SECOND QUARTER RESULTS

Management's Discussion & Analysis

and

Unaudited Condensed Interim Consolidated Financial Statements

For the three and six months ended December 31, 2018

VECIMA NETWORKS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FEBRUARY 7, 2019

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, 2018.

Our MD&A supplements, but does not form part of, our unaudited condensed interim consolidated financial statements and related notes for the six months ended December 31, 2018. 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, 2018 and December 31, 2017 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, Burnaby, Victoria, Atlanta and Tokyo.

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.

On December 31, 2017, we acquired the Video Content Delivery and Storage business of Concurrent Computer Corporation ("Concurrent") through our 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 this acquisition, our business is organized into three segments:

1) **Video and Broadband Solutions** includes 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). Our next-generation of platforms, under the Entra product family, addresses the network migration to a distributed access architecture (as described below under Industry Developments).

2) **Content Delivery and Storage** includes solutions & software, under the MediaScaleX™ brand, 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 continues to move toward distributed access architectures (DAA), under the latest DOCSIS 3.1 standard, with some top tier players preparing for a gradual roll out in calendar 2019 and further scale out deployments anticipated over the next several years. DOCSIS 3.1 is a critical evolution for the industry in that it 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. This makes 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.

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 can operate as Remote PHY or Remote MAC-PHY and provides a modular platform for deployment of access technologies;
- A Remote PHY Monitor - unified control software for management and monitoring 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.

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. Service providers are also pursuing new DVR opportunities that shift delivery and storage away from traditional set top storage to cloud-based models. According to the latest industry analysis in the Cisco Visual Networking Index™, consumer video-on-demand traffic will double by 2022 with IP video compromising 82% of all IP traffic.

The Content Delivery and Storage business focuses specifically on MSO's video content delivery and storage needs, marketing relevant products under the newly launched brand name, MediaScaleX™ which includes the product categories: Storage, Cache, Origin and Transcode.

Telematics

Internet of things (IOT) technology is broadening beyond fleet management and tracking to new initiatives associated with asset management for asset-intensive industries such as manufacturing, construction, energy and aerospace, Vecima is developing products to capitalize on segments of these markets.

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 under the MediaScaleX™ brand within the Content Delivery and Storage segment. We will continue to pursue profitable growth both organically and when appropriate, through value-enhancing strategic acquisitions.

Quarterly Highlights

Company and Financial Highlights

- Increased revenue to $22.7 million, up 54% from $14.8 million in the second quarter of fiscal 2018
- Achieved gross margin of 56.7%
- Increased Adjusted EBITDA by 55.6% to $5.5 million
- Filed 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
- Ended the quarter in strong financial position with $44.5 million in cash
- Declared a dividend of $0.055 per share payable on March 18, 2019 to shareholders of record on February 22, 2019. This represents the 19th consecutive quarterly dividend since October 28, 2014 representing $22.5 million returned to shareholders through regular dividends

Video and Broadband Solutions

- Progressing through lab trials with multiple MSOs
- Initiated lab trials for Entra Remote PHY Node with a European Tier 1 MSO
- On track to move to DAA field trials in calendar 2019

Content Delivery and Storage

- Achieved record quarter with revenues of $14.3 million
- MediaScaleX//Storage™ revenues hit all-time high, signifying the differentiation of our object storage technology in media-intensive environments, such as Cloud DVR and time shift
- Further expansion into accelerating IPTV market with another MSO, bringing to nine, the number of operators using Vecima platforms for core IPTV video services

Telematics

- Following shortly after the Q4FY18 contract win with the City of Victoria, selected by another major Western Canadian municipality for deployment related to winter and summer equipment fleets
- Achieved initial revenue contribution from newly released Nero Equipment Tracking product which targets the asset tracking market and augments Vecima's fleet management business

Outlook

The North American cable industry continues to prepare for the new DOCSIS 3.1 standard with MSOs at various stages of planning. While the timing of the volume phase of the transition remains difficult to predict, we are working closely with our MSO customers and see significant potential for our new Entra DOCSIS 3.1 platforms. We will continue to invest in Entra in fiscal 2019 with a focus on further differentiating and enhancing the competitive advantages of our platform. We anticipate that demand for our legacy cable products will continue to taper off in 2019 as the industry begins to evolve to the new technologies.

Demand for Content Delivery and Storage products is expected to grow in 2019, albeit with quarter-to-quarter revenue variations that are typical of this business. The Company's MediaScaleX™ suite of content delivery and storage products broadly address the growing demand for IP-oriented video technologies and the Company is focused on capitalizing on its strong customer relationships in this sector.

In the Telematics segment, we anticipate incremental growth in demand from the existing fleet tracking market in 2019. We are also pursuing new opportunities in asset tracking.

Overall, we expect fiscal 2019 to be a year of continued investment and development as we position Vecima for industry leadership in the DOCSIS 3.1 market and the IP video content delivery and storage 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.

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,			
	2018		2017		**2018**		2017	
Sales	**$ 22,654**	**100 %**	$ 14,752	100 %	**$ 43,989**	**100 %**	$ 29,634	100 %
Cost of sales	**9,814**	**43 %**	7,032	48 %	**19,958**	**45 %**	13,436	45 %
Gross profit	**12,840**	**57 %**	7,720	52 %	**24,031**	**55 %**	16,198	55 %
Operating expenses								
Research and development[1]	**4,567**	**20 %**	3,045	21 %	**9,171**	**21 %**	6,208	21 %
Sales and marketing	**3,252**	**14 %**	1,113	8 %	**6,452**	**15 %**	2,221	7 %
General and administrative	**4,006**	**18 %**	2,540	17 %	**8,009**	**18 %**	5,150	17 %
Restructuring costs	**-**	**- %**	-	- %	**757**	**2 %**	-	- %
Stock-based compensation	**40**	**- %**	14	- %	**74**	**- %**	27	- %
Other (income) expense	**(278)**	**(1)%**	(89)	(1)%	**(366)**	**(1)%**	(171)	(1)%
	11,587	**51 %**	6,623	45 %	**24,097**	**55 %**	13,435	45 %
Operating income (loss)	**1,253**	**6 %**	1,097	7 %	**(66)**	**- %**	2,763	10 %
Finance income	**27**	**- %**	386	3 %	**249**	**1%**	684	2 %
Foreign exchange gain (loss)	**1,593**	**7 %**	300	2 %	**1,076**	**2 %**	(370)	(1)%
Income before taxes	**2,873**	**13 %**	1,783	12 %	**1,259**	**3 %**	3,077	11 %
Income tax expense	**823**	**4 %**	454	3 %	**305**	**1 %**	784	3 %
Net income from continuing operations	**2,050**	**9 %**	1,329	9 %	**954**	**2 %**	2,293	8 %
Discontinued operations	**-**	**- %**	1	- %	**-**	**- %**	7,063	24 %
Net income	**2,050**	**9 %**	1,330	9 %	**954**	**2 %**	9,356	32 %
Other comprehensive income	**1,395**	**6 %**	-	- %	**977**	**2 %**	-	-
Comprehensive income	**$ 3,445**	**15 %**	$ 1,330	9 %	**$ 1,931**	**4 %**	$ 9,356	32 %
Net income per share[2]								
Basic	**$ 0.09**		$ 0.06		**$ 0.04**		$ 0.42	
Basic from continuing operations	**$ 0.09**		$ 0.06		**$ 0.04**		$ 0.10	
Diluted	**$ 0.09**		$ 0.06		**$ 0.04**		$ 0.42	
Diluted from continuing operations	**$ 0.09**		$ 0.06		**$ 0.04**		$ 0.10	
Other Data								
Total research and development expenditures[3]	**$ 7,839**		$ 5,667		**$ 15,645**		$ 11,485	
Adjusted EBITDA[4]	**$ 5,539**		$ 3,557		**$ 7,472**		$ 6,431	
Adjusted earnings per share[5]	**$ 0.08**		$ 0.06		**$ 0.03**		$ 0.10	
Number of employees[6]	**389**		451		**389**		451	

(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 "EBITDA and 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.*

Consolidated Statement of Financial Position (unaudited - in thousands of dollars except number of common shares		**December 31, 2018**		June 30, 2018
Cash and cash equivalents	**$**	**8,024**	$	11,034
Short-term investments	**$**	**36,451**	$	46,660
Working capital	**$**	**71,185**	$	77,405
Total assets	**$**	**206,182**	$	210,038
Long-term debt	**$**	**1,833**	$	1,979
Shareholders' equity	**$**	**188,609**	$	189,285
Number of common shares outstanding(1)		**22,370,641**		22,414,944

(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, content delivery and storage products and services 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)		**2018**		2017		**2018**		2017
Net income	**$**	**2,050**	$	1,330	**$**	**954**	$	9,356
Gain on sale of non-core PP&E, net of tax		**-**		-		**-**		(7,076)
Gain on sale of non-core intangibles, net of tax		**(202)**		-		**(202)**		-
Adjusted net income	**$**	**1,848**	$	1,330	**$**	**752**	$	2,280
Earnings per share	**$**	**0.09**	$	0.06	**$**	**0.04**	$	0.42
Gain on sale of non-core PP&E, net of tax		**-**		-		**-**		(0.32)
Gain on sale of non-core intangibles, net of tax		**(0.01)**		-		**(0.01)**		-
Adjusted earnings per share	**$**	**0.08**	$	0.06	**$**	**0.03**	$	0.10

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 (PP&E) and intangible assets. The term "Adjusted EBITDA" refers to EBITDA adjusted for: gains and losses on sale of PP&E, intangible assets, and assets held for sale; impairment of PP&E; 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, content delivery and storage products and services or supplying telematic 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, 2018	2017	Six months ended December 31, 2018	2017
Net income	**$ 2,050**	$ 1,330	**$ 954**	$ 9,356
Income tax expense	**823**	454	**305**	1,812
Interest expense	**31**	16	**55**	37
Depreciation of PP&E	**587**	420	**1,198**	824
Amortization of deferred development costs	**1,231**	1,081	**2,400**	1,988
Amortization of intangible assets	**948**	231	**1,889**	466
EBITDA	**5,670**	3,532	**6,801**	14,483
Gain on sale of assets	**-**	-	**-**	(8,109)
Loss on sale of property, plant and equipment	**31**	11	**42**	30
Gain on sale of intangibles	**(202)**	-	**(202)**	-
Restructuring costs	**-**	-	**757**	-
Stock-based compensation	**40**	14	**74**	27
Adjusted EBITDA	**$ 5,539**	$ 3,557	**$ 7,472**	$ 6,431
Adjusted EBITDA margin (%)	**24 %**	24 %	**17 %**	22 %

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 (research and development expense) to our actual cash research and development expenditures (total research and development expenditure).

Calculation of Research and Development Expenditures	Three months ended December 31, 2018	2017	Six months ended December 31, 2018	2017
Research and development per statement of income	**$ 4,567**	$ 3,045	**$ 9,171**	$ 6,208
Deferred development costs	**4,530**	3,636	**8,873**	7,178
Investment tax credits	**22**	67	**50**	136
Amortization of deferred development costs	**(1,231)**	(1,081)	**(2,400)**	(1,988)
Government grants	**(49)**	-	**(49)**	(49)
Total research and development expenditure	**$ 7,839**	$ 5,667	**$ 15,645**	$ 11,485
Percentage of sales	**35 %**	38 %	**36 %**	39 %

Summary of Quarterly Results of Operations

The following information has been derived from our consolidated financial statements for the six months ended December 31, fiscal 2019, fiscal 2018 and fiscal 2017 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.

	Fiscal Year 2019		Fiscal Year 2018				Fiscal Year 2017	
	Q2	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
Sales	**$ 22,654**	**$ 21,335**	$ 24,346	$ 24,124	$ 14,752	$ 14,882	$ 14,629	$ 15,718
Cost of sales	**9,814**	**10,144**	11,075	11,743	7,032	6,404	7,171	7,506
Gross profit	**12,840**	**11,191**	13,271	12,381	7,720	8,478	7,458	8,212
Operating expenses								
Research and development	**4,567**	**4,604**	4,427	4,466	3,045	3,163	3,074	2,969
Sales and marketing	**3,252**	**3,200**	4,227	4,015	1,113	1,108	1,423	1,404
General and administrative	**4,006**	**4,003**	3,979	4,119	2,540	2,610	2,521	2,471
Impairment of intangible assets	**-**	**-**	22	-	-	-	174	-
Restructuring costs	**-**	**757**	-	-	-	-	986	-
Stock-based compensation	**40**	**34**	31	22	14	13	120	67
Other (income) expense	**(278)**	**(88)**	(92)	(54)	(89)	(82)	(169)	(123)
	11,587	**12,510**	12,594	12,568	6,623	6,812	8,129	6,788
Operating income (loss)	**1,253**	**(1,319)**	677	(187)	1,097	1,666	(671)	1,424
Finance income	**27**	**222**	211	237	386	298	771	48
Foreign exchange gain (loss)	**1,593**	**(517)**	454	846	300	(670)	(331)	150
Income (loss) before income taxes	**2,873**	**(1,614)**	1,342	896	1,783	1,294	(231)	1,622
Income tax expense (recovery)	**823**	**(518)**	554	194	454	330	(94)	603
Net income (loss) from continuing operations	**2,050**	**(1,096)**	788	702	1,329	964	(137)	1,019
Net (loss) income and comprehensive (loss) income from discontinued operations	**-**	**-**	(45)	1	1	7,062	(6)	9,356
Net income (loss)	**2,050**	**(1,096)**	743	703	1,330	8,026	(143)	10,375
Other comprehensive income (loss)	**1,395**	**(418)**	450	627	-	-	-	-
Total comprehensive income (loss)	**$ 3,445**	**$ (1,514)**	$ 1,193	$ 1,330	$ 1,330	$ 8,026	$ (143)	$ 10,375
Net income (loss) per share								
Basic	**$ 0.09**	**$ (0.05)**	$ 0.03	$ 0.03	$ 0.06	$ 0.36	$ (0.01)	$ 0.46
Diluted	**$ 0.09**	**$ (0.05)**	$ 0.03	$ 0.03	$ 0.06	$ 0.36	$ (0.01)	$ 0.46
Adjusted EBITDA as reported	**$ 5,539**	**$ 1,933**	$ 4,352	$ 3,753	$ 3,557	$ 2,874	$ 2,415	$ 3,430

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 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 some of our legacy Video and Broadband Solutions products as customers complete their digital networks and migrate to DOCSIS 3.1. We expect our sales to recover as our new products in the DOCSIS 3.1 Entra platform are commercialized.

The addition of our new Content Delivery and Storage segment following our acquisition of the Concurrent business has also contributed to variation in our quarterly sales. Quarterly sales fluctuations are typical of this business due to the timing of large customer orders.

Segmented Information

Sales

Segment		Three months ended December 31, 2018		2017		Six months ended December 31, 2018		2017
Video and Broadband Solutions	$	**7,000**	$	13,394	$	**18,345**	$	26,994
Content Delivery and Storage		**14,252**		-		**22,878**		-
Telematics		**1,402**		1,358		**2,766**		2,640
Total sales	$	**22,654**	$	14,752	$	**43,989**	$	29,634

Three-Month Sales

We generated total sales of $22.7 million in the second quarter of fiscal 2019, a 54% increase compared to $14.8 million in Q2 fiscal 2018, and a 6% increase from the $21.3 million generated in Q1 fiscal 2019. Acquisition-based growth was the key factor in the higher year-over-year sales, with our new Content Delivery and Storage segment, contributing second quarter revenues of $14.3 million.

Video and Broadband Solutions sales were $7.0 million in the second quarter of fiscal 2019, compared to $13.4 million in Q2 fiscal 2018 and $11.3 million in Q1 fiscal 2019.

- Second quarter sales of the Terrace family of products decreased 51% to $4.2 million, from $8.5 million in the same period last year. The sales result reflects a slower pace of purchasing activity for the TC600E as our Tier 1 MSO customer advances its network wide all-digital conversion.

- Second quarter fiscal 2019 sales of TerraceQAM were $1.2 million, compared to $4.2 million in the second quarter of 2018, a 71% decrease. We believe our customer's need for new systems is nearing saturation and sales will remain at reduced levels until the next generation platform is completed.

Our Content Delivery and Storage segment generated strong sales of $14.3 million in the second quarter of fiscal 2019, compared $8.6 million in Q1 2019. The 66% increase in sequential quarterly sales reflects higher-than-normal order flow in Q2 fiscal 2019 as a result of customer delays that moved fulfillment of some Q1 orders into Q2. We continue to anticipate strong results from this segment on a full year basis, but note that quarterly sales variances in this segment can be pronounced. Segment sales for the period included $10.7 million of product sales and $3.5 million of services revenue.

Telematics sales increased a modest 3% to $1.40 million in the second quarter of fiscal 2019 from $1.36 million in both Q2 fiscal 2018 and Q1 fiscal 2019. Results for the quarter were in line with our expectations.

Six-Month Sales

We generated total sales of $44.0 million in the six months ended December 31, 2018, a 106% increase compared to $29.6 million in the same period of fiscal 2018. This increase primarily reflects contribution from our new Content Delivery and Storage segment. On a sequential quarterly basis, total sales were up 6% from the $21.3 million generated in Q1 fiscal 2019.

Video and Broadband Solutions sales were $18.3 million in the first six months of fiscal 2019, compared to $27.0 million in the same period of fiscal 2018.

- Sales of the Terrace family of products for the first six months of fiscal 2019 decreased 29% to $11.2 million, from $15.8 million in the same period of fiscal 2018. The sales result reflects a slower pace of purchasing activity for the TC600E as our Tier 1 MSO customer advances its network wide all digital conversion.

- Sales of TerraceQAM were $2.9 million for the first six months of fiscal 2019, compared to $7.5 million in the same period of 2018, a 61% decrease. We believe our customer's need for new systems is nearing saturation and sales will remain at reduced levels until the next generation platform is completed.

Sales from our Content Delivery and Storage segment were $22.9 million in the first six months of fiscal 2019. Segment sales for the fiscal 2019 period included $16.1 million of product sales and $6.8 million of services revenue.

Telematics sales increased to $2.8 million in the first six months of fiscal 2019, up 8% from $2.6 million in the same period of fiscal 2018 . These results were in line with our expectations.

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 inventory management costs, and sales commissions, as well as support costs and payments to contract manufacturers that perform printed circuit board assembly functions. Costs associated with Content Delivery and Storage sales include the cost of the computer systems sold, including amortization of software development costs, depreciation, labour, material, overhead and third-party product costs, as well as the salaries, benefits and other costs of the maintenance, service and help desk personnel associated with product installation, support activities and sales commissions. Costs associated with Telematics sales consist of hardware amortization, inventory management costs, order fulfillment, wireless fees, server hosting services, mapping licenses and sales commissions.

Gross Profit and Gross Margin

	Three months ended December 31,		Six months ended December 31,	
Segment	**2018**	2017	**2018**	2017
Video and Broadband Solutions	**$ 3,449**	$ 6,764	**$ 8,945**	$ 14,325
Content Delivery and Storage	**8,396**	-	**13,169**	-
Telematics	**995**	956	**1,917**	1,873
Total gross profit	**$ 12,840**	$ 7,720	**$ 24,031**	$ 16,198
Video and Broadband Solutions	**49.3 %**	50.2 %	**48.8 %**	53.1 %
Content Delivery and Storage	**58.9 %**	- %	**57.6 %**	- %
Telematics	**71.0 %**	74.2 %	**69.3 %**	70.9 %
Total gross margin	**56.7 %**	52.3 %	**54.6 %**	54.7 %

Three-Month Results

For the three months ended December 31, 2018, our gross margin increased to 57%, providing a total gross profit of $12.8 million. This was up from a gross margin of 52% (total gross profit of $7.7 million) in the same period last year, and a gross margin of 53% (total gross profit of $11.2 million) in Q1 fiscal 2019.

Gross margin from the Video and Broadband Solutions segment was 49% (gross profit of $3.4 million) in the second quarter of fiscal 2019, as compared to 50% (gross profit of $6.8 million) during the same period in fiscal 2018. Gross margin in the current quarter was impacted by the weakening of the Canadian dollar relative to the U.S. dollar on a year over year basis, lower prices for certain Terrace family products, the reduced overall sales in Q2 fiscal 2019 as compared to Q2 fiscal 2018, and sales commissions now being classified in cost of sales as a result of the adoption of IFRS 15.

In the Content Delivery and Storage segment, gross margin increased to 59% (gross profit of $8.4 million) from 55% (gross profit of $4.8 million) in Q1 fiscal 2019. The sequential quarterly increase reflects a change in product and customer mix between the two periods, as well as the positive impact of higher sales in the Q2 fiscal 2019 period. This was the fourth quarter of operations for the Content Delivery and Storage segment following our December 31, 2017 acquisition of assets of Concurrent Computer Corporation.

Gross margin from the Telematics segment was 71% (gross profit of $1.0 million) in the second quarter of fiscal 2019, as compared to 74% (gross profit of $1.0 million) in Q2 fiscal 2018. The year-over-year decrease in gross margin reflects sales commissions now being classified in cost of sales as a result of the adoption of IFRS 15.

Six-Month Results

For the six months ended December 31, 2018, we generated a gross margin of 55%, providing a total gross profit of $24.0 million. This compares to a gross margin of 55% (total gross profit of $16.2 million) in the same period last year.

Gross margin from the Video and Broadband Solutions segment was 49% (gross profit of $8.9 million) in the six months ended December 31, 2018, as compared to 53.1% (gross profit of $14.3 million) during the same period in fiscal 2018. Gross margin from this segment in the current year was impacted by the reduced overall sales in fiscal 2019 as compared to fiscal 2018, lower prices for certain Terrace family products, a weaker Canadian dollar relative to the U.S. dollar on a year over year basis, and sales commissions now being classified in cost of sales as a result of the adoption of IFRS 15.

In the Content Delivery and Storage segment, gross margin for was 49 % (gross profit of $12.2 million) in the six months ended December 31, 2018. We did not operate this segment in the six months ended December 31, 2017.

The Telematics segment generated a gross margin of 69% (gross profit of $1.9 million) in the six months ended December 31, 2018 as compared to 71% (gross profit of $1.9 million) in the same period of fiscal 2018. The year-over-year decrease reflects sales commissions now being classified in cost of sales as a result of the adoption of IFRS 15. This impact was partially offset by higher sales year-over-year.

Operating Expenses

Segment	**Three months ended December 31,**		**Six months ended December 31,**	
	2018	2017	**2018**	2017
Video and Broadband Solutions	**$ 5,520**	$ 5,810	**$ 12,122**	$ 11,806
Content Delivery and Storage	**5,293**	-	**10,512**	-
Telematics	**774**	813	**1,463**	1,629
Total operating expense	**$ 11,587**	$ 6,623	**$ 24,097**	$ 13,435

Three-Month Results

For the three months ended December 31, 2018, total operating expenses increased to $11.6 million, from $6.6 million in Q2 fiscal 2018. The year over year increase primarily reflects the addition of the Content Delivery and Storage segment, partially offset by acquisition related costs in Q2 fiscal 2018 that did not repeat in Q2 fiscal 2019. On a sequential quarterly basis, second quarter operating expenses were $0.9 million lower, mainly reflecting restructuring costs in Q1 fiscal 2019.

Video and Broadband Solutions operating expenses for the second quarter were lower at $5.5 million, as compared to $5.8 million in Q2 fiscal 2018. Prior-year results included acquisition related costs that did not repeat in Q2 fiscal 2018. In addition, sales commissions are now being classified in cost of sales as a result of the adoption of IFRS 15. On a sequential quarterly basis, operating expenses were $1.1 million lower than the $6.6 million recorded in Q1 fiscal 2019, mainly reflecting restructuring costs in Q1 fiscal 2019.

Content Delivery and Storage operating expenses were $5.3 million in Q2 fiscal 2019. We did not operate this segment in the prior-year quarter. On a sequential quarterly basis, operating expenses were $0.1 million higher than the $5.2 million recorded in Q1 fiscal 2019, mainly reflecting increased general and administrative expenses quarter-over-quarter.

Telematics operating expenses were slightly lower at $0.77 million in Q2 fiscal 2019, as compared to $0.81 million in Q2 fiscal 2018. On a sequential quarterly basis, Telematics operating expenses were $0.1 million higher than the $0.7 million recorded in Q1 fiscal 2019 reflecting higher sales and marketing expenses and general and administrative expenses quarter-over-quarter.

Research and development expenses for Q2 fiscal 2019, increased to $4.6 million, or 20% of sales, from $3.0 million, or 21% of sales in the same period of fiscal 2018. 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 Q2 fiscal 2019 increased to $7.8 million, or 35% of sales, from $5.7 million, or 38% of sales in Q2 fiscal 2018. The increase was primarily the result of the addition of the Concurrent operations, and also reflects higher staffing and prototyping costs, partially offset by lower subcontracting costs and government assistance in the current period.

Sales and marketing expenses increased to $3.3 million, or 15% of sales in Q2 fiscal 2019, from $1.1 million, or 8% of sales last year. This increase primarily reflects the addition of sales and marketing expenses related to our new Content Delivery and Storage operations, partially offset by sales commissions now being classified in costs of sales as a result of the adoption of IFRS 15. Non-cash inventory allowances for slow-moving finished goods legacy products are expected to increase sales and marketing expenses by an estimated $1.5 million in total over the last six months of fiscal 2019.

General and administrative expenses increased to $4.0 million in Q2 fiscal 2019, from $2.5 million in Q2 fiscal 2018. The year-over-year increase reflects the addition of the Content Delivery and Storage operations, partially offset by the acquisition-related costs in the prior-year quarter.

Stock-based compensation expense increased to $0.04 million in Q2 fiscal 2019, from $0.01 million in Q2 fiscal 2018.

Other (income) expense increased to $0.3 million in Q2 fiscal 2019, from $0.1 million in the same period last year. Gain on sale of intellectual property was the main driver of this increase.

Six-Month Results

For the six months ended December 31, 2018, total operating expenses increased to $24.1 million, from $13.4 million in the same period last year. This increase primarily reflects the addition of the Content Delivery and Storage operations, partially offset by acquisition-related costs incurred in the prior year which did not repeat in the first six months of fiscal 2019.

Video and Broadband Solutions operating expenses for the six months ended December 31, 2018 increased to $12.1 million, from $11.8 million in the prior year. The year-over-year increase is a result of restructuring costs incurred in Q1 fiscal 2019, partially offset by acquisition-related costs incurred in the prior year.

Content Delivery and Storage operating expenses were $10.5 million for the six months ended December 31, 2018. We did not operate this segment for the six months ended December 31, 2017.

Telematics operating expenses decreased to $1.5 million in Q2 fiscal 2018, from $1.6 million in Q2 fiscal 2018. This $0.1 million year-over-year decrease primarily reflects lower research and development costs year-over-year.

Research and development expenses for the six months ended December 31, 2018 increased to $9.2 million, or 21% of sales, from $6.2 million, or 21% of sales in the same period of fiscal 2018. 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 six months ended December 31, 2018 increased to $15.6 million, or 36% of sales, from $11.5 million, or 39% of sales for the same period in the prior year. The increase was primarily the result of the addition of Content Delivery and Storage operations, higher staffing costs, subcontracting costs and prototyping costs in the current year.

Sales and marketing expenses increased to $6.5 million, or 15% of sales in Q2 fiscal 2019, from $2.2 million, or 7% of sales last year. This increase primarily reflects the addition of the Content Delivery and Storage operations. Non-cash inventory allowances for slow-moving finished goods legacy products are expected to increase sales and marketing expenses by an estimated $1.5 million in total over the last six months of fiscal 2019.

General and administrative expenses increased to $8.0 million in Q2 fiscal 2019, from $5.1 million in Q2 fiscal 2018. The year-over-year increase primarily reflects the addition of the Content Delivery and Storage operations following our acquisition of Concurrent.

Restructuring costs were $0.8 million for the six months ended December 31, 2018 and represent severance costs related to the reorganization of manufacturing operations.

Stock-based compensation expense increased to $0.07 million for the six months ended December 31, 2018 from $0.03 million in the same period of fiscal 2018.

Other (income) expense increased to $0.4 million for the six months ended December 31, 2018, from $0.2 million in the same period last year. Sale of intellectual property was the main driver of this year-over-year increase.

Operating Income

	Three months ended December 31,		Six months ended December 31,	
Segment	**2018**	2017	**2018**	2017
Video and Broadband Solutions	**$ (2,071)**	$ 954	**$ (3,177)**	$ 2,519
Content Delivery and Storage	**3,103**	-	**2,657**	-
Telematics	**221**	143	**454**	244
Total operating income	**$ 1,253**	$ 1,097	**$ (66)**	$ 2,763

Three-Month Results

Operating income increased to $1.3 million in Q2 fiscal 2019, from $1.1 million in Q2 fiscal 2018. This $0.2 million improvement was mainly driven by the $3.1 million contribution from the Content Delivery and Storage segment ($nil in Q2 fiscal 2018), together with increased operating income from the Telematics segment, partially offset by decreased contribution from the Video and Broadband Solutions segment year-over-year.

The Video and Broadband Solutions segment reported a second quarter operating loss of $2.1 million, as compared to operating income of $1.0 million in Q2 fiscal 2018. The year-over-year change reflects the $3.3 million reduction in gross profit, partially offset by the $0.3 million decrease in operating expenses.

Content Delivery and Storage reported second quarter operating income of $3.1 million, as compared to an operating loss of $0.5 million in Q1 fiscal 2019. The sequential quarterly improvement in operating income primarily reflects the $3.6 million increase in gross profit.

Telematics operating income increased to $0.2 million in Q2 fiscal 2019, from $0.1 million in Q2 fiscal 2018. This improvement reflects higher gross profit, partially offset by higher operating expenses year-over-year.

Finance income decreased to $0.03 million in Q2 fiscal 2019, from $0.39 million in the same period last year. A loss on investments held for sales and lower interest income were the key factors in this change.

Foreign exchange gain (loss) for the three months ended December 31, 2018 increased to $1.6 million, from $0.3 million in the prior-year period.

Income tax expense was $0.8 million in Q2 fiscal 2019 as compared to an expense of $0.5 million in Q2 fiscal 2018.

Net income for Q2 fiscal 2019 increased to $2.1 million from $1.3 million in Q2 fiscal 2018.

Other comprehensive income increased to $1.4 million in Q2 fiscal 2019 from $nil for the same period in fiscal 2018. The year-over-year increase reflects foreign exchange differences on the translation of the foreign operations of our Content Delivery and Storage segment to Canadian dollars.

Net income and total comprehensive income for Q2 fiscal 2019 increased to $3.4 million or $0.09 per share, from $1.3 million or $0.06 per share in Q2 fiscal 2018.

Six-Month Results

For the six months ended December 31, 2018, we reported an operating loss of $0.1 million as compared to operating income of $2.8 million in the same period of fiscal 2018. The year-over-year change mainly reflects decreased contribution from the Video and Broadband Solutions segment, partially offset by the addition of operating income from the Content Delivery and Storage segment and increased year-over-year operating income from the Telematics segment.

Video and Broadband Solutions reported an operating loss of $3.2 million in the current year, as compared to operating income of $2.5 million in the same period of fiscal 2018. The year-over-year change reflects the $5.4 million reduction in gross profit and the $0.5 million increase in operating expenses.

Content Delivery and Storage reported an operating income of $2.7 million. We did not operate this segment in the six months ended December 31, 2017.

Telematics operating income increased to $0.5 million in the six months ended December 31, 2018, from $0.2 million in the first half of fiscal 2018. Increased sales and lower research and development expenses were the main factors in this improvement.

Finance income decreased to $0.2 million in Q2 fiscal 2019, from $0.7 million in the same period last year. This reflects a loss on investments held for sale and a decrease in interest income.

Foreign exchange gain (loss) for the six months ended December 31, 2018 was a gain of $1.1 million, compared to a loss of $0.4 million recorded in the prior-year period.

Income tax expense was $0.3 million for the six months ended December 31, 2018 compared to of $0.8 million in the first half of fiscal 2018.

Net income from discontinued operations was $nil for the six months ended December 31, 2018 compared to $7.1 million to the same period in fiscal 2018. Discontinued operations represent the YourLink operations in Saskatchewan in Q1 fiscal 2018.

Net income for the six months ended December 31, 2018 was $1.0 million compared to $9.4 million in fiscal 2018. Results from the first half of fiscal 2018 included the $7.1 million gain on sale of the YourLink operations in Saskatchewan.

Other comprehensive income increased to $1.0 million in the six months ended December 31, 2018 from $nil for the same period in fiscal 2018. The year-over-year change reflects foreign exchange differences on the translation of the foreign operations of our Content Delivery and Storage segment to Canadian dollars.

Net income and total comprehensive income for the six months ended December 31, 2018 was $1.9 million or $0.04 per share, compared to net income of $9.4 million or $0.42 per share in the first half of fiscal 2018.

Operating Activities

For the three months ended December 31, 2018, cash flow used in operating activities amounted to $0.7 million, as compared to cash provided by operating activities of $0.6 million for the three months ended December 31, 2017. The $1.3 million change reflects a $3.0 million decrease in cash flow from non-cash working capital, and a $1.7 million increase in operating cash flow.

For the six months ended December 31, 2018, cash flow from operating activities provided cash of $nil, compared to $9.7 million for the six months ended December 31, 2017. The year-over-year decrease primarily reflects the $9.7 million decrease in cash flow from non-cash working capital.

Investing Activities

For the three months ended December 31, 2018, cash flow from investing activities was $nil as compared to $27.9 million in the same period last year. This result reflects the net sale of short-term investments of $4.7 million (Q2 fiscal 2018 - $13.3 million), deferred development expenditures of $4.5 million (Q2 fiscal 2018 - $3.6 million), proceeds from the sale of intangibles of $0.2 million (Q2 fiscal 2018 - $nil), and purchase of property, plant and equipment of $0.4 million (Q2 fiscal 2018 - $0.3 million).

For the six months ended December 31, 2018, cash flow from investing activities increased to $0.4 million from a use of cash of $6.2 million in the same period last year. The cash provided by investing activities represents the net sale of short-term investments of $10.2 million (fiscal 2018 - $30.0 million), deferred development expenditures of $8.9 million (fiscal 2018 - $7.2 million), proceeds from the sale of intangibles of $0.2 million (fiscal 2018 - $nil), and purchase of property, plant and equipment of $1.1 million (fiscal 2018 - $0.5 million).

Financing Activities

In the three months ended December 31, 2018, we repaid $0.08 million of our long-term debt (Q2 fiscal 2018 - $0.06 million repaid). We received proceeds of government grants of $nil (Q2 fiscal 2018 - $0.01 million). In the second quarter of fiscal 2018 we issued $0.9 million in common shares in exchange for shares in AirIQ Inc. In the second quarter of fiscal 2019, we repurchased common shares for $0.06 million (Q2 fiscal 2018 - $0.01 million).

In the six months ended December 31, 2018, we repaid $0.1 million of our long-term debt (fiscal 2018 - $0.1 million repaid). We received proceeds of government grants of $nil (fiscal 2018 - $0.01 million). In the first half of fiscal 2018 we issued $0.9 million in common shares in exchange for shares in AirIQ Inc. In the first half of fiscal 2019, we repurchased common shares for $0.11 million (fiscal 2018 - $0.01 million).

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 that our current cash and short-term investments of $44.5 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.

As at December 31, 2018, we had access to our full revolving loan facility of $14.0 million ($14.0 million at June 30, 2018), of which nil was drawn as an operating line of credit (June 30, 2018 - $nil was drawn). We had term credit of $2.1 million as at December 31, 2018 (June 30, 2018 - $2.2 million). We believe that our current cash and short term investments of $44.5 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 2019 were $0.4 million compared to $0.3 million in Q2 fiscal 2018. The year-over-year increase is a result of Content Delivery and Storage capital expenditures.

Working Capital

Working capital represents our current assets less current liabilities. Our working capital decreased to $71.2 million at December 31, 2018, from $77.4 million at June 30, 2018. This largely reflects the decrease in cash generated from operations and the cash dividend paid 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 $19.1 million at December 31, 2018, from $18.0 million at June 30, 2018. This increase reflects the timing of sales, with more orders shipped later in Q2 fiscal 2019 which resulted in higher accounts receivable as at December 31, 2018.

Income tax receivable balance decreased to $2.3 million from $2.5 million as at June 30, 2018. This represents the collection of an income tax receivable balance in the quarter. The balance remaining represents income tax paid in respect of a January 2017 CRA re-assessment (see Commitments below for details).

Inventories increased by $1.7 million to $16.7 million at December 31, 2018, from $15.0 million as at June 30, 2018. Finished goods inventories were $8.2 million at December 31, 2018, compared to $7.5 million at June 30, 2018. Raw material inventory increased to $7.4 million at December 31, 2018, compared to $6.7 million at June 30, 2018. Work-in-process inventories increased to $1.2 million as at December 31, 2018, from $0.8 million at June 30, 2018. 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 $23.8 million at December 31, 2018 up from $22.7 million at June 30, 2018. 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 decreased to $9.5 million at December 31, 2018 representing 72 days for payables to be outstanding. This compares to $12.1 million at June 30, 2018, representing an average of 65 days for payables to be outstanding.

Long-term debt, including current portion, was $2.1 million at December 31, 2018 compared to $2.2 million at June 30, 2018.

Dividends

Declaration Date	Dividend Amount (per share)	Record Date	Payable Date
February 6, 2018	$ 0.055	February 26, 2018	March 19, 2017
May 8, 2018	$ 0.055	May 25, 2018	June 19, 2018
September 25, 2018	$ 0.055	October 12, 2018	November 2, 2018
November 6, 2018	$ 0.055	November 23, 2018	December 17, 2018

Contractual Obligations

We have lease commitments for production equipment, service vehicles and facilities amounting to $1.8 million within one year, $5.7 million after one year but not more than five years and $0.3 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 January 2019, we received notice from the CRA that they have assigned an Appeal Officer to this case.

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 96% 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, 2018, the exchange rate on the Canadian dollar strengthened to $1.363 against the U.S. dollar from Canadian $1.313 against the U.S. dollar as at June 30, 2018. This $0.050 exchange difference increased the value of our $41.2 million U.S. dollar net assets by approximately $2.0 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, 2018, we did not have any forward contracts (June 30, 2018 - $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, 2018 (December 31, 2017 - $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 condensed interim 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 six months ended December 31, 2018 as well as in the Business Combination section below in this MD&A.

Accounting Pronouncements

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.

IFRIC 23 - Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23. IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances where there is uncertainty over income tax treatments. 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, 2018.

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, 2018 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, 2018.

Business Combination

On December 31, 2017, we acquired substantially all of the operating assets of Concurrent Computer Corporation for aggregate consideration of approximately $37.5 million - US$29.0 million plus a working capital adjustment of US$0.8 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.

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.

Outstanding Share Data

As at February 7, 2019, we had 22,354,087 common shares outstanding as well as stock options outstanding that are exercisable for an additional 531,491 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 6,178 common shares of Vecima for cancellation in Q2 fiscal 2019. The normal course issuer bid expired on November 29, 2018.

On December 17, 2018, 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 1,128 common shares of Vecima for cancellation in Q2 fiscal 2019. The normal course issuer bid expires on December 19, 2019.

Additional Information

Financial Governance

Our management is responsible for the preparation and presentation of the 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 the TC600E sales result reflects a slower pace of purchasing activity as our Tier 1 MSO customer advances its network wide all-digital conversion; we believe our customer's need for new Terrace QAM systems is nearing saturation and sales will remain at reduced levels until the next generation platform is completed.; non-cash inventory allowances for slow-moving finished goods legacy products are expected to increase sales and marketing expenses by an estimated $1.5 million in total over the last six months of fiscal 2019; and we believe that our current cash and short-term investments of $44.5 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. Forward looking information also includes our Strategy, our 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; 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; 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; 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 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, 2018	June 30, 2018
Assets			
Current assets			
Cash and cash equivalents		$ 8,024	$ 11,034
Short-term investments		36,451	46,660
Accounts receivable	11	19,101	17,997
Income tax receivable		2,316	2,519
Inventories	4	16,725	15,020
Prepaid expenses		2,244	1,658
Contract assets	11	414	-
		85,275	94,888
Non-current assets			
Property, plant and equipment	5	11,416	12,105
Goodwill		15,234	14,903
Intangible assets	6	66,844	62,324
Other long-term assets	7	1,224	788
Investment tax credit		23,764	22,692
Deferred tax asset		2,425	2,339
		$ 206,182	$ 210,039
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 9,491	$ 12,151
Income tax payable		539	358
Provisions		431	520
Deferred revenue	11	3,378	4,206
Current portion of long-term debt	9	250	250
		14,089	17,485
Non-current liabilities			
Deferred revenue	11	899	524
Provisions		321	352
Deferred tax liability		430	414
Long-term debt	9	1,833	1,979
		17,572	20,754
Shareholders' equity			
Share capital	10	1,755	1,756
Reserves		4,115	4,041
Retained earnings		180,686	182,411
Accumulated other comprehensive income		2,054	1,077
		188,610	189,285
		$ 206,182	$ 210,039

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

VECIMA NETWORKS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
(unaudited - in thousands of Canadian dollars except net income per share data)

	Notes	Three months ended December 31, 2018	Three months ended December 31, 2017	Six months ended December 31, 2018	Six months ended December 31, 2017
Sales	**11, 15**	**$ 22,654**	$ 14,752	**$ 43,989**	$ 29,634
Cost of sales		**9,814**	7,032	**19,958**	13,436
Gross profit		**12,840**	7,720	**24,031**	16,198
Operating expenses					
Research and development		**4,567**	3,045	**9,171**	6,208
Sales and marketing		**3,252**	1,113	**6,452**	2,221
General and administrative		**4,006**	2,540	**8,009**	5,150
Restructuring costs		**-**	-	**757**	-
Stock-based compensation	**10**	**40**	14	**74**	27
Other (income) expense	**12**	**(278)**	(89)	**(366)**	(171)
		11,587	6,623	**24,097**	13,435
Operating income (loss)		**1,253**	1,097	**(66)**	2,763
Finance income		**27**	386	**249**	684
Foreign exchange gain (loss)		**1,593**	300	**1,076**	(370)
Income before income taxes		**2,873**	1,783	**1,259**	3,077
Income tax expense	**13**	**823**	454	**305**	784
Net income from continuing operations		**2,050**	1,329	**954**	2,293
Net income from discontinued operations		**-**	1	**-**	7,063
Net income		**2,050**	1,330	**954**	9,356
Other comprehensive income					
Item that may be subsequently reclassed to net income					
Exchange differences on translating foreign operations		**1,395**	-	**977**	-
Comprehensive income		**$ 3,445**	$ 1,330	**$ 1,931**	$ 9,356
Net income per share					
Continuing operations		**0.09**	0.06	**0.04**	0.10
Discontinued operations		**-**	-	**-**	0.32
Total basic net income per share	**10**	**$ 0.09**	$ 0.06	**$ 0.04**	$ 0.42
Continuing operations		**0.09**	0.06	**0.04**	0.10
Discontinued operations		**-**	-	**-**	0.32
Total diluted net income per share	**10**	**$ 0.09**	$ 0.06	**$ 0.04**	$ 0.42
Weighted average number of common shares					
Shares outstanding - basic	**10**	**22,368,234**	22,447,389	**22,370,641**	22,413,520
Shares outstanding - diluted	**10**	**22,371,522**	22,499,411	**22,376,886**	22,470,074

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

VECIMA NETWORKS INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(unaudited - in thousands of Canadian dollars)

	Notes	Share Capital	Reserves	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at June 30, 2017		**$ 803**	**$ 3,965**	**$ 177,474**	**$ -**	**$ 182,242**
Net income		-	-	9,356	-	9,356
Dividends		-	-	(2,467)	-	(2,467)
Share repurchased and cancelled		-	-	(75)	-	(75)
Shares issued by exercising options		9	(3)	-	-	6
Shares issued in exchange for short-term investments		948	-	-	-	948
Share-based payment expense		-	27	-	-	27
Balance at December 31, 2017		$ 1,760	$ 3,989	$ 184,288	$ -	$ 190,037
Balance at June 30, 2018		**$ 1,756**	**$ 4,041**	**$ 182,411**	**$ 1,077**	**$ 189,285**
IFRS 15 transition impact	**2**	-	-	(102)	-	(102)
Adjusted balance at June 30, 2018		**1,756**	**4,041**	**182,309**	**1,077**	**189,183**
Net income		-	-	954	-	954
Other comprehensive income		-	-	-	977	977
Dividends		-	-	(2,461)	-	(2,461)
Share repurchased and cancelled		(1)	-	(116)	-	(117)
Share-based payment expense		-	74	-	-	74
Balance at December 31, 2018		**$ 1,755**	**$ 4,115**	**$ 180,686**	**$ 2,054**	**$ 188,610**

The accompanying notes are an integral part of these condensed interim 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, 2018	Three months ended December 31, 2017	Six months ended December 31, 2018	Six months ended December 31, 2017
Cash flows from operating activities					
Net income from continuing operations		**$ 2,050**	$ 1,329	**$ 954**	$ 2,293
Adjustments to reconcile net income to cash from operating activities	**13**	**3,239**	1,899	**5,230**	3,509
Increase in other long-term assets		**(198)**	-	**(179)**	-
Decrease in provisions		**(241)**	(61)	**(137)**	(215)
Increase in investment tax credit		**(21)**	(66)	**(48)**	(133)
Net-change in non-cash working capital relating to operations	**14**	**(5,807)**	(2,823)	**(6,217)**	3,525
Interest paid		**(26)**	(22)	**(50)**	(43)
Interest received		**250**	328	**531**	647
Income tax received		**147**	-	**409**	-
Income tax paid		**(106)**	-	**(457)**	-
Net cash (used) provided by continuing operations		**(713)**	584	**36**	9,583
Net cash (used) provided by discontinued operations		**-**	(3)	**-**	72
Net cash (used) provided by operations		**(713)**	581	**36**	9,655
Cash flows from investing activities					
Purchase of property, plant and equipment	**5**	**(350)**	(250)	**(1,090)**	(468)
Proceeds from sale of property, plant and equipment		**3**	-	**3**	3
Purchase of short-term investments		**(1,212)**	(2,275)	**(1,418)**	(8,221)
Proceeds on sale of short-term investments		**5,900**	15,591	**11,627**	38,291
Deferred development costs	**6**	**(4,530)**	(3,636)	**(8,873)**	(7,178)
Purchase of intangible assets	**6**	**(14)**	(18)	**(45)**	(40)
Business acquisition		**-**	(37,277)	**-**	(37,277)
Proceeds from sale of intangible assets		**202**	-	**202**	-
Net cash (used) provided by continuing operations		**(1)**	(27,865)	**406**	(14,890)
Net cash provided by discontinued operations		**-**	-	**-**	8,732
Net cash (used) provided by investing		**(1)**	(27,865)	**406**	(6,158)
Cash flows from financing activities					
Proceeds from exercised stock options		**-**	6	**-**	6
Proceeds from government grants		**-**	9	**-**	49
Repurchase and cancellation of shares	**10**	**(61)**	(7)	**(117)**	(7)
Repayment of long-term debt	**9**	**(84)**	(63)	**(146)**	(104)
Proceeds from issuing shares		**-**	948	**-**	948
Dividends paid		**(2,461)**	(2,467)	**(2,461)**	(2,467)
Net cash used by financing		**(2,606)**	(1,574)	**(2,724)**	(1,575)
(Decrease) increase in cash and cash equivalents during the period		**(3,320)**	(28,858)	**(2,282)**	1,922
Effect of change in exchange rate on cash held		**(903)**	-	**(728)**	-
Cash, beginning of period		**12,247**	34,297	**11,034**	3,517
Cash, end of period		**$ 8,024**	$ 5,439	**$ 8,024**	$ 5,439

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

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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's Video and Broadband business designs, manufactures and sells products for the cable industry that allow service providers a cost-effective "last mile" solution for both video and broadband access, especially in the business services market segment. The Company’s Content Delivery and Storage business, includes solutions and software for industries and customers that focus on storing, protecting, transforming, and delivering high-value media assets. The Company's Telematics business also provides fleet managers the key information and analytics they require to optimally manage their business. The Company's Discontinued Operations represented the YourLink operating assets that were sold in the prior year.

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, 2018 and were approved by the Company's Board of Directors on February 5, 2019.

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, 2018 except as described below.

(a) Initial Application of New Accounting Standards

The Company adopted the following new and amended accounting standards effective July 1, 2018.

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 and measurement of share-based transactions. The standard is effective for periods beginning on or after January 1, 2018. The adoption of the amendments had no impact on the Company's consolidated financial statements.

IFRS 9 – Financial Instruments

The Company has adopted IFRS 9 – Financial Instruments (IFRS 9) which replaces IAS 39 – Financial Instruments: Recognition and Measurement. The new standard simplifies the measurement and classification of financial assets by reducing the number of measurement categories and provides for a fair value option in the designation of a non-derivative financial liability. Under the new rules, all financial assets and liabilities of the Company are now classified as subsequently measured at amortized cost. The adoption of IFRS 9 had no impact on the consolidated financial statements.

2. BASIS OF PRESENTATION continued

(a) Initial Application of New Accounting Standards continued

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 – Revenue from Contracts with Customers (IFRS 15) provides a single, principles-based, five-step model for recognizing revenue from contracts with customers. This standard applies to all of the Company's contracts with customers excluding lease contracts accounted for under IAS 17. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods and services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods and services. The standard also provides guidance relating to the treatment of the costs to acquire and to fulfil a contract.

The Company recognizes revenue when it transfers control over a product or service to a customer. Depending on the performance obligations under the terms of the contract with the customer, revenue recognition can occur at a point in time or over time. When the sale consists of multiple components where delivery is over different periods of time, the Company separates the arrangement into its performance obligation components and the transaction price is allocated to the separate identifiable components based on the stand-alone selling price.

The Company adopted IFRS 15 on a modified retrospective approach with the cumulative effect of any adjustments recognized in the opening balance of retained earnings as of July 1, 2018. The comparative information has not been restated and continues to be reported under previous accounting standards.

The following table provides information about net change to contract assets and contract liabilities from contracts with customers plus the net adjustment to opening retained earnings upon adoption. The Company has elected to utilize the practical expedient that allows the Company to not apply this standard retrospectively for completed contracts as of June 30, 2018.

(unaudited - in thousands of Canadian dollars except as otherwise noted)

2. BASIS OF PRESENTATION continued

(a) Initial Application of New Accounting Standards continued

		As of June 30, 2018		
	Reference	As previously reported	Adjustments	As currently reported
Assets				
Current assets				
Cash and cash equivalents		$ 11,034	$ -	$ 11,034
Short-term investments		46,660	-	46,660
Accounts receivable		17,997	-	17,997
Income tax receivable		2,519	-	2,519
Inventories		15,020	-	15,020
Prepaid expenses		1,658	-	1,658
Contracts assets	i.	-	338	338
		94,888	338	95,226
Non-current assets				
Property, plant and equipment		12,105	(430)	11,675
Goodwill		14,903	-	14,903
Intangible assets		62,324	-	62,324
Other long-term assets		788	217	1,005
Investment tax credit		22,692	-	22,692
Deferred tax asset		2,339	-	2,339
		$ 210,039	$ 125	$ 210,164
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		$ 12,151	$ -	$ 12,151
Provisions		520	-	520
Income tax payable		358	-	358
Deferred revenue	ii.	4,206	(169)	4,037
Current portion of long-term debt		250	-	250
		17,485	(169)	17,316
Non-current liabilities				
Deferred revenue	ii.	524	396	920
Provisions		352	-	352
Deferred tax liability		414	-	414
Long-term debt		1,979	-	1,979
		20,754	227	20,981
Shareholders' equity				
Share capital		1,756	-	1,756
Reserves		4,041	-	4,041
Retained earnings		182,411	(102)	182,309
Other comprehensive income		1,077	-	1,077
		189,285	(102)	189,183
		$ 210,039	$ 125	$ 210,164

2. BASIS OF PRESENTATION continued

(a) Initial Application of New Accounting Standards continued

i. Contract Assets

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

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

ii. Deferred Revenue

The Company records deferred revenue when payment is received from a customer in advance of providing goods and services. The allocation of consideration in multiple element transactions that involves delivery of multiple services and products that occur at different points in time or over different periods of time also results in deferred revenue. Although the underlying transaction economics do not differ, the timing of the certain service revenue under IFRS 15 is deferred. Timing of revenue to be recognized relating to unsatisfied performance obligations is included in Note 11.

(b) Accounting Standards Issued but Not Yet Applied

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.

IFRIC 23 – Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23. IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances where there is uncertainty over income tax treatments. 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.

(unaudited - in thousands of Canadian dollars except as otherwise noted)

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 in future periods 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, 2018, except for those related to revenue recognition, which are disclosed in Note 11.

4. INVENTORIES

		December 31, 2018		June 30, 2018
Raw materials	**$**	**7,378**	$	6,707
Work in progress		**1,180**		799
Finished goods		**8,167**		7,514
	$	**16,725**	$	15,020

During the three months ended December 31, 2018, inventories of $6,995 (three months ended December 31, 2017 - $6,204) were expensed through cost of sales. Write-downs of inventory for the three months ended December 31, 2018 were $206 (three months ended December 31, 2017 - $36) and were included in cost of sales. Reversals of write-downs were $nil during the three months ended December 31, 2018 ($nil for the three months ended December 31, 2017). During the six months ended December 31, 2018, inventories of $14,379 (six months ended December 31, 2017 - $11,872) were expensed through cost of sales. Write-downs of inventory for the six months ended December 31, 2018 were $452 (six months ended December 31, 2017 - $218) and were included in cost of sales. Reversals of write-downs were $2 during the six months ended December 31, 2018 ($nil for the six months ended December 31, 2017). The carrying amount of inventory recorded at net realizable value was $891 at December 31, 2018 (June 30, 2018 - $1,107) with the remaining inventory recorded at cost.

(unaudited - in thousands of Canadian dollars except as otherwise noted)

5. PROPERTY, PLANT AND EQUIPMENT

	Notes	Land	Land Improvements & Building	Lab, Operating & Production Equipment	Other Equipment[(1)]	Total
Cost						
At July 1, 2018		$ 621	$ 8,710	$ 20,012	$ 10,892	$ 40,235
IFRS 15 transition	2	-	-	(956)	-	(956)
Adjusted opening balance		621	8,710	19,056	10,892	39,279
Additions		-	141	532	417	1,090
Disposals		-	(33)	(745)	(19)	(797)
Effect of foreign exchange		-	5	74	3	82
At December 31, 2018		**621**	**8,823**	**18,917**	**11,293**	**39,654**
Accumulated depreciation and impairment						
At July 1, 2018		-	3,025	15,097	10,008	28,130
IFRS 15 transition	2	-	-	(526)	-	(526)
Adjusted opening balance		-	3,025	14,571	10,008	27,604
Depreciation charge		-	148	844	206	1,198
Disposals		-	(31)	(561)	(12)	(604)
Effect of foreign exchange		-	1	40	(1)	40
At December 31, 2018		**-**	**3,143**	**14,894**	**10,201**	**28,238**
Carrying amount						
At June 30, 2018		$ 621	$ 5,685	$ 4,915	$ 884	$ 12,105
At December 31, 2018		**$ 621**	**$ 5,680**	**$ 4,023**	**$ 1,092**	**$ 11,416**

The following estimated useful lives have been applied to property, plant and equipment assets at December 31, 2018 and June 30, 2018:

	Estimated Useful Life
Land improvements and building	5 to 40 years
Lab, operating and production equipment	3 to 7 years
Other equipment[(1)]	1 to 5 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 and general and administrative expenses is as follows:

	Three months ended December 31,		Six months ended December 31,	
	2018	2017	**2018**	2017
Cost of sales	**$ 67**	$ 147	**$ 147**	$ 282
Research and development	**180**	72	**375**	144
Sales and marketing	**110**	-	**235**	-
General and administrative	**230**	201	**441**	398
	$ 587	$ 420	**$ 1,198**	$ 824

(unaudited - in thousands of Canadian dollars except as otherwise noted)

5. PROPERTY, PLANT AND EQUIPMENT continued

There were no impairment losses or recoveries during the three or six months ended December 31, 2018 or 2017.

6. INTANGIBLE ASSETS

	Indefinite-Life Intangible Assets	Finite-Life Intangible Assets				
	Trademarks and Other Licenses	Customer Contracts and Relationships	Patents	Intellectual Property and Technology	Deferred Development Costs	Total
Cost						
At July 1, 2018	$ 106	$ 20,528	$ 648	$ 9,990	$ 46,374	$ 77,646
Additions	-	-	6	39	8,873	8,918
Government grant	-	-	-	-	(49)	(49)
Investment tax credits	-	-	-	-	(893)	(893)
Effect of foreign exchange	1	585	7	250	106	949
At December 31, 2018	**107**	**21,113**	**661**	**10,279**	**54,411**	**86,571**
Amortization and impairment						
At July 1, 2018	-	2,039	366	1,639	11,278	15,322
Amortization recognized	-	1,170	38	681	2,400	4,289
Effect of foreign exchange	-	68	1	35	12	116
At December 31, 2018	-	3,277	405	2,355	13,690	19,727
Net book value						
At June 30, 2018	$ 106	$ 18,489	$ 282	$ 8,351	$ 35,096	$ 62,324
At December 31, 2018	**$ 107**	**$ 17,836**	**$ 256**	**$ 7,924**	**$ 40,721**	**$ 66,844**

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

The aggregate amount of research and development expenditure during the three months ending December 31, 2018 was $7,839 (December 31, 2017 - $5,667). The aggregate amount of research and development expenditure during the six months ending December 31, 2018 is $15,645 (December 31, 2017 - $11,485).

There were no impairment losses on deferred development costs recorded during the three or six months ended December 31, 2018 (December 31, 2017 - $nil).

(unaudited - in thousands of Canadian dollars except as otherwise noted)

7. OTHER LONG-TERM ASSETS

	Note		**December 31, 2018**		June 30, 2018
Contract assets	**11**	**$**	**189**	$	-
Long-term security deposits and other long-term assets			**247**		221
Spare parts			**788**		567
		$	**1,224**	$	788

8. 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. In January 2019, the Company received notice from the CRA that they have assigned an Appeal Officer to this case.

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.

9. LONG-TERM DEBT

		December 31, 2018		June 30, 2018
Term credit facility	**$**	**2,083**	$	2,229
Less current portion		**(250)**		(250)
	$	**1,833**	$	1,979

9. LONG-TERM DEBT continued

The term credit facility is from a Canadian chartered bank, repayable in monthly installments of $21 principal and interest at prime, (3.95% at December 31, 2018), expires in October 2017 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:

2019	$	125
2020		250
2021		250
2022		250
2023		250
Remaining		958
	$	2,083

10. SHARE CAPITAL

(a) Share capital

(in thousands of Canadian dollars except common share data)

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, 2018	22,377,288	$	1,756
Shares repurchased and cancelled	(23,201)		(1)
Balance at December 31, 2018	**22,354,087**	**$**	**1,755**

The Company did not issue any shares through the exercise of options during the three months ended December 31, 2018 (three months ended December 31, 2017 - 2,210) or the six months ended December 31, 2018 (six months ended December 31, 2017 - 2,210)

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).

(unaudited - in thousands of Canadian dollars except as otherwise noted)

10. SHARE CAPITAL continued

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,	
	2018	2017	**2018**	2017
Net income: basic and diluted	**$ 2,050**	$ 1,330	**$ 954**	$ 9,356
Weighted average number of shares outstanding:				
Basic	**22,368,234**	22,447,389	**22,370,641**	22,413,520
Dilutive stock options	**3,288**	52,022	**6,245**	56,554
Diluted	**22,371,522**	22,499,411	**22,376,886**	22,470,074
Net income per share: basic	**$ 0.09**	$ 0.06	**$ 0.04**	$ 0.42
Net income per share: diluted	**$ 0.09**	$ 0.06	**$ 0.04**	$ 0.42

Stock options could potentially dilute basic net income per share in the future. Options to purchase 424,492 common shares were vested and outstanding at December 31, 2018 (December 31, 2017 - 414,365). Dilutive stock options are calculated using the treasury stock method.

(b) Reserves

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

(c) Stock option plan

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

The changes in options and the number of options outstanding for the six months ended December 31, 2018 are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, July 1, 2018	518,491	$ 8.91
Granted	13,000	9.10
Outstanding, December 31, 2018	**531,491**	**$ 8.92**
Vested and exercisable	**424,492**	**$ 8.76**

(unaudited - in thousands of Canadian dollars except as otherwise noted)

10. SHARE CAPITAL continued

(d) Stock-based compensation

For all stock options granted, the Company determined compensation expense based on the estimated fair values at the grant date of the stock options using the Black-Scholes and binomial option-pricing models. The estimated fair value of the stock options is amortized to stock-based compensation over the vesting period of the options. The stock-based compensation expense was $40 for the three months ended December 31, 2018 (three months ended December 31, 2017 - $14). The stock-based compensation expense was $74 for the six months ended December 31, 2018 (December 31, 2017 - $27).

11. REVENUE FROM CONTRACTS WITH CUSTOMERS

(a) Revenue

Nature of goods and services

The Company earns revenue from the sale of contragoods and the rendering of services. Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Many products and services are sold in bundled arrangements. Items in these arrangements are accounted for as separate performance obligations if the items meets the definition of a distinct good or service. In transactions such as these, the Company allocates revenue to each performance obligation and is measured using stand-alone selling price.

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

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

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

Significant judgments

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

(unaudited - in thousands of Canadian dollars except as otherwise noted)

11. REVENUE FROM CONTRACTS WITH CUSTOMERS continued

(b) Disaggregated revenue

In the following table, gross revenue from contracts with customers is disaggregated by reporting segment and type. Refer to Note 15 for additional segmented financial information.

	For the three months ended December 31, 2018			
	Video and Broadband Solutions	**Content Delivery and Storage**	**Telematics**	**Total**
Product sales	$ 4,807	$ 10,737	$ 140	$ 15,684
Provision of services	2,193	3,515	1,262	6,970
	$ 7,000	**$ 14,252**	**$ 1,402**	**$ 22,654**

	For the six months ended December 31, 2018			
	Video and Broadband Solutions	**Content Delivery and Storage**	**Telematics**	**Total**
Product sales	$ 14,299	$ 16,119	$ 453	$ 30,871
Provision of services	4,046	6,759	2,313	13,118
	$ 18,345	**$ 22,878**	**$ 2,766**	**$ 43,989**

(c) Accounts receivable

	December 31, 2018	June 30, 2018
Trade receivables	**$ 18,961**	$ 17,719
Less allowance for doubtful accounts	**(69)**	(8)
	18,892	17,711
Goods and services tax	**135**	271
Government grants receivable	**50**	1
Other receivables	**24**	14
	$ 19,101	$ 17,997

(d) Contract assets

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

(unaudited - in thousands of Canadian dollars except as otherwise noted)

11. REVENUE FROM CONTRACTS WITH CUSTOMERS continued

(d) Contract assets continued

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

	Notes	Three months ended December 31, 2018	Six months ended December 31, 2018
Balance, beginning of period		$ 642	$ -
IFRS transition 15	2	-	555
Adjusted opening balance		642	555
Net additions arising from operations		27	187
Amounts billed in period and reclassified as accounts receivable		(5)	(9)
Deferred cost recognized as expense in the period		(61)	(130)
Balance, end of period		$ 603	$ 603
To be billed and thus reclassified to accounts receivable during next 12 months			172
Deferred costs to be recognized as expense during the next 12 months			242
Thereafter			189
			$ 603

(e) Deferred revenue

Contract liabilities represent the future performance obligations to customers in respect to services or customer activation fees for which consideration has been received upfront and is recognized over the expected term of the customer relationship. The Company has elected to apply the practical expedient that allows the Company to not disclose the unsatisfied portions of performance obligations under contracts where the revenue we recognize is equal to the amount invoiced to the customer. Contract liability balances, the changes in those balances and the future periods that performance obligations expected to be satisfied and revenue recognized are set out in the following table.

(unaudited - in thousands of Canadian dollars except as otherwise noted)

11. REVENUE FROM CONTRACTS WITH CUSTOMERS continued

(e) Deferred revenue continued

	Notes		Three months ended		Six months ended
			December 31, 2018		
Balance, beginning of period		$	4,232	$	4,730
IFRS transition 15	2		-		226
Adjusted opening balance			4,232		4,956
Revenue deferred in previous period and recognized in current period			(1,634)		(3,243)
Net additions arising from operations			1,521		2,458
Effect of changes in foreign currency exchange rates			159		107
Balance, end of period		$	4,278	$	4,278

Revenue to be recognized in the future:		
Within one year	$	3,378
Between two to five years		863
After five years		36
Total	$	4,277

12. OTHER (INCOME) EXPENSE

	Three months ended December 31,				Six months ended December 31,			
		2018		2017		**2018**		2017
Loss on sale of PP&E	**$**	**31**	$	11	**$**	**42**	$	30
Gain on sale of intangible assets		**(202)**		-		**(202)**		-
Lease revenue		**(105)**		(99)		**(209)**		(200)
Other		**(2)**		(1)		**3**		(1)
	$	**(278)**	$	(89)	**$**	**(366)**	$	(171)

(unaudited - in thousands of Canadian dollars except as otherwise noted)

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

	Notes	Three months ended December 31, 2018	Three months ended December 31, 2017	Six months ended December 31, 2018	Six months ended December 31, 2017
Loss on sale of PP&E	**12**	**$ 31**	$ 11	**$ 42**	$ 30
Gain on sale of intangible assets		**(202)**	-	**(202)**	-
Depreciation of PP&E	**5**	**587**	421	**1,198**	825
Amortization of intangible assets	**6**	**948**	231	**1,889**	466
Amortization of deferred development costs	**6**	**1,231**	1,081	**2,400**	1,988
Stock-based compensation	**10**	**40**	14	**74**	27
Income tax expense		**817**	64	**391**	111
Deferred income tax (recovery) expense		**6**	390	**(86)**	673
Interest expense		**31**	16	**55**	37
Interest income		**(250)**	(328)	**(531)**	(647)
		$ 3,239	$ 1,900	**$ 5,230**	$ 3,510

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, 2018	Three months ended December 31, 2017	Six months ended December 31, 2018	Six months ended December 31, 2017
Decrease in current assets				
Accounts receivable	**$ (3,270)**	$ (1,082)	**$ (631)**	$ 3,737
Inventories	**1,099**	485	**(1,395)**	1,053
Prepaid expenses	**(229)**	(151)	**(563)**	54
Contract assets	**21**	-	**(76)**	-
	(2,379)	(748)	**(2,665)**	4,844
Decrease in current liabilities				
Accounts payable and accrued liabilities	**(3,315)**	(1,602)	**(2,766)**	(110)
Deferred revenue	**(113)**	(473)	**(786)**	(1,209)
	(3,428)	(2,075)	**(3,552)**	(1,319)
	$ (5,807)	$ (2,823)	**$ (6,217)**	$ 3,525

(unaudited - in thousands of Canadian dollars except as otherwise noted)

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. The sale of YourLink was completed in the prior year. 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, 2018				
	Video and Broadband Solutions	**Content Delivery and Storage**	**Telematics**	**Inter Segment**	**Total**
Sales	$ 7,000	$ 14,252	$ 1,402	$ -	$ 22,654
Cost of sales	3,551	5,856	407	-	9,814
Gross profit	3,449	8,396	995	-	12,840
Operating expenses	4,155	4,174	570	-	8,899
Depreciation and amortization	1,365	1,119	204	-	2,688
Operating (loss) income	(2,071)	3,103	221	-	1,253
Finance income	24	3	-	-	27
Foreign exchange gain	1,537	15	41	-	1,593
(Loss) income before income taxes	(510)	3,121	262	-	2,873
Income tax (recovery) expense	(141)	898	66	-	823
Net (loss) income	**$ (369)**	**$ 2,223**	**$ 196**	**$ -**	**$ 2,050**
Total assets	**$ 168,058**	**$ 35,087**	**$ 3,134**	**$ (97)**	**$ 206,182**
Total liabilities	**$ 9,293**	**$ 7,511**	**$ 768**	**$ -**	**$ 17,572**

(unaudited - in thousands of Canadian dollars except as otherwise noted)

15. SEGMENTED FINANCIAL INFORMATION continued

Three months ended December 31, 2017	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Discontinued Operations	Inter Segment	Total
Sales	$ 13,394	$ -	$ 1,358	$ -	$ -	$ 14,752
Cost of sales	6,630	-	402	-	-	7,032
Gross profit	6,764	-	956	-	-	7,720
Operating expenses	4,408	-	562	-	-	4,970
Depreciation and amortization	1,402	-	251	-	-	1,653
Operating income	954	-	143	-	-	1,097
Finance income	386	-	-	-	-	386
Foreign exchange gain	286	-	14	-	-	300
Income before income taxes	1,626	-	157	-	-	1,783
Income tax expense	414	-	40	-	-	454
Net income from continuing operations	1,212	-	117	-	-	1,329
Net income from discontinued operations	-	-	-	1	-	1
Net income	**$ 1,212**	**$ -**	**$ 117**	**$ 1**	**$ -**	**$ 1,330**
Total assets	**$ 147,631**	**$ 45,011**	**$ 14,290**	**$ -**	**$ (174)**	**$ 206,758**
Total liabilities	**$ 9,334**	**$ 6,671**	**$ 716**	**$ -**	**$ -**	**$ 16,721**

(unaudited - in thousands of Canadian dollars except as otherwise noted)

15. SEGMENTED FINANCIAL INFORMATION continued

	Six months ended December 31, 2018				
	Video and Broadband Solutions	**Content Delivery and Storage**	**Telematics**	**Inter Segment**	**Total**
Sales	$ 18,370	$ 22,878	$ 2,766	$ (25)	$ 43,989
Cost of sales	9,400	9,709	874	(25)	19,958
Gross profit	8,970	13,169	1,892	-	24,031
Operating expenses	9,377	10,113	(736)	-	18,754
Depreciation and amortization	2,738	406	2,199	-	5,343
Operating (loss) income	(3,145)	2,650	429	-	(66)
Finance income	238	23	(12)	-	249
Foreign exchange gain	1,055	-	21	-	1,076
(Loss) income before income taxes	(1,852)	2,673	438	-	1,259
Income tax (recovery) expense	(552)	739	118	-	305
Net (loss) income	**(1,300)**	**1,934**	**320**	**-**	**954**
Total assets	**$ 168,058**	**$ 35,087**	**$ 3,134**	**$ (97)**	**$ 206,182**
Total liabilities	**$ 9,293**	**$ 7,511**	**$ 768**	**$ -**	**$ 17,572**

(unaudited - in thousands of Canadian dollars except as otherwise noted)

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	$ 26,994	$ -	$ 2,640	$ -	$ -	$ 29,634
Cost of sales	12,669	-	767	-	-	13,436
Gross profit	14,325	-	1,873	-	-	16,198
Operating expenses	9,204	-	1,130	-	-	10,334
Depreciation and amortization	2,602	-	499	-	-	3,101
Operating income	2,519	-	244	-	-	2,763
Finance income	684	-	-	-	-	684
Foreign exchange loss	(359)	-	(11)	-	-	(370)
Income before income taxes	2,844	-	233	-	-	3,077
Income tax expense	725	-	59	-	-	784
Net income from continuing operations	2,119	-	174	-	-	2,293
Net income from discontinued operations	-	-	-	7,063	-	7,063
Net income	**2,119**	**-**	**174**	**7,063**	**-**	**9,356**
Total assets	**$ 147,631**	**$ 45,011**	**$ 14,290**	**$ -**	**$ (174)**	**$ 206,758**
Total liabilities	**$ 9,334**	**$ 6,671**	**$ 716**	**$ -**	**$ -**	**$ 16,721**

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,	
	2018	2017	**2018**	2017
Sales to external customers				
United States	**$ 18,052**	$ 13,113	**$ 33,014**	$ 26,928
Canada	**3,030**	1,630	**6,694**	2,628
Europe	**742**	-	**2,718**	-
Japan	**845**	-	**1,477**	-
Other	**(15)**	9	**86**	78
	$ 22,654	$ 14,752	**$ 43,989**	$ 29,634

(unaudited - in thousands of Canadian dollars except as otherwise noted)

15. SEGMENTED FINANCIAL INFORMATION continued

		December 31, 2018		June 30, 2018
Non-current assets				
United States	**$**	**33,136**	$	32,264
Canada		**86,404**		81,656
Japan		**1,367**		1,231
	$	**120,907**	$	115,151

	Three months ended December 31,				Six months ended December 31,			
		2018		2017		**2018**		2017
Sales to major customers accounting for more than 10% of sales								
Customer A	**$**	**7,920**	$	5,386	**$**	**15,483**	$	10,248
Customer B		**-**		5,143		**4,689**		9,795
	$	**7,920**	$	10,529	**$**	**20,172**	$	20,043

The sales to Customer A are within the Video and Broadband Solutions and Content Delivery and Storage segments. Customer B was below 10% of sales in the three months ended December 31, 2018 and the amount is not shown. Customer B is within the Video and Broadband Solutions segment.

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 and Saskatchewan credit unions. Deposits with credit unions are insured through the Credit Union Deposit Insurance Corporation. This insurance exceeds the amounts otherwise covered by the Canadian Deposit Insurance Corporation for cash deposits.

(unaudited - in thousands of Canadian dollars except as otherwise noted)

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, 2018 of $69 (June 30, 2018 - $8). At December 31, 2018, the Company had three major customers (June 30, 2018 - three) who accounted for approximately 48% (June 30, 2018 - 55%) of the period-end accounts receivable balance. Customer contract assets not considered to be impaired to be billed and thus reclassified as accounts receivable within next 12 months are $172, and long-term are $189.

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

	December 31, 2018	June 30, 2018
Current	**$ 15,123**	$ 15,845
31 to 60 days	**2,496**	930
61 to 90 days	**596**	419
Over 90 days	**677**	517
	$ 18,892	$ 17,711

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, 2018, 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	$ 9,491	$ 9,491	$ -	$ -
Long-term debt obligations	2,083	250	750	1,083
	$ 11,574	$ 9,741	$ 750	$ 1,083

16. FINANCIAL INSTRUMENTS RISK MANAGEMENT continued

Currency Risk

Approximately 96% (December 31, 2017 - 94%) of the Company's sales are denominated in USD. 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. The Company has not entered into any forward foreign exchange contracts in the six months ended December 31, 2018.

For the three ended December 31, 2018, if the Canadian dollar had weakened or strengthened by 1% against the U.S. dollar with all other variables held constant, net income before income taxes would have been $156 (December 31, 2017 - $89) higher or lower.

Interest Rate Risk

The Company is exposed to the impact of changes in interest rates related to its line of credit, long-term debt and short-term investments. A 1% movement in the interest rate would have resulted in a $92 change to net income before income taxes for the three months ended December 31, 2018 (December 31, 2017 - $150).

17. SUBSEQUENT EVENTS

On February 5, 2019, the Board of Directors declared a dividend of $0.055 per common share, payable on March 18, 2019 to shareholders of record as at February 22, 2019 consistent with its previously announced dividend policy.