



Interim Condensed Consolidated Financial Statements of

VECIMA NETWORKS INC.

For the three months ended September 30, 2020 and 2019

(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, 2020 | June 30, 2020 |
|---|------|--------------------|-------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 10,432 | \$ 17,350 |
| Short-term investments | 15 | 16,910 | 17,165 |
| Accounts receivable | | 23,058 | 24,908 |
| Income tax receivable | | 362 | 333 |
| Inventories | 4 | 21,337 | 17,212 |
| Prepaid expenses | | 1,707 | 2,051 |
| Contract assets | | 704 | 646 |
| Total current assets | | 74,510 | 79,665 |
| Non-current assets | | | |
| Property, plant and equipment | 5 | 14,539 | 11,801 |
| Right-of-use assets | | 3,620 | 4,010 |
| Goodwill | | 15,594 | 15,487 |
| Intangible assets | 6 | 70,189 | 69,200 |
| Other long-term assets | | 1,246 | 1,301 |
| Investment tax credits | | 24,732 | 24,374 |
| Deferred tax assets | | 4,870 | 4,460 |
| Total assets | | \$ 209,300 | \$ 210,298 |
| Liabilities and shareholders' equity | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | \$ 17,391 | \$ 17,105 |
| Provisions | 7 | 1,285 | 492 |
| Income tax payable | | 3 | 130 |
| Deferred revenue | | 4,776 | 4,960 |
| Other current liabilities | | 1,245 | - |
| Current portion of long-term debt | 8 | 1,752 | 1,698 |
| Total current liabilities | | 26,452 | 24,385 |
| Non-current liabilities | | | |
| Provisions | 7 | 412 | 400 |
| Deferred revenue | | 698 | 602 |
| Deferred tax liability | | 7 | 536 |
| Long-term debt | 8 | 4,132 | 4,613 |
| Total liabilities | | 31,701 | 30,536 |
| Shareholders' equity | | | |
| Share capital | 9 | 3,556 | 3,161 |
| Reserves | | 3,975 | 3,838 |
| Retained earnings | | 168,582 | 170,665 |
| Accumulated other comprehensive income | | 1,486 | 2,098 |
| Total shareholders' equity | | 177,599 | 179,762 |
| Total liabilities and shareholders' equity | | \$ 209,300 | \$ 210,298 |

Contractual obligation - Note 18; Subsequent events - Note 19

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 | 2020 | 2019 |
| Sales | 10, 14 | \$ 27,844 | \$ 20,112 |
| Cost of Sales | | 14,836 | 9,638 |
| Gross Profit | | 13,008 | 10,474 |
| Operating expenses | | | |
| Research and development | | 6,343 | 5,068 |
| Sales and marketing | | 3,209 | 3,746 |
| General and administrative | | 4,791 | 3,981 |
| Share-based compensation | 11 | 239 | 17 |
| Other (income) expense | 12 | (3) | (10) |
| Total operating expenses | | 14,579 | 12,802 |
| Operating loss | | (1,571) | (2,328) |
| Finance income | | 161 | 208 |
| Foreign exchange (loss) gain | | (225) | 298 |
| Loss before income taxes | | (1,635) | (1,822) |
| Income tax recovery | | (797) | (438) |
| Net loss | | \$ (838) | \$ (1,384) |
| Other comprehensive (loss) income | | | |
| Item that may be subsequently reclassified to net income | | | |
| Exchange differences on translating foreign operations | | (612) | 223 |
| Comprehensive loss | | \$ (1,450) | \$ (1,161) |
| Net loss per share | | | |
| Basic | 13 | \$ (0.04) | \$ (0.06) |
| Diluted | 13 | \$ (0.04) | \$ (0.06) |
| Weighted average number of common shares | | | |
| Shares outstanding - basic | 13 | 22,482,015 | 22,370,087 |
| Shares outstanding - diluted | 13 | 22,482,015 | 22,370,087 |

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, 2019 | | \$ 1,916 | \$ 4,104 | \$ 173,898 | \$ 1,010 | \$ 180,928 |
| Net loss | | - | - | (1,384) | - | (1,384) |
| Other comprehensive income | | - | - | - | 223 | 223 |
| Dividends | | - | - | (1,231) | - | (1,231) |
| Share-based payment expense | 11 | - | 17 | - | - | 17 |
| Balance as at September 30, 2019 | | \$ 1,916 | \$ 4,121 | \$ 171,283 | \$ 1,233 | \$ 178,553 |
| Balance as at June 30, 2020 | | \$ 3,161 | \$ 3,838 | \$ 170,665 | \$ 2,098 | \$ 179,762 |
| Net loss | | - | - | (838) | - | (838) |
| Other comprehensive loss | | - | - | - | (612) | (612) |
| Dividends | | - | - | (1,245) | - | (1,245) |
| Shares issued by exercising options | | 395 | (102) | - | - | 293 |
| Share-based payment expense | 11 | - | 239 | - | - | 239 |
| Balance as at September 30, 2020 | | \$ 3,556 | \$ 3,975 | \$ 168,582 | \$ 1,486 | \$ 177,599 |

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)

| | Note | Three months ended September 30, | |
|---|------|----------------------------------|------------------|
| | | 2020 | 2019 |
| OPERATING ACTIVITIES | | | |
| Net loss | | \$ (838) | \$ (1,384) |
| Adjustments for non-cash items: | | | |
| Loss on sale of property, plant and equipment | | 2 | 14 |
| Depreciation and amortization | 17 | 3,542 | 3,496 |
| Share-based compensation | | 239 | 17 |
| Income tax (recovery) expense | | (577) | 526 |
| Deferred income tax recovery | | (220) | (964) |
| Interest expense | | 59 | 80 |
| Interest income | | (88) | (222) |
| Net change in working capital | 17 | 1,348 | (1,193) |
| Decrease in other long-term assets | | 43 | 6 |
| Increase in provisions | | 11 | - |
| Increase in investment tax credits | | (41) | (38) |
| Income tax paid | | (125) | (22) |
| Interest received | | 88 | 222 |
| Interest paid | | (10) | (80) |
| Cash provided by operating activities | | 3,433 | 458 |
| INVESTING ACTIVITIES | | | |
| Capital expenditures, net | 17 | (449) | (444) |
| Purchase of short-term investments | | (84) | (200) |
| Proceeds from sale of short-term investments | | 339 | 1,400 |
| Deferred development costs | 6 | (3,448) | (2,650) |
| Business acquisition | 3 | (6,401) | - |
| Cash used in investing activities | | (10,043) | (1,894) |
| FINANCING ACTIVITIES | | | |
| Proceeds from government grants | | - | 31 |
| Principal repayments of lease liabilities | 8 | (375) | (332) |
| Repayment of long-term debt | 8 | (63) | (83) |
| Issuance of shares through exercised options | | 293 | - |
| Cash used in financing activities | | (145) | (384) |
| Net decrease in cash and cash equivalents | | (6,755) | (1,820) |
| Effect of change in exchange rates on cash | | (163) | (51) |
| Cash and cash equivalents, beginning of period | | 17,350 | 19,834 |
| Cash and cash equivalents, end of period | | \$ 10,432 | \$ 17,963 |

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, 2020 and 2019

(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, 2020 and 2019***(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, 2020.

(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, 2020, 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 10, 2020.

(c) Estimation uncertainty

On March 11, 2020, the World Health Organization recognized the outbreak of COVID-19 as a pandemic and the Company has been closely monitoring related developments and the impact on our business. We continue to serve customers through our available platforms. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impact on the Company's future earnings and cash flows cannot be estimated at this time. Due to the uncertainty surrounding the duration and potential outcomes of the COVID-19 pandemic, and the unpredictable and continuously changing impacts and related government responses, there is more uncertainty associated with our assumptions, expectations, and estimates. The most significantly affected estimates relate to the Company's determination of impairment of non-financial assets, the assessment of the carrying values of allowances for doubtful accounts and inventory obsolescence, and provisions.

(d) Adoption of new accounting standards and amendments to accounting standards

The Company adopted the following accounting standards and amendments that were effective for the interim and annual consolidated financial statements commencing July 1, 2020. These changes did not have a material impact on the Company's consolidated financial statements and are not expected to have a material impact in the future.

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2020 and 2019***(in thousands of Canadian dollars except as otherwise noted)*

IAS 1 – Presentation of financial statements (IAS1); and IAS 8 – Accounting policies, changes in accounting estimates and errors (IAS 8)

On October 31, 2018, IAS 1 and IAS 8 were amended to clarify the definition of “material” and how it should be applied. The amendments also improve the explanation of the definition and ensure consistency across all IFRS standards. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

IFRS 3 – Business combinations (IFRS 3)

In October 2018, the IASB issued an amendment to 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 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.

Amendment to IFRS 16 – Leases (IFRS 16)

On May 28, 2020, the IASB published *Covid-19-Related Rent Concessions (Amendments to IFRS 16)*, amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

IFRS 9 – Financial instruments (IAS 9), IAS 39 – Financial instruments: recognition and measurement (IAS 39); and IFRS 7 – Financial instruments: disclosures (IFRS 7)

Amendments to these accounting standards provides temporary, but mandatory, relief from specific hedge accounting requirements to address potential effects of the uncertainty in the lead up to interbank offer rates reform (IBOR reform).

(e) Accounting standards issued but not yet appliedAmendments to IAS 37 – Provisions (IAS 37)

On May 14, 2020 the IASB issued *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*, amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. These amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early application permitted. We are assessing the impacts, if any, the amendments will have on our consolidated financial statements.

3. BUSINESS COMBINATION

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. As part of the Company's process for determining the fair value of the acquisition, third-party valuation specialists are engaged. Acquisition related transaction costs are expensed as incurred, and, depending on the nature of the expense, is recorded in either general and administration expense or sales and marketing expense in the consolidated statements of comprehensive loss.

Identifiable assets and liabilities, including intangible assets, of acquired businesses are recorded at their fair values at the date of acquisition. The excess of the purchase consideration over the fair value of identifiable assets acquired is recorded as goodwill in the consolidated statements of financial position. If the fair value of identifiable net assets acquired exceeds the purchase consideration, the difference is recognized in other expense in the consolidated statements of comprehensive loss as a bargain purchase gain.

On August 7, 2020, the Company completed the purchase of the DOCSIS Distributed Access Architecture and EPON/DPoE cable access technology portfolios (the “Nokia portfolio acquisition” or “portfolio”) from Nokia Corporation. The purchase included inventory, property, plant and equipment, and intangible assets.

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2020 and 2019***(in thousands of Canadian dollars except as otherwise noted)*

The portfolio includes a centrally controlled DAA solution for unified support for Flexible MAC DAA nodes for Hybrid Fiber Coaxial (HFC) networks and DOCSIS Provisioning of EPON (DPoE) nodes for fiber-to-the-home and business. The portfolio also includes a DAA video engine and a chassis based EPON/DPoE solution for non-HFC network implementations. The Nokia employees that supported these products have transitioned to the Company, but remain located in Raleigh, North Carolina; Sunnyvale, California; Qindao, China; and Shanghai, China.

The acquisition, valued at \$6,401 (US\$4,805), including any post-closing net working capital adjustments, was financed through the Company's cash and short-term investment reserves.

The following table summarizes the fair value allocations of assets acquired and liabilities assumed as part of the Nokia portfolio acquisition:

| | Amount |
|--|-----------------|
| Consideration paid: | |
| Purchase price | \$ 6,401 |
| Net assets acquired: | |
| Inventory | \$ 3,462 |
| Property, plant and equipment | 2,980 |
| Intangible assets | 799 |
| Goodwill | 278 |
| Accounts payable and accrued liabilities | (246) |
| Deferred revenue | (78) |
| Provisions | (794) |
| | \$ 6,401 |

Uncollectible amounts of acquired accounts receivable is estimated to be immaterial.

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

Transaction costs related to the Nokia portfolio acquisition was \$420, and are included in operating costs in the consolidated statements of comprehensive loss.

Sales and net loss attributable to the Nokia portfolio acquisition for the three months ended September 30, 2020 are \$1,099 and \$(787), respectively.

4. INVENTORIES

| As at | September 30, 2020 | June 30, 2020 |
|------------------|---------------------------|------------------|
| Raw materials | \$ 6,314 | \$ 7,047 |
| Work-in-progress | 4,680 | 3,802 |
| Finished goods | 10,343 | 6,363 |
| | \$ 21,337 | \$ 17,212 |

The Nokia portfolio acquisition (see Note 3) on August 7, 2020 resulted in \$567 and \$2,895 added to raw materials and finished goods, respectively.

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

Three months ended September 30, 2020 and 2019

*(in thousands of Canadian dollars except as otherwise noted)***5. PROPERTY, PLANT AND EQUIPMENT**

| | Note | Land | Land improvements & building | Lab, operating & production equipment ⁽¹⁾ | Other equipment ⁽¹⁾ | Total |
|--|------|---------------|------------------------------|--|--------------------------------|------------------|
| At cost | | | | | | |
| At July 1, 2020 | | \$ 336 | \$ 9,108 | \$ 19,340 | \$ 12,201 | \$ 40,985 |
| Additions | | - | 10 | 311 | 48 | 369 |
| Disposals | | - | - | (30) | - | (30) |
| Business acquisition | 3 | - | - | 2,980 | - | 2,980 |
| Effect of foreign exchange | | - | (9) | (7) | (42) | (58) |
| At September 30, 2020 | | \$ 336 | \$ 9,109 | \$ 22,594 | \$ 12,207 | \$ 44,246 |
| Accumulated depreciation and amortization | | | | | | |
| At July 1, 2020 | | \$ - | \$ 3,329 | \$ 15,262 | \$ 10,593 | \$ 29,184 |
| Depreciation | | - | 76 | 370 | 121 | 567 |
| Disposals | | - | - | (10) | - | (10) |
| Effect of foreign exchange | | - | (3) | (21) | (10) | (34) |
| At September 30, 2020 | | \$ - | \$ 3,402 | \$ 15,601 | \$ 10,704 | \$ 29,707 |
| Net Book Value | | | | | | |
| At June 30, 2020 | | \$ 336 | \$ 5,779 | \$ 4,078 | \$ 1,608 | \$ 11,801 |
| At September 30, 2020 | | \$ 336 | \$ 5,707 | \$ 6,993 | \$ 1,503 | \$ 14,539 |

⁽¹⁾ Other equipment includes furniture, computer hardware, and automotive equipment.**6. 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, 2020 | | \$ 107 | \$ 21,529 | \$ 736 | \$ 10,600 | \$ 61,125 | \$ 94,097 |
| Additions | | - | - | 33 | 47 | 3,448 | 3,528 |
| Investment tax credits | | - | - | - | - | (355) | (355) |
| Business acquisition | 3 | - | - | - | 799 | - | 799 |
| Effect of foreign exchange | | (1) | (308) | (6) | (128) | (139) | (582) |
| At September 30, 2020 | | \$ 106 | \$ 21,221 | \$ 763 | \$ 11,318 | \$ 64,079 | \$ 97,487 |
| Accumulated amortization | | | | | | | |
| At July 1, 2020 | | \$ - | \$ 6,939 | \$ 448 | \$ 4,479 | \$ 13,031 | \$ 24,897 |
| Amortization | | - | 601 | 23 | 312 | 1,674 | 2,610 |
| Effect of foreign exchange | | - | (91) | (4) | (47) | (67) | (209) |
| At September 30, 2020 | | \$ - | \$ 7,449 | \$ 467 | \$ 4,744 | \$ 14,638 | \$ 27,298 |
| Net book value | | | | | | | |
| At June 30, 2020 | | \$ 107 | \$ 14,590 | \$ 288 | \$ 6,121 | \$ 48,094 | \$ 69,200 |
| At September 30, 2020 | | \$ 106 | \$ 13,772 | \$ 296 | \$ 6,574 | \$ 49,441 | \$ 70,189 |

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

Three months ended September 30, 2020 and 2019

*(in thousands of Canadian dollars except as otherwise noted)***7. PROVISIONS**

| | Note | Warranty | Restructuring Costs | Other | Obsolete Inventory Obligation | Total |
|------------------------------|------|---------------|------------------------|---------------|-------------------------------------|-----------------|
| At July 1, 2020 | | \$ 312 | \$ 37 | \$ 543 | \$ - | \$ 892 |
| Additions during the year | | 174 | - | 194 | - | 368 |
| Amounts utilized | | (184) | (30) | (143) | - | (357) |
| Business acquisition | 3 | 103 | - | - | 691 | 794 |
| Effect of foreign exchange | | (4) | - | - | 4 | - |
| At September 30, 2020 | | \$ 401 | \$ 7 | \$ 594 | \$ 695 | \$ 1,697 |
| Less: current portion | | \$ 401 | \$ 7 | \$ 182 | \$ 695 | \$ 1,285 |
| Long-term portion | | \$ - | \$ - | \$ 412 | \$ - | \$ 412 |

8. LONG-TERM DEBT

| As at | September 30, 2020 | June 30, 2020 |
|---|--------------------|-----------------|
| Term credit facility | \$ 1,646 | \$ 1,708 |
| Lease liabilities | 4,238 | 4,603 |
| | \$ 5,884 | \$ 6,311 |
| Comprised of: | | |
| Current portion of term credit facility and lease liabilities | \$ 1,752 | \$ 1,698 |
| Long-term portion of term credit facility and lease liabilities | 4,132 | 4,613 |
| | \$ 5,884 | \$ 6,311 |

Term credit facility

The term credit facility is with a Canadian chartered bank. As at September 30, 2020, the facility is repayable in monthly instalments of \$21 principal and interest at prime of 2.45% (June 30, 2020 - \$21, and 2.45%, respectively), expires in October 2021 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, 2020:

| | |
|------------|-----------------|
| 2021 | \$ 188 |
| 2022 | 250 |
| 2023 | 250 |
| 2024 | 250 |
| 2025 | 250 |
| Thereafter | 458 |
| | \$ 1,646 |

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

Three months ended September 30, 2020 and 2019

*(in thousands of Canadian dollars except as otherwise noted)*Lease liabilities

The following is a reconciliation of the Company's lease liabilities as at September 30, 2020:

| | | |
|---|-----------|--------------|
| Lease liabilities, beginning of period | \$ | 4,603 |
| Interest on lease liabilities | | 49 |
| Principal repayments of lease liabilities | | (375) |
| Effect of foreign exchange | | (39) |
| Lease liabilities, end of period | \$ | 4,238 |
| Current portion | | 1,502 |
| | \$ | 2,736 |

The contractual lease payments related to the lease liabilities are as follows:

| | September 30, 2020 | June 30, 2020 |
|---|--------------------|-----------------|
| Within one year | \$ 1,701 | \$ 1,713 |
| After one year but not more than five years | 2,850 | 3,304 |
| More than five years | - | - |
| Total contractual lease payments | \$ 4,551 | \$ 5,017 |

9. SHARE CAPITAL

Changes in the number of shares and carrying value of the Company's share capital, for the three months ended September 30, 2020, are as follows:

| | Number of shares | Carrying value |
|-------------------------------------|-------------------|-----------------|
| Balance, July 1, 2020 | 22,462,082 | \$ 3,161 |
| Shares issued by exercising options | 33,725 | 395 |
| Balance, September 30, 2020 | 22,495,807 | \$ 3,556 |

10. 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 14 for additional segmented financial information.

| Three months ended September 30, 2020 | | | | | |
|---------------------------------------|-------------------------------------|---------------------------------|-----------------|-----------|---------------|
| | Video and Broadband Solutions | Content Delivery and Storage | Telematics | Total | |
| Product sales | \$ 11,760 | \$ 8,153 | \$ 124 | \$ | 20,037 |
| Provision of services | 1,772 | 4,832 | 1,203 | \$ | 7,807 |
| | \$ 13,532 | \$ 12,985 | \$ 1,327 | \$ | 27,844 |
| 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 |

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

Three months ended September 30, 2020 and 2019

(in thousands of Canadian dollars except as otherwise noted)

11. SHARE-BASED COMPENSATION

The following table summarizes the share-based compensation expense included in the consolidated statements of comprehensive loss:

| | Three months ended September 30, | |
|-------------------------|----------------------------------|-------|
| | 2020 | 2019 |
| Stock options | \$ 11 | \$ 17 |
| Performance share units | 228 | - |
| | \$ 239 | \$ 17 |

Stock options

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.

Changes in the stock option plan for the three months ending September 30, 2020 is as follows:

| (in number of units, except prices) | Number of options | Weighted average exercise price |
|---|-------------------|---------------------------------|
| Outstanding, July 1, 2020 | 393,125 | \$ 9.01 |
| Exercised | (33,725) | 8.70 |
| Outstanding, September 30, 2020 | 359,400 | \$ 9.06 |
| Vested and exercisable, September 30, 2020 | 314,278 | \$ 9.01 |

Performance share units ("PSUs")

The Company's Performance Share Unit Plan ("PSU Plan") set the maximum number of PSUs at 4% of the outstanding common shares. At the time of the PSU Plan's resolution approval by the shareholders on July 28, 2020, the maximum number of shares issuable under the PSU Plan was set at 897,275. The approval of the PSU Plan resolution does not require further approval by the shareholders for any unallocated PSUs.

For the three months ended September 30, 2020, there were 578,834 PSUs granted to eligible persons. None of the PSUs have vested. The unrecognized share-based compensation expense related to these PSUs was \$1,923 as at September 30, 2020, and will be recognized in net income over the next three years.

12. OTHER (INCOME) EXPENSE

| | Three months ended September 30, | |
|---|----------------------------------|---------|
| | 2020 | 2019 |
| Loss on sale of property, plant and equipment | \$ 2 | \$ 14 |
| Lease revenue | (6) | (19) |
| Other | 1 | (5) |
| | \$ (3) | \$ (10) |

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

Three months ended September 30, 2020 and 2019

*(in thousands of Canadian dollars except as otherwise noted)***13. NET LOSS PER SHARE**

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

| | Three months ended September 30, | |
|---|----------------------------------|------------|
| | 2020 | 2019 |
| Net loss: basic and diluted (in thousands of dollars) | \$ (838) | \$ (1,384) |
| Weighted average number of shares outstanding: | | |
| Basic | 22,482,015 | 22,370,087 |
| Dilution adjustment for stock options | - | - |
| Diluted | 22,482,015 | 22,370,087 |
| Net loss per share: basic | \$ (0.04) | \$ (0.06) |
| Net loss per share: diluted | \$ (0.04) | \$ (0.06) |

Stock options could potentially dilute basic net income (loss) per share in the future. Options to purchase 314,278 common shares were vested and outstanding as at September 30, 2020 (September 30, 2019 – 421,501). Dilutive stock options are calculated using the treasury stock method. For the three months ended September 30, 2020, any conversion effect of stock options were anti-dilutive and have been excluded from the calculation of diluted loss per share.

14. 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. 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, 2020 | | | | |
|---------------------------------------|-------------------------------------|---------------------------------|------------|-----------|
| | Video and Broadband Solutions | Content Delivery and Storage | Telematics | Total |
| Sales | \$ 13,532 | \$ 12,985 | \$ 1,327 | \$ 27,844 |
| Cost of sales | 7,644 | 6,732 | 460 | 14,836 |
| Gross profit | 5,888 | 6,253 | 867 | 13,008 |
| Operating expenses | 5,922 | 4,714 | 456 | 11,092 |
| Depreciation and amortization | 1,526 | 1,768 | 193 | 3,487 |
| Operating (loss) income | (1,560) | (229) | 218 | (1,571) |
| Finance income (expense) | 192 | (31) | - | 161 |
| Foreign exchange (loss) gain | (297) | 83 | (11) | (225) |
| (Loss) income before taxes | (1,665) | (177) | 207 | (1,635) |
| Income tax (recovery) expense | (436) | (414) | 53 | (797) |
| Net (loss) income | \$ (1,229) | \$ 237 | \$ 154 | \$ (838) |

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

Three months ended September 30, 2020 and 2019

(in thousands of Canadian dollars except as otherwise noted)

| | Three months ended September 30, 2019 | | | | |
|-------------------------------|---------------------------------------|---------------------------------|------------|------------|--|
| | Video and Broadband Solutions | Content Delivery and Storage | Telematics | 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) | |

Geographical region

| | Three months ended September 30, | |
|-------------------------------------|----------------------------------|-----------|
| | 2020 | 2019 |
| Sales to external customers: | | |
| United States | \$ 22,521 | \$ 13,995 |
| Canada | 3,226 | 1,728 |
| Europe | 667 | 2,330 |
| Japan | 1,083 | 799 |
| Other | 347 | 1,260 |
| | \$ 27,844 | \$ 20,112 |

Sales to major customers

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

| | Three months ended September 30, | |
|------------|----------------------------------|----------|
| | 2020 | 2019 |
| Customer A | \$ 4,081 | \$ 2,351 |
| Customer B | 5,672 | 3,368 |
| Customer C | 3,460 | 2,479 |
| | \$ 13,213 | \$ 8,198 |

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

15. 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;

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.

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2020 and 2019***(in thousands of Canadian dollars except as otherwise noted)*

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

| | September 30, 2020 | | | June 30, 2020 | | |
|------------------------|--------------------|---------|---------|---------------|---------|---------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Short-term investments | \$ 16,910 | \$ - | \$ - | \$ 17,165 | \$ - | \$ - |

During the three months ended September 30, 2020, there were no transfers between the hierarchy levels.

16. FINANCIAL INSTRUMENTSCurrency exposures

Approximately 97% (June 30, 2020 - 97%) of the Company's sales are denominated in U.S. dollars ("USD"). The Company periodically enters into forward foreign exchange contracts to manage foreign currency exchange risk related to exposures to the exchange rates for the Canadian dollar. These contracts are recognized in the consolidated statements of financial position at their fair value, with changes in fair value recorded in the consolidated statements of comprehensive loss in foreign exchange gains (loss). The Company entered into three US\$1,000 forward foreign exchange contracts for the year ended June 30, 2020. The forward foreign exchange contracts matured on July 31, 2020, August 31, 2020, and September 30, 2020, respectively, upon which the Company settled the contracts in USD. As at September 30, 2020, the Company realized a net exchange gain of \$208 (June 30, 2020 – unrealized gain of \$101) on the settled forward purchase contracts.

17. 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, | |
|--|----------------------------------|-----------------|
| | 2020 | 2019 |
| Depreciation of property, plant and equipment | \$ 567 | \$ 509 |
| Depreciation of right-of-use assets | 365 | 341 |
| Amortization of deferred development costs | 1,674 | 1,669 |
| Amortization of finite-life intangible assets | 936 | 977 |
| Total depreciation - operating activities | \$ 3,542 | \$ 3,496 |

Net change in working capital – operating activities

| | Three months ended September 30, | |
|--|----------------------------------|-------------------|
| | 2020 | 2019 |
| Accounts receivable | \$ 1,426 | \$ (1,366) |
| Income taxes receivable | (3) | (2) |
| Inventories | (700) | (262) |
| Prepaid expenses | 535 | 1,405 |
| Contract assets | (31) | 7 |
| Accounts payable and accrued liabilities | 213 | (871) |
| Deferred revenue | (92) | (104) |
| Total change in net working capital | \$ 1,348 | \$ (1,193) |

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2020 and 2019***(in thousands of Canadian dollars except as otherwise noted)*

Capital expenditures, net – investing activities

| | Three months ended September 30, | |
|--|----------------------------------|-----------------|
| | 2020 | 2019 |
| Capital expenditures before proceeds of disposition: | | |
| Property, plant and equipment | \$ (369) | \$ (403) |
| Intangible assets | (80) | (42) |
| Proceeds of disposition: | | |
| Property, plant and equipment | - | 1 |
| Total capital expenditures, net | \$ (449) | \$ (444) |

18. CONTRACTUAL OBLIGATION

The Nokia portfolio acquisition includes the eventual assumption of a third party supplier contract. As at September 30, 2020, the total contractual obligation is estimated to be \$6,948.

19. SUBSEQUENT EVENTS

Subsequent to September 30, 2020, an additional 17,231 PSUs were granted. Furthermore, on October 20, 2020, 195,188 PSUs had vested with a total estimated value of \$2,498. The PSUs will be settled in common shares of the Company. In accordance with our Insider Trading Policy, the issuance of these shares will occur subsequent to the expiry of the Company's blackout period for the quarter ended September 30, 2020.

On November 10, 2020, the Board of Directors declared a dividend of \$0.055 per common share, payable on December 21, 2020 to shareholders of record as at November 27, 2020 consistent with its previously announced dividend policy.