



MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three-month and nine-month periods ended August 31, 2017

Date of Report – October 11, 2017

The following Management Discussion and Analysis of C-COM Satellite Systems Inc. (“C-COM” or the “Company”) for the three-month and nine-month periods ended August 31, 2017 should be read in conjunction with the financial statements and notes for the third quarter of 2017, and with the Management Discussion and Analysis in the 2016 annual report. All figures are presented in Canadian dollars in accordance with IFRS.

Forward Looking Statements

The Company cautions that the forward-looking statements in the following Management Discussion and Analysis are based on certain assumptions made by the Company that may prove inaccurate. Forward-looking statements include those identified by the expressions “anticipate”, “believe”, “plan”, “estimate”, “expect”, “intend”, and similar expressions to the extent that they relate to the Company or its management. These forward-looking statements are not historical facts, but reflect the Company’s current expectations and assumptions regarding future results or events. Assumptions made include customer demand for the Company’s products or services, the Company’s ability to maintain and enhance customer relationships, as well as the Company’s ability to bring to market its products or services. Furthermore, the Company cautions that the forward-looking statements in the following Management Discussion and Analysis are based on current expectations as at October 11, 2017 that are subject to change and to risks and uncertainties. Actual results may differ due to facts such as customer demand, customer relationships, new service offerings, delivery schedules, revenue mix, competition, pricing pressure, foreign currency fluctuations, and uncertainty in the markets in which the company conducts business. Additional information identifying risks and uncertainties is contained in the Company’s filings with the various provincial securities regulators. Readers should not place undue reliance on the company’s forward-looking statements.

Overview

C-COM Satellite Systems Inc. is a leader in the development and deployment of commercial grade mobile auto-deploying satellite-based technology for the delivery of two-way high-speed Internet, VoIP and Video services into vehicles. C-COM has developed a unique proprietary Mobile auto-deploying (iNetVu) antenna that allows the delivery of high-speed satellite based Internet services into vehicles while stationary virtually anywhere where one can drive. The iNetVu Mobile antenna has also been adapted to be deployable from transportable platforms. The Company’s satellite-based products and services deliver high-quality, cost-effective solutions for both fixed and mobile applications throughout the world. More information is available at: www.c-comsat.com

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Selected Quarterly Information

	Three-Months Ended August 31, 2017	Three-Months Ended August 31, 2016	Three-Months Ended August 31, 2015
Revenue	\$ 2,341,016	\$ 2,094,710	\$ 2,798,793
Net Income	\$ 130,183	\$ 29,579	\$ 487,802
Basic Earnings per Share	\$0.00	\$ 0.00	\$ 0.01
Diluted Earnings per Share	\$0.00	\$ 0.00	\$ 0.01
Total assets	\$ 20,034,398	\$ 20,116,476	\$ 20,666,987
Total Non-Current Liabilities	\$ 304,703	\$ 155,953	\$ 130,093

Results of Operations

Income before other income and income tax was \$401,844 compared with \$214,192 in 2016. The Company completed the quarter with \$15,450,054 of cash and marketable securities compared to \$15,319,234 at August 31, 2016.

Revenues

	Three-Months Ended August 31, 2017	Three-Months Ended August 31, 2016	Change	
			\$	%
Revenue – Airtime	\$ 14,121	\$ 34,334	\$ 20,213	58.9%
Revenue – Hardware	\$ 2,326,895	\$ 2,060,376	\$ 266,519	13.0%
Total Revenue	\$ 2,341,016	\$ 2,094,710	\$ 246,306	11.8%

Airtime revenue continues to drop year over year as the Company is no longer actively marketing these services. The airtime business has a significant number of large airtime providers who compete in this market place. The Company made a conscious decision to discontinue efforts to grow the airtime business in order to allow the Company to concentrate all of its efforts in the mobile VSAT antenna market. The profit margins in the airtime business are significantly smaller and require far more support than the mobile business.

The increase in hardware revenue in 2017 compared to 2016 is mostly due to an increase in revenues from the United States \$944,533 (2016 – \$437,344). The increase in hardware revenue is mainly a result of a resurgence in sales in the oil and gas exploration, mobile banking and military sectors.

Cost of Sales and Gross Profit

	Three-Months Ended August 31, 2017	Three-Months Ended August 31, 2016	Change	
			\$	%
Gross Profit	\$ 1,366,181	\$ 1,085,178	\$ 281,003	25.9%
As a percentage of revenue	58.4%	51.8%		
Allocation of amortization expense	\$ (6,564)	\$ (5,273)	\$ 1,291	24.5%
Combined Gross Profit	\$ 1,359,617	\$ 1,079,905	\$ 279,712	25.9%
As a percentage of revenue	58.1%	51.6%		

The cost of sales percentage on hardware decreased to 41.9% for the three-month period ended August 31, 2017 (2016 – 48.4%). The Company shipped several large custom orders during the quarter that had a larger than usual gross profit percentage due to the unique customizations and the Company has also put in place new processes to lower the costs of the products we sell.

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Expenses

	Three-Months Ended	Three-Months Ended	Change	
	August 31, 2017	August 31, 2016	\$	%
General and Administrative	\$ 404,417	\$ 519,835	\$ 115,418	22.2%
As a percentage of revenues	17.3%	24.8%		
Research and Development	\$ 356,736	\$ 175,513	\$ 181,223	103.3%
As a percentage of revenues	15.2%	8.4%		
Sales and Marketing	\$ 196,580	\$ 170,365	\$ 26,215	15.4%
As a percentage of revenues	8.4%	8.1%		

General and Administrative

General and administrative expenses decreased \$115,418 or 22.2% for the three-month period ended August 31, 2017 compared to the same period last year primarily due to a decrease in overhead allocated from the inventory and warehouse applied to general and administrative expenses from a decrease in inventory of \$439,824 compared to November 30, 2016.

Research and Development

Research and development expense increased \$181,223 or 103.3% compared to the same period last year. There was an increase in spending towards the new phased array antenna design combined with a decrease in payments received from IRAP.

Sales and Marketing

Sales and marketing expenses increased \$26,215 or 15.4% compared the same period last year. There were increases in commissions paid to the sales and marketing staff that were offset by a decrease in travel and promotional items.

Investment Income

Investment income for the year is comprised of interest earned on the Company's cash balances, and guaranteed investment certificates. The increase is primarily due to higher interest rates on the Company's GIC's and savings accounts, and an increase in the amount invested.

Income Tax Expense

The Company reports its results on a fully taxed basis. The provision for income tax for the third quarter was \$137,599 or 51.4% of income before income tax compared to \$99,602 or 77.1% of income before income tax in 2016. The effective tax rate for 2017, prior to considering the impact of non-taxable transactions, is expected to be approximately 26.5% (2016 – 26.5%).

	Three-Months Ended	Three-Months Ended	Change	
	August 31, 2017	August 31, 2016	\$	%
Estimated quarterly ITC to be earned and used during the year	\$ 78,000	\$ 81,250	\$ 3,250	4.0%
Increase/(decrease) in future income tax liability for the quarter	\$ 123	\$ (1,894)	\$ 2,017	106.5%
Quarterly estimated income tax provision	\$ 59,476	\$ 20,246	\$ 39,230	193.8%
Income Tax Expense	\$ 137,599	\$ 99,602	\$ 37,997	38.2%

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Summary of Quarterly Financial Data

Quarter Ended	<u>Q3/17</u>	<u>Q2/17</u>	<u>Q1/17</u>	<u>Q4/16</u>	<u>Q3/16</u>	<u>Q2/16</u>	<u>Q1/16</u>	<u>Q4/15</u>
Revenue	\$2,341,016	\$3,030,499	\$1,485,410	\$2,935,196	\$2,094,710	\$1,804,131	\$2,433,713	\$2,272,798
Operating Income	\$401,884	\$229,070	\$123,443	\$538,604	\$214,192	\$147,419	\$525,321	\$232,714
Net Income	\$130,183	\$145,909	\$1,635	\$666,296	\$29,579	\$15,811	\$308,548	\$419,245
Dividend Paid	\$459,057	\$459,057	\$456,682	\$456,557	\$456,494	\$455,557	\$452,369	\$452,182
Dividend Rate /Share	\$0.0125	\$0.0125	\$0.0125	\$0.0125	\$0.0125	\$0.0125	\$0.0125	\$0.0125
Basic EPS	\$0.00	\$0.00	\$0.00	\$0.02	\$0.00	\$0.00	\$0.01	\$0.01
Diluted EPS	\$0.00	\$0.00	\$0.00	\$0.02	\$0.00	\$0.00	\$0.01	\$0.01

The Company's operations are subject to some quarterly seasonality due to the timing of vacation periods and statutory holidays. Typically the Company's first and third quarters will be negatively impacted as a result of Christmas season and summer vacation period.

Liquidity and Capital Resources

	Three-Months Ended	Three-Months Ended	Change	
	August 31, 2017	August 31, 2016	\$	%
Cash	\$ 4,323,526	\$ 5,238,104	\$ 914,578	17.5%
Marketable securities	\$ 11,126,528	\$ 10,081,130	\$ 1,045,398	10.4%
Working capital surplus	\$ 19,245,884	\$ 19,574,436	\$ 328,552	1.7%
Net cash provided by (used in):				
Operating activities	\$ 835,978	\$ 673,287	\$ 162,691	24.2%
Investing activities	\$ (1,038,897)	\$ (2,267,957)	\$ 1,229,060	54.2%
Financing activities	\$ (459,057)	\$ (433,995)	\$ 25,062	5.8%
Decrease in cash	\$ (606,737)	\$ (2,025,813)	\$1,419,076	70.1%

Working Capital Surplus

The decrease in working capital surplus is due mainly to an increase in marketable securities, accounts receivable and accounts payable combined with decreases in cash, inventory, prepaid expenses, and income tax recoverable at August 31, 2017. Current assets as at August 31, 2017 were \$19,922,912 (2016 - \$19,986,609) and current liabilities for the same periods were \$677,028 (2016 - \$412,173).

Operating Activities

Cash flows from operating activities for the three-month period ended August 31, 2017 were \$835,978 compared to \$673,287 in 2016. This quarter's increase is mainly a result of an increase in the profits of the Company along with a decrease in accounts receivable and inventory and an increase in accounts payable.

Investing Activities

The marketable securities consist of the following investments, which are all held at major Canadian financial and insurance institutions:

	Three-Months Ended	Three-Months Ended
	August 31, 2017	August 31, 2016
Guaranteed investment certificates	\$ 11,126,528	\$ 10,081,130

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Financing Activities

Dividend

As a result of continued earnings and a strong cash position, the Company continued to pay dividends in the third quarter of 2017. The Company paid quarterly dividends totaling \$459,057 or \$0.0125 per share compared to Q3 2016 when the Company paid \$456,495 in dividends or \$0.0125 per share. The Company intends to continue with its quarterly dividend policy for the foreseeable future.

Capital Resources

At August 31, 2017, the Company had an overdraft protection facility of \$750,000 with a Canadian chartered bank that bears interest at prime plus 0.5%, is secured by a general security agreement providing a first charge over all company assets including accounts receivable, inventory and equipment. As at August 31, 2017 the Company had not borrowed on the credit facility. Management believes that C-COM has sufficient cash resources to continue to finance its working capital requirements.

The Company operates internationally with approximately 96% of its business derived from non-Canadian sources as compared to 95% for the same period last year. All of the Company's international business is denominated in United States dollars and therefore the Company's results from operations are affected by exchange rate fluctuations of the United States dollar relative to the Canadian dollar. The Company did not use foreign currency forward contracts in its management of foreign currency exposure.

In the short term, the Company will continue to fund operations through cash generated from the continued profitability of the sales of its core products and services. In the longer term, additional financing may be required to fund further innovation and development of the next generation of products and services. At this time, the Company does not have plans to pursue additional sources of financing and there can be no assurance that any additional financing that may be required will be available to the Company when needed, on commercially reasonable terms, or at all. In addition, any equity financing may involve substantial dilution to the Company's existing shareholders.

Off-Balance Sheet Arrangements

The Company is committed to agreements for the rental of office space at a monthly rate of \$22,673 until July 2019 and for the rental of VoIP hardware at a combined monthly rate of \$574 until August 2019 and May 2020.

The Company does not have any other significant off-balance sheet arrangements outside of indemnification clauses in customer contracts in the normal course of business.

Contractual Obligations:	Payments Due by Period				
	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Operating Leases	\$ 537,028	\$ 69,742	\$467,286	Nil	Nil
	\$ 537,028	\$ 69,742	\$467,286	Nil	Nil

Related Party Transactions and Balances

The Company's management regards the members of the Board of Directors and their immediate families and the senior managers and their immediate families of C-COM Satellite Systems Inc., the senior managers and their immediate families of Eurodata Inc., the senior managers of Boyd Moving and Storage Ltd. and their immediate families, the senior managers and their immediate families of 718133 Ontario Inc., the partners of Labarge Weinstein LLP and the senior managers and their immediate families of Branim Consulting Corp. as related parties.

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The Company had the following transactions and balances with related parties during the period.

		3 months ended August 31, 2017	3 months ended August 31, 2016
		\$	\$
<i>Board of Directors:</i>			
Board of Director fees	(i)	24,000	24,000
<i>Transactions with 718133 Ontario Inc.:</i>			
Rental of office and warehouse space	(ii)	78,551	78,551
<i>Transactions with Branim Consulting Corp.:</i>			
Purchase of consulting services	(iii)	9,200	14,000
<i>Transactions with other parties:</i>			
Legal fees and expenses	(iv)	4,506	7,471
		As At August 31, 2017	As At August 31, 2016
		\$	\$
<i>Balances with related parties</i>			
Amounts due to Branim Consulting Corp		Nil	Nil
Amounts due to Labarge Weinstein LLP		Nil	Nil

Balances with related parties are due upon demand and included with accounts payable and accrued liabilities.

- i. The Board of Directors instituted a Board of Directors fee of \$24,000 per annum per board member commencing December 2, 2012 and is paid quarterly.
- ii. The Company has a 5-year lease commitment with 718133 Ontario Ltd. which ends July 2019 for office and warehouse space.
- iii. The Company purchases financial consulting services from Branim Consulting Corp. and the Company's Chief Financial Officer is a director of this company.
- iv. The Company retains a business law firm in Ottawa, Canada to provide legal services and advice. The Company's secretary is a partner of this firm.

Critical Accounting Estimates

The preparation of financial statements of the Company requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Among other things, estimates are used in the accounting for allowances for bad debts, stock-based compensation, inventory obsolescence, product warranty, useful lives of assets and impairment of property and equipment. The reported amounts and note disclosures are determined using management's best estimates based on the assumptions that reflect the most probable set of economic conditions and planned course of action. Actual results could differ from the estimates used in these financial statements and such differences could be material.

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Adoption of New Accounting Rules and Impact on Financial Results

The Company did not adopt any new accounting policies this quarter.

Summary of Outstanding Share Data

As at August 31, 2017 the Company had 36,724,550 Common shares issued and outstanding (2016 – 36,519,550).

As at October 11, 2017 the Company had 36,724,550 common shares issued and outstanding.

During Q3 of fiscal 2017 the Company issued 237,000 options to purchase common shares (2016 – 155,000) to employees and directors and recorded an expense and contributed surplus of \$52,993 (2016 - \$62,953).

During Q3 of fiscal 2017, nil options were exercised and nil shares were issued (2016 – 75,000 options were exercised and 75,000 shares were issued).

Climate Change

The Company does not perceive any risks; Physical, Regulatory, Reputational or Litigation, as a result of global climate changes. On the contrary, following the Katrina disaster and the devastating earthquake and tsunami in Japan, the Company experienced a surge in sales to accommodate the demand for communications in the stricken areas. The Company made the decision to increase inventory levels to enable it to be ready for the increased demand caused by climate changes. In addition to this, the Company is developing new products that will utilize solar energy to power the iNetVu Flyaway and Transportable antenna systems.

Directors and Officers Compensation

During the three-month period ended August 31, 2017, C-COM's officers and directors received the following compensation:

		Salary & Bonus	Board of Director Fees	Contractor Fees	Stock Options Granted
Leslie Klein	President, C.E.O. and Director	\$ 95,000	\$ 6,000	Nil	Nil
Jim Fowles	Chief Financial Officer	Nil	Nil	\$ 9,200	Nil
Bilal Awada	Chief Technology Officer	\$ 46,875	Nil	Nil	Nil
Shane McLean	Corporate Secretary	Nil	Nil	Nil	Nil
Eli Fathi	Director	Nil	\$ 6,000	Nil	Nil
Ronald Leslie	Director	Nil	\$ 6,000	Nil	Nil
Arunas Slekyas	Director	Nil	\$ 6,000	Nil	Nil

For further information about our management compensation practices and policies please refer to the management information circular for our most recent annual meeting of shareholders which is available at www.sedar.com.

Additional information relating to C-COM may be found at www.sedar.com.

Outlook

2016 was an exceptionally challenging year - not just for niche manufacturers like C-COM - but also for many of the larger players in the SATCOM industry. The various headwinds (low oil prices, strong US Dollar, economic & geopolitical uncertainty) slowed down sales for the Company; but there is evidence that there has been a more significant effect on the Company's competitors, with some retrenching from the market place and others departing completely. In the first half of 2017, the Company saw a slow but steady rebound of new orders from both existing and new customers for the Company's key line of Comm-on-the-Pause (COTP) products. Specifically, Oil & Gas, Military, Mobile Banking and Emergency Response verticals saw new demand.

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C-COM's flagship iNetVu® mobile antenna line continues to gain worldwide acceptance and are operating reliably from the most Northern areas of Canada and Russia to the deserts of Australia and Saudi Arabia. C-COM continues to develop and innovate for emerging markets, both territorially and vertically. The Company is also pursuing longer-range R&D projects that will target significant consumer and enterprise markets which C-COM is presently not addressing.

Five years ago, C-COM was one of the first companies in the world to design mobile VSAT for use over Ka-band satellites. High Throughput Satellites (HTS) make it possible to deliver 20Mbps down and 10Mbps up using a small 75cm antenna – a significant increase over what is currently available in Ku band with the same size antenna. C-COM was one of the first antenna manufacturers in the world to receive type approval for these new generation antenna systems from several HTS operators and the Company continues to develop new products, which are being approved for use over newly deployed HTS services worldwide.

During Q3 2017, C-COM sold a number of these new generation antenna systems to integrator partners in North America, Europe, the Middle East, Australia and Africa. The Company has designed 17 different antenna systems to support HTS Ka-band services, with several further variations in various stages of design and production. C-COM is seeing strong demand for lightweight, transportable Ka-band Flyaway antennas specifically for satellite news gathering, military and disaster management.

The Company is also releasing a new generation of highly efficient manual and automatic manpack terminals for rapid deployment in emergency response and military applications around the world. These small, one-case suitcase antennas are designed to be carried by a single person and assembled in about 8 minutes without the use of tools. Available in 80cm and 100 cm configurations, these carbon fiber units support Ku, Ka and X-band frequencies with a simple feed swap. The systems performed well during field testing and several units are currently on trial with prospective customers. Sales are expected to start generating incremental revenues for the company by Q4 2017.

In 2014, C-COM entered into an agreement with ViaSat to jointly develop a low-cost, vehicle-based, Comm-on-the-Move (COTM) Ka-band antenna system for the commercial market (iNmotion®). In 2018, the iNmotion® system is expected to be integrated to work with a number of Ka-band services around the world. This new COTM product is expected to make it possible for passenger and commercial vehicles, buses, trains, barges as well as stabilized oil platforms to receive and transmit at speeds of 20Mbps down and 10Mbps up while in motion. C-COM intends to deliver this product through its international reseller network of 700+ resellers/integrators based in over 100 countries worldwide.

The Company is also involved in extensive R&D of next generation antenna technologies in conjunction with the University of Waterloo. Several patent applications have already been filed. This project should provide C-COM with revolutionary, patentable Ka-band antenna technology to be used with the growing number of HTS being launched in the next several years. This intelligent antenna technology is designed to be mass producible at a reasonable price and be compatible with 5G and other developing technologies which require low cost/high performance conformal solutions.

C-COM is going to encounter significant competition on its development path. Ease of use, effective customer support, attractive pricing and mass production capabilities coupled with high reliability are mandatory product goals to be the market leader. To date, C-COM maintains a strong technological and historical advantage over its COTP competition, as well as a price advantage over other established players in this market place. The Company has carved out a significant worldwide market presence for its niche products.

If C-COM can maintain price, availability, technology leadership - and maintain strong profit margins - the Company is confident that it holds a distinct advantage over anyone presently in the market or considering entering it. This is due to the many years of software development, refined hardware design, advanced product development and an impressive global base of loyal customers.

In addition, C-COM has a compelling reputation for delivering highly reliable, cost effective and well supported products to the mobile VSAT customer base in time frames that are unmatched in the industry. If the Company can develop a strong COTM product line to complement the existing COTP family, C-COM will be the only mobile antenna company in the world having success in both markets.

The foregoing outlook constitutes forward looking information. Please refer to the information under the heading "Forward Looking Information" on this first page of this MD&A.