MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2016

September 26, 2016

Dear Fellow Shareholders,

Fiscal 2016 was an extraordinary year for Vecima as we achieved the best financial results in our three decade history and made significant strides on our key strategic priorities.

On the financial front, we set records for revenue, gross margin and adjusted EBITDA as we met the needs of tier one cable MSO customers across numerous product lines and platforms. In particular our Terrace Family, Terrace QAM and digital video access platform (DVAP) products helped us achieve significant penetration into many leading cable MSOs and contributed to our very strong results.

We also ended fiscal 2016 with a record cash balance of $74.1 million, a $14.4 increase over 2015. This remarkable cash position was achieved while also financing our strategic acquisition of Contigo Systems Inc. (“Contigo”) from cash, accelerating intense development of our next-generation technologies, including our new DOCSIS 3.1 DAA Platform solution, and investing in the expansion of our YourLink network.

I am very proud of the outstanding Vecima teams that generated these outstanding results, and of our proven track record of innovation and support that is driving our position as a solutions provider of choice in our markets. Vecima’s people have built a brand of integrity that resonates with our cable MSO customers.

A Year of Momentum for Video and Broadband Solutions

During 2016, cable operators continued, and in some cases, finalized their evolution to all-digital networks. Our *Terrace family products* supported our customers’ ability to make this essential network upgrade. The Terrace solution was further enhanced by deployment of our new *TC600E*, which offers MPEG-4 and high-definition video input capabilities. Together, the now four generations of Terrace family platforms have been deployed widely as the industry’s preeminent commercial video platform for all digital networks. Further, Vecima’s history of successful network-wide deployments of the Terrace family for all-digital conversion has firmly established the company as an industry leader in the business services vertical, a segment which offers exciting new growth opportunities which I will discuss below.

TerraceQAM, which allows cable operators to provide a market-leading HD video service in the hospitality sector, achieved very strong sales throughout fiscal 2016, driven both by sustained higher deployment activity at the lead customer along with upgrades to support MPEG-4 using the new transcoding version of the 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. TerraceQAM remains the platform of choice for MSO delivered HD video to hotels.

Also in our cable business, sales of our *Digital Video Access Platform (DVAP)* were a strong contributor to fiscal 2016 results marking the culmination of a successful large scale program with the OEM customer. DVAP provides critical two-way communications to a deployed base of several million digital video set-top boxes that will remain in service for a number of years until MSO networks are fully migrated to IP-based services.

Transitioning to DOCSIS 3.1

The cable industry is on the precipice of a major transition of the network. 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. Cable MSOs have led all service providers in “broadband” before the word even came to be commonly known. It is well known that the MSOs are racing towards gigabit class broadband speeds to address these consumer shifts. Today, the combined forces of consumer expectations and competition are driving the broadband foot race. For cable MSOs, DOCSIS 3.1 is the answer.

The technology makes lightning fast data transmission speeds possible, in the range of 10 Gigabits per second (Gbps) for downloads and greater than 1.5 Gbps for uploads. This makes broadband speeds over existing coax comparable to the speeds provided by fiber to the home standards such as those used by Telcos. In every respect, DOCSIS 3.1 is the infrastructure solution cable MSOs will use to remain competitive and cost efficient in an ever-faster technology environment.

Because of its highly lucrative service revenues and margins, the business services segment in particular has become a hotbed of early activity as operators charge towards gigabit broadband speeds.

We have been positioning Vecima for this upcoming major shift in cable networks. This past year, Vecima engaged in intense development on our next-generation DOCSIS 3.1 solution and went on to introduce our first gigabit speed broadband access platform, Entra, at the INTX conference earlier this year. Not only is Entra a DOCSIS 3.1 platform, but it also uses Distributed Access Architecture (DAA) which offers significant benefits to operators. It distributes architecture closer to the home, saving power and space at the already crowded hubs and offering an ideal migration architecture by positioning native Ethernet networking technology into the distributed node. We are confident our feature sets and product strategy are well aligned with customers’ needs.

Recently, Entra was awarded 4.5 out of 5 Diamonds by the 2016 Broadband Technology Report Diamond Technology Reviews, a renowned industry program that was developed to recognize some of the top products and solutions available to the cable industry as determined by a panel of cable MSO engineering experts. Vecima has invested careful thought into Entra's design and we are very pleased to see our product receive such positive recognition by industry experts.

Looking Ahead

Moving into fiscal 2017, we will continue to leverage our current generation cable product lines, including Terrace Family products and TerraceQAM, to support our operations, though we recognize our future growth is firmly aligned with the industry shift towards DOCSIS 3.1, Entra and with the new opportunities in IP video.

With the launch of Entra, we have placed Vecima at the forefront of the development of DOCSIS 3.1 DAA architecture and are ideally positioned to become a leading solutions provider in this space. We are committed to release Entra to the market in 2017.

The industry recognizes that video services need to transition to an IP model which is the foundation of video technology innovation today from the content through to the devices. Vecima is positioned to address this in three ways:

1. We will unlock the broadband capacity needed for IP video through Entra
2. We are introducing core elements of the IP video ecosystem such as our Bravura line of IPTV solutions
3. We are focused on opportunistic acquisitions of assets and/or technology in the video space

I want shareholders to recognize that Vecima is continuing its transformation; we will focus on video and broadband solutions and telematics segments and look for acquisition opportunities to support those areas. We will also deemphasize non-core businesses as we look to exit them.

Overall, we believe we are well positioned to succeed. We have strong, established relationships with the industry's tier-one operators and a robust R&D program that is closely aligned with our customers' needs and with the significant opportunities arising in broadband access and IP video. In addition we see opportunities to continue growing our telematics business.

On behalf of the Board of Directors and our employees, I want to 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 26, 2016

This management's discussion and analysis (MD&A) provides a review of significant developments that have affected the performance of Vecima Networks Inc. ("Vecima" or the "Company") during the year ended June 30, 2016.

Our management's discussion and analysis supplements, but does not form part of, our audited consolidated financial statements and related notes for the year ended June 30, 2016. Consequently, the following discussion and analysis of the financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and accompanying notes for the years ended June 30, 2016 and June 30, 2015 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Our management's discussion and analysis also includes certain non-IFRS financial measures which we use as supplemental indicators of our operating performance and financial position, as well as for internal planning purposes.

The content of this MD&A contains forward-looking statements, which are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements. Forward-looking statement include, but are not limited to, our 2017 outlook and our expectations related to general economic conditions and market trends and their anticipated effects on our business segments. For additional information related to forward-looking statements and material risks associated with them, please see the "Cautionary Note Concerning Factors That May Affect Future Results" section of this MD&A.

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

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Company Overview

Vecima Networks Inc. (TSX:VCM) is a Canadian company founded in 1988 with offices in Saskatoon, SK, Burnaby, BC and Victoria, BC. Vecima also has a software development facility in Mangalore, India, operated through a majority owned subsidiary.

We are a globally recognized leader in creating breakthrough technology solutions that empower network service providers to connect people and enterprises to information and entertainment worldwide. Our products incorporate complex hardware and software developed within our research and development facilities. Our main products for the cable industry allow service providers a cost-effective Last Mile Solution® for both video and broadband access, especially in the demanding business services market segment.

Our business is organized into three segments: (1) Video and Broadband Solutions; (2) YourLink; and (3) Telematics:

1. Video and Broadband Solutions include families of platforms and modules that process data from the cable network and deliver it in formats suitable to be consumed on televisions and internet devices. Terrace and TerraceQAM are two key product families in this segment which meet the needs of the business services vertical including MDU (multi-unit dwelling) and Hospitality.
2. YourLink operates a large wireless service provider in rural Saskatchewan that provides fixed broadband wireless data and telephone access to both residential and business subscribers.
3. Telematics provides fleet managers with the key information and analytics they require to optimally manage their mobile and fixed assets under the Contigo, Nero Global Tracking, and FleetLynx brands.

Our growth strategy is tied into the development of next generation platforms such as Entra, as well as strategic acquisitions.

Fiscal 2016 Highlights

- Achieved the top end of our upwardly adjusted outlook for FY2016 in revenue, gross margin & adjusted EBITDA
- Grew cash balances by $14.4 million to $74.1 million while at the same time had a $13.5 million all cash acquisition and increased investment in R&D
- Achieved the first network-wide deployment of TC600E commercial video platform by a Tier 1 MSO. The TC600E enhances the ability of cable operators to support commercial premises as they transition to all digital networks by supporting MPEG-4 and HD input
- Introduced Entra, our new DOCSIS 3.1 Distributed Access Architecture (DAA) platform. Entra, which is currently in development, will enable operators to offer multi-gigabit data rates over cable to subscribers without the excessive costs of running fiber to the home.
- Acquired Contigo Systems for $13.5 million in cash, enhancing our position in Telematics

Recent Industry Developments

The cable industry is currently undergoing a major shift under the new DOCSIS 3.1 standard. Released by CableLabs in 2014, DOCSIS 3.1 unlocks gigabit broadband speeds over existing coaxial cable. Data transmission of 10 Gigabits per second (Gbps) for download speed and 1 Gbps upload speed, make DOCSIS 3.1 comparable to the speed provided by fiber optic connections but without the added infrastructure cost. Global cable operators have started to embrace DOCSIS 3.1 as an evolution of DOCSIS technology. It provides a flexible migration for cable operators, with the ability for DOCSIS 3.1 modems to coexist with older versions and build on top of the previously deployed capacity. The higher efficiency of DOCSIS 3.1 technology also enables significant cost per bit reductions relative to DOCSIS 3.0 network solutions.

We have been focused on addressing this industry transition through the development of our next generation platform, Entra, which uses distributed access architectures. Technologies we are developing as part of the Entra platform include:

- Full spectrum DOCSIS 3.1 to 1.2 GHz allowing cable operators to utilize maximum throughput capability of up to 10 Gbps downstream and up to 3.2 Gbps aggregate upstream.
- A virtual controller for unified management of Access Nodes which allows rapid dynamic provisioning of services and facilitates transition towards network function virtualization (NFV) and software defined networking (SDN)
- A 10 Gigabit Ethernet switch which allows for provisioning of direct Ethernet and PON services at the node.

Outlook

Vecima met or exceeded the upwardly adjsuted Company's Guidance in fiscal 2016. We achieved revenue of $108.4 million, exceeding our guidance of $100.0 million to $108.0 million. Gross margin of 57.0% was at the high end of the target of 52% to 57%. Adjusted EBITDA of $37.8 million exceeded the Company's guidance of $32.0 to $37.0 million.

With the industry in transition, we expect demand for our legacy products to slow in fiscal 2017. As sales for our next generation products are currently forecasted to begin towards the end of fiscal 2017, we expect overall 2017 revenue and adjusted EBITDA to be lower than in fiscal 2016.

Vecima's outlook for fiscal 2017, which is based on our current visibility into customer demand both domestically and internationally, is:

- sales to be in the range of $85.0 million to $95.0 million;
- gross margin in the range of 54% to 58%; and
- Adjusted EBITDA in the range of $23 million and $28 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 "EBITDA and Adjusted EBITDA".

Discontinued Operations

As at June 30, 2016, the Company had undertaken plans to sell certain cable distribution and telecommunications operating assets and liabilities located in British Columbia. The assets have been reclassified as assets held for sale and the liabilities have been reclassified as liabilities associated with assets held for sale. Financial results for the current year, and comparative periods attributable to the disposal group, have been presented as discontinued operations. The noncurrent assets that were held for sale were recorded at the lower of the carrying amount or the fair market value less costs to sell. No impairment loss was recorded on assets held for sale. As a result of presenting discontinued operations, prior quarters and years have been restated to conform to the current year presentation.

Consolidated Results of Operations

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

Consolidated Statements of Comprehensive Income Data	**Years ended June 30,**					
	2016		2015		2014	
Sales	**$108,421**	**100 %**	$ 90,940	100 %	$ 87,633	100 %
Cost of sales	**46,610**	**43 %**	41,102	45 %	43,908	50 %
Gross profit	**61,811**	**57 %**	49,838	55 %	43,725	50 %
Operating expenses						
Research and development(1)	**10,856**	**10 %**	9,344	10 %	8,186	9 %
Sales and marketing	**5,980**	**6 %**	6,084	7 %	5,793	7 %
General and administrative	**14,175**	**13 %**	13,361	15 %	13,580	16 %
Impairment of intangible assets	**-**	**- %**	1,192	1 %	295	- %
Impairment of property, plant and equipment	**337**	**- %**	-	- %	-	- %
Stock-based compensation	**502**	**- %**	502	1 %	23	- %
Other (income) expense	**37**	**- %**	(129)	- %	(14,699)	(17)%
	31,887	**29 %**	30,354	34 %	13,178	15 %
Operating income	**29,924**	**28 %**	19,484	21 %	30,547	35 %
Finance income	**878**	**1 %**	761	1 %	459	1 %
Foreign exchange gain	**80**	**- %**	1,791	2 %	269	- %
Income before income taxes	**30,882**	**29 %**	22,036	25 %	31,275	36 %
Income tax expense	**8,320**	**8 %**	5,972	7 %	6,182	7 %
Net income and comprehensive income from continuing operations	**22,562**	**21 %**	16,064	18 %	25,093	29 %
Net loss and comprehensive loss from discontinued operations	**(593)**	**(1)%**	(927)	(1)%	(491)	(1)%
Net income and total comprehensive income	**$ 21,969**	**20 %**	$ 15,137	17 %	$ 24,602	28 %
Net income and total comprehensive income per share(2)						
Basic	**$ 0.98**		$ 0.68		$ 1.10	
Basic from continuing operations	**$ 1.01**		$ 0.72		$ 1.12	
Diluted	**$ 0.98**		$ 0.68		$ 1.10	
Diluted from continuing operations	**$ 1.01**		$ 0.72		$ 1.12	
Dividends/distributions	**$ 4,935**		4,023		22,325	
Other Data						
Total research and development expenditures(3)	**$ 18,104**	**17 %**	$ 15,684	17 %	$ 13,227	15 %
Adjusted EBITDA(4)	**$ 37,810**	**35 %**	$ 29,025	32 %	$ 23,107	26 %
Adjusted earnings per share(5)	**$ 0.99**		$ 0.73		$ 0.56	
Number of employees(6)	**509**		489		507	

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

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

(3) See "Total Research and Development Expenditures"

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

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

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

Consolidated Statements of Financial Position Data		**As at June 30,**	
(unaudited - in thousands of dollars except number of common shares)	**2016**	2015	2014
Cash and cash equivalents	**$ 22,222**	$ 12,777	$ 15,282
Short-term investments	**$ 51,872**	$ 46,894	$ 33,197
Working capital	**$ 93,222**	$ 84,786	$ 72,692
Total assets	**$ 186,246**	$ 168,070	$ 157,275
Long-term debt	**$ 2,458**	$ 2,708	$ 2,958
Shareholder's equity	**$ 169,043**	$ 151,324	$ 139,473
Number of common shares outstanding(1)	**22,384,877**	22,348,093	22,325,125

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

Adjusted Earnings Per Share

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

Calculation of Adjusted Earnings Per Share		**Years ended June 30,**	
(unaudited - in thousands of dollars except per share amounts)	**2016**	2015	2014
Net income	**$ 21,969**	$ 15,137	$ 24,602
Gain on sale of spectrum licenses, net of taxes	**-**	(247)	(3,252)
(Loss) gain on sale of non-core property, plant and equipment, net of taxes	**42**	144	(8,960)
Impairment of intangible assets, net of taxes	**-**	883	219
Impairment of property, plant and equipment, net of taxes	**250**	339	-
Adjusted net income	**$ 22,261**	$ 16,256	$ 12,609
Earnings per share	**$ 0.98**	$ 0.68	$ 1.10
Gain on sale of spectrum licenses, net of taxes	**-**	(0.01)	(0.15)
(Loss) gain on sale of non-core property, plant and equipment, net of taxes	**-**	0.01	(0.40)
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	**$ 0.99**	$ 0.73	$ 0.56

EBITDA and Adjusted EBITDA

The following table reconciles net income for the period to EBITDA and Adjusted EBITDA. The term "EBITDA" refers to net income or net loss as reported in the IFRS financial statements, excluding any amounts included in net income or net loss for income taxes, interest expense, and depreciation and amortization for property plant and equipment and intangible assets. The term "Adjusted EBITDA" refers to EBITDA adjusted for gains and losses on sale of property, plant and equipment, intangible assets, and assets held for sale, impairment of property, plant, and equipment, impairment of deferred development costs and stock compensation expense.

We believe that Adjusted EBITDA is useful supplemental information for management and for our investors because it provides for the analysis of our results exclusive of certain non-cash items and other items which do not directly correlate to our business of selling broadband access products, providing rural cable/internet services, or supplying telematic services. Adjusted EBITDA is not a recognized measure under IFRS and, accordingly, investors are cautioned that Adjusted EBITDA should not be construed as an alternative to net income, determined in accordance with IFRS, or as an indicator of our financial performance or as a measure of our liquidity and cash flows.

Calculation of Adjusted EBITDA	**Years ended June 30,**		
	2016	2015	2014
Net income and total comprehensive income	**$ 21,969**	$ 15,137	$ 24,602
Income tax expense	**8,116**	5,652	6,013
Interest expense	**106**	103	214
Depreciation of property, plant and equipment	**2,821**	3,060	3,317
Amortization of deferred development costs	**3,502**	2,932	2,565
Amortization of finite-life intangible assets	**409**	109	107
EBITDA	**36,923**	26,993	36,818
Loss on disposal of intangibles	**-**	209	-
Gain on sale of assets held for sale	**-**	(493)	(14,027)
Loss (gain) on sale of property, plant and equipment	**48**	165	(2)
Impairment loss of property, plant and equipment	**337**	457	-
Impairment of intangible assets	**-**	1,192	295
Stock-based compensation	**502**	502	23
Adjusted EBITDA	**$ 37,810**	$ 29,025	$ 23,107
Adjusted EBITDA margin (%)	**35 %**	32 %	25 %

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, 2016 and 2015 to our actual cash research and development expenditures.

Calculation of Research and Development Expenditures	**Years ended June 30,**		
	2016	2015	2014
Research and development per statement of income	**$ 10,856**	$ 9,344	$ 8,186
Deferred development costs	**11,163**	8,807	6,929
Investment tax credits	**(10)**	465	677
Amortization of deferred development costs	**(3,502)**	(2,932)	(2,565)
Government grant	**(403)**	-	-
Total research and development expenditure	**$ 18,104**	$ 15,684	$ 13,227
Percentage of sales	**17 %**	17 %	15 %

Summary of Quarterly Results of Operations

The following information has been derived from our consolidated financial statements for fiscal 2016 and 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 2016				Fiscal Year 2015			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Sales	**24,372**	**31,198**	**27,036**	**25,815**	23,244	22,420	22,929	22,347
Cost of sales	**10,612**	**12,928**	**11,922**	**11,148**	9,474	9,614	10,936	11,078
Gross profit	**13,760**	**18,270**	**15,114**	**14,667**	13,770	12,806	11,993	11,269
Operating expenses								
Research and development	**2,939**	**3,135**	**2,383**	**2,399**	2,428	2,431	2,383	2,102
Sales and marketing	**1,580**	**1,885**	**1,225**	**1,290**	1,510	1,536	1,774	1,264
General and administrative	**3,789**	**3,838**	**3,174**	**3,374**	3,211	3,374	3,394	3,382
Impairment of intangible assets	**-**	**-**	**-**	**-**	157	1,035	-	-
Impairment of property, plant and equipment	**337**	**-**	**-**	**-**	-	-	-	-
Stock-based compensation	**138**	**114**	**115**	**135**	99	129	271	3
Other income	**28**	**21**	**(6)**	**(6)**	206	36	(407)	36
	8,811	**8,993**	**6,891**	**7,192**	7,611	8,541	7,415	6,787
Operating income	**4,949**	**9,277**	**8,223**	**7,475**	6,159	4,265	4,578	4,482
Finance income	**365**	**160**	**169**	**184**	326	170	162	103
Foreign exchange (loss) gain	**152**	**(1,169)**	**499**	**598**	60	437	286	1,008
Income before income taxes	**5,466**	**8,268**	**8,891**	**8,257**	6,545	4,872	5,026	5,593
Income tax expense	**1,914**	**2,066**	**2,214**	**2,126**	1,978	1,252	1,250	1,492
Net income and comprehensive income from continuing operations	**3,552**	**6,202**	**6,677**	**6,131**	4,567	3,620	3,776	4,101
Net loss and comprehensive loss from discontinued operations	**(136)**	**(214)**	**(163)**	**(80)**	(687)	(67)	(85)	(88)
Net income and total comprehensive income	**$ 3,416**	**$ 5,988**	**$ 6,514**	**$ 6,051**	$ 3,880	$ 3,553	$ 3,691	$ 4,013
Net income and total comprehensive income per share								
Basic	**$ 0.15**	**$ 0.27**	**$ 0.29**	**$ 0.27**	$ 0.17	$ 0.16	$ 0.17	$ 0.18
Diluted	**0.15**	**0.27**	**0.29**	**0.27**	0.17	0.16	0.16	0.18
Adjusted EBITDA as reported	**$ 7,745**	**$ 10,323**	**$ 10,106**	**$ 9,634**	$ 8,317	$ 7,460	$ 6,260	$ 6,989

Quarter-to-Quarter Sales Variances

There are many factors that contribute to the overall variances of our sales. One of the main factors is our product development cycle, where we continually develop new products to replace products that are reaching the end of their lifecycle. Since our 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 around their budgeting season and installation schedules, while availability of parts and production capacity can influence the timing of product deliveries.

Segmented Information

Sales

Segment		Three months ended June 30, 2016		2015		Years ended June 30, 2016		2015
Video and Broadband Solutions	**$**	**20,478**	$	20,464	**$**	**95,999**	$	79,682
YourLink		**2,504**		2,580		**10,074**		10,665
Telematics		**1,390**		200		**2,348**		593
Total sales	**$**	**24,372**	$	23,244	**$**	**108,421**	$	90,940

For the fiscal year ended June 30, 2016, total sales increased to $108.4 million, a 19% increase from the $90.9 million generated in fiscal 2015. For the three months ended June 30, 2016, total sales were $24.4 million, up from the $23.2 million generated during the same period in fiscal 2015.

Video and Broadband Solutions sales increased 20% to $96.0 million in fiscal 2016, from $79.7 million in 2015. We generated $20.5 million for Video and Broadband Solutions sales in the fourth quarter of fiscal 2016, on par with the $20.5 million in Q4 2015.

- The Terrace Family of products achieved strong year-over-year growth with sales climbing 62% to $44.9 million in fiscal 2016, from $27.8 million in fiscal 2015. This improvement was driven primarily due to new network wide Tier 1 customer deployments for the TC600E which, because of its extensive feature set, has been widely and rapidly deployed by these operators. Fourth quarter sales of Terrace Family products increased 49.6% to $10.0 million, from $6.7 million during the same period in fiscal 2015. On a sequential quarterly basis, fourth quarter Terrace family sales declined 16.3% from $12.0 million in Q3 2016. The fluctuations in quarterly sales reflect the different stages of network conversion activity by various MSO customers. Of the two Tier 1 MSOs deploying TC600E across their networks, we expect the first to transition to a modest network fill in phase during the first part of fiscal 2017 and the second to continue its roll out throughout the year. Meanwhile, we expect a lead MSO customer to continue to deploy in the network fill in phase.

- Fiscal 2016 sales of TerraceQAM decreased 17% year-over-year to $28.2 million, from $33.8 million. The TerraceQAM product line has been enhanced to include a new version of the platform that provides integrated transcoding. Transcoding within the platform enables the MSOs' hospitality customers to take advantage of MPEG-4 capabilities without having to replace their existing, widely deployed base of MPEG-2 only televisions. This allows cable operators to upgrade their HD services to MPEG-4 video which saves significant bandwidth on the network which can be redeployed for higher broadband internet speeds. As anticipated, fourth quarter sales of TerraceQAM decreased to $1.9 million, from $9.7 million in the same period in fiscal 2015 due to anticipated timing adjustments related to the lead customer's inventory. On a sequential quarterly basis, sales of TerraceQAM were also down significantly from the very strong $9.2 million sales level achieved in Q3 2016. After nearly two years of elevated purchase volume the lead MSO customer for TerraceQAM is forecasting a pause to consume accumulated inventory leading to temporarily decreased sales in the second half of fiscal 2017. In mid-September 2016, we delivered another platform enhancement to the lead customer that frees up still more network capacity by supporting a new digital audio format. This latest enhancement taken together with the transcoding version is expected to lead to higher upgrade related sales in the second half of fiscal 2017.

- Sales of our Digital Video Access Platform (DVAP) increased 170% to $14.6 million in fiscal 2016, from $5.4 million in fiscal 2015. This one time surge in sales reflects completion of the USD $19.0 million contract with the lead customer during the 2016 year. The resulting inventory at the customer will fulfill the majority of deployment demands well into calendar 2017. The customer has engaged Vecima to develop software that prepares the platform to support distributed access architecture and this will lead to potential for software upgrade revenue near the end of fiscal 2017.

YourLink sales for fiscal 2016 decreased 6% to $10.1 million, from $10.7 million in 2015. Internet sales declined by $0.4 million, installation sales were down $0.1 million and commercial sales decreased by $0.1 million year-over-year. In the fourth quarter of fiscal 2016, YourLink sales declined modestly to $2.5 million, from $2.6 million in the same quarter of 2015.

Telematics sales increased 296% to $2.3 million in fiscal 2016, from $0.6 million in 2015. Telematics sales increased to $1.4 million in Q4 of fiscal 2016, up significantly from $0.2 million in the same quarter of 2015. This significant year-over-year and quarter-over-quarter improvement is a direct result of the February 2016 acquisition of Contigo, which contributed revenues of $1.6 million over the four months it was a part of our operations in fiscal 2016.

Cost of Sales

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

Gross Profit and Gross Margin

	Three months ended June 30,		**Years ended June 30,**	
Segment	**2016**	2015	**2016**	2015
Video and Broadband Solutions	**$ 10,997**	$ 11,627	**$ 53,468**	$ 41,325
YourLink	**1,816**	2,179	**7,589**	8,588
Telematics	**947**	(36)	**754**	(75)
Total gross profit	**$ 13,760**	$ 13,770	**$ 61,811**	$ 49,838
Video and Broadband Solutions	**53.7 %**	56.8 %	**55.7 %**	51.9 %
YourLink	**72.5 %**	84.5 %	**75.3 %**	80.5 %
Telematics	**68.1 %**	(18.0)%	**32.1 %**	(12.6)%
Total gross margin	**56.5 %**	59.2 %	**57.0 %**	54.8 %

For the twelve months ended June 30, 2016, gross margin increased to 57.0%, providing a total gross profit of $61.8 million. This compares to a gross margin of 54.8% and a total gross profit of $49.8 million in fiscal 2015. Gross margin for the 2016 year was positively impacted by a stronger U.S. dollar relative to the Canadian dollar, increased sales, and manufacturing efficiencies. For the three months ended June 30, 2016, our operations achieved a gross margin of 56.5%, providing a total gross profit of $13.8 million. This compares to a gross margin of 59.2% and a total gross profit of $13.8 million in the fourth quarter of fiscal 2015. Gross margin in the Q4 2016 period was negatively impacted by increased material costs due to foreign exchange fluctuations as well as by excess labour costs due to severance. Management reduced its manufacturing workforce by approximately 34 people subsequent to year end.

Gross margin from the Video and Broadband Solutions segment increased to 55.7%, providing a gross profit of $53.5 million in fiscal 2016. This compares to a gross margin of 51.9% and a gross profit of $41.3 million in 2015. The improvement in gross margin reflects increased 2016 sales, the favourable foreign exchange influence of a lower Canadian dollar relative to the U.S. dollar, and manufacturing efficiencies.

Video and Broadband Solutions gross margin decreased to 53.7% in the fourth quarter of 2016, providing a gross profit of $11.0 million. This compares to a gross margin of 56.8% in the fourth quarter of fiscal 2015, which had a gross profit of $11.6 million. Gross margin in the 2016 period was negatively impacted by increased material costs due to foreign exchange fluctuations as well as by excess labour costs resulting in operating inefficiencies.

YourLink achieved a fiscal 2016 gross margin of 75.3%, providing a gross profit of $7.6 million. This compares to a gross margin of 80.5% and gross profit of $8.6 million in fiscal 2015. Lower revenues contributed $0.5 million of the year-over-year reduction in gross profit. Backhaul expenses were up $0.2 million as YourLink increased future capacity in preparation for the major network upgrade in conjunction with the DC150 project.

YourLink's fourth quarter 2016 gross margin was 72.5% providing a gross profit of $1.8 million. This compares to a gross margin of 84.5% and gross profit of $2.2 million in Q4 2015. The year-over-year decline reflects a $0.2 million increase in backhaul expenses and slight increases in other expenses.

Telematics achieved a gross margin of 32.1% in fiscal 2016, providing a gross profit of $0.8 million. This compares to a negative gross margin of (12.6)% and gross loss of $(0.1) million in fiscal 2015. The Contigo acquisition contributed $1.2 million to the 2016 gross profit. This increase was partially offset by a gross loss of $0.4 million from the FleetLynx business, due to the write-off of $ 0.5 million of inventory made obsolete following the Contigo acquisition.

On a quarter to quarter basis, Telematics achieved a gross margin of 68.1%, providing a gross profit of $1.0 million in Q4 2016. This compares to a negative gross margin of (18.0%) and gross profit of $nil in Q4 2015. The significant improvement in Q4 2016 Telematics results reflects Contigo's contribution of $0.9 million in gross profit and FleetLynx's improvement in gross profit.

Operating Expenses

	Three months ended June 30,		Years ended June 30,	
Segment	**2016**	2015	**2016**	2015
Video and Broadband Solutions	**$ 6,226**	$ 5,875	**$ 23,900**	$ 23,388
YourLink	**1,910**	1,344	**6,162**	5,537
Telematics	**675**	392	**1,825**	1,429
Total operating expense	**$ 8,811**	$ 7,611	**$ 31,887**	$ 30,354

For the 12 months ended June 30, 2016, total operating expense increased 5.1% to $31.9 million, from $30.4 million in fiscal 2015. For the three months ended June 30, 2016, total operating expenses increased to $8.8 million from $7.6 million in Q4 2015.

Video and Broadband Solutions operating expenses increased slightly to $23.9 million in fiscal 2016, from $23.4 million in fiscal 2015. The year-over-year increase reflects a $1.2 million increase in research and development costs, a $0.8 million increase in general and administrative costs offset by an impairment of intangible assets of $1.2 million in 2015 and other expenses of $0.3 million higher in fiscal 2015.

Quarter to quarter, Video and Broadband Solutions operating expenses increased to $6.2 million in the fourth quarter, from $5.9 million in Q4 2015. Research and development costs were up $0.5 million and general and administrative expenses were up $0.3 million in the current period, while the Q4 2015 period included an impairment of intangible assets of $0.2 million.

YourLink operating expenses increased to $6.2 million in fiscal 2016, from $5.5 million in fiscal 2015. Operating expenses in the prior year were favourably impacted by the gain on sale of spectrum licenses which is recorded as other income and the impairment of property, plant and equipment of $0.3 million in fiscal 2016 (fiscal 2015 - $nil).

Quarter to quarter, YourLink operating expenses increased to $1.9 million in Q4 2016, from $1.3 million in Q4 2015. Impairment of property, plant and equipment for Q4 2016 was $0.3 million, sales and marketing expenses were up $0.1 million and amortization expense was up $0.2 million.

Telematics operating expenses increased to $1.8 million in fiscal 2016, from $1.4 million in fiscal 2015. The year-over-year increase reflects the addition of $0.6 million in operating expenses from the Contigo operations, partially offset by the following decrease in FleetLynx sales and marketing expenses.

Fourth quarter Telematics operating expenses increased to $0.7 million from $0.4 million in Q4 2015, reflecting the addition of $0.4 million in Contigo operating expenses, partially offset by a $0.1 million reduction in FleetLynx operating expenses.

Research and development expenses for the year ended June 30, 2016 were $10.9 million, or 10% of revenue, compared to $9.3 million, or 10% of revenue in fiscal 2015. We continue to invest in research and development to support the launch of our new products. Until these products are in commercial production, the development costs are deferred to future periods. Total research and development costs before deferrals, amortization of deferred development costs and income tax credits for the year ended June 30, 2016 increased to $18.1 million, or 17% of sales, from $15.7 million, or 17% of sales in fiscal 2015. The increase primarily reflects the purchase of intellectual property of $1.4 million, the addition of R&D personnel and increased prototyping costs.

For the three months ended June 30, 2016, research and development expenses increased to $2.9 million, or 12% of revenue, from $2.4 million, or 10% of revenue in the fourth quarter of 2015. Total research and development costs before deferrals, amortization of deferred development costs and income tax credits in the Q4 2016 period increased to $5.1 million, or 21% of sales, from $4.1 million, or 17% of sales in Q4 2015. This increase primarily reflects the addition of R&D personnel, higher employee compensation and an increase in prototyping activity as we stepped up development of new products.

Sales and marketing expenses for the fiscal 2016 year decreased to $6.0 million, or 6% of sales in fiscal 2016, from $6.1 million, or 7% of sales in fiscal 2015. For the three months ended June 30, 2016, sales and marketing expenses increased to $1.6 million, or 7% of sales in Q4 2016, from $1.5 million, or 6% of sales during the same period last year.

General and administrative expenses increased to $14.2 million in fiscal 2016, from $13.4 million in fiscal 2015. The $0.8 million increase reflects $0.3 million related to the Contigo operations, together with M&A expenses related to the Contigo acquisition, and higher amortization expenses. General and administrative expenses for the fourth quarter 2016 increased to $3.8 million, from $3.2 million in the fourth quarter of 2015. The $0.6 million increase primarily reflects general and administrative expenses of $0.2 million related to the Contigo operations, as well as higher amortization expenses.

Stock-based compensation expense was flat in fiscal 2016 at $0.5 million, compared to $0.5 million in fiscal 2015. Fourth quarter 2016 and 2015 stock-based compensation expense was also flat at $0.1 million.

Impairment of intangible assets for the year was $nil compared to $1.2 million in 2015. The prior-year impairments represent deferred development projects impaired due to the restructuring of software defined radio sales operations and deferred development projects that we have no intention of continuing into the future. Impairment of intangible assets for the fourth quarter of 2016 was $nil compared to $0.2 million in the same period last year.

Impairment of property, plant and equipment for the year was $0.3 million compared to $nil million in 2015. The impairment represents the impairment of two land properties of YourLink in B.C.

Other income decreased to $nil in fiscal 2016, from $0.1 million in fiscal 2015. Other income for the fourth quarter of 2016 was $nil, compared to an expense of $0.2 million in Q4 2015.

Operating Income

		Three months ended June 30,			Years ended June 30,	
		2016	2015		**2016**	2015
Video and Broadband Solutions	**$**	**4,771**	$ 5,752	**$**	**29,568**	$ 17,937
YourLink		**(94)**	835		**1,427**	3,051
Telematics		**272**	(428)		**(1,071)**	(1,504)
Total operating income	**$**	**4,949**	$ 6,159	**$**	**29,924**	$ 19,484

Operating income increased 53.6% to $29.9 million in fiscal 2016, from an operating income of $19.5 in fiscal 2015. The year-over-year improvement was driven by increased sales and a higher gross margin, partially offset by an increase in total operating costs. For the three months ended June 30, 2016, operating income decreased to $4.9 million from $6.2 million. The quarter-over-quarter decrease is a result of lower gross margin and higher operating expenses.

Video and Broadband Solutions operating income increased 64.8% to $29.6 million from $17.9 million in fiscal 2015. Higher sales and improved gross margin were the main drivers of this increase partially offset by the $0.5 million increase in operating expenses.

Fourth quarter Video and Broadband Solutions operating income declined to $4.8 million from $5.8 million in Q4 2015. The year-over-year change primarily reflects the lower gross margin, as well as the increase in operating expenses quarter over quarter.

YourLink operating income of $1.4 million for fiscal 2016 was down $1.7 million from $3.1 million in fiscal 2015. Lower sales and gross margin, higher amortization and a $0.3 million impairment of property, plant and equipment related to B.C. real estate were the main contributors to this reduction.

On a quarter to quarter basis, YourLink operating loss of $(0.1) million in Q4 2016 was down from operating income of $0.8 million in Q4 2015. The impairment of property, plant and equipment, lower gross margin, and an increase in amortization expense quarter-over-quarter as a result of the additional capital spending for our network expansion project were the main reasons for this decrease.

Telematics recorded an operating loss of $(1.1) million for fiscal 2016 a $0.4 million improvement compared to an operating loss of $(1.5) million in fiscal 2015. Higher sales and improved gross margin related to the addition of the Contigo acquisition was the main driver of this increase.

On a quarter to quarter basis, Telematics operating income improved slightly to $0.3 million in Q4 2016 from an operating loss of $0.4 million in Q4 2015. The improved gross margin related to the Contigo acquisition was the key factor in this improvement.

Finance income increased to $0.9 million in fiscal 2016 from $0.8 million in 2015. For Q4 2016, finance income was $0.2 million compared to $0.4 million in Q4 2015.

Foreign exchange gain decreased to $0.1 million in fiscal 2016 from $1.8 million in 2015. For the three months ended June 30, 2016, foreign exchange gain increased to $0.4 million compared to $0.1 million in the same period last year.

Income tax expense increased to $8.3 million in fiscal 2016 from $6.0 million in 2015. For the quarter, income tax expense was $1.9 million compared to $2.0 million in the fourth quarter of 2015.

Net loss from discontinued operations was $0.6 million in fiscal 2016 compared to a net loss of $1.0 million in 2015. Fiscal 2015 included an impairment of property, plant and equipment of $0.5 million. Discontinued operations represents the YourLink operations in British Columbia that are being held for sale. For the quarter, the net loss from discontinued operations improved to $0.1 million compared to $0.7 million in Q4 2015. Q4 2015 included an impairment of property, plant and equipment of $0.5 million.

Net income for fiscal 2016 increased to $22.0 million or $0.98 per share, from a net income of $15.1 million or $0.68 per share for the fiscal 2015. Net income for the fourth quarter of fiscal 2016 was $3.4 million or $0.15 per share compared to $3.9 million or $0.17 for the fourth quarter of 2015.

Cash from Operating Activities

For the fiscal year ended June 30, 2016, cash flow from operating activities provided cash of $48.2 million compared to $27.1 million in 2015. The $21.1 million increase reflects the $7.8 million increase in cash flow from non-cash working capital, the $3.9 million increase in investment tax credits and $9.4 million from operating cash flow.

For the fourth quarter of 2016, cash flow from operating activities provided cash of $10.9 million compared to $6.7 million for the same period in 2015. The $4.2 million increase primarily reflects a $3.2 million increase in cash flow from non-cash working capital and $1.0 million increase from operating cash flow.

Investing Activities

Cash flow used by investing activities increased to $34.9 million in 2016 from $25.6 million in 2015. The largest use of cash was the acquisition of Contigo for $13.5 million. Other investing activity represents deferred development expenditures of $11.2 million (2015 - $8.8 million), net purchase of short-term investments of $5.0 million (2015 - $13.7 million), and purchase of property, plant and equipment of $5.2 million (2015 – $2.1 million).

Cash flow used by investing activities decreased to $5.7 million in Q4 2016 from $5.8 million in Q4 2015. The largest use of cash was deferred development expenditures of $3.4 million (Q4 2015 - $2.4 million). Other investing activity represents net purchase of short-term investments of $0.2 million (Q4 2015 - $13.7 million) and the purchase of property, plant and equipment of $1.8 million (Q4 2015 – $0.2 million).

Financing Activities

For the year ended June 30, 2016 we paid dividends of $4.9 million (2015 - $4.0 million) and repaid $0.3 million of our long-term debt (2015 - $0.3 million repaid). We received proceeds from government grants of $1.1 million in fiscal 2016 (2015 - $nil).

In the fourth quarter of 2016, we paid dividends of $1.2 million (Q4 2015 - $1.0 million) and repaid $0.1 million of its long-term debt (Q4 2015 - $0.1 million repaid). We received proceeds from government grants of $0.1 million in Q4 2016 (Q4 - 2015 - $nil).

Liquidity and Capital Resources

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

As at June 30, 2016, we had access to our full revolving loan facility of $14.0 million ($15.0 million at June 30, 2015), of which no amount was drawn as an operating line of credit (June 30, 2015– $nil million was drawn). We had term credit of $3.0 million as at June 30, 2016 (June 30, 2015 - $3.0 million). We believe that our current cash and short-term investments of $74.1 million and anticipated cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future.

Capital expenditures for fiscal 2016 were $5.2 million compared to $2.1 million in fiscal 2015. This large increase is related to YourLink capital expenditures for our extensive network expansion project.

Working Capital

Working capital represents our current assets less current liabilities. Our working capital remained strong at $93.2 million at June 30, 2016, up from $84.8 million at June 30, 2015. Working capital balances can be subject to significant swings from quarter to quarter. Our product shipments are “lumpy”, reflecting the requirements of our major customers. It is not unusual to ship $5 or $6 million of product in a one week period. If this level of sales occurs in the first week of a succeeding quarter, we would expect to experience an increase in inventory levels and a drop in receivables in the prior quarter. Other timing issues, like contracts with greater than 30 day payment terms, also affect working capital, particularly if shipments are back-end weighted for a quarter.

Accounts receivable balance decreased 64% to $4.7 million at June 30, 2016 compared to $13.1 million at June 30, 2015. This decrease reflects the timing of sales in the current quarter where a large portion of sales in the quarter were shipped and collected within the quarter.

Income tax receivable balance increased to $3.0 million for the year ended June 30, 2016. This increase represents cash refundable provincial investment tax credits from prior years that the CRA initially denied and we recently won our appeal.

Inventory decreased by $0.7 million to $22.2 million at June 30, 2016 compared to $22.9 million as at June 30, 2015. Finished goods inventories were $11.9 million at June 30, 2016, compared to $8.8 million at June 30, 2015. The finished goods inventory turnover rate was 3.9 times per year at June 30, 2016 compared to 4.5 times at June 30, 2015. Raw material inventory decreased to $7.0 million at June 30, 2016, compared to $9.7 million at June 30, 2015. Work in process inventories decreased to $3.2 million as at June 30, 2016 compared to $4.4 million at June 30, 2015. We manufacture and assemble products, with the result that inventory levels will be substantially higher than for other companies in the industry that outsource manufacturing and assembly.

Investment tax credits decreased by $4.3 million to $20.0 million at June 30, 2016 from $24.3 million at June 30, 2015. This decrease reflects the offsetting of current income taxes payable in the current fiscal year and the $3.1 million collection of prior year's provincial cash refundable investment tax credits initially denied by the CRA but reassessed as eligible at the end of the current fiscal year. For every dollar we spend on eligible research and development in Canada, we generate approximately fifteen cents in income tax credits. These credits are used to offset our income tax payable.

Accounts payable and accrued liabilities decreased 5% to $8.7 million at June 30, 2016 representing 70 days for payables to be outstanding. This compares to $9.2 million at June 30, 2015, representing an average of 80 days for payables to be outstanding. This dollar decrease is a result of timing of purchases in the fourth quarter of 2016 compared to the fourth quarter of fiscal 2015.

Long-term debt, including current portion, decreased to $2.7 million at June 30, 2016 from $3.0 million at June 30, 2015.

Dividends

Declaration Date	**Dividend Amount (per share)**	**Record Date**	**Payable Date**
September 24, 2015	$0.055	October 9, 2015	October 30, 2015
November 12, 2015	$0.055	November 27, 2015	December 21, 2015
February 10, 2016	$0.055	February 25, 2016	March 21, 2015
May 10, 2016	$0.055	May 26, 2016	June 20, 2016

Contractual Obligations

We have lease commitments for production equipment, service vehicles and facilities amounting to $1.6 million within one year and $2.3 million after one year but not more than five years and $nil thereafter.

Commitments

We received a query from the Canada Revenue Agency ("CRA") regarding our tax treatment of gains on the sale of spectrum licenses in 2012 to 2014. The CRA has expressed the view that the gains on the sale of these spectrum licenses should be treated as active business income, which would result in additional income taxes and interest payable of approximately $3,600. We and our advisors have reviewed the applicable tax law and believe our original treatment of these gains was appropriate. During the period, we provided further documentation to the CRA. The outcome of this matter cannot be determined at this time with reasonable certainty. No provision for this matter has been recognized in the financial statements.

Foreign Exchange

Approximately 89% of our revenues are denominated in US dollars. We translate 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 we collect the accounts receivable in US dollars, we will receive more Canadian dollars when the US dollars are converted to Canadian dollars in subsequent months. We also enjoy a natural hedge since the majority of our materials and components purchases are in US dollars.

During the year, the exchange rate on the Canadian dollar weakened to Canadian $1.292 against the U.S. dollar as of June 30, 2016 from Canadian $1.249 against the U.S. dollar as of June 30, 2015. This exchange difference of $0.043 increased the value of our $14.3 million U.S. dollar net assets by approximately $0.6 million Canadian over the year.

Financial Instruments

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

At June 30, 2016, we did not have any forward contracts (2015 - $nil).

Off-Balance Sheet Arrangements

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

Transactions Between Related Parties

We lease a building in Saskatoon under a ten-year lease from Dr. Surinder Kumar, the Chairman of Vecima. The lease was entered into in 2010 at prevailing market rates at that time and expires in 2019. The rental expense from this transaction was $0.3 million for the year ended June 30, 2015 (June 30, 2014 - $0.3 million).

Proposed Transactions

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

Critical Accounting Estimates

The preparation of the our 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, 2016.

Accounting Pronouncements

IFRS 9 Financial Instruments

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

IFRS 16   Leases

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

Disclosure Controls and Procedures

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

Our CEO and CFO have evaluated the effectiveness of our disclosure controls and procedures as defined under rules adopted by the Canadian securities regulatory authorities. Based on that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as at June 30, 2016.

Internal Control over Financial Reporting

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

Our CEO and CFO have evaluated the effectiveness of the internal control over financial reporting as at June 30, 2016 in accordance with Internal Control – Integrated Framework (2013), published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, our CEO and CFO have determined that the internal control over financial reporting is effective as at June 30, 2016.

In the previous quarter, the CEO and CFO had determined that the internal control over financial reporting was not effective as at March 31, 2016 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.

In an effort to remediate this material weakness, management worked with qualified consultants to develop processes and procedures to enhance Vecima's controls. This work has been completed and the internal control over financial reporting is effective as at June 30, 2016.

Legal Proceedings

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

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

Risk and Uncertainties

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

Outstanding Share Data

As at September 26, 2016, we had 22,403,488 common shares outstanding as well as options outstanding that are exercisable for an additional 446,416 common shares.

Additional Information

Financial Governance

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

Our management is accountable to the Board of Directors, each member of which is elected annually by the shareholders of the Company. The Board is responsible for reviewing and approving the 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 in fiscal 2017 we believe that our current cash and short-term investments of $74.1 million and anticipated cash flow from operations will be sufficient to meet our working capital requirements and capital expenditure requirements for the foreseeable future. We believe our growth may be tied to the: development of next generation platforms such as Entra (currently in development); from strategic acquisitions; and from platform enhancements for a major customer (this latest enhancement taken together with the transcoding version is expected to lead to higher upgrade related sales in the second half of fiscal 2017). We believe that there could be decreased demand for our legacy products compared to fiscal 2016; demand for TerraceQAM could be reduced; and that overall revenue and adjusted EBITDA could be somewhat lower than in fiscal 2016. Forward looking information also includes our Recent Industry Developments and our Outlook in this MD&A.

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

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