C-COM
SATELLITE SYSTEMS INC.
WWW.C-COMSAT.COM
2574 SHEFFIELD RD, OTTAWA, CANADA K1B 3V7
TEL: 613-745-4110 | FAX: 613-745-7144

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the year ended November 30, 2014

Date of Report – March 20, 2015

The following Management Discussion and Analysis of C-COM Satellite Systems Inc. ("C-COM" or the "Company") for the year ended November 30, 2014 should be read in conjunction with the financial statements and notes included in this annual report. All figures are presented in Canadian dollars in accordance with IFRS.

Forward Looking Statements

The Company cautions that the forward-looking statements in the following Management Discussion and Analysis are based on certain assumptions made by the Company that may prove inaccurate. Forward-looking statements include those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend", and similar expressions to the extent that they relate to the Company or its management. These forward-looking statements are not historical facts, but reflect the Company's current expectations and assumptions regarding future results or events. Assumptions made include customer demand for the Company's products or services, the Company's ability to maintain and enhance customer relationships, as well as the Company's ability to bring to market its products or services. Furthermore, the Company cautions that the forward-looking statements in the following Management Discussion and Analysis are based on current expectations as at March 20, 2015 that are subject to change and to risks and uncertainties. Actual results may differ due to facts such as customer demand, customer relationships, new service offerings, delivery schedules, revenue mix, competition, pricing pressure, foreign currency fluctuations, and uncertainty in the markets in which the company conducts business. Additional information identifying risks and uncertainties is contained in the Company's filings with the various provincial securities regulators. Readers should not place undue reliance on the company's forward-looking statements.

Overview

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

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Selected Annual Information

	Year Ended November 30, 2014	Year Ended November 30, 2013	Year Ended November 30, 2012
Revenue	$ 13,205,778	$ 15,573,798	$ 13,385,324
Net Income	$ 2,805,033	$ 3,473,371	$ 2,665,491
Basic Earnings per Share	$ 0.08	$ 0.10	$ 0.08
Diluted Earnings per Share	$ 0.08	$ 0.10	$ 0.08
Total assets	$ 20,929,381	$ 19,584,912	$ 16,539,365
Total Non-Current Liabilities	$ 129,694	$ 135,369	$ 225,498

2014 Results of Operations

Income before other income and income tax was $3,474,312 compared with $4,454,362 in 2013. The Company completed the year with $14,628,230 of cash and marketable securities compared to $14,481,914 at the end of 2013.

Revenues

	Year Ended November 30, 2014	Year Ended November 30, 2013	Change $	Change %
Revenue – Airtime	$ 206,561	$ 404,627	$ 198,066	49.0%
Revenue – Hardware	$ 12,999,217	$ 15,169,171	$ 2,169,954	14.3%
Total Revenue	$ 13,205,778	$ 15,573,798	$ 2,368,020	15.2%

Airtime revenue continues to drop year over year as the Company is no longer actively markets these services. The airtime business has a significant number of larger airtime providers who compete in this market place. The Company made a conscious decision to not grow the airtime business in order to allow the Company to concentrate all of its efforts on the sale of mobile VSAT antennas. The profit margins in the airtime business are significantly smaller and require far more support than the mobile business.

The decrease in hardware revenue in 2014 compared to 2013 is mostly due to a drop in revenues from customers in South Africa and the Russian Federation, their combined revenues were $1,919,133 (2013 - $4,223,111).

Cost of Sales and Gross Profit

	Year Ended November 30, 2014	Year Ended November 30, 2013	Change $	Change %
Gross Profit – Airtime	$ 45,387	$ 135,662	$ 90,275	66.5%
As a percentage of Airtime revenue	22.0%	33.5%		
Gross Profit – Hardware	$ 7,792,290	$ 8,017,081	$ 224,791	2.8%
As a percentage of Hardware revenue	59.9%	52.9%		
Allocation of amortization expense	$ (19,825)	$ (20,765)	$ 940	4.5%
Combined Gross Profit	$ 7,817,852	$ 8,131,978	$ 314,126	3.9%
As a percentage of combined revenue	59.2%	52.2%		

The cost of sales percentage on airtime increased to 78% for the year ended November 30, 2014 compared to the same period last year (2013 – 66.5%) due to the weakening of the Canadian dollar compared to the United States dollar. The United States dollar exchange rate at November 30, 2014 was $1.14 (2013 - $1.06) compared to the Canadian dollar. All of the Company's airtime purchases are denominated in United States dollars while approximately 75% of the airtime customers are Canadian therefore billed in Canadian dollars.

The cost of sales percentage on hardware decreased to 40.1% in fiscal 2014 (2013 – 47.1%) due primarily to the following reasons. The United States dollar exchange rate at November 30, 2014 was $1.14 (2013 - $1.06) compared to the Canadian dollar. While 96% of the Company's revenues are denominated in United States dollars (2013 – 96%), the majority of the Company's material purchases are in Canadian dollars, resulting in a lower cost of sales percentage per US denominated sales orders when reported in Canadian dollars. Also, the Company is recording a better profit margin on some of its next generation product.

Expenses

	Year Ended November 30, 2014	Year Ended November 30, 2013	Change $	Change %
General and Administrative	$ 2,106,381	$ 1,980,176	$ 126,205	6.4%
As a percentage of revenues	16.0%	12.7%		
Research and Development	$ 1,295,584	$ 786,362	$ 509,222	64.8%
As a percentage of revenues	9.8%	5.1%		
Sales and Marketing	$ 941,575	$ 911,078	$ 30,497	3.3%
As a percentage of revenues	7.1%	5.9%		

General and Administrative

General and administrative expenses increased $126,205 or 6.4% for the year ended November 30, 2014 compared to the same period last year primarily due to increases in employee stock option expenses, professional fees, building maintenance, and building lease costs, which were partly offset by a decrease in payroll costs.

Research and Development

Research and development expense increased $509,222 or 64.8% compared to the same period last year due primarily to the expenses incurred in sub-contractor fees from the new in-motion technology that is being developed.

Sales and Marketing

Sales and marketing expenses increased $30,497 or 3.3% over the same period last year. There were increases in advertising, travel, and the portion of payroll allocated to sales and marketing that were partially offset by decreases in trade show expenses, promotional items, and commissions paid to dealers and employees.

Investment Income

Investment income for the year is comprised of interest earned on the Company's cash balances, guaranteed investment certificates and the gains on the money market fund. The increase is primarily due to higher returns on the money market fund and higher rates of interest earned from the funds invested in GIC's.

Income Tax Expense

The Company reports its results on a fully taxed basis. The provision for income tax for fiscal 2014 was $1,157,212 or 29.2% of income before income tax compared to $1,392,340 or 28.6% for income before income tax in 2013. The effective tax rate for 2014, prior to considering the impact of non-taxable transactions, is expected to be approximately 26.5%.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Summary of Quarterly Financial Data

Quarter Ended	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13	Q2/13	Q1/13
Revenue	$4,137,945	$2,935,311	$3,754,738	$2,377,784	$3,774,821	$3,073,720	$4,795,627	$3,929,630
Operating Income	$1,009,032	$580,147	$1,337,120	$548,013	$1,513,527	$488,804	$1,377,100	$1,074,931
Net Income (Loss)	$1,160,949	$410,500	$782,188	$451,396	$1,245,095	$353,978	$966,997	$907,301
Dividend Paid	$450,619	$450,544	$449,232	$442,357	$441,295	$351,066	$346,095	$253,759
Dividend Rate /Share	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01	$0.01
Basic EPS	$0.04	$0.01	$0.02	$0.01	$0.03	$0.01	$0.03	$0.03
Diluted EPS	$0.04	$0.01	$0.02	$0.01	$0.03	$0.01	$0.03	$0.03

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

Liquidity and Capital Resources

	Year Ended November 30, 2014	Year Ended November 30, 2013	Change $	Change %
Cash	$ 10,828,751	$ 9,968,565	$ 860,186	8.6%
Marketable securities	$ 3,799,479	$ 4,513,349	$ 713,870	15.8%
Working capital surplus	$ 20,063,450	$ 18,308,905	$ 1,754,545	9.6%
Net cash provided by (used in):				
Operating activities	$ 1,723,965	$ 4,054,443	$ 2,330,478	57.5%
Investing activities	$ 652,168	$ (3,967,872)	$ 4,620,040	116.4%
Financing activities	$ (1,404,952)	$ (740,150)	$ 664,802	89.8%
Increase/(Decrease) increase in cash	$ 860,186	$ (720,461)	$ 1,580,647	219.4%

Working Capital Surplus

The increase in working capital surplus is due mainly to the net profit after taxes of the Company. Current assets as at November 30, 2014 were $20,779,992 (2013 - $19,458,758) and current liabilities for the same periods were $716,542 (2013 - $1,149,853).

Operating Activities

Cash flows from operating activities for the year ended November 30, 2014 were $1,723,965 compared to $4,054,443 in 2013. This year's decrease is mainly a result of an increase in accounts receivable and inventory and an increase in the amount of income tax paid during the year.

Investing Activities

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

	Year Ended November 30, 2014	Year Ended November 30, 2013
Money market fund	$ 2,299,479	$ 3,013,349
Guaranteed investment certificates	$ 1,500,000	$ 1,500,000
	$ 3,799,479	$ 4,513,349

Financing Activities

Dividend

As a result of continued earnings and a strong cash position, the Company continued to pay dividends in 2014. The Company paid quarterly dividends totaling $1,792,752 or $0.0125 per share compared to 2013 when the Company paid $1,392,215 in dividends or $0.01 per share. The Company intends to continue with its quarterly dividend policy for the foreseeable future. Subsequent to the date of the statement of financial position, on January 28, 2015 the company declared a dividend of $0.0125 per common share payable on February 26, 2015.

Capital Resources

At November 30, 2014 the Company had an overdraft protection facility of $750,000 with a Canadian chartered bank that bears interest at prime plus 0.5%, is secured by a general security agreement providing a first charge over all company assets including accounts receivable, inventory and equipment. As at November 30, 2014 the Company had not borrowed on the credit facility. Management believes that C-COM has sufficient cash resources to continue to finance its working capital requirements.

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

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

Off-Balance Sheet Arrangements

The Company is committed under an agreement for the rental of office space at a monthly rate of $21,251 until July 2019.

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

Contractual Obligations:	Payments Due by Period				
	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Operating Leases	$1,190,056	$255,012	$765,036	$170,008	Nil
	$1,190,056	$255,012	$765,036	$170,008	Nil

Related Party Transactions and Balances

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

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

		November 30, 2014	November 30, 2013
		$	$
Transactions with Eurodata Support Services Inc.:			
Sale of goods	(i)	Nil	2,406
Purchase of goods	(ii)	Nil	14,307
(Note: Eurodata Support Services Inc. was sold during fiscal 2013 and, therefore, is no longer a related party)			
Board of Directors:			
Board of Director fees	(iii)	96,000	96,000
Transactions with Boyd Moving and Storage Ltd.:			
Purchase of storage capacity	(iv)	35,952	27,602
Transactions with 718133 Ontario Inc.:			
Rental of office and warehouse space	(v)	221,141	205,705
Transactions with Branim Consulting Corp.:			
Purchase of consulting services	(vi)	59,560	55,880
Transactions with other parties:			
Legal fees and expenses	(vii)	19,275	25,221

	As At Nov. 30, 2014	As At Nov. 30, 2013
	$	$
Balances with related parties		
Amounts due to Labarge Weinstein LLP	$ 1,517	nil

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

i. The Company shared the cost of internet and cleaning services with Eurodata Support Services Inc. and invoiced Eurodata for its proportionate share of the expenses on a monthly basis. The Company will incur and invoice Eurodata for its proportionate share of other services as required.
ii. Eurodata Support services incurred expenses and invoiced the Company for its proportionate share of those invoices and the Company purchased computer systems and parts from Eurodata from time to time.
iii. The Board of Directors instituted a Board of Directors fee of $24,000 per annum per board member commencing December 1, 2012, paid quarterly.
iv. The Company purchases excess storage capacity from Boyd Moving and Storage Ltd. to warehouse inventory platforms.
v. The Company has a 5 year lease commitment with 718133 Ontario Ltd. which ends July 2019 for office and warehouse space.
vi. The Company purchases financial consulting services from Branim Consulting Corp. and the Company’s Chief Financial Officer is a director of Branim Consulting Corp.
vii. The Company retains a business law firm in Ottawa, Canada to provide legal services and advice. The Company’s secretary is a partner of this firm.

Critical Accounting Estimates

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

Adoption of New Accounting Rules and Impact on Financial Results

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

Impact of Accounting Pronouncements Not Yet Implemented

There were no new accounting pronouncements issued in 2014 which would affect the Company's results of operations or financial conditions.

Risk Factors

The company is subject to a number of risks and uncertainties that could significantly affect the Company's financial condition and future results of operations. Risk management is an integral part of how the Company plans and monitors the business strategies and results and we have embedded risk management activities in the operational responsibilities of management, and made them an integral part of overall governance, organizational and accountability structure.

Market Risk

Market Risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income.

Foreign Currency Risk Related to Contracts

The Company is exposed to foreign currency fluctuations on its cash balance, accounts receivable, accounts payable and future cash flows related to contracts denominated in a foreign currency. Future cash flows will be realized over the life of the contracts. The Company does not use foreign currency forward contracts to minimize the short-term impact of currency fluctuations on foreign currency receivables and payables.

A 10% strengthening (weakening) of the Canadian dollar against the US dollar at November 30, 2014 would have decreased (increased) net earnings by approximately $360,746.

Credit Risk

Credit Risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable. The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company's customers, which receive credit terms, are made up both public Companies, and large private companies which we have stablished long tern relationships with. A significant portion of the Company's accounts receivable is from is from long-time customers. Over the past five years the company has not suffered any significant credit related losses.

The Company limits its exposure to credit risks for cash and marketable securities by dealing only with major Canadian financial institutions. Management does not expect any of the institutions to fail to meet their obligations.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to manage liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet liabilities when due. At November 30, 2014 the Company has a cash balance of $10,828,751 (2013 – $9,968,565) and has a secured credit facility, subject to annual review. The credit facility permits the Company to borrow funds up to an aggregate of $750,000 in either Canadian or US currency. The credit facility is secured by a general security agreement providing a first charge over all Company assets including accounts receivable, inventory, and equipment. As at November 30, 2014 the Company had not borrowed on the credit facility. All of the Company's financial liabilities have contractual maturities of less than 30 days.

Summary of Outstanding Share Data

As at November 30, 2014 the Company had 36,049,550 Common shares issued and outstanding (2013 – 35,388,550).

As at March 20, 2015, the Company had 36,049,550 common shares issued and outstanding.

During fiscal 2014 the Company issued 1,323,000 options to purchase common shares (2013 – 547,000) to employees and directors and recorded an expense and contributed surplus of $383,374 (2013 - $238,598).

During fiscal 2014, 661,000 options were exercised and 661,000 shares were issued (2013 – 1,554,000 options were exercised and 1,544,000 shares were issued).

Climate Change

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

Directors and Officers Compensation

During the year ended November 30, 2014, C-COM's officers and directors received the following compensation:

		Salary & Bonus	Board of Director Fees	Contractor Fees	Stock Options Granted
Leslie Klein	President, C.E.O. and Director	$ 431,751	$ 24,000	Nil	500,000
Jim Fowles	Chief Financial Officer	Nil	Nil	$ 59,560	Nil
Bilal Awada	Chief Technology Officer	$ 166,500	Nil	Nil	50,000
Shane McLean	Corporate Secretary	Nil	Nil	Nil	100,000
Eli Fathi	Director	Nil	$ 24,000	Nil	100,000
Ronald Leslie	Director	Nil	$ 24,000	Nil	100,000
Walter Koenig	Director	Nil	$ 24,000	Nil	100,000

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

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

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Outlook

The Company continues to develop new products for new emerging markets. Some of these products are being introduced in 2015 with others scheduled for launch in 2016 and beyond. There are also a number of longer-range R&D projects that are ongoing and will target specific new vertical markets, which C-COM is presently not addressing. The iNetVu® Mobile products continue to gain worldwide acceptance and are operating reliably from the very Northern areas of Canada and Russia to the deserts of Australia and Saudi Arabia.

In 2012 C-COM was one of the first to enter into a new vertical market, using Ka band satellites. These High Throughput Satellites (HTS) make it possible to deliver 20Mbps down and 10Mbps up using a small 75cm antenna. C-COM is one of the first antenna manufacturers in the world to have received type approval for these new generation antenna systems from all of the existing HTS satellite providers. During 2014, C-COM shipped a quantity of these new antenna systems to new and existing integrators in North America, Europe, the Middle East and Africa. We have designed a total of 12 new antenna systems to support HTS Ka-band satellites, which are able to deliver 100 times the throughput of existing in service Ku-band satellites. A number of these new Ka-band antenna systems are part of a series of a family of Flyaway and light transportable Ka-band antennas which we expect to be in great demand for satellite news gathering and disaster management. These new Flyaway products have already started contributing to our revenue stream.

C-COM has entered into an agreement with Viasat in 2014 to jointly develop a vehicle based low cost in-motion antenna system for the commercial market place. Assuming successful completion of development, C-COM will be the manufacturer of this new product which is being designed to be fully compatible with the Viasat Excede Ka-band service and later with all other Ka band services deployed around the world. Viasat will be able to sell this new in-motion antenna system through their own distribution channels worldwide. C-COM intends to deliver this product through its international reseller network. This new COTM product (communications on the move) is expected to make it possible for passenger vehicles, buses, trains, barges, stabilized oil platforms and commercial vehicles to receive and transmit at speeds of 20Mbps down and 10Mbps up while in motion.

The company is also involved in extensive research and development of next generation antenna technologies in conjunction with the University of Waterloo and has already filed the first of a number of forthcoming patent applications from this development. This project should provide C-COM with new revolutionary patentable technology to be used on the next generation Ka-band in–motion antenna systems.

C-COM is going to encounter more and more competitors on its way to the new vertical markets mentioned above, some of which have already failed in their attempt to keep pace with new developments. Effective customer support and mass production capabilities coupled with high reliability of the product are mandatory if one wants to remain a market leader. Others are retrenching to address niche markets which they feel more comfortable in. We expect competition for the fixed markets to become more intense and also expect the mobile VSAT markets to attract new competitors. We also expect some that are in it today to bow out. To date we are managing to keep a significant technological advantage as well as a price advantage over other established players in this market place and have managed to carve out a significant worldwide market presence for our products.

As long as we can maintain our price/availability and technology leadership and continue to remain profitable as we have for the past ten consecutive years, we feel that we have a significant advantage over anyone presently in the market place or considering entering it. This is due to the many years of software development, refined and improved hardware design, new and advanced product development and an impressive base of loyal resellers and their customers around the globe. In addition to this, C-COM has created and continues to maintain a solid reputation for delivering highly reliable and well supported products to the mobile VSAT customer base in time frames that are unmatched in the industry.

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