SECOND QUARTER RESULTS

Management's Discussion and Analysis and

Interim Condensed Consolidated Financial Statements of

VECIMA NETWORKS INC.

For the three months ended December 31, 2019 and 2018

(unaudited)

VECIMA NETWORKS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FEBRUARY 4, 2020

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, 2019.

Our MD&A supplements, but does not form part of, our unaudited interim condensed consolidated financial statements and related notes for the three and six months ended December 31, 2019 and 2018. Consequently, the following discussion and analysis of the financial condition and results of operations should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes for the three months ended December 31, 2019 and 2018 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 "Additional Information - 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

Vecima Networks Inc. (TSX:VCM) is a Canadian company founded in 1988 in Saskatoon, Saskatchewan. Today, Vecima has a global presence with offices in Vancouver, Atlanta, Tokyo, Amsterdam, London, and a manufacturing facility in Saskatoon. Vecima's corporate head office is located in Victoria, British Columbia.

Vecima is a global leader focused on developing integrated hardware and scalable software solutions for broadband access, content delivery, and telematics. We enable the world's leading innovators to advance, connect, entertain, and analyze. We build technologies that transform content delivery and storage, enable high-capacity broadband network access, and streamline data analytics.

Vecima's business is organized into three segments:

1) **Video and Broadband Solutions** (VBS) 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.

   a. Our Terrace and TerraceQAM product families meet the needs of the business services vertical, including MDU (multi-dwelling units) and Hospitality (including hotels, motels and resorts).

   b. Our next-generation Entra™ family of products and platforms addresses the network migration to a Distributed Access Architecture (as described below under Industry Developments). The Entra Distributed Access Architecture platform is Vecima's realization of the next generation of hybrid fiber-coaxial (HFC) nodes as optical transport moves away from analog radio frequency (RF) distribution to all-digital Ethernet. Our goal is to provide independent, agnostic and future-proof Distributed Access solutions that can work with every core vendor and be upgradable to Full Duplex (FDX), Extended Spectrum DOCSIS (ESD), Passive Optical Network (PON) or whatever the future of ultra high-speed networks require.

   The Entra Distributed Access Architecture (DAA) family of products is comprised of:

   - Multiple variants of the Entra Access Node that can operate as Remote PHY or Remote MAC-PHY and provides a modular platform for deployment of access technologies;
   - The Entra Remote PHY Monitor (RPM), which offers unified control software for management, service assurance and monitoring of access nodes;
   - The Entra Legacy QAM Adapter (LQA), which provides a simple solution to adapt existing video QAM infrastructure for distributed access;
   - The Entra Video QAM Manager (VQM), which allows for the integration of video in a DAA environment within existing infrastructure, maximizing efficiency of fiber usage while reducing operational costs; and
   - The Entra Interactive Video Controller (IVC), which supports both next-generation DAA Remote PHY and traditional RF networks providing essential two-way network connectivity for QAM set-top boxes that are heavily deployed and in service today.

2) **Content Delivery and Storage** (CDS) includes solutions and software, under the MediaScaleX™ and ContentAgent™ brands, for industries and customers that focus on ingesting, producing, storing, delivering and streaming video content for live linear, Video On Demand (VOD), network Digital Video Recorder (nDVR) and time-shifted TV services.

   Our Content Delivery and Storage business focuses specifically on multiple system operators' ("MSO") video content delivery and storage needs under the product categories: Storage, Cache, Origin and Transcode.

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

Over the last several years, the cable industry has been transitioning towards Distributed Access Architectures under the latest DOCSIS 3.1 standard. Some top tier players have initiated a gradual roll-out of this new platform with further large-scale 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 for upload speed. The speed provided by DOCSIS 3.1 is comparable to that of fiber optic connections, thereby allowing cable operators to upgrade their systems, but without the added infrastructure costs of building fiber to the home. 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 their 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.

Content Delivery and Storage

Global demand for Internet Protocol (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 is expected to double by 2022 with IP video comprising 82% of all IP traffic.

Telematics

As asset tracking technology broadens beyond fleet management 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.

Second Quarter 2020 Highlights

Financial and Corporate Highlights

- Increased second quarter revenue to $25.1 million up 11% year-over-year and 25% quarter-over-quarter
- Achieved gross profit of $16.0 million and a gross profit margin of 64%, up from gross profit of $12.8 million and a gross profit margin of 57% in Q2 fiscal 2019
- Grew Adjusted EBITDA by 27% to $7.0 million from $5.5 million in Q2 fiscal 2019
- Increased Adjusted EPS to $0.15 per share from $0.08 per share in Q2 fiscal 2019
- Ended the quarter in strong financial position with $40.2 million in cash
- Declared a dividend of $0.055 per share payable on March 23, 2020 to shareholders of record on February 21, 2020. This represents $27.4 million returned to shareholders through regular dividends since we initiated our dividends in October 2014

Video and Broadband Solutions

- Increased segment sales by 20% year over year and 12% quarter-over-quarter, reflecting strong demand for TerraceQAM and initial sales of next generation Entra products
- Entra family
    - Achieved first $1.1 million of sales of next generation Entra family products as operators began to purchase our new DAA platforms and products

- Won first DAA solution order covering deployment volume licenses of our Entra Remote PHY Monitor in Q2, along with an initial Entra Remote PHY access node order subsequent to quarter-end, from a Tier 1 North American customer. The Entra Remote PHY Monitor is Vecima's industry-leading DAA monitoring and management tool and has been chosen as a critical service assurance platform for the lead Tier 1's DAA network program
    - Advanced field trial for Remote PHY Access Nodes with a Canadian MSO
    - Achieved initial sales of Entra Interactive Video Controller (IVC) and Entra Video QAM Manager
    - Launched the Entra EN8124 access node, an industry-leading and innovative high-density DAA node, supporting two Remote PHY Devices (RPD) in a single node to double both downstream and upstream capacity, heightening customer engagements for our differentiated portfolio of Entra family products
    - Advanced IPTV and DAA engagement with a Tier 1 MSO, progressing lab qualifications for both MediaScaleX and Entra Remote PHY node
- Terrace family
    - Achieved significant increase in TerraceQAM sales uptake at a Tier 1 MSO as the customer continues to advance its extensive hospitality footprint while preparing for migration to the next generation TerraceIQ platform
    - Progressed development of the next generation Terrace IQ platform and delivered functional proof of concept demonstration to a Tier 1 US MSO in the second quarter, supporting the customer's aim to upgrade its network-wide deployment of the Terrace and TerraceQAM products

Content Delivery and Storage

- Generated record segment sales of $15.4 million with revenue up 8% year-over-year and 36.3% quarter-over-quarter
- Achieved further advances in the burgeoning IPTV market with expansion across new and existing customers for Vecima's portfolio of MediaScaleX IPTV products
- Robust sales uptake of a major software release upgrade by a world top-five MSO where MediaScaleX is deployed to provide on demand video across over 75% of the operator's footprint
- Built further momentum in the Caribbean and Latin America (CALA) with the highest-ever region CDS revenue, surpassing $1 million USD in Q2 fiscal 2020, led by deployments from a Tier 1 MSO win announced in Q1
- Selected by and received initial orders from a Tier 1 broadcaster in the CALA region to replace legacy, tape-based archives, which are heavily-deployed in the industry, with online MediaScaleX object storage. This represents Vecima's first significant conversion in the broadcaster sector, a major strategic growth area for our state-of-the-art Storage platform
- Major enhancements to MediaScaleX, adding CMAF common streaming and encryption to CDN products, and additional virtualization elements to Storage product, driving sizeable hardware and network efficiency increases

Telematics

- Awarded contract by the City of Saskatoon for fleet management solution covering 1,000 municipal vehicles and moveable assets and initiated fleet-wide rollout in December
- Continued penetration in the moveable assets market bringing in five additional restoration industry customers, with assets being monitored through our Bluetooth Low Energy (BLE) tags

Outlook

As the North American cable industry continues its gradual transition to a new architecture, Distributed Access Architecture (DAA), we are establishing an industry lead for Vecima's growing line of independent, agnostic and future-proof Entra DAA products and platforms and are nearing scale commercial deployment of these next generation products. While we are encouraged by the breadth of our engagements with customers for our Entra products and expect momentum will build as additional customers move closer to deployment, we remain cautious in our expectations for the industry pace of DAA deployments in fiscal 2020. We also anticipate that the DAA market may be subject to significant quarter-to-quarter sales variations based on the timing of large customer infrastructure projects.

As the cable industry moves closer to DAA deployment, we expect demand for our legacy Video and Broadband Services products and platforms will continue to taper off. One exception to this is our Terrace QAM line, which has experienced solid demand through the first half of fiscal 2020 and could benefit from further ordering activity in the second half, prior to customers moving to next-generation platforms.

In our Content Delivery and Storage segment, demand for our MediaScaleX product family is expected to remain strong through the balance of fiscal 2020, as a result of product enhancements, a build-up of new customers and higher levels of capital spending on IP video technologies by MSOs. We continue to see the potential for year-over-year segment sales growth of over 20% based on our pipeline of IPTV opportunities, but as always, note that the Content Delivery and Storage segment is prone to significant quarter-to-quarter revenue variations related to the timing of large customer orders.

In the Telematics segment, we anticipate incremental growth in demand from the fleet tracking market in fiscal 2020, along with gradual growth in demand for our newer moveable asset tracking services.

Overall, we continue to position Vecima for industry leadership in the DAA market and the IP video content delivery and storage space. With a strong balance sheet, we are well positioned to pursue our product strategies while also continuing to assess opportunities for attractive acquisitions that provide significant accretion and/or give us rapid access to technologies and differentiating features that help drive our growth and success.

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,			
	2019		2018		**2019**		2018	
Sales	**$ 25,123**	**100 %**	$ 22,654	100 %	**$ 45,235**	**100 %**	$ 43,989	100 %
Cost of sales	**9,115**	**36 %**	9,814	43 %	**18,753**	**41 %**	19,958	45 %
Gross profit	**16,008**	**64 %**	12,840	57 %	**26,482**	**59 %**	24,031	55 %
Operating expenses								
Research and development[1]	**4,534**	**18 %**	4,567	20 %	**9,602**	**22 %**	9,171	21 %
Sales and marketing	**3,427**	**14 %**	3,252	14 %	**7,173**	**16 %**	6,452	15 %
General and administrative	**4,142**	**17 %**	4,006	18 %	**8,123**	**18 %**	8,009	18 %
Restructuring costs	**-**	**- %**	-	- %	**-**	**- %**	757	2 %
Share-based compensation	**17**	**- %**	40	- %	**34**	**- %**	74	- %
Other income	**(145)**	**(1)%**	(278)	(1)%	**(155)**	**- %**	(366)	(1)%
	11,975	**48 %**	11,587	51 %	**24,777**	**56 %**	24,097	55 %
Operating income (loss)	**4,033**	**16 %**	1,253	6 %	**1,705**	**3%**	(66)	- %
Finance income	**554**	**2 %**	27	- %	**762**	**2%**	249	1 %
Foreign exchange (loss) gain	**(477)**	**(2)%**	1,593	7 %	**(179)**	**- %**	1,076	2%
Income before taxes	**4,110**	**16 %**	2,873	13 %	**2,288**	**5 %**	1,259	3 %
Income tax expense	**549**	**2 %**	823	4 %	**111**	**- %**	305	1 %
Net income	**3,561**	**14 %**	2,050	9 %	**2,177**	**5 %**	954	2 %
Other comprehensive (loss) income	**(426)**	**(2)%**	1,395	6 %	**(203)**	**- %**	977	2 %
Comprehensive income	**$ 3,135**	**12 %**	$ 3,445	15 %	**$ 1,974**	**4 %**	$ 1,931	4 %
Net income per share[2]								
Basic	**$ 0.16**		$ 0.09		**$ 0.10**		$ 0.04	
Diluted	**$ 0.16**		$ 0.09		**$ 0.10**		$ 0.04	
Other Data								
Total research and development expenditures[3]	**$ 6,179**		$ 7,839		**$ 12,232**		$ 15,645	
Adjusted EBITDA[4]	**$ 7,042**		$ 5,539		**$ 8,828**		$ 7,472	
Adjusted earnings per share[5]	**$ 0.15**		$ 0.08		**$ 0.09**		$ 0.06	
Number of employees[6]	**368**		389		**368**		389	

(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 may not be comparable to similar measures presented by other issuers. See "EBITDA and Adjusted EBITDA".*

(5) *Adjusted Earnings per Share does not have any standardized meaning prescribed by IFRS and may not 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 Statements of Financial Position (unaudited - in thousands of dollars except common share data)		**December 31, 2019**		June 30, 2019
Cash and cash equivalents	**$**	**22,960**	$	19,834
Short-term investments	**$**	**17,247**	$	24,569
Working capital	**$**	**58,118**	$	58,286
Total assets	**$**	**203,620**	$	200,770
Long-term debt[(1)]	**$**	**5,255**	$	1,729
Shareholders' equity	**$**	**181,077**	$	180,768
Number of common shares outstanding[(2)]		**22,420,018**		22,362,031

[(1)]*Fiscal 2020 Long-term debt now includes lease liabilities per IFRS 16.*

[(2)]*Based on weighted average number of common shares outstanding.*

Adjusted Net Income and 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 the sale of non-core property, plant and equipment ("PP&E"), intangible assets, and assets held for sale, impairments of intangible assets, restructuring costs, and the tax effect of these adjusted items. We believe that adjusted net income 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 may not 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)		**2019**		2018		**2019**		2018
Net income	**$**	**3,561**	$	2,050	**$**	**2,177**	$	954
Gain on sale of non-core intangibles, net of tax		**-**		(176)		**-**		(176)
Gain on sale of non-core PP&E, net of tax		**(118)**		-		**(106)**		-
Restructuring costs, net of tax		**-**		-		**-**		565
Adjusted net income	**$**	**3,443**	$	1,874	**$**	**2,071**	$	1,343
Net income per share	**$**	**0.16**	$	0.09	**$**	**0.10**	$	0.04
Gain on sale of non-core intangibles, net of tax		**-**		(0.01)		**-**		(0.01)
Gain on sale of non-core PP&E, net of tax		**(0.01)**		-		**(0.01)**		-
Restructuring costs, net of tax		**-**		-		**-**		0.03
Adjusted earnings per share	**$**	**0.15**	$	0.08	**$**	**0.09**	$	0.06

Starting in Q4 fiscal 2019, we have changed our definition and calculation of adjusted net income and adjusted earnings per share to incorporate restructuring costs to the calculation of these measures. We believe this change will provide a more consistent determination as compared to other companies in our industry. We believe this consistency will enable management, investors and analysts to better assess our main business activities as well as improve comparability to others within our industry.

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 PP&E, deferred development 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 and other intangible assets; restructuring costs; and share-based 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.

The adoption of IFRS 16 impacted the calculation of EBITDA with depreciation of right-of-use assets increasing Q2 fiscal 2020 EBITDA by $341 (YTD - $683) and interest on lease liabilities increasing EBITDA by $58 (YTD - $119).

Calculation of Adjusted EBITDA	**Three months ended December 31,**		**Six months ended December 31,**	
	2019	2018	**2019**	2018
Net income	**$ 3,561**	$ 2,050	**$ 2,177**	$ 954
Income tax expense	**549**	823	**111**	305
Interest expense	**78**	31	**158**	55
Depreciation of PP&E	**540**	587	**1,049**	1,198
Depreciation of right-of-use assets	**341**	-	**683**	-
Amortization of deferred development costs	**1,118**	1,231	**2,787**	2,400
Amortization of intangible assets	**973**	948	**1,950**	1,889
EBITDA	**7,160**	5,670	**8,915**	6,801
Gain (loss) on sale of property, plant and equipment	**(135)**	31	**(121)**	42
Gain on sale of intangible assets	**-**	(202)	**-**	(202)
Restructuring costs	**-**	-	**-**	757
Share-based compensation	**17**	40	**34**	74
Adjusted EBITDA	**$ 7,042**	$ 5,539	**$ 8,828**	$ 7,472
Adjusted EBITDA margin (%)	**28 %**	24 %	**20 %**	17 %

Total Research and Development Expenditures

The following table reconciles research and development expenses reported in accordance with IFRS as shown on the consolidated statements of comprehensive income (research and development) to our actual cash research and development expenditures (total research and development expenditure) below:

Calculation of Research and Development Expenditures	**Three months ended December 31,**		**Six months ended December 31,**	
	2019	2018	**2019**	2018
Research and development per statement of income	**$ 4,534**	$ 4,567	**$ 9,602**	$ 9,171
Deferred development costs	**2,776**	4,530	**5,426**	8,873
Investment tax credits	**51**	22	**89**	50
Amortization of deferred development costs	**(1,118)**	(1,231)	**(2,787)**	(2,400)
Government grants	**(64)**	(49)	**(98)**	(49)
Total research and development expenditure	**$ 6,179**	$ 7,839	**$ 12,232**	$ 15,645
Percentage of sales	**25 %**	35 %	**27 %**	36 %

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 2020 and fiscal 2019 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 2020		Fiscal Year 2019				Fiscal Year 2018	
	Q2	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
Sales	**$ 25,123**	**$ 20,112**	$ 20,715	$ 20,328	$ 22,654	$ 21,335	$ 24,346	$ 24,124
Cost of sales	**9,115**	**9,638**	10,555	9,642	9,814	10,144	11,075	11,743
Gross profit	**16,008**	**10,474**	10,160	10,686	12,840	11,191	13,271	12,381
Operating expenses								
Research and development	**4,534**	**5,068**	5,006	4,797	4,567	4,604	4,427	4,466
Sales and marketing	**3,427**	**3,746**	3,631	4,029	3,252	3,200	4,227	4,015
General and administrative	**4,142**	**3,981**	4,340	4,247	4,006	4,003	3,979	4,119
Impairment of intangible assets	**-**	**-**	-	-	-	-	22	-
Restructuring costs	**-**	**-**	1,419	-	-	757	-	-
Share-based compensation	**17**	**17**	10	28	40	34	31	22
Other (income) expense	**(145)**	**(10)**	17	(69)	(278)	(88)	(92)	(54)
	11,975	**12,802**	14,423	13,032	11,587	12,510	12,594	12,568
Operating income (loss)	**4,033**	**(2,328)**	(4,263)	(2,346)	1,253	(1,319)	677	(187)
Finance income	**554**	**208**	329	301	27	222	211	237
Foreign exchange (loss) gain	**(477)**	**298**	(523)	(619)	1,593	(517)	454	846
Income (loss) before income taxes	**4,110**	**(1,822)**	(4,457)	(2,664)	2,873	(1,614)	1,342	896
Income tax expense (recovery)	**549**	**(438)**	(1,504)	(1,203)	823	(518)	554	194
Net income (loss) from continuing operations	**3,561**	**(1,384)**	(2,953)	(1,461)	2,050	(1,096)	788	702
Net income (loss) and comprehensive income (loss) from discontinued operations	**-**	**-**	-	-	-	-	(45)	1
Net income (loss)	**3,561**	**(1,384)**	(2,953)	(1,461)	2,050	(1,096)	743	703
Other comprehensive (loss) income	**(426)**	**223**	(460)	(584)	1,395	(418)	450	627
Comprehensive income (loss)	**$ 3,135**	**$ (1,161)**	$ (3,413)	$ (2,045)	$ 3,445	$ (1,514)	$ 1,193	$ 1,330
Net income (loss) per share								
Basic	**$ 0.16**	**$ (0.06)**	$ (0.13)	$ (0.06)	$ 0.09	$ (0.05)	$ 0.03	$ 0.03
Diluted	**$ 0.16**	**$ (0.06)**	$ (0.13)	$ (0.06)	$ 0.09	$ (0.05)	$ 0.03	$ 0.03
Adjusted EBITDA as reported	**$ 7,042**	**$ 1,786**	$ 281	$ 424	$ 5,539	$ 1,933	$ 4,352	$ 3,753

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 as do their 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.

Our Content Delivery and Storage segment also contributes to variation in our quarterly sales. Quarterly sales fluctuations are typical of this business due to the typically large size of customer orders and associated IPTV projects that are subject to customer timing adjustments. Demand for CDS solutions is also prone to seasonal demand fluctuations with the first quarter typically carrying slower customer activity.

Segmented Information

Sales

Segment		Three months ended December 31, 2019		2018		Six months ended December 31, 2019		2018
Video and Broadband Solutions	**$**	**8,370**	$	7,000	**$**	**15,832**	$	18,345
Content Delivery and Storage		**15,392**		14,252		**26,679**		22,878
Telematics		**1,361**		1,402		**2,724**		2,766
Total sales	**$**	**25,123**	$	22,654	**$**	**45,235**	$	43,989

Three-Month Sales

Total sales grew to $25.1 million in the second quarter of fiscal 2020, up 11% from $22.7 million in Q2 fiscal 2019 and 25% higher than the $20.1 million generated in Q1 fiscal 2020. The year-over-year sales growth reflects an increase in Video and Broadband product sales, together with record sales performance from our Content Delivery and Storage segment.

The Video and Broadband Solutions segment grew sales in the second quarter of fiscal 2020 to $8.4 million up 20% from $7.0 million in Q2 fiscal 2019 and an increase of 12% from $7.5 million in Q1 fiscal 2020.

- Initial deployments of our next generation Entra products contributed second quarter revenue of $1.1 million as compared to $0.3 million in both Q2 fiscal 2019 and Q1 fiscal 2020.

- TerraceQAM sales grew to $3.1 million, up 168% from $1.2 million in the second quarter of fiscal 2019 and an increase of 65% from $1.9 million in Q1 fiscal 2020. While we anticipate continued ordering activity for TerraceQAM through the balance of fiscal 2020, we believe the deployment of the current generation platform is nearing saturation and we are working with customers on the next generation platform.

- We generated second quarter Terrace family sales of $3.6 million as compared to $4.2 million in the same period last year and $4.7 million in Q1 fiscal 2020. The reduction in Terrace Family sales was anticipated and primarily reflects lower sales of our legacy TC600 and TC600E products.

Our Content Delivery and Storage segment achieved record quarterly sales of $15.4 million, an increase of 8% from $14.3 million in the second quarter of fiscal 2019, primarily reflecting the expansion of our customer base and strong demand for our IPTV solutions. Q2 fiscal 2020 sales of $15.4 million were 36% higher than the $11.3 million generated in Q1 fiscal 2020, and reflect the benefit of new customers, as well as the timing of large orders. Segment sales for the Q2 fiscal 2020 period included $11.0 million of product sales and $4.4 million of services revenue.

Telematics sales were stable at $1.4 million in the second quarter of fiscal 2020, as compared to $1.4 million in both Q2 fiscal 2019 and Q1 fiscal 2020. Results for the quarter were in line with our expectations.

Six-Month Sales

For the six months ended December 31, 2019 total sales increased 3% to $45.2 million from $44.0 million in the same period of fiscal 2019. The sales increase primarily reflects a strong contribution from our Content Delivery and Storage segment, partially offset by lower sales in the Video and Broadband Solutions segment.

Video and Broadband Solutions reported sales of $15.8 million in the first six months of fiscal 2020, as compared to $18.3 million in the same period in fiscal 2019.

- First half sales of the Terrace family of products decreased by 28% to $8.3 million, as compared to $11.6 million in the first half of fiscal 2019. The sales results reflect a slower pace of purchasing activity for legacy TC600E products.

- Sales of TerraceQAM increased to $5.0 million in the first half of fiscal 2020, from $2.9 million in the same period in fiscal 2019. While we anticipate continued ordering activity for TerraceQAM through the balance of fiscal 2020, overall, we believe the deployment of the current generation platform is nearing saturation and we are working with customers on the next generation platform.

Sales from our Content Delivery and Storage segment increased 17% to $26.7 million in the first half of fiscal 2020, from $22.9 million in the first half of fiscal 2019. Sales in the current period included $18.3 million of product sales and $8.4 million of services revenue.

Telematics sales were modestly lower at $2.7 million in the first half of fiscal 2020, compared to $2.8 million in the first half of fiscal 2019. 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	**2019**	2018	**2019**	2018
Video and Broadband Solutions	**$ 4,849**	$ 3,449	**$ 8,375**	$ 8,970
Content Delivery and Storage	**10,299**	8,396	**16,269**	13,169
Telematics	**860**	995	**1,838**	1,892
Total gross profit	**$ 16,008**	$ 12,840	**$ 26,482**	$ 24,031
Video and Broadband Solutions	**57.9 %**	49.3 %	**52.9 %**	48.9 %
Content Delivery and Storage	**66.9 %**	58.9 %	**61.0 %**	57.6 %
Telematics	**63.2 %**	71.0 %	**67.5 %**	68.4 %
Total gross margin	**63.7 %**	56.7 %	**58.5 %**	54.6 %

Three-Month Results

For the three months ended December 31, 2019, we achieved a higher-than-normal gross margin of 64%, providing a total gross profit of $16.0 million. This compares favourably to a gross margin of 57% (total gross profit of $12.8 million) in the same period last year, and 52% (total gross profit of $10.5 million) in Q1 fiscal 2020.

Gross margin from the Video and Broadband Solutions segment increased to 58% (gross profit of $4.8 million) in the second quarter of fiscal 2020, up from 49% (gross profit of $3.4 million) in Q2 fiscal 2019 and 47% (gross profit of $3.5 million) in Q1 fiscal 2020. The improvement in gross margin reflects increased software sales related to our Entra family of products which carry higher margins.

The Content Delivery and Storage segment increased second quarter gross margin to 67% (gross profit of $10.3 million), from 59% (gross profit of $8.4 million) in Q2 fiscal 2019 and 53% (gross profit of $6.0 million) in Q1 fiscal 2020. The improvement in gross margin reflects an increased percentage of higher-margin software sales in the current period sales mix.

Gross margin from the Telematics segment was 63% (gross profit of $0.9 million) in the second quarter of fiscal 2020, from 71% (gross profit of $1.0 million) in Q2 fiscal 2019 and 72% (gross profit of $1.0 million) in Q1 fiscal 2020. The year-over-year decrease is mainly the result of higher product costs quarter-over-quarter.

Six-Month Results

For the six months ended December 31, 2019, gross margin increased to 59% from 55% in the same period last year while total gross profit increased 10% to $26.5 million from $24.0 million. The improved results reflect higher sales and an increase in higher-margin software and service sales in the current period.

First half gross margin from the Video and Broadband Solutions segment increased to 53% (gross profit of $8.4 million), from 49% (gross profit of $9.0 million) in fiscal 2019. The higher gross margin was positively impacted by an increase in software sales year-over-year and a weaker Canadian dollar relative to the U.S. dollar on a year-over-year basis.

The Content Delivery and Storage segment generated a gross margin of 61% in the first half of fiscal 2020, as compared to 58% last year. The improvement in gross margin primarily reflects a shift in customer and product mix. Gross profit for the first half of fiscal 2020 increased by 24% to $16.3 million, from $13.2 million in the same period last year. The year-over-year improvement reflects higher sales and the shift in customer and product mix.

The Telematics segment gross margin remained at 68% (gross profit of $1.8 million) in the six months ended December 31, 2019 from 68% (gross profit of $1.9 million) during the same period in fiscal 2019. The year-over-year decrease in gross profit reflects decreased sales year-over-year and increased costs for some products.

Operating Expenses

Segment	**Three months ended December 31,**		**Six months ended December 31,**	
	2019	2018	**2019**	2018
Video and Broadband Solutions	**$ 4,636**	$ 5,520	**$ 10,274**	$ 12,115
Content Delivery and Storage	**6,479**	5,293	**12,932**	10,519
Telematics	**860**	774	**1,571**	1,463
Total operating expense	**$ 11,975**	$ 11,587	**$ 24,777**	$ 24,097

Three-Month Results

For the three months ended December 31, 2019, total operating expenses increased slightly to $12.0 million, from $11.6 million in the same period last year. The increase primarily reflects higher operating expenses in the Content Delivery and Storage segment partially offset by a reduction in costs in the Video and Broadband Solutions segment.

Video and Broadband Solutions operating expenses decreased to $4.6 million, from $5.5 million in Q2 fiscal 2019. The year-over-year reduction mainly reflects lower restructuring costs as compared to the previous year, together with the realization of cost benefits related to last year's restructuring initiatives.

Content Delivery and Storage operating expenses were higher at $6.5 million in Q2 fiscal 2020, as compared to $5.3 million in Q2 fiscal 2019 and in line with the $6.5 million in Q1 fiscal 2020. The change in operating expenses reflects increased research and development expenses due to higher amortization of deferred development costs and the addition of operating costs from the newly acquired ContentAgent business.

Telematics operating expenses of $0.9 million were in line with $0.8 million in Q2 fiscal 2019. On a sequential quarterly basis, Telematics operating expenses were $0.2 million higher than the $0.7 million recorded in Q1 fiscal 2020 reflecting higher research and development expenses as a result of lower deferrals in the current quarter.

Research and development expenses for Q2 fiscal 2020, decreased to $4.5 million, or 18% of sales, from $4.6 million, or 20% of sales in the same period of fiscal 2019. Our investment in research and development supports the launch of 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 2020 decreased to $6.2 million, or 25% of sales, from $7.8 million, or 35% of sales in Q2 fiscal 2019. The decrease reflects lower staffing costs, subcontracting costs and prototyping costs in the current-year quarter as our next generation product families move closer to commercial deployment.

Sales and marketing expenses were $3.4 million, or 14% of sales in Q2 fiscal 2020, as compared to $3.3 million, or 14% of sales in the same period last year. Increased staffing costs in support of sales growth and the addition of ContentAgent expenses were the main factors in this increase.

General and administrative expenses increased to $4.1 million from $4.0 million in fiscal 2019. The addition of expenses from the newly acquired ContentAgent business was partially offset by lower amortization expense year-over-year.

Stock-based compensation expense decreased to $0.02 million in Q2 fiscal 2020, from $0.04 million in Q2 fiscal 2019.

Other income decreased to $0.1 million in Q2 fiscal 2020 from $0.3 million in Q2 fiscal 2019 due to a lower year-over-year gain on sales of property, plant and equipment and intangible assets.

Six-Month Results

For the six months ended December 31, 2019, total operating expenses increased to $24.8 million, from $24.1 million in fiscal 2019. This increase primarily reflects higher operating expenses in the Content Delivery and Storage segment, partially offset by lower operating expenses in the Video and Broadband Solutions segment as a result of the reorganization of the research and development and manufacturing cost areas.

Video and Broadband Solutions operating expenses for the six months ended December 31, 2019 decreased to $10.3 million, from $12.1 million in the same period of fiscal 2019. The year-over-year decrease reflects restructuring costs incurred in fiscal 2019 that did not repeat in the first half of fiscal 2020, together with a decrease in research and development expenses due to lower amortization of deferred development costs and lower deferred development costs. Amortization costs are anticipated to increase in Q3 fiscal 2020 with the commercialization of new products.

Content Delivery and Storage operating expenses increased to $12.9 million for the six months ended December 31, 2019 from $10.5 million in the first half of fiscal 2019. The increase is primarily a result of higher staffing costs in research and development and sales and marketing in support of growth, and the addition of the ContentAgent business.

Telematics operating expenses increased to $1.6 million in the first half of fiscal 2020, from $1.5 million last year. This $0.1 million increase primarily reflects higher finished goods inventory allowances for legacy telematic products.

Research and development expenses for the six months ended December 31, 2019 increased to $9.6 million, or 21% of sales, from $9.2 million, or 21% of sales in the first half of fiscal 2019. Our investment in research and development supports the launch of 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, 2019 decreased to $12.2 million, or 27% of sales, from $15.6 million, or 36% of sales for the same period in the prior year. This decrease was primarily the result of lower staffing costs, subcontracting costs and prototyping costs year-over-year as our next generation product families move closer to commercial deployment.

Sales and marketing expenses increased to $7.2 million, or 16% of sales in the first half of fiscal 2020, from $6.5 million, or 15% of sales last year. This increase primarily reflects additional staffing costs in the Content Delivery and Storage segment in support of sales growth, as well as incremental costs related to the addition of the ContentAgent business.

General and administrative expenses increased to $8.1 million in the first six months of fiscal 2020, from $8.0 million in the same period of fiscal 2019. The year-over-year increase primarily reflects the addition of the ContentAgent business.

Restructuring costs were $nil for the six months ended December 31, 2019 as compared to $0.8 million in the first half of fiscal 2019 that were a result of severance costs from the reorganization of our manufacturing operations.

Stock-based compensation expense was $0.03 million in the first six months of fiscal 2020 compared to $0.07 million for the same period in fiscal 2019.

Other income decreased to $0.2 million for the six months ended December 31, 2019, from $0.4 million in the prior-year period. Sale of intellectual property in the prior-year period was the main driver for this decrease.

Operating Income (Loss)

Segment Operating Income (Loss)	Three months ended December 31, 2019	2018	Six months ended December 31, 2019	2018
Video and Broadband Solutions	**$ 213**	$ (2,071)	**$ (1,899)**	$ (3,145)
Content Delivery and Storage	**3,820**	3,103	**3,337**	2,650
Telematics	**-**	221	**267**	429
Total operating income (loss)	**$ 4,033**	$ 1,253	**$ 1,705**	$ (66)

Three-Month Results

Operating income increased to $4.0 million in Q2 fiscal 2020, from $1.3 million in Q2 fiscal 2019. The $2.8 million improvement was mainly driven by the $2.3 million increase in contribution from the Video and Broadband Solutions segment and $0.7 million increase in contribution from the Content Delivery and Storage segment partially offset by a $0.2 million decrease in contribution from the Telematics segment year-over-year.

The Video and Broadband Solutions segment increased second quarter operating income to $0.2 million, from an operating loss of $2.1 million in Q2 fiscal 2019. The year-over-year improvement reflects the $1.4 million increase in gross profit and the $0.9 million decrease in operating expenses.

Content Delivery and Storage increased operating income to $3.8 million in the second quarter of fiscal 2020 from $3.1 million in the same period of fiscal 2019. The year-over-year increase primarily reflects the $1.9 million improvement in gross profit partially offset by the $1.2 million increase in operating expenses.

Telematics operating income decreased to $nil in Q2 fiscal 2020, from $0.2 million in Q2 fiscal 2019. This reflects a $0.1 million decrease in gross profits and $0.1 million increase in operating expenses year-over-year.

Finance income increased to $0.55 million in Q2 fiscal 2020, from $0.03 million in the same period last year representing increased income from short-term investments.

Foreign exchange (loss) gain for the second quarter was a loss of $0.5 million, as compared to a gain of $1.6 million in the prior-year period.

Income tax expense was $0.5 million in Q2 fiscal 2020 as compared to $0.8 million in Q2 fiscal 2019.

Net income for Q2 fiscal 2020 increased to $3.6 million or $0.16 per share from $2.1 million or $0.09 per share in Q2 fiscal 2019.

Other comprehensive loss was $0.4 million in Q2 fiscal 2020 as compared to other comprehensive income of $1.4 million in the same period in fiscal 2019. 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 Q2 fiscal 2020 decreased to $3.1 million, from a comprehensive income of $3.4 million in Q2 fiscal 2019. The decrease year-over-year is a result of the changes described above.

Six-Month Results

For the six months ended December 31, 2019, we generated an operating income of $1.7 million as compared to an operating loss of $0.1 million in the same period in fiscal 2019. The year-over-year change mainly reflects increased contribution from the Video and Broadband Solutions segment and the Content Delivery and Storage segment, partially offset by decreased operating income from the Telematics segment.

Video and Broadband Solutions reported a first half operating loss of $1.9 million in the current year, as compared to an operating loss of $3.1 million in fiscal 2019. The year-over-year change reflects the $1.8 million decrease in operating expenses partially offset by the $0.6 million decrease in gross profit.

Content Delivery and Storage increased operating income to $3.3 million from $2.7 million in the first half of fiscal 2019. Although the segment increased gross profit by $3.0 million year-over-year, this was offset by the $2.4 million increase in operating expenses.

Telematics operating income decreased to $0.3 million in the six months ended December 31, 2019, from $0.4 million in the prior-year period. The $0.1 million year-over-year change reflects the $0.1 million decrease in gross profit.

Finance income increased to $0.8 million in the first half of fiscal 2020, from $0.2 million in the previous year reflecting an increase in short-term investment income year-over-year.

Foreign exchange (loss) gain for the six months ended December 31, 2019 was a loss of $0.2 million, compared to a gain of $1.1 million in fiscal 2019.

Income tax expense was $0.1 million for the six months ended December 31, 2019 compared to $0.3 million in the same period of fiscal 2019.

Net income for the six months ended December 31, 2019 increased to $2.2 million or $0.10 per share from $1.0 million or $0.04 per share in the prior-year period.

Other comprehensive loss was $0.2 million in the six months ended December 31, 2019, as compared to other comprehensive income of $1.0 million in fiscal 2019. 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.

Comprehensive income for the six months ended December 31, 2019 increased to $2.0 million, from comprehensive income of $1.9 million in the same period of fiscal 2019.

Operating Activities

For the three months ended December 31, 2019, cash flow from operating activities increased to $4.3 million, from cash used of $0.7 million for the three months ended December 31, 2018. The $5.0 million improvement reflects a $3.0 million increase in cash flow from non-cash working capital, and a $2.0 million increase in operating cash flow. IFRS 16 increased net cash provided by operating activities by $0.3 million as a result of depreciation of right-of-use assets and increased interest expense.

For the six months ended December 31, 2019, cash flow from operating activities increased to $4.7 million, from $nil for the six months ended December 31, 2018. The increase primarily reflects the $2.2 million increase in cash flow from non-cash working capital and the $2.5 million increase in operating cash flow. IFRS 16 increased net cash provided by operating activities by $0.7 million as a result of depreciation of right-of-use assets and increased interest expense.

Investing Activities

For the three months ended December 31, 2019, cash flow used in investing activities increased to $2.9 million from cash provided by investing activities of $nil in the same period last year. This increase reflects the net sale of short-term investments of $6.1 million (Q2 fiscal 2019 - $4.7 million), deferred development expenditures of $2.8 million (Q2 fiscal 2019 - $4.5 million), and the purchase of property, plant and equipment of $0.7 million (Q2 fiscal 2019 - $0.4 million).

For the six months ended December 31, 2019, cash flow from investing activities increased to $1.0 million from $0.4 million in fiscal 2019. The cash provided by investing activities represents the net sale of short-term investments of $7.3 million (fiscal 2019 - $10.2 million), deferred development expenditures of $5.4 million (fiscal 2019 - $8.9 million), proceeds from the sale of intangibles of $nil (fiscal 2019 - $0.2 million), and the purchase of property, plant and equipment of $1.1 million (fiscal 2019 - $1.1 million).

Financing Activities

In the three months ended December 31, 2019, we repaid $0.06 million of our long-term debt (Q2 fiscal 2019 - $0.08 million repaid). We received proceeds from exercised options of $0.6 million (Q2 fiscal 2019 - $nil) and proceeds from government grants of $0.06 million (Q2 fiscal 2019 - $nil) and we repaid lease liabilities of $0.3 million (Q2 fiscal - $nil). As a result of IFRS 16, lease liabilities are now reported under financing activities.

In the six months ended December 31, 2019, we repaid $0.1 million of our long-term debt (fiscal 2019 - $0.1 million repaid). We received proceeds from exercised options of $0.6 million (fiscal 2019 - $nil) and proceeds from government grants of $0.1 million (fiscal 2019 - $nil) and we repaid lease liabilities of $0.6 million (Q2 fiscal 2019 - $nil). As a result of IFRS 16, lease liabilities are now reported under financing activities.

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 $40.2 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, 2019, we had access to our full revolving loan facility of $14.0 million ($14.0 million at June 30, 2019), of which $nil was drawn as an operating line of credit (June 30, 2019 - $nil was drawn). We had term credit of $1.8 million as at December 31, 2019 (June 30, 2019 - $2.0 million).

Capital expenditures for Q2 fiscal 2020 were $0.7 million, compared to $0.4 million in Q2 fiscal 2019.

Working Capital

Working capital represents current assets less current liabilities. Our working capital decreased to $58.1 million at December 31, 2019, from $58.3 million at June 30, 2019. The decrease is mainly a result of changes from the adoption of IFRS 16 which increased the current portion of long-term debt. 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 to $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 $16.4 million at December 31, 2019, from $15.2 million at June 30, 2019. This increase reflects the larger sales in Q2 fiscal 2020 compared to Q4 fiscal 2019 and the timing of sales in Q2 fiscal 2020 as compared to Q4 fiscal 2019.

Income tax receivable balance was flat at $0.4 million at December 31, 2019 ($0.4 million as at June 30, 2019). This represents income tax receivable in the Content Delivery and Storage segment.

Asset held for sale represents a real estate property that the Company has accepted an offer to purchase subsequent to quarter-end that is anticipated to close in Q3 fiscal 2020.

Inventories increased by $1.7 million to $14.4 million at December 31, 2019, from $12.7 million as at June 30, 2019. The increase represents the ramp up of inventory related to our new product inventory. Finished goods inventories were $7.6 million at December 31, 2019, compared to $5.9 million at June 30, 2019. Raw material inventory was flat at $5.5 million at December 31, 2019, consistent with $5.5 million at June 30, 2019. Work-in-process inventories were flat at $1.3 million as at December 31, 2019, consistent with $1.3 million at June 30, 2019. 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 $25.2 million at December 31, 2019 up from $24.4 million at June 30, 2019. 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 $9.3 million at December 31, 2019 from $11.7 million at June 30, 2019.

Long-term debt, including the current portion, was $6.9 million at December 31, 2019 compared to $2.0 million at June 30, 2019. The increase is a result of the adoption of IFRS 16 which requires the recording of contractual lease liabilities.

Dividends

Declaration Date	Dividend Amount (per share)	Record Date	Payable Date
February 5, 2019	$0.055	February 22, 2019	March 18, 2019
May 7, 2019	$0.055	May 24, 2019	June 17, 2019
September 24, 2019	$0.055	October 11, 2019	November 1, 2019
November 12, 2019	$0.055	November 22, 2019	December 16, 2019

Contractual Obligations

Due to the adoption of IFRS 16, as of the transition date of July 1, 2019, the contractual lease obligations have been recorded as lease liabilities of $5.7 million with corresponding right-of-use assets of $5.1 million on our unaudited interim condensed consolidated statements of financial position. Lease liabilities recorded on our interim condensed consolidated statements of financial position, as at December 31, 2019 were $5.1 million. Our lease liabilities do not include short-term leases and low-value asset leases, as permitted under IFRS 16; and are of nominal value.

As at December 31, 2019, our undiscounted future cash payments in respect of our lease liabilities is as follows: due within one year is $1.5 million; due between two to five years is $3.7 million; and thereafter is $nil.

Contingencies

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. We reviewed this matter as at December 31, 2019, and no provision has been recognized in the financial statements.

Foreign Exchange

Approximately 97% 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 accounts 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 purchased are in U.S. dollars.

As at December 31, 2019, the exchange rate on the Canadian dollar relative to the U.S. dollar strengthened to $1.306 from $1.313 as at June 30, 2019. This $0.007 exchange difference decreased the value of our $49.1 million U.S. dollar net assets by approximately $0.3 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, 2019, we did not have any forward contracts (June 30, 2019 - $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 condition.

Transactions Between Related Parties

We had leased a building in Saskatoon under a 10-year lease from Dr. Surinder Kumar, the Chairman of Vecima. The lease was entered into in fiscal 2010 at prevailing market rates at that time and expired at the end of March 2019. The rental expense from this transaction was $nil for the six months ended December 31, 2019 (2018 - $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 interim condensed consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements and Standards

Adoption of New Accounting Standards in 2020

IFRS 16 - Leases

Effective July 1, 2019, we adopted IFRS 16, which supersedes the previous accounting standards for leases, IAS 17 – Leases (IAS 17) and IFRIC 4 – Determining Whether an Arrangement Contains a Lease (IFRIC 4). IFRS 16 introduced a single accounting model for lessees. A lessee is now required to recognize and disclose on its statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. IFRS 16 does not substantially change lease accounting for lessors.

IFRIC 23 - Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC 23, which clarifies the application of the recognition and measurement requirements in IAS 12 – Income Taxes, when there is uncertainty over income tax treatments. This interpretation is effective for annual reporting periods beginning on or after January 1, 2019, using a full retrospective approach. We adopted IFRIC 23 and determined that the application did not have a material impact on our condensed consolidated financial statements because our policies were in line with the standard.

Standards and Amendments to Standards Issued but not yet Effective

IFRS 3 - Business Combinations

In October 2018, the IASB issued an amendment to IFRS 3 – Business Combinations (IFRS 3). The amendment clarifies the definition of a business and assists entities to determine whether an acquisition is a business combination or an acquisition of a group of assets. The amendment emphasizes that the output of a business is to provide goods and services to customers and also to provide supplementary guidance. The amendment to IFRS 3 may effect whether the future acquisitions are accounted for as a business combination or asset acquisition, along with the resulting allocation of the purchase price between the identifiable assets acquired and goodwill. We will adopt the standard prospectively for acquisitions made on or after January 1, 2020. The effects, if any, of the amended standard on our financial performance and disclosure will be dependent on the facts and circumstances of any future acquisition transactions.

Disclosure Controls and Procedures

Disclosure controls and procedures were designed 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 Chief Executive Officer ("CEO") and Chief Financial Officer ("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, 2019.

Internal Control over Financial Reporting

Internal controls over financial reporting ("ICFR") were designed 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 over 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, 2019 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, 2019. There has been no change in the internal controls over financial reporting that occurred during the period beginning on July 1, 2019 and ended on December 31, 2019 that has materially affected, or is reasonably likely to materially affect our internal controls on financial reporting

Our CEO and CFO have limited the scope of their design of disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of the ContentAgent business, which we acquired on May 31, 2019. We have accordingly availed ourselves of provision 3.3(1)(b) of National Instrument 52-109, which permits exclusion of this acquisition in the design and operating effectiveness assessment of our ICFR for a maximum period of 365 days from the end of the financial period in which the acquisition occurred.

The following summary of financial information pertains to the ContentAgent acquisition that was included in our unaudited interim condensed consolidated financial statements for the period ended December 31, 2019:

Sales	$	795
Net loss	$	(362)
Current assets	$	722
Non-current assets	$	899
Current liabilities	$	1,258
Non-current liabilities	$	10

Business Combination

On May 31, 2019, we completed an acquisition of substantially all of the operating assets of ContentAgent, a software and solutions company specializing in video-ingest and delivery automation solutions for the media industry.

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 consolidation of ContentAgent and our existing business; expected growth in the underlying markets which ContentAgent 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, a provision for the loss is 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 comprehensive income or consolidated statements of financial position.

Risks 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 these risks occurs, our financial performance, share price, business prospects and financial condition could be materially adversely affected.

Vecima was founded by Dr. Surinder Kumar in 1988. Voting control of Vecima is held by Dr. Kumar through either direct or indirect ownership of the Company's common shares. As at December 31, 2019, Dr. Kumar collectively owned approximately 60.2% of our common shares outstanding. Each common share carries the right to one vote. We have no other classes of voting securities.

Outstanding Share Data

As at February 4, 2020, we had 22,435,262 common shares outstanding as well as stock options outstanding that are exercisable for an additional 433,325 common shares.

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 no common shares of Vecima for cancellation in Q2 fiscal 2020 and 10,356 common shares in fiscal 2019. The normal course issuer bid expired on December 19, 2019.

Subsequent to quarter-end, on January 2, 2020, 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. The normal course issuer bid commenced on January 6, 2020 and expires on January 5, 2021.

Additional Information

Financial Governance

Our management is responsible for the preparation and presentation of the 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, each member of which is elected annually by the shareholders of the Company. The Board is responsible for reviewing and approving the 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.

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

Forward-Looking Information

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

Forward-looking information in this MD&A includes but is not limited to statements that: we 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 and we expect our sales to recover as our new products in the DOCSIS 3.1 Entra platform are commercialized; we believe that our customer's need for new systems is nearing saturation, while we anticipate continued ordering activity for TerraceQAM through the balance of fiscal 2020, overall, we believe the deployment of the current generation platform is nearing saturation and we are working with customers on the next generation platform; and we believe that our current cash and short-term investments of $40.2 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; our ability to continue our relationships with a few key customers; our ability to deliver products associated with key contracts; our ability to manage our business and growth successfully; our ability to meet customers' requirements for manufacturing capacity; our ability to develop new products and enhance our existing products; our ability to expand current distribution channels and can develop new distribution channels; our ability 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; our ability to successfully implement acquisitions; our ability to manage risks associated with our international operations; currency fluctuations do not adversely affect us; growth in our key markets continues; our ability 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

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim condensed consolidated financial statements of Vecima Networks Inc. (the “Company”) have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of the interim condensed consolidated financial statements by an entity’s auditor.

VECIMA NETWORKS INC.
Interim Condensed Consolidated Statements of Financial Position
(unaudited – in thousands of Canadian dollars)

As at	Note	**December 31, 2019**	June 30, 2019
Assets			
Current assets			
Cash and cash equivalents		**$ 22,960**	$ 19,834
Short-term investments	13	**17,247**	24,569
Accounts receivable		**16,357**	15,154
Income tax receivable		**397**	437
Inventories		**14,383**	12,724
Prepaid expenses		**1,910**	2,235
Contract assets		**161**	187
Asset held for sale	4	**490**	-
		73,905	75,140
Non-current assets			
Property, plant and equipment		**11,909**	12,526
Right-of-use assets	3(c)	**4,415**	-
Goodwill		**15,074**	15,131
Intangible assets	5	**67,666**	67,887
Other long-term assets		**854**	1,017
Investment tax credits		**25,224**	24,355
Deferred tax assets		**4,573**	4,714
		$ 203,620	$ 200,770
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**$ 9,295**	$ 11,699
Provisions		**710**	804
Income tax payable		**120**	55
Deferred revenue		**4,031**	4,046
Current portion of long-term debt	6	**1,631**	250
		15,787	16,854
Non-current liabilities			
Provisions		**344**	332
Deferred revenue		**834**	763
Deferred tax liability		**323**	324
Long-term debt	6	**5,255**	1,729
		22,543	20,002
Shareholders' equity			
Share capital	7	**2,674**	1,916
Reserves		**3,939**	4,104
Retained earnings		**173,657**	173,738
Accumulated other comprehensive income		**807**	1,010
		181,077	180,768
		$ 203,620	$ 200,770

Subsequent Events - Note15

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

VECIMA NETWORKS INC.

Interim Condensed Consolidated Statements of Comprehensive Income

(unaudited – in thousands of Canadian dollars, except per share amounts)

Periods ended December 31,	Note		Three months 2019		Three months 2018		Six months 2019		Six months 2018
Sales	8,12	**$**	**25,123**	$	22,654	**$**	**45,235**	$	43,989
Cost of Sales			**9,115**		9,814		**18,753**		19,958
Gross Profit			**16,008**	$	12,840		**26,482**		24,031
Operating expenses									
Research and development			**4,534**		4,567		**9,602**		9,171
Sales and marketing			**3,427**		3,252		**7,173**		6,452
General and administrative	3(d)		**4,142**		4,006		**8,123**		8,009
Restructuring costs			**-**		-		**-**		757
Share-based compensation	9		**17**		40		**34**		74
Other (income) expense	10		**(145)**		(278)		**(155)**		(366)
			11,975		11,587		**24,777**		24,097
Operating income (loss)			**4,033**		1,253		**1,705**		(66)
Finance income			**554**		27		**762**		249
Foreign exchange (loss) gain			**(477)**		1,593		**(179)**		1,076
Income before income taxes			**4,110**		2,873		**2,288**		1,259
Income tax expense			**549**		823		**111**		305
Net income		**$**	**3,561**	$	2,050	**$**	**2,177**	$	954
Other comprehensive (loss) income									
Item that may be subsequently reclassed to net income									
Exchange differences on translating foreign operations			**(426)**		1,395		**(203)**		977
Comprehensive income		**$**	**3,135**	$	3,445	**$**	**1,974**	$	1,931
Net income per share									
Basic	11	**$**	**0.16**	$	0.09	**$**	**0.10**	$	0.04
Diluted	11	**$**	**0.16**	$	0.09	**$**	**0.10**	$	0.04
Weighted average number of common shares									
Shares outstanding - basic	11		**22,404,999**		22,368,234		**22,420,018**		22,370,641
Shares outstanding - diluted	11		**22,444,540**		22,371,522		**22,442,995**		22,376,886

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

VECIMA NETWORKS INC.
Interim Condensed Consolidated Statements of Change in Equity
(unaudited – in thousands of Canadian dollars)

	Note	Share capital	Reserves	Retained earnings	Accumulated other comprehensive income	Total
Balance as at June 30, 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)
Shares repurchased and cancelled		(1)	-	(116)	-	(117)
Share-based payment expense	9	-	74	-	-	74
Balance as at December 31, 2018		$ 1,755	$ 4,115	$ 180,686	$ 2,054	$ 188,610
Balance as at June 30, 2019		**$ 1,916**	**$ 4,104**	**$ 173,738**	**$ 1,010**	**$ 180,768**
IFRS 16 transition impact	3(b)	-	-	206	-	206
Adjusted balance as at June 30, 2019		**$ 1,916**	**$ 4,104**	**$ 173,944**	**$ 1,010**	**$ 180,974**
Net income		-	-	2,177	-	2,177
Other comprehensive loss		-	-	-	(203)	(203)
Dividends		-	-	(2,464)	-	(2,464)
Shares issued by exercising options		758	(199)	-	-	559
Share-based payment expense	9	-	34	-	-	34
Balance as at December 31, 2019		**$ 2,674**	**$ 3,939**	**$ 173,657**	**$ 807**	**$ 181,077**

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

VECIMA NETWORKS INC.
Interim Condensed Consolidated Statements of Cash Flows
(unaudited – in thousands of Canadian dollars)

		Three months		Six months	
Periods ended December 31,	Note	**2019**	2018	**2019**	2018
OPERATING ACTIVITIES					
Net income		**$ 3,561**	$ 2,050	**$ 2,177**	$ 954
Adjustments for non-cash items:					
(Gain) loss on sale of property, plant and equipment		**(135)**	31	**(121)**	42
Gain on sale of intangible assets		**-**	(202)	**-**	(202)
Depreciation and amortization	14	**2,972**	2,766	**6,469**	5,487
Share-based compensation		**17**	40	**34**	74
Income tax expense (recovery)		**82**	817	**(26)**	391
Deferred income tax expense (recovery)		**467**	6	**137**	(86)
Interest expense		**78**	31	**158**	55
Interest income		**(237)**	(250)	**(460)**	(531)
Net change in working capital	14	**(2,845)**	(5,807)	**(4,038)**	(6,217)
Decrease (increase) in other long-term assets		**154**	(198)	**160**	(179)
Decrease in provisions		**(78)**	(241)	**(78)**	(137)
Increase in investment tax credits		**(51)**	(21)	**(89)**	(48)
Income tax received		**173**	147	**173**	409
Income tax paid		**(46)**	(106)	**(68)**	(457)
Interest received		**237**	250	**460**	531
Interest paid		**(78)**	(26)	**(158)**	(50)
Cash provided by (used in) operating activities		**4,271**	(713)	**4,730**	36
INVESTING ACTIVITIES					
Capital expenditures, net	14	**(481)**	(159)	**(925)**	(930)
Purchase of short-term investments		**(578)**	(1,212)	**(778)**	(1,418)
Proceeds from sale of short-term investments		**6,700**	5,900	**8,100**	11,627
Deferred development costs		**(2,776)**	(4,530)	**(5,426)**	(8,873)
Cash provided by (used in) investing activities		**2,865**	(1)	**971**	406
FINANCING ACTIVITIES					
Proceeds from government grants		**63**	-	**94**	-
Principal payments of lease liabilities	6	**(316)**	-	**(648)**	-
Repayment of long-term debt	6	**(63)**	(84)	**(146)**	(146)
Repurchase and cancellation of shares		**-**	(61)	**-**	(117)
Dividends paid		**(2,464)**	(2,461)	**(2,464)**	(2,461)
Issuance of shares through exercised options		**559**	-	**559**	-
Cash used in financing activities		**(2,221)**	(2,606)	**(2,605)**	(2,724)
Net increase (decrease) in cash and cash equivalents		**4,915**	(3,320)	**3,096**	(2,282)
Effect of change in exchange rates on cash		**82**	(903)	**30**	(728)
Cash and cash equivalents, beginning of period		**17,963**	12,247	**19,834**	11,034
Cash and cash equivalents, end of period		**$ 22,960**	$ 8,024	**$ 22,960**	$ 8,024

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

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1. NATURE OF THE BUSINESS

Vecima Networks Inc. ("Vecima" or the "Company") is a company continued under the Canadian Business Corporations Act ("CBCA") and commenced operations in 1988. The Company's registered office is located at 771 Vanalman Avenue, Victoria, B.C., V8Z 3B8. The Company's common shares are traded on the Toronto Stock Exchange under the trading symbol "VCM".

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) under International Accounting Standard 34 – *Interim Financial Reporting* (IAS 34). These interim condensed consolidated financial statements do not include all the information required for a complete set of annual financial statements and should be read in conjunction with the consolidated financials statements of the Company for the year ended June 30, 2019.

(b) Basis of presentation

These interim condensed consolidated financial statements have been prepared using the same basis of presentation, accounting policies and methods of computation as outlined in Note 2, Summary of Significant Accounting Policies in our consolidated financial statements for the year ended June 30, 2019, except as noted below.

The interim condensed consolidated financial statements of the Company were approved by the Board of Directors and authorized for issue on February 4, 2020.

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

<u>IFRS 16 – Leases (IFRS 16)</u>

Effective July 1, 2019, the Company adopted IFRS 16, which supersedes the previous accounting standards for leases, IAS 17 – *Leases* (IAS 17) and IFRIC 4 – *Determining Whether an Arrangement Contains a Lease* (IFRIC 4). IFRS 16 introduced a single accounting model for lessees. A lessee is now required to recognize and disclose on its statement of financial position, a right-of-use asset, representing its right to use the underlying leased asset, and a lease liability, representing its obligation to make lease payments. IFRS 16 does not substantially change lease accounting for lessors.

The Company adopted IFRS 16 using the modified retrospective approach whereby the financial statements of prior periods presented are not restated. Prior periods continue to be reported under IAS 17 and IFRIC 4. The impact resulting from the adoption of IFRS 16 is disclosed below in Note 3.

<u>IFRIC 23 – Uncertainty over income tax treatments (IFRIC 23)</u>

In June 2017, the IASB issued IFRIC 23, which clarifies the application of the recognition and measurement requirements in IAS 12 – *Income Taxes*, when there is uncertainty over income tax treatments. This interpretation is effective for annual reporting periods beginning on or after January 1, 2019, using a full retrospective approach. The Company has adopted IFRIC 23 and determined that the application did not have a material impact on the Company’s condensed consolidated financial statements because its existing policies were in line with the standard.

(d) Accounting standards issued but not yet effective and not yet applied

In October 2018, the IASB issued an amendment to IFRS 3 – *Business Combinations* (IFRS 3). The amendment clarifies the definition of a business and assists entities to determine whether an acquisition is a business combination or an acquisition of a group of assets. The amendment emphasizes that the output of a business is to provide goods and services to customers and also to provide supplementary guidance. The amendment to IFRS 3 may effect whether the future acquisitions are accounted for as a business combination or asset acquisition, along with the resulting allocation of the purchase price between the identifiable assets acquired and goodwill. The Company will adopt the standard prospectively for acquisitions made on or after January 1, 2020. The effects, if any, of the amended standard on our financial performance and disclosure will be dependent on the facts and circumstances of any future acquisition transactions.

3. ADOPTION OF IFRS 16 – LEASES

(a) Accounting policy

Lessee accounting

The Company has entered into leases for equipment, land and buildings in the normal course of business. Lease contracts are usually made for fixed periods of time but may include options to purchase, renew or terminate. Leases are usually negotiated on an individual basis and have a wide range of terms and conditions.

At the inception of a contract, it is assessed as to whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, it is assessed as to whether, throughout the period of use, the Company has the right:

- to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use; and
- to direct the use of the identified asset.

At the commencement date, the Company recognizes a right-of-use asset and a corresponding lease liability. At the commencement date, the right-of-use asset is measured at cost. The cost of the right-of-use asset comprises the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred; and
- an estimate of costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located, or restoring the underlying asset to the condition required by the terms and conditions of the lease.

After the commencement date, the right-of-use asset is measured by applying a cost model. The cost model measures the right-of-use asset at cost:

- less any accumulated depreciation and any accumulated impairment losses; and
- adjusted for any re-measurement of the lease liability.

Right-of-use assets are depreciated on a straight-line basis over the term of the lease, unless the Company expects to obtain ownership of the leased asset at the end of the lease, in which case, the right-of-use asset is depreciated over its estimated useful life. The lease term typically consists of the non-cancellable period of the lease, together with both:

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

At the commencement date, the lease liability is initially measured at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease liabilities are subsequently measured at amortized cost using the effective interest method.

The lease liability is re-measured when there is a change in the future lease payments arising from a change in the Company's estimate of the amount expected to be payable under a residual value guarantee; or when the Company changes its assessment of whether purchase, extension or termination options will be exercised. When the lease liability is re-measured under these circumstances, there will be a corresponding adjustment made to the carrying amount of the right-of use asset.

When the lease liability is re-measured as a result of an amendment to the lease contract due to a decrease in contract scope, the lease liability and right-of-use asset will decrease relative to this change, with the difference recorded in net income prior to the re-measurement of the lease liability.

Practical expedients and exemptions

The Company has applied the following available practical expedients and exemptions, wherein it has:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- excluded initial direct costs from measuring the right-of-use asset as at July 1, 2019;
- relied on our assessment of whether leases are onerous under the requirements of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets* as at June 30, 2019 as an alternate to reviewing our right-of-use assets for impairment;
- elected not to separate non-lease components from lease components and instead accounted for each lease component and any associated non-lease component as a single lease component;
- applied the short-term lease exemption to leases with lease terms that end within 12 months from the date of initial application; and
- applied the recognition exemption to leases for which the underlying asset is of low value.

Lessor accounting

All of the leases for which the Company is the lessor are classified as operating leases. Lease payments received under operating leases are recognized in income on a straight-line basis.

(in thousands of Canadian dollars except as otherwise noted)

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

The table below is the effect of the transition to IFRS 16 on our condensed consolidated statements of financial position as at July 1, 2019:

	Reference	As reported as at June 30, 2019	Effect of IFRS 16 transition	Subsequent to transition as at July 1, 2019
Assets				
Current assets				
Cash and cash equivalents		$ 19,834	$ -	$ 19,834
Short-term investments		24,569	-	24,569
Accounts receivable		15,154	-	15,154
Income tax receivable		437	-	437
Inventories		12,724	-	12,724
Prepaid expenses		2,235	-	2,235
Contract assets		187	-	187
		75,140	-	75,140
Non-current assets				
Property, plant and equipment		12,526	-	12,526
Right-of-use assets	i.	-	5,109	5,109
Goodwill		15,131	-	15,131
Intangible assets		67,887	-	67,887
Other long-term assets		1,017	-	1,017
Investment tax credits		24,355	-	24,355
Deferred tax assets		4,714	-	4,714
		$ 200,770	$ 5,109	$ 205,879
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities	ii.	$ 11,699	$ (812)	$ 10,887
Provisions		804	-	804
Income tax payable		55	-	55
Deferred revenue		4,046	-	4,046
Current portion of long-term debt	i.	250	1,329	1,579
		16,854	517	17,371
Non-current liabilities				
Provisions		332	-	332
Deferred revenue		763	-	763
Deferred tax liability		324	-	324
Long-term debt	i.	1,729	4,386	6,115
		20,002	4,903	24,905
Shareholders' equity				
Share capital		1,916	-	1,916
Reserves		4,104	-	4,104
Retained earnings	iii.	173,738	206	173,944
Accumulated other comprehensive income		1,010	-	1,010
		180,768	206	180,974
		$ 200,770	$ 5,109	$ 205,879

i. Right-of-use assets and lease liabilities

The initial measurement of the Company's right-of-use assets and lease liabilities were calculated in accordance to our accounting policy in Note 3(a) above. At the time of transition, the Company had lease incentives that reduced the right-of-use assets.

ii. Accounts payable and accrued liabilities

Prior to the transition to IFRS 16, the Company reported an accrued liability for certain operating leases that were recorded using a straight-line rent methodology. The accrued liability was eliminated upon the transition to IFRS 16.

iii. Retained earnings

Lease abatements received prior to the transition to IFRS 16 do not have an impact on the right-of-use asset or the lease liability because they are not lease incentives, and they have no cash flow impact. The net impact of these lease abatements are consequently recorded against retained earnings.

Impact of IFRS 16 transition

Prior to the adoption of IFRS 16, the total minimum operating lease commitments as at June 30, 2019 were $6,877. The weighted average discount rate applied to the total lease liabilities recognized on transition was 3.91%. The difference between the total minimum lease payments set out in Note 34 of our June 30, 2019 consolidated financial statements and the total lease liabilities recognized on transition was a result of:

- the inclusion of lease payments beyond minimum commitments related to reasonably certain renewal periods or extension options that had not yet been exercised as at June 30, 2019; offset by
- the effect of discounting the minimum lease payments;
- the exclusion of short-term and low-value asset leases; and
- certain costs to which we are contractually committed under lease contracts but which do not qualify to be accounted for as a lease liability, such as variable lease payments not tied to an index or rate.

As a result of adopting IFRS 16, the Company has recognized a significant increase in both our assets and liabilities on the condensed consolidated statements of financial position. The condensed consolidated statements of comprehensive income are impacted due to: the removal of rent expense for our leases; the additional depreciation and amortization due to the depreciation of the right-of-use assets; and the additional finance costs related to the interest component of the lease liabilities.

(in thousands of Canadian dollars except as otherwise noted)

(c) Right-of-use assets

For the six months ended December 31, 2019, the Company's right-of-use assets solely comprised of real estate leases. The table below provides details of the Company's right-of-use assets:

		Six months ended December 31, 2019
		Total
At cost		
As at July 1, 2019		
As previously reported	$	-
IFRS 16 transitional amount		5,109
Adjusted balance, July 1, 2019		5,109
Additions		-
Dispositions, retirements, other		-
Effect of foreign exchange		(14)
	$	**5,095**
Accumulated depreciation		
As at July 1, 2019		
As previously reported	$	-
Adjusted balance, July 1, 2019		-
Depreciation		683
Dispositions, retirements, other		-
Effect of foreign exchange		(3)
	$	**680**
Net book value		
At June 30, 2019	$	-
At December 31, 2019	**$**	**4,415**

(d) Short-term leases and leases of low-value assets

The Company applied the practical expedients permitted under IFRS 16 for short-term leases and leases of low value assets. For the three and six months ended December 31, 2019, $15 and $29, respectively for short-term leases, and $7 and $10, respectively for leases of low-value assets are included in general and administration expense in the interim condensed consolidated statements of comprehensive income.

(e) Use of estimates and judgments

Estimates

The Company estimates the lease term by considering the facts and circumstances that can create an economic incentive to exercise an extension option, or not exercise a termination option. Certain qualitative and quantitative assumptions are made when determining the value of the economic incentives.

Judgments

Judgements used in determining the right-of-use assets and lease liabilities include:

- Identifying or determining if a contract is or contains an identified asset – the identified asset should be physically distinct or represent all or substantially all of the capacity of the asset, and should provide the right to all or substantially all of the economic benefits from the use of the identified asset;
- determining which interest rate to use in measuring the present value of the lease liability for each lease – the incremental borrowing rate should reflect the interest that would have to be paid to borrow at a similar term and with similar security;

(in thousands of Canadian dollars except as otherwise noted)

- determining, with reasonable certainty, whether the Company will exercise an option to extend or an option not to terminate a lease contract – this will be based on an assessment of the expected economic return from the lease.

See Note 6 for our disclosure regarding lease liabilities.

4. ASSET HELD FOR SALE

The Company has one commercial building classified as an investment property held for sale that is listed with an external broker as at December 31, 2019 (December 31, 2018 – nil properties). This commercial building was previously reported under non-current assets in property, plant and equipment. The carrying amount of the commercial building as at December 31, 2019 is $490 (December 31, 2018 - $495, in property, plant and equipment). The current list price of the commercial building is $1,095, which was determined using the expertise of the external broker who has the professional qualifications and experience in the area where the commercial building is located.

5. INTANGIBLE ASSETS

	Indefinite-life intangible assets	Finite-life intangible assets				
	Spectrum and other licenses	Customer contracts	Patents	Intellectual property	Deferred development costs	Total
At cost						
At July 1, 2019	$ 105	$ 20,866	$ 644	$ 10,316	$ 60,521	$ 92,452
Additions	-	-	48	-	5,426	5,474
Government grant	-	-	-	-	(98)	(98)
Investment tax credits	-	-	-	-	(754)	(754)
Write-down, fully amortized	-	-	-	-	-	-
Effect of foreign exchange	-	(85)	(1)	(37)	(41)	(164)
At December 31, 2019	**$ 105**	**$ 20,781**	**$ 691**	**$ 10,279**	**$ 65,054**	**$ 96,910**
Amortization						
At July 1, 2019	$ -	$ 4,374	$ 385	$ 3,012	$ 16,794	$ 24,565
Amortization	-	1,193	36	721	2,787	4,737
Writedown, fully amortized	-	-	-	-	-	-
Effect of foreign exchange	-	(26)	(1)	(14)	(17)	(58)
At December 31, 2019	**$ -**	**$ 5,541**	**$ 420**	**$ 3,719**	**$ 19,564**	**$ 29,244**
Net book value						
At June 30, 2019	$ 105	$ 16,492	$ 259	$ 7,304	$ 43,727	$ 67,887
At December 31, 2019	**$ 105**	**$ 15,240**	**$ 271**	**$ 6,560**	**$ 45,490**	**$ 67,666**

(in thousands of Canadian dollars except as otherwise noted)

6. LONG-TERM DEBT

As at		**December 31, 2019**		June 30, 2019
Term credit facility	**$**	**1,833**	$	1,979
Lease liabilities (including lease liabilities under IFRS 16 (Note 3(a)))		**5,053**		-
	$	**6,886**	$	1,979
Comprised of:				
Current portion of term credit facility and lease liabilities	**$**	**1,631**	$	250
Long-term portion of term credit facility and lease liabilities		**5,255**		1,729
	$	**6,886**	$	1,979

Term credit facility

The term credit facility is with a Canadian chartered bank. As at December 31, 2019, the facility is repayable in monthly instalments of $21 principal and interest at prime of 3.95% (June 30, 2019 - $21, and 3.95%, respectively), expires in October 2020 and is collateralized by a general security agreement. The Company has an authorized loan amount of $3,792 and annually renews this facility with the bank.

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

Assuming that the existing payment terms are the same at the renewal date, the following are the future principal repayments for the term credit facility as at December 31, 2019:

2020	$	104
2021		250
2022		250
2023		250
2024		250
Thereafter		729
	$	1,833

Lease liabilities

The following is a reconciliation of the Company’s lease liabilities as at December 31, 2019:

Lease liabilities, beginning of period	$	5,715
Net additions during the period		-
Interest on lease liabilities		119
Principal repayments of lease liabilities		(767)
Effect of foreign exchange		(14)
Other		-
Lease liabilities, end of period	**$**	**5,053**
Current portion		1,381
	$	**3,672**

As at December 31, 2019, the contractual undiscounted lease payments under the lease liabilities are as follows:

Less than one year	$	1,453
One to five years		3,733
More than five years		-
Total undiscounted lease payments	**$**	**5,186**

(in thousands of Canadian dollars except as otherwise noted)

7. SHARE CAPITAL

Changes in share capital for the six months ended December 31, 2019 are as follows:

	Number of shares		Carrying value
Balance at July 1, 2019	22,370,087	$	1,916
Shares issued by exercising options	64,950		758
Balance at December 31, 2019	**22,435,037**	**$**	**2,674**

Changes in the stock option plan for the six months ended December 31, 2019 are as follows:

	Number of options		Weighted average exercise price
Outstanding, July 1, 2019	502,500	$	8.95
Granted	9,000		8.25
Cancelled	(13,000)		8.62
Exercised	(64,950)		8.62
Outstanding, December 31, 2019	**433,550**	**$**	**9.00**
Vested and exercisable, December 31, 2019	**365,927**	**$**	**8.94**

8. REVENUE FROM CONTRACTS WITH CUSTOMERS

<u>Disaggregated revenue</u>

In the following table, gross revenue from contracts with customers is disaggregated by reporting segment and type. Refer to Note 12 for additional segmented financial information.

	Three months ended December 31, 2019							
		Video and Broadband Solutions		**Content Delivery and Storage**		**Telematics**		**Total**
Product sales	$	6,056	$	10,979	$	164	$	17,199
Provision of services		2,314		4,413		1,197		7,924
	$	**8,370**	**$**	**15,392**	**$**	**1,361**	**$**	**25,123**
	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

(in thousands of Canadian dollars except as otherwise noted)

	Six months ended December 31, 2019			
	Video and Broadband Solutions	**Content Delivery and Storage**	**Telematics**	**Total**
Product sales	$ 11,749	$ 18,257	$ 334	$ 30,340
Provision of services	4,083	8,422	2,390	14,895
	$ 15,832	**$ 26,679**	**$ 2,724**	**$ 45,235**

	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

9. SHARE-BASED COMPENSATION

For all stock options granted, the Company determined compensation expense based on the estimated fair values at the grant date of the stock options using the Black-Scholes and binomial option-pricing models. The estimated fair value of the stock options is amortized to share-based compensation over the vesting period of the options. The share-based compensation expense included in the interim condensed consolidated statements of comprehensive income was $17 and $34 for the three and six months ended December 31, 2019, respectively (December 31, 2018 - $40 and $74, respectively).

10. OTHER (INCOME) EXPENSE

	Three months		**Six months**	
Periods ended December 31,	**2019**	2018	**2019**	2018
Loss on sale of property, plant and equipment	**$ (135)**	$ 31	**$ (121)**	$ 42
Gain on sale of intangible assets	**-**	(202)	**-**	(202)
Lease revenue	**(17)**	(105)	**(36)**	(209)
Other	**7**	(2)	**2**	3
	$ (145)	$ (278)	**$ (155)**	$ (366)

11. NET INCOME PER SHARE

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

	Three months		**Six months**	
Periods ended December 31,	**2019**	2018	**2019**	2018
Net income: basic and diluted	**$ 3,561**	$ 2,050	**$ 2,177**	$ 954
Weighted average number of shares outstanding:				
Basic	**22,404,999**	22,368,234	**22,420,018**	22,370,641
Dilutive stock options	**39,541**	3,288	**22,977**	6,245
Diluted	**22,444,540**	22,371,522	**22,442,995**	22,376,886
Net income per share: basic	**$ 0.16**	$ 0.09	**$ 0.10**	$ 0.04
Net income per share: diluted	**$ 0.16**	$ 0.09	**$ 0.10**	$ 0.04

(in thousands of Canadian dollars except as otherwise noted)

Stock options could potentially dilute basic net income per share in the future. Options to purchase 365,927 common shares were vested and outstanding as at December 31, 2019 (December 31, 2018 – 424,492). Dilutive stock options are calculated using the treasury stock method.

12. SEGMENTED FINANCIAL INFORMATION

The Company's operations are organized into business units based on how the business is managed and has three reportable segments. The Video and Broadband Solutions segment designs, develops and distributes electronic communications products to cable and telecommunications markets. The Content Delivery and Storage segment develops advanced applications focused on storing, protecting, and transforming and delivering visual media. The Telematics segment designs, develops and distributes fleet management products. Inter-segment transactions take place at terms that approximate fair value. The majority of the Company's operations, employees and assets reside in Canada and the United States. The following tables highlight key financial information by segment and geographical region:

Segments

	Three months ended December 31, 2019				
	Video and Broadband Solutions	**Content Delivery and Storage**	**Telematics**	**Inter-Segment**	**Total**
Sales	$ 8,370	$ 15,392	$ 1,361	$ -	**$ 25,123**
Cost of sales	3,521	5,093	501	-	**9,115**
Gross profit	4,849	10,299	860	-	**16,008**
Operating expenses	3,565	4,857	651	-	**9,073**
Depreciation and amortization	1,071	1,622	209	-	**2,902**
Operating income	213	3,820	-	-	**4,033**
Finance income	583	(29)	-	-	**554**
Foreign exchange (loss) gain	(492)	21	(6)	-	**(477)**
Income (loss) before taxes	304	3,812	(6)	-	**4,110**
Income tax expense (recovery)	94	457	(2)	-	**549**
Net income (loss)	**$ 210**	**$ 3,355**	**$ (4)**	**$ -**	**$ 3,561**

	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 taxes	(510)	3,121	262	-	2,873
Income tax (recovery) expense	(141)	898	66	-	823
Net (loss) income	$ (369)	$ 2,223	$ 196	$ -	$ 2,050

(in thousands of Canadian dollars except as otherwise noted)

	Six months ended December 31, 2019				
	Video and Broadband Solutions	**Content Delivery and Storage**	**Telematics**	**Inter-Segment**	**Total**
Sales	$ 15,832	$ 26,679	$ 2,724	$ -	**$ 45,235**
Cost of sales	7,457	10,410	886	-	**18,753**
Gross profit	8,375	16,269	1,838	-	**26,482**
Operating expenses	7,505	9,755	1,151	-	**18,411**
Depreciation and amortization	2,769	3,177	420	-	**6,366**
Operating (loss) income	(1,899)	3,337	267	-	**1,705**
Finance income	819	(57)	-	-	**762**
Foreign exchange loss	(167)	(12)	-	-	**(179)**
(Loss) income before taxes	(1,247)	3,268	267	-	**2,288**
Income tax (recovery) expense	(291)	334	68	-	**111**
Net (loss) income	**$ (956)**	**$ 2,934**	**$ 199**	**$ -**	**$ 2,177**

	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 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

Geographical region

	Three months		Six months	
Periods ended December 31,	**2019**	2018	**2019**	2018
Sales to external customers:				
United States	**$ 19,755**	$ 18,052	**$ 33,750**	$ 33,014
Canada	**2,169**	3,030	**3,897**	6,694
Europe	**783**	742	**3,113**	2,718
Japan	**864**	845	**1,663**	1,477
Other	**1,552**	(15)	**2,812**	86
	$ 25,123	$ 22,654	**$ 45,235**	$ 43,989

(in thousands of Canadian dollars except as otherwise noted)

Sales to major customers

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

		Three months				Six months
Periods ended December 31,		**2019**		2018		**2019**		2018
Customer A	**$**	**9,741**	$	7,920	**$**	**12,092**	$	15,483
Customer B		**3,336**		-		**6,704**		4,689
Customer C		**3,655**		-		**6,134**		-
	$	**16,732**	$	7,920	**$**	**24,930**	$	20,172

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

13. FAIR VALUE HIERARCHY

Assets and liabilities measured at fair value in the condensed consolidated statements of financial position, or where fair value disclosures are required, are classified based on a three-level hierarchy as follows:

Level 1: determined by reference to quoted prices in active markets for identical assets and liabilities;

Level 2: determined by using inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: determined using inputs that are not based on observable market data.

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

	December 31, 2019			June 30, 2019		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Short-term investments	**$ 17,247**	**$ -**	**$ -**	$ 24,569	$ -	$ -

14. SUPPLEMENTAL INFORMATION

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

Depreciation and amortization – operating activities

		Three months				Six months
Periods ended December 31,		**2019**		2018		**2019**		2018
Depreciation of property, plant and equipment	**$**	**540**	$	587	**$**	**1,049**	$	1,198
Depreciation of right-of-use assets		**341**		-		**683**		-
Amortization of deferred development costs		**1,118**		1,231		**2,787**		2,400
Amortization of finite-life intangible assets		**973**		948		**1,950**		1,889
Total depreciation - operating activities	**$**	**2,972**	$	2,766	**$**	**6,469**	$	5,487

(in thousands of Canadian dollars except as otherwise noted)

Net change in working capital – operating activities

	Three months		Six months	
Periods ended December 31,	**2019**	2018	**2019**	2018
Accounts receivable	**$ (1,058)**	$ (3,270)	**$ (2,424)**	$ (631)
Inventories	**(1,349)**	1,099	**(1,611)**	(1,395)
Prepaid expenses	**69**	(229)	**1,474**	(563)
Contract assets	**19**	21	**26**	(76)
Current tax asset	**3**	-	**1**	-
Accounts payable and accrued liabilities	**(677)**	(3,315)	**(1,548)**	(2,766)
Deferred revenue	**148**	(113)	**44**	(786)
Total change in net working capital	**$ (2,845)**	$ (5,807)	**$ (4,038)**	$ (6,217)

Capital expenditures, net – investing activities

	Three months		Six months	
Periods ended December 31,	**2019**	2018	**2019**	2018
Capital expenditures before proceeds of disposition:				
Property, plant and equipment	**$ (731)**	$ (350)	**$ (1,134)**	$ (1,090)
Intangible assets	**(6)**	(14)	**(48)**	(45)
Proceeds of disposition:				
Property, plant and equipment	**256**	3	**257**	3
Intangible assets	**-**	202	**-**	202
Total capital expenditures, net	**$ (481)**	$ (159)	**$ (925)**	$ (930)

15. SUBSEQUENT EVENTS

On January 2, 2020, the Company filed a notice of intention with the Toronto Stock Exchange (the “TSX”) to acquire for cancellation, by way of normal course issuer bid, up to 600,000 common shares of the Company. This bid was approved by the TSX. The normal course issuer bid commenced on January 6, 2020 and will terminate on January 5, 2021.

On February 4, 2020, the Board of Directors declared a dividend of $0.055 per common share, payable on March 23, 2020 to shareholders of record as at February 21, 2020 consistent with its previously announced dividend policy.