# MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2015

September 24, 2015

## 2015 Annual Report
## Letter to Shareholders

**Dear Fellow Shareholders,**

Fiscal 2015 was an outstanding year for Vecima. Sales of $94.0 million were up 3.7% over 2014 and we generated record results as we maintained our lead in the commercial video services space. Our gross margin of 54% and adjusted EBITDA of $29.0 million both represent all-time bests for Vecima. We also ended the year with a very strong cash balance of $59.7 million.

These results met or exceeded our 2015 financial guidance on all metrics and supported our Board of Directors' decision to increase our quarterly dividend from $0.045 to $0.055 effective with the fourth quarter dividend. I am very proud of our results and of the Vecima teams that generated them. From product development, to manufacturing, to sales and marketing, Vecima people are helping customers navigate a dynamic and rapidly changing market with our innovative and highly attractive technology solutions.

### MSO Product Achievements

For cable multiple system operators (MSOs), 2015 brought the continued evolution to all-digital networks. Our ***Terrace family products,*** which support cable operators' ability to make this essential network upgrade, continued to enjoy strong demand. Terrace family sales remained very robust at $27.8 million despite the fact that our lead customer had long ago completed its network conversion and transitioned to the network fill in phase. As we anticipated, additional cable MSOs began to deploy Terrace family products in 2015 to support their network wide all-digital network transitions and generated continued demand.

Moving into fiscal 2016, the attractiveness of the Terrace solution has been further enhanced by the recent deployment of our new ***TC600E***, which offers MPEG-4 and high definition video input capabilities. MPEG-4 video uses 30% to 50% less network capacity than a MPEG-2 encoded channel. Two additional Tier 1 MSOs have recently selected the Terrace family for network wide all-digital conversions and are expected to carry out significant deployments of the TC600E throughout fiscal year 2016.

***Terrace QAM,*** which allows cable operators to provide a market leading HD video service in the hospitality sector, also had a banner year, becoming Vecima's top-performing product. Sales of Terrace QAM increased 67% year-over-year to $33.8 million as our customers continued to supply their growing base of hospitality industry customers. We anticipate that deployment levels will sustain this momentum in fiscal 2016 as we release the new ***TransQAM*** version of this product. The new version offers not only MPEG-4 HD input capabilities, but also MPEG-4 to MPEG-2 transcoding, which allows operators to take advantage of MPEG-4 capabilities without having to replace the existing, widely deployed base of MPEG-2 only televisions in hospitality environments.

In our cable headend business, our OEM partner continued to take delivery of our ***digital video access platform (DVAP)*** helping to drive 2015 sales to $5.4 million, a 47% increase over the previous year. DVAP provides critical two-way communications to an extensively deployed network of video subscriber devices. The solution provides cable operators over 60% power savings within a form factor that is substantially smaller than the previous solution. Vecima is delivering this product to the OEM customer under a USD$19 million take-or-pay contract.

### The Continuing Evolution

Vecima's success ultimately comes from ensuring that cable operators servicing the commercial video and hospitality sectors remain the first and best choice of *their* customers. Through our Terrace and TerraceQAM products, we have helped operators support video subscribers during their all-digital transitions as well as provide an elegant HD video solution for hospitality customers. Even more dramatic changes are coming to the cable industry and we believe our customers' reliance on the innovative technology solutions that we provide will only grow.

On-demand IP video offerings, over the top streaming video, and other high bandwidth services are rapidly reshaping end-user expectations and adding major new load onto existing cable network infrastructures. Several of North America's leading cable MSOs have already stated their intention to transition to faster, more flexible network solutions like DOCSIS 3.1, which will enable them to transmit up to 50 percent more data over existing physical infrastructure. This will also deliver gigabit speed network access both for downloads and uploads. It's an exciting shift and one with the potential to greatly strengthen the cable MSOs' market leadership. In step with this, Vecima will increase our own investment in solutions that support our customers as they move to gigabit class broadband speeds and an IP-based video ecosystem. We expect fiscal 2016 will be an intense period of development as we work to respond to this step function change in technology and further enhance our position as a leading vendor to the largest cable operators in the world.

### YourLink Expansion

Fiscal 2016 will also be a year of growth for YourLink as we initiate a major upgrade and expansion to our Saskatchewan Wireless network infrastructure. This expansion is being undertaken following the recent award of $4.6 million of funding from Industry Canada, which Vecima will match. We plan to bring the availability of high speed Internet, increasing our addressable market, to an additional 40,000 rural households that do not currently have 5 Mbps access. YourLink currently provides Internet service to over 11,000 subscribers in Saskatchewan and we expect to achieve a significant increase in the subscriber base as a result of this expansion. We are excited to extend broadband to reach more people in our home province.

### Looking Ahead

Vecima fired on all cylinders throughout fiscal 2015 and, as we move into fiscal 2016, we expect our exceptional performance will continue. We anticipate a further strengthening of our already strong EBITDA and a continuation of high gross margin performance in fiscal 2016.

I am truly excited about what Vecima can achieve in the mid-to-longer term as we continue to grow our portfolio of products and intellectual property, both through organic R&D and through strategic acquisitions, where appropriate. The future looks promising.

On behalf of the Board of Directors and our employees, I thank you for your continued support and commitment to Vecima.

Sincerely,

Sumit Kumar
President and CEO

**VECIMA NETWORKS INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**September 24, 2015**

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 year ended June 30, 2015.

Management's discussion and analysis supplements, but does not form part of, the audited consolidated financial statements of Vecima and related notes for the year ended June 30, 2015. Consequently, the following discussion and analysis of the financial condition and results of operations for the Company should be read in conjunction with the audited consolidated financial statements and accompanying notes for the years ended June 30, 2015 and June 30, 2014 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Additional information regarding the Company, including its Annual Information Form, can be found on SEDAR at www.sedar.com.

## Financial Governance

Vecima's management is responsible for the preparation and presentation of the annual audited consolidated financial statements and notes thereto and MD&A. Additionally, it is management's responsibility to ensure that the Company complies with the laws and regulations applicable to its activities.

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

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

## Forward-Looking Information

This MD&A contains "forward-looking information" within the meaning of applicable securities laws. Forward-looking information is generally identifiable by use of the words "believes", "may", "plans", "will", "anticipates", "intends", "could", "estimates", "expects", "forecasts", "projects" and similar expressions, and the negative of such expressions. Forward-looking information in this MD&A includes, but is not limited to statements that: deployment volumes of Terrace QAM are expected to remain strong in fiscal 2016, supported in part by the addition of the new TransQAM module; moving forward the Company will continue to increase its focus on other promising opportunities for converged wired solutions; actual R&D spending in a given period may be higher than the actual expense reported; management believes that its current cash and cash equivalents and short-term investments and anticipated cash flow from operations will be sufficient to meet its working capital and capital expenditure requirements for the foreseeable future; the Company believes that it has the flexibility to obtain from internal sources the funds needed to fulfil its cash requirements during the balance of the current fiscal year; as announced subsequent to year-end, YourLink has been conditionally awarded funding from Industry Canada's "Connecting Canadians" program in the amount of $4.6 million to expand YourLink's network infrastructure in rural Saskatchewan; if the US dollar appreciates relative to the Canadian dollar after Vecima collects the accounts receivable in US dollars, the Company will receive more Canadian dollars when the US dollars are converted to Canadian dollars; the Company's outlook for fiscal 2016.

In connection with the forward-looking information contained in this MD&A, the Company has made numerous assumptions, regarding, among other things: the strength of the Company's balance sheet; the present or potential value of the Company's core technologies, business operations and asset holdings; the Company is able to continue its relationships with its few key customers; the Company is able to deliver products associated with key contracts; the Company can manage its business and its growth successfully; the Company can meet its customers' requirements for manufacturing capacity; the Company is able to develop new products and enhance its existing products; the Company can expand its current distribution channels and can develop new distribution channels; the Company is able to recruit and retain management and other qualified personnel crucial to the Company's business; the Company is not required to change the Company's pricing models to compete successfully; the Company's third-party suppliers and contract manufacturers upon which it relies continue to meet its needs; the Company's intellectual property is not infringed upon; the Company is not subject to warranty or product liability claims that harm its business; the Company is able to successfully implement acquisitions; the Company is able to manage risks associated with its international operations; currency fluctuations do not adversely affect the Company; growth in the Company's key markets continues; the Company is able to adapt to technological change, new products and standards; the Company is not subject to increased competition that has an adverse effect on its business; continued growth in the converged wired solutions market; the Company is not subject to competition from new or existing technologies that adversely affect its business; the Company is not subject to any material new government regulation of its products; and, no third parties allege that the Company infringes on their intellectual property. While the Company considers 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 the Company's 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: the Company's statement of financial position, as well as the value of its core technologies, business operations and asset holdings may be significantly weaker than currently estimated by the Company; the Company's operating results are expected to fluctuate; the Company derives a substantial part of its revenue from a few key customers; the Company may be unable to deliver products associated with key contracts; failure to manage the Company's business or growth successfully may adversely affect its operating results; the Company derives a portion of its revenues from its YourLink subsidiary, over which the Company does not have voting control; if the Company cannot meet its customers' requirements for manufacturing capacity, sales may suffer; the Company's success depends on its ability to develop new products and enhance its existing products; the Company is dependent on the expansion of its 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; the Company's ability to recruit and retain management and other qualified personnel is crucial to its business; if the Company is required to change its pricing models to compete successfully, its margins and operating results may be adversely affected; the Company's reliance on third-party suppliers and contract manufacturers reduces its control over its performance; the Company's revenues are substantially concentrated in a single market category; if the Company's intellectual property is not adequately protected, it may lose its competitive advantage; successful warranty or product liability claims could harm the Company's business; acquisitions could divert management's attention and financial resources, may negatively affect the Company's operating results and could cause significant dilution to shareholders; risks associated with the Company's international operations; currency fluctuations may adversely affect the Company; growth in the Company's key markets may not continue; the Company's inability to adapt to technological change, new products and standards could harm its business; increased competition could have an adverse effect on the Company's business; the Company's future success depends on growth in the converged wired solutions market; competition from new or existing technologies may adversely affect the Company's business; government regulation of the Company's products and new government regulation could harm the Company's business; and, third parties may allege that the Company infringes on their intellectual property. A more complete discussion of the risks and uncertainties facing the Company is disclosed under the heading "Risks and Uncertainties" below and under the heading "Risk Factors" in the Company's Annual Information Form for its most recently completed fiscal year, as well as in the Company's 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 the Company disclaims any obligation to revise or update such forward-looking information to reflect future results, events or developments, except as required by law.

## Disclosure Controls and Procedures

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

The CEO and the CFO have evaluated the effectiveness of the Company's disclosure controls and procedures as defined under rules adopted by the Canadian securities regulatory authorities. Based on that evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as at June 30, 2015.

**Internal Control over Financial Reporting**

The CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS.

The CEO and CFO have evaluated the effectiveness of the Company's internal control over financial reporting as at June 30, 2015 in accordance with Internal Control – Integrated Framework (2013), published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, the CEO and CFO have determined that the Company's internal control over financial reporting is not effective as at June 30, 2015 due to the following material weakness: certain areas within the Company's information systems were subject to general control deficiencies including a lack of effective control over spreadsheets, access and documentation.

The impact of this material weakness was that there was a reasonable possibility that the Company's internal controls over financial reporting would fail to prevent or detect a material misstatement of a financial statement amount or disclosure. To mitigate this material weakness, all material transactions and related accounting records were overseen by the CEO, CFO and the Vice President Finance of the Company. This mitigation may reduce the impact of the material weakness, but did not eliminate the existence of the material weakness. 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 control objectives.

In an effort to remediate this material weakness, management worked with qualified consultants to develop processes and procedures to enhance our controls. While we have made considerable progress, additional work is required in fiscal 2016 to completely remediate this material weakness.

Company Overview

A Canadian company founded in 1988, Vecima has offices in Saskatoon, Saskatchewan, Burnaby, BC and Victoria, BC. Vecima also has a software development facility in Mangalore, India, operated by a majority owned subsidiary.

Vecima designs, manufactures and sells products that enable broadband access to cable, wireless and telephony networks. Vecima's hardware products incorporate original embedded software to meet the complex requirements of next-generation, high-speed digital networks. Service providers use Vecima's solutions to deliver services to a converging worldwide broadband market, including what are commonly known as "triple play" (voice, video and data) and "quadruple play" (voice, video, data and wireless) services. Vecima's solutions allow service providers to bridge the final network segment that connects a system directly to end-users, commonly referred to as "the last mile".

Vecima's products incorporate sophisticated hardware and software developed within the Company's research and development facilities. The in-house developed technology includes high-speed digital signal processing, control, digital modulation, radio frequency circuitry and compensation functions. In addition to these technologies, Vecima's embedded software also facilitates the implementation of other network functions, such as media access control and embedded system management.

The Company's products are directed at two principal markets: (1) converged wired solutions; and, (2) broadband wireless.

1. Converged Wired Solutions products include a family of upconverter and modulator modules that process data from routers and convert it to higher frequencies for transmission over cable to subscribers, gigabit network edge devices, EdgeQAM modulators, and transmodulators. These devices accept high bit rate video streams from central servers and transmit them to subscribers, return path demodulators, and the Terrace family of last-mile gateway products.

2. Broadband Wireless Products include transmitters, receivers and transceivers that process data from routers, switches and modems for the purpose of communication to subscribers over a wireless environment. Vecima is also a leading developer of high-performance, software-reconfigurable signal processing platforms for intelligence, surveillance, reconnaissance, military, satellite communications, and video processing applications.

In addition to designing and producing hardware and software products, Vecima provides services directly to end-users through its YourLink business unit. YourLink operates several small cable and broadband wireless service providers that provide high speed data, telephone and video services to parts of rural British Columbia, as well as fixed wireless data and telephone access through much of Saskatchewan to both residential and business subscribers. YourLink also owns certain licenses to commercial spectrum within Canada. Through YourLink, Vecima is able to derive predictable monthly subscription revenue.

***Sales***

Vecima reports sales broken down by the Company's three core markets: Converged Wired Solutions, Broadband Wireless and YourLink. Converged Wired Solutions and Broadband Wireless make up the product segment and YourLink makes up the services segment in segmented information.

*Converged Wired Solutions*

Cable operators have introduced and are expanding into digital video, voice and data services in addition to offering traditional analog video services. C*onverged wired solutions* enable cable operators to provide customers with an alternative to telco-based ADSL and other types of broadband access and offer the following advantages for cable service providers:

- *Creates Additional Revenue Streams.* High-speed Internet service can be delivered to an existing base of customers already served with video and pay-per-view entertainment programming. Existing billing systems and technical resources can be used to deliver this service to existing subscribers.

- *Reduces Customer Turnover.* By offering bundled packages of broadband voice and video services, cable service providers are seeking to gain a competitive advantage over telcos and direct broadcast satellite providers while retaining their traditional video subscribers.

- *Provides Low-Cost Market Entry.* High-speed Internet service can be delivered economically to the consumer with the installation of an inexpensive cable modem.

*Broadband Wireless*

Broadband wireless technology has evolved to provide cost-effective broadband communication for business and residential subscribers. Standards-based wireless technology is expected to accelerate and extend worldwide wireless broadband communications. Along with offering the same high-speed access as other broadband access solutions, broadband wireless offers the following additional advantages for network service providers:

- *Enables Rapid Deployment.* Service can be initiated quickly because there is no need to install copper wire, cable or optical fibre past every home before service can commence.

- *Provides Low-Cost Market Entry.* Service can be delivered economically with one base station and a small number of initial subscribers.

- *Offers Scalability.* Subscribers can be added rapidly and cost-effectively, since each installed base station can support thousands of subscribers and the subscriber equipment is supplied only to customers who subscribe for service.

*YourLink*

YourLink operates four small cable television systems in British Columbia and provides wireless broadband internet service in Saskatchewan and British Columbia. As at June 30, 2015, these systems provide video services and/or broadband internet access to 17,725 subscribers.

***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 product sales include related overhead, compensation, final assembly, quality assurance and inventory management costs, as well as support costs and payments to contract manufacturers that perform printed circuit board assembly functions. Costs associated with service sales consist of the costs of purchased program content, back-haul costs for connection to the internet and the costs of operating the cable and wireless infrastructure.

***Operating Expenses***

Research and development expenses consist primarily of salaries and related expenses for engineering personnel, the costs of prototypes and consumables and the costs of amortizing previously deferred development costs.

Sales and marketing expenses consist primarily of costs relating to personnel and to sales and marketing activities, including salaries and related expenses, advertising, trade shows and other promotional activities and materials.

General and administrative expenses consist primarily of costs relating to the maintenance of the Company's buildings, administrative and finance functions, legal and other professional fees, insurance, YourLink systems maintenance, and other corporate and overhead expenses.

## Selected Consolidated Financial Information and Other Data

The following information other than number of employees has been derived from Vecima's annual consolidated financial statements for each of fiscal 2015, 2014 and 2013. This information other than Adjusted EBITDA, total research and development expenditures, number of employees and percentages, has also been prepared in accordance with IFRS. You should read the following information in conjunction with the Company's financial statements for the relevant periods including the related notes and with the balance of this MD&A.

| **Consolidated Statements of Comprehensive Income Data** (in thousands of Canadian dollars except percentages, employees, dividends/distributions and per share amounts) | Year ended June 30, **2015** | | 2014 | | 2013 | |
|---|---|---|---|---|---|---|
| **Sales** | **$ 94,048** | **100 %** | $ 90,705 | 100 % | $ 91,249 | 100 % |
| **Cost of sales** | **42,967** | **46 %** | 45,831 | 51 % | 52,335 | 57 % |
| **Gross margin** | **51,081** | **54 %** | 44,874 | 49 % | 38,914 | 43 % |
| | | | | | | |
| **Operating expenses** | | | | | | |
| Research and development[1] | **9,337** | **10 %** | 8,186 | 9 % | 7,663 | 8 % |
| Sales and marketing | **6,125** | **7 %** | 5,855 | 7 % | 5,248 | 6 % |
| General and administrative | **15,496** | **16 %** | 15,802 | 17 % | 17,143 | 19 % |
| Impairment of intangible assets | **1,192** | **1 %** | 295 | - % | - | - % |
| Impairment of property, plant and equipment | **457** | **- %** | - | - % | - | - % |
| Stock-based compensation | **502** | **- %** | 23 | - % | 42 | - % |
| Other income | **(394)** | **- %** | (15,175) | (17)% | (13,977) | (15)% |
| | **32,715** | **34 %** | 14,986 | 16 % | 16,119 | 18 % |
| **Operating income** | **18,366** | **20 %** | 29,888 | 33 % | 22,795 | 25 % |
| Finance income | **632** | **1 %** | 458 | 1 % | 194 | - % |
| Foreign exchange gain | **1,791** | **1 %** | 269 | - % | 864 | 1 % |
| **Income before income taxes** | **20,789** | **22 %** | 30,615 | 34 % | 23,853 | 26 % |
| Income tax expense | **5,652** | **6 %** | 6,013 | 7 % | 4,691 | 5 % |
| **Net income and total comprehensive income** | **$ 15,137** | **16 %** | $ 24,602 | 27 % | $ 19,162 | 21 % |
| | | | | | | |
| **Net income and total comprehensive income per share**[2] | | | | | | |
| Basic | **$ 0.68** | | $ 1.10 | | $ 0.86 | |
| Diluted | **$ 0.68** | | $ 1.10 | | $ 0.86 | |
| **Dividends/distributions** | **$ 4,023** | | $ 22,328 | | $22,322 | |
| | | | | | | |
| **Other Data** | | | | | | |
| Total research and development expenditures[3] | **$ 15,677** | **17 %** | $ 13,227 | 15 % | $ 14,265 | 16 % |
| Adjusted EBITDA[4] | **$ 29,025** | **31 %** | $ 23,107 | 25 % | $ 18,274 | 20 % |
| Adjusted earnings per share[5] | **$ 0.73** | | $ 0.56 | | $ 0.35 | |
| Number of employees[6] | **489** | | 507 | | 571 | |

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

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

*(3) See "Total Research and Development Expenditures"*

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

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

*(6) The number of employees is determined as of the fiscal year end*

| **Consolidated Statements of Financial Position Data** (unaudited - in thousands of dollars except number of common shares) | | **As at June 30, 2015** | | **As at June 30, 2014** | | **As at June 30, 2013** |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | **$** | **12,777** | $ | 15,282 | $ | 7,148 |
| Short-term investments | **$** | **46,894** | $ | 33,197 | $ | 24,699 |
| Working capital | **$** | **84,786** | $ | 72,692 | $ | 66,459 |
| Total assets | **$** | **168,072** | $ | 157,275 | $ | 154,790 |
| Long-term debt | **$** | **2,708** | $ | 2,958 | $ | 3,229 |
| Shareholder's equity | **$** | **151,324** | $ | 139,473 | $ | 137,149 |
| Number of common shares outstanding[1] | | **22,348,093** | | 22,325,125 | | 22,322,422 |

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

## Adjusted Earnings Per Share

The following table reconciles net income for the period to adjusted net income. The term "adjusted net income" refers to net income or net loss as reported in the IFRS financial statements, excluding any amounts included in net income or net loss for gains and losses on sale of property, plant and equipment, intangible assets, and assets held for resale, impairments of intangible assets, and the tax effect of these adjusted items. Vecima believes that adjusted earnings per share is useful supplemental information for management and the Company's investors because it provides for the analysis of the Company's results exclusive of certain items which do not directly correlate to its business of selling broadband access products or providing rural cable/Internet services. Adjusted earnings per share does not have a standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers.

| **Calculation of Adjusted Earnings Per Share** | | **Year ended June 30,** | | | | |
|---|---|---|---|---|---|---|
| (unaudited - in thousands of dollars except per share amounts) | | **2015** | | 2014 | | 2013 |
| **Net income** | **$** | **15,137** | $ | 24,602 | $ | 19,162 |
| Gain on sale of spectrum licenses, net of taxes | | **(247)** | | (3,252) | | (8,438) |
| Gain on sale of non-core property, plant and equipment, net of taxes | | **144** | | (8,960) | | (3,228) |
| Impairment of intangible assets, net of taxes | | **883** | | 219 | | - |
| Impairment of property, plant and equipment, net of taxes | | **339** | | - | | 275 |
| **Adjusted net income** | **$** | **16,256** | $ | 12,609 | $ | 7,771 |
| Earnings per share | **$** | **0.68** | $ | 1.10 | $ | 0.86 |
| Gain on sale of spectrum licenses, net of taxes | | **(0.01)** | | (0.15) | | (0.38) |
| Gain on sale of non-core property, plant and equipment, net of taxes | | **0.01** | | (0.40) | | (0.14) |
| Impairment of intangible assets, net of taxes | | **0.04** | | 0.01 | | - |
| Impairment of property, plant and equipment, net of taxes | | **0.01** | | - | | 0.01 |
| **Adjusted earnings per share** | **$** | **0.73** | $ | 0.56 | $ | 0.35 |

## Adjusted EBITDA

The following table reconciles net income for the period to EBITDA and Adjusted EBITDA. The term "EBITDA" refers to net income or net loss as reported in the IFRS financial statements, excluding any amounts included in net income or net loss for income taxes, interest expense, and depreciation and amortization for property plant and equipment and intangible assets. The term "Adjusted EBITDA" refers to EBITDA adjusted for gains and losses on sale of property, plant and equipment, intangible assets, and assets held for resale, impairment of property, plant, and equipment, impairment of deferred development costs and stock compensation expense. Vecima believes that Adjusted EBITDA is useful supplemental information for management and for the Company's investors because it provides for the analysis of its results exclusive of certain non-cash items and other items which do not directly correlate to our business of selling broadband access products or providing rural cable/internet 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 Vecima's financial performance or as a measure of the Company's liquidity and cash flows.

| **Calculation of Adjusted EBITDA** (unaudited - in thousands of Canadian dollars except percentages) | **Year ended June 30, 2015** | 2014 | 2013 |
|---|---|---|---|
| **Net income** | **$ 15,137** | $ 24,602 | $ 19,162 |
| Income tax expense | **5,652** | 6,013 | 4,691 |
| Interest expense | **103** | 214 | 216 |
| Depreciation of property, plant and equipment | **3,060** | 3,317 | 4,830 |
| Amortization of deferred development costs | **2,932** | 2,565 | 2,271 |
| Amortization of finite-life intangible assets | **109** | 107 | 148 |
| **EBITDA** | **26,993** | 36,818 | 31,318 |
| Loss on disposal of intangibles | **209** | - | (9,694) |
| Gain on sale of assets held for resale | **(493)** | (3,736) | (3,604) |
| Loss (gain) on sale of property, plant and equipment | **165** | (10,293) | (104) |
| Impairment loss of property, plant and equipment | **457** | - | 316 |
| Impairment of intangible assets | **1,192** | 295 | - |
| Stock-based compensation | **502** | 23 | 42 |
| **Adjusted EBITDA** | **$ 29,025** | $ 23,107 | $ 18,274 |
| Adjusted EBITDA margin (%) | **31 %** | 25 % | 20 % |

## Total Research and Development Expenditures

The following table reconciles research and development expense reported in accordance with IFRS as shown on the consolidated statements of comprehensive income for the year ended June 30, 2015, and 2014 to Vecima's actual cash research and development expenditures.

| **Calculation of Research and Development Expenditures** (unaudited - in thousands of Canadian dollars except percentages) | **Year ended June 30, 2015** | 2014 | 2013 |
|---|---|---|---|
| **Research and development per statement of income** | **$ 9,337** | $ 8,186 | $ 7,663 |
| Deferred development costs | **8,807** | 6,929 | 7,171 |
| Investment tax credits | **465** | 677 | 1,702 |
| Amortization of deferred development costs | **(2,932)** | (2,565) | (2,271) |
| **Total research and development expenditure** | **$ 15,677** | $ 13,227 | $ 14,265 |
| Percentage of sales | **17 %** | 15 % | 16 % |

## Selected Quarterly Consolidated Financial Information and Other Data

The following information has been derived from Vecima's consolidated financial statements for fiscal 2015 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 2015 | | | | Fiscal Year 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| (unaudited - in thousands of Canadian dollars except percentages) | **Q4** | **Q3** | **Q2** | **Q1** | Q4 | Q3 | Q2 | Q1 |
| **Sales** | **24,011** | **23,197** | **23,712** | **23,128** | 24,870 | 22,592 | 21,587 | 21,656 |
| **Cost of sales** | **9,918** | **10,049** | **11,422** | **11,578** | 11,954 | 10,782 | 11,657 | 11,438 |
| **Gross margin** | **14,093** | **13,148** | **12,290** | **11,550** | 12,916 | 11,810 | 9,930 | 10,218 |
| Operating expenses | | | | | | | | |
| Research and development | **2,421** | **2,431** | **2,383** | **2,102** | 2,003 | 2,135 | 1,867 | 2,181 |
| Sales and marketing | **1,517** | **1,542** | **1,785** | **1,281** | 1,841 | 1,402 | 1,155 | 1,457 |
| General and administrative | **3,968** | **3,860** | **3,844** | **3,824** | 3,643 | 3,983 | 4,254 | 3,922 |
| Impairment of intangible assets | **157** | **1,035** | **-** | **-** | 295 | - | - | - |
| Impairment of property, plant and equipment | **457** | **-** | **-** | **-** | - | - | - | - |
| Stock-based compensation | **99** | **129** | **271** | **3** | 5 | 5 | 6 | 7 |
| Other income | **112** | **(25)** | **(457)** | **(24)** | (742) | (50) | (10,440) | (3,943) |
| | **8,731** | **8,972** | **7,826** | **7,186** | 7,045 | 7,475 | (3,158) | 3,624 |
| **Operating income** | **5,362** | **4,176** | **4,464** | **4,364** | 5,871 | 4,335 | 13,088 | 6,594 |
| Finance income | **199** | **169** | **162** | **102** | 69 | 86 | 235 | 67 |
| Foreign exchange gain | **60** | **437** | **286** | **1,008** | (411) | 249 | 311 | 121 |
| **Income before income taxes** | **5,621** | **4,782** | **4,912** | **5,474** | 5,529 | 4,670 | 13,634 | 6,782 |
| Income tax expense | **1,741** | **1,229** | **1,221** | **1,461** | 1,175 | 1,272 | 2,220 | 1,346 |
| **Net income and total comprehensive income** | **$ 3,880** | **$ 3,553** | **$ 3,691** | **$ 4,013** | $ 4,354 | $ 3,398 | $ 11,414 | $ 5,436 |
| | | | | | | | | |
| **Net income and total comprehensive income per share** | | | | | | | | |
| Basic | **$ 0.17** | **$ 0.16** | **$ 0.17** | **$ 0.18** | $ 0.20 | $ 0.15 | $ 0.51 | $ 0.24 |
| Diluted | **$ 0.18** | **$ 0.16** | **$ 0.17** | **$ 0.18** | $ 0.19 | $ 0.15 | $ 0.51 | $ 0.24 |

Fiscal 2014 quarterly comparative figures have been reclassified to conform to the current year's presentation

## Fourth Quarter Financial Highlights

### *Sales*

| **Sales by Core Market** | | **Three months ended June 30,** | | | |
|---|---|---|---|---|---|
| (unaudited - in thousands of Canadian dollars except percentages) | | **2015** | | **2014** | |
| Converged Wired Solutions | $ | **19,868** | **83 %** | $ 20,866 | 84 % |
| Broadband Wireless | | **869** | **3 %** | 427 | 2 % |
| YourLink | | **3,274** | **14 %** | 3,577 | 14 % |
| **Total Sales** | $ | **24,011** | **100 %** | $ 24,870 | 100 % |

For the three months ended June 30, 2015, Vecima generated total sales $24.0 million, a 3% decrease from the $24.9 million generated during the same period in fiscal 2014.

### Converged Wired Solutions

Converged Wired Solutions sales decreased 5% to $19.9 million in the fourth quarter of fiscal 2015, from $20.9 million in Q4 2014.

- Fourth quarter sales of Terrace QAM increased 85% to $9.7 million in Q4 2015, from $5.2 million in the same period in fiscal 2014. On a sequential quarterly basis, sales of Terrace QAM were similar to the very strong $9.6 million sales level achieved in Q3 2015. The robust third and fourth quarter performance were driven by continued strong demand from Vecima's lead customer. Deployment volumes of Terrace QAM are expected to remain strong in fiscal 2016, supported in part by the addition of the new TransQAM module. Terrace QAM is purpose designed for the hospitality industry, providing an elegant platform over which cable operators can deliver a leading high-definition service offering.

- Fourth quarter sales of Terrace family products were $6.7 million, a 15% decrease from $7.9 million during the same period in fiscal 2014. On a sequential quarterly basis, Terrace family sales declined 10% from $7.5 million in Q3 2015. The fluctuations in quarterly sales reflect the different stages of network conversion activity by various MSO customers. Terrace family products remain a leading choice of MSO’s undertaking all-digital network conversions. The attractiveness of the solution has been further enhanced by the recent deployment of the TC600E, which is enjoying rapid market acceptance and wide adoption. Incorporating state-of-the art MPEG-4 HD video, the TC600E delivers a 30-to-50% savings in network capacity to support commercial customers’ video offerings

- Vecima reported Digital Video Access Platform (DVAP) sales of $0.4 million in the fourth quarter, compared to $2.7 million in Q4 2014. On a sequential quarterly basis, DVAP sales increased from $nil in Q3 2015. DVAP sales were minimal in both the third and fourth quarters of 2015 following a large volume of deliveries in the second quarter of fiscal 2015. Vecima is delivering this product to the lead customer under a USD $19 million take-or-pay contract.

### *Broadband Wireless*

Broadband Wireless sales increased 104% to $0.9 million in the three months ended June 30, 2015 from $0.4 million during the same period in 2014. On a sequential quarterly basis, sales increased 55% compared to Q3 2015. These increases largely reflect last-time purchases by customers prior to the discontinuation of certain of Vecima’s software defined radio products. During the fourth quarter of 2015, Vecima continued with the restructuring of operations related to these products in response to continued weakness in defense spending.

### *YourLink*

YourLink sales were $3.3 million in Q4 fiscal 2015, compared to $3.6 million in the prior year quarter. The 6% year-over-year decrease in sales was mainly due to decreased internet and equipment sales. On a sequential quarterly basis, Q4 2015 sales were similar to the $3.4 million achieved in Q3 2015.

### *Quarter-to-Quarter Sales Variances*

There are many factors that contribute to the overall variances of Vecima's sales. One of the main factors is our product development cycle, with Vecima continually developing new products to replace products that are reaching the end of their lifecycle. Since Vecima's new products are at the leading edge of technology, the timing of development can vary as can the timing of regulatory certification and customer acceptance of new products.

The budgeting cycles of larger cable operators can also result in quarter-to-quarter variability in customer orders, while availability of parts and production capacity can influence the timing of product deliveries.

### *Gross margin*

Gross margin percentage increased sharply to 59% for the three months ended June 30, 2015, providing a profit margin of $14.1 million. This compares to a gross margin of 52% and a gross profit of $12.9 million for the same period in 2014. Gross margin percentage was positively impacted by the favourable foreign exchange influence of a lower Canadian dollar relative to the U.S. dollar, as well as by product mix and manufacturing efficiencies.

### *Operating expenses*

*Research and development expenses* for the three months ended June 30, 2015 were $2.4 million, or 10% of sales, compared with $2.0 million, or 8% of sales for the three months ended June 30, 2014. Development costs related to new product development are typically deferred until new products reach the commercial production stage. As such, actual R&D spending in a given period may be higher than the actual expense reported. Total R&D costs before deferrals, amortization of deferred development costs and income tax credits were $4.1 million, or 17% of sales, in line with $4.1 million, or 17% of sales for the same period last year.

*Sales and marketing expenses* were $1.5 million, or 6% of sales, for the three months ended June 30, 2015, compared to $1.8 million, or 8% of sales for the three months ended June 30, 2014. The decrease in total sales and marketing expenses primarily reflects higher inventory allowances for slow-moving finished goods inventory in the prior-year quarter.

*General and administrative expenses* for the three months ended June 30, 2015 were $4.0 million compared to $3.6 million in the same period last year. The year-over-year increase reflects increased overheads compared to the Q4 2014 period.

*Stock-based compensation expense* for the three months ended June 30, 2015 was $0.10 million, compared to $0.01 million for the three months ended June 30, 2014. The expense reflects the ongoing amortization of the stock options issued in prior periods.

*Impairment of capital assets* for the three months ended June 30, 2015 was $0.5 million, compared to $nil in the same period last year. This impairment represents certain capital assets of YourLink within British Columbia that had indicators of impairment at the cash generating unit level.

*Impairment of intangible assets* for the three months ended June 30, 2015 was $0.2 million, compared to $0.3 million in the same period last year. These impairments represent deferred development projects that the Company has no intention to continue into the future.

*Other income* for the three months ended June 30, 2015 was $(0.1) million, compared to $0.7 million in the same period last year. This decrease is a result of a loss on disposal of indefinite life assets in Q4 2015 and a result of receiving a contract cancellation fee in Q4 2014.

*Operating income* was $5.4 million for the three months ended June 30, 2015 compared to $5.9 million for the three months ended June 30, 2014. Decreased sales of $0.9 million were more than offset by gross margin improvements which resulted in the $1.2 million improvement in gross profit. Total operating costs quarter over quarter increased by $1.7 million as described above.

*Finance income* was $0.20 million for the three months ended June 30, 2015 an increase from $0.07 million for the same period in the prior year.

*Foreign exchange gain* increased to $0.1 million for the three months ended June 30, 2015 compared to a foreign exchange loss of $(0.4) million for the three months ended June 30, 2014.

*Income tax* expense for the three months ended June 30, 2015 was $1.7 million, compared with $1.2 million for the same period last year. This increase mainly reflects higher net income before taxes year over year.

*Net income* for the three months ended June 30, 2015 was $3.9 million or $0.17 per share, compared with net income of $4.4 million or $0.20 per share for the three months ended June 30, 2014.

***Cash from Operating Activities***

For the three months ended June 30, 2015, cash flow from operating activities provided cash of $6.7 million compared to cash of $10.2 million in the same period in 2014. Net changes in non-cash working capital resulted in a cash outflow of $0.2 million in the current quarter compared to cash outflows of $4.2 million in the same quarter in fiscal 2014.

***Investing Activities***

Cash flow used in investing activities was $5.8 million in the three months ended June 30, 2015 compared to cash used in investing activities of $2.8 million in the three months ended June 30, 2014. The cash flow used in investing activities was a result of purchase of property, plant and equipment of $0.2 million (Q4 2014 – $0.9 million), deferred development expenditures of $2.4 million (Q4 2014 - $2.9 million) and net purchase of short-term investments of $3.2 million for the three months ended June 30, 2015 (Q4 2014 – net proceeds on sale of short-term investments - $0.9 million).

***Financing Activities***

For the three months ended June 30, 2015 the Company repaid $0.06 million of its long-term debt compared to $0.06 million for the three months ended June 30, 2014. The Company paid dividends of $1.0 million in the current quarter.

**Fiscal Year Financial Highlights**

***Sales***

| **Sales by Core Market** | | **Year Ended June 30,** | | | | |
|---|---|---|---|---|---|---|
| (unaudited - in thousands of Canadian dollars except percentages) | | **2015** | | | **2014** | |
| Converged Wired Solutions | **$** | **77,914** | **83 %** | $ | 69,880 | 77 % |
| Broadband Wireless | | **2,434** | **3 %** | | 6,528 | 7 % |
| YourLink | | **13,700** | **14 %** | | 14,297 | 16 % |
| **Total Sales** | **$** | **94,048** | **100 %** | $ | 90,705 | 100 % |

For the fiscal year ended June 30, 2015, sales increased 4% to $94.0 million from $90.7 million in fiscal 2014.

***Converged Wired Solutions***

Converged Wired Solutions sales increased 11% to $78.0 million for the year ended June 30, 2015 from $69.9 million in 2014. Our Terrace Family of products showed the most growth (12%) year over year reflecting strong growth in sales for Vecima's newer digital video access platform (DVAP) products following the successful conclusion of approval testing by a number of major MSOs. The year-over-year sales growth also reflects higher sales of Terrace QAM products which are used in the hospitality industry. Sales of OEM return path demodulator products were also up year over year.

- Sales of Terrace QAM increased 67% to $33.8 million in fiscal 2015 from $20.2 million in 2014. The growth in sales was driven by very strong demand from Vecima's lead customer as it supplies its growing base of hospitality industry customers.

- Year-to-date sales of Terrace family products were $27.8 million, compared to the $29.5 million achieved in fiscal 2014. The year-over-year change in sales reflects the different stages of network conversion activity as various MSO customers transition to all-digital.

- Sales of Vecima's Digital Video Access Platform (DVAP) increased 47% to $5.4 million in fiscal 2015 from $3.7 million in 2014. To date, Vecima has shipped USD $8.1 million of DVAP to the lead customer against the USD $19 million contract commitment.

***Broadband Wireless***

Broadband Wireless sales decreased 63% to $2.4 million for the year ended June 30, 2015 from $6.5 million in 2014. This decrease is mainly attributable to lower software defined radio sales with declines also seen in other wireless product sales. During the fourth quarter of 2015, Vecima continued with the restructuring of operations related to these products in response to continued weakness in defense spending.

Moving forward the Company will continue to increase its focus on other promising opportunities for converged wired solutions.

***YourLink***

YourLink sales were $13.7 million in fiscal 2015 compared to $14.3 million in 2014. The decrease was mainly due to decreased internet sales and a commercial installation project in 2014.

***Gross margin***

Vecima's gross margin percentage increased to 54% for the year ended June 30, 2015, providing a gross margin of $51.1 million. This compares to a gross margin percentage of 49% and a gross margin of $44.9 million in fiscal 2014. Gross margin was positively impacted by the favourable foreign exchange influence of a lower Canadian dollar as well as by product mix and manufacturing efficiencies.

***Operating expenses***

*Research and development expenses* for the year ended June 30, 2015 were $9.3 million, or 10% of revenue, compared to $8.2 million, or 9% of revenue in 2014. Vecima continues to invest in research and development to support 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 year ended June 30, 2015 increased to $15.7 million, or 17% of sales, from $13.2 million, or 15% of sales in 2014. The increase primarily reflects the addition of R&D personnel, higher employee compensation and an increase in prototyping activity as Vecima steps up development of new products.

*Sales and marketing expenses* were $6.1 million, or 7% of sales in 2015, compared to $5.9 million, or 7% of sales for the same period last year. This increase reflects higher finished goods inventory write-downs in 2015.

*General and administrative expenses* were $15.5 million in fiscal 2015 compared to $15.8 million in fiscal 2014. The year-over-year decrease is a result of lower amortization of property, plant and equipment.

*Stock-based compensation expense* increased to $0.50 million, compared to $0.02 million in 2014. The increase in expense reflects the stock options issued in the second quarter of fiscal 2015.

*Impairment of capital assets* was $0.5 million in fiscal 2015 compared to $nil in the same period last year. This impairment represents certain capital assets of YourLink within British Columbia that had indicators of impairment at the cash generating unit level.

*Impairment of intangible assets* for the year was $1.2 million, compared to $0.3 million in the same period last year. These impairments represent deferred development projects impaired due to the restructuring of software defined radio sales operations and deferred development projects that the Company has no intention to continue into the future.

*Other income* decreased to $0.4 million in 2015, from $15.2 million in 2014. In 2014, the Company recorded a $10.3 million gain on the sale of its downtown Saskatoon property, a $3.7 million gain on the sale of spectrum licenses, a $0.6 million contract cancellation fee and $0.3 million of lease revenue from the Saskatoon property that was later sold. By comparison, Vecima has sold $0.5 million of spectrum licenses in fiscal 2015.

*Operating income* was $18.4 million in fiscal 2015, compared to an operating income of $29.9 in 2014. Increased sales of $3.3 million as well as gross margin improvements described above resulted in improved gross profit year-over-year of $6.2 million. Total operating costs year-over-year increased by $17.7 million as described above.

*Finance income* increased to $0.6 million in fiscal 2015 from $0.5 million in 2014.

*Foreign exchange gain* increased to $1.8 million in fiscal 2015 from $0.3 million in 2014.

*Income tax* expense decreased to $5.7 million in fiscal 2015 from $6.0 million in 2014. The income tax rate is lower than the expected tax rate of approximately 26% in the prior year due to the non-taxable portion of capital gains.

*Net income* for fiscal 2015 was $15.1 million or $0.68 per share, compared to net income of $24.6 million or $1.10 per share for the fiscal 2014.

***Cash from Operating Activities***

For the fiscal year ended June 30, 2015, cash flow from operating activities provided cash of $27.1 million compared to $31.6 million in 2014. The $4.5 million decrease primarily reflects the collection of $4.7 million in income tax refunds in the prior year. Cash flow from non-cash working capital increased in 2015 compared to the prior year and cash from other operating activities has decreased in 2015.

***Investing Activities***

Cash flow used by investing activities increased to $25.6 million in 2015 from $0.9 million in 2014. The largest use of cash was the net purchase of short-term investments of $13.7 million (2014 - $8.5 million). Other investing activity represents proceeds on the sale of real estate of $nil (2014 - $13.5 million), proceeds on the sale of spectrum licenses of $0.5 million (2014 - $4.1 million), purchase of property, plant and equipment of $2.3 million (2014 – $3.0 million) and deferred development expenditures of $8.8 million (2014 - $6.9 million).

***Financing Activities***

For the year ended June 30, 2015 the Company paid dividends of $4.0 million. The prior-year included a return of capital to shareholders of $12.1 million and a dividend of $10.3 million. The Company repaid $0.3 million of its long-term debt compared to the $0.3 million repaid in fiscal 2014.

**Liquidity and Capital Resources**

The Company manages its liquidity and capital resources to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The Company believes it has the flexibility to obtain from internal sources, the funds needed to fulfil its cash requirements during the following financial year. The liquidity requirements of the Company’s business are met primarily by funds generated from operations.

As at June 30, 2015, the Company had access to its full revolving loan facility of $15.0 million, of which no amount was drawn as an operating line of credit (June 30, 2014 – $0.0 million was drawn). The Company has term credit of $3.0 million as at June 30, 2015 (June 30, 2014 - $3.2 million). Management believes that its current cash and short-term investments and anticipated cash flow from operations will be sufficient to meet the Company's working capital and capital expenditure requirements for the foreseeable future.

Capital expenditures for fiscal 2015 were $2.3 million compared to fiscal 2014 capital expenditures of $3.0 million. As announced subsequent to year-end, YourLink has been conditionally awarded funding from Industry

Canada's "Connecting Canadians" program in the amount of $4.6 million to expand YourLink's network infrastructure in rural Saskatchewan.

**Working Capital**

Working capital represents the Company's current assets less current liabilities. Vecima's working capital remained strong at $84.8 million at June 30, 2015, up from $72.7 million at June 30, 2014. Working capital balances can be subject to significant swings from quarter to quarter. Vecima's product shipments are "lumpy", reflecting the requirements of our major customers. It is not unusual to ship $5 or $6 million of product in a one week period. If this level of sales occurs in the first week of a succeeding quarter, Vecima would expect to experience an increase in inventory levels and a drop in receivables in the prior quarter. Other timing issues, like contractual terms of greater than 30 day payment terms, also affect working capital, particularly if shipments are back-end weighted for a quarter.

*Accounts receivable* balance increased 12% to $13.1 million at June 30, 2015 compared to $11.7 million at June 30, 2014 The increase in accounts receivable represents the timing of when the sales were incurred in the quarter compared to the prior year quarter.

Income tax receivable balance increased $0.2 million for the year ended June 30, 2015 representing tax instalments in excess of income tax owing for YourLink.

*Inventory* decreased by $2.1 million to $22.9 million at June 30, 2015 compared to $25.0 million as at June 30, 2014. Finished goods inventories were $8.8 million at June 30, 2015, compared to $10.2 million at June 30, 2014. The finished goods inventory turnover rate was 4.5 times per year at June 30, 2015 compared to 4.7 times at June 30, 2014. Raw material inventory decreased to $9.7 million at June 30, 2015, compared to $10.4 million at June 30, 2014. Work in process inventories increased to $4.4 million as at June 30, 2015 compared to $4.3 million at June 30, 2014. Vecima manufactures and assembles products, with the result that inventory levels will be substantially higher than for other companies in our industry that outsource manufacturing and assembly.

*Investment tax credits de*creased by $2.5 million to $24.3 million at June 30, 2015 from $26.8 million at June 30, 2014. For every dollar the Company spends on eligible research and development in Canada, it generates approximately forty two cents in income tax credits. These credits are used to offset the Company's income tax payable.

*Accounts payable and accrued liabilities* decreased 5% to $9.2 million at June 30, 2015 representing 80 days for payables to be outstanding. This compares to $9.7 million at June 30, 2014, representing an average of 78 days for payables to be outstanding. This dollar decrease is a result of timing of purchases in the fourth quarter of 2015 compared to the fourth quarter of fiscal 2014.

*Long-term debt*, including current portion, decreased to $3.0 million at June 30, 2015 from $3.2 million at June 30, 2014.

**Contractual Obligations**

The Company has lease commitments for production equipment, service vehicles and facilities amounted to $1.6 million within one year and $3.5 million after one year but not more than five years and $nil thereafter.

**Foreign Exchange**

Approximately 85% of Vecima's revenues are denominated in US dollars. Vecima translates US dollar sales to Canadian dollars on the date of delivery and subsequently when the account receivable is collected. If the US dollar appreciates relative to the Canadian dollar after Vecima collects the accounts receivable in US dollars, the Company will receive more Canadian dollars when the US dollars are converted to Canadian dollars in subsequent months. The Company enjoys a substantial natural hedge since the majority of its materials and components purchases are also in US dollars.

During the year, the exchange rate on the Canadian dollar weakened from Canadian $1.067 against the U.S. dollar as at June 30, 2014 to Canadian $1.249 against the U.S. dollar as at June 30, 2015. This $0.182 exchange difference increased the value of the Company's $13.7 million U.S. dollar net assets by approximately $6.6 million Canadian over the twelve month period.

## Off-Balance Sheet Arrangements

Vecima does not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on the financial performance or financial conditions of Vecima.

## Share Data

As at September 24, 2015, the Company had 22,330,536 common shares outstanding as well as options outstanding that are exercisable for an additional 164,556 common shares.

## Dividends

On September 24, 2014, Vecima announced a dividend policy whereby the Company plans to pay an annual dividend to its common shareholders, payable quarterly. For fiscal 2015, the Company declared and paid dividends of $4.0 million or $0.18 per share.

On September 24, 2015, the Board of Directors increased the annual dividend to $0.22 per share and declared a quarterly dividend of $0.055 per common share, payable on October 30, 2015 to shareholders of record as at October 9, 2015. This dividend will not be designated as an "eligible dividend" for Canadian income tax purposes. Future quarterly dividends will be subject to board approval.

## Transactions Between Related Parties

Vecima leases a building in Saskatoon under a ten-year lease from Dr. Surinder Kumar, the Chairman of Vecima. The lease was entered into in 2010 and expires in 2019. The rental expense from this transaction was $0.28 million for the year ended June 30, 2015 (June 30, 2014 - $0.28 million).

## Proposed Transactions

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

## Financial Instruments

Vecima periodically enters into forward contracts to partially manage its 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. Vecima does not recognize these contracts in the consolidated financial statements when they are entered into, nor does Vecima 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.

At June 30, 2015, the Company did not have any forward contracts. At June 30, 2014, there were finanical instruments with a fair value unrealized gain of $0.03 million.

## Critical Accounting Estimates

The preparation of the Company's annual audited consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Use of judgment and estimates are disclosed in Note 3 of the audited consolidated financial statements for the year ended June 30, 2015.

## Accounting Pronouncements

### IFRIC 21 - Levies

In May 2013, the IASB issued IFRIC 21, which provides guidance on the accounting for levies within the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets which requires that the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, and the liability to pay the levy is recognized progressively if the obligating events occur over a period of time. The amendment must be applied retrospectively and is effective for annual periods beginning on or after January 1, 2014. The Company adopted IFRIC 21 effective July 1, 2014 which did not result in a change on the Company's consolidated financial statements.

**Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities**

In December 2011, the IASB issued amendments to IAS 32 to clarify the requirements relating to the offset of financial assets and liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and 'simultaneous realization of settlement'. The amendment must be applied retrospectively and is effective for periods commencing beginning on or after January 1, 2014. The Company adopted IAS 32 effective July 1, 2014 which had no impact on the Company's consolidated financial statements.

**Amendments to IAS 36 - Impairment of Assets**

In May 2013, the IASB issued amendments to IAS 36 to address disclosure information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendment must be applied retrospectively and is effective for annual periods beginning on or after January 1, 2014. The Company adopted IAS 36 effective July 1, 2014 which had no impact on the Company's consolidated financial statements.

***Accounting standards issued but not yet applied:***

**IFRS 9 - Financial Instruments**

In November 2009, the IASB issued guidance relating to the classification and measurement for financial assets followed by requirements for financial liabilities and derecognition which were added in 2010. IFRS 9 was amended in 2013 to add new general hedge accounting requirements. The standard must be applied retrospectively and is effective for annual periods beginning after January 1, 2018, with earlier application permitted. The Company is currently reviewing the standard to determine the potential impact on its consolidated financial statements.

**IFRS 15 - Revenue from Contracts with Customers**

In May 2014, the IASB published a new standard, IFRS 15 Revenue from Contracts with Customers. This standard supersedes current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard may be applied retrospectively or with a modified transition approach and is effective for reporting periods on or after January 1, 2018, with earlier application permitted. The Company is currently reviewing the standard to determine the potential impact on its consolidated financial statements.

**Amendments to IAS 1 - Presentation of Financial Statements**

In May 2014, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments were issued to improve the effectiveness of presentation and disclosure in financial reports, with the objective of reducing immaterial note disclosures. The amendments are to be applied prospectively and are effective for annual periods beginning after January 1, 2016 with earlier application permitted. The Company is currently reviewing the amendments to determine the potential impact on its consolidated financial statements.

**Amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets**

In May 2014, the IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. The amendments clarify the factors to be considered in assessing the technical or commercial obsolescence and the resulting depreciation period of an asset and state that a depreciation method based on revenue is not appropriate. The amendments are to be applied prospectively and are effective for annual periods beginning after January 1, 2016 with earlier application permitted. The Company is currently reviewing the amendments to determine the potential impact on its consolidated financial statements.

**Amendments to IFRS 11 - Joint Arrangements**

In May 2014, the IASB issued amendments to IFRS 11 Joint Arrangements. The amendments clarify the accounting for the acquisition of interests in joint operations and require the acquirer to apply the principles of business combinations accounting in IFRS 3 Business Combinations. The amendments are to be applied prospectively and are effective for annual periods beginning after January 1, 2016 with earlier application permitted. The Company is currently reviewing the amendments to determine the potential impact on its consolidated financial statements.

**Outlook**

For fiscal 2015, Vecima achieved revenue of $94.0 million, which was within the range of the Company's guidance of $90.0 million to $100.0 million. Gross margins of 54.3% exceeded the target of 51.0% to 53.0%. Adjusted EBITDA of $29.0 million exceeded the Company's guidance of adjusted EBITDA of $25.5 million or higher.

Vecima's growth strategy is to remain focused on the introduction of new highly profitable products as well as to access new markets and new customers for existing products.

For fiscal 2016, Vecima expects:

- sales to be in the range of $100.0 million to $108.0 million;
- gross margins in the 52% to 57% range; and
- Adjusted EBITDA to be in the range of $28.0 million and $33.0 million.

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

**Risk and Uncertainties**

Vecima's 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” above) and the risk factors set forth in the Company's Annual Information Form for its most recently completed fiscal year, which are incorporated by reference herein. These risks and uncertainties are not the only ones that Vecima faces. Additional risks and uncertainties not presently known to Vecima or that the Company currently deems immaterial may also impair its business. If any of such risks actually occur, the Company's financial performance, share price, business prospects and financial condition could be materially adversely affected.