



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year ended June 30, 2018



Dear Fellow Shareholders,

In fiscal 2018, Vecima Networks made broad strategic progress as we celebrated our 30<sup>th</sup> year in business and furthered our reputation for groundbreaking innovation and industry leadership. Financially, our revenues grew 9% to \$78.1 million; we increased gross margin to 54%, generated Adjusted EBITDA of \$14.5 million and ended the year with a cash balance of \$ 57.7 million, after completing a major acquisition and making significant investments in next generation products.

We started the year with the announcement of our plans to acquire the business assets of Concurrent Computer Corporation, an industry leader in the IP Video Delivery space. The US\$29.0 million transaction was finalized in December and has enhanced Vecima with a complementary and more diversified product portfolio, as well as broader market reach. After a smooth integration, the Concurrent operations are fully meeting our expectations with all product lines enjoying strong market momentum.

In our core cable business, we continued to position Vecima to capitalize on the DOCSIS 3.1 network transformation, which is poised to disrupt the global cable industry going forward, creating significant long-term growth opportunities. The new standard, designed to support consumer demand for gigabit internet speeds and multi-screen IP video, requires a fundamental shift in network architecture. While the transition has proceeded more slowly than the industry anticipated, the major MSOs continue to push forward towards distributed access architecture. We have made excellent progress readying our Entra family of DOCSIS 3.1 products for field trials and expect these to get underway as our customers refine their plans and priorities.

I am proud to note that our new platforms are reinforcing Vecima's reputation for technical excellence. Early in the fiscal year, our Entra Access Switch won top prize in Broadband Technology Report's Diamond Technology Review with our Entra Distributed Access Platform and our new Terrace DVB Commercial Video Gateway recognized as a finalists.

Looking ahead, we expect fiscal 2019 will be a year of sharp focus for Vecima as we pursue the emerging opportunities in the cable broadband sector while also building and developing the Concurrent business within our new Content Delivery and Storage segment. We will focus on leveraging the complementary nature of these two businesses to provide immediate benefits to our shared customers while addressing larger, commercial opportunities and building Vecima as a stronger global player in the marketplace. We are confident that gigabit broadband and IP video are the most important market developments in the service provider industry. Through our award-winning, next-generation family of products, we are positioning Vecima to capitalize on the many ways people are consuming more information and entertainment.

We are excited about Vecima's future and look forward to telling you more about our progress this next year as we continue toward our vision. On behalf of the Board of Directors, I want to thank our employees and our shareholders for their continued support and commitment to Vecima.

Sincerely,

A handwritten signature in blue ink, appearing to read "Sumit Kumar", written in a cursive style.

Sumit Kumar  
President and CEO

# VECIMA NETWORKS INC.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### September 27, 2018

This Management's Discussion and Analysis (MD&A) provides a review of significant developments that have affected the performance of Vecima Networks Inc. ("Vecima" or the "Company") during the year ended June 30, 2018.

Our MD&A supplements, but does not form part of, our audited consolidated financial statements and related notes for the year ended June 30, 2018. Consequently, the following discussion and analysis of the financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended June 30, 2018 and June 30, 2017 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Our MD&A also includes certain non-IFRS financial measures which we use as supplemental indicators of our operating performance and financial position, as well as for internal planning purposes.

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

Additional information regarding Vecima, including our Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

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## Company Overview

Founded in 1988, Vecima Networks Inc. (TSX:VCM) is a Canadian company with offices in Saskatoon, Burnaby, Victoria, Atlanta and Tokyo.

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

On December 31, 2017, we acquired the Video Content Delivery and Storage business of Concurrent Computer Corporation ("Concurrent") through our new subsidiary Concurrent Technology (Canada) Inc.. Concurrent has offices in Atlanta, Georgia, and Tokyo, Japan, along with sales and support staff across Europe. The combined operations significantly enhance Vecima's global reach.

Concurrent is a global software and solutions company that develops advanced applications focused on storing, protecting, transforming, and delivering high value media assets. It serves industries and customers that demand uncompromising performance, reliability and flexibility to gain a competitive edge, drive meaningful growth and confidently deliver best-in-class solutions that enrich the lives of millions of people around the world every day.

As a result of this acquisition, our business is now organized into three segments:

- 1) **Video and Broadband Solutions** includes platforms and modules that process data from the cable network and deliver it in formats suitable to be consumed on televisions and Internet devices. Terrace and TerraceQAM are two key product families in this segment which meet the needs of the business services vertical including MDU (multi-unit dwellings) and Hospitality (including hotels, motels and resorts).
- 2) **Content Delivery and Storage** includes solutions & software for industries and customers that focus on storing, protecting, transforming, and delivering high value media assets.
- 3) **Telematics** provides fleet managers with the key information and analytics they require to optimally manage their mobile and fixed assets under the Contigo, Nero Global Tracking, and FleetLynx brands.

## Industry Developments

### Video and Broadband Solutions

The cable industry's move to distributed access architectures (DAA) under the latest DOCSIS 3.1 standard is expected to roll out with top tier players in calendar 2018 and 2019, and continue for several years thereafter. Released by CableLabs in 2014, DOCSIS 3.1 unlocks gigabit broadband speeds over existing coaxial cable by allowing data transmission up to 10 Gigabits per second (Gbps) for download speed and 3 Gbps upload speed, making DOCSIS 3.1 comparable to the speed provided by fiber optic connections, but without the added infrastructure cost. Global cable operators expect to benefit from a flexible migration given that DOCSIS 3.1 modems can coexist with older versions and build on top of the previously deployed capacity. The higher efficiency of DOCSIS 3.1 technology also enables significant cost per bit reductions relative to DOCSIS 3.0 network solutions. According to the latest industry analysis, 80% of cable operators have committed to DAA deployment plans.

We have been focused on addressing this industry transition through the development of our next generation platform, Entra, which is a distributed access architecture solution. The Entra Distributed Access Platform is Vecima's realization of the next generation of HFC nodes as optical transport moves away from analog RF distribution to all-digital Ethernet.

#### Entra Distributed Access Platform

The Entra Distributed Access solution comprises three components:

- An access node that can operate as Remote PHY (R PHY) or Remote MACPHY (R MACPHY) and provides a modular platform for deployment of access technologies;
- Unified control software for management and monitoring of access nodes and;
- A Legacy QAM Adapter that provides a simple solution to adapt existing video QAM infrastructure for distributed access.

#### Entra Access Switch

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

During fiscal 2018, we continued to progress the Entra technology, demonstrating further interoperability and preparing for customer trials.

## Content Delivery and Storage

Global demand for IP video content delivery and storage is growing, driven by the rapidly increasing consumption of IP video as consumers turn to streaming services and cable operators make vast arrays of new IP video content available to subscribers. Service providers are also pursuing new DVR opportunities that shift delivery and storage away from traditional set top storage to cloud-based models.

From a cable industry standpoint, the evolution in IP video is similar in both scale and importance to the bandwidth evolution currently underway with the shift to DOCSIS 3.1. In fact, these two evolutions are closely interrelated with increased consumption of IP video driving the need for cable operators to dramatically increase bandwidth.

With the acquisition of Concurrent Computer Corporation's IP Video Content Delivery and Storage business, Vecima now has access to the two large-scale markets created as a result of these evolutions. The Concurrent business focuses specifically on MSO's current and emerging IP video content delivery and storage needs with four key product categories: Aquari™ Storage, Laguna™ Cache, Zephyr™ Origin and Zephyr™ Cache.

## Telematics

As the technology broadens beyond fleet management and tracking to new initiatives associated with asset management for asset-intensive industries such as manufacturing, construction, energy and aerospace, Vecima is developing products to capitalize on these segments of the market.

## Our Strategy

Our growth strategy focuses on the development of our core technologies, including next generation platforms such as our new DOCSIS 3.1 platform, Entra, as well as new IP video storage and distribution technologies being developed within the Concurrent operations. We also intend to continue pursuing profitable growth both organically and when appropriate, through value enhancing strategic acquisitions.

## Fourth Quarter and Fiscal 2018 Highlights

### Financial Highlights

- Achieved 2018 revenue of \$78.1 million and a gross margin of 54%, up from revenue of \$71.5 million and gross margin of 52% in fiscal 2017
- Achieved net income of \$10.8 million (earnings per share of \$0.48)
- Generated Adjusted EBITDA of \$14.5 million
- Ended the year in strong financial position with \$57.7 million in cash
- Declared annual dividends of \$0.22 per share, including a fourth quarter dividend of \$0.055 per share payable on November 2, 2018 to shareholders of record on October 12, 2018. This represents the 17th consecutive quarterly dividend paid by Vecima since October 28, 2014. Including the dividend declared September 25, this represents \$20.0 million returned to shareholders through regular dividends

### Video and Broadband Solutions

- Achieved significant progress on our Entra DOCSIS 3.1 solution, demonstrating further functionality and interoperability with several major North American MSOs
  - Continued convergence of multiple Tier 1 MSOs to Remote PHY further substantiates Vecima's technology focus
  - Shipped multiple Entra products, including Remote PHY Access node, Legacy QAM Adapter and Access switch to multiple customer labs in North America and Latin America for integration and vendor qualification
  - Furthered interoperability progress on Entra Access nodes with major CCAP core providers within Tier 1 MSO labs
  - Completed initial DAA release for Entra Access Switch and initiated further customer trials with major MSO
- Terrace family of products sales increased by 12% YOY, reflecting strong demand for TC600E
- Successfully completed Terrace DVB field trials with a Tier 1 MSO in Europe

## Content Delivery and Storage

- Acquired assets of Concurrent Computer Corporation on December 31, 2017 and completed smooth integration of the new operations in the second half of fiscal 2018
- Achieved strong sales momentum, with second half of 2018 sales exceeding Concurrent's prior-year results by 12.4% on a comparative basis as product rollouts were increased to Tier 1 and Tier 2 customers
- Released three new version upgrades for Aquari Storage, Laguna Cache and Zephyr Origin product lines
- Deployment of primary IPTV services to multiple Tier 1 and Tier 2 MSOs, adding to a growing list of North American and international customers launching IPTV services on Concurrent platforms
- Strong order flow for Laguna Cache following completion of a feature enhancement for a large Tier 1 U.S. MSO
- In Q4 2018 Laguna Cache honoured with NewBay Media's Best of Show award at NAB 2018

## Telematics

- Software release to address fleet management requirements of municipal government customers
- Selected by the City of Victoria for provision of fleet management solutions

## Outlook

The North American cable industry continues to prepare for the new DOCSIS 3.1 standard with MSOs at various stages of planning. While the timing of the volume phase of the transition remains difficult to predict, we are working closely with our MSO customers and see significant potential for our new Entra DOCSIS 3.1 platforms. We will continue to invest in our new technologies in fiscal 2019 and anticipate that demand for our legacy cable products will continue to taper off.

As we respond to the cable industry's need to deliver increasing content over an IP framework, we expect demand for our IP Video Content Delivery and Storage products to continue to grow. Our content delivery and storage products broadly address the ongoing network upgrades to IP-oriented video technologies and we intend to capitalize on our strong customer relationships in this sector.

We expect demand for our Telematics products to continue in 2019 with incremental growth in the existing fleet tracking market while pursuing new opportunities in asset tracking.

Overall, management expects fiscal 2019 to be a year of continued investment and development as we position Vecima for industry leadership in the DOCSIS 3.1 market and the IP video content delivery and storage space. With a strong financial position, we are well positioned to pursue our product strategies, while also continuing to assess attractive acquisitions that provide significant accretion and give rapid access to technologies that will help drive our growth and success.

## Assets Held For Sale and Discontinued Operations

We completed the sale of the telecommunications assets of the YourLink business in British Columbia in fiscal 2017, and in Q1 fiscal 2018, completed the final transaction on the sale of the telecommunication assets of the YourLink business in Saskatchewan. Financial results attributable to the disposal of all YourLink assets have been presented as discontinued operations.

## Consolidated Results of Operations

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

Consolidated Statements of Comprehensive Income Data	Years ended June 30,					
	2018		2017		2016	
<b>Sales</b>	<b>\$ 78,104</b>	<b>100 %</b>	\$ 71,460	100 %	\$ 98,347	100 %
<b>Cost of sales</b>	<b>36,254</b>	<b>46 %</b>	34,439	48 %	44,125	45 %
<b>Gross profit</b>	<b>41,850</b>	<b>54 %</b>	37,021	52 %	54,222	55 %
<b>Operating expenses</b>						
Research and development <sup>(1)</sup>	15,101	19 %	11,749	17 %	10,856	11 %
Sales and marketing	10,463	13 %	5,285	7 %	5,622	6 %
General and administrative	13,248	17 %	9,875	14 %	8,743	9 %
Impairment of intangible assets	22	- %	174	- %	-	- %
Impairment of property, plant and equipment	-	- %	-	- %	337	- %
Restructuring costs	-	- %	986	1 %	-	- %
Stock-based compensation	80	- %	321	1 %	502	1 %
Other (income) expense	(317)	- %	(276)	- %	6	- %
	<b>38,597</b>	<b>49 %</b>	28,114	40 %	26,066	27 %
<b>Operating income</b>	<b>3,253</b>	<b>5 %</b>	8,907	12 %	28,156	28 %
Finance income	1,132	1 %	1,134	1 %	894	1 %
Foreign exchange (loss) gain	930	1 %	795	1 %	46	- %
<b>Income before income taxes</b>	<b>5,315</b>	<b>7 %</b>	10,836	14 %	29,096	29 %
Income tax expense	1,532	2 %	3,045	3 %	7,862	8 %
Net income from continuing operations	3,783	5 %	7,791	11 %	21,234	21 %
Net income from discontinued operations	7,019	9 %	10,257	14 %	735	1 %
<b>Net income</b>	<b>\$ 10,802</b>	<b>14 %</b>	\$ 18,048	25 %	\$ 21,969	22 %
<b>Other comprehensive income</b>	<b>\$ 1,077</b>	<b>1 %</b>	\$ -	- %	\$ -	- %
<b>Comprehensive income</b>	<b>\$ 11,879</b>	<b>15 %</b>	\$ 18,048	25 %	\$ 21,969	22 %
<b>Net income per share<sup>(2)</sup></b>						
Basic	\$ 0.48		\$ 0.81		\$ 0.98	
Basic from continuing operations	\$ 0.17		\$ 0.35		\$ 0.95	
Diluted	\$ 0.48		\$ 0.80		\$ 0.98	
Diluted from continuing operations	\$ 0.17		\$ 0.35		\$ 0.95	
<b>Other Data</b>						
Total research and development expenditures <sup>(3)</sup>	\$ 27,469	35 %	\$ 21,066	29 %	\$ 18,104	18 %
Adjusted EBITDA <sup>(4)</sup>	\$ 14,536	19 %	\$ 20,296	28 %	\$ 37,810	38 %
Adjusted earnings per share <sup>(5)</sup>	\$ 0.17		\$ 0.40		\$ 0.99	
Number of employees <sup>(6)</sup>	419		352		509	

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

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

(3) See "Total Research and Development Expenditures"

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

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

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

## Consolidated Statements of Financial Position Data

(unaudited - in thousands of dollars except number of common shares)	June 30, 2018	June 30, 2017	June 30, 2016
Cash and cash equivalents	\$ 11,034	\$ 3,517	\$ 22,222
Short-term investments	\$ 46,660	\$ 85,675	\$ 51,872
Working capital	\$ 77,403	\$ 110,457	\$ 93,222
Total assets	\$ 210,039	\$ 193,995	\$ 186,245
Long-term debt	\$ 1,979	\$ 2,208	\$ 2,458
Shareholder's equity	\$ 189,285	\$ 182,242	\$ 169,043
Number of common shares outstanding <sup>(1)</sup>	<b>22,414,944</b>	22,385,574	22,384,877

<sup>(1)</sup> Based on weighted average number of common shares outstanding

## Adjusted Earnings per Share

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

Calculation of Adjusted Earnings Per Share	Years ended June 30,		
(unaudited - in \$000's except per share amounts)	2018	2017	2016
<b>Net income</b>	<b>\$ 10,802</b>	<b>\$ 18,048</b>	<b>\$ 21,969</b>
(Gain) loss on sale of non-core PP&E, net of tax	-	(9,311)	42
(Gain) loss on sale of spectrum licenses, net of tax	<b>(7,087)</b>	62	-
Impairment of intangible assets, net of tax	<b>16</b>	130	-
Impairment of PP&E, net of tax	-	-	250
<b>Adjusted net income</b>	<b>\$ 3,731</b>	<b>\$ 8,929</b>	<b>\$ 22,469</b>
Earnings per share	<b>\$ 0.48</b>	<b>\$ 0.81</b>	<b>\$ 0.98</b>
(Gain) loss on sale of non-core PP&E, net of tax	-	(0.42)	-
(Gain) on sale of spectrum licenses, net of tax	<b>(0.31)</b>	-	-
Impairment of intangible assets, net of tax	-	0.01	-
Impairment of PP&E, net of tax	-	-	0.01
<b>Adjusted earnings per share</b>	<b>\$ 0.17</b>	<b>\$ 0.40</b>	<b>\$ 0.99</b>

## EBITDA and Adjusted EBITDA

The following table reconciles net income for the period to EBITDA and Adjusted EBITDA. The term "EBITDA" refers to net income or net loss as reported in the IFRS financial statements, excluding any amounts included in net income or net loss for income taxes, interest expense, and depreciation and amortization for property plant and equipment (PP&E) and intangible assets. The term "Adjusted EBITDA" refers to EBITDA adjusted for: gains and losses on sale of PP&E, intangible assets, and assets held for sale; impairment of PP&E; impairment of deferred development costs; restructuring costs; and stock compensation expense. We believe that Adjusted EBITDA is useful supplemental information for management and for our investors because it provides for the analysis of our results exclusive of certain non-cash items and other items which do not directly correlate to our business of selling broadband access products or supplying telematics services. Adjusted EBITDA is not a

recognized measure under IFRS and, accordingly, investors are cautioned that Adjusted EBITDA should not be construed as an alternative to net income, determined in accordance with IFRS, or as an indicator of our financial performance or as a measure of our liquidity and cash flows.

Calculation of Adjusted EBITDA	Years ended June 30,		
	2018	2017	2016
<b>Net income</b>	\$ 10,802	\$ 18,048	\$ 21,969
Income tax expense	\$ 2,627	\$ 4,263	\$ 8,115
Interest expense	92	110	106
Depreciation of PP&E	2,406	2,202	2,822
Amortization of deferred development costs	4,227	3,686	3,502
Amortization of finite-life intangible assets	2,294	1,044	409
<b>EBITDA</b>	<b>22,448</b>	<b>29,353</b>	<b>36,923</b>
Loss on disposal of intangibles	-	71	-
Gain on sale of assets held for sale	(8,109)	(346)	-
Loss (gain) on sale of PP&E	95	(10,263)	48
Impairment loss of PP&E	-	-	337
Impairment of intangible assets	22	174	-
Restructuring costs	-	986	-
Stock-based compensation	80	321	502
<b>Adjusted EBITDA</b>	<b>\$ 14,536</b>	<b>\$ 20,296</b>	<b>\$ 37,810</b>
Adjusted EBITDA margin (%)	19 %	28 %	38 %

### Total Research and Development Expenditures

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

Calculation of Research and Development Expenditures	Years ended June 30,		
	2018	2017	2016
<b>Research and development per statement of net income and comprehensive income</b>	\$ 15,101	\$ 11,749	\$ 10,856
Deferred development costs	16,407	12,950	11,163
Investment tax credits	237	342	(10)
Amortization of deferred development costs	(4,227)	(3,686)	(3,502)
Government grant	(49)	(289)	(403)
<b>Total research and development expenditure</b>	<b>\$ 27,469</b>	<b>\$ 21,066</b>	<b>\$ 18,104</b>
Percentage of sales	35 %	29 %	18 %

## Summary of Quarterly Results of Operations

The following information has been derived from our consolidated financial statements for the years ended June 30, 2018 and fiscal 2017 in accordance with IFRS. This information should be read in conjunction with those financial statements and their related notes as well as with the balance of this MD&A.

	Fiscal Year 2018				Fiscal Year 2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Sales</b>	<b>24,346</b>	<b>24,124</b>	<b>14,752</b>	<b>14,882</b>	14,629	15,718	20,227	20,886
<b>Cost of sales</b>	<b>11,075</b>	<b>11,743</b>	<b>7,032</b>	<b>6,404</b>	7,171	7,506	9,745	10,017
<b>Gross profit</b>	<b>13,271</b>	<b>12,381</b>	<b>7,720</b>	<b>8,478</b>	7,458	8,212	10,482	10,869
<b>Operating expenses</b>								
Research and development	4,427	4,466	3,045	3,163	3,074	2,969	2,857	2,849
Sales and marketing	4,227	4,015	1,113	1,108	1,423	1,404	1,161	1,297
General and administrative	3,979	4,119	2,540	2,610	2,521	2,471	2,419	2,464
Impairment of intangible assets	22	-	-	-	174	-	-	-
Restructuring costs	-	-	-	-	986	-	-	-
Stock-based compensation	31	22	14	13	120	67	66	68
Other (income) expense	(92)	(54)	(89)	(82)	(169)	(123)	13	3
	<b>12,594</b>	<b>12,568</b>	<b>6,623</b>	<b>6,812</b>	8,129	6,788	6,516	6,681
<b>Operating income (loss)</b>	<b>677</b>	<b>(187)</b>	<b>1,097</b>	<b>1,666</b>	(671)	1,424	3,966	4,188
Finance income	211	237	386	298	771	48	62	253
Foreign exchange (loss) gain	454	846	300	(670)	(331)	150	493	483
<b>Income (loss) before income taxes</b>	<b>1,342</b>	<b>896</b>	<b>1,783</b>	<b>1,294</b>	(231)	1,622	4,521	4,924
Income tax expense	554	194	454	330	(94)	603	1,168	1,368
Net income (loss) from continuing operations	788	702	1,329	964	(137)	1,019	3,353	3,556
Net income (loss) from discontinued operations	(45)	1	1	7,062	(6)	9,356	420	487
<b>Net income (loss)</b>	<b>\$ 743</b>	<b>\$ 703</b>	<b>\$ 1,330</b>	<b>\$ 8,026</b>	<b>\$ (143)</b>	<b>\$ 10,375</b>	<b>\$ 3,773</b>	<b>\$ 4,043</b>
<b>Other comprehensive income</b>	<b>\$ 450</b>	<b>\$ 627</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total comprehensive income (loss)</b>	<b>\$ 1,193</b>	<b>\$ 1,330</b>	<b>\$ 1,330</b>	<b>\$ 8,026</b>	<b>\$ (143)</b>	<b>\$ 10,375</b>	<b>\$ 3,773</b>	<b>\$ 4,043</b>
<b>Net income (loss) per share</b>								
Basic	\$ 0.03	\$ 0.03	\$ 0.06	\$ 0.36	\$ (0.01)	\$ 0.47	\$ 0.17	\$ 0.18
Diluted	0.03	0.03	0.06	0.36	(0.01)	0.46	0.17	0.18
Adjusted EBITDA as reported	\$ 4,352	\$ 3,753	\$ 3,557	\$ 2,874	\$ 2,415	\$ 3,430	\$ 7,360	\$ 7,091

## Quarter-to-Quarter Sales Variances

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

Within the industry, spending by cable operators is impacted by new technology adoption such as the industry migration to DOCSIS 3.1. The budgeting cycles of larger cable operators can also result in quarter-to-quarter variability in customer orders around their budgeting season and installation schedules. We are currently experiencing a slowdown in demand for some of our legacy Video and Broadband Solutions products as customers complete their digital networks and migrate to DOCSIS 3.1. We expect our sales to recover as our new products in the DOCSIS 3.1 Entra platform are commercialized.

Our acquisition of the Concurrent business has also contributed to variation in our quarterly sales. In particular, our marketing of Concurrent's four main product categories bolstered sales in the third and fourth quarters of fiscal 2018.

## Segmented Information

### Sales

Segment	Three months ended June 30,		Years ended June 30,	
	2018	2017	2018	2017
Video and Broadband Solutions	\$ 11,085	\$ 13,473	\$ 50,319	\$ 66,055
Content Delivery and Storage	11,951	-	22,477	-
Telematics	1,310	1,156	5,308	5,405
<b>Total sales</b>	<b>\$ 24,346</b>	<b>\$ 14,629</b>	<b>\$ 78,104</b>	<b>\$ 71,460</b>

### Three-Month Sales

We grew total sales to \$24.3 million in the fourth quarter of fiscal 2018, a 66% increase compared to \$14.6 million in Q4 2017, and 1% higher than the \$24.1 million generated in Q3 fiscal 2018. Acquisition based growth was the key factor in our higher sales with our new Concurrent operations, which we acquired on December 31, 2017, contributing fourth quarter revenue of \$12.0 million. This compares to a \$10.5 million contribution in Q3 2018.

Video and Broadband Solutions sales were \$11.1 million in the fourth quarter of fiscal 2018, compared to \$13.5 million in Q4 fiscal 2017 and \$12.2 million in Q3 fiscal 2018.

- Fourth quarter sales of the Terrace family of products increased 24% to \$7.9 million, from \$6.4 million in the fourth quarter of fiscal 2017. The higher sales reflect strong purchasing activity by a Tier 1 MSO for the TC600E, as part of a continued network-wide all-digital conversion.
- Fourth quarter fiscal 2018 sales of TerraceQAM were \$2.2 million, compared to \$5.7 million in the fourth quarter of 2017, a 62% decrease. We believe our customer's need for new systems is nearing saturation. We have delivered a further platform enhancement which frees up network capacity by supporting a new digital audio format. We anticipate further upgrade-related sales in the future when the compression format rolls out.

Content Delivery and Storage sales were \$12.0 million in the fourth quarter of fiscal 2018, compared to \$nil in Q4 fiscal 2017 and up 14% from \$10.5 million in Q3 2018. The increase in sequential quarterly sales reflects strong order flow for Laguna Cache following completion of a feature enhancement for a large Tier 1 MSO. Segment sales for the period include \$8.9 million of product sales and \$3.1 million of services revenue.

Telematics sales were \$1.3 million in the fourth quarter of fiscal 2018, up 13% from \$1.2 million in Q4 fiscal 2017 and down slightly from \$1.4 million in Q3 fiscal 2018. Results for the quarter were in line with our expectations.

### *Twelve-Month Sales*

For the 12 months ended June 30, 2018, we generated total sales of \$78.1 million, a 9% increase from the \$71.5 million generated in fiscal 2017.

Fiscal 2018 Video and Broadband Solutions sales were \$50.3 million, a 24% decline from sales of \$66.1 million last year.

- Sales of the Terrace family of products increased to \$32.4 million, from \$29.0 million in fiscal 2017. The 12% increase reflects higher TC600E sales year-over-year, partially offset by lower TC1200 sales.
- Sales of TerraceQAM were \$12.4 million for fiscal 2018, compared to \$27.1 million in the same period of fiscal 2017, a 54% decrease.
- Digital Video Access Platform (DVAP) sales increased to \$1.6 million in fiscal 2018, from sales of \$nil in fiscal 2017. The increased sales reflect the first quarter 2018 delivery to our lead customer of a new software upgrade that prepares this platform to support distributed access architecture. Over time, we expect this upgrade will help to increase the pace of DVAP deployment among MSOs as they prepare for distributed access architecture which cannot be supported by legacy devices.

Content Delivery and Storage sales were \$22.5 million in fiscal 2018, compared to \$nil in fiscal 2017. Results for fiscal 2018 included six months of operations from the Concurrent assets following our acquisition on December 31, 2017.

Telematics sales were \$5.3 million in fiscal 2018, down slightly from \$5.4 million during fiscal 2017. The year-over-year change was driven primarily by lower legacy product sales.

### **Cost of Sales**

Cost of sales consists primarily of product manufacturing and assembly expenses, with component parts, employee and third party supplier costs representing a significant portion of these costs. Costs associated with Video and Broadband Solutions sales include related overhead, compensation, final assembly, quality assurance and inventory management costs, as well as support costs and payments to contract manufacturers that perform printed circuit board assembly functions. Costs associated with Content Delivery and Storage sales include the cost of the computer systems sold, including amortization of software development costs, depreciation, labour, material, overhead and third-party product costs, as well as the salaries, benefits and other costs of the maintenance, service and help desk personnel associated with product installation and support activities. Costs associated with Telematics sales consist of hardware amortization, inventory management costs, order fulfillment, wireless fees, server hosting services, and mapping licenses.

## Gross Profit and Gross Margin

Segment	Three months ended June 30,		Years ended June 30,	
	2018	2017	2018	2017
Video and Broadband Solutions	\$ 5,200	\$ 6,418	\$ 24,933	\$ 33,253
Content Delivery and Storage	7,154	-	13,175	-
Telematics	917	1,040	3,742	3,768
Total gross profit	\$ 13,271	\$ 7,458	\$ 41,850	\$ 37,021
Video and Broadband Solutions	46.9 %	47.6 %	49.5 %	50.3 %
Content Delivery and Storage	59.9 %	- %	58.6 %	- %
Telematics	70.0 %	90.0 %	70.5 %	69.7 %
Total gross margin	54.5 %	51.0 %	53.6 %	51.8 %

### Three-Month Results

For the three months ended June 30, 2018, our gross margin increased to 55%, providing a total gross profit of \$13.3 million. This was up from a gross margin of 51% (total gross profit of \$7.5 million) in the same period last year, and a gross margin of 51% (total gross profit of \$12.4 million) in Q3 fiscal 2018.

Gross margin from the Video and Broadband Solutions segment decreased to 47% (gross profit of \$5.2 million) in the fourth quarter of fiscal 2018, compared to 48% (gross profit of \$6.4 million) during the same period in fiscal 2017. Gross margin in current quarter was impacted by lower prices for certain Terrace family products sales and by the reduced overall sales in Q4 fiscal 2018 as compared to Q4 fiscal 2017.

In the Content Delivery and Storage segment, fourth quarter gross margin increased to 60% (gross profit of \$7.2 million), from 57% (gross profit of \$6.0) in Q3 fiscal 2018. The sequential quarterly increase reflects the change in customer mix quarter-over-quarter. This was the second quarter of operations for the segment following our December 31, 2017 acquisition of assets of Concurrent Computer Corporation.

Telematics gross margin was 70% (gross profit of \$0.9 million) in the fourth quarter of fiscal 2018, down from a gross margin of 90% (gross profit of \$1.0 million) in Q4 fiscal 2017. This decrease reflects an adjustment resulting from a change in estimate for capitalized equipment amortization in the prior-year quarter.

### Twelve-Month Results

For the year ended June 30, 2018, we achieved a gross margin of 54%, providing a total gross profit of \$41.9 million. This compares to a gross margin of 52% and a total gross profit of \$37.0 million in fiscal 2017.

Gross margin from the Video and Broadband Solutions segment was 50%, providing a gross profit of \$24.9 million in fiscal 2018. This compares to a gross margin of 50% and a gross profit of \$33.3 million in fiscal 2017. The lower gross profit primarily reflects lower sales in fiscal 2018 compared to fiscal 2017.

Content Delivery and Storage achieved a gross margin of 59% in fiscal 2018, providing a gross profit of \$13.2 million. This was the second quarter of operations for the new segment and results were in line with our expectations.

Telematics achieved a gross margin of 71% in fiscal 2018, providing a gross profit of \$3.7 million. This compares to a gross margin of 70% and gross profit of \$3.8 million in fiscal 2017.

## Operating Expenses

Segment	Three months ended		Years ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Video and Broadband Solutions	\$ 6,044	\$ 6,942	\$ 24,189	\$ 24,573
Content Delivery and Storage	5,808	-	11,149	-
Telematics	742	1,187	3,259	3,541
Total operating expense	\$ 12,594	\$ 8,129	\$ 38,597	\$ 28,114

### Three-Month Results

For the three months ended June 30, 2018, total operating expenses were \$12.6 million, compared to \$8.1 million in Q4 fiscal 2017 and \$12.6 million in Q3 fiscal 2018. The year-over-year increase primarily reflects the addition of the Concurrent operations, partially offset by one-time restructuring costs in Q4 fiscal 2017.

Video and Broadband Solutions operating expenses for the fourth quarter were lower at \$6.0 million, as compared to \$6.9 million in Q4 2017. The decrease mainly reflects one-time restructuring costs in the prior-year quarter. On a sequential quarterly basis, operating expenses were \$0.4 million lower than the \$6.4 million recorded in Q3 fiscal 2018, primarily due to higher acquisition-related costs in the prior quarter.

Content Delivery and Storage operating expenses were \$5.8 million in Q4 fiscal 2018, the second quarter of reporting operations. On a sequential quarterly basis, operating expenses were \$0.5 million higher than the \$5.3 million recorded in Q3 fiscal 2018, mainly reflecting higher commission expenses in sales and marketing in the current quarter.

Telematics operating expenses decreased slightly to \$0.7 million in Q4 fiscal 2018, from \$1.2 million in Q4 fiscal 2017. This decrease primarily reflects an adjustment in the prior-year quarter which reduced deferred development costs, together with an impairment in intangibles during the same period.

### Twelve-Month Results

For the year ended June 30, 2018, total operating expenses increased to \$38.6 million, from \$28.1 million in fiscal 2017.

Video and Broadband Solutions operating expenses decreased slightly to \$24.2 million, from \$24.6 million in fiscal 2017. The year-over-year decrease mainly reflects benefits from the restructuring of operations at the beginning of fiscal 2018, partially offset by acquisition costs incurred in the current year related to the Concurrent transaction.

Telematics operating expenses decreased to \$3.3 million in fiscal 2018, from \$3.5 million in fiscal 2017. This decrease reflects reduced research and development, sales and marketing, and general and administrative expenses.

*Research and development expenses* for the three months ended June 30, 2018 increased to \$4.4 million, or 18% of sales, from \$3.1 million, or 21% of sales in the same period of fiscal 2017. We continue to invest in research and development to support the launch of our new products. Until these products are in commercial production, the development costs are deferred to future periods. Total research and development costs before deferrals, amortization of deferred development costs and income tax credits for the three months ended June 31, 2018 increased to \$8.1 million, or 33% of sales, from \$5.7 million, or 39% of sales in Q4 fiscal 2017. The increase was primarily the result of the acquisition of Concurrent, higher subcontracting costs, and lower prototyping costs and government grants in the current period.

*Research and development expenses* for the year ended June 30, 2018 increased to \$15.1 million, or 19% of sales, from \$11.7 million, or 16% of sales in the same period of fiscal 2017. We continue to invest in research and development to support the launch of our new products. Until these products are in commercial production, the development costs are deferred to future periods. For the year ended June 30, 2018, total research and development costs before deferrals, amortization of deferred development costs and income tax credits

increased to \$27.5 million, or 35% of sales, from \$21.1 million, or 29% of sales in fiscal 2017. This increase reflects the acquisition of Concurrent, along with additional subcontracting costs and lower government grants in the current year offset by lower prototyping costs.

*Sales and marketing expenses* increased to \$4.2 million, or 17% of sales in Q4 fiscal 2018, from \$1.4 million, or 10% of sales last year. This increase reflects the addition of sales and marketing expenses related to the Concurrent operations. For the year ended June 30, 2018, sales and marketing expenses increased to \$10.5 million, or 13% of sales, from \$5.3 million, or 7% of sales in fiscal 2017. This increase reflects the addition of Concurrent sales and marketing expenses and higher inventory allowances for slow moving finished goods inventory, partially offset by lower warranty expense in the current-year period.

*General and administrative expenses* increased to \$4.0 million in Q4 fiscal 2018, from \$2.5 million in Q4 2017. The year-over-year increase reflects the addition of the Concurrent operations. For the year ended June 30, 2018, general and administrative expenses increased to \$13.2 million, from \$9.9 million in the same period last year for the same reasons described above.

*Stock-based compensation expense* declined to \$0.03 million in Q4 fiscal 2018, from \$0.12 million in Q4 fiscal 2017. For the year ended June 30, 2018, stock based compensation was \$0.08 million, down from \$0.32 million in fiscal 2017.

*Impairment of intangible assets* decreased to \$0.02 million for the three months ended June 30, 2018, from \$0.17 million in the same period last year. For the year ended June 30, 2018, impairment of intangible assets decreased to \$0.02 million, from \$0.17 million in fiscal 2017.

*Other income* decreased to \$0.09 million for the three months ended June 30, 2018, from \$0.17 million in the same period last year. For the year ended June 30, 2018, other income increased to \$0.32 million, from \$0.28 million in fiscal 2017.

## Operating Income

	Three months ended		Years ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Video and Broadband Solutions	\$ (844)	\$ (524)	\$ 744	\$ 8,680
Content Delivery and Storage	1,346	-	2,026	-
Telematics	175	(147)	483	227
<b>Total operating income</b>	<b>\$ 677</b>	<b>\$ (671)</b>	<b>\$ 3,253</b>	<b>\$ 8,907</b>

Operating income increased to \$0.7 million in Q4 fiscal 2018, from an operating loss of \$0.7 million in Q4 fiscal 2017. The increase was driven by contribution from our new Content Delivery and Storage segment, together with increased operating income from the Telematics segment. These gains were partially offset by an increased operating loss in the Video and Broadband Solutions segment. Operating income for the year ended June 30, 2018 was \$3.3 million, down 63% from operating income of \$8.9 million in fiscal 2017. The year-over-year change reflects lower sales and gross profits in the Video and Broadband Solutions segment. This impact was partially offset by a decrease in operating expenses from this segment, as well as by the addition of operating income from our new Content Delivery and Storage segment.

Video and Broadband Solutions reported a fourth quarter operating loss of \$0.8 million, as compared to a loss of \$0.5 million in Q4 fiscal 2017. The year-over-year change reflects the \$1.2 million reduction in gross profit, partially offset by a \$0.9 million decrease in operating expenses largely attributable to the \$1.0 million restructuring charge in the prior-year quarter. For the year ended June 30, 2018, operating income of \$0.7 million was down 91% from \$8.7 million in fiscal 2017. The year-over-year change was driven by lower sales and gross profit, partially offset by a decrease in total operating costs in the current year quarter mainly attributable to the prior year restructuring costs.

Content Delivery and Storage operating income was \$1.3 million in Q4 fiscal 2018 and \$2.0 million for fiscal 2018 reflecting the first two quarters of operations.

Telematics operating income increased to \$0.2 million in Q4 fiscal 2018, from an operating loss of \$0.1 million in Q4 fiscal 2017. Gross margin was down \$0.1 million, but was offset by a \$0.4 million reduction in operating expenses reflecting an adjustment in the prior-year quarter, which reduced deferred development costs. For the year ended June 30, 2018, Telematics operating income increased to \$0.5 million, from \$0.2 million in fiscal 2017. Lower operating expenses related to lower research and development, sales and marketing and general and administrative expenses were the main reasons for this increase.

*Finance income* decreased to \$0.2 million in Q4 fiscal 2018, from \$0.8 million in the same period last year. This reflects a \$0.1 million decrease in Q4 2018 interest income, together with a \$0.4 million gain on investments in the prior-year quarter. For the year ended June 30, 2018, finance income of \$1.1 million was unchanged from the prior year. Interest income was lower by \$0.1 million in Q4 2018, but was offset by a \$0.1 million higher gain on investments in the same period.

*Foreign exchange gain* for the three months ended June 30, 2018 was \$0.5 million, compared to a foreign exchange loss of \$0.3 million in the prior-year quarter. For the year ended June 30, 2018, foreign exchange gain increased to \$0.9 million from a gain of \$0.8 million in fiscal 2017.

*Income tax expense* increased to \$0.6 million in Q4 fiscal 2018 from an income tax recovery of \$0.1 million in Q4 fiscal 2017. For the year ended June 30, 2018, income tax expense was \$1.5 million, down from \$3.0 million in fiscal 2017.

*Net income from discontinued operations* was \$nil in Q4 fiscal 2018 and 2017. For the year ended June 30, 2018, net income from discontinued operations decreased to \$7.1 million, from \$10.3 million in the same period of fiscal 2017. Discontinued operations represent the YourLink operations in Saskatchewan sold in Q3 fiscal 2017 and Q1 fiscal 2018 and the YourLink operations in British Columbia sold in Q1 fiscal 2017.

*Net income* for Q4 fiscal 2018 increased to \$0.7 million or \$0.03 per share, from a net loss of \$0.1 million or \$0.01 loss per share in Q4 fiscal 2017. For the year ended June 30, 2018, net income was \$10.8 million, or \$0.48 per share, compared to \$18.0 million or \$0.81 per share for the same period in fiscal 2017.

*Other comprehensive income* was \$0.5 million in Q4 fiscal 2018 and \$1.1 million for the year ended fiscal 2018. This represents foreign exchange differences on the translation of the foreign operations of Concurrent to Canadian dollars.

*Net income and total comprehensive income* for Q4 fiscal 2018 increased to \$1.2 million or \$0.04 per share, up from a net loss of \$0.1 million or \$0.01 loss per share in Q4 fiscal 2017. For the year ended June 30, 2018, net income and total comprehensive income was \$11.9 million, or \$0.48 per share, compared to \$18.0 million or \$0.81 per share fiscal 2017.

### ***Cash from Operating Activities***

For the three months ended June 30, 2018, cash flow from operating activities provided cash of \$0.7 million, compared to \$1.9 million for the three months ended June 30, 2017. The \$1.4 million change reflects a \$4.0 million decrease in cash flow from non-cash working capital, partially offset by a \$2.8 million increase in operating cash flow.

For the year ended June 30, 2018, cash flow from operating activities provided cash of \$21.0 million, compared to \$14.0 million in fiscal 2017. The \$7.0 million increase reflects the \$10.4 million increase in cash flow from non-cash working capital and a \$0.7 million increase in cash flow from discontinued operations partially offset by a \$4.1 million decrease in operating cash flow.

### ***Investing Activities***

Cash flow used in investing activities decreased to \$2.9 million in Q4 fiscal 2018 from \$3.4 million in the same period last year. The cash provided by investing activities represents the net sale of short-term investments of \$2.5 million (Q4 fiscal 2017 - \$0.3 million), deferred development expenditures of \$4.8 million (Q4 fiscal 2017 - \$3.3 million), and purchase of property, plant and equipment of \$0.6 million (Q4 fiscal 2017 - \$0.3 million).

Cash flow used by investing activities decreased to \$7.9 million for the year ended June 30, 2018 from \$28.9 million in fiscal 2017. The cash used by investing activities represents the acquisition of the assets of Concurrent of \$37.4 million, net proceeds on sale of short-term investments of \$39.0 million (fiscal 2017 net purchases - \$33.8 million), deferred development expenditures of \$16.4 million (fiscal 2017 - \$13.0 million), the purchase of property, plant and equipment of \$1.8 million (fiscal 2017 - \$1.6 million) and cash provided by discontinued operations of \$8.7 million (fiscal 2017 - \$19.6 million).

### **Financing Activities**

For the three months ended June 30, 2018 we paid dividends of \$1.2 million (Q4 fiscal 2017 - \$1.2 million) and repaid \$0.1 million of our long-term debt (Q4 fiscal 2017 - \$0.1 million repaid). We received proceeds of government grants of \$nil (Q4 fiscal 2017 - \$0.2 million). We repurchased commons shares for \$0.3 million (Q4 fiscal 2017 - \$nil).

For the year ended June 30, 2018 we paid dividends of \$4.9 million (fiscal 2017 - \$4.9 million) and repaid \$0.2 million of our long-term debt (fiscal 2017 - \$0.3 million repaid). We received proceeds from government grants of \$0.05 million in 2018 (fiscal 2017 - \$0.4 million). We issued commons shares for \$0.9 million in exchange for shares in AirlQ Inc. (fiscal 2017 - \$nil). We repurchased commons shares for \$0.9 million (YTD fiscal 2017 - \$0.3 million). We had net cash provided by discontinued operations of \$nil (YTD fiscal 2017 - \$1.3 million).

## **Liquidity and Capital Resources**

We manage our liquidity and capital resources to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. We believe we have the flexibility to obtain from internal sources the funds needed to fulfil our cash requirements during the following financial year. Our liquidity requirements are met primarily by funds generated from operations.

As at June 30, 2018, we had access to our full revolving loan facility of \$14.0 million (\$14.0 million at June 30, 2017), of which no amount was drawn as an operating line of credit (June 30, 2017 - \$nil was drawn). We had term credit of \$2.2 million as at June 30, 2018 (June 30, 2017 - \$2.5 million). We believe that our current cash and short term investments of \$57.7 million together with anticipated cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future.

Capital expenditures for Q4 fiscal 2018 were \$0.6 million compared to \$0.3 million in Q4 fiscal 2017. For the year ended June 30, 2018 capital expenditures were \$1.8 million compared to \$1.6 million in fiscal 2017. The quarterly and year-to-date increases are a result of Concurrent capital expenditures.

### **Working Capital**

Working capital represents our current assets less current liabilities. Our working capital decreased to \$77.4 million at June 30, 2018, from \$110.5 million at June 30, 2017. This largely reflects the decrease in cash related to the acquisition of the assets of Concurrent. We note that working capital balances can also be subject to significant swings from quarter to quarter. Our product shipments are "lumpy", reflecting the requirements of our major customers. It is not unusual to ship \$5 or \$6 million of product in a one-week period. If this level of sales occurs in the first week of a succeeding quarter, we would expect to experience an increase in inventory levels and a drop in receivables in the prior quarter. Other timing issues, like contracts with greater than 30 day payment terms, also affect working capital, particularly if shipments are backend weighted for a quarter.

*Accounts receivable* balance increased to \$18.0 million at June 30, 2018, from \$13.0 million at June 30, 2017. This increase reflects the \$8.0 million of accounts receivable of Concurrent, as well as timing of sales, with more orders shipped later in Q4 2018 which resulted in higher accounts receivable as at June 30, 2018.

*Income tax receivable* balance increased to \$2.5 million at June 30, 2018 from \$2.0 million at June 30, 2017. This balance represents income tax paid in respect of a January 2017 CRA re-assessment (see Commitments below for details) and a \$0.5 million income tax receivable to be collected in fiscal 2019.

*Inventory* increased by \$1.1 million to \$15.0 million at June 30, 2018, from \$13.9 million as at June 30, 2017. Concurrent inventory accounted for \$2.1 million of the June 30, 2018 inventory. Finished goods inventories were \$7.5 million at June 30, 2018, compared to \$8.1 million at June 30, 2017. Raw material inventory increased to \$6.7 million at June 30, 2018, compared to \$4.5 million at June 30, 2017. Work-in-process inventories decreased to \$0.8 million as at June 30, 2018, from \$1.3 million at June 30, 2017. We manufacture and assemble products, with the result that inventory levels will be substantially higher than for other companies in the industry that outsource manufacturing and assembly.

*Investment tax credits* were \$22.7 million at June 30, 2018 up from \$20.1 million at June 30, 2017. For every dollar we spend on eligible research and development in Canada, we generate approximately fifteen cents in income tax credits. These credits are used to offset our income tax payable.

*Accounts payable and accrued liabilities* increased to \$12.2 million at June 30, 2018 representing 65 days for payables to be outstanding. This compares to \$6.4 million at June 30, 2017, representing an average of 60 days for payables to be outstanding. This increase partially reflects the addition of \$5.6 million of Concurrent accounts payable.

*Long-term debt*, including current portion, decreased to \$2.2 million at June 30, 2018 from \$2.5 million at June 30, 2017.

## Dividends

Declaration Date	Dividend Amount (per share)	Record Date	Payable Date
September 25, 2017	\$0.055	October 13, 2017	November 3, 2017
November 7, 2017	\$0.055	November 24, 2017	December 18, 2017
February 6, 2018	\$0.055	February 26, 2018	March 19, 2018
May 8, 2018	\$0.055	May 25, 2018	June 19, 2018

## Contractual Obligations

We have lease commitments for production equipment, service vehicles and facilities amounting to \$1.7 million within one year, \$1.5 million after one year but not more than five years and \$nil thereafter.

## Commitments

In January 2017, we received a re-assessment from the Canada Revenue Agency ("CRA") regarding our tax treatment of gains on the sale of radio spectrum licenses in 2012 to 2014. The CRA has re-assessed the gains on the sale of these radio spectrum licenses as active business income, which would result in additional income taxes, penalties and interest payable of approximately \$4.1 million. We, and our advisors, have reviewed the applicable tax law and believe our original treatment of these sales as capital gains was appropriate. We filed a Notice of Objection in March 2017. The outcome of this matter cannot be determined at this time with reasonable certainty. No provision for this matter has been recognized in the financial statements. To avoid further penalties, 50% of the re-assessment was paid.

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

## Foreign Exchange

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

As at June 30, 2018, the exchange rate on the Canadian dollar strengthened to \$1.314 against the U.S. dollar from Canadian \$1.296 against the U.S. dollar as at June 30, 2017. This \$0.018 exchange difference increased the value of our \$26.8 million U.S. dollar net assets by approximately \$0.5 million Canadian.

## Financial Instruments

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

As at June 30, 2018, we did not have any forward contracts (June 30, 2017 - \$nil).

## Off-Balance Sheet Arrangements

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

## Transactions Between Related Parties

We lease a building in Saskatoon under a 10-year lease from Dr. Surinder Kumar, the Chairman of Vecima. The lease was entered into in 2010 at prevailing market rates at that time and expires in 2019. The rental expense from this transaction was \$0.3 million for the year ended June 30, 2018 (June 30, 2017 - \$0.3 million).

## Proposed Transactions

There are no proposed asset or business acquisitions or dispositions that our Board of Directors have decided to proceed with or for which our senior management believes confirmation by the Board of Directors is probable.

## Critical Accounting Estimates

The preparation of our audited consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Use of judgment and estimates are disclosed in Note 3 of the audited consolidated financial statements for the year ended June 30, 2018 as well as in the Business Combination section below in this MD&A.

## Accounting Pronouncements

### Amendments to IFRS 2 – Share-Based Payment

In June 2016, the IASB issued amendments to IFRS 2 *Share-Based Payment*. The amendments were issued to provide clarification on the classification and measurement of share-based transactions. The standard is effective for periods beginning on or after January 1, 2018 with earlier application permitted. We have completed a preliminary review of the standard to determine the potential impact on its consolidated financial statements, and we do 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. We have completed a preliminary review of the standard to determine the potential impact on our consolidated financial statements, and we do 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 our 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. We have completed our review of all customer contracts and expect the impact will not be material.

Our company's statement of financial position will be impacted as contract assets and contract liabilities will be recognized to reflect the timing difference between our 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. Our cash flows and underlying economics through which we transact with our customers will not be affected.

We will adopt IFRS 15 for the fiscal period beginning July 1, 2018. We plan 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 lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. The standard is effective for periods beginning on or after January 1, 2019 with earlier application permitted. We are currently reviewing the standard to determine the potential impact on our consolidated financial statements.

## **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. We are currently reviewing the standard to determine the potential impact on our consolidated financial statements.

## **Disclosure Controls and Procedures**

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

Our CEO and CFO have evaluated the effectiveness of our disclosure controls and procedures as defined under rules adopted by the Canadian securities regulatory authorities. Based on that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as at June 30, 2018.

## Internal Control over Financial Reporting

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

Our CEO and CFO have evaluated the effectiveness of the internal control over financial reporting as at June 30, 2018 in accordance with Internal Control - Integrated Framework (2013), published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, our CEO and CFO have determined that the internal control over financial reporting is effective as at June 30, 2018.

Our CEO and CFO have limited the scope of their design of disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of the Concurrent business, which we acquired on December 31, 2017. We have accordingly availed ourselves of provision 3.3(1)(b) of National Instrument 52-109, which permits exclusion of this acquisition in the design and operating effectiveness assessment of our ICFR for a maximum period of 365 days from the end of the financial period in which the acquisition occurred.

The following summary financial information pertains to the acquisition that was included in our consolidated financial statements for the period ended June 30, 2018:

Sales	\$ 22,477
Net income	\$ 1,305
Current assets	\$ 11,925
Non-current assets	\$ 32,400
Current liabilities	\$ 6,199
Non-current liabilities	\$ 614

Sales and net income for the three months ended June 30, 2018 includes sales of \$12.0 million and net income of \$0.7 million attributable to the acquisition of Concurrent. Sales and net income for the year ended June 30, 2018 includes sales of \$22.5 million and net income of \$1.3 million attributable to the acquisition of Concurrent.

## Business Combination

On December 31, 2017, we acquired substantially all of the operating assets of Concurrent Computer Corporation for aggregate consideration of approximately \$37.5 million - US\$29.0 million plus a working capital adjustment of US\$0.8 million (initially estimated at US\$0.7 million).

We 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 that we use significant estimates and assumptions, including fair value estimates, as of the acquisition date. While management uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business combination date, the estimates and assumptions are inherently uncertain and subject to refinement. Accordingly, the measurement of the assets acquired and liabilities assumed may change significantly upon finalization of our valuations and completion of the purchase price allocation, both of which are expected to be finalized in calendar 2018.

Goodwill recorded in connection with the acquisition is primarily attributable to: the expected future earnings potential as a result of expected synergies arising from the combination of Concurrent and Vecima's existing business; expected growth in the underlying markets in which Concurrent serves; and the strength of the assembled workforce.

## Legal Proceedings

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

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

## Risk and Uncertainties

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

## Outstanding Share Data

As at September 27, 2018, we had 22,370,621 common shares outstanding as well as options outstanding that are exercisable for an additional 518,491 common shares.

On November 30, 2017, we filed a notice of intention with the Toronto Stock Exchange to acquire for cancellation, by way of normal course issuer bid, up to 600,000 common shares of the Company. We acquired 101,015 common shares of Vecima for cancellation in fiscal 2018. The normal course issuer bid expires on November 29, 2018.

## Additional Information

### Financial Governance

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

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

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

### Forward-Looking Information

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

Forward looking information in this MD&A includes, but is not limited to statements that we believe that our current cash and short term investments of \$57.7 million together with anticipated cash flow from operations will be sufficient to meet our working capital requirements and capital expenditure requirements for the foreseeable future. While we believe our customer's need for new TerraceQAM systems is nearing saturation, we have delivered a further platform enhancement which frees up network capacity by supporting a new digital audio format. We anticipate further upgrade-related sales in the future when the compression format rolls out. A new software upgrade that prepares the DVAP platform to support distributed access architecture will over time help to increase the pace of DVAP deployment among MSOs as they prepare for distributed access architecture which cannot be supported by legacy devices. Forward looking information also includes our Strategy, our Industry Developments and our Outlook in this MD&A.

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

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