SECOND QUARTER RESULTS

Management's Discussion & Analysis

and

Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2017

VECIMA NETWORKS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
February 8, 2018

This Management's Discussion and Analysis (MD&A) provides a review of significant developments that have affected the performance of Vecima Networks Inc. ("Vecima" or the "Company") during the three and six months ended December 31, 2017.

Our MD&A supplements, but does not form part of, our unaudited condensed interim consolidated financial statements and related notes for the three and six months ended December 31, 2017. Consequently, the following discussion and analysis of the financial condition and results of operations should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes for the three and six months ended December 31, 2017 and December 31, 2016 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Our MD&A also includes certain non-IFRS financial measures which we use as supplemental indicators of our operating performance and financial position, as well as for internal planning purposes.

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

Additional information regarding Vecima, including our Annual Information Form, can be found on SEDAR at www.sedar.com.

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Company Overview

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

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

incorporate complex hardware and software developed within our research and development facilities. Our main products for the cable industry allow service providers a cost-effective Last Mile Solution® for both video and broadband access, especially in the demanding business services market segment.

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

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

As a result of our acquisition, we have determined that a change in our operating segments is appropriate. Effective in the third quarter of fiscal 2018, our business will be organized into three segments:

1) **Video and Broadband Solutions** include platforms and modules that process data from the cable network and deliver it in formats suitable to be consumed on televisions and Internet devices. Terrace and TerraceQAM are two key product families in this segment which meet the needs of the business services vertical including MDU (multi-unit dwellings) and Hospitality (including hotels, motels and resorts).

2) **Content Delivery and Storage** includes solutions & software for industries and customers that focus on storing, protecting, transforming, and delivering high value media assets.

3) **Telematics** provides fleet managers with the key information and analytics they require to optimally manage their mobile and fixed assets under the Contigo, Nero Global Tracking, and FleetLynx brands.

Industry Developments

Video and Broadband Solutions

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

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

Entra Distributed Access Platform

The Entra Distributed Access solution comprises three components:

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

Entra Access Switch

The Entra family also includes the Entra Access Switch, an 8 port x 10 GbE weatherproof switch capable of supporting Carrier Ethernet services in almost any deployment environment. It is designed to extend

the capacity of networks with insufficient fibers while minimizing the use of expensive digital optics.

During the second quarter, we continued to progress the Entra technology, demonstrating further interoperability and preparing for customer trials which are expected to commence in calendar 2018.

Content Delivery and Storage

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

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

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

Telematics

New regulations were introduced in the United States in December 2017 regarding the monitoring of hours of service (HoS) for long distance trucking. Whereas paper logs were used previously, trucking companies are now required to integrally synchronize electronic logging devices (ELDs) to their vehicles' engines. The new requirements mandate that certified logging devices must now be used to record hours of service for drivers covering longer distances. A combination of Vecima's existing vehicle-based hardware and new Telematics portal software released in the second quarter of fiscal 2018 will assist customers in meeting the requirements of the new HoS mandate. This new combination provides enhanced customer value leading to additional revenue streams and subscribers.

Our Strategy

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

Second Quarter 2018 Highlights

- Achieved significant progress on our Entra family of products:
  - Worked closely with a wide base of Tier 1 to Tier 3 MSOs on their 2018/2019 deployment plans for DOCSIS 3.1 DAA solutions and continued to attract interest from a global base of customers including some of the largest Tier 1 MSOs;
  - Responded to requests for proposals (RFP) from multiple MSOs for Entra Remote PHY and associated products;
  - Initiated lab testing with multiple MSOs for Entra Legacy QAM Adapter;
  - Shipped first customer units of Entra Access Switch to Tier 1 MSO for lab entry and initiated lab testing with additional MSOs;
  - Recognized in Broadband Technology Report's Diamond Technology Review 2017 for multiple Entra family products: Access Switch wins Carrier Ethernet category; convertible Access Node named finalist and called "game-changing";
- On December 31, 2017, closed the acquisition of Concurrent Computer Corporation's video content delivery and storage assets for US$29.0 million plus an estimated net working capital adjustment of US$0.7 million (previously estimated at US$1.5 million);
- Ended the quarter in a strong financial position, including cash balances of $61.0 million;
- Released a new software version in our Telematics business to address the requirements of the ELD (Electronic Logging Device) ruling by the U.S. Federal Motor Carrier Safety Administration;

- Welcomed Ben Colabrese, Rogers Communications' Senior Vice President of Finance and Commercial Relationships, to our Board of Directors; and
- Declared a quarterly dividend of $0.055 per share payable on March 19, 2018 to shareholders of record on February 26, 2018.

Outlook

We anticipate a year of transition for our Video and Broadband Solutions segment in fiscal 2018 as the North American cable industry prepares for the new DOCSIS 3.1 standard. Trials of various components of our new Entra family of DOCSIS 3.1 products are expected to commence in calendar year 2018. However, timing of the volume phase of the market remains unpredictable with many MSOs continuing to refine their upgrade plans. At the same time, demand for some of our legacy Video and Broadband Solutions products is expected to taper off as market saturation is reached and customers prepare for next generation products and technologies.

Demand for the IP Video Content Delivery and Storage products acquired as part of the Concurrent acquisition is expected to be robust in fiscal 2018 as we respond to the cable industry's need to deliver increasing content over an IP framework and capitalize on Concurrent's strong customer relationships. Concurrent's products broadly address on-going network upgrades to IP-oriented video technologies.

Demand for our Telematics products is expected to remain solid in fiscal 2018, with opportunities associated with asset tracking, winter operations, and compliance with the U.S. trucking industry's adoption of hours of service requirements.

Overall, management expects fiscal 2018 to be a year of continued investment and development as we position ourselves for industry leadership in the emerging DOCSIS 3.1 market and the IP video storage and delivery space. With a strong financial position, we are well positioned to pursue our product strategies, while also continuing to assess attractive acquisitions that provide significant accretion and give rapid access to technologies that will help drive our growth and success.

Assets Held For Sale and Discontinued Operations

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

Consolidated Results of Operations

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

Consolidated Statements of Comprehensive Income Data	Three months ended December 31,				Six months ended December 31,			
	2017		2016		**2017**		2016	
Sales	**$ 14,752**	**100 %**	$ 20,227	100 %	**$ 29,634**	**100 %**	$ 41,113	100 %
Cost of sales	**7,032**	**48 %**	9,745	48 %	**13,436**	**45 %**	19,762	48 %
Gross profit	**7,720**	**52 %**	10,482	52 %	**16,198**	**55 %**	21,351	52 %
Operating expenses								
Research and development[1]	**3,045**	**21 %**	2,857	14 %	**6,208**	**21 %**	5,706	13 %
Sales and marketing	**1,113**	**8 %**	1,161	6 %	**2,221**	**7 %**	2,458	6 %
General and administrative	**2,540**	**17 %**	2,419	12 %	**5,150**	**17 %**	4,883	12 %
Stock-based compensation	**14**	**- %**	66	- %	**27**	**- %**	134	- %
Other (income) expense	**(89)**	**(1)%**	13	- %	**(171)**	**- %**	16	- %
	6,623	**45 %**	6,516	32 %	**13,435**	**45 %**	13,197	31 %
Operating income	**1,097**	**7 %**	3,966	20 %	**2,763**	**10 %**	8,154	21 %
Finance income	**386**	**3 %**	62	- %	**684**	**2 %**	315	- %
Foreign exchange (loss) gain	**300**	**2 %**	493	2 %	**(370)**	**(1)%**	976	2 %
Income before income taxes	**1,783**	**12 %**	4,521	22 %	**3,077**	**11 %**	9,445	23 %
Income tax expense	**454**	**3 %**	1,168	5 %	**784**	**3 %**	2,536	6 %
Net and comprehensive income from continuing operations	**1,329**	**9 %**	3,353	17 %	**2,293**	**8 %**	6,909	17 %
Net and comprehensive income from discontinued operations	**1**	**- %**	420	2 %	**7,063**	**24 %**	907	2 %
Net and comprehensive income	**$ 1,330**	**9 %**	$ 3,773	19 %	**$ 9,356**	**32 %**	$ 7,816	19 %
Net and comprehensive income per share[2]								
Basic	**$ 0.06**		$ 0.17		**$ 0.42**		$ 0.35	
Basic from continuing operations	**$ 0.06**		$ 0.15		**$ 0.10**		$ 0.31	
Diluted	**$ 0.06**		$ 0.17		**$ 0.42**		$ 0.35	
Diluted from continuing operations	**$ 0.06**		$ 0.15		**$ 0.10**		$ 0.31	
Other Data								
Total research and development expenditures[3]	**$ 5,667**	**38 %**	$ 5,312	26 %	**$ 11,485**	**39 %**	$ 10,037	24 %
Adjusted EBITDA[4]	**$ 3,557**	**24 %**	$ 7,360	36 %	**$ 6,431**	**22 %**	$ 14,451	35 %
Adjusted earnings per share[5]	**$ 0.06**		$ 0.17		**$ 0.10**		$ 0.34	
Number of employees[6]	**314**		448		**314**		448	

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

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

(3) See "Total Research and Development Expenditures"

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

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

(6) The number of employees is determined as of the end of the period and does not include Concurrent employees

Consolidated Statements of Financial Position Data

(unaudited - in thousands of dollars except number of common shares)		December 31, 2017		June 30, 2017
Cash and cash equivalents	**$**	**5,439**	$	3,517
Short-term investments	**$**	**55,605**	$	85,675
Working capital	**$**	**83,742**	$	110,457
Total assets	**$**	**206,758**	$	193,995
Long-term debt	**$**	**2,104**	$	2,208
Shareholder's equity	**$**	**190,037**	$	182,242
Number of common shares outstanding[1]		**22,413,520**		22,385,574

[1] Based on weighted average number of common shares outstanding

Adjusted Earnings per Share

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

Calculation of Adjusted Earnings Per Share	**Three months ended December 31,**				**Six months ended December 31,**			
(unaudited - in thousands of dollars except per share amounts)		**2017**		2016		**2017**		2016
Net and comprehensive income	**$**	**1,330**	$	3,773	**$**	**9,356**	$	7,816
Gain on sale of assets held for resale, net of taxes		**-**		-		**-**		(245)
Gain on sale of non-core PP&E, net of taxes		**-**		-		**(7,076)**		-
Loss on disposal of spectrum licenses, net of tax		**-**		53		**-**		53
Adjusted net and comprehensive income	**$**	**1,330**	$	3,826	**$**	**2,280**	$	7,624
Earnings per share	**$**	**0.06**	$	0.17	**$**	**0.42**	$	0.35
Gain on sale of assets held for resale, net of taxes		**-**		-		**(0.32)**		(0.01)
Adjusted earnings per share	**$**	**0.06**	$	0.17	**$**	**0.10**	$	0.34

EBITDA and Adjusted EBITDA

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

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

Calculation of Adjusted EBITDA	**Three months ended December 31,**		**Six months ended December 31,**	
	2017	2016	**2017**	2016
Net and comprehensive income	**$ 1,330**	$ 3,773	**$ 9,356**	$ 7,816
Income tax expense	**454**	1,343	**1,812**	2,710
Interest expense	**16**	39	**37**	67
Depreciation of property, plant and equipment	**420**	792	**824**	1,481
Amortization of deferred development costs	**1,081**	1,026	**1,988**	1,911
Amortization of finite-life intangible assets	**231**	231	**466**	565
EBITDA	**3,532**	7,204	**14,483**	14,550
Loss on disposal of intangibles	**-**	71	**-**	71
Gain on sale of assets held for sale	**-**	-	**(8,109)**	(329)
Loss on sale of PP&E	**11**	19	**30**	25
Stock-based compensation	**14**	66	**27**	134
Adjusted EBITDA	**$ 3,557**	$ 7,360	**$ 6,431**	$ 14,451
Adjusted EBITDA margin (%)	**24 %**	36 %	**22 %**	35 %

Total Research and Development Expenditures

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

Calculation of Research and Development Expenditures	**Three months ended December 31,**		**Six months ended December 31,**	
	2017	2016	**2017**	2016
Research and development per statement of net income and comprehensive income	**$ 3,045**	$ 2,857	**$ 6,208**	$ 5,706
Deferred development costs	**3,636**	3,453	**7,178**	6,299
Investment tax credits	**67**	76	**136**	110
Amortization of deferred development costs	**(1,081)**	(1,026)	**(1,988)**	(1,911)
Government grant	**-**	(48)	**(49)**	(167)
Total research and development expenditure	**$ 5,667**	$ 5,312	**$ 11,485**	$ 10,037
Percentage of sales	**38 %**	26 %	**39 %**	24 %

Summary of Quarterly Results of Operations

The following information has been derived from our consolidated financial statements for the three and six months ended December 31, 2017, fiscal 2017, and fiscal 2016 in accordance with IFRS. This information should be read in conjunction with those financial statements and their related notes as well as with the balance of this MD&A.

	2018		Fiscal Year 2017				Fiscal Year 2016	
	Q2	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
Sales	**14,752**	**14,882**	14,629	15,718	20,227	20,886	21,868	28,637
Cost of sales	**7,032**	**6,404**	7,172	7,505	9,745	10,017	9,918	12,292
Gross profit	**7,720**	**8,478**	7,457	8,213	10,482	10,869	11,950	16,345
Operating expenses								
Research and development	**3,045**	**3,163**	3,074	2,969	2,857	2,849	2,939	3,136
Sales and marketing	**1,113**	**1,108**	1,423	1,404	1,161	1,297	1,429	1,807
General and administrative	**2,540**	**2,610**	2,574	2,418	2,419	2,464	2,116	2,567
Impairment of intangible assets	**-**	**-**	174	-	-	-	-	-
Impairment of PP&E	**-**	**-**	-	-	-	-	337	-
Restructuring costs	**-**	**-**	986	-	-	-	-	-
Stock-based compensation	**14**	**13**	120	67	66	68	138	114
Other (income) expense	**(89)**	**(82)**	(228)	(64)	13	3	6	3
	6,623	**6,812**	8,123	6,794	6,516	6,681	6,965	7,627
Operating income (loss)	**1,097**	**1,666**	(666)	1,419	3,966	4,188	4,985	8,718
Finance income	**386**	**298**	771	48	62	253	370	157
Foreign exchange (loss) gain	**300**	**(670)**	(331)	150	493	483	134	(1,183)
Income (loss) before income taxes	**1,783**	**1,294**	(226)	1,617	4,521	4,924	5,489	7,692
Income tax expense	**454**	**330**	(89)	598	1,168	1,368	1,917	1,919
Net and comprehensive income (loss) from continuing operations	**1,329**	**964**	(137)	1,019	3,353	3,556	3,572	5,773
Net and comprehensive income (loss) from discontinued operations	**1**	**7,062**	(6)	9,356	420	487	(150)	216
Net and total comprehensive income (loss)	**$ 1,330**	**$ 8,026**	$ (143)	$ 10,375	$ 3,773	$ 4,043	$ 3,422	$ 5,989
Net and total comprehensive income (loss) per share								
Basic	**$ 0.06**	**$ 0.36**	$ (0.01)	$ 0.46	$ 0.17	$ 0.18	$ 0.15	$ 0.27
Diluted	**0.06**	**0.36**	(0.01)	0.46	0.17	0.18	0.15	0.27
Adjusted EBITDA as reported	**$ 3,557**	**$ 2,874**	$ 2,415	$ 3,430	$ 7,360	$ 7,091	$ 7,745	$ 10,323

Quarter-to-Quarter Sales Variances

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

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

In the coming quarters, results from the newly acquired Concurrent business will also contribute to variation in our quarterly sales as we begin to market four new product categories in the Content Delivery and Storage segment.

Segmented Information

Sales

	Three months ended December 31,		Six months ended December 31,	
Segment	**2017**	2016	**2017**	2016
Video and Broadband Solutions	**$ 13,394**	$ 18,788	**$ 26,994**	$ 38,303
Telematics	**1,358**	1,439	**2,640**	2,810
Total sales	**$ 14,752**	$ 20,227	**$ 29,634**	$ 41,113

Three-Month Sales Results

We generated total sales of $14.8 million in the second quarter of fiscal 2018 compared to $20.2 million in the same period last year and $14.9 million in Q1 fiscal 2018, representing a 27% decline and 1% decrease respectively.

Video and Broadband Solutions sales were $13.4 million in the second quarter of fiscal 2018, compared to $18.8 million in Q2 fiscal 2017 and $13.6 million in Q1 fiscal 2018.

- Sales of the Terrace family of products decreased 3% to $8.5 million, from $8.7 million in the second quarter of fiscal 2017 as customers neared completion of their network digital upgrades and sales of the TC1200 and TC600 slowed. On a sequential quarterly basis, sales of Terrace family products increased 16% from $7.3 million in Q1 fiscal 2018, reflecting strong purchasing activity by a Tier 1 MSO for the TC600E as part of a continued network-wide all-digital conversion.

- Second quarter fiscal 2018 sales of TerraceQAM were $4.2 million, compared to $6.2 million in the second quarter of 2017, a 33% decrease. The lead MSO customer for TerraceQAM purchased significant quantities of new platforms and upgrades in the first half of fiscal 2017 and as expected, has subsequently been drawing down inventory. While we believe our customer's need for new systems is nearing saturation, we have delivered a further platform enhancement which frees up network capacity by supporting a new digital audio format. This latest enhancement, combined with our earlier transcoding upgrade, contributed to a sequential quarterly increase in TerraceQAM revenue, with sales up 24% to $4.2 million in Q2, from $3.4 in Q1 fiscal 2018. We anticipate further upgrade related sales in the future when the compression format rolls out.

- As expected, Digital Video Access Platform (DVAP) sales were $nil in the second quarter of 2017. This compares to $nil in Q2 fiscal 2017 and $1.6 million in Q1 fiscal 2018. First quarter 2018 sales reflected

delivery to our lead customer of a new software upgrade that prepares this platform to support distributed access architecture. Over time, we expect this upgrade will help to increase the pace of DVAP deployment among MSOs as they prepare for distributed access architecture which cannot be supported by legacy devices.

Telematics sales were $1.4 million in the second quarter of fiscal 2018, compared to $1.4 million in Q2 fiscal 2017 and $1.3 million in Q1 fiscal 2018. Results for the quarter were in line with our expectations.

Six-Month Sales Results

For the first six months of fiscal 2018, we generated total sales of $29.6 million, a 28% decrease from the $41.1 million generated in the same period last year.

Six month Video and Broadband Solutions sales were $27.0 million, a 30% decline from sales of $38.3 million last year.

- Sales of Terrace family of products were $15.8 million in the first six months of fiscal 2018, compared to $17.8 million in the same period of fiscal 2017. The 11% decrease reflects lower TC1200 sales offset by higher TC600E sales year-over-year.

- Sales of TerraceQAM were $7.5 million for the six months ended December 31, 2017, compared to $13.9 million in the same period of fiscal 2017, a 46% decrease.

- Digital Video Access Platform (DVAP) sales in the first six months of fiscal 2018 were $1.6 million as a result of the new software upgrade that prepares the platform to support distributed access architecture. This compares to sales of $nil in the same period of fiscal 2017.

Telematics sales were $2.6 million in the first half of fiscal 2018, compared to $2.8 million during the same period in fiscal 2017. Lower legacy product sales in the current year and an accounting change in estimate for deferred revenue in the current year resulted in lower sales year-over-year.

Cost of Sales

Cost of sales consists primarily of product manufacturing and assembly expenses, with component parts, employee and third-party supplier costs representing a significant portion of these costs. Costs associated with Video and Broadband Solutions sales include related overhead, compensation, final assembly, quality assurance and inventory management costs, as well as support costs and payments to contract manufacturers that perform printed circuit board assembly functions. Costs associated with Telematics sales consist of hardware amortization, inventory management costs, order fulfillment, wireless fees, server hosting services, and mapping licenses.

Gross Profit and Gross Margin

	Three months ended December 31,		Six months ended December 31,	
Segment	**2017**	2016	**2017**	2016
Video and Broadband Solutions	**$ 6,764**	$ 9,517	**$ 14,325**	$ 19,483
Telematics	**956**	965	**1,873**	1,868
Total gross profit	**$ 7,720**	$ 10,482	**$ 16,198**	$ 21,351
Video and Broadband Solutions	**50.5 %**	50.6 %	**53.0 %**	50.8 %
Telematics	**70.4 %**	67.0 %	**70.9 %**	66.5 %
Total gross margin	**52.3 %**	51.8 %	**54.7 %**	51.9 %

For the three months ended December 31, 2017, we achieved gross margin of 52%, providing a total gross profit of $7.7 million. This compares to a gross margin of 52% and a total gross profit of $10.5 million in the same period last year, and a gross margin of 57% and a total gross profit of $8.5 million in Q1 fiscal 2018.

Gross margin from the Video and Broadband Solutions segment remained relatively stable at 51% (gross profit of $6.7 million) in the second quarter of fiscal 2018, compared to 51% (gross profit of $10.5 million) during the same period in fiscal 2017. On a sequential quarterly basis, Q2 fiscal 2018 gross margin was lower than the 56% gross margin achieved in Q1 fiscal 2018 as a result of higher margin DVAP software sales in the prior quarter.

The Telematics segment achieved a gross margin of 70% (gross profit of $1.0 million) in the second quarter of fiscal 2018, up from a gross margin of 67% (gross profit of $1.0 million) in Q2 fiscal 2017. This is a result of higher legacy product sales in the prior-year quarter that had a lower gross margin. Sequentially, Telematics gross margin decreased from 72% in Q1 fiscal 2018 (gross profit of $0.9 million) which relates to higher subscription expenses quarter-over-quarter.

For the six months ended December 31, 2017, our operations realized a gross margin of 55%, providing a total gross profit of $16.2 million. This compares to a gross margin of 52% and a total gross profit of $21.3 million in the first six months of fiscal 2017.

Gross margin from the Video and Broadband Solutions segment was 53%, providing a gross profit of $14.3 million in the first six months of fiscal 2018. This compares to a gross margin of 51% and a gross profit of $19.5 million in the same period of fiscal 2017. The higher gross margin in the first half of fiscal 2018 primarily reflects the positive impact of the DVAP software sales in the first quarter.

Telematics achieved a gross margin of 71% in the first six months of fiscal 2018, providing a gross profit of $1.9 million. This compares to a gross margin of 67% and gross profit of $1.9 million in the same period of fiscal 2017 as a result of higher legacy product sales in the prior year that had a lower gross margin.

Operating Expenses

	Three months ended December 31,		Six months ended December 31,	
Segment	**2017**	2016	**2017**	2016
Video and Broadband Solutions	**$ 5,787**	$ 5,804	**$ 11,760**	$ 11,607
Telematics	**836**	712	**1,675**	1,590
Total operating expense	**$ 6,623**	$ 6,516	**$ 13,435**	$ 13,197

For the three months ended December 31, 2017, total operating expenses increased slightly to $6.6 million, from $6.5 million last year, but decreased from $6.8 million in Q1 2018.

Video and Broadband Solutions operating expenses for the second quarter were on par with the prior-year period at $5.8 million. While expenses for the current period included a $0.1 million increase in research and development costs and a $0.1 million increase in G&A expenses as a result of higher acquisition related costs, these increases were fully offset by a $0.1 million decrease in sales and marketing expenses reflecting higher inventory allowances in the prior year period and by a $0.1 million increase in other income year-over-year. On a sequential quarterly basis, second quarter operating expenses were $0.3 million lower than the $6.0 million recorded in Q1 fiscal 2018, mainly reflecting higher acquisition related costs in the prior quarter.

Telematics operating expenses increased slightly to $0.8 million in Q2 fiscal 2018, from $0.7 million in Q2 fiscal 2017. This increase represents less research and development costs being deferred in Q2 fiscal 2018 compared to Q2 fiscal 2017. Sequentially, Telematics operating expenses were consistent with the $0.8 million recorded in Q1 2018.

For the six months ended December 31, 2017, total operating expenses increased to $13.4 million, from $13.2 million during the same period in fiscal 2017.

Video and Broadband Solutions operating expenses increased to $11.8 million in the first half of fiscal 2018 from $11.6 million in the same period of 2017. The year-over-year increase reflects a $0.3 million increase in research and development costs related to higher amortization of deferred development cost and a $0.3 million increase in general and administrative expenses related to acquisition related costs in the current period, partially offset by a $0.1 million reduction in sales and marketing expenses and increased lease income in the first half of fiscal

2018.

Telematics operating expenses increased to $1.7 million in the first six months of fiscal 2018, from $1.6 million in the same period of fiscal 2017. This increase represents less research and development costs being deferred in the current fiscal year compared to fiscal 2017.

*Research and development expense*s for the three months ended December 31, 2017 increased to $3.0 million, or 21% of sales, from $2.9 million, or 14% of sales in the same period of fiscal 2017. We continue to invest in research and development to support the launch of our new products. Until these products are in commercial production, the development costs are deferred to future periods. Total research and development costs before deferrals, amortization of deferred development costs and income tax credits for the three months ended December 31, 2017 increased to $5.7 million, or 38% of sales, from $5.3 million, or 26% of sales in Q2 fiscal 2017. The increase was primarily the result of higher subcontracting, partially offset by lower prototyping costs in the current period. Research and development costs were down from the $5.8 million at Q1 fiscal 2018 representing lower subcontracting costs in the current quarter.

*Research and development expense*s for the six months ended December 31, 2017 increased to $6.2 million, or 21% of sales, from $5.7 million, or 13% of sales in the same period of fiscal 2017. We continue to invest in research and development to support the launch of our new products. Until these products are in commercial production, the development costs are deferred to future periods. For the six months ended December 31, 2017, total research and development costs before deferrals, amortization of deferred development costs and income tax credits increased to $11.5 million, or 39% of sales, from $10.0 million, or 24% of sales in the same period of fiscal 2017. This increase reflects additional subcontracting, prototyping costs and lower government grants in the current year.

Sales and marketing expenses decreased to $1.1 million, or 8% of sales in Q2 fiscal 2018, from $1.2 million, or 6% of sales last year. This decrease reflects lower allowances for slow moving finished goods inventory in the currrent year quarter and higher warranty costs in the fiscal 2017 period. On a sequential quarterly basis, Q2 fiscal 2018 expenses were unchanged from the $1.1 million recorded in Q1 2018. For the six months ended December 31, 2017, sales and marketing expenses decreased to $2.2 million, or 7% of sales, from $2.5 million, or 6% of sales in the first half of last year. This decrease reflects higher inventory allowances for slow moving finished goods inventory and higher warranty expense in the prior year period. We expect allowances for slow moving finished goods to be higher in Q3 and Q4 fiscal 2018.

General and administrative expenses increased to $2.5 million in Q2 fiscal 2018, from $2.4 million in Q2 2017. The year-over year increase reflects higher acquisition related costs in the current period, partially offset by lower amortization and staffing costs. On a sequential quarterly basis, G&A expenses decreased by $0.1 million from $2.6 million in Q1 fiscal 2018, reflecting higher acquisition-related costs in the first quarter. For the six months ended December 31, 2017, general and administrative expenses increased to $5.2 million, from $4.9 million in the same period last year for the same reasons described above.

*Stock-based compensation expens*e declined to $0.0 in Q2 fiscal 2018, from $0.1 million in Q2 fiscal 2017. For the six months ended December 31, 2017 stock based compensation was $0.0, down from $0.1 million in the same period of fiscal 2017.

Other income increased to $0.09 million for the three months ended December 31, 2017, from a loss of $0.01 in the same period last year. This increase represents increased lease income in the current period and a loss on disposal of property, plant and equipment in the prior year. For the six months ended December 31, 2017 other income was $0.17 million, up from a loss of $0.02 million in the same period of fiscal 2017 for the same reasons noted above.

Operating Income

		Three months ended December 31,			Six months ended December 31,	
		2017	2016		**2017**	2016
Video and Broadband Solutions	**$**	**977**	$ 3,713	**$**	**2,565**	$ 7,876
Telematics		**120**	253		**198**	278
Total operating income	**$**	**1,097**	$ 3,966	**$**	**2,763**	$ 8,154

We generated operating income of $1.1 million in Q2 fiscal 2018, compared to operating income of $4.0 million in Q2 fiscal 2017. The 72% decrease was driven by lower sales and gross profit in the current period, together with an increase in total operating costs. On a sequential quarterly basis, operating income decreased by $0.6 million from $1.7 million in Q1 2018. This reflects higher gross profit in Q1 fiscal 2018, partially offset by lower operating costs in Q2 2018. Operating income for the six months ended December 31, 2017 was $2.8 million, down 66% from operating income of $8.2 million in the same period of fiscal 2017. Lower sales and gross profits, together with a small increase in operating expenses, were the key factors in the year-over-year change.

Second quarter Video and Broadband Solutions operating income declined to $1.0 million, from $3.7 million in Q2 fiscal 2017. The year over year change reflects the $4.8 million reduction in sales and the related $2.7 million decrease in gross profit. Sequentially, operating income declined by $0.6 million, from $1.6 million in Q1 fiscal 2018. This mainly reflects the $0.7 million reduction in Q2 gross profit, partially offset by the $0.2 million reduction in operating expenses in Q2 fiscal 2018. For the six months ended December 31, 2017, operating income of $2.6 million was down 67% from $7.9 million in the same period of fiscal 2017. The year-over-year change was driven by lower sales and gross margin and by a small increase in total operating costs related to lower deferral of research and development costs in the current-year quarter.

Telematics operating income decreased to $0.1 million in Q2 fiscal 2018, from $0.3 million in Q2 fiscal 2017. Higher operating expenses related to lower deferred research and development costs were the reason for the decrease. Sequentially, Q2 2018 operating income from the Telematics segment was unchanged from $0.1 million in Q1 2018. For the six months ended December 31, 2017 operating income was $0.2 million, down from $0.3 million in the same period of fiscal 2017. Higher operating expenses related to lower deferred research and development costs was the main reason for this decrease.

Finance income was $0.4 million in Q2 fiscal 2018, up from the $0.1 million in the same period last year. Interest income was higher by $0.1 million in the current year quarter and there was a gain on investments of $0.1 million compared to a loss of $0.2 million in the prior year quarter. For the six months ended December 31, 2017, finance income of $0.7 million was up from the $0.3 million generated in the prior year. This increase represents increased interest income of $0.1 million in the current year and a gain on investments of $0.1 million in the current year compared to a loss of $0.1 million in the prior year.

Foreign exchange gain for the three months ended December 31, 2017 was $0.3 million compared to $0.5 million in the prior-year quarter. Foreign exchange loss was $0.4 million for the six months ended December 31, 2017, compared to a gain of $1.0 million in the first six months of fiscal 2017.

Income tax expense decreased to $0.5 million in Q2 fiscal 2018 from $1.2 million in Q2 fiscal 2017. For the six months ended December 31, 2017, income tax expense was $0.8 million, down from $2.5 million in fiscal 2017.

Net income from discontinued operations decreased to $0.0 in Q2 fiscal 2018 from $0.4 million in Q2 fiscal 2017. For the six months ended December 31, 2017, net income from discontinued operations increased to $7.1 million, from $0.9 million in the same period of fiscal 2017. Discontinued operations represent the YourLink operations in Saskatchewan sold in Q3 fiscal 2017 and Q1 fiscal 2018 and the YourLink operations in British Columbia sold in Q1 fiscal 2017.

Net and comprehensive income for Q2 fiscal 2018 decreased to $1.3 million or $0.06 per share, from net income of $3.8 million or $0.17 per share in Q2 fiscal 2017. For the six months ended December 31, 2017, net and total comprehensive income was $9.4 million, or $0.42 per share, compared to $7.8 million or $0.35 per share for the same period in fiscal 2017.

Cash from Operating Activities

For the three months ended December 31, 2017, cash flow from operating activities provided cash of $0.6 million compared to $1.0 million for the three months ended December 31, 2016. The $0.4 million decrease reflects a $2.7 million decrease in operating cash flow, partially offset by the $2.3 million improvement in cash flow from non-cash working capital.

For the six months ended December 31, 2017, cash flow from operating activities provided cash of $9.7 million, compared to $12.1 million in the first six months of fiscal 2017. The $2.4 million decrease reflects the $6.9 million decrease from operating cash flow, partially offset by the $4.5 million increase in cash flow from non-cash working capital.

Investing Activities

Cash flow used by investing activities increased to $27.9 million in Q2 fiscal 2018 from cash used in investing activities of $11.6 million in Q2 fiscal 2017. The cash used by investing activities represents the acquisition of the assets of Concurrent for $37.3 million, the net sale of short-term investments of $13.3 million (Q2 fiscal 2017 net purchase of short-term investments - $7.0 million), deferred development expenditures of $3.6 million (Q2 fiscal 2017 - $3.5 million), and purchase of property, plant and equipment of $0.3 million (Q2 fiscal 2017 – $0.7 million).

Cash flow used by investing activities decreased to $6.2 million in the six months ended December 31, 2017 from $23.9 million in same period of fiscal 2017. The cash used by investing activities represents the acquisition of the assets of Concurrent for $37.3 million, net sale of short-term investments of $30.1 million (YTD fiscal 2017 net purchases - $16.2 million), deferred development expenditures of $7.2 million (YTD fiscal 2017 - $6.3 million), and the purchase of property, plant and equipment of $0.5 million (YTD fiscal 2017 – $1.1 million).

Financing Activities

For the three months ended December 31, 2017 we paid dividends of $2.5 million (Q2 fiscal 2017 - $2.5 million) and repaid $0.1 million of our long-term debt (Q2 fiscal 2017 - $0.1 million repaid). We received proceeds of government grants of $0.01 million (Q2 fiscal 2017 - $0.06 million). We issued commons shares for $0.9 million in exchange for shares in AirIQ Inc. (Q2 fiscal 2017 - $nil). We repurchased commons shares for $0.07 million (fiscal YTD 2017 - $0.29).

For the six months ended December 31, 2017 we paid dividends of $2.5 million (fiscal YTD 2017 - $2.5 million) and repaid $0.1 million of our long-term debt (fiscal YTD 2017 - $0.1 million repaid). We received proceeds from government grants of $0.0 million in 2018 (fiscal YTD 2017 - $0.2 million). We issued commons shares for $0.9 million in exchange for shares in AirIQ Inc. (fiscal YTD 2017 - $nil). We repurchased commons shares for $0.07 million (fiscal YTD 2017 - $0.29).

Liquidity and Capital Resources

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

As at December 31, 2017, we had access to our full revolving loan facility of $14.0 million ($14.0 million at June 30, 2017), of which no amount was drawn as an operating line of credit (June 30, 2017 - $nil was drawn). We had term credit of $2.4 million as at December 31, 2017 (June 30, 2017 - $2.5 million). We believe that our current cash and short term investments of $61.0 million together with anticipated cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future.

Capital expenditures for Q2 fiscal 2018 were $0.3 million compared to $0.7 million in Q2 fiscal 2017. Capital expenditures for fiscal 2018 are expected to be approximately $2.3 million. For the six months ended December 31, 2017 capital expenditures were $0.5 million compared to $1.0 million in the same period of fiscal 2017.

Working Capital

Working capital represents our current assets less current liabilities. Our working capital decreased to $83.7 million at December 31, 2017, from $110.5 million at June 30, 2017. This largely reflects the acquisition of the assets of Concurrent in the current quarter. We note that working capital balances can also be subject to significant swings from quarter to quarter. Our product shipments are "lumpy", reflecting the requirements of our major customers. It is not unusual to ship $5 or $6 million of product in a one-week period. If this level of sales occurs in the first week of a succeeding quarter, we would expect to experience an increase in inventory levels and a drop in receivables in the prior quarter. Other timing issues, like contracts with greater than 30 day payment terms, also affect working capital, particularly if shipments are backend weighted for a quarter.

Accounts receivable balance increased to $17.6 million at December 31, 2017, from $13.0 million at June 30, 2017. This increase reflects the $8.6 million of accounts receivable acquired as part of the Concurrent acquisition, as well as timing of sales, with more orders shipped later in Q4 2017 which resulted in higher accounts receivable as at June 30, 2017.

Income tax receivable balance was flat at $2.0 million at December31, 2017 compared to $2.0 million at June 30, 2017. This balance represents income tax paid in respect of a January 2017 CRA re-assessment (see Commitments below for details).

Inventory increased by $1.5 million to $15.4 million at December 31, 2017 from $13.9 million as at June 30, 2017 of which $2.6 million relates to Concurrent acquired inventory. Finished goods inventories were $8.7 million at December 31, 2017, compared to $8.1 million at June 30, 2017. Raw material inventory increased to $5.8 million at December 31, 2017, compared to $4.5 million at June 30, 2017. Work in process inventories decreased to $0.9 million as at December 31, 2017 compared to $1.3 million at June 30, 2017. We manufacture and assemble products, with the result that inventory levels will be substantially higher than for other companies in the industry that outsource manufacturing and assembly.

Investment tax credits were $20.6 million at December 31, 2017 up from $20.1 million at June 30, 2017. For every dollar we spend on eligible research and development in Canada, we generate approximately fifteen cents in income tax credits. These credits are used to offset our income tax payable.

Accounts payable and accrued liabilities increased to $10.2 million at December 31, 2017 representing 113 days for payables to be outstanding. This compares to $6.4 million at June 30, 2017, representing an average of 60 days for payables to be outstanding. This increase reflects $4.0 million of Concurrent accounts payable acquired.

Long-term debt, including current portion, decreased to $2.4 million at December 31, 2017 from $2.5 million at June 30, 2017.

Dividends

Declaration Date	Dividend Amount (per share)	Record Date	Payable Date
February 7, 2017	$0.055	February 27, 2017	March 20, 2017
May 8, 2017	$0.055	May 26, 2017	June 20, 2017
September 25, 2017	$0.055	October 13, 2017	November 3, 2017
November 7, 2017	$0.055	November 24, 2017	December 18, 2017

Contractual Obligations

We have lease commitments for production equipment, service vehicles and facilities amounting to $1.7 million within one year, $2.9 million after one year but not more than five years and $nil thereafter.

Commitments

In January 2017, we received a re-assessment from the Canada Revenue Agency ("CRA") regarding our tax treatment of gains on the sale of radio spectrum licenses in 2012 to 2014. The CRA has re-assessed the gains on the sale of these radio spectrum licenses as active business income, which would result in additional income taxes, penalties and interest payable of approximately $4.1 million. We and our advisors have reviewed the applicable tax law and believe our original treatment of these sales as capital gains was appropriate. We filed a Notice of Objection in March 2017. The outcome of this matter cannot be determined at this time with

reasonable certainty. No provision for this matter has been recognized in the financial statements. To avoid further penalties, 50% of the re assessment was paid.

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

Foreign Exchange

Approximately 94% of our revenues are denominated in U.S. dollars. We translate U.S. dollar sales to Canadian dollars on the date of delivery and subsequently when the account receivable is collected. If the U.S. dollar appreciates relative to the Canadian dollar after we collect the accounts receivable in U.S. dollars, we will receive more Canadian dollars when the U.S. dollars are converted to Canadian dollars in subsequent months. We also enjoy a natural hedge since the majority of our materials and components purchases are in U.S. dollars.

As at December 31, 2017, the exchange rate on the Canadian dollar weakened to $1.258 against the U.S. dollar from Canadian $1.296 against the U.S. dollar as at June 30, 2017. This $0.038 exchange difference decreased the value of our $25.7 million U.S. dollar net assets by approximately $1.0 million Canadian.

Financial Instruments

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

As at December 31, 2017, we did not have any forward contracts (June 30, 2017 - $nil).

Off-Balance Sheet Arrangements

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

Transactions Between Related Parties

We lease a building in Saskatoon under a 10-year lease from Dr. Surinder Kumar, the Chairman of Vecima. The lease was entered into in 2010 at prevailing market rates at that time and expires in 2019. The rental expense from this transaction was $0.2 million for the six months ended December 31, 2017 (December 31, 2016 - $0.2 million).

Proposed Transactions

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

Critical Accounting Estimates

The preparation of our unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Use of judgment and estimates are disclosed in Note 3 of the unaudited condensed interim consolidated financial statements for the three months ended December 31, 2017 as well as in the Business Combination section below in this MD&A.

Accounting Pronouncements

Amendments to IFRS 2 – Share-Based Payment

In June 2016, the IASB issued amendments to IFRS 2 Share-Based Payment. The amendments were issued to provide clarification on the classification and measurement of share-based transactions. The standard is effective for periods beginning on or after January 1, 2018 with earlier application permitted. We are currently reviewing the standard to determine the potential impact on its consolidated financial statements.

IFRS 9 Financial Instruments

In November 2009, the IASB issued guidance relating to the classification and measurement for financial assets followed by requirements for financial liabilities and derecognition which were added in 2010. IFRS 9 was amended in 2013 to add new general hedge accounting requirements. The standard must be applied retrospectively and is effective for annual periods beginning after January 1, 2018, with earlier application permitted. We have completed a preliminary review of the standard to determine the potential impact on our consolidated financial statements, and do not expect any material impacts.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB published a new standard, IFRS 15 *Revenue from Contracts with Customers*. This standard supersedes current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

Application of IFRS 15 will affect our reported financial results including the timing of revenue recognition and the treatment of specific costs to obtain contracts with customers. Our financial position will also be affected by application as new contract asset and contract liability will be presented to reflect the timing difference between our completion of performance obligation and the customer's payment. IFRS 15 also includes additional and expanded disclosure requirements specific to contracts with customers. The measurement of our total revenue and costs over the life of a contract is expected to be unaffected.

We continue to implement our plan to ensure compliance with IFRS 15 by the required adoption date, including identifying differences between existing policies and IFRS 15, ensuring the data collection process is satisfactory and communicating the changes with various stakeholders. The plan also includes ongoing development of necessary accounting policies, estimates and judgements required by IFRS 15, as well as any changes required to business processes, systems and internal controls to implement the policies and disclosures required upon adoption of IFRS 15. At this stage of the implementation plan, we have not made a reasonable quantitative estimate of the adjustment due to retroactive application on adoption date.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018 which we will adopt for our fiscal period beginning July 1, 2018. We plan to transition to the standard using the modified retrospective approach with cumulative effect applied on adoption date, subject to permitted and elected practical expedients.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases. IFRS 16 eliminates the current dual model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. The standard is effective for periods beginning on or after January 1, 2019 with earlier application permitted. We are currently reviewing the standard to determine the potential impact on our consolidated financial statements.

Disclosure Controls and Procedures

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

Our CEO and CFO have evaluated the effectiveness of our disclosure controls and procedures as defined under rules adopted by the Canadian securities regulatory authorities. Based on that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as at December 31, 2017.

Internal Control over Financial Reporting

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

Our CEO and CFO have evaluated the effectiveness of the internal control over financial reporting as at December 31, 2017 in accordance with Internal Control - Integrated Framework (2013), published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, our CEO and CFO have determined that the internal control over financial reporting is effective as at December 31, 2017.

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

The following summary financial information pertains to the acquisition that was included in our interim condensed consolidated financial statements for the period ended December 31, 2017:

Sales	$	nil
Net income	$	nil
Current assets	$	11,816
Non-current assets	$	32,264
Current liabilities	$	6,162
Non-current liabilities	$	507

Business Combination

On December 31, 2017, we acquired substantially all of the operating assets of Concurrent Computer Corporation for aggregate consideration of approximately $37.4 million - US$29.0 million plus an estimated working capital adjustment of US$0.7 million (previously estimated at US$1.5 million).

We determined and allocated the purchase price on acquisition to the tangible and intangible assets acquired and liabilities assumed as of the business combination date in accordance with IFRS 3 Business Combinations. The purchase price allocation process requires that we use significant estimates and assumptions, including fair value estimates, as of the acquisition date. While management uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the business combination date, the estimates and assumptions are inherently uncertain and subject to refinement. Accordingly, the measurement of the assets acquired and liabilities assumed may change significantly upon finalization of our valuations and completion of the purchase price allocation, both of which are expected to be finalized in calendar 2018.

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

Legal Proceedings

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

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

Risk and Uncertainties

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

The integration of the business and operations of Concurrent involves risks, and the failure to integrate successfully may adversely affect the future results of the combined company.

The success of the acquisition of Concurrent will depend, in part, on the combined company's ability to successfully combine the businesses of Vecima and Concurrent, which operated as independent public companies prior to the completion of our acquisition of Concurrent, and realize the anticipated benefits, including synergies and cost savings from the combination. If the combined company is unable to achieve these objectives, the anticipated benefits may not be realized, or may take longer to realize than expected and the value of our common shares may be impacted.

The challenges involved in the integration of the business may include the following:

- difficulty realizing anticipated synergies;
- the diversion of management 's time and attention during the transaction and subsequent integration may be significant;
- unanticipated issues in the integration of infrastructure and systems between the businesses;
- consolidating certain corporate and administrative processes and eliminating duplicative operations;
- coordinating geographically diverse operations, relationships and facilities, which may be subject to additional constraints imposed by distance and local laws and regulations;
- Concurrent's historical financial statements may be based on assumptions which are incorrect or inconsistent with Vecima's assumptions or approach to accounting policies;
- risk that the obligations and liabilities of Concurrent were not adequately reflected in their historical financial statements;

Many of these factors will be outside of our control and any one of them could result in increased costs, decreases in the amount of expected revenue and diversion of management's time and effort, which could materially affect our financial position, results of operations and cash flows.

Specific potential risks related to the operations of Concurrent:

We are continuing to adapt our content delivery products to add features allowing deployments to cable, IPTV, and Internet CDN providers to enable multi-screen video delivery. The changes require new knowledge sets, especially in research and development, and will require us to develop and sell new products to new customers. A failure to execute on this transition, or execute quickly enough, will adversely affect our business.

Our video expertise for more than fifteen years has been focused on the Video On Demand ("VOD") market. Although we have been successful in VOD, we recognize it is a relatively limited market and, as such, we are transitioning the business to serve video to all devices. We are introducing the products necessary to serve these new markets. We have also invested in new sales professionals to help us sell our existing and new products to a wider customer set. We believe that these steps are necessary, but that they will be expensive. We are making these investments in a challenging macroeconomic environment and may be unable to develop or sell any new marketable products. In addition, we face robust competition both from internally-developed solutions and from large, well-positioned companies. If we are not successful in establishing new products and new customers, we will have expended considerable effort and capital to transition the business and will not have received any economic benefit.

We utilize open source software, which could enable our competitors to gain access to our source code and distribute it without paying any license fee to us.

Key components of our content delivery products utilize open source software on Linux platforms. Some open source software, especially those provided under the GNU Public License, are provided pursuant to licenses that limit the restrictions that may be placed on the distribution and copying of the provided code. Thus, it is possible that customers or competitors could copy portions of our software and freely distribute it. This could substantially impact our business and our ability to protect our products and future business.

If content providers, such as movie studios, limit the scope of content licensed for use in the digital content delivery market, our business, financial condition and results of operations could be negatively affected because the potential market for our products would be more limited than we currently believe.

The success of the content delivery market is contingent upon content providers, such as movie studios, continuing to permit their content to be licensed for distribution in this market. Content providers may, due to concerns regarding marketing or illegal duplication of the content, limit the extent to which they provide content to the markets served by our customers and potential customers. A limitation of available content would indirectly limit the demand for our content delivery solutions.

The cable and telecommunications industries are experiencing consolidation, which could result in delays or reductions in purchases of products and services, which could have a material adverse effect on our business.

We are experiencing the consolidation of many participants in the cable and telecommunications industries. When consolidations occur, it is possible that the acquirer will not continue using the same suppliers, possibly resulting in an immediate or future elimination of sales opportunities and future support revenue. Even if sales are not reduced, consolidation can also result in pressure from customers for lower prices or better terms; reflecting the increase in the total volume of products purchased; the elimination of a price differential between the acquiring customer; and the company acquired or other factors. Consolidations could also result in delays in purchasing decisions by the affected companies prior to completion of the transaction and by the merged businesses. The purchasing decisions of the merged companies could have a material adverse effect on our business.

We may be subject to liability if private information supplied to our customers is misused.

Our content delivery solutions allow companies to collect and store data that many viewers may consider confidential. Unauthorized access or use of this information could result in liability to our customers, and potentially us, and might deter potential on-demand viewers. We have no control over the policy of our customers with respect to the access to this data and the release of this data to third parties.

Outstanding Share Data

As at February 8, 2018, we had 22,450,346 common shares outstanding as well as options outstanding that are exercisable for an additional 454,882 common shares.

On November 30, 2017, we filed a notice of intention with the Toronto Stock Exchange to acquire for cancellation, by way of normal course issuer bid, up to 600,000 common shares of the Company. We acquired 2,989 common shares of Vecima for cancellation during the second quarter of fiscal 2018. The normal course issuer bid expires on November 29, 2018.

On October 25, 2016, we filed a notice of intention with the Toronto Stock Exchange to acquire for cancellation, by way of normal course issuer bid, up to 600,000 common shares of the Company. We acquired 800 common shares of Vecima for cancellation during the first quarter of fiscal 2018. The normal course issuer bid expired on October 27, 2017.

Additional Information

Financial Governance

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

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

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

Forward-Looking Information

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

Forward looking information in this MD&A includes, but is not limited to statements that we believe that our current cash and short term investments of $61.0 million together with anticipated cash flow from operations will be sufficient to meet our working capital requirements and capital expenditure requirements for the foreseeable future. We are also strongly focused on development of next generation platforms that respond to the major cable industry shift to distributed access architectures (DAA) under the new DOCSIS 3.1 standard. During the second quarter, we continued to progress the Entra technology, demonstrating further interoperability and preparing for customer trials which are expected to commence in calendar 2018. A combination of Vecima's existing hardware and new software released in the second quarter of fiscal 2018 will assist customers in meeting the requirements of the new HoS mandate. This new combination is expected to provide additional customer value and gradually build an additional revenue stream. Our growth strategy focuses on the development of our core technologies, including next generation platforms such as our new DOCSIS 3.1 platform, Entra, as well as new video storage and distribution technologies being developed within the Concurrent operations. We also intend to continue pursuing profitable growth both organically and when appropriate, through value enhancing strategic acquisitions such as the recent Concurrent transaction. We expect allowances for slow moving finished goods to be higher in Q3 and Q4 fiscal 2018. Capital expenditures for fiscal 2018 are expected to be approximately $2.3 million. Forward looking information also includes our Recent Industry Developments and our Outlook in this MD&A.

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

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

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Vecima Networks Inc. (the "Company") have been prepared and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the CPA Canada Handbook for a review of interim financial statements by an entity's auditor.

VECIMA NETWORKS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited - in thousands of Canadian Dollars)

	Notes	December 31, 2017	June 30, 2017
Assets			
Current assets			
Cash and cash equivalents		$ **5,439**	$ 3,517
Short-term investments		**55,605**	85,675
Accounts receivable		**17,641**	12,972
Income tax receivable		**2,011**	2,011
Inventories	**6**	**15,427**	13,928
Assets held for sale	**5**	**-**	641
Prepaid expenses		**1,729**	1,258
		97,852	120,002
Non-current assets			
Property, plant and equipment	**7**	**12,414**	11,109
Goodwill		**13,680**	6,111
Intangible assets	**8**	**58,056**	32,566
Other long-term assets		**768**	-
Investment tax credit		**20,595**	20,141
Deferred tax asset		**3,393**	4,066
		$ **206,758**	$ 193,995
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ **10,159**	$ 6,377
Provisions		**472**	692
Deferred revenue		**3,229**	2,226
Current portion of long-term debt	**10**	**250**	250
		14,110	9,545
Non-current liabilities			
Other long-term liabilities		**507**	-
Long-term debt	**10**	**2,104**	2,208
		16,721	11,753
Shareholders' equity			
Share capital	**11**	**815**	803
Reserves		**4,934**	3,965
Retained earnings		**184,288**	177,474
		190,037	182,242
		$ **206,758**	$ 193,995

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

VECIMA NETWORKS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited - in thousands of Canadian dollars except net income per share data)

	Notes	Three months ended December 31,		Six months ended December 31,	
		2017	2016	**2017**	2016
Sales	**15**	**$ 14,752**	$ 20,227	**$ 29,634**	$ 41,113
Cost of sales		**7,032**	9,745	**13,436**	19,762
Gross profit		**7,720**	10,482	**16,198**	21,351
Operating expenses					
Research and development		**3,045**	2,857	**6,208**	5,706
Sales and marketing		**1,113**	1,161	**2,221**	2,458
General and administrative		**2,540**	2,419	**5,150**	4,883
Stock-based compensation	**11**	**14**	66	**27**	134
Other (income) expense	**12**	**(89)**	13	**(171)**	16
		6,623	6,516	**13,435**	13,197
Operating income		**1,097**	3,966	**2,763**	8,154
Finance income		**386**	62	**684**	315
Foreign exchange gain (loss)		**300**	493	**(370)**	976
Income before income taxes		**1,783**	4,521	**3,077**	9,445
Income tax expense		**454**	1,168	**784**	2,536
Net income and comprehensive income from continuing operations		**1,329**	3,353	**2,293**	6,909
Net income and comprehensive income from discontinued operations	**5**	**1**	420	**7,063**	907
Net income and comprehensive income		**$ 1,330**	$ 3,773	**$ 9,356**	$ 7,816
Net income per share					
Continuing operations		**0.06**	0.15	**0.10**	0.31
Discontinued operations		**-**	0.02	**0.32**	0.04
Total basic net income per share	**11**	**$ 0.06**	$ 0.17	**$ 0.42**	$ 0.35
Continuing operations		**0.06**	0.15	**0.10**	0.31
Discontinued operations		**-**	0.02	**0.32**	0.04
Total diluted net income per share	**11**	**$ 0.06**	$ 0.17	**$ 0.42**	$ 0.35
Weighted average number of common shares					
Shares outstanding - basic	**11**	**22,447,389**	22,385,275	**22,413,520**	22,394,090
Shares outstanding - diluted	**11**	**22,499,411**	22,402,057	**22,470,074**	22,425,133

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

VECIMA NETWORKS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited - in thousands of Canadian dollars)

	Share Capital	Reserves	Retained Earnings	Total
Balance as at June 30, 2016	$ 739	$ 3,662	$ 164,642	$ 169,043
Net income and comprehensive income	-	-	7,816	7,816
Dividends	-	-	(2,463)	(2,463)
Shares repurchased and cancelled	-	-	(293)	(293)
Shares issued by exercising options	20	(5)	-	15
Share-based payment expense	-	134	-	134
Balance as at December 31, 2016	$ 759	$ 3,791	$ 169,702	$ 174,252
Balance as at June 30, 2017	**$ 803**	**$ 3,965**	**$ 177,474**	**$ 182,242**
Net income and comprehensive income	-	-	9,356	9,356
Dividends	-	-	(2,467)	(2,467)
Shares repurchased and cancelled	-	-	(75)	(75)
Shares issued by exercising options	9	(3)	-	6
Shares issued in exchange for AirIQ shares	3	945	-	948
Share-based payment expense	-	27	-	27
Balance as at December 31, 2017	**$ 815**	**$ 4,934**	**$ 184,288**	**$ 190,037**

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

VECIMA NETWORKS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited - in thousands of Canadian dollars)

	Notes	Three months ended December 31, 2017	Three months ended December 31, 2016	Six months ended December 31, 2017	Six months ended December 31, 2016
Cash flows from operating activities					
Net income and total comprehensive income		**$ 1,329**	$ 3,353	**$ 2,293**	$ 6,909
Adjustments to reconcile net income to cash from operating activities	**13**	**1,899**	2,783	**3,509**	5,660
Decrease in provisions		**(61)**	(176)	**(215)**	(192)
Increase in investment tax credit		**(66)**	(75)	**(133)**	(109)
Net change in non-cash working capital relating to operations	**14**	**(2,823)**	(5,105)	**3,525**	(1,017)
Interest paid		**(22)**	(21)	**(43)**	(43)
Interest received		**328**	249	**647**	491
Income tax received		**-**	-	**-**	11
Income tax paid		**-**	-	**-**	(13)
Net cash provided by continuing operations		**584**	1,008	**9,583**	11,697
Net cash provided by discontinued operations		**(3)**	21	**72**	417
Net cash provided by operations		**581**	1,029	**9,655**	12,114
Cash flows used in investing activities					
Purchase of property, plant and equipment	**7**	**(250)**	(667)	**(468)**	(1,055)
Proceeds from sale of property, plant and equipment		**-**	38	**3**	38
Purchase of short-term investments		**(2,275)**	(7,990)	**(8,221)**	(18,243)
Proceeds on sale of short-term investments		**15,591**	1,000	**38,291**	2,000
Deferred development costs	**8**	**(3,636)**	(3,453)	**(7,178)**	(6,299)
Purchase of indefinite and finite-life intangible assets	**8**	**(18)**	(19)	**(40)**	(35)
Business acquisition (excluding acquired cash)	**4**	**(37,277)**	-	**(37,277)**	-
Net cash used by continuing operations		**(27,865)**	(11,091)	**(14,890)**	(23,594)
Net cash (used) provided by discontinued operations		**-**	(533)	**8,732**	(352)
Net cash used by investing		**(27,865)**	(11,624)	**(6,158)**	(23,946)
Cash flows used in financing activities					
Proceeds from exercised stock options	**11**	**6**	10	**6**	14
Proceeds from issuing shares		**948**	-	**948**	-
Proceeds from government grants		**9**	64	**49**	176
Repurchase and cancellation of shares	**11**	**(7)**	(293)	**(7)**	(293)
Dividends paid		**(2,467)**	(2,463)	**(2,467)**	(2,463)
Repayment of long-term debt	**10**	**(63)**	(63)	**(104)**	(125)
Net cash used by continuing operations		**(1,574)**	(2,745)	**(1,575)**	(2,691)
Net cash provided by discontinued operations		**-**	126	**-**	786
Net cash provided by financing		**(1,574)**	(2,619)	**(1,575)**	(1,905)
(Decrease) increase in cash and cash equivalents during the period		**(28,858)**	(13,214)	**1,922**	(13,737)
Cash and cash equivalents, beginning of period		**34,297**	21,699	**3,517**	22,222
Cash and cash equivalents, end of period		**$ 5,439**	$ 8,485	**$ 5,439**	$ 8,485

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1. NATURE OF OPERATIONS

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 designs, manufactures and sells products that enable broadband access to cable, wireless and telephony networks. Vecima hardware products incorporate embedded software developed by Vecima to meet the requirements of next-generation, high-speed digital networks. Vecima solutions allow service providers to bridge the final network segment that connects a system directly to end-users, commonly referred to as the "the last mile", by overcoming the bottleneck resulting from insufficient carrying capacity in legacy last-mile infrastructures.

2. BASIS OF PRESENTATION

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as set out in the CPA Canada Handbook. In the opinion of management, all adjustments and disclosures considered necessary for fair presentation have been included in these unaudited condensed interim consolidated financial statements.

These unaudited condensed interim consolidated financial statements are based on IFRS issued and outstanding as of December 31, 2017 and were approved by the Company's Board of Directors on February 6, 2018.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as issued by the International Accounting Standards Board. The same accounting policies and methods of computation have been followed in these unaudited condensed interim consolidated financial statements as were followed in the annual audited financial statements for the year ended June 30, 2017. These unaudited condensed interim consolidated financial statements do not include all information required for annual statements and are therefore referred to as condensed and should be read in conjunction with Vecima's annual audited financial statements for the year ended June 30, 2017.

Accounting Standards Issued But Not Yet Applied:

Amendments to IFRS 2 – Share-Based Payment

In June 2016, the IASB issued amendments to IFRS 2 *Share-Based Payment*. The amendments were issued to provide clarification on the classification and measurement of share-based transactions. The standard is effective for periods beginning on or after January 1, 2018 with earlier application permitted. The Company is currently reviewing the standard to determine the potential impact on its consolidated financial statements.

IFRS 9 - Financial Instruments

In November 2009, the IASB issued guidance relating to the classification and measurement for financial assets followed by requirements for financial liabilities and derecognition which were added in 2010. IFRS 9 was amended in 2013 to add new general hedge accounting requirements. The standard must be applied retrospectively and is effective for annual periods beginning after January 1, 2018, with earlier application permitted. The Company has completed a preliminary review of the standard to determine the potential impact on its consolidated financial statements, and does not expect any material impacts.

2. BASIS OF PRESENTATION continued

Accounting Standards Issued But Not Yet Applied: continued

IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB published a new standard, IFRS 15 *Revenue from Contracts with Customers*. This standard supersedes current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers.

Application of IFRS 15 will affect the Company's reported financial results including the timing of revenue recognition and the treatment of specific costs to obtain contracts with customers. The Company's financial position will also be affected by application as new contract asset and contract liability will be presented to reflect the timing difference between the Company's completion of performance obligation and the customer's payment. IFRS 15 also includes additional and expanded disclosure requirements specific to contracts with customers. The measurement of the Company's total revenue and costs over the life of a contract is expected to be unaffected.

The Company continues to implement its plan to ensure compliance with IFRS 15 by the required adoption date, including identifying differences between existing policies and IFRS 15, ensuring the data collection process is satisfactory and communicating the changes with various stakeholders. The plan also includes ongoing development of necessary accounting policies, estimates and judgements required by IFRS 15, as well as any changes required to business processes, systems and internal controls to implement the policies and disclosures required upon adoption of IFRS 15. At this stage of the implementation plan, the Company has not made a reasonable quantitative estimate of the adjustment due to retroactive application on adoption date.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018 which the Company will adopt for its fiscal period beginning July 1, 2018. The Company plans to transition to the standard using the modified retrospective approach with cumulative effect applied on adoption date, subject to permitted and elected practical expedients.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 *Leases*. IFRS 16 eliminates the current dual model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. The standard is effective for periods beginning on or after January 1, 2019 with earlier application permitted. The Company is currently reviewing the standard to determine the potential impact on its consolidated financial statements.

3. USE OF JUDGMENT AND ESTIMATES

The preparation of the Company's unaudited condensed interim 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 to the carrying amount of the affected asset or liability. In preparing these financial statements, the significant assumptions and judgments made by management were the same as those applied to the audited consolidated financial statements for the year ended June 30, 2017.

4. BUSINESS COMBINATION

On December 31, 2017, the Company completed an acquisition of substantially all of the operating assets of Concurrent Computer Corporation ("Concurrent"), a software and solutions company that develops advanced applications focused on storing, protecting, transforming, and delivering visual media.

The transaction, valued at $37,411 (US$29,731), subject to a post-closing net working capital adjustment, was financed through the Company's cash and short-term investment reserves.

The acquisition was accounted for using the purchase method. As part of the Company's process for determining the fair value of the net assets acquired, the Company engaged third-party valuation specialists. The following table summarizes the preliminary fair value allocations of assets acquired and liabilities assumed as a part of this acquisition:

Consideration paid		
Purchase price	$	36,490
Working capital adjustments		921
		37,411
Net assets acquired		
Cash and cash equivalents		133
Accounts receivable		8,572
Inventories		2,552
Prepaid expenses and other current assets		559
Property, plant and equipment		1,694
Other long-term assets		768
Intangible assets		22,233
Goodwill		7,569
Accounts payable and accrued liabilities		(3,950)
Deferred revenue		(2,212)
Other long-term liabilities		(507)
	$	**37,411**

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 Concurrent and the Company's existing business; expected growth in the underlying markets in which Concurrent serves; and the strength of the assembled workforce. The goodwill arising from the acquisition is expected to be deductible for tax purposes.

4. BUSINESS COMBINATION continued

Sales and net income for the three and six months ended December 31, 2017 did not include any sales or net income attributable to the the acquisition of Concurrent as the purchase was completed on December 31, 2017.

5. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On January 9, 2017, the Company announced it entered into an agreement to sell the telecommunication assets of its YourLink business in Saskatchewan for total consideration of $28,732. The sale consisted of two separate transactions. The sale transaction of operating assets closed on January 12, 2017 for consideration of $20,000. The second transaction for consideration of $8,732 closed on July 13, 2017. Assets connected with the second sale transaction of $641 were classified as held for sale as at June 30, 2017.

On September 30, 2016 the Company completed the sale of cable and telecommunication assets of its YourLink business in British Columbia for consideration of $1,422.

Financial results attributable to the YourLink business have been presented as discontinued operations. The non-current assets that were held for sale were recorded at the lower of the carrying amount or the fair market value less costs to sell. No impairment loss was recorded on assets held for sale.

The results of the discontinued operations for the periods ended December 31, 2017 are as follows:

	Three months ended December 31,		Six months ended December 31,	
	2017	2016	**2017**	2016
Operating revenues	**$ -**	$ 2,467	**$ -**	$ 5,594
				(4,826)
Operating expenses	**-**	(1,895)	**(32)**	
Other income (expense) and finance income (costs)	**1**	(18)	**14**	(24)
(Loss) income from discontinued operations before income taxes and gain on sale of assets	**1**	554	**(18)**	744
Income tax recovery (expense)	**-**	(134)	**5**	(182)
(Loss) income from discontinued operations before gain on sale of assets	**1**	420	**(13)**	562
Gain on sale of assets	**-**	-	**8,109**	330
Income tax (expense) recovery on gain on sale of assets	**-**	-	**(1,033)**	15
Income from discontinued operations, net of taxes	**$ 1**	$ 420	**$ 7,063**	$ 907

6. INVENTORIES

	December 31, 2017	June 30, 2017
Raw materials	**$ 5,781**	$ 4,515
Work in progress	**880**	1,324
Finished goods	**8,766**	8,089
	$ 15,427	$ 13,928

During the three months ended December 31, 2017, inventories of $6,204 (three months ended December 31, 2016 - $8,899) were expensed through cost of sales. Write-downs of inventory for the three months ended December 31, 2017 were $36 (three months ended December 31, 2016 - $97) and were included in cost of sales. Reversals of write-downs were $nil during the three months ended December 31, 2017 ($nil for the three months ended December 31, 2016). During the six months ended December 31, 2017, inventories of $11,872 (six months ended December 31, 2016 - $17,980) were expensed through cost of sales. Write-downs of inventory for the six months ended December 31, 2017 were $218 (six months ended December 31, 2016 - $239) and were included in cost of sales. Reversals of write-downs were $nil during the six months ended December 31, 2017 ($4 for the six months ended December 31, 2016). The carrying amount of inventory recorded at net realizable value was $1,033 at December 31, 2017 (June 30, 2017 - $822) with the remaining inventory recorded as cost.

7. PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements & building	Lab, operating & production equipment	Other equipment[1]	Total
Cost					
At July 1, 2017	$ 621	$ 8,546	$ 18,030	$ 10,358	$ 37,555
Additions	-	67	299	102	468
Additions through business acquisition	-	43	1,424	227	1,694
Disposals	-	-	(103)	(12)	(115)
At December 31, 2017	**$ 621**	**$ 8,656**	**$ 19,650**	**$ 10,675**	**$ 39,602**
Accumulated depreciation and impairment					
At July 1, 2017		$ 2,725	$ 14,116	$ 9,605	$ 26,446
Depreciation charge for the year		134	560	130	824
Disposals		-	(74)	(8)	(82)
At December 31, 2017		**$ 2,859**	**$ 14,602**	**$ 9,727**	**$ 27,188**
Carrying amount					
At June 30, 2017	$ 621	$ 5,821	$ 3,914	$ 753	$ 11,109
At December 31, 2017	**$ 621**	**$ 5,797**	**$ 5,048**	**$ 948**	**$ 12,414**

7. PROPERTY, PLANT AND EQUIPMENT continued

The following estimated useful lives have been applied to property, plant and equipment assets at December 31, 2017 and June 30, 2017:

	Estimated useful life
Land improvements and building	40 years
Lab, operating and production equipment	7 to 30 years
Other equipment[1]	1 to 30 years

[1]Other equipment includes furniture, computer hardware, and automotive equipment.

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

	Three months ended December 31,		**Six months ended December 31,**	
	2017	2016	**2017**	2016
Cost of sales	**$ 147**	$ 212	**$ 282**	$ 416
Research and development	**72**	85	**144**	155
General and administrative	**201**	203	**398**	365
Depreciation from continuing operations	**420**	500	**824**	936
Depreciation from discontinued operations	**-**	292	**-**	545
	$ 420	$ 792	**$ 824**	$ 1,481

There were no impairment losses or recoveries during the three or six months ended December 31, 2017 or 2016.

8. INTANGIBLE ASSETS

	Indefinite-life intangible assets	Finite-life intangible assets				
	Trademarks and Other Licenses	**Customer Contracts**	**Patents**	**Intellectual Property**	**Deferred Development Costs**	**Total**
Cost						
At July 1, 2017	$ 60	$ 4,909	$ 438	$ 3,290	$ 35,226	$43,923
Additions	8	-	32	-	7,178	7,218
Additions through business acquisition	5,033	10,418	-	6,782	-	22,233
Government grant	-	-	-	-	(49)	(49)
Investment tax credits	-	-	-	-	(1,458)	(1,458)
At December 31, 2017	**$ 5,101**	**$ 15,327**	**$ 470**	**$ 10,072**	**$ 40,897**	**$71,867**
Amortization and impairment						
At July 1, 2017	$ -	$ 637	$ 339	$ 762	$ 9,619	$11,357
Amortization recognized	-	247	25	194	1,988	2,454
At December 31, 2017	**$ -**	**$ 884**	**$ 364**	**$ 956**	**$ 11,607**	**$13,811**
Net book value						
At June 30, 2017	$ 60	$ 4,272	$ 99	2,528	$ 25,607	$32,566
At December 31, 2017	**$ 5,101**	**$ 14,443**	**$ 106**	**$ 9,116**	**$ 29,290**	**$58,056**

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

The aggregate amount of research and development expenditure during the three months ending December 31, 2017 is $5,667 (December 31, 2016 - $5,312). The aggregate amount of research and development expenditure during the six months ending December 31, 2017 is $11,485 (December 31, 2016 - $10,037).

There were no impairment losses or recoveries recorded during the three or six months ending December 31, 2017 or December 31, 2016.

9. CONTINGENT LIABILITY

In January 2017, the Company received a re-assessment from the Canada Revenue Agency ("CRA") regarding the tax treatment of gains on the sale of radio spectrum licenses in 2012 to 2014. The CRA has re-assessed the gains on the sale of these spectrum licenses as active business income, which would result in additional income taxes, interest and penalties payable of approximately $4.1 million. The Company and its advisors have reviewed the applicable tax law and believe the original treatment of these gains was appropriate. The Company was required to pay $2.0 million towards this re-assessment in Q3 fiscal 2017. The Company filed a Notice of Objection in Q3 fiscal 2017. The outcome of this matter cannot be determined at this time with reasonable certainty. No provision for this matter has been recognized in the financial statements.

9. CONTINGENT LIABILITY continued

In March 2017, the Company received a re-assessment from the 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 Q4 fiscal 2017 in regards to this matter. The outcome of this matter cannot be determined at this time with reasonable certainty. No provision for this matter has been recognized in the financial statements.

10. LONG-TERM DEBT

	December 31, 2017	June 30, 2017
Term credit facility	**$ 2,354**	$ 2,458
Less current portion	**(250)**	(250)
	$ 2,104	$ 2,208

The term credit facility is from a Canadian chartered bank, repayable in monthly installments of $21 principal and interest at prime, (3.20% at December 31, 2017), expires in October 2018 and is collateralized by a general security agreement. The Company has an authorized loan amount of $3,792.

Long-term debt is recorded at amortized cost. The Company's long-term debt is at an interest rate that floats based on prime and the carrying value of the principal is considered to be fair value.

Future principal payments for the fiscal years ending are as follows assuming that the existing payment terms are the same as renewal.

2018	$ 125
2019	250
2020	250
2021	250
2022	250
Remaining	1,229
	$ 2,354

11. SHARE CAPITAL

(in thousands of Canadian dollars except common share data)

(a) Share capital

The Company has the following authorized share capital: 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 at July 1, 2017	22,379,651	$ 803
Shares issued by exercising options	2,210	9
Shares issued in exchange for AirIQ shares	96,443	3
Shares repurchased and cancelled	(3,789)	-
Balance at December 31, 2017	**22,474,515**	**$ 815**

The Company issued 2,210 shares through the exercise of options during the three months ended December 31, 2017 (three months ended December 31, 2016 - 2,457) and 2,210 shares through the exercise of options during the six months ended December 31, 2017 (six months ended December 31, 2016 - 3,236).

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, which will be determined by the Board of Directors at the time of issue (none issued).

11. SHARE CAPITAL continued

(in thousands of Canadian dollars except common share data)

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

	Three months ended December 31,		Six months ended December 31,	
	2017	2016	**2017**	2016
Net income: basic and diluted	**$ 1,330**	$ 3,773	**$ 9,356**	$ 7,816
Weighted average number of shares outstanding:				
Basic	**22,447,389**	22,385,275	**22,413,520**	22,394,090
Dilutive stock options	**52,022**	16,782	**56,554**	31,043
Diluted	**22,499,411**	22,402,057	**22,470,074**	22,425,133
Net income per share: basic	**$ 0.06**	$ 0.17	**$ 0.42**	$ 0.35
Net income per share: diluted	**$ 0.06**	$ 0.17	**$ 0.42**	$ 0.35

Stock options could potentially dilute basic net income per share in the future. Options to purchase 414,365 common shares were vested and outstanding at December 31, 2017 (December 31, 2016 - 323,271). Dilutive stock options are calculated using the treasury stock method.

(b) Reserves

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

(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.

11. SHARE CAPITAL continued

(in thousands of Canadian dollars except common share data)

(c) Stock option plan continued

The changes in options and the number of options outstanding for the six months ended December 31, 2017 are as follows:

	Number of options	Weighted average exercise price
Outstanding, July 1, 2017	451,701	$ 8.78
Granted	8,000	9.93
Canceled	(1,810)	2.72
Exercised	(2,210)	2.72
Outstanding, December 31, 2017	**455,681**	**$ 8.78**
Vested and exercisable, December 31, 2017	**414,365**	**$ 8.67**

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 stock-based compensation over the vesting period of the options. The stock-based compensation expense was $14 for the three months ended December 31, 2017 (three months ended December 31, 2016 - $66). The stock-based compensation expense was $27 for the six months ended December 31, 2017 (six months ended December 31, 2016 - $134).

12. OTHER (INCOME) EXPENSE

	Three months ended December 31,		Six months ended December 31,	
	2017	2016	**2017**	2016
Loss on sale of property, plant and equipment	**$ 11**	$ 20	**$ 30**	$ 26
Lease revenue	**(99)**	(36)	**(200)**	(36)
Other	**(1)**	29	**(1)**	26
	$ (89)	$ 13	**$ (171)**	$ 16

13. ADJUSTMENTS TO RECONCILE NET INCOME TO CASH FROM OPERATING ACTIVITIES

		Three months ended December 31,		Six months ended December 31,	
	Notes	**2017**	2016	**2017**	2016
Loss on sale of PP&E	**12**	**$ 11**	$ 20	**$ 30**	$ 26
Depreciation of PP&E	**7**	**420**	500	**824**	936
Amortization of deferred development costs	**8**	**1,081**	1,026	**1,988**	1,911
Amortization of finite-life intangible assets	**8**	**231**	231	**466**	565
Stock-based compensation	**11**	**14**	66	**27**	134
Current income taxes		**64**	512	**111**	1,168
Deferred income taxes		**390**	656	**673**	1,368
Interest expense		**16**	21	**37**	43
Interest income		**(328)**	(249)	**(647)**	(491)
		$ 1,899	$ 2,783	**$ 3,509**	$ 5,660

14. NET CHANGE IN NON-CASH WORKING CAPITAL RELATING TO OPERATIONS

Details of net change in each element of non-cash working capital relating to operations are as follows:

	Three months ended December 31,		Six months ended December 31,	
	2017	2016	**2017**	2016
Decrease (increase) in current assets				
Accounts receivable	**$ (1,082)**	$ (5,478)	**$ 3,737**	$ (5,661)
Inventories	**485**	974	**1,053**	3,134
Prepaid expenses	**(151)**	(67)	**54**	(149)
Income tax receivable	**-**	(5)	**-**	2,984
	(748)	(4,576)	**4,844**	308
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	**(1,602)**	198	**(110)**	14
Deferred revenue	**(473)**	(727)	**(1,209)**	(1,339)
	(2,075)	(529)	**(1,319)**	(1,325)
	$ (2,823)	$ (5,105)	**$ 3,525**	$ (1,017)

15. 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 telecommunication markets. The Content Delivery and Storage segment develops advanced applications focused on storing, protecting, transforming and delivering visual media. The Telematics segment designs, develops and distributes fleet management products. The Discontinued Operations segment represents the YourLink business which provided cable television and internet services in British Columbia and Saskatchewan. YourLink was sold in the prior year (Note 5). Inter-segment transactions take place at terms that approximate fair values. Almost all of the Company's operations, employees and assets are located in Canada and the US. The following highlights key financial information for the operation of these segments.

	Three months ended December 31, 2017					
	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Discontinued Operations	Inter Segment	Total
Sales - external customers	$ 13,394	$ -	$ 1,358	$ -	$ -	$ 14,752
Cost of sales	6,630	-	402	-	-	7,032
Gross profit	**6,764**	**-**	**956**	**-**	**-**	**7,720**
Operating expenses	4,385	-	585	-	-	4,970
Depreciation and amortization	1,402	-	251	-	-	1,653
Operating income	**977**	**-**	**120**	**-**	**-**	**1,097**
Finance income	386	-	-	-	-	386
Foreign exchange gain	286	-	14	-	-	300
Income before income taxes	**1,649**	**-**	**134**	**-**	**-**	**1,783**
Income tax expense	420	-	34	-	-	454
Net income and comprehensive income from continuing operations	**1,229**	**-**	**100**	**-**	**-**	**1,329**
Net income and comprehensive income from discontinued operations	**-**	**-**	**-**	**1**	**-**	**1**
Net income and comprehensive income	**$ 1,229**	**$ -**	**$ 100**	**$ 1**	**$ -**	**$ 1,330**
Total assets	**$ 147,631**	**$ 45,011**	**$ 14,290**	**$ -**	**$ (174)**	**$ 206,758**
Total liabilities	**$ 9,334**	**$ 6,671**	**$ 716**	**$ -**	**$ -**	**$ 16,721**

15. SEGMENTED FINANCIAL INFORMATION continued

	Three months ended December 31, 2016					
	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Discontinued Operations	Inter Segment	Total
Sales - external customers	$ 18,788	$ -	$ 1,439	$ -	$ -	$ 20,227
Cost of sales	9,271	-	474	-	-	9,745
Gross profit	**9,517**	**-**	**965**	**-**	**-**	**10,482**
Operating expenses	4,441	-	419	-	-	4,860
Depreciation and amortization	1,363	-	293	-	-	1,656
Operating income	**3,713**	**-**	**253**	**-**	**-**	**3,966**
Finance income	62	-	-	-	-	62
Foreign exchange gain	478	-	15	-	-	493
Income before income taxes	**4,253**	**-**	**268**	**-**	**-**	**4,521**
Income tax expense	1,100	-	68	-	-	1,168
Net income and comprehensive income from continuing operations	**3,153**	**-**	**200**	**-**	**-**	**3,353**
Net income and comprehensive income from discontinued operations	**-**	**-**	**-**	**420**	**-**	**420**
Net income and comprehensive income	**$ 3,153**	**$ -**	**$ 200**	**$ 420**	**$ -**	**$ 3,773**
Total assets	**$ 161,244**	**$ -**	**$ 14,475**	**$ 12,114**	**$ (204)**	**$ 187,629**
Total liabilities	**$ 11,088**	**$ -**	**$ 391**	**$ 1,899**	**$ -**	**$ 13,378**

15. SEGMENTED FINANCIAL INFORMATION continued

	Six months ended December 31, 2017					
	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Discontinued Operations	Inter Segment	Total
Sales - external customers	$ 26,994	$ -	$ 2,640	$ -	$ -	$ 29,634
Cost of sales	12,669	-	767	-	-	13,436
Gross profit	**14,325**	-	**1,873**	-	-	**16,198**
Operating expenses	9,158	-	1,176	-	-	10,334
Depreciation and amortization	2,602	-	499	-	-	3,101
Operating income	**2,565**	-	**198**	-	-	**2,763**
Finance income	684	-	-	-	-	684
Foreign exchange loss	(359)	-	(11)	-	-	(370)
Income before income taxes	**2,890**	-	**187**	-	-	**3,077**
Income tax expense	736	-	48	-	-	784
Net income and comprehensive income from continuing operations	**2,154**	-	**139**	-	-	**2,293**
Net income and comprehensive income from discontinued operations	-	-	-	**7,063**	-	**7,063**
Net income and comprehensive income	**$ 2,154**	**$ -**	**$ 139**	**$ 7,063**	**$ -**	**$ 9,356**
Total assets	**$ 147,631**	**$ 45,011**	**$ 14,290**	**$ -**	**$ (174)**	**$ 206,758**
Total liabilities	**$ 9,334**	**$ 6,671**	**$ 716**	**$ -**	**$ -**	**$ 16,721**

15. SEGMENTED FINANCIAL INFORMATION continued

	Six months ended December 31, 2016					
	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Discontinued Operations	Inter Segment	Total
Sales - external customers	$ 38,303	$ -	$ 2,810	$ -	$ -	$ 41,113
Cost of sales	18,820	-	942	-	-	19,762
Gross profit	**19,483**	**-**	**1,868**	**-**	**-**	**21,351**
Operating expenses	9,170	-	927	-	-	10,097
Depreciation and amortization	2,437	-	663	-	-	3,100
Operating income	**7,876**	**-**	**278**	**-**	**-**	**8,154**
Finance income	315	-	-	-	-	315
Foreign exchange gain	951	-	25	-	-	976
Income before income taxes	**9,142**	**-**	**303**	**-**	**-**	**9,445**
Income tax expense	2,459	-	77	-	-	2,536
Net income and comprehensive income from continuing operations	**6,683**	**-**	**226**	**-**	**-**	**6,909**
Net income and comprehensive income from discontinued operations	**-**	**-**	**-**	**907**	**-**	**907**
Net income and comprehensive income	**$ 6,683**	**$ -**	**$ 226**	**$ 907**	**$ -**	**$ 7,816**
Total assets	**$ 161,244**	**$ -**	**$ 14,475**	**$ 12,114**	**$ (204)**	**$ 187,629**
Total liabilities	**$ 11,088**	**$ -**	**$ 391**	**$ 1,899**	**$ -**	**$ 13,378**

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

Geographical:

	Three months ended December 31,		Six months ended December 31,	
	2017	2016	**2017**	2016
Sales to external customers				
United States	**$ 13,113**	$ 18,020	**$ 26,928**	$ 36,556
Canada	**1,630**	2,006	**2,628**	4,107
Other	**9**	201	**78**	450
	$ 14,752	$ 20,227	**$ 29,634**	$ 41,113

15. SEGMENTED FINANCIAL INFORMATION continued

	December 31, 2017	June 30, 2017
Non-current assets		
United States	**$ 30,327**	$ -
Canada	**76,642**	73,993
Japan	**1,937**	-
	$ 108,906	$ 73,993

Geographic location is based on shipping location and customer knowledge.

	Three months ended December 31,		Six months ended December 31,	
	2017	2016	**2017**	2016
Sales to major customers accounting for more than 10% of sales				
Customer A	**$ 5,386**	$ 2,930	**$ 10,248**	$ -
Customer B	**5,143**	8,229	**9,795**	19,120
Customer C	**-**	2,755	**-**	4,381
	$ 10,529	$ 13,914	**$ 20,043**	$ 23,501

The sales to these major customers are within the Video and Broadband Solutions segment. Customer A was below 10% in the six months ended December 31, 2016 and the amounts are not shown. Customer C was below 10% in three and six months ended December 31, 2017 and the amounts are not shown.

16. FINANCIAL INSTRUMENTS RISK MANAGEMENT

Financial Risks

The Company is exposed in varying degrees to a variety of financial risks from its use of financial instruments: credit risk, liquidity risk, currency risk and interest rate risk. The source of risk exposure and how each is managed is outlined below.

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, as 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 British Columbia 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 bank deposits.

16. FINANCIAL INSTRUMENTS RISK MANAGEMENT continued

Credit Risk continued

Credit risk also arises from the possibility that a customer would fail to fulfil its financial obligations, therefore the Company's credit risk lies in the collectability of its accounts receivable. Trade accounts receivable are recognized initially at fair value and subsequently measured at amortized cost less allowance for doubtful accounts. An allowance for doubtful accounts is established when there is a reasonable expectation that the Company will not be able to collect all amounts due according to the original terms of the receivable. The carrying amount of the trade accounts receivable is reduced through the use of the allowance account, and the amount of any increases in the allowance is recognized in the statement of income. The Company manages its credit risk related to its trade receivables through a credit management program and all customer accounts are reviewed. Credit approval policies and procedures are in place guiding the granting of credit to new customers. The Company has an allowance for doubtful accounts at December 31, 2017 of $33 (June 30, 2017 - $35). At December 31, 2017, the Company had three major customers (June 30, 2017 - three) who accounted for approximately 55% (June 30, 2017 - 82%) of the period-end accounts receivable balance.

The aging of trade receivables that are not considered to be impaired are as follows:

	December 31, 2017	June 30, 2017
Current	**$ 14,877**	$ 12,126
31 to 60 days	**1,376**	473
61 to 90 days	**307**	23
Over 90 days	**88**	24
	$ 16,648	$ 12,646

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 December 31, 2017, the remaining amount available to be drawn under this credit facility is $14,000.

The table below presents a maturity analysis of the Company's financial liabilities:

		Payments due within		
	Carrying Amount of Liability	**1 year**	**1-3 years**	**Thereafter**
Accounts payable and accrued liabilities	**$ 10,159**	**$ 10,159**	**$ -**	**$ -**
Long-term debt obligations	**2,354**	**250**	**750**	**1,354**
Other long-term liabilities	**507**	**-**	**507**	**-**
	$ 13,020	**$ 10,409**	**$ 1,257**	**$ 1,354**

16. FINANCIAL INSTRUMENTS RISK MANAGEMENT continued

Currency Risk

Approximately 94% (December 31, 2016 - 97%) of the Company's sales are denominated in US$. The Company periodically enters into forward foreign exchange contracts to manage foreign currency exchange risk related to exposures of the exchange rates for the Canadian dollar. These contracts are considered "held for trading" instruments. Changes in the value of these contracts are recorded as an element of foreign exchange gain.

Changes in fair value of these instruments are included in foreign exchange gain in the current year. As at December 31, 2017, the Company has an unrealized net gain of $nil (June 30, 2017 - $16 net gain) on outstanding forward purchase contracts.

For the three months ended December 31, 2017, if the Canadian dollar had weakened or strengthened by 1% against the US dollar with all other variables held constant, net income before income taxes would have been $89 (December 31, 2016 - $128) higher or lower.

Interest Rate Risk

The Company is exposed to floating interest rate risk, as the required cash flows to service the 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 fluctuates based on interest rates received when the investments are made. A 1% movement in the interest rate received would have resulted in a $150 change to net income before income taxes for the three months ended December 31, 2017 (December 31, 2016 - $155).

17. SUBSEQUENT EVENTS

On February 6, 2018, the Board of Directors declared a dividend of $0.055 per common share, payable on March 19, 2018 to shareholders of record as at February 26, 2018 consistent with its previously announced dividend policy.