



Interim Condensed Consolidated Financial Statements of

VECIMA NETWORKS INC.

For the three months ended September 30, 2019 and 2018

(unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim condensed consolidated financial statements of Vecima Networks Inc. (the “Company”) have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of the interim condensed consolidated financial statements by an entity’s auditor.

VECIMA NETWORKS INC.
Interim Condensed Consolidated Statements of Financial Position
(unaudited – in thousands of Canadian dollars)

As at	Note	September 30, 2019	June 30, 2019
Assets			
Current Assets			
Cash and cash equivalents		\$ 17,963	\$ 19,834
Short-term investments	11	23,369	24,569
Accounts receivable		15,380	15,154
Income tax receivable		460	437
Inventories		13,063	12,724
Prepaid expenses		1,990	2,235
Contract assets		180	187
		72,405	75,140
Non-current assets			
Property, plant and equipment		12,372	12,526
Right-of-use assets	3(c)	4,790	-
Goodwill		15,201	15,131
Intangible assets	4	67,715	67,887
Other long-term assets		1,017	1,017
Investment tax credits		24,899	24,355
Deferred tax assets		5,045	4,714
		203,444	\$ 200,770
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 10,043	\$ 11,699
Provisions		805	804
Income tax payable		62	55
Deferred revenue		3,893	4,046
Other current liabilities		1,231	-
Current portion of long-term debt	5	1,612	250
		17,646	16,854
Non-current liabilities			
Provisions		336	332
Deferred revenue		835	763
Deferred tax liability		327	324
Long-term debt	5	5,701	1,729
		24,845	20,002
Shareholders' equity			
Share capital		1,916	1,916
Reserves		4,121	4,104
Retained earnings		171,329	173,738
Accumulated other comprehensive income		1,233	1,010
		178,599	180,768
		\$ 203,444	\$ 200,770

Subsequent Events - Note 13

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

VECIMA NETWORKS INC.**Interim Condensed Consolidated Statements of Comprehensive Loss***(unaudited – in thousands of Canadian dollars, except per share amounts)*

		Three months ended September 30,	
	Note	2019	2018
Sales	6, 10	\$ 20,112	\$ 21,335
Cost of Sales		9,638	10,144
Gross Profit		10,474	11,191
Operating expenses			
Research and development		5,068	4,604
Sales and marketing		3,746	3,200
General and administrative	3(d)	3,981	4,003
Restructuring costs		-	757
Share-based compensation	7	17	34
Other income	8	(10)	(88)
		12,802	12,510
Operating loss		(2,328)	(1,319)
Finance income		208	222
Foreign exchange gain (loss)		298	(517)
Loss before income taxes		(1,822)	(1,614)
Income tax recovery		(438)	(518)
Net loss		\$ (1,384)	\$ (1,096)
Other comprehensive (loss) income			
Item that may be subsequently reclassified to net income			
Exchange differences on translating foreign operations		223	(418)
Comprehensive loss		\$ (1,161)	\$ (1,514)
Net loss per share			
Basic	9	\$ (0.06)	\$ (0.05)
Diluted	9	\$ (0.06)	\$ (0.05)
Weighted average number of common shares			
Shares outstanding - basic	9	22,370,087	22,373,122
Shares outstanding - diluted	9	22,370,087	22,373,122

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

VECIMA NETWORKS INC.**Interim Condensed Consolidated Statements of Change in Equity***(unaudited – in thousands of Canadian dollars)*

	Note	Share capital	Reserves	Retained earnings	Accumulated other comprehensive income	Total
Balance as at June 30, 2018		\$ 1,756	\$ 4,041	\$ 182,309	\$ 1,077	\$ 189,183
Net loss		-	-	(1,096)	-	(1,096)
Other comprehensive loss		-	-	-	(418)	(418)
Dividends		-	-	(1,230)	-	(1,230)
Shares repurchased and cancelled		-	-	(56)	-	(56)
Share-based payment expense	7	-	34	-	-	34
Balance as at September 30, 2018		\$ 1,756	\$ 4,075	\$ 179,927	\$ 659	\$ 186,417
Balance as at June 30, 2019		\$ 1,916	\$ 4,104	\$ 173,738	\$ 1,010	\$ 180,768
IFRS 16 transition impact	3(b)	-	-	206	-	206
Adjusted balance as at June 30, 2019		\$ 1,916	\$ 4,104	\$ 173,944	\$ 1,010	\$ 180,974
Net loss		-	-	(1,384)	-	(1,384)
Other comprehensive income		-	-	-	223	223
Dividends		-	-	(1,231)	-	(1,231)
Share-based payment expense	7	-	17	-	-	17
Balance as at September 30, 2019		\$ 1,916	\$ 4,121	\$ 171,329	\$ 1,233	\$ 178,599

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

VECIMA NETWORKS INC.
Interim Condensed Consolidated Statements of Cash Flows
(unaudited – in thousands of Canadian dollars)

		Three months ended September 30,	
	Note	2019	2018
OPERATING ACTIVITIES			
Net loss		\$ (1,384)	\$ (1,096)
Adjustments for non-cash items:			
Loss on sale of property, plant and equipment		14	11
Depreciation and amortization	12	3,496	2,721
Share-based compensation		17	34
Income tax (recovery) expense		526	(426)
Deferred income tax expense		(964)	(92)
Interest expense		80	24
Interest income		(222)	(281)
Net change in working capital	12	(1,193)	(410)
Decrease in other long-term assets		61	19
Increase in provisions		-	104
Increase in investment tax credits		(38)	(27)
Income tax received		-	262
Income tax paid		(22)	(351)
Interest received		222	281
Interest paid		(80)	(24)
Increase in long-term contract assets		(55)	-
Cash provided by operating activities		458	749
INVESTING ACTIVITIES			
Capital expenditures, net	12	(444)	(771)
Purchase of short-term investments		(200)	(206)
Proceeds from sale of short-term investments		1,400	5,727
Deferred development costs	4	(2,650)	(4,343)
Cash provided by (used in) investing activities		(1,894)	407
FINANCING ACTIVITIES			
Proceeds from government grants		31	-
Principal payments of lease liabilities	5	(332)	-
Repurchase and cancellation of shares		-	(56)
Repayment of long-term debt	5	(83)	(62)
Cash used in financing activities		(384)	(118)
Net (decrease) increase in cash and cash equivalents		(1,820)	1,038
Effect of change in exchange rates on cash		(51)	175
Cash and cash equivalents, beginning of period		19,834	11,034
Cash and cash equivalents, end of period		\$ 17,963	\$ 12,247

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

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements**

Three months ended September 30, 2019 and 2018

(in thousands of Canadian dollars except as otherwise noted)

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VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2019 and 2018***(in thousands of Canadian dollars except as otherwise noted)*

1. NATURE OF THE BUSINESS

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 Solutions 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 provides fleet managers key information and analytics they require to optimally manage their business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Statement of compliance**

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") under International Accounting Standard 34 – *Interim Financial Reporting* (IAS 34). These interim condensed consolidated financial statements do not include all the information required for a complete set of annual financial statements and should be read in conjunction with the consolidated financial statements of the Company for the year ended June 30, 2019.

(b) Basis of presentation

These interim condensed consolidated financial statements have been prepared using the same basis of presentation, accounting policies and methods of computation as outlined in Note 2, Summary of Significant Accounting Policies in our consolidated financial statements for the year ended June 30, 2019, except as noted below.

The interim condensed consolidated financial statements of the Company were approved by the Board of Directors and authorized for issue on November 12, 2019.

(c) Adoption of new accounting standards and amendments to accounting standards**IFRS 16 – Leases (IFRS 16)**

Effective July 1, 2019, the Company adopted IFRS 16, which supersedes the previous accounting standards for leases, IAS 17 – *Leases* (IAS 17) and IFRIC 4 – *Determining Whether an Arrangement Contains a Lease* (IFRIC 4). IFRS 16 introduced a single accounting model for lessees. A lessee is now required to recognize and disclose on its statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. IFRS 16 does not substantially change lease accounting for lessors.

The Company adopted IFRS 16 using the modified retrospective approach whereby the financial statements of prior periods presented are not restated. Prior periods continue to be reported under IAS 17 and IFRIC 4. The impact resulting from the adoption of IFRS 16 is disclosed below in Note 3.

IFRIC 23 – Uncertainty over income tax treatments (IFRIC 23)

In June 2017, the IASB issued IFRIC 23, which clarifies the application of the recognition and measurement requirements in IAS 12 – *Income Taxes*, when there is uncertainty over income tax treatments. This interpretation is effective for annual reporting periods beginning on or after January 1, 2019, using a full retrospective approach. The Company has adopted IFRIC 23 and determined that the application did not have a material impact on the Company's condensed consolidated financial statements because its existing policies were in line with the standard.

(d) Accounting standards issued but not yet effective and not yet applied

In October 2018, the IASB issued an amendment to IFRS 3 – *Business Combinations* (IFRS 3). The amendment clarifies the definition of a business and assists entities to determine whether an acquisition is a business combination or an acquisition of a group of assets. The amendment emphasizes that the output of a business is to provide goods and services to customers and also to provide supplementary guidance. The amendment to IFRS 3 may effect whether the future acquisitions are accounted for as a business combination or asset acquisition, along with the resulting allocation of the purchase price between the identifiable assets acquired and goodwill. The Company will adopt the standard prospectively for acquisitions made on or after January 1, 2020. The effects, if any, of the amended standard on our financial performance and disclosure will be dependent on the facts and circumstances of any future acquisition transactions.

3. ADOPTION OF IFRS 16 – LEASES**(a) Accounting policy**Lessee accounting

The Company has entered into leases for equipment, land and buildings in the normal course of business. Lease contracts are usually made for fixed periods of time but may include options to purchase, renew or terminate. Leases are usually negotiated on an individual basis and have a wide range of terms and conditions.

At the inception of a contract, it is assessed as to whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, it is assessed as to whether, throughout the period of use, the Company has the right:

- to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use; and
- to direct the use of the identified asset.

At the commencement date, the Company recognizes a right-of-use asset and a corresponding lease liability. At the commencement date, the right-of-use asset is measured at cost. The cost of the right-of-use asset comprises the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred; and
- an estimate of costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located, or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the right-of-use asset is measured by applying a cost model. The cost model measures the right-of-use asset at cost:

- less any accumulated depreciation and any accumulated impairment losses; and
- adjusted for any re-measurement of the lease liability.

Right-of-use assets are depreciated on a straight-line basis over the term of the lease, unless the Company expects to obtain ownership of the leased asset at the end of the lease, in which case, the right-of-use asset is depreciated over its estimated useful life. The lease term typically consists of the non-cancellable period of the lease, together with both:

- the periods covered by options to extend the lease, where the Company is reasonably certain to exercise the option; and
- the periods covered by options to terminate the lease, where the Company is reasonably certain that the option will not be exercised.

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2019 and 2018***(in thousands of Canadian dollars except as otherwise noted)*

At the commencement date, the lease liability is initially measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease liabilities are subsequently measured at amortized cost using the effective interest method.

The lease liability is re-measured when there is a change in the future lease payments arising from a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or when the Company changes its assessment of whether purchase, extension or termination options will be exercised. When the lease liability is re-measured under these circumstances, there will be a corresponding adjustment made to the carrying amount of the right-of use asset.

When the lease liability is re-measured due to an amendment to the lease contract due to a decrease in contract scope, the lease liability and right-of-use asset will decrease relative to this change, with the difference recorded in net income prior to the re-measurement of the lease liability.

Practical expedients and exemptions

The Company has applied the following available practical expedients and exemptions, wherein it has:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- excluded initial direct costs from measuring the right-of-use asset as at July 1, 2019;
- relied on our assessment of whether leases are onerous under the requirements of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* as at June 30, 2019 as an alternate to reviewing our right-of-use assets for impairment;
- elected not to separate non-lease components from lease components and instead accounted for each lease component and any associated non-lease component as a single lease component;
- applied the short-term lease exemption to leases with lease terms that end within 12 months from the date of initial application; and
- applied the recognition exemption to leases for which the underlying asset is of low value.

Lessor accounting

All of the leases for which the Company is the lessor are classified as operating leases. Lease payments received under operating leases are recognized in income on a straight-line basis.

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements**

Three months ended September 30, 2019 and 2018

*(in thousands of Canadian dollars except as otherwise noted)***(b) Reconciliation of condensed consolidated statements of financial position as at July 1, 2019**

The table below is the effect of the transition to IFRS 16 on our condensed consolidated statements of financial position as at July 1, 2019:

	Reference	As reported as at June 30, 2019	Effect of IFRS 16 transition	Subsequent to transition as at July 1, 2019
Assets				
Current assets				
Cash and cash equivalents		\$ 19,834	\$ -	\$ 19,834
Short-term investments		24,569		24,569
Accounts receivable		15,154		15,154
Income tax receivable		437		437
Inventories		12,724		12,724
Prepaid expenses		2,235		2,235
Contract assets		187		187
		75,140	-	75,140
Non-current assets				
Property, plant and equipment		12,526		12,526
Right-of-use assets	i.	-	5,109	5,109
Goodwill		15,131		15,131
Intangible assets		67,887		67,887
Other long-term assets		1,017		1,017
Investment tax credits		24,355		24,355
Deferred tax assets		4,714		4,714
		\$ 200,770	5,109	\$ 205,879
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	ii.	\$ 11,699	(812)	\$ 10,887
Provisions		804		804
Income tax payable		55		55
Deferred revenue		4,046		4,046
Current portion of long-term debt	i.	250	1,329	1,579
		16,854	517	17,371
Non-current liabilities				
Provisions		332		332
Deferred revenue		763		763
Deferred tax liability		324		324
Long-term debt	i.	1,729	4,386	6,115
		20,002	4,903	24,905
Shareholders' equity				
Share capital		1,916		1,916
Reserves		4,104		4,104
Retained earnings	iii.	173,738	206	173,944
Accumulated other comprehensive income		1,010		1,010
		180,768	206	180,974
		\$ 200,770	\$ 5,109	\$ 205,879

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2019 and 2018***(in thousands of Canadian dollars except as otherwise noted)*

i. Right-of-use assets and lease liabilities

The initial measurement of the Company's right-of-use assets and lease liabilities were calculated in accordance to our accounting policy in Note 3(a) above. The Company did have lease incentives at the time of transition, which reduced the lease liabilities at the time of transition.

ii. Accounts payable and accrued liabilities

Prior to the transition to IFRS 16, the Company reported an accrued liability for certain operating leases that were recorded using a straight-line rent methodology. The accrued liability was eliminated upon the transition to IFRS 16.

iii. Retained earnings

Lease abatements received prior to the transition to IFRS 16 do not have an impact of the right-of-use asset or the lease liability because they are not lease incentives, and they have no cash flow impact. The net impact of these lease abatements are consequently recorded against retained earnings.

Impact of IFRS 16 transition

Prior to the adoption of IFRS 16, the total minimum operating lease commitments as at June 30, 2019 were \$6,877. The weighted average discount rate applied to the total lease liabilities recognized on transition was 3.91%. The difference between the total of the minimum lease payments set out in Note 34 of our June 30, 2019 consolidated financial statements and the total lease liabilities recognized on transition was a result of:

- the inclusion of lease payments beyond minimum commitments related to reasonably certain renewal periods or extension options that had not yet been exercised as at June 30, 2019; offset by
- the effect of discounting the minimum lease payments;
- the exclusion of short-term and low-value asset leases; and
- certain costs to which we are contractually committed under lease contracts but which do not qualify to be accounted for as a lease liability, such as variable lease payments not tied to an index or rate.

As a result of adopting IFRS 16, the Company has recognized a significant increase in both our assets and liabilities on the condensed consolidated statements of financial position. The condensed consolidated statements of comprehensive loss are impacted due to: the removal of rent expense for our leases; the additional depreciation and amortization due to the depreciation of the right-of-use assets; and the additional finance costs related to the interest component of the lease liabilities.

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2019 and 2018***(in thousands of Canadian dollars except as otherwise noted)*

(c) Right-of-use asset

For the three months ended September 30, 2019, the Company's right-of-use assets solely comprised of real estate leases. The table below provides details of the Company's right-of-use assets:

	Three months ended September 30, 2019	
		Total
At cost		
As at July 1, 2019		
As previously reported	\$	-
IFRS 16 transitional amount		5,109
Adjusted balance, July 1, 2019		5,109
Additions		-
Dispositions, retirements, other		-
Effect of foreign exchange		23
	\$	5,132
Accumulated depreciation		
As at July 1, 2019		
As previously reported	\$	-
Adjusted balance, July 1, 2019		-
Depreciation		341
Dispositions, retirements, other		-
Effect of foreign exchange		1
	\$	342
Net book value		
At June 30, 2019	\$	-
At September 30, 2019	\$	4,790

(d) Short-term leases and leases of low-value assets

The Company applied the practical expedients permitted under IFRS 16 for short-term leases and leases of low value assets. For the three months ended September 30, 2019, \$14 for short-term leases, and \$3 for leases of low-value assets are included in general and administration expense in the interim condensed consolidated statements of comprehensive loss.

(e) Use of estimates and judgmentsEstimates

The Company estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option. Certain qualitative and quantitative assumptions are made when determining the value of the economic incentives.

Judgments

Judgments used in determining the right-of-use assets and lease liabilities include:

- identifying or determining if a contract is or contains an identified asset - the identified asset should be physically distinct or represent all or substantially all of the capacity of the asset, and should provide the right to all or substantially all of the economic benefits from the use of the identified asset;

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements**

Three months ended September 30, 2019 and 2018

(in thousands of Canadian dollars except as otherwise noted)

- determining which interest rate to use in measuring the present value of the lease liability for each lease – the incremental borrowing rate should reflect the interest that would have to be paid to borrow at a similar term and with similar security;
- determining, with reasonable certainty, whether the Company will exercise an option to extend or an option not to terminate a lease contract – this will be based on an assessment of the expected economic return from the lease.

See Note 5 for our disclosure regarding lease liabilities.

4. INTANGIBLE ASSETS

	Note	Indefinite- life intangible assets	Finite-life intangible assets				Total
		Spectrum and other licenses	Customer contracts	Patents	Intellectual property	Deferred development costs	
At cost							
At July 1, 2019		\$ 105	\$ 20,866	\$ 644	\$ 10,316	\$ 60,521	\$ 92,452
Additions		-	-	42	-	2,650	2,692
Government grant		-	-	-	-	(34)	(34)
Investment tax credits		-	-	-	-	(379)	(379)
Write-down, fully amortized		-	-	-	-	-	-
Effect of foreign exchange			141	2	61	39	243
At September 30, 2019		\$ 105	\$ 21,007	\$ 688	\$ 10,377	\$ 62,797	\$ 94,974
Amortization							
At July 1, 2019		\$ -	\$ 4,374	\$ 385	\$ 3,012	\$ 16,794	\$ 24,565
Amortization		-	596	20	361	1,669	2,646
Write-down, fully amortized		-	-	-	-	-	-
Effect of foreign exchange		-	25	-	12	11	48
At September 30, 2019		\$ -	\$ 4,995	\$ 405	\$ 3,385	\$ 18,474	\$ 27,259
Net book value							
At June 30, 2019		\$ 105	\$ 16,492	\$ 259	\$ 7,304	\$ 43,727	\$ 67,887
At September 30, 2019		\$ 105	\$ 16,012	\$ 283	\$ 6,992	\$ 44,323	\$ 67,715

5. LONG-TERM DEBT

As at	September 30, 2019		June 30, 2019	
Term credit facility	\$	1,896	\$	1,979
Lease liabilities (including lease liabilities under IFRS 16 (Note 3(a)))		5,417		-
	\$	7,313		1,979
Comprised of:				
Current portion of term credit facility and lease liabilities	\$	1,612	\$	250
Long-term portion of term credit facility and lease liabilities		5,701		1,729
	\$	7,313	\$	1,979

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2019 and 2018***(in thousands of Canadian dollars except as otherwise noted)*

Term credit facility

The term credit facility is with a Canadian chartered bank. As at September 30, 2019, the facility is repayable in monthly instalments of \$21 principal and interest at prime of 3.95% (June 30, 2019 - \$21, and 3.95%, respectively), expires in October 2020 and is collateralized by a general security agreement. The Company has an authorized loan amount of \$3,792 and annually renews this facility with the bank.

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.

Assuming that the existing payment terms are the same at the renewal date, the following are the future principal repayments for the term credit facility as at September 30, 2019:

2020	\$	167
2021		250
2022		250
2023		250
2024		250
Thereafter		729
	\$	1,896

Lease liabilities

The following is a reconciliation of the Company's lease liabilities as at September 30, 2019:

Lease liabilities, beginning of period	\$	5,715
Interest on lease liabilities		61
Payments of lease liabilities		(393)
Effect of foreign exchange		34
Lease liabilities, end of period	\$	5,417
Current portion		1,362
	\$	4,055

The contractual undiscounted lease payments under the lease liability as at September 30, 2019 are as follows:

Less than one year	\$	1,572
One to five years		4,359
More than five years		-
Total undiscounted lease payments	\$	5,931

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements**

Three months ended September 30, 2019 and 2018

(in thousands of Canadian dollars except as otherwise noted)

6. REVENUE FROM CONTRACTS WITH CUSTOMERSDisaggregated revenue

In the following table, gross revenue from contracts with customers is disaggregated by reporting segment and type. Refer to Note 10 for additional segmented financial information.

Three months ended September 30, 2019					
	Video and Broadband Solutions	Content Delivery and Storage	Telematics		Total
Product sales	\$ 5,693	\$ 7,278	\$ 169	\$	13,140
Provision of services	1,769	4,009	1,194		6,972
	\$ 7,462	\$ 11,287	\$ 1,363	\$	20,112

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

7. SHARE-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 share-based compensation over the vesting period of the options. The share-based compensation expense included in the interim condensed consolidated statements of comprehensive loss was \$17 for the three months ending September 30, 2019 (September 30, 2018 - \$34).

8. OTHER (INCOME) EXPENSE

	Three months ended September 30,	
	2019	2018
Loss on sale of property, plant and equipment	\$ 14	\$ 11
Lease revenue	(19)	(104)
Other	(5)	5
	\$ (10)	\$ (88)

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements**

Three months ended September 30, 2019 and 2018

*(in thousands of Canadian dollars except as otherwise noted)***9. NET LOSS PER SHARE**

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

	Three months ended September 30,	
	2019	2018
Net loss: basic and diluted	\$ (1,384)	\$ (1,096)
Weighted average number of shares outstanding:		
Basic	22,370,087	22,373,122
Dilutive stock options	-	-
Diluted	22,370,087	22,373,122
Net loss per share: basic	\$ (0.06)	\$ (0.05)
Net loss per share: diluted	\$ (0.06)	\$ (0.05)

Stock options could potentially dilute basic net income (loss) per share in the future. Options to purchase 421,501 common shares were vested and outstanding as at September 30, 2019 (September 30, 2018 – 417,863). Dilutive stock options are calculated using the treasury stock method. For the three months ended September 30, 2019, any conversion effect of stock options were anti-dilutive and have been excluded from the calculation of diluted loss per share.

10. 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 telecommunications markets. The Content Delivery and Storage segment develops advanced applications focused on storing, protecting, and transforming and delivering visual media. The Telematics segment designs, develops and distributes fleet management products. Inter-segment transactions take place at terms that approximate fair value. The majority of the Company's operations, employees and assets reside in Canada and the United States. The following tables highlight key financial information by segment and geographical region:

Segments

	Three months ended September 30, 2019				
	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Inter- Segment	Total
Sales	\$ 7,462	\$ 11,287	\$ 1,363	\$ -	\$ 20,112
Cost of sales	3,936	5,317	385		9,638
Gross profit	3,526	5,970	978	-	10,474
Operating expenses	3,940	4,898	500		9,338
Depreciation and amortization	1,698	1,555	211		3,464
Operating (loss) income	(2,112)	(483)	267	-	(2,328)
Finance income (expense)	236	(28)	-	-	208
Foreign exchange gain (loss)	325	(33)	6	-	298
(Loss) income before taxes	(1,551)	(544)	273	-	(1,822)
Income tax (recovery) expense	(385)	(123)	70	-	(438)
Net (loss) income	\$ (1,166)	\$ (421)	\$ 203	\$ -	\$ (1,384)

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements**

Three months ended September 30, 2019 and 2018

(in thousands of Canadian dollars except as otherwise noted)

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

Geographical region

	Three months ended September 30,	
	2019	2018
Sales to external customers:		
United States	\$ 13,995	\$ 14,868
Canada	1,728	3,665
Europe	2,330	1,978
Japan	799	632
Other	1,260	192
	\$ 20,112	\$ 21,335

Sales to major customers

Sales to major customers accounting for more than 10% of total sales are as follows:

	Three months ended September 30,	
	2019	2018
Customer A	\$ 3,368	\$ 7,563
Customer B	2,479	2,673
Customer C	2,351	-
	\$ 8,198	\$ 10,236

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

11. FAIR VALUE HIERARCHY

Assets and liabilities measured at fair value in the condensed consolidated statements of financial position, or where fair value disclosures are required, are classified based on a three-level hierarchy as follows:

Level 1: determined by reference to quoted prices in active markets for identical assets and liabilities;

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements**

Three months ended September 30, 2019 and 2018

(in thousands of Canadian dollars except as otherwise noted)

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

Level 3: determined using inputs that are not based on observable market data.

The following table classifies assets and liabilities measured at fair value according to the three-level hierarchy:

	September 30, 2019			June 30, 2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Short-term investments	\$ 23,369	\$ -	\$ -	\$ 24,569	\$ -	\$ -

During the three months ended September 30, 2019, there were no transfers between the hierarchy levels.

12. SUPPLEMENTAL INFORMATION

The following tables provide details of the Company's supplemental cash flow information:

Depreciation and amortization – operating activities

	Three months ended September 30,	
	2019	2018
Depreciation of property, plant and equipment	\$ 509	\$ 611
Depreciation of right-of-use assets	341	-
Amortization of deferred development costs	1,669	1,169
Amortization of finite-life intangible assets	977	941
Total depreciation - operating activities	\$ 3,496	\$ 2,721

Net change in working capital – operating activities

	Three months ended September 30,	
	2019	2018
Accounts receivable	\$ (1,366)	\$ 2,639
Income taxes receivable	(2)	-
Inventories	(262)	(2,494)
Prepaid expenses	1,405	(334)
Contract assets	7	(97)
Accounts payable and accrued liabilities	(871)	549
Deferred revenue	(104)	(673)
Total change in net working capital	\$ (1,193)	\$ (410)

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2019 and 2018***(in thousands of Canadian dollars except as otherwise noted)*

Capital expenditures, net – investing activities

	Three months ended September 30,	
	2019	2018
Capital expenditures before proceeds of disposition:		
Property, plant and equipment	\$ (403)	\$ (740)
Intangible assets	(42)	(31)
Proceeds of disposition:		
Property, plant and equipment	1	-
Intangible assets	-	-
Total capital expenditures, net	\$ (444)	\$ (771)

13. SUBSEQUENT EVENTS

On November 12, 2019, the Board of Directors declared a dividend of \$0.055 per common share, payable on December 23, 2019 to shareholders of record as at November 29, 2019 consistent with its previously announced dividend policy.