sale of goods is recognized when the following criteria are met:

- the significant risk and rewards of ownership have been transferred;
- the Company has no ongoing involvement or control over the goods;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the cost incurred or to be incurred can be measured reliably.

This typically occurs upon shipment of the goods provided that all contractual obligations have been met.

*Revenue from rendering of service*

Services are comprised of cable, telematics, telephony and internet services, after-sales support, consulting, construction contracts and rental income. Service revenue is recognized as revenue when the following criteria have been met:

- the amount of revenue can be measured reliably;
- it is probable that economic benefits associated with the transaction will flow to the Company;
- the stage of completion can be measured reliably; and
- the related costs can be measured reliably.

Service revenues from cable, telematics, telephony, and internet are recognized in the period the customer receives the service. Subscriber connection fees received from the customers are deferred and amortized on a straight-line basis over the estimated average customer contract life. The cost of connecting a customer is capitalized and amortized over the same period. After sales support is deferred and recognized over the period during which the the service is performed on a straight-line basis. Revenue received in advance of the product being delivered or service being provided is recognized as deferred revenue.

*Rental income*

Rental income from operating leases on properties is accounted for on a straight-line basis over the lease terms.

**(d) Inventories**

Inventories consist of raw materials, work-in-progress and finished goods. Inventories of raw materials, which consist of parts, components and subscriber equipment, are recorded at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis. Work-in-progress inventory is recorded at the lower of cost and replacement cost. Finished goods inventory, which consists of finished products, is recorded at the lower of cost and net realizable value.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
**(in thousands of Canadian dollars except as otherwise noted)**

---

**2. BASIS OF PRESENTATION continued**

**(d) Inventories continued**

Manufactured products include direct materials, direct labour and a reasonable allocation of overhead costs. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

**(e) Property, Plant and Equipment**

Property, plant and equipment are recorded at cost less accumulated depreciation, accumulated impairment losses and related government assistance received. Costs include expenditures that are directly attributable to the acquisition of the asset, including any financing expense for capital investment projects under construction. When significant components of property, plant and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives. Depreciation is provided generally on a declining-balance basis over the estimated useful lives assuming that no residual value exists. Residual value is the estimated amount that the Company would currently obtain from the disposal of the asset after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Both the residual value and the useful lives of property, plant and equipment are reviewed annually. Repairs and maintenance expenditures are charged to operating expenses as incurred.

Property, plant and equipment includes certain investment property held either to earn rental income or for capital or for both, but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes. Investment property is carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation policies and the estimated useful lives for the current and comparative periods for investment property are consistent with those described for other property, plant and equipment.

**(f) Goodwill**

Goodwill is an indefinite life asset that is acquired as part of business acquisitions and recorded as the excess of the consideration transferred over the fair value of the net identifiable assets acquired. Goodwill is carried at this value less any accumulated impairment losses.

**(g) Intangible Assets**

Intangible assets acquired separately are measured on initial recognition at cost. Subsequent to initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Intangible assets are assessed as either indefinite-life or finite-life assets.

**(i) Indefinite-life Intangible Assets**

Indefinite-life intangible assets consist of trademarks and other licenses.

Trademarks and other licenses are recorded at cost, which represents the fair value at the date of acquisition.

Trademarks and other licenses are granted for a period of ten years. There is the option of renewal for little to no cost to the Company. It is expected that the demand and use for these licenses will continue to grow in the foreseeable future. As a result, these assets are assessed as having indefinite lives and as such, are not subject to amortization.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
**(in thousands of Canadian dollars except as otherwise noted)**

---

**2. BASIS OF PRESENTATION continued**

**(g) Intangible Assets continued**

**(ii) Finite-life Intangible Assets**

Customer contracts and relationships acquired in business acquisitions are amortized on a straight-line basis over their estimated useful lives of ten years. Patents and intellectual property are amortized on a straight-line basis over their estimated useful lives ranging from three to seven years.

**(h) Research and Development**

Research costs are expensed in the year in which they are incurred. Development costs are capitalized and deferred as finite-life intangible assets when the Company can demonstrate:

- technical feasibility of completing the development so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset;
- the ability to reliably measure the expenditure during development; and
- its ability to use or sell the intangible asset.

Deferred development costs are amortized on a straight-line basis over their useful lives, representing the Company's assessment of the estimated average life cycle of the associated products.

The Company develops new electronic communications products for the cable and telecommunication markets. Development costs include direct salaries, materials and an allocation of general and administrative overhead, which relate to products being developed less applicable government assistance and investment tax credits claimed.

Costs relating to projects which are not commercialized or which cease to be marketable are charged against income in the year in which this determination is made.

The Company earns investment tax credits on eligible Scientific Research and Experimental Development ("SR&ED") expenses incurred. These investment tax credits are recorded in the accounts as a reduction of the costs to which they relate and are amortized over the same period as the deferred development costs.

**(i) Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date. A lease is an arrangement that conveys a right to use an asset for an agreed period of time in return for a payment or a series of payments. A finance lease transfers substantially all the risks and benefits of ownership from the lessor to the lessee. All other leases are operating leases.

Leases that transfer all the risks and rewards of ownership to the Company are recorded as finance leases. The leased asset is recognized at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments, plus any initial direct costs of the lessee, if any. A corresponding amount is recognized as a finance lease liability. The capitalized value of the leased asset is amortized on a declining basis over its estimated useful life. The finance lease liability is reduced by rental payments net of imputed interest, which is charged against income.

Operating lease payments are recognized as an expense over the lease term.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
**(in thousands of Canadian dollars except as otherwise noted)**

---

**2. BASIS OF PRESENTATION continued**

**(j) Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

To the extent the funds are borrowed specifically for the purpose of obtaining qualifying assets, the Company capitalizes the actual borrowing costs incurred on that borrowing during the period. To the extent the funds are from general borrowings, the Company determines borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset.

All other borrowing costs are recognized in net income in the period in which they are incurred.

**(k) Impairment**

The Company reviews, at each reporting date, whether there are any indications that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount, which is the higher of the fair value less cost to sell and its value in use. Value in use is the estimated future cash flows discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment is recognized when the carrying amount of an asset or cash-generating unit (CGU) is greater than the recoverable amount. Impairment losses are recognized in the period in which it occurs in the expense categories consistent with the function of the impaired asset.

Indefinite-life intangible assets are assessed for impairment in the fourth quarter of every year and when events or changes in circumstances indicate that an asset might be impaired.

Finite-life intangible assets are assessed for impairment indicators at each reporting date. In addition, intangible assets with a finite-life which are not yet available for use, such as deferred development costs for products still under development, are tested for impairment at least annually.

Goodwill representing the excess of purchase price over fair value of the net identifiable assets of acquired businesses is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

For assets other than goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indications exist, the Company estimates the asset's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversals are recognized in the period in which it occurs in the expense categories consistent with the function of the asset.

When the Company determines that an asset meets the assets held for sale criteria, the assets are reported at the lower of the carrying amount or fair value less the cost to sell.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
**(in thousands of Canadian dollars except as otherwise noted)**

---

**2. BASIS OF PRESENTATION continued**

**(l) Income Taxes**

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses and investment tax credits available to be carried forward to future years for tax purposes that are more likely than not to be realized. The amounts recognized in respect of deferred income tax assets and liabilities are based upon the expected timing of the reversal of temporary differences or usage of tax losses and application of the substantively enacted tax rates at the time of reversal or usage.

The Company accounts for changes in substantively enacted tax rates affecting deferred income tax assets and liabilities in full in the period in which the changes were substantively enacted. The Company accounts for the changes in the estimates of prior year(s) tax balances as estimate revisions in the period in which the change in estimate arose. The Company has selected these methods as the presentation on the statement of financial position is more consistent with the liability method of accounting for income taxes.

The Company incurs research and development expenditures that are eligible for investment tax credits. The recorded investment tax credits are based on management's estimates of amounts expected to be recovered and are subject to audit by taxation authorities. The investment tax credits for research and development are reflected as a reduction in the cost of the assets or expenses to which it relates.

**(m) Foreign Currency Transactions**

The Company's consolidated financial statements are presented in Canadian dollars, which is also the parent entity's functional currency. Each entity of the Company determines its own functional currency and items included in the financial statements of each entity are measured using the functional currency of the parent.

Transactions in foreign currencies are initially recorded at the rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing exchange rate at the reporting date. Non-monetary assets and liabilities measured at cost are translated using the historical exchange rate. Non-monetary items measured at fair value are translated using the exchange rates at the date when the fair value was determined. Revenues and expenses are translated using average rates for the period, except for amortization, which is translated on the same basis as the related asset. Exchange gains and losses are reflected in net income.

**(n) Foreign Operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting dates. The revenue and expenses of foreign operations are translated to Canadian dollars at exchange rates at the date of the transactions.

Foreign currency differences are recognized in other comprehensive income. When a foreign operation is disposed of, in whole, the relevant amount in the foreign currency translation account is transferred to earnings as part of the gain or loss on disposal.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
**(in thousands of Canadian dollars except as otherwise noted)**

---

**2. BASIS OF PRESENTATION continued**

**(o) Financial Instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive the cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

The Company's financial assets include cash and cash equivalents, accounts receivable and short-term investments. Cash and cash equivalents and accounts receivable are measured at amortized cost. The carrying amount in the consolidated statement of financial position is at historical cost which approximates the fair value due to the short maturity of these instruments. Short-term investments are recorded at fair value with gains and losses being recognized in profit or loss and the carrying value in the consolidated statement of financial position is at fair value.

The Company uses derivative financial instruments to manage risks from fluctuations in exchange rates. The most frequently used derivative products are foreign currency forward purchase contracts. The Company's policy is not to utilize financial instruments for trading or speculative purposes. Derivative financial instruments are held for trading and are recognized on the consolidated statement of financial position at their fair value, with changes in fair value recognized in net income in foreign exchange gain (loss).

The Company's financial liabilities are comprised of accounts payable and accrued liabilities and long-term debt. These financial liabilities are carried at amortized cost.

Financial assets and financial liabilities are recognized initially at fair value, normally being the transaction price plus directly attributable transaction costs. Transaction costs related to financial assets or financial liabilities classified at fair value through profit or loss are recognized immediately in income. Regular purchases and sales of financial assets are accounted for on the trade date.

Financial assets carried at amortized cost are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset is impaired. Individually significant receivables are considered impaired when they are past due and there is objective evidence that the counterparty may default. The receivables that are not individually significant are reviewed for impairment in groups, based on historical rates. The impaired amount is recorded through the allowance for doubtful accounts into sales and marketing expense.

**(p) Fair Value of Financial Instruments**

The fair value of financial instruments is generally determined as follows:

The fair value of long-term debt with fixed rates of interest is estimated using discounted cash flows based on current rates of interest for similar lending arrangements. The fair values of derivatives are based on values quoted by the counterparties to the agreements. The fair value of short-term financial assets and liabilities approximate their respective carrying values due to the short term nature of these financial instruments.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
**(in thousands of Canadian dollars except as otherwise noted)**

---

**2. BASIS OF PRESENTATION continued**

**(q) Provisions**

Provisions are recorded when the Company has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset when the reimbursement is virtually certain.

The warranty provision consists of estimated parts and labour costs expected to be incurred for future product repairs provided under the Company's warranty obligations. The provisions are recorded when the product is sold and are based on contract terms, current sales levels and current information about prior claims and returns for all products sold. Because new products incorporating complex technologies are continuously introduced, changes in these estimates could result in additional allowances or changes to recorded allowances in future periods.

**(r) Stock-Based Compensation**

The Company has a stock option plan for directors, officers, and employees of the Company. The options to purchase shares must be issued at not less than the fair value at the date of grant. Any consideration paid on the exercise of stock options, together with any share capital reserves recorded at the date the options vested, is credited to share capital. The Company calculates the fair value of stock-based compensation awarded to offerees using the Black-Scholes and binomial option-pricing models. The cost of the options granted is recognized and expensed over the vesting period in which service conditions are fulfilled. When an offeree leaves the company, their vested options expire in 90 days. Forfeitures are estimated throughout the vesting period based on past experience and future expectations, and adjusted upon actual option vesting. No expense is recognized for options that do not ultimately vest.

**(s) Treasury Shares**

Equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration paid is recognized within shareholders' equity. Treasury shares are immediately cancelled upon acquisition.

**(t) Discontinued Operations and Assets Held for Sale**

A discontinued operation is a component of the Company's business, the operations and cash flows of which can be clearly distinguished from the Company and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal by sale, closure or abandonment or when the operation meets the criteria to be held-for-sale, if earlier.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
**(in thousands of Canadian dollars except as otherwise noted)**

---

**2. BASIS OF PRESENTATION continued**

**(t) Discontinued Operations and Assets Held for Sale continued**

With the classification of YourLink as a discontinued operation, the comparative statement of comprehensive income has been reclassified as if the operation had been discontinued from the start of the comparative year.

Assets held for sale are measured at the lower of the carrying amount and fair value less cost to sell.

***Accounting Standards Issued But Not Yet Applied:***

**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 has completed a preliminary review of the standard to determine the potential impact on its consolidated financial statements, and does not expect any material impacts.

**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. The Company has completed a preliminary review of the standard to determine the potential impact on its consolidated financial statements, and does not expect any material impacts.

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

IFRS 15 *Revenue from Contracts with Customers* was issued by the IASB in May 2014 and amended in September 2015 and April 2016 for application beginning on or after January 1, 2018. 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 and provides guidance relating to the costs of obtaining and fulfilling a contract.

The application of IFRS 15 will impact the Company's reported results, including the classification and timing of revenue recognition since the allocation of consideration between multiple element arrangements including software, equipment and services are performed at different points in time and over different periods of time. In addition, IFRS 15 requires the incremental cost to obtain a contract with a customer be capitalized and amortized over the contract term. The Company has completed a review of all customer contracts and expects the impact will not be material.

The Company's statement of financial position will be impacted as contract assets and contract liabilities will be recognized to reflect the timing difference between the Company's completion of performance obligations and the customer payments. While similar differences are recognized currently, the application of IFRS 15 requires additional disclosure specific to contracts with customers. The Company's cash flows and underlying economics through which we transact with our customers will not be affected.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
**(in thousands of Canadian dollars except as otherwise noted)**

---

**2. BASIS OF PRESENTATION continued**

**Accounting Standards Issued But Not Yet Applied: continued**

The Company will adopt IFRS 15 for the fiscal period beginning July 1, 2018. The Company plans to transition to the standard using the modified retrospective approach, which means that the cumulative impact of the adoption will be recognized in retained earnings as of July 1, 2018 and that comparative information will not be restated.

**IFRS 16 - Leases**

In January 2016, the IASB issued IFRS 16 *Leases*. IFRS 16 eliminates the current dual model for leases, 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 extent of the impact of the adoption of IFRS 16 has not yet been determined.

**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.

**3. USE OF JUDGMENT AND ESTIMATES**

The preparation of the Company's 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 in future periods to the carrying amount of the affected asset or liability.

**(a) Use of Judgment**

**Functional Currency**

The Company assessed the primary economic environment in which Vecima Networks Inc., Vecima Networks (USA) Inc., and Vecima Telecom India Private Ltd. operate by considering factors such as the currency for which sales of goods and services are denominated and settled, the country whose competitive forces and regulations mainly determine the sales prices of its goods and services and the currency that mainly influences labour, material and other costs of providing goods and services. Sales are primarily transacted in U.S. dollars ("USD"). The cost of material is denominated in both Canadian and U.S. dollars. The labour cost is denominated fully in Canadian dollars. Management pays close attention to gross margin, and the setting of prices in USD is influenced by costs which are primarily influenced by the Canadian dollar. Because of the mix of indicators for its primary economic environment, the Company assessed the secondary indicators of finance activities and receipts from operations. Equity and debt financing activities are both denominated in Canadian dollars and receipts from operations are retained primarily in Canadian dollars. Based on all the factors, the Company determined that the functional currency for the entities listed above should be Canadian dollars.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
**(in thousands of Canadian dollars except as otherwise noted)**

---

### **3. USE OF JUDGMENT AND ESTIMATES continued**

The Company assessed the primary economic environment in which Concurrent Technology Inc. operates by considering factors such as the currency for which sales of goods and services are denominated and settled, the country whose competitive forces and regulations mainly determine the sales prices of its goods and services and the currency that mainly influences labour, material and other costs of providing goods and services. Sales are primarily transacted in U.S. dollars. The cost of material is denominated in U.S. dollars ("USD"). The labour cost is denominated fully in U.S. dollars. Equity and debt financing activities are both denominated in U.S. dollars and receipts from operations are retained primarily in U.S. dollars. Based on all the factors, the Company determined that the functional currency for Concurrent Technology Inc. to be in U.S. dollars.

The Company assessed the primary economic environment in which Concurrent Content Solutions Corporation operates by considering factors such as the currency for which sales of goods and services are denominated and settled, the country whose competitive forces and regulations mainly determine the sales prices of its goods and services and the currency that mainly influences labour, material and other costs of providing goods and services. Sales are primarily transacted in Japanese Yen. The cost of material is denominated in Japanese Yen, however certain purchases of inventory are made in U.S. dollars. The labour cost is denominated fully in Japanese Yen. Equity and Intercompany financing activities are denominated in both Japanese Yen and U.S. dollars and receipts from operations are retained in Japanese Yen. Based on all the factors, the Company determined that the functional currency for the Concurrent Content Solutions Corporation to be in Japanese Yen.

#### **(b) Use of Estimates**

##### **Impairment of Non-Financial Assets**

Impairment exists when the carrying value of a tangible asset, intangible asset or cash-generating unit, including goodwill, exceeds its recoverable amount, which is the higher of its fair value less cost to sell and its value in use. The value in use calculation is based on a discounted cash flow model, where the cash flow is derived from the budget extrapolated over the next three to five years, exclusive of restructuring activities or significant future investments to enhance the asset's performance. The recoverable amount is most sensitive to the discount rate used as well as the expected future cash inflows and growth rate used to extrapolate beyond the three to five years.

##### **Stock-Based Compensation**

The Company measures the cost of stock-based compensation transactions with reference to the fair value of the options issued at the date they were granted. Estimated fair value for stock-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option and the volatility. The assumptions and models used for estimating fair value for stock based compensation are disclosed in Note 19.

##### **Taxes**

Deferred tax assets are recognized for all unused tax losses and investment tax credits ("ITCs") to the extent that it is probable that taxable profit will be available against which the losses and ITCs can be utilized. Significant management estimates are required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with tax planning strategies.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
**(in thousands of Canadian dollars except as otherwise noted)**

---

**3. USE OF JUDGMENT AND ESTIMATES continued**

**Deferred Development Costs**

Development costs are capitalized in accordance with the accounting policy in Note 2. Capitalization of costs is initiated based on management's judgment that technological and economical feasibility is confirmed, usually when the research project is approved to begin development. In assessing whether these costs are impaired, management makes assumptions regarding the expected future cash flows from the project, discount rates to be applied and the expected period of benefits.

**Deferred Revenue**

Deferred revenue consists of service contracts and upfront customer activation and connection fees where billings are recorded and received prior to rendering of the associated service. Billings for services are recognized as revenue in the period in which the services are provided. Upfront customer activation and connection fees are recognized over the expected term of the customer relationship.

**Allocation of Purchase Consideration to Acquired Assets and Assumed Liabilities**

The Company determined and allocated the purchase price on acquisition to the tangible and intangible assets acquired and liabilities assumed as of the business combination date in accordance with IFRS 3 Business Combinations. The purchase price allocation process requires the Company to use significant estimates and assumptions, including fair value estimates, as of the acquisition date.

**Other Areas**

Other key areas of estimation where management is required to make difficult, complex or subjective estimates, often as a result of matters that are inherently uncertain, are the allowance for doubtful accounts, allowance for inventory obsolescence, the capitalization of overhead, useful lives of property, plant and equipment, useful lives of intangible assets, valuation of goodwill, revenue recognition, provisions, investment tax credits, contingent liabilities and the fair value of financial assets.

**4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**

On January 9, 2017, the Company announced it entered into an agreement to sell the telecommunication assets of its YourLink business in Saskatchewan for total consideration of \$28,730. The sale consisted of two separate transactions. The sale transaction of operating assets closed on January 12, 2017 for consideration of \$20,000. The second transaction for consideration of \$8,730 closed on July 13, 2017. Assets connected with the second sale transaction of \$641 were classified as held for sale as at June 30, 2017.

On September 30, 2016 the Company completed the sale of cable and telecommunication assets of its YourLink business in British Columbia for consideration of \$1,422.

Financial results attributable to the YourLink business have been presented as discontinued operations. The non-current assets that were held for sale were recorded at the lower of the carrying amount or the fair market value less costs to sell. No impairment loss was recorded on assets held for sale.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
(in thousands of Canadian dollars except as otherwise noted)

**4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS continued**

The results of the discontinued operations for the years ended June 30 are as follows:

	2018	2017
Operating revenues	\$ -	\$ 5,875
Operating expenses	(9)	(5,575)
Other income (expense) and finance income (costs)	14	(24)
Income from discontinued operations before income taxes and gain on sale of assets	5	276
Income tax expense	(1)	(70)
Income from discontinued operations before gain on sale of assets	4	206
Gain on sale of assets	8,109	11,199
Income tax expense on gain on sale of assets	(1,094)	(1,148)
Net income from discontinued operations	\$ 7,019	\$ 10,257

**5. BUSINESS COMBINATION**

On December 31, 2017, the Company completed an acquisition of substantially all of the operating assets of Concurrent Computer Corporation ("Concurrent"), a software and solutions company that develops advanced applications focused on storing, protecting, transforming, and delivering visual media.

The transaction, valued at \$37,512 (US\$29,812), including a post-closing net working capital adjustment, was financed through the Company's cash and short-term investment reserves.

The acquisition was accounted for using the purchase method. As part of the Company's process for determining the fair value of the net assets acquired, the Company engaged third-party valuation specialists.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
(in thousands of Canadian dollars except as otherwise noted)

**5. BUSINESS COMBINATION continued**

The following table summarizes the preliminary fair value allocations of assets acquired and liabilities assumed as a part of this acquisition:

<b>Consideration paid</b>	
Purchase price	\$ 36,490
Working capital adjustments	1,022
	<b>37,512</b>
<b>Net assets acquired</b>	
Cash and cash equivalents	133
Accounts receivable	8,572
Inventories	2,552
Prepaid expenses and other current assets	668
Property, plant and equipment	1,695
Other long-term assets	768
Intangible assets	21,517
Goodwill	8,420
Accounts payable and accrued liabilities	(3,950)
Deferred revenue	(2,502)
Provisions	(254)
Deferred tax liability	(107)
	<b>\$ 37,512</b>

Uncollectible amounts of acquired receivables is estimated to be immaterial.

The goodwill recognized is attributable to intangible assets that do not qualify for separate recognition and includes, amongst other things: expected synergies arising from the combination of Concurrent and the Company's existing business; expected growth in the underlying markets in which Concurrent serves; and the strength of the assembled workforce. The goodwill arising from the acquisition is expected to be deductible for tax purposes.

Sales and net income for the year ended June 30, 2018 attributable to the acquisition of Concurrent are \$22,477 and \$1,305, respectively.

Had the business combination been effective July 1, 2017, the consolidated sales of the Company would have been \$91,715 and the net income would have been \$11,365. Management considers these "pro-forma" numbers to represent an approximate measure of the performance of the combined group and to provide a reference point for comparison in future periods. In determining these amounts, management has assumed that the fair value adjustments, determined on a preliminary basis, that arose on the acquisition date would have been the same, in all material respects, if the acquisition had occurred on July 1, 2017.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Year ended June 30, 2018  
(in thousands of Canadian dollars except as otherwise noted)

**6. CASH AND CASH EQUIVALENTS**

	June 30, 2018	June 30, 2017
Cash	\$ 8,071	\$ 1,464
Cash equivalents	2,963	2,053
	<b>\$ 11,034</b>	<b>\$ 3,517</b>

The Company maintains an authorized line of credit of \$14,000 (June 30, 2017 - \$14,000) of which \$nil was drawn on June 30, 2018 (June 30, 2017 - \$nil). The line of credit is secured by a general security agreement and is limited to a maximum amount available of 70% of accounts receivable and 40% of inventory (to a maximum of \$7,000). Interest on the outstanding line of credit is calculated at prime plus 0.5%. The prime rate at June 30, 2018 was 3.45% (June 30, 2017 - 2.70%).

**7. SHORT-TERM INVESTMENTS**

Short-term investments are measured at fair value and changes are reported through the statement of comprehensive income. The fair value of the short-term investments were equal to their carrying value for the year ended June 30, 2018. Short-term investments consist of guaranteed investment certificates and marketable equity securities.

**8. ACCOUNTS RECEIVABLE**

	June 30, 2018	June 30, 2017
Trade receivables	\$ 17,719	\$ 12,681
Less allowance for doubtful accounts	(8)	(35)
	<b>17,711</b>	<b>12,646</b>
Goods and services tax	271	116
Government grants receivable	1	40
Other receivables	14	170
	<b>\$ 17,997</b>	<b>\$ 12,972</b>

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the receivables.

Included in trade receivables is the allowance for doubtful accounts used to record the impairment of accounts receivables prior to being written off.

**Allowance for Doubtful Accounts**

Opening allowance for doubtful accounts, July 1, 2016	\$ 47
Charge	111
Write-offs	(102)
Reverse allowance	(21)
Balance, June 30, 2017	35
Charge	6
Write-offs	(5)
Reverse allowance	(28)
Balance, June 30, 2018	<b>\$ 8</b>

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
(in thousands of Canadian dollars except as otherwise noted)

**9. INVENTORIES**

	June 30, 2018	June 30, 2017
Raw materials	\$ 6,707	\$ 4,515
Work in progress	799	1,324
Finished goods	7,514	8,089
	<b>\$ 15,020</b>	<b>\$ 13,928</b>

During the year ended June 30, 2018, inventories of \$30,151 (year ended June 30, 2017 - \$34,042) were expensed through cost of sales. Write-downs of inventory for the year ended June 30, 2018 included in cost of sales were \$494 (year ended June 30, 2017 - \$544). Write-downs of inventory for the year ended June 30, 2018 included in sales and marketing were \$1,008 (June 30, 2017 - \$846). Reversals of write-downs were \$75 during the year ended June 30, 2018 (\$nil for the year ended June 30, 2017). The carrying amount of inventory recorded at net realizable value was \$1,107 at June 30, 2018 (June 30, 2017 - \$822) with the remaining inventory recorded at cost.

**10. DERIVATIVE FINANCIAL INSTRUMENTS TO MANAGE FOREIGN EXCHANGE RISK**

Changes in fair value of derivative financial instruments are included in foreign exchange gain in the current year. As at June 30, 2018, the Company has an unrealized net gain of \$nil (June 30, 2017 - \$16) on outstanding forward purchase contracts.

Derivative financial instruments are included in accounts receivable (June 30, 2017 - accounts receivable) in the consolidated statement of financial position.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Year ended June 30, 2018  
(in thousands of Canadian dollars except as otherwise noted)

**11. 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, 2016</b>	\$ 785	\$ 8,915	\$ 32,567	\$ 13,442	\$ 55,709
Additions	6	153	2,974	170	3,303
Government grant (Note 14)	-	-	(922)	-	(922)
Disposals	(170)	(522)	(16,146)	(3,254)	(20,092)
Assets held for sale (Note 4)	-	-	(443)	-	(443)
<b>At June 30, 2017</b>	621	8,546	18,030	10,358	37,555
Additions	-	118	1,380	318	1,816
Business acquisition (Note 5)	-	43	1,425	227	1,695
Disposals	-	-	(895)	(20)	(915)
Effect of foreign exchange	-	3	72	9	84
<b>At June 30, 2018</b>	<b>\$ 621</b>	<b>\$ 8,710</b>	<b>\$ 20,012</b>	<b>\$ 10,892</b>	<b>\$ 40,235</b>
<b>Accumulated depreciation and impairment</b>					
<b>At July 1, 2016</b>	\$ -	\$ 2,578	\$ 21,547	\$ 11,370	\$ 35,495
Depreciation charge for the year	-	284	1,537	381	2,202
Disposals	-	(137)	(8,864)	(2,146)	(11,147)
Assets held for sale (Note 4)	-	-	(104)	-	(104)
<b>At June 30, 2017</b>	-	2,725	14,116	9,605	26,446
Depreciation charge for the year	-	299	1,692	415	2,406
Disposals	-	-	(726)	(14)	(740)
Effect of foreign exchange	-	1	15	2	18
<b>At June 30, 2018</b>	<b>\$ -</b>	<b>\$ 3,025</b>	<b>\$ 15,097</b>	<b>\$ 10,008</b>	<b>\$ 28,130</b>
<b>Carrying amount</b>					
At June 30, 2017	\$ 621	\$ 5,821	\$ 3,914	\$ 753	\$ 11,109
<b>At June 30, 2018</b>	<b>\$ 621</b>	<b>\$ 5,685</b>	<b>\$ 4,915</b>	<b>\$ 884</b>	<b>\$ 12,105</b>

The following estimated useful lives have been applied to property, plant and equipment assets at June 30, 2018 and June 30, 2017:

	2018	2017
Land improvements and buildings	5 to 40 years	40 years
Lab, operating and production equipment	3 to 7 years	7 to 30 years
Other equipment <sup>(1)</sup>	1 to 5 years	1 to 30 years

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

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
(in thousands of Canadian dollars except as otherwise noted)

**11. 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:

	Years ended June 30,	
	2018	2017
Cost of sales	\$ 582	\$ 519
Research and development	627	322
Sales and marketing	236	-
General and administrative	961	816
<b>Depreciation from continuing operations</b>	<b>2,406</b>	<b>1,657</b>
<b>Depreciation from discontinued operations</b>	<b>-</b>	<b>545</b>
	<b>\$ 2,406</b>	<b>\$ 2,202</b>

There were no impairment losses recorded during the years ended June 30, 2018 or 2017.

Land and land improvements & buildings includes property, plant and equipment assessed to be investment properties in accordance with IAS 40. This property, plant and equipment had a fair value exceeding its gross carrying amount. Investment property included in land had a gross carrying amount of \$301 and accumulated depreciation of \$0 as at June 30, 2018. Investment property included in land improvements & buildings had a gross carrying amount of \$431 and accumulated depreciation of \$156 as at June 30, 2018. The fair value of these investment properties at June 30, 2018 was \$1,060. The fair value was determined using the expertise of an independent local real estate agent not related to the Company. The independent real estate agent has professional qualifications and experience in the location and category of investment property being valued. For the year ended June 30, 2018, income earned on investment properties was \$144 with direct expenses of \$59.

**12. GOODWILL**

At July 1, 2016	\$ 6,210
Disposals	(99)
At June 30, 2017	6,111
Business acquisition (Note 5)	8,420
Effect of foreign exchange	372
<b>At June 30, 2018</b>	<b>\$ 14,903</b>

Goodwill includes \$3,337 attributable to brand.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
**(in thousands of Canadian dollars except as otherwise noted)**

---

**12. GOODWILL continued**

**Impairment Testing of Goodwill**

At the end of the reporting period for the purposes of impairment testing indefinite-life intangible assets and goodwill are allocated to cash generating units (CGU's) which represent the lowest level at which indefinite-life intangible assets are monitored for internal management purposes. The Company's recorded goodwill has a carrying value which consists of \$6,111 relating to the Telematics segment and \$8,792 relating to the Content Delivery and Storage segment. The recoverable amount of the segment and the associated CGU's are based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering the next fiscal year, extrapolated based on projected growth and achieving key operating objectives for a period of less than five years. There is a material degree of uncertainty with respect to the estimates of the recoverable amount of the cash generating units' assets given the necessity of making key economic assumptions about the future.

The value in use calculation uses discounted cash flow projections which employ the following key assumptions: future cash flows and growth projections, including economic risk assumptions and estimates of achieving key operating metrics and drivers; and the weighted average cost of capital. The projected cash flows have been prepared based on management's past experience and expected demand and cost for the products. The pre-tax discount rate applied to cash flow projections reflect the current market assessment of risk and was based on an estimate of weighted average cost of capital taking into account assessments by third party experts. Cash flows beyond the five-year period are extrapolated using a 3% growth rate. As a result of this analysis, management has not identified any impairment for the Company's CGU's.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Year ended June 30, 2018  
(in thousands of Canadian dollars except as otherwise noted)

**13. 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, 2016</b>	\$ 431	\$ 5,071	\$ 371	\$ 3,127	\$ 25,027	\$ 34,027	
Additions	2	-	67	163	12,950	13,182	
Government grant (Note 14)	-	-	-	-	(289)	(289)	
Investment tax credits	-	-	-	-	(1,774)	(1,774)	
Writedown, fully amortized	-	-	-	-	(510)	(510)	
Disposals	(71)	(162)	-	-	-	(233)	
Assets held for sale	(302)	-	-	-	-	(302)	
Impairment losses	-	-	-	-	(178)	(178)	
<b>At June 30, 2017</b>	60	4,909	438	3,290	35,226	43,923	
Additions	-	-	108	26	16,407	16,541	
Business acquisition (Note 5)	44	14,961	120	6,392	-	21,517	
Government grant (Note 14)	-	-	-	-	(49)	(49)	
Investment tax credits	-	-	-	-	(2,655)	(2,655)	
Writedown, fully amortized	-	-	(27)	-	(2,592)	(2,619)	
Effect of foreign exchange	2	658	9	282	37	988	
<b>At June 30, 2018</b>	<b>\$ 106</b>	<b>\$ 20,528</b>	<b>\$ 648</b>	<b>\$ 9,990</b>	<b>\$ 46,374</b>	<b>\$ 77,646</b>	
<b>Amortization and impairment</b>							
<b>At July 1, 2016</b>	\$ -	\$ 224	\$ 277	\$ 355	\$ 6,447	\$ 7,303	
Amortization recognized	-	575	62	407	3,686	4,730	
Writedown, fully amortized	-	-	-	-	(510)	(510)	
Disposals	-	(162)	-	-	-	(162)	
Impairment losses	-	-	-	-	(4)	(4)	
<b>At June 30, 2017</b>	-	637	339	762	9,619	11,357	
Amortization recognized	-	1,377	54	863	4,227	6,521	
Writedown, fully amortized	-	-	(27)	-	(2,592)	(2,619)	
Impairment losses	-	-	-	-	22	22	
Effect of foreign exchange	-	25	-	14	2	41	
<b>At June 30, 2018</b>	<b>\$ -</b>	<b>\$ 2,039</b>	<b>\$ 366</b>	<b>\$ 1,639</b>	<b>\$ 11,278</b>	<b>\$ 15,322</b>	
<b>Net book value</b>							
At June 30, 2017	\$ 60	\$ 4,272	\$ 99	\$ 2,528	\$ 25,607	\$ 32,566	
<b>At June 30, 2018</b>	<b>\$ 106</b>	<b>\$ 18,489</b>	<b>\$ 282</b>	<b>\$ 8,351</b>	<b>\$ 35,096</b>	<b>\$ 62,324</b>	

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

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
(in thousands of Canadian dollars except as otherwise noted)

**13. INTANGIBLE ASSETS continued**

The aggregate amount of research and development expenditure during the year ending June 30, 2018 was \$27,469 (2017 - \$21,066).

During the current and prior year, no impairments were noted for any indefinite life intangible assets.

There were impairment losses of \$22 (2017 - \$174) on deferred development costs recorded during the year ended June 30, 2018.

**14. GOVERNMENT GRANTS**

Government grants and assistance are recognized where there is reasonable assurance that all conditions attached to the grant will be met and the grant or assistance claimed will be received. The claims are subject to review by the respective agencies before the funding can be released. When the grant or assistance relates to an expense item, it is recognized as income over the period necessary to match the grant or assistance on a systematic basis to the costs that it is intended to compensate. Where the grant or assistance relates to an asset, the grant or assistance reduces the carrying amount of the asset. The grant is then recognized as income over the useful life of a depreciable asset through a reduced depreciation charge.

In October 2015, April and December 2016, the Company entered into non-repayable contribution agreements with the National Research Council Canada as represented by its Industrial Research Assistance Program ("IRAP") for total funding of \$809 to finance research and development projects. During the year ending June 30, 2018, the Company recognized \$49 (June 30, 2017 - \$407) in non-repayable government assistance relating to IRAP. \$49 (June 30, 2017 - \$289) was recorded as a reduction to intangible assets and \$nil (June 30, 2017 - \$118) was recorded as a reduction to research and development expenses. At June 30, 2018, the Company had accounts receivable relating to IRAP of \$nil (June 30, 2017 - \$40).

The Company also recognized government assistance from Industry Canada's Connecting Canadians Program ("DC150"). During the year ending June 30, 2018, the Company did not recognize any non-repayable government assistance relating to this grant (June 30, 2017 - \$922). The amounts received from this grant were recognized as a reduction to property, plant and equipment. At June 30, 2018, the Company had no accounts receivable relating to DC150 (June 30, 2017 - \$nil). The future rights, obligations and benefits of the grant were transferred as part of the sale agreement of the YourLink business in Saskatchewan.

**15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>June 30, 2018</b>	June 30, 2017
Accounts payable	\$ 4,684	\$ 1,977
Accrued liabilities	7,467	4,400
	<b>\$ 12,151</b>	<b>\$ 6,377</b>

The carrying value of accounts payable and accrued liabilities are considered to be a reasonable approximation of fair value due to their short-term nature.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Year ended June 30, 2018  
(in thousands of Canadian dollars except as otherwise noted)

**16. PROVISIONS**

	Warranty	Asset Retirement Obligation	Restructuring Costs	Other	Total
<b>At July 1, 2016</b>	\$ 507	\$ 1,167	\$ -	\$ 420	\$ 2,094
Additions during the year	428	(131)	155	108	560
Amounts utilized	(540)	-	-	(373)	(913)
Disposals	-	(1,054)	-	-	(1,054)
Unused amounts reversed	-	-	-	(13)	(13)
Unwinding of discount and imputed interest	-	18	-	-	18
<b>At June 30, 2017</b>	\$ 395	\$ -	\$ 155	\$ 142	\$ 692
Additions during the year	386	-	-	200	586
Amounts utilized	(510)	-	(155)	(138)	(803)
Unused amounts reversed	-	-	-	(4)	(4)
Business acquisition	127	-	-	254	381
Effect of foreign exchange	6	-	-	14	20
<b>At June 30, 2018</b>	<b>\$ 404</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 468</b>	<b>\$ 872</b>
Less current provision	404	-	-	116	520
Long-term provision	\$ -	\$ -	\$ -	\$ 352	\$ 352

Warranty provision is based on the Company's prior years' experience which may not occur on a go forward basis.

**17. 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.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Year ended June 30, 2018  
(in thousands of Canadian dollars except as otherwise noted)

**18. LONG-TERM DEBT**

	June 30, 2018	June 30, 2017
Term credit facility	\$ 2,229	\$ 2,458
Less current portion	(250)	(250)
	<b>\$ 1,979</b>	<b>\$ 2,208</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 June 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	\$ 250
2020	250
2021	250
2022	250
2023	250
Remaining	979
	<b>\$ 2,229</b>

**19. 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, 2016	22,402,709	\$ 739
Shares issued by exercising options	11,442	65
Shares repurchased and cancelled	(34,500)	(1)
Balance at June 30, 2017	22,379,651	803
Shares issued by exercising options	3,009	13
Shares issued in exchange for short-term investments	96,443	948
Shares repurchased and cancelled	(101,815)	(8)
<b>Balance at June 30, 2018</b>	<b>22,377,288</b>	<b>\$ 1,756</b>

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
(in thousands of Canadian dollars except as otherwise noted)

**19. SHARE CAPITAL continued**

**(a) Share capital continued**

The Company issued 3,009 shares through the exercise of options during the year ended June 30, 2018 (June 30, 2017 - 11,442).

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.

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 income per share:

	<b>Years ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
Net income: basic and diluted	<b>\$ 10,802</b>	\$ 18,048
Weighted average number of shares outstanding:		
Basic	<b>22,414,944</b>	22,385,574
Dilutive stock options	<b>41,877</b>	48,708
Diluted	<b>22,456,821</b>	22,434,282
Net income per share: basic	<b>\$ 0.48</b>	\$ 0.81
Net income per share: diluted	<b>\$ 0.48</b>	\$ 0.80

Stock options could potentially dilute basic net income per share in the future. Options to purchase 518,491 common shares were vested and outstanding at June 30, 2018 (June 30, 2017 - 420,887). Dilutive stock options are calculated using the treasury stock method.

**(b) Reserves**

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

**(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.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
(in thousands of Canadian dollars except as otherwise noted)

**19. SHARE CAPITAL continued**

**(c) Stock option plan continued**

The changes in options and the number of options outstanding for the years ended June 30, 2018 and 2017 are as follows:

	Number of options	Weighted average exercise price
Outstanding, July 1, 2016	456,892	\$ 8.49
Granted	23,000	10.46
Cancelled	(9,697)	10.57
Exercised	(11,442)	4.09
Expired and forfeited	(7,052)	4.21
Outstanding, June 30, 2017	451,701	8.78
Granted	78,000	9.45
Canceled	(8,201)	8.70
Exercised	(3,009)	3.12
<b>Outstanding, June 30, 2018</b>	<b>518,491</b>	<b>\$ 8.91</b>
<b>Vested and exercisable</b>	<b>417,863</b>	<b>\$ 8.74</b>

At June 30, 2018, the exercise prices range from \$4.45 to \$10.91 with the weighted average exercise price being \$8.91. The options outstanding at June 30, 2018 have a weighted average contractual life of 3.09 years.

	Options Outstanding			Options Exercisable		
	Number	Weighted Average Remaining Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	
\$4.45 to \$7.00	6,991	0.96	\$ 4.53	6,991	\$ 4.53	
\$7.01 to \$10.00	449,500	3.02	8.76	371,500	8.62	
\$10.01 to \$10.91	62,000	3.83	10.51	39,372	10.59	
	518,491	3.09	\$ 8.91	417,863	\$ 8.74	

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
(in thousands of Canadian dollars except as otherwise noted)

---

**19. SHARE CAPITAL continued**

**(d) Stock-based compensation**

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 \$80 for the year ended June 30, 2018 (June 30, 2017 - \$321).

The weighted average estimated fair value for the common share options granted in the year was \$191 (2017 - \$67). Management used the following assumptions within the Black-Scholes and binomial option-pricing model:

Weighted average share price	\$	9.45
Expected option life		6.01 years
Risk-free rate of return		2.01 %
Volatility factor		31.27 %
Expected dividends		2.30 %

**20. RESTRUCTURING COSTS**

During the year ended June 30, 2017, the Company incurred incremental, non-recurring restructuring costs. These costs related to charges to undertake substantial changes to the company's production approach and capabilities and included personnel-related and administrative expenses. The restructuring was completed in the 2017 year and no related costs were incurred in 2018.

**21. OTHER (INCOME) EXPENSE**

	Years ended	
	June 30,	
	2018	2017
Loss on sale of property, plant and equipment	\$ 95	\$ 63
Lease revenue	(402)	(232)
Other	(10)	(107)
	<b>\$ (317)</b>	<b>\$ (276)</b>

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Year ended June 30, 2018  
(in thousands of Canadian dollars except as otherwise noted)

**22. FINANCE INCOME (EXPENSE)**

	Years ended June 30,	
	2018	2017
Interest income	\$ 1,174	\$ 1,109
Operating line fees	(16)	(15)
Term credit interest	(76)	(70)
Other	50	110
	<b>\$ 1,132</b>	<b>\$ 1,134</b>

**23. ADDITIONAL EXPENSE INFORMATION**

**Depreciation and amortization included in cost of sales and operating expenses**

	Years ended June 30,	
	2018	2017
Depreciation of property, plant and equipment	\$ 2,406	\$ 1,657
Amortization of deferred development costs	4,227	3,686
Amortization of finite-life intangible assets	2,294	1,044
	<b>\$ 8,927</b>	<b>\$ 6,387</b>

**Employee benefit expenses included in cost of sales and operating expenses**

	Years ended June 30,	
	2018	2017
Wages and salaries	\$ 33,742	\$ 28,626
Employee deferred profit sharing plan	1,052	1,036
Health care benefits	1,396	1,203
	<b>\$ 36,190</b>	<b>\$ 30,865</b>

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
(in thousands of Canadian dollars except as otherwise noted)

**24. INCOME TAXES**

Deferred income taxes reflect the net tax effects of temporary and non-current carry-forward differences between the carrying amounts of assets and liabilities for financial reporting purposes and the associated amounts used for income tax purposes.

The significant components of the Company's tax assets and liabilities are as follows:

	June 30, 2018	June 30, 2017
Provision for warranties	\$ 120	\$ 138
Non-capital losses	20	-
Property, plant and equipment	1,353	1,417
Research and development expenditures	9,523	8,804
Accrued expenses	228	-
Unrealized foreign exchange gains	(572)	(115)
Intangible assets	(8,843)	(6,179)
Other	96	1
<b>Net total deferred tax asset (liability)</b>	<b>\$ 1,925</b>	<b>\$ 4,066</b>
<b>Deferred tax asset</b>	<b>\$ 2,339</b>	<b>\$ 4,066</b>
<b>Deferred tax liability</b>	<b>\$ (414)</b>	<b>\$ -</b>

For the purposes of the preceding table, deferred tax assets are shown net of offsetting deferred tax liabilities where these occur in the same entity and jurisdiction.

Significant components of the provision for income taxes attributable to operations are as follows:

	Years ended June 30,					
	2018			2017		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Current income taxes	\$ (509)	\$ 1,095	\$ 586	\$ 430	\$ 1,627	\$ 2,057
Deferred income taxes	2,041	-	2,041	2,615	(409)	2,206
	<b>\$ 1,532</b>	<b>\$ 1,095</b>	<b>\$ 2,627</b>	<b>\$ 3,045</b>	<b>\$ 1,218</b>	<b>\$ 4,263</b>

There were no incomes taxes booked to equity in the year (2017 - \$nil).

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
(in thousands of Canadian dollars except as otherwise noted)

**24. INCOME TAXES continued**

The provision for income taxes differs from the amount that would be computed by applying the Canadian federal and provincial substantively enacted income tax rates. The reasons for the differences are as follows:

	Years ended June 30,	
	2018	2017
Income before income taxes	\$ 5,315	\$ 10,836
Canadian statutory income tax rate	25.4 %	25.5 %
Tax computed at Canadian statutory income tax rate	1,350	2,761
Differences in substantively enacted future rates	(41)	62
Foreign tax rate differential	106	-
Expenses not deductible for tax purposes <sup>(1)</sup>	41	181
Non-taxable portion of unrealized foreign exchange gains	(85)	-
Other	161	41
<b>Income tax provision</b>	<b>\$ 1,532</b>	<b>\$ 3,045</b>

<sup>(1)</sup>Expenses not deductible for tax purposes consists primarily of stock-based compensation expense, foreign expenses and meals & entertainment.

**25. INVESTMENT TAX CREDIT**

During the year ended June 30, 2018, the Company recorded investment tax credits of \$2,892 (2017 - \$2,116), with a \$2,655 (2017 - \$1,774) reduction of deferred development costs and \$237 (2017 - \$342) reduction of research and development expenses. Investment tax credits expire between 2029 and 2038.

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

	Notes	Years ended June 30,	
		2018	2017
Loss on sale of property, plant and equipment	21	\$ 95	\$ 63
Impairment of intangible assets	13	22	174
Depreciation of property, plant and equipment	11	2,406	1,657
Amortization of deferred development costs	13	4,227	3,686
Amortization of finite-life intangible assets	13	2,294	1,044
Stock-based compensation	19	80	321
Current income taxes	24	(509)	430
Deferred income taxes	24	2,041	2,615
Interest expense		92	85
Interest income	22	(1,174)	(1,109)
		<b>\$ 9,574</b>	<b>\$ 8,966</b>

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Year ended June 30, 2018  
(in thousands of Canadian dollars except as otherwise noted)

**27. 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:

	Years ended	
	June 30,	
	2018	2017
<b>(Increase) decrease in current assets</b>		
Accounts receivable	\$ 3,729	\$ (9,171)
Inventories	1,638	6,503
Prepaid expenses	263	(168)
Income tax receivable	(2)	972
	<b>5,628</b>	<b>(1,864)</b>
<b>(Decrease) increase in current liabilities</b>		
Accounts payable and accrued liabilities	2,071	(724)
Deferred revenue	(193)	(300)
	<b>1,878</b>	<b>(1,024)</b>
	<b>\$ 7,506</b>	<b>\$ (2,888)</b>

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Year ended June 30, 2018  
(in thousands of Canadian dollars except as otherwise noted)

**28. 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. YourLink was sold in the prior year (Note 4). 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.

	Year ended June 30, 2018					
	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Discontinued Operations	Inter Segment	Total
Sales - external customers	\$ 50,319	\$ 22,477	\$ 5,308	\$ -	\$ -	\$ 78,104
Cost of sales	25,386	9,302	1,566	-	-	36,254
<b>Gross profit</b>	<b>24,933</b>	<b>13,175</b>	<b>3,742</b>	<b>-</b>	<b>-</b>	<b>41,850</b>
Operating expenses	18,829	9,086	2,249	-	-	30,164
Depreciation and amortization	5,360	2,063	1,010	-	-	8,433
<b>Operating income</b>	<b>744</b>	<b>2,026</b>	<b>483</b>	<b>-</b>	<b>-</b>	<b>3,253</b>
Finance income	1,120	12	-	-	-	1,132
Foreign exchange gain (loss)	927	(21)	24	-	-	930
<b>Income before income taxes</b>	<b>2,791</b>	<b>2,017</b>	<b>507</b>	<b>-</b>	<b>-</b>	<b>5,315</b>
Income tax expense	691	712	129	-	-	1,532
<b>Net income from continuing operations</b>	<b>2,100</b>	<b>1,305</b>	<b>378</b>	<b>-</b>	<b>-</b>	<b>3,783</b>
<b>Net income from discontinued operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,019</b>	<b>-</b>	<b>7,019</b>
<b>Net income</b>	<b>\$ 2,100</b>	<b>\$ 1,305</b>	<b>\$ 378</b>	<b>\$ 7,019</b>	<b>\$ -</b>	<b>\$ 10,802</b>
<b>Total assets</b>	<b>\$ 145,814</b>	<b>\$ 50,782</b>	<b>\$ 13,551</b>	<b>\$ -</b>	<b>\$ (108)</b>	<b>\$ 210,039</b>
<b>Total liabilities</b>	<b>\$ 10,090</b>	<b>\$ 9,972</b>	<b>\$ 692</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,754</b>

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Year ended June 30, 2018  
(in thousands of Canadian dollars except as otherwise noted)

**28. SEGMENTED FINANCIAL INFORMATION continued**

	Year ended June 30, 2017					
	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Discontinued Operations	Inter Segment	Total
Sales - external customers	\$ 66,055	\$ -	\$ 5,405	\$ -	\$ -	\$ 71,460
Cost of sales	32,802	-	1,637	-	-	34,439
<b>Gross profit</b>	<b>33,253</b>	<b>-</b>	<b>3,768</b>	<b>-</b>	<b>-</b>	<b>37,021</b>
Operating expenses	19,539	-	2,445	-	-	21,984
Depreciation and amortization	5,034	-	1,096	-	-	6,130
<b>Operating income</b>	<b>8,680</b>	<b>-</b>	<b>227</b>	<b>-</b>	<b>-</b>	<b>8,907</b>
Finance income	1,134	-	-	-	-	1,134
Foreign exchange gain	799	-	(4)	-	-	795
<b>Income before income taxes</b>	<b>10,613</b>	<b>-</b>	<b>223</b>	<b>-</b>	<b>-</b>	<b>10,836</b>
Income tax expense	2,988	-	57	-	-	3,045
<b>Net income from continuing operations</b>	<b>7,625</b>	<b>-</b>	<b>166</b>	<b>-</b>	<b>-</b>	<b>7,791</b>
<b>Net income from discontinued operations</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,257</b>	<b>-</b>	<b>10,257</b>
<b>Net income</b>	<b>\$ 7,625</b>	<b>\$ -</b>	<b>\$ 166</b>	<b>\$ 10,257</b>	<b>\$ -</b>	<b>\$ 18,048</b>
<b>Total assets</b>	<b>\$ 178,998</b>	<b>\$ -</b>	<b>\$ 14,267</b>	<b>\$ 917</b>	<b>\$ (187)</b>	<b>\$ 193,995</b>
<b>Total liabilities</b>	<b>\$ 10,977</b>	<b>\$ -</b>	<b>\$ 635</b>	<b>\$ 141</b>	<b>\$ -</b>	<b>\$ 11,753</b>

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

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
Year ended June 30, 2018  
(in thousands of Canadian dollars except as otherwise noted)

**28. SEGMENTED FINANCIAL INFORMATION continued**

**Geographical:**

	Years ended June 30,	
	2018	2017
<b>Sales to external customers</b>		
United States	\$ 64,689	\$ 64,464
Canada	7,377	5,872
Japan	4,071	-
Other	1,967	1,124
	<b>\$ 78,104</b>	<b>\$ 71,460</b>
	<b>June 30,</b>	<b>June 30,</b>
	<b>2018</b>	<b>2017</b>
<b>Non-current assets</b>		
United States	\$ 32,264	\$ -
Canada	81,656	73,993
Japan	1,231	-
	<b>\$ 115,151</b>	<b>\$ 73,993</b>

Geographic location is based on shipping location and customer knowledge.

	Years ended June 30,	
	2018	2017
<b>Sales to major customers accounting for more than 10% of sales</b>		
Customer A	\$ 17,157	\$ 34,483
Customer B	28,969	11,578
	<b>\$ 46,126</b>	<b>\$ 46,061</b>

The sales to these major customers are within the Video and Broadband Solutions and Content Delivery and Storage segments.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
(in thousands of Canadian dollars except as otherwise noted)

**29. COMMITMENTS AND GUARANTEES**

The Company has entered into operating lease commitments for office equipment and for the lease of buildings. The equipment leases have an average life between two and three years with no renewal options included in the contract. The building leases have renewal terms of zero to five years. No restrictions have been placed upon the Company by entering into these leases.

The Company has future minimum lease payment obligations under non-cancelable operating leases as follows:

	<b>June 30,</b>		June 30,
	<b>2018</b>		2017
Within one year	\$ 1,710	\$	1,293
After one year but not more than five years	1,553		3,386
	<b>\$ 3,263</b>	\$	<b>4,679</b>

**30. RELATED PARTY TRANSACTIONS**

Vecima is a publicly traded company on the Toronto Stock Exchange. Dr. Surinder Kumar, Chairman of the Board, directly or indirectly controls the majority of the outstanding common shares.

The consolidated financial statements include the accounts of the Company and its subsidiaries listed in the following table:

Name	Jurisdiction	% equity interest
		Participating voting shares
Vecima Networks (USA) Inc.	United States	100
Vecima Telecom India Private Ltd.	India	95
6105971 Canada Inc.	Canada	100
Concurrent Technology Inc.	United States	100
Concurrent Technology (Canada) Inc.	Canada	100
Concurrent Content Solutions Corporation	Japan	100
Concurrent Technology (UK) Ltd.	United Kingdom	100
Concurrent Technology GmbH	Germany	100
Concurrent Technology B.V	Netherlands	100

Compensation of key management personnel of the company:

	<b>Years ended June 30,</b>	
	<b>2018</b>	2017
Salaries and short-term employee benefits	\$ 924	\$ 897
Post-employment pension	34	36
Stock-based compensation	13	142
	<b>\$ 971</b>	\$ 1,075

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
(in thousands of Canadian dollars except as otherwise noted)

**30. RELATED PARTY TRANSACTIONS continued**

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel. Key management personnel consist of the Board of Directors and certain executives.

The total fair value, at date of grant calculated using the Black-Scholes option-pricing model, for stock options awarded to key management personnel was \$nil for the year ended June 30, 2018 (2017 - \$15). No stock options were awarded to key management personnel in the year ended June 30, 2018 (2017 - 5,000). As these stock options awarded are granted for six years with vesting based on service and are equity settled, the expense will be recognized ratably over a period of years and thus only a portion of the awards are included in the table above.

The Company leases a building in Saskatoon under a ten-year lease from Dr. Surinder Kumar at the prevailing market rate at the commencement of the lease of \$10.00 per square foot. The lease expires in March 2019. The rental expense relating to this transaction was \$282 for the year ended June 30, 2018 (year ended June 30, 2017 - \$282).

**31. FAIR VALUE HIERARCHY**

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company held the following financial instruments measured at fair value:

**June 30, 2018**

	Total	Level 1	Level 2	Level 3
<b>Short-term investments</b>	<b>\$ 46,660</b>	<b>\$ 46,660</b>	<b>\$ -</b>	<b>\$ -</b>

**June 30, 2017**

	Total	Level 1	Level 2	Level 3
Short-term investments	\$ 85,675	\$ 85,675	\$ -	\$ -
Derivative financial instruments	16	16	-	-

During the years ending June 30, 2018 and June 30, 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

**32. 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.

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
(in thousands of Canadian dollars except as otherwise noted)

**32. FINANCIAL INSTRUMENTS RISK MANAGEMENT continued**

**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 cash deposits.

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 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 June 30, 2018 of \$8 (June 30, 2017 - \$35). At June 30, 2018, the Company had three major customers (June 30, 2017 - three) who accounted for approximately 51% (June 30, 2017 - 82%) of the year-end accounts receivable balance.

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

	<b>June 30, 2018</b>	June 30, 2017
Current	\$ 15,845	\$ 12,126
31 to 60 days	930	473
61 to 90 days	419	23
Over 90 days	517	24
	<b>\$ 17,711</b>	<b>\$ 12,646</b>

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
(in thousands of Canadian dollars except as otherwise noted)

**32. FINANCIAL INSTRUMENTS RISK MANAGEMENT continued**

**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 June 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	\$ 12,151	\$ 12,151	\$ -	\$ -
Income taxes payable	358	358	-	-
	<b>\$ 12,509</b>	<b>\$ 12,509</b>	<b>\$ -</b>	<b>\$ -</b>

**Currency Risk**

Approximately 95% (June 30, 2017 - 96%) of the Company's sales are denominated in USD. 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.

As at June 30, 2018, the Company has an unrealized net gain of \$nil (June 30, 2017 - \$16 net gain) on outstanding forward purchase contracts.

For the year ended June 30, 2018, if the Canadian dollar had weakened or strengthened by 1% against the U.S. dollar with all other variables held constant, net income before income taxes would have been \$357 (June 30, 2017 - \$432) higher or lower.

**Interest Rate Risk**

The Company is exposed to floating interest rate risk, as the required cash flows to service its 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 will fluctuate as a result of changes in market rates. A 1% movement in the interest rate would have resulted in a \$711 change to net income before income taxes for the year ended June 30, 2018 (June 30, 2017 - \$662).

**VECIMA NETWORKS INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**Year ended June 30, 2018**  
**(in thousands of Canadian dollars except as otherwise noted)**

---

### **33. CAPITAL DISCLOSURES**

The Company's objectives when managing capital are to maintain financial flexibility while managing its cost of optimizing access to capital. The Company defines its capital as current and long-term debt and shareholders' equity. The Company's capital as at June 30, 2018 was \$191,514 (June 30, 2017 - \$184,700). The Company monitors its capital structure and based on changes in economic conditions, may adjust the structure through the repurchase of shares, the issuance of shares or the use of debt facilities. The Company manages its capital structure in order to ensure sufficient resources are available to fund the development and growth of next generation products and, to fund the expansion of its manufacturing facilities, providing an opportunity to reinforce its market position.

Under its borrowing agreements, the Company must satisfy certain restrictive covenants including a minimum financial ratio for the working capital and maximum financial ratio for the debt/equity ratio and the purchase of property, plant and equipment. During the year, the Company complied with all these capital requirements. The Company did not pledge cash or cash equivalents under these borrowing agreements.

### **34. SUBSEQUENT EVENTS**

On September 25, 2018, the Board of Directors declared a dividend of \$0.055 per common share, payable on November 2, 2018 to shareholders of record as at October 12, 2018 consistent with its previously announced dividend policy.

During July 2018, the Company incurred estimated, non-recurring restructuring costs of \$711. These costs relate to charges to undertake changes to the company's production capabilities and reflects personnel-related expenses.