



*Audited Annual Consolidated Financial Statements of*

**VECIMA NETWORKS INC.**

*For the years ended June 30, 2020 and 2019*

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Vecima Networks Inc. ("Vecima", or the "Company") and its subsidiaries and all the information in Management's Discussion and Analysis (MD&A) are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. The consolidated financial statements include certain amounts that are based on management's best estimates and judgments and, in their opinion, present fairly, in all material respects, Vecima's financial position, results of operations, and cash flows. Management has prepared the financial information presented elsewhere in the MD&A and has ensured that it is consistent with the consolidated financial statements.

Management has a system of internal controls designed to further enhance the integrity of the consolidated financial statements and to provide reasonable assurance that the financial statements are accurate and complete in all material respects. The internal control system is supported by management communication to employees about its policies on ethical business conduct. Management believes these internal controls provide reasonable assurance that the transactions are properly authorized and recorded; financial records are reliable and form a proper basis for the preparation of the consolidated financial statements; and the Company's assets are properly accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors carries out this responsibility through its Audit Committee, which is entirely comprised of independent directors.

The Audit Committee meets periodically with management, and annually with the external auditors, to discuss internal controls over the financial reporting process, auditing matters, and financial reporting issues; to satisfy itself that each party is properly discharging its responsibilities; and, to review the MD&A, the consolidated financial statements, and the external auditors' report. The Audit Committee reports its findings to the Board of Directors for its consideration when approving the consolidated financial statements for issuance to the shareholders. The Audit Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements, for the year ended June 30, 2020, have been audited by Grant Thornton LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Grant Thornton has full and free access to the Audit Committee.

/s/ "Sumit Kumar"

Sumit Kumar

Chief Executive Officer

DATE: September 22, 2020

/s/ "Dale Booth"

Dale Booth

Chief Financial Officer

DATE: September 22, 2020

# Independent Auditor's Report

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Grant Thornton LLP  
11th Floor  
200 King Street West, Box 11  
Toronto, ON  
M5H 3T4  
T +1 416 366 0100  
F +1 416 360 4949

## To the Shareholders of Vecima Networks Inc.

### Opinion

We have audited the consolidated financial statements of Vecima Networks Inc. (the "Company") which comprise the consolidated statements of financial position as at June 30, 2020 and 2019, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, present fairly, in all material respects, the consolidated financial position of Vecima Networks Inc. as at June 30, 2020 and 2019 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Management Discussion and Analysis but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

In preparing these consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to a going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our

auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Mark Irwin.

*Grant Thornton LLP*

Toronto, Canada  
September 22, 2020

Chartered Professional Accountants  
Licensed Public Accountant

**VECIMA NETWORKS INC.**  
**Consolidated Statements of Financial Position**  
*(in thousands of Canadian dollars)*

As at	Note	June 30, 2020	June 30, 2019
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	\$ 17,350	\$ 19,834
Short-term investments	7, 28	17,165	24,569
Accounts receivable	8	24,908	15,154
Income tax receivable		333	437
Inventories	9	17,212	12,724
Prepaid expenses		2,051	2,235
Contract assets	21(b)	646	187
<b>Total current assets</b>		<b>79,665</b>	<b>75,140</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	11,801	12,526
Right-of-use assets	4(c)	4,010	-
Goodwill	11	15,487	15,131
Intangible assets	12	69,200	67,887
Other long-term assets		1,301	1,017
Investment tax credits	14	24,374	24,355
Deferred tax assets	15	4,460	4,714
<b>Total assets</b>		<b>\$ 210,298</b>	<b>\$ 200,770</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	17	\$ 17,105	\$ 11,699
Provisions	18	492	804
Income tax payable		130	55
Deferred revenue	21(c)	4,960	4,046
Current portion of long-term debt	19	1,698	250
<b>Total current liabilities</b>		<b>24,385</b>	<b>16,854</b>
<b>Non-current liabilities</b>			
Provisions	18	400	332
Deferred revenue	21(c)	602	763
Deferred tax liability	15	536	324
Long-term debt	19	4,613	1,729
<b>Total liabilities</b>		<b>30,536</b>	<b>20,002</b>
<b>Shareholders' equity</b>			
Share capital	20(a)	3,161	1,916
Reserves		3,838	4,104
Retained earnings		170,665	173,738
Accumulated other comprehensive income		2,098	1,010
<b>Total shareholders' equity</b>		<b>179,762</b>	<b>180,768</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 210,298</b>	<b>\$ 200,770</b>

*Contingent liability - Note 32; Subsequent events - Note 34*

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

Approved on behalf of the Board of Directors:

*/s/ "Kent Elliott"*

Kent Elliott  
Director

*/s/ "Ben Colabrese"*

Ben Colabrese  
Director

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

Years ended June 30,	Note	2020	2019
<b>Sales</b>	21(a), 26	\$ 96,416	\$ 85,032
<b>Cost of Sales</b>		<b>44,112</b>	40,155
<b>Gross Profit</b>		<b>52,304</b>	44,877
<b>Operating expenses</b>			
Research and development		22,173	18,973
Sales and marketing		14,048	14,112
General and administrative		16,280	16,596
Restructuring costs	22	-	2,176
Share-based compensation	20(d)	59	112
Other (income) expense	23	(479)	(418)
<b>Total operating expenses</b>		<b>52,081</b>	51,551
<b>Operating income (loss)</b>		<b>223</b>	(6,674)
Finance income	24	633	879
Foreign exchange gain (loss)		1,340	(66)
<b>Income (loss) before income taxes</b>		<b>2,196</b>	(5,861)
Income tax expense (recovery)	15	390	(2,402)
<b>Net income (loss)</b>		<b>\$ 1,806</b>	\$ (3,459)
<b>Other comprehensive income (loss)</b>			
<b>Item that may be subsequently reclassified to net income</b>			
Exchange differences on translating foreign operations		1,088	(67)
<b>Comprehensive income (loss)</b>		<b>\$ 2,894</b>	\$ (3,526)
<b>Net income (loss) per share</b>			
Basic	25	\$ 0.08	\$ (0.15)
Diluted	25	\$ 0.08	\$ (0.15)
<b>Weighted average number of common shares</b>			
Shares outstanding - basic	25	22,411,612	22,362,031
Shares outstanding - diluted	25	22,444,806	22,362,031

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

**VECIMA NETWORKS INC.**  
**Consolidated Statements of Changes in Equity**  
*(in thousands of Canadian dollars)*

	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		-	-	(3,459)	-	(3,459)
Other comprehensive loss		-	-	-	(67)	(67)
Dividends		-	-	(4,920)	-	(4,920)
Shares repurchased and cancelled		(2)	-	(192)	-	(194)
Shares issued by exercising options		162	(49)	-	-	113
Share-based payment expense		-	112	-	-	112
Balance as at June 30, 2019		\$ 1,916	\$ 4,104	\$ 173,738	\$ 1,010	\$ 180,768
<b>Balance as at June 30, 2019</b>		<b>\$ 1,916</b>	<b>\$ 4,104</b>	<b>\$ 173,738</b>	<b>\$ 1,010</b>	<b>\$ 180,768</b>
IFRS 16 transition impact	4(b)	-	-	160	-	160
<b>Adjusted balance as at June 30, 2019</b>		<b>\$ 1,916</b>	<b>\$ 4,104</b>	<b>\$ 173,898</b>	<b>\$ 1,010</b>	<b>\$ 180,928</b>
Net income		-	-	1,806	-	1,806
Other comprehensive income		-	-	-	1,088	1,088
Dividends		-	-	(4,932)	-	(4,932)
Shares repurchased and cancelled		(2)	-	(107)	-	(109)
Shares issued by exercising options		1,247	(325)	-	-	922
Share-based payment expense		-	59	-	-	59
<b>Balance as at June 30, 2020</b>		<b>\$ 3,161</b>	<b>\$ 3,838</b>	<b>\$ 170,665</b>	<b>\$ 2,098</b>	<b>\$ 179,762</b>

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

**VECIMA NETWORKS INC.**  
**Consolidated Statements of Cash Flows**  
*(in thousands of Canadian dollars)*

Years ended June 30,	Note	2020	2019
<b>OPERATING ACTIVITIES</b>			
Net income (loss)		\$ 1,806	\$ (3,459)
Adjustments for non-cash items:			
(Gain) loss on sale of property, plant and equipment	23	(455)	82
Gain on sale of intangible assets		-	(202)
Depreciation and amortization	31	16,175	11,670
Share-based compensation		59	112
Income tax expense		(51)	70
Deferred income tax expense (recovery)		441	(2,472)
Interest expense		297	200
Interest income		(728)	(1,047)
Net change in working capital	31	(7,315)	3,672
Decrease in other long-term assets		(267)	(3)
(Decrease) increase in provisions		(274)	265
Increase in investment tax credits		(201)	(67)
Income tax received		173	2,413
Income tax paid		(485)	(741)
Interest received		728	1,047
Interest paid		(70)	(98)
<b>Cash provided by operating activities</b>		<b>9,833</b>	<b>11,442</b>
<b>INVESTING ACTIVITIES</b>			
Capital expenditures, net	31	(1,117)	(2,727)
Purchase of short-term investments		(6,083)	(2,007)
Proceeds from sale of short-term investments		13,487	24,098
Deferred development costs	12	(12,250)	(16,057)
Business acquisition	5	-	(823)
<b>Cash (used in) provided by investing activities</b>		<b>(5,963)</b>	<b>2,484</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from government grants	13	98	221
Principal payments of lease liabilities	19	(1,675)	-
Repayment of long-term debt	19	(271)	(250)
Repurchase and cancellation of shares	20(a)	(109)	(194)
Dividends paid		(4,932)	(4,920)
Issuance of shares through exercised options	20(a)	922	113
<b>Cash used in financing activities</b>		<b>(5,967)</b>	<b>(5,030)</b>
Net (decrease) increase in cash and cash equivalents		(2,097)	8,896
Effect of change in exchange rates on cash		(387)	(96)
Cash and cash equivalents, beginning of year		19,834	11,034
<b>Cash and cash equivalents, end of year</b>		<b>\$ 17,350</b>	<b>\$ 19,834</b>

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

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## **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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements of the Company for each of the years ended June 30, 2020 and 2019, were approved by the Board of Directors and authorized for issue on September 22, 2020.

### **(b) Basis of presentation**

These consolidated financial statements have been prepared primarily under the historical cost convention and are expressed in thousands of Canadian dollars, unless otherwise indicated. Other measurement bases used are outlined below and in the applicable notes. The accounting policies set out below have been applied consistently in all material respects. Standards and guidelines not effective for the current accounting period are described in Note 2(y).

### **(c) Basis of consolidation (subsidiaries)**

The consolidated financial statements include the accounts of the Company and of its subsidiaries. Subsidiaries are entities over which the Company has control. Control exists when the Company has power over an investee, is exposed to or has rights to variable returns from its involvement with the entity, and has the ability to affect those returns.

Subsidiaries are fully consolidated from the date on which control is obtained by the Company. All intercompany transactions and balances are eliminated upon consolidation. Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of comprehensive income (loss) from the effective date of acquisition and up to the effective date of disposal.

### **(d) Cash and cash equivalents**

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

### **(e) Revenue recognition**

#### General policy

The Company earns revenue from the sale of products and the rendering of services. Revenue is measured based on the value of the expected consideration in a contract with a customer and excludes sales taxes and other amounts we collect on behalf of third parties. We recognize revenue when control over a product or service is transferred to a customer. When our right to consideration from a customer corresponds directly with the value to the customer of the products and services transferred to date, we recognize revenue in the amount to which we have a right to invoice.

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

For bundled arrangements, we account for individual products and services when they are separately identifiable and the customer can benefit from the product or service on its own or with other readily available resources. The total arrangement consideration is allocated to each product or service included in the contract with the customer based on its stand-alone selling price. We generally determine stand-alone selling prices based on the observable prices at which we sell products separately without a service contract and prices for non-bundled service offers with the same range of services, adjusted for market conditions and other factors, as appropriate. When similar products and services are not sold separately, we use the expected cost plus margin approach to determine stand-alone selling prices. Products and services purchased by a customer in excess of those included in the bundled arrangement are accounted for separately.

A contract asset is recognized in the consolidated statements of financial position when our right to consideration from the transfer of products or services to a customer is conditional on our obligation to transfer other products or services. Contract assets are transferred to trade receivables when our right to consideration becomes conditional only as to the passage of time. A contract liability, such as deferred revenue, is recognized in the consolidated statements of financial position when we receive consideration in advance of the transfer of the products or services to the customer. Contract assets and liabilities relating to the same contract are presented on a net basis.

Incremental costs of obtaining a contract with a customer, principally comprised of sales commissions and prepaid contract fulfillment costs, are included in contract costs in the consolidated statements of financial position, except where the amortization period is one year or less, in which case costs of obtaining a contract are immediately expensed. Capitalized costs are amortized on a systematic basis that is consistent with the period and pattern of transfer to the customer of the related products or services.

Recognition of revenue from products and services

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

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

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

Rental income

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

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

Years ended June 30, 2020 and 2019

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

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**(f) Business combinations**

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 income (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 income (loss) as a bargain purchase gain.

**(g) Inventories**

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

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

**(h) Property, plant and equipment**

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

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

**(i) Goodwill**

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

**(j) Intangible assets**

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

**(i) Indefinite-life intangible assets**

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

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

Trademarks and other licenses are granted for a period of ten years. There is the option of renewal at a nominal cost to the Company. It is expected that the demand and use for these licenses will continue to grow in the foreseeable future. As a result, these assets are assessed as having indefinite lives and as such, are not subject to amortization.

**(ii) Finite-life intangible assets**

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

**(k) Government assistance and grants**

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

**(l) Research and development**

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

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

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

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

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

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

**(m) Leases**

See Note 2(x) - *Adoption of new accounting standards and amendments to accounting standards*, for significant changes to leases that have been applied effective July 1, 2019. Prior to July 1, 2019, leases were classified either as finance or operating, depending upon the terms and conditions of the contracts. Where the Company was the lessee, asset values recorded under finance leases were amortized on a declining-balance basis over its estimated useful life. Obligations recorded under finance leases were reduced by lease payments, net of imputed interest.

**(n) Borrowing costs**

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

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

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

**(o) Impairment**

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

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

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

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

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

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

**(p) Income taxes**

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

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

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

**(q) Foreign Currency Translation**

Functional and presentation currency

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

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

Foreign operations

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

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

**(r) Financial instruments**

Financial assets are classified and measured based on three categories: amortized cost, fair value through other comprehensive income ("FVOCI"), and fair value through profit and loss ("FVTPL").

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Cash and cash equivalents, and trade and other receivables are measured at amortized cost. The carrying amount reported in the consolidated statements of financial position is at historical cost, which approximates their fair value due to the short-term maturity of these instruments.

Short-term investments are classified as FVTPL; presented in the consolidated statements of financial position under current assets; recorded at fair value on the date of acquisition, including related transaction costs; and adjusted to fair value at each reporting date. The corresponding unrealized gains and losses are recorded in profit or loss in the consolidated statements of comprehensive income (loss).

Financial liabilities are classified and measured based on two categories: amortized cost and FVTPL.

Trade payable and accrued liabilities, and long-term debt are the Company's financial liabilities and are measured and recorded at amortized cost.

The Company uses derivative financial instruments to manage risks from fluctuations in exchange rates. The most frequently used derivative products are foreign currency forward purchase contracts. We do not use derivative financial instruments for speculative or trading purposes. Derivative financial instruments 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 income (loss) in foreign exchange gain (loss).

We measure the allowance for doubtful accounts and impairment of contract assets based on an expected credit loss (ECL) model, which takes into account current economic conditions, historical information, and forward-looking information. We use the simplified approach for measuring losses based on the lifetime ECL for trade and other receivables and contract assets. Amounts considered uncollectible are written off and recognized in operating expenses in the consolidated statements of comprehensive income (loss).

The cost of issuing debt is included as part of long-term debt and is accounted for at amortized cost using the effective interest method. The cost of issuing equity is reflected in the consolidated statements of changes in equity as a charge to the retained earnings.

**(s) Fair value of financial instruments**

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

The fair value of long-term debt with fixed rates of interest is estimated using discounted cash flows based on current rates of interest for similar lending arrangements.

The fair values of derivatives are based on values quoted by the counterparties to the agreements.

The fair value of short-term financial assets and liabilities approximate their respective carrying values due to the short-term nature of these financial instruments.

**(t) Provisions**

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

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

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**(u) Net income (loss) per share**

Basic net income (loss) per share is calculated by dividing net income (loss) for the period attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is calculated by using the treasury stock method for equity-based compensation. The diluted weighted average number of common shares outstanding is calculated by taking into account the dilution that would occur if the securities or other agreements for the issuance of common shares were exercised or converted into common shares at the later of the beginning of the period or the issuance date unless it is anti-dilutive. The treasury stock method is used to determine the dilutive effect of stock options. The treasury stock method recognizes the use of proceeds that could be obtained upon the exercise of options in computing diluted net income (loss) per share. It assumes that any proceeds would be used to purchase common shares at the average market price during the period. Only the Company's stock options have a dilutive potential on common shares.

**(v) Share-based compensation**

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

**(w) Treasury shares**

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

**(x) 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 statements 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 accounting policy for leases and the impact resulting from the adoption of IFRS 16 is disclosed below in Note 4.

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 consolidated financial statements because its existing policies were in line with the standard.

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**(y) Accounting standards issued but not yet applied**

The following new or amended standards and interpretations issued by the IASB that are effective after the Company's June 30, 2020 year-end date and have not yet been adopted by the Company:

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. The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

IFRS 3 – Business combinations (IFRS 3)

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 which the acquisition date is on or after the beginning of the first annual reporting period beginning 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.

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. This amendment is effective for annual reporting periods beginning on or after June 1, 2020, with early application permitted.

IFRS 17 – Insurance contracts (IFRS 17)

IFRS 17 is a new standard that replaces IFRS 4 – *Insurance contracts*. IFRS 17 aims to provide consistency and transparency in the application of accounting for insurance contracts. This standard becomes effective for annual reporting periods beginning on or after January 1, 2023.

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). The amendments are effective for annual reporting periods beginning on or after January 1, 2020.

Amendments 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 do not expect IFRS 17 will have an effect on our consolidated financial statements. We are assessing the impacts, if any, the remaining standards or amendments will have on our consolidated financial statements.

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**3. USE OF JUDGMENT AND ESTIMATES**

The preparation of the Company's consolidated financial statements, in conformity with IFRS, requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require material adjustments in future periods to the carrying amount of the affected asset or liability.

**(a) Use of judgment**Functional currency

The Company assesses the primary economic environment in which we operate by considering factors such as the currency for which sales of goods and services are denominated and settled, the country whose competitive forces and regulations mainly determine the sales prices of its goods and services and the currency that mainly influences labour, material and other costs of providing goods and services.

Sales by Vecima Networks Inc., and Vecima Networks (USA) Inc. are primarily transacted in U.S. dollars ("USD"). The cost of materials is denominated in both Canadian and U.S. dollars. The labour cost is denominated fully in Canadian dollars. Management pays close attention to gross margin, and the setting of prices in USD is influenced by costs which are primarily influenced by the Canadian dollar. Due to the mix of indicators for its primary economic environment, the Company assesses the secondary indicators of finance activities and receipts from operations. Equity and debt financing activities are both denominated in Canadian dollars and receipts from operations are retained primarily in Canadian dollars. Based on all the factors, the Company determined that the functional currency for the entities listed above is the Canadian dollar.

Sales by Vecima Technology Inc. (a subsidiary of the Company) are primarily transacted in USD. The cost of materials is denominated in USD. The labour cost is denominated fully in USD. Equity and debt financing activities are both denominated in USD and receipts from operations are retained primarily in USD. Based on all these factors, the Company determined that the functional currency for Vecima Technology Inc. is USD.

Sales by Concurrent Content Solutions Corporation (a subsidiary of the Company) are primarily transacted in Japanese Yen. The cost of materials is denominated in Japanese Yen, however, certain purchases of inventory are made in USD. The labour cost is denominated fully in Japanese Yen. Equity and intercompany financing activities are denominated in both Japanese Yen and USD and receipts from operations are retained in Japanese Yen. Based on all these factors, the Company determined that the functional currency for Concurrent Content Solutions Corporation is the Japanese Yen.

Sales by Vecima Technology (UK) Ltd. (a subsidiary of the Company) are primarily transacted in Great British Pounds (GBP). The cost of materials is denominated in GBP. The labour cost is denominated fully in GBP. Equity and intercompany financing activities are denominated in either GBP or USD and receipts from operations are retained primarily in GBP. Based on all these factors, the Company determined that the functional currency for Vecima Technology (UK) Ltd. is GBP.

Revenue from contracts with customers and deferred revenue

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

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Deferred revenue consists of service contracts and upfront customer activation and connection fees where billings are recorded and received prior to the rendering of the associated service. Deferred revenue may be impacted by the allocation of the transaction price where a component of the contract includes such services. Billings for services are recognized as revenue in the period in which the services are provided. Upfront customer activation and connection fees are recognized over the expected term of the customer relationship.

Deferred development costs

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

Income taxes

We make certain judgments in interpreting tax rules and regulations when we compute income tax expense; and when we evaluate whether a deferred tax asset can be recovered based on an assessment of existing tax laws, estimates of future profitability and tax planning strategies.

Leases

Specific judgments regarding leases is addressed in Note 4(e) below.

**(b) Use of estimates**

Impairment of non-financial assets

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

Share-based compensation

The Company measures the cost of share-based compensation transactions with reference to the fair value of the options issued at the date they were granted. Estimated fair value for share-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option and the volatility. The assumptions and models used for estimating fair value for share-based compensation are disclosed in Note 20(d).

Income taxes

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

Allocation of purchase consideration to acquired assets and assumed liabilities

The Company allocates the purchase price of an acquisition to the tangible and intangible assets acquired and liabilities assumed as of the business combination date in accordance with IFRS 3. The purchase price allocation process requires the Company to use significant estimates and assumptions, including fair value estimates, as of the acquisition date. Refer to Note 5 for the Company's accounting policy for business combinations.

### Leases

Specific estimates regarding leases is addressed in Note 4(e) below.

### Other areas

Other key areas of estimation where management is required to make subjective estimates, often as a result of matters that are inherently uncertain, include:

- the assessment of the carrying values of allowances for doubtful accounts and inventory obsolescence;
- the capitalization of overhead;
- the useful lives of property, plant and equipment; and the useful lives of intangible assets;
- provisions, contingent liabilities and the fair value of financial assets; and
- the future effects of the COVID-19 pandemic.

## **4. 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

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

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 as a result of 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 in 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.

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**(b) Reconciliation of consolidated statements of financial position as at July 1, 2019**

The table below is the effect of the transition to IFRS 16 on our 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
<b>Assets</b>				
<b>Current assets</b>				
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
<b>Non-current assets</b>				
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
<b>Liabilities and shareholders' equity</b>				
<b>Current liabilities</b>				
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
<b>Non-current liabilities</b>				
Provisions		332	-	332
Deferred revenue		763	-	763
Deferred tax liability	iii.	324	46	370
Long-term debt	i.	1,729	4,386	6,115
		20,002	4,949	24,951
<b>Shareholders' equity</b>				
Share capital		1,916	-	1,916
Reserves		4,104	-	4,104
Retained earnings	iv.	173,738	160	173,898
Accumulated other comprehensive income		1,010	-	1,010
		180,768	160	180,928
		\$ 200,770	\$ 5,109	\$ 205,879

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

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**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 4(a) above. At the time of transition, the Company had lease incentives that reduced the right-of-use assets.

**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. Deferred tax liability**

Prior to the transition to IFRS 16, the Company reported rent expense on a straight-line basis. The transition to IFRS 16 eliminated this treatment, which partially impacted retained earnings, and the tax effect of the elimination was reported as a deferred tax liability.

**iv. Retained earnings**

Lease abatements received prior to the transition to IFRS 16 do not have an impact on 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 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 consolidated statements of financial position. The consolidated statements of comprehensive income (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.

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**(c) Right-of-use assets**

For the year ended June 30, 2020, 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:

Year ended June 30, 2020	<b>Total</b>
<b>At cost</b>	
As at July 1, 2019	
As previously reported	\$ -
IFRS 16 transitional amount	5,109
Adjusted balance, July 1, 2019	5,109
Additions	200
Dispositions, retirements, other	-
Effect of foreign exchange	114
	<b>\$ 5,423</b>
<b>Accumulated depreciation</b>	
As at July 1, 2019	
As previously reported	\$ -
Adjusted balance, July 1, 2019	-
Depreciation	1,403
Dispositions, retirements, other	-
Effect of foreign exchange	10
	<b>\$ 1,413</b>
<b>Net book value</b>	
At June 30, 2019	\$ -
<b>At June 30, 2020</b>	<b>\$ 4,010</b>

**(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 year ended June 30 2020, \$50 for short-term leases, and \$17 for leases of low-value assets are included in general and administration expense in the consolidated statements of comprehensive income (loss). The table below summarizes the future minimum payments for the short-term leases and leases of low-value assets that are not recognized as liabilities as at June 30, 2020:

	Less than 1 year	1 to 3 years
Short-term leases	\$ 2	\$ -
Leases of low value	2	5
	<b>\$ 4</b>	<b>\$ 5</b>

**(e) Use of estimates and judgments**

Estimates

The Company estimates the lease term by considering the facts and circumstances that creates 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.

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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;
- 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; and
- 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 19 for our disclosure regarding lease liabilities.

**5. BUSINESS COMBINATION**

On May 31, 2019, the Company completed the acquisition of substantially all of the assets and certain liabilities, comprising the ContentAgent business ("ContentAgent"), from Root 6 Limited. ContentAgent offers a file-based workflow management and automation platform, specializing in video-ingest and delivery automation solutions in the media industry.

The transaction, valued at \$823, 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 acquisition:

Year ended June 30, 2019	Amount
<b>Consideration paid:</b>	
Purchase price	\$ 823
<b>Net assets acquired:</b>	
Accounts receivable	\$ 138
Prepaid expenses	161
Property, plant and equipment	11
Intangible assets	666
Goodwill	242
Accounts payable and accrued liabilities	(252)
Deferred revenue	(143)
	\$ 823

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 ContentAgent and the Company's existing business; expected growth in the underlying markets in which ContentAgent 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 acquisition of ContentAgent were \$41, and are included in operating costs in the consolidated statements of comprehensive income (loss).

Sales and net loss for the year ended June 30, 2019 attributable to the acquisition of ContentAgent are \$137 and \$(59), respectively.

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Had the business combination been effective July 1, 2018, the consolidated sales of the Company would have been \$86,841 and the net loss would have been \$(3,925). Management considers these "pro-forma" numbers as a reasonable approximate measure of the performance of the combined group and to provide a reference point for comparison in future periods. In determining these amounts, management has assumed that the fair value adjustments, determined on a preliminary basis, which arose on the acquisition date would have been the same, in all material respects, if the acquisition had occurred on July 1, 2018.

**6. CASH AND CASH EQUIVALENTS**

Years ended June 30,		<b>2020</b>		2019
Cash	\$	<b>4,878</b>	\$	5,361
Short-term deposits		<b>12,472</b>		14,473
	\$	<b>17,350</b>	\$	19,834

**7. SHORT-TERM INVESTMENTS**

Short-term investments are measured at fair value and changes are reported through the consolidated statements of comprehensive income (loss). The fair value of the short-term investments were equal to their carrying value for the years ended June 30, 2020 and 2019. Short-term investments consist of guaranteed investment certificates and marketable equity securities.

**8. ACCOUNTS RECEIVABLE**

Years ended June 30,	Note	<b>2020</b>		2019
Trade receivables		\$ <b>23,840</b>	\$	13,943
Less: allowance for doubtful accounts		<b>(97)</b>		(58)
		<b>23,743</b>		13,885
Goods and services tax		<b>351</b>		542
Government grants receivable	13	<b>691</b>		258
Foreign exchange contracts		<b>101</b>		-
Leasehold improvements incentives		-		335
Other receivables		<b>22</b>		134
		\$ <b>24,908</b>	\$	15,154

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

The government grant receivable for the year ended June 30, 2020 includes a research and development tax credit from the State of Georgia in the amount of \$689 (June 30, 2019 - \$247). Refer to Note 13 - *Government Grants* for further details.

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Included in trade receivables is the allowance for doubtful accounts used to record the impairment of the receivable prior to being written off. The details of the allowance for doubtful accounts is in the table below:

Opening allowance for doubtful accounts, July 1, 2018	\$	8
Charge		54
Write-offs		(4)
Balance, June 30, 2019		58
Charge		54
Write-offs		(15)
<b>Balance, June 30, 2020</b>	<b>\$</b>	<b>97</b>

**9. INVENTORIES**

Years ended June 30,	<b>2020</b>		2019	
Raw materials	\$	<b>7,047</b>	\$	5,481
Work-in-progress		<b>3,802</b>		1,292
Finished goods		<b>6,363</b>		5,951
	<b>\$</b>	<b>17,212</b>	<b>\$</b>	12,724

During the year ended June 30, 2020, inventories of \$30,413 (year ended June 30, 2019 - \$28,728) were expensed through cost of sales. Write-downs of inventory that were included in the cost of sales for the year ended June 30, 2020 were \$745 (year ended June 30, 2019 - \$1,159). Write-downs of inventory that were included in sales and marketing for the year ended June 30, 2020 were \$320 (year ended June 30, 2019 - \$1,004). Reversals of write-downs were \$173 during the year ended June 30, 2020 (year ended June 30, 2019 - \$59). For the year ended June 30, 2020, the carrying amount of inventory recorded at net realizable value was \$885 (year ended June 30, 2019 - \$1,256) with the remaining inventory recorded at cost.

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**10. PROPERTY, PLANT AND EQUIPMENT**

	Note	Land	Land improvements & building	Lab, operating & production equipment	Other equipment <sup>(1)</sup>	Total
<b>At cost</b>						
At July 1, 2018		\$ 621	\$ 8,710	\$ 19,056	\$ 10,892	\$ 39,279
Additions		-	835	1,868	779	3,482
Disposals		-	(109)	(2,362)	(319)	(2,790)
Business acquisition	5	-	-	-	11	11
Effect of foreign exchange		-	(9)	(14)	12	(11)
At June 30, 2019		621	9,427	18,548	11,375	39,971
Additions		-	38	1,249	846	2,133
Disposals		(285)	(391)	(491)	(146)	(1,313)
Effect of foreign exchange		-	34	34	126	194
<b>At June 30, 2020</b>		<b>\$ 336</b>	<b>\$ 9,108</b>	<b>\$ 19,340</b>	<b>\$ 12,201</b>	<b>\$ 40,985</b>
<b>Accumulated depreciation and amortization</b>						
At July 1, 2018		\$ -	\$ 3,025	\$ 14,571	\$ 10,008	\$ 27,604
Depreciation charge		-	240	1,692	407	2,339
Disposals		-	(106)	(2,088)	(290)	(2,484)
Effect of foreign exchange		-	-	(8)	(6)	(14)
At June 30, 2019		-	3,159	14,167	10,119	27,445
Depreciation charge		-	312	1,370	515	2,197
Disposals		-	(145)	(287)	(107)	(539)
Effect of foreign exchange		-	3	12	66	81
<b>At June 30, 2020</b>		<b>\$ -</b>	<b>\$ 3,329</b>	<b>\$ 15,262</b>	<b>\$ 10,593</b>	<b>\$ 29,184</b>
<b>Net book value</b>						
At June 30, 2019		\$ 621	\$ 6,268	\$ 4,381	\$ 1,256	\$ 12,526
<b>At June 30, 2020</b>		<b>\$ 336</b>	<b>\$ 5,779</b>	<b>\$ 4,078</b>	<b>\$ 1,608</b>	<b>\$ 11,801</b>

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

Additions for the year ended June 30, 2020 were \$2,133 (June 30, 2019 - \$3,482), of which \$2,133 was acquired for cash consideration (June 30, 2019 - \$2,868) and \$nil for non-cash consideration (June 30, 2019 - \$614). The non-cash additions relate to leasehold improvements that were covered by leasehold incentives.

The following estimated useful lives have been applied to property, plant and equipment assets at June 30, 2020 and June 30, 2019:

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

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

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

Years ended June 30,	2020	2019
Cost of sales	\$ 304	\$ 336
Research and development	550	702
Sales and marketing	306	439
General and administrative	1,037	862
<b>Depreciation for the year</b>	<b>\$ 2,197</b>	<b>\$ 2,339</b>

There were no impairment losses or recoveries during the years ended June 30, 2020 or 2019.

Property, plant and equipment classified as investment properties under IAS 40, include land and land improvements, and buildings. Collectively, the investment properties' fair value exceeds their gross carrying amount. Investment properties include land with a gross carrying amount of \$16 (June 30, 2019 - \$301) and accumulated depreciation of \$nil as at June 30, 2020 and June 30, 2019. Investment properties' improvements and buildings had a gross carrying amount of \$47 and accumulated depreciation of \$24 as at June 30, 2020 (\$430 and \$170 respectively, as at June 30, 2019). The fair value of the investment properties at June 30, 2020 was \$250 (June 30, 2019 - \$1,262). The fair value was determined using the expertise of an independent local real estate agent not related to the Company. The independent real estate agent has professional qualifications and experience in the location and category of investment property being valued. For the year ended June 30, 2020, income earned from the investment properties was \$52 with direct expenses of \$52 (June 30, 2019 - \$126 and \$37, respectively). On May 12, 2020, the Company sold one of its investment properties to a third party for \$875. It had a carrying value of \$490 at the time of sale.

## 11. GOODWILL

	Note	
At July 1, 2018		\$ 14,903
Business acquisition	5	242
Effect of foreign exchange		(14)
At June 30, 2019		15,131
Business acquisition		-
Effect of foreign exchange		356
<b>At June 30, 2020</b>		<b>\$ 15,487</b>

For the year ended June 30, 2020, goodwill includes \$3,470 attributable to brand (June 30, 2019 - \$3,334).

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Impairment testing of goodwill

For the purposes of impairment testing at the end of the reporting period, the indefinite-life intangible assets and goodwill are allocated to cash generating units (CGU's), which represent the lowest level at which indefinite-life intangible assets are monitored for internal management purposes. The Company's recorded goodwill has a carrying value which consists of \$6,111 relating to the Telematics segment, and \$9,376 relating to the Content Delivery and Storage segment (June 30, 2019 - \$6,111 and \$9,020, respectively). The recoverable amount of the segment and the associated CGU's are based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management covering the next fiscal year, extrapolated based on projected growth and achieving key operating objectives for a period of less than five years. There is a material degree of uncertainty with respect to the estimates of the recoverable amount of the cash generating units' assets given the necessity of making key economic assumptions about the future.

The value-in-use calculation uses discounted cash flow projections which employ the following key assumptions: future cash flows and growth projections, including economic risk assumptions and estimates of achieving key operating metrics and drivers; and the weighted average cost of capital. The projected cash flows have been prepared based on management's past experience and expected demand and cost for the products. The pre-tax discount rate applied to cash flow projections reflect the current market assessment of risk and was based on an estimate of weighted average cost of capital taking into account assessments by third party experts. The pre-tax discount rates used in our testing of the CGU's ranged between 14.3% and 18.3%. As a result of this analysis, management has not identified any impairment for the Company's CGU's.

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**12. INTANGIBLE ASSETS**

	Note	Indefinite-life intangible assets		Finite-life intangible assets			Total
		Spectrum and other licenses	Customer contracts	Patents	Intellectual property	Deferred development costs	
<b>At cost</b>							
At July 1, 2018		\$ 106	\$ 20,528	\$ 648	\$ 9,990	\$ 46,374	\$ 77,646
Additions		-	-	47	39	16,057	16,143
Business acquisition	5	-	363	-	303	-	666
Government grant	13	-	-	-	-	(232)	(232)
Investment tax credits	14	-	-	-	-	(1,654)	(1,654)
Write-down, fully amortized		-	-	(50)	-	-	(50)
Effect of foreign exchange		(1)	(25)	(1)	(16)	(24)	(67)
At June 30, 2019		\$ 105	\$ 20,866	\$ 644	\$ 10,316	\$ 60,521	\$ 92,452
Additions		-	-	83	7	12,250	12,340
Government grant	13	-	-	-	-	(98)	(98)
Investment tax credits	14	-	-	-	-	782	782
Write-down, fully amortized		-	-	-	-	(12,544)	(12,544)
Effect of foreign exchange		2	663	9	277	214	1,165
<b>At June 30, 2020</b>		<b>\$ 107</b>	<b>\$ 21,529</b>	<b>\$ 736</b>	<b>\$ 10,600</b>	<b>\$ 61,125</b>	<b>\$ 94,097</b>
<b>Accumulated amortization</b>							
At July 1, 2018		\$ -	\$ 2,039	\$ 366	\$ 1,639	\$ 11,278	\$ 15,322
Amortization		-	2,351	69	1,382	5,529	9,331
Writedown, fully amortized		-	-	(50)	-	-	(50)
Effect of foreign exchange		-	(16)	-	(9)	(13)	(38)
At June 30, 2019		\$ -	\$ 4,374	\$ 385	\$ 3,012	\$ 16,794	\$ 24,565
Amortization		-	2,418	63	1,392	8,702	12,575
Writedown, fully amortized		-	-	-	-	(12,544)	(12,544)
Effect of foreign exchange		-	147	-	75	79	301
<b>At June 30, 2020</b>		<b>\$ -</b>	<b>\$ 6,939</b>	<b>\$ 448</b>	<b>\$ 4,479</b>	<b>\$ 13,031</b>	<b>\$ 24,897</b>
<b>Net book value</b>							
At June 30, 2019		\$ 105	\$ 16,492	\$ 259	\$ 7,304	\$ 43,727	\$ 67,887
<b>At June 30, 2020</b>		<b>\$ 107</b>	<b>\$ 14,590</b>	<b>\$ 288</b>	<b>\$ 6,121</b>	<b>\$ 48,094</b>	<b>\$ 69,200</b>

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

The aggregate amount of research and development expenditures during the year ended June 30, 2020 was \$25,828 (June 30, 2019 - \$29,336).

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

There were no impairment losses recorded on deferred development costs during the year ended June 30, 2020 (June 30, 2019 - \$nil).

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

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**13. GOVERNMENT GRANTS**

	Job Grants	Industrial Research Assistance Program (IRAP)	State of Georgia research and development tax credit	Total
Balance, June 30, 2018	\$ 1	\$ -	\$ -	\$ 1
New grants claimed	8	232	285	525
Grants received	(9)	(221)	(38)	(268)
Balance, June 30, 2019	-	11	247	258
New grants claimed	42	98	689	829
Grants received	(40)	(109)	(247)	(396)
<b>Balance, June 30, 2020</b>	<b>\$ 2</b>	<b>\$ -</b>	<b>\$ 689</b>	<b>\$ 691</b>

In December 2018, the Company entered into non-repayable contribution agreements with the National Research Council Canada as represented by its Industrial Research Assistance Program ("IRAP") for total funding of \$350 to finance research and development projects. During the year ended June 30, 2020, the Company recognized \$98 (June 30, 2019 - \$232) in non-repayable government assistance relating to IRAP; \$98 (June 30, 2019 - \$232) was recorded as a reduction in intangible assets; and \$nil (June 30, 2019 - \$nil) was recorded as a reduction to research and development expenses. At June 30, 2020, the Company had accounts receivable relating to IRAP of \$nil (June 30, 2019 - \$11).

In the third quarter of 2020, the Company applied for a research and development tax credit with the State of Georgia in the amount of \$689, which related to the 2019 fiscal period. The application for the tax credit was submitted in January 2020 with the Company's 2019 state corporate tax return. In March 2020, the Company received confirmation that our application for the tax credit was approved. The tax credit allows the Company to incrementally offset its state payroll tax withholdings each pay period, until the tax credit is used. The tax credit is not dependent upon the Company having taxable income in the State of Georgia, and is not considered part of income taxes. We reported the original tax credit in the third quarter of 2020 as a government grant receivable in the amount of \$689, with a corresponding offset to accrued liabilities.

For the year ended June 30, 2019, the Company applied for a research and development tax credit with the State of Georgia. The amount granted in 2019 was \$285. We reported the original tax credit in the third quarter of 2019 as a government grant receivable in the amount of \$285, with a corresponding offset to accrued liabilities.

As of June 30, 2020, the government grant receivable was \$689 (June 30, 2019 - \$247). During the year ended June 30, 2020, the payroll tax withholding liability and the government grant receivable were reduced by \$247 (June 30, 2019 - \$38) during the year; and the accrued liabilities and operating expenses were reduced by a total of \$378 for the year ended June 30, 2020 (June 30, 2019 - \$158). The Company expects to fully utilize the tax credit within 12 months of the grant date, and all amounts reported on the consolidated statements of financial position are shown as either a current asset or current liability.

**14. INVESTMENT TAX CREDITS**

During the year ended June 30, 2020, the Company recorded investment tax credits of \$1,914 (2019 - \$1,721), with a \$1,709 (2019 - \$1,654) reduction to deferred development costs and \$205 (2019 - \$67) reduction to research and development expenses. Investment tax credits reducing deferred development costs were offset by \$1,288 for a tax ruling and by \$1,203 for expired provincial credits. Investment tax credits expire between 2021 and 2040.

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**15. INCOME TAXES**

Deferred income taxes reflect the net tax effects of temporary and non-current carry-forward differences between the carrying amounts of assets and liabilities for financial reporting purposes and the associated amounts used for income tax purposes. Significant components of the Company's tax assets and liabilities are as follows:

Years ended June 30,	2020	2019
Provision for warranties	\$ 77	\$ 112
Lease liabilities	1,206	-
Non-capital losses	874	865
Property, plant and equipment	1,746	1,511
Right-of-use assets	(1,021)	-
Research and development expenditures	12,254	11,633
Accrued expenses	150	611
Unrealized foreign exchange (gains) losses	(215)	149
Accrued retirement	138	-
Intangible assets	(11,191)	(10,615)
Other	(94)	124
<b>Net total deferred tax asset</b>	<b>3,924</b>	<b>4,390</b>
<b>Deferred tax asset</b>	<b>4,460</b>	<b>4,714</b>
<b>Deferred tax liability</b>	<b>\$ (536)</b>	<b>\$ (324)</b>

The Company has recognized deferred tax assets in the amount of \$3,924 (2019 - \$4,390), the utilization of which is dependent on the future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. The recognition of these deferred tax assets is based on taxable income forecasts that incorporate existing circumstances that will result in positive taxable income against which non-capital losses and deductible temporary differences can be utilized.

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

Years ended June 30,	2020	2019
Income tax expense	\$ (51)	\$ 70
Deferred income tax expense (recovery)	441	(2,472)
	<b>\$ 390</b>	<b>\$ (2,402)</b>

There were no income taxes booked to equity during the year (2019 - \$nil).

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

Years ended June 30,	2020	2019
Income (loss) before income taxes	\$ 2,196	\$ (5,861)
Substantively enacted tax rates	25.7%	25.4%
Tax computed at Canadian statutory income tax rates	564	(1,489)
Differences in substantively enacted future tax rates	29	(94)
Foreign tax rate differential	(193)	(2)
Expenses not deductible for tax purposes <sup>(1)</sup>	164	57
Non-taxable portion of unrealized foreign exchange gains <sup>(1)</sup>	-	1
Federal and state tax credits	(784)	(608)
Other <sup>(2)</sup>	610	(267)
<b>Total income tax expense</b>	<b>\$ 390</b>	<b>\$ (2,402)</b>
Effective income tax rate	17.8%	(41.0)%

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

<sup>(2)</sup> Other items primarily include prior year deferred income tax true-up amounts, valuation allowances, and effects of foreign exchange.

## 16. SHORT-TERM BORROWINGS

The Company maintains an authorized line of credit of \$14,000 (June 30, 2019 - \$14,000) of which \$nil was drawn on June 30, 2020 (June 30, 2019 - \$nil). The line of credit is secured by a general security agreement and is limited to a maximum amount available of 70% of accounts receivable and 40% of inventory (to a maximum of \$7,000). Interest on the outstanding line of credit is calculated at prime plus 0.5%. The prime rate at June 30, 2020 was 2.45% (June 30, 2019 - 3.95%).

## 17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Years ended June 30,	2020	2019
Accounts payable	\$ 6,632	\$ 4,792
Accrued liabilities	10,473	6,907
	<b>\$ 17,105</b>	<b>\$ 11,699</b>

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

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**18. PROVISIONS**

	Warranty		Restructuring Costs		Other		Total
At July 1, 2018	\$	404	\$	-	\$	468	\$ 872
Additions during the year		399		157		284	840
Amounts utilized		(455)		-		(106)	(561)
Unused amounts reversed		-		-		(11)	(11)
Effect of foreign exchange		1		-		(5)	(4)
At June 30, 2019		349		157		630	1,136
Additions during the year		370		37		264	671
Amounts utilized		(411)		(157)		(361)	(929)
Effect of foreign exchange		4		-		10	14
<b>At June 30, 2020</b>	<b>\$</b>	<b>312</b>	<b>\$</b>	<b>37</b>	<b>\$</b>	<b>543</b>	<b>\$ 892</b>
<b>Less: current portion</b>	<b>\$</b>	<b>312</b>	<b>\$</b>	<b>37</b>	<b>\$</b>	<b>143</b>	<b>\$ 492</b>
<b>Long-term portion</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>400</b>	<b>\$ 400</b>

The warranty provision is based on the Company's prior years' experience.

**19. LONG-TERM DEBT**

Years ended June 30,	2020		2019	
Term credit facility	\$	1,708	\$	1,979
Lease liabilities (including lease liabilities under IFRS 16 (Note 4(a)))		4,603		-
	\$	6,311		1,979
Comprised of:				
Current portion of term credit facility and lease liabilities	\$	1,698	\$	250
Long-term portion of term credit facility and lease liabilities		4,613		1,729
	\$	6,311	\$	1,979

Term credit facility

The term credit facility is with a Canadian chartered bank. As at June 30, 2020, the facility is repayable in monthly instalments of \$21 principal and interest at prime of 2.45% (June 30, 2019 - \$21, and 3.95%, 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.

The term credit facility is recorded at amortized cost. The Company's term credit facility 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 June 30, 2020:

2021	\$	250
2022		250
2023		250
2024		250
2025		250
Thereafter		458
	\$	1,708

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Lease liabilities

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

Lease liabilities, beginning of year	\$	5,715
Net additions during the year		206
Interest on lease liabilities		230
Principal repayments of lease liabilities		(1,675)
Effect of foreign exchange		127
Other		-
<b>Lease liabilities, end of year</b>	<b>\$</b>	<b>4,603</b>
<b>Current portion</b>		<b>1,448</b>
	<b>\$</b>	<b>3,155</b>

**20. SHARE CAPITAL**

**(a) Share capital**

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

	Number of shares		Carrying value
Balance, July 1, 2018	22,377,288	\$	1,756
Shares issued by exercising options	16,000		162
Shares repurchased and cancelled	(23,201)		(2)
Balance, June 30, 2019	22,370,087		1,916
Shares issued by exercising options	105,375		1,247
Shares repurchased and cancelled	(13,380)		(2)
<b>Balance, June 30, 2020</b>	<b>22,462,082</b>	<b>\$</b>	<b>3,161</b>

The Company issued 105,375 shares through the exercise of options during the year ended June 30, 2020 (June 30, 2019 – 16,000).

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

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

**(b) Reserves**

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

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**(c) Stock option plan**

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

The changes in options and the number of options outstanding for the years ended June 30, 2020 and 2019 are as follows:

	Number of options	Weighted average exercise price per option
Outstanding, July 1, 2018	518,491	\$ 8.91
Granted	13,000	9.10
Cancelled	(12,991)	9.81
Exercised	(16,000)	7.09
Outstanding, June 30, 2019	502,500	8.95
Granted	9,000	8.25
Cancelled	(13,000)	8.62
Exercised	(105,375)	8.73
<b>Outstanding, June 30, 2020</b>	<b>393,125</b>	<b>\$ 9.01</b>
<b>Vested and exercisable</b>	<b>339,377</b>	<b>\$ 8.98</b>

At June 30, 2020, the exercise prices range from \$8.62 to \$10.72 per option, with the weighted average exercise price being \$9.01 per option. The options outstanding at June 30, 2020 have a weighted average contractual life of 1.47 years.

	Options outstanding			Options exercisable	
	Number	Weighted average remaining life	Weighted average exercise price per option	Number	Weighted average exercise price per option
\$8.25 to \$8.63	257,125	0.65	\$ 8.61	248,125	\$ 8.62
\$8.64 to \$10.00	91,000	3.69	9.40	48,314	9.43
\$10.01 to \$10.72	45,000	1.65	10.53	42,938	10.52
	393,125	1.47	\$ 9.01	339,377	\$ 8.98

**(d) 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 was \$59 for the year ended June 30, 2020 (June 30, 2019 - \$112).

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The weighted average estimated fair value for the common share options granted in the year was \$12 (June 30, 2019 - \$25). Management used the following assumptions within the Black-Scholes option-pricing model:

Years ended June 30,		<b>2020</b>		2019
Weighted average share price	\$	8.25	\$	9.10
Expected option life		6.00 years		6.00 years
Risk-free rate of return		1.33%		2.43%
Volatility factor		23.78%		27.73%
Expected dividends		2.65%		2.42%
Forfeiture rate		2.07%		2.07%

**21. REVENUE FROM CONTRACTS WITH CUSTOMERS**

**(a) Disaggregated revenue**

In the following table, gross revenue from contracts with customers is disaggregated by reporting segment and type. Refer to Note 26 for additional segmented financial information.

	<b>For the year ended June 30, 2020</b>				
	<b>Video and Broadband Solutions</b>	<b>Content Delivery and Storage</b>	<b>Telematics</b>	<b>Total</b>	
Product sales	\$ 28,989	\$ 37,411	\$ 605	\$	67,005
Provision of services	6,870	17,788	4,753	\$	29,411
	<b>\$ 35,859</b>	<b>\$ 55,199</b>	<b>\$ 5,358</b>	<b>\$</b>	<b>96,416</b>
	<b>For the year ended June 30, 2019</b>				
	<b>Video and Broadband Solutions</b>	<b>Content Delivery and Storage</b>	<b>Telematics</b>	<b>Total</b>	
Product sales	\$ 30,097	\$ 27,104	\$ 753	\$	57,954
Provision of services	7,568	14,775	4,735	\$	27,078
	<b>\$ 37,665</b>	<b>\$ 41,879</b>	<b>\$ 5,488</b>	<b>\$</b>	<b>85,032</b>

**(b) Contract assets**

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

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

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Years ended June 30,	2020	2019
Balance, beginning of year	\$ 398	\$ 555
Net additions arising from operations	993	249
Amounts billed during the year and reclassified as accounts receivable	(193)	(176)
Deferred cost recognized as expense in the period	(229)	(230)
Effect of change in foreign currency exchange rates	(1)	-
	<b>968</b>	<b>398</b>
To be billed and reclassified to accounts receivable during next 12 months	493	23
Deferred costs to be recognized as expense during next 12 months	153	164
Current portion, contract assets	646	187
Thereafter	322	211
	<b>\$ 968</b>	<b>\$ 398</b>

**(c) Deferred revenue**

Contract liabilities, which includes deferred revenues, represent the future performance obligations to customers in respect of services or customer activation fees for which consideration has been received upfront and is recognized over the expected term of the customer relationship. The Company has elected to apply the practical expedient that allows the Company to not disclose the unsatisfied portions of performance obligations under contracts where the revenue we recognize is equal to the amount invoiced to the customer.

Contract liability balances, the changes in those balances, the future periods that performance obligations are expected to be satisfied, and revenue recognized are set out in the following table.

Years ended June 30,	Note	2020	2019
Balance, beginning of year		\$ 4,809	\$ 4,957
Revenue deferred in previous period and recognized in current period		(4,218)	(4,000)
Business acquisition	5	-	143
Net additions arising from operations		4,821	3,714
Effect of change in foreign currency exchange rates		150	(5)
Balance, end of year		<b>5,562</b>	<b>4,809</b>
<b>Revenue to be recognized in the future:</b>			
Within one year		\$ 4,960	\$ 4,046
Between two to five years		602	763
Total		<b>\$ 5,562</b>	<b>\$ 4,809</b>

**22. RESTRUCTURING COSTS**

During the year ended June 30, 2019, the Company incurred incremental, non-recurring restructuring costs in the amount of \$2,176. The restructuring costs were incurred in two tranches. The first tranche occurred in the first quarter of 2019, which represents severance costs related to the reorganization of manufacturing operations. The second tranche took place in the fourth quarter of 2019, and represents severance costs related to the reorganization of our research and development staffing as we near completion of a number of our next generation products and align our research and development investment accordingly.

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**23. OTHER (INCOME) EXPENSE**

Years ended June 30,	2020	2019
(Gain) loss on sale of property, plant and equipment	\$ (455)	\$ 82
Gain on sale of intangible assets	-	(202)
Lease revenue	(52)	(326)
Other	28	28
	\$ (479)	\$ (418)

**24. NET INCOME (LOSS) PER SHARE**

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

Years ended June 30,	2020	2019
Net income (loss): basic and diluted (in thousands of dollars)	\$ 1,806	\$ (3,459)
<b>Weighted average number of common shares outstanding:</b>		
Basic	22,411,612	22,362,031
Dilution adjustment for stock options	33,194	-
Diluted	22,444,806	22,362,031
Net income (loss) per share: basic	\$ 0.08	\$ (0.15)
Net income (loss) per share: diluted	\$ 0.08	\$ (0.15)

Stock options could potentially dilute basic net income (loss) per share in the future. Dilutive stock options are calculated using the treasury stock method. For the year ended June 30, 2020, there were 272,125 dilutive stock options, which resulted in a dilution adjustment of 33,194; with the remaining 121,000 outstanding stock options being anti-dilutive. For the year ended June 30, 2019, any conversion effect of the 502,500 stock options were entirely anti-dilutive and have been excluded from the calculation of net income (loss) per share.

**25. FINANCE INCOME (EXPENSE)**

Years ended June 30,	2020	2019
Interest income	\$ 731	\$ 1,047
Operating interest line	(2)	(16)
Term credit facility interest	(65)	(81)
Other	199	(71)
Finance income (expense) before interest on lease liabilities	863	879
Interest expense on lease liabilities	(230)	-
	\$ 633	\$ 879

**26. 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:

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**Segments**

Year ended June 30, 2020					
	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Inter- Segment	Total
<b>Sales</b>	\$ 35,859	\$ 55,199	\$ 5,358	\$ -	\$ 96,416
<b>Cost of sales</b>	18,914	23,524	1,674	-	44,112
<b>Gross profit</b>	16,945	31,675	3,684	-	52,304
Operating expenses	14,934	18,958	2,218	-	36,110
Depreciation and amortization	8,308	6,835	828	-	15,971
<b>Operating (loss) income</b>	(6,297)	5,882	638	-	223
Finance income (expense)	744	(111)	-	-	633
Foreign exchange gain (loss)	1,359	(35)	16	-	1,340
<b>(Loss) income before taxes</b>	(4,194)	5,736	654	-	2,196
Income tax (recovery) expense	(843)	1,067	166	-	390
<b>Net (loss) income</b>	\$ (3,351)	\$ 4,669	\$ 488	\$ -	\$ 1,806
<b>Total assets</b>	\$ 135,660	\$ 61,775	\$ 12,863	\$ -	\$ 210,298
<b>Total liabilities</b>	\$ 12,800	\$ 16,758	\$ 978	\$ -	\$ 30,536

Year ended June 30, 2019					
	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Inter- Segment	Total
Sales	\$ 37,698	\$ 41,879	\$ 5,488	\$ (33)	\$ 85,032
Cost of sales	19,454	18,988	1,746	(33)	40,155
Gross profit	18,244	22,891	3,742	-	44,877
Operating expenses	21,168	16,931	2,129	-	40,228
Depreciation and amortization	5,690	4,825	808	-	11,323
Operating (loss) income	(8,614)	1,135	805	-	(6,674)
Finance income (expense)	819	61	(1)	-	879
Foreign exchange (loss) gain	(72)	10	(4)	-	(66)
(Loss) income before taxes	(7,867)	1,206	800	-	(5,861)
Income tax expense (recovery)	(2,054)	(564)	216	-	(2,402)
Net (loss) income	\$ (5,813)	\$ 1,770	\$ 584	\$ -	\$ (3,459)
<b>Total assets</b>	\$ 133,654	\$ 53,809	\$ 13,307	\$ -	\$ 200,770
<b>Total liabilities</b>	\$ 7,636	\$ 11,538	\$ 828	\$ -	\$ 20,002

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

**Geographical region**

Years ended June 30,	2020	2019
<b>Sales to external customers:</b>		
United States	\$ 70,706	\$ 61,066
Canada	8,556	14,253
Europe	6,252	5,264
Japan	6,785	3,434
Other	4,117	1,015
	\$ 96,416	\$ 85,032

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Years ended June 30,	2020		2019	
<b>Non-current assets</b>				
United States	\$	33,935	\$	33,029
Canada		93,534		90,419
Europe		1,338		946
Japan		1,826		1,236
	\$	130,633	\$	125,630

**Sales to major customers**

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

Years ended June 30,	2020		2019	
Customer A	\$	15,133	\$	18,971
Customer B		14,008		10,546
Customer C		12,484		9,933
	\$	41,625	\$	39,450

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

**27. RELATED PARTY TRANSACTIONS**

Vecima is a publicly traded company on the Toronto Stock Exchange. Dr. Surinder Kumar, Chairman of Vecima's Board of Directors, directly or indirectly controls the majority of the outstanding common shares. Additionally, one member of Dr. Kumar's family is a Director, Senior Executive and Corporate Officer of the Company.

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

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

Compensation of key management personnel of the Company is provided in the table below:

Years ended June 30,	2020		2019	
Salaries and short-term employee benefits	\$	1,898	\$	1,190
Post-employment pension		43		33
Share-based compensation		11		17
	\$	1,952	\$	1,240

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The amounts disclosed in the table are recognized as an expense during the reporting period. Key management personnel consist of the Board of Directors and certain executives who have authority and responsibility for planning, directing and controlling the activities of the Company, either directly or indirectly.

No stock options were awarded to key management personnel for the year ended June 30, 2020 (2019 - nil). As stock options awarded are granted for six years, with vesting based on performance and are equity settled, the expense is recognized rateably over a period of years and thus only a portion of the awards are included in the table above.

The Company leased a building in Saskatoon under a ten-year lease from Dr. Surinder Kumar at the prevailing market rate. At the commencement of the lease, the prevailing market rate was \$10.00 per square foot. The lease expired in March 2019 and was not renewed. The rental expense relating to this transaction was \$nil for the year ended June 30, 2020 (year ended June 30, 2019 - \$211).

**28. FAIR VALUE HIERARCHY**

Assets and liabilities measured at fair value in the 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.

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

	June 30, 2020			June 30, 2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Short-term investments	\$ 17,165	\$ -	\$ -	\$ 24,569	\$ -	\$ -

During the years ended June 30, 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

**29. FINANCIAL INSTRUMENTS RISK MANAGEMENT**

Financial risks

In the normal course of business, the Company is exposed to a number of financial risks that can materially affect its operating performance. These financial risks include: credit risk, liquidity risk, currency risk and interest rate risk. The source of risk exposure and how each is managed is outlined below.

**(a) Credit risk**

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

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Credit risk also arises from the financial loss we could experience if a counterparty to a financial instrument, from whom we have an amount owing, failed to meet its obligations under the terms and conditions of its contracts with us. Our credit risk exposure is primarily attributable to our accounts receivable. Our accounts receivable on the consolidated statements of financial position are net of allowances for doubtful accounts, which management estimates based on lifetime expected credit losses. Our accounts receivable do not contain significant financing components and therefore, we measure our allowance for doubtful accounts using lifetime expected credit losses related to our accounts receivable.

As at June 30, 2020, the weighted average age of customer accounts receivable was 35 days (June 30, 2019 - 34 days); and the weighted average age of past-due accounts receivable approximated 64 days (June 30, 2019 - 61 days). Accounts are considered to be past due when customers have failed to make the required payments by their contractually agreed upon due date. The aging of trade receivables that are not considered to be impaired are as follows:

Years ended June 30,	2020	2019
Current	\$ 19,826	\$ 11,980
31 to 60 days	1,920	1,233
61 to 90 days	163	513
Over 90 days	1,834	159
	\$ 23,743	\$ 13,885

We maintain allowances for lifetime expected credit losses related to the allowance for doubtful accounts. Current economic conditions, forward-looking information, and historical information, reasons for the accounts being past due are all considered when determining whether to make allowances for past due accounts. The same factors are considered when determining whether to write-off amounts charged to the allowance for doubtful accounts against the customer accounts receivable.

The Company has an allowance for doubtful accounts at June 30, 2020 of \$97 (June 30, 2019 - \$58). At June 30, 2020, the Company had three major customers (June 30, 2019 - three) who accounted for approximately 44% (June 30, 2019 - 42%) of the year-end accounts receivable balance. Customer contract assets that are not considered to be impaired within the next 12 months are \$646 and long-term are \$322.

**(b) Liquidity risk**

Liquidity risk arises from the Company's general funding needs and in the management of its assets, liabilities and capital. The Company manages its liquidity risk to maintain sufficient liquid financial resources to fund its operations and meet its commitments and obligations in a cost-effective manner. The Company currently holds a significant balance of cash and short-term investments which helps to mitigate this risk. The Company has access to a credit facility in the amount of \$14,000 with a Canadian chartered bank. As of June 30, 2020, the remaining amount available to be drawn under this credit facility is \$14,000.

The tables below presents a maturity analysis of the Company's financial liabilities as at June 30, 2020 and 2019:

June 30, 2020	Carrying amount	Contractual cash flows	Less than 1 year	1 to 3 years	Thereafter
Accounts payable and accrued liabilities	\$ 17,105	\$ 17,105	\$ 17,105	\$ -	\$ -
Long-term debt	1,708	1,708	250	500	958
Lease liabilities	4,603	5,017	1,713	3,304	-
	\$ 23,416	\$ 23,830	\$ 19,068	\$ 3,804	\$ 958

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June 30, 2019	Carrying amount	Contractual cash flows	Less than 1 year	1 to 3 years	Thereafter
Accounts payable and accrued liabilities	\$ 11,699	\$ 11,699	\$ 11,699	\$ -	\$ -
Long-term debt	1,979	1,979	250	750	979
	\$ 13,678	\$ 13,678	\$ 11,949	\$ 750	\$ 979

**(c) Currency risk**

Approximately 97% (June 30, 2019 - 94%) of the Company's sales are denominated in U.S. dollars. 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 income (loss) in foreign exchange gains (loss). The Company has entered into three \$1,000 USD forward foreign exchange contracts for the year ended June 30, 2020 (June 30, 2019 – nil contracts). The forward foreign exchange contracts mature on July 31, 2020, August 31, 2020, and September 30, 2020, respectively, upon which the Company will be required to settle the contracts in USD. As at June 30, 2020, the Company has an unrealized net exchange gain of \$101 (June 30, 2019 - \$nil) on outstanding forward purchase contracts.

For the year ended June 30, 2020, if the Canadian dollar had weakened or strengthened by 1% against the U.S. dollar with all other variables held constant, net income before income taxes would have been \$345 (June 30, 2019 - \$284) higher or lower; and net income after income taxes would have been \$260 (June 30, 2019 - \$212) higher or lower.

**(d) Interest rate risk**

The Company is exposed to floating interest rate risk, as the required cash flows to service its debt will fluctuate as a result of changes in market rates. This risk is limited to the line of credit and long-term debt. The Company is also exposed to changes in interest rates related to its short-term investments, as the income received from these investments will fluctuate as a result of changes in market rates. A 1% movement in the interest rate would have resulted in a \$133 change to net income before income taxes and a \$99 change to net income after income taxes for the year ended June 30, 2020 (June 30, 2019 - \$332 and \$248, respectively).

**30. CAPITAL STRUCTURE MANAGEMENT**

The Company's objectives when managing capital are to maintain financial flexibility while managing its cost of optimizing access to capital. The Company defines its capital as current and long-term debt (excluding lease liabilities) and shareholders' equity. The Company's capital as at June 30, 2020 was \$181,470 (June 30, 2019 - \$182,747). The Company monitors its capital structure and based on changes in economic conditions, may adjust the structure through the repurchase of shares, the issuance of shares or the use of debt facilities. The Company manages its capital structure in order to ensure sufficient resources are available to fund the development and growth of next generation products and, to fund the expansion of its manufacturing facilities, providing an opportunity to reinforce its market position.

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

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

**31. SUPPLEMENTAL INFORMATION**

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

Depreciation and amortization – operating activities

Years ended June 30,	2020	2019
Depreciation of property, plant and equipment	\$ 2,197	\$ 2,339
Depreciation of right-of-use assets	1,403	-
Amortization of deferred development costs	8,702	5,529
Amortization of finite-life intangible assets	3,873	3,802
	\$ 16,175	\$ 11,670

Net change in working capital – operating activities

Years ended June 30,	2020	2019
Accounts receivable	\$ (9,615)	\$ 2,987
Inventories	(4,328)	2,515
Prepaid expenses	451	(428)
Income tax receivable	2	95
Contract assets	(460)	151
Accounts payable and accrued liabilities	6,029	(1,353)
Deferred revenue	606	(295)
<b>Total change in net working capital</b>	\$ (7,315)	\$ 3,672

Capital expenditures, net – investing activities

Years ended June 30,	2020	2019
Capital expenditures before proceeds of disposition:		
Property, plant and equipment	\$ (2,133)	\$ (2,868)
Intangible assets	(90)	(86)
Proceeds of disposition:		
Property, plant and equipment	1,106	25
Intangible assets	-	202
<b>Total capital expenditures, net</b>	\$ (1,117)	\$ (2,727)

The table below provides details of the employee benefit expenses included in cost of sales and operating expenses:

Years ended June 30,	2020	2019
Wages and salaries	\$ 42,069	\$ 39,771
Employee deferred profit sharing plan	1,257	1,213
Health care benefits	2,055	1,994
	\$ 45,381	\$ 42,978

### **32. CONTINGENT LIABILITY**

In March 2017, the Company received a re-assessment from the Canada Revenue Agency ("CRA") regarding the eligibility of certain Scientific Research and Experimental Development ("SR&ED") claims on its 2015 tax return. The CRA re-assessment would result in a reduction of SR&ED expenditures claimed of \$1,289. The Company and its advisors have reviewed the applicable tax law and believe its original treatment of these SR&ED claims was appropriate. The Company filed a Notice of Objection in the fourth quarter of the 2017 fiscal period in regards to this matter. The Company received a Notice of Confirmation in February 2020 stating that the Notice of Objection was denied. The Company recorded the adjustment in the third quarter of 2020. The impact of this adjustment was a \$1.3 million increase in deferred development amortization expense. The Company has filed a Notice of Appeal in April 2020 to defend its original tax treatment of these SR&ED claims.

### **33. COVID-19**

Since March 2020, several measures have been implemented in Canada and the U.S. in response to the increased impact from novel coronavirus (COVID-19). 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. The Company continues to ensure the continuity of its global operations, servicing both new and current customer needs.

### **34. SUBSEQUENT EVENTS**

The adoption of the Company's performance share unit (PSU) plan was approved as well as the authorization, ratification and confirmation of all PSUs granted on or before June 23, 2020, during a special meeting of the Company's shareholders held on July 28, 2020. The continuation and amendment of the Company's stock option plan was also approved at this special meeting.

On August 7, 2020, the Company completed the purchase of the DOCSIS Distributed Access Architecture and EPON/DPoE portfolios (the "Gainspeed portfolio") from Nokia Corporation for \$4.8 million USD. The purchase price includes inventory, property, plant and equipment, and intangible assets. Employees who currently support the Gainspeed portfolio will also transition to the Company.

On September 22, 2020, the Board of Directors declared a dividend of \$0.055 per common share, payable on November 2, 2020 to shareholders of record as at October 9, 2020 consistent with its previously announced dividend policy.

### **35. COMPARATIVE FIGURES**

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.