*Interim Condensed Consolidated Financial Statements of*

# VECIMA NETWORKS INC.

*For the three and nine months ended March 31, 2020 and 2019*

*(unaudited)*

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

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

| As at | Note | | **March 31, 2020** | | June 30, 2019 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current Assets** | | | | | |
| Cash and cash equivalents | | **$** | **19,167** | $ | 19,834 |
| Short-term investments | 14 | | **17,009** | | 24,569 |
| Accounts receivable | 5 | | **25,270** | | 15,154 |
| Income tax receivable | | | **432** | | 437 |
| Inventories | | | **14,454** | | 12,724 |
| Prepaid expenses | | | **2,195** | | 2,235 |
| Contract assets | | | **377** | | 187 |
| Asset held for sale | 4 | | **490** | | - |
| | | | **79,394** | | 75,140 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | | | **12,099** | | 12,526 |
| Right-of-use assets | 3(c) | | **4,474** | | - |
| Goodwill | | | **15,850** | | 15,131 |
| Intangible assets | 6 | | **69,791** | | 67,887 |
| Other long-term assets | | | **1,492** | | 1,017 |
| Investment tax credits | | | **25,177** | | 24,355 |
| Deferred tax assets | | | **4,287** | | 4,714 |
| | | **$** | **212,564** | $ | 200,770 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable and accrued liabilities | | **$** | **14,949** | $ | 11,699 |
| Provisions | | | **418** | | 804 |
| Income tax payable | | | **108** | | 55 |
| Deferred revenue | | | **5,875** | | 4,046 |
| Current portion of long-term debt | 7 | | **1,756** | | 250 |
| | | | **23,106** | | 16,854 |
| **Non-current liabilities** | | | | | |
| Provisions | | | **387** | | 332 |
| Deferred revenue | | | **628** | | 763 |
| Deferred tax liability | | | **351** | | 324 |
| Long-term debt | 7 | | **5,151** | | 1,729 |
| | | | **29,623** | | 20,002 |
| **Shareholders' equity** | | | | | |
| Share capital | 8 | | **2,677** | | 1,916 |
| Reserves | | | **3,952** | | 4,104 |
| Retained earnings | | | **173,089** | | 173,738 |
| Accumulated other comprehensive income | | | **3,223** | | 1,010 |
| | | | **182,941** | | 180,768 |
| | | **$** | **212,564** | $ | 200,770 |

*Subsequent Events - Note17*

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

## VECIMA NETWORKS INC.
## Interim Condensed Consolidated Statements of Comprehensive Income (Loss)
***(unaudited – in thousands of Canadian dollars, except per share amounts)***

| | | Three months | | Nine months | |
|---|---|---|---|---|---|
| Periods ended March 31, | Note | **2020** | 2019 | **2020** | 2019 |
| **Sales** | 9,13 | **$ 25,093** | $ 20,328 | **$ 70,328** | $ 64,317 |
| **Cost of Sales** | | **12,069** | 9,642 | **30,822** | 29,600 |
| **Gross Profit** | | **13,024** | 10,686 | **39,506** | 34,717 |
| **Operating expenses** | | | | | |
| Research and development | | **5,714** | 4,797 | **15,316** | 13,967 |
| Sales and marketing | | **3,698** | 4,029 | **10,871** | 10,481 |
| General and administrative | 3(d) | **4,087** | 4,247 | **12,210** | 12,256 |
| Restructuring costs | | **-** | - | **-** | 757 |
| Share-based compensation | 10 | **13** | 28 | **47** | 102 |
| Other expense (income) | 11 | **25** | (69) | **(130)** | (435) |
| | | **13,537** | 13,032 | **38,314** | 37,128 |
| **Operating (loss) income** | | **(513)** | (2,346) | **1,192** | (2,411) |
| Finance (expense) income | | **(238)** | 301 | **524** | 550 |
| Foreign exchange gain (loss) | | **1,972** | (619) | **1,793** | 457 |
| **Income (loss) before income taxes** | | **1,221** | (2,664) | **3,509** | (1,404) |
| Income tax expense (recovery) | | **555** | (1,203) | **666** | (898) |
| **Net income (loss)** | | **$ 666** | $ (1,461) | **$ 2,843** | $ (506) |
| **Other comprehensive income (loss)** | | | | | |
| **Item that may be subsequently reclassed to net income** | | | | | |
| Exchange differences on translating foreign operations | | **2,416** | (584) | **2,213** | 393 |
| **Comprehensive income (loss)** | | **$ 3,082** | $ (2,045) | **$ 5,056** | $ (113) |
| **Net income (loss) per share** | | | | | |
| Basic | 12 | **$ 0.03** | $ (0.07) | **$ 0.13** | $ (0.02) |
| Diluted | 12 | **$ 0.03** | $ (0.07) | **$ 0.13** | $ (0.02) |
| **Weighted average number of common shares** | | | | | |
| Shares outstanding - basic | 12 | **22,435,234** | 22,355,705 | **22,403,397** | 22,378,195 |
| Shares outstanding - diluted | 12 | **22,474,692** | 22,355,705 | **22,432,319** | 22,378,195 |

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

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

| | Note | Share capital | Reserves | Retained earnings | Accumulated other comprehensive income | Total |
|---|---|---|---|---|---|---|
| Balance as at June 30, 2018 | | $ 1,756 | $ 4,041 | $ 182,309 | $ 1,077 | $ 189,183 |
| Net loss | | - | - | (506) | - | (506) |
| Other comprehensive income | | - | - | - | 393 | 393 |
| Dividends | | - | - | (3,690) | - | (3,690) |
| Shares repurchased and cancelled | | (2) | - | (192) | - | (194) |
| Share-based payment expense | 10 | - | 102 | - | - | 102 |
| Balance as at March 31, 2019 | | $ 1,754 | $ 4,143 | $ 177,921 | $ 1,470 | $ 185,288 |
| | | | | | | |
| **Balance as at June 30, 2019** | | **$ 1,916** | **$ 4,104** | **$ 173,738** | **$ 1,010** | **$ 180,768** |
| IFRS 16 transition impact | 3(b) | - | - | 206 | - | 206 |
| **Adjusted balance as at June 30, 2019** | | **$ 1,916** | **$ 4,104** | **$ 173,944** | **$ 1,010** | **$ 180,974** |
| Net income | | - | - | 2,843 | - | 2,843 |
| Other comprehensive income | | - | - | - | 2,213 | 2,213 |
| Dividends | | - | - | (3,698) | - | (3,698) |
| Shares issued by exercising options | | 761 | (199) | - | - | 562 |
| Share-based payment expense | 10 | - | 47 | - | - | 47 |
| **Balance as at March 31, 2020** | | **$ 2,677** | **$ 3,952** | **$ 173,089** | **$ 3,223** | **$ 182,941** |

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

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

| Periods ended March 31, | Note | Three months 2020 | Three months 2019 | Nine months 2020 | Nine months 2019 |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| Net income (loss) | | **$ 666** | $ (1,461) | **$ 2,843** | $ (506) |
| Adjustments for non-cash items: | | | | | |
| Loss (gain) on sale of property, plant and equipment | | **16** | 13 | **(105)** | 55 |
| Gain on sale of intangible assets | | **-** | - | **-** | (202) |
| Depreciation and amortization | 15 | **4,293** | 3,022 | **10,762** | 8,509 |
| Share-based compensation | | **13** | 28 | **47** | 102 |
| Income tax expense (recovery) | | **230** | 24 | **204** | (53) |
| Deferred income tax expense (recovery) | | **325** | (1,227) | **462** | (845) |
| Interest expense | | **74** | 24 | **232** | 79 |
| Interest income | | **(162)** | (242) | **(622)** | (773) |
| Net change in working capital | 15 | **(1,577)** | 8,448 | **(5,615)** | 2,259 |
| (Increase) decrease in other long-term assets | | **(571)** | 197 | **(411)** | (10) |
| Decrease in provisions | | **(290)** | (69) | **(368)** | (206) |
| Increase in investment tax credits | | **(34)** | (30) | **(123)** | (78) |
| Income tax received | | **-** | - | **173** | 409 |
| Income tax paid | | **(457)** | (342) | **(525)** | (799) |
| Interest received | | **162** | 242 | **622** | 773 |
| Interest paid | | **(74)** | (23) | **(232)** | (74) |
| Cash provided by operating activities | | **2,614** | 8,604 | **7,344** | 8,640 |
| **INVESTING ACTIVITIES** | | | | | |
| Capital expenditures, net | 15 | **(597)** | (734) | **(1,522)** | (1,664) |
| Purchase of short-term investments | | **(5,149)** | (263) | **(5,927)** | (1,681) |
| Proceeds from sale of short-term investments | | **5,387** | 8,571 | **13,487** | 20,198 |
| Deferred development costs | | **(3,428)** | (4,322) | **(8,854)** | (13,195) |
| Cash (used in) provided by investing activities | | **(3,787)** | 3,252 | **(2,816)** | 3,658 |
| **FINANCING ACTIVITIES** | | | | | |
| Proceeds from government grants | | **4** | 147 | **98** | 147 |
| Principal payments of lease liabilities | 7 | **(373)** | - | **(1,021)** | - |
| Repayment of long-term debt | 7 | **(63)** | (41) | **(209)** | (187) |
| Repurchase and cancellation of shares | | **-** | (77) | **-** | (194) |
| Dividends paid | | **(1,234)** | (1,229) | **(3,698)** | (3,690) |
| Issuance of shares through exercised options | | **3** | - | **562** | - |
| Cash used in financing activities | | **(1,663)** | (1,200) | **(4,268)** | (3,924) |
| Net (decrease) increase in cash and cash equivalents | | **(2,836)** | 10,656 | **260** | 8,374 |
| Effect of change in exchange rates on cash | | **(957)** | 353 | **(927)** | (375) |
| Cash and cash equivalents, beginning of period | | **22,960** | 8,024 | **19,834** | 11,034 |
| **Cash and cash equivalents, end of period** | | **$ 19,167** | $ 19,033 | **$ 19,167** | $ 19,033 |

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

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## 1. NATURE OF THE BUSINESS

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *(a) Statement of compliance*

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

### *(b) Basis of presentation*

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

The interim condensed consolidated financial statements of the Company were approved by the Board of Directors and authorized for issue on May 12, 2020.

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

IFRS 16 – Leases (IFRS 16)

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

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

IFRIC 23 – Uncertainty over income tax treatments (IFRIC 23)

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

IFRS 3 – Business Combinations (IFRS 3)

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

## 3. ADOPTION OF IFRS 16 – LEASES

### *(a) Accounting policy*

Lessee accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

Practical expedients and exemptions

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

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

Lessor accounting

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

***(in thousands of Canadian dollars except as otherwise noted)***

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

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

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

i. Right-of-use assets and lease liabilities

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

ii. Accounts payable and accrued liabilities

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

iii. Retained earnings

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

Impact of IFRS 16 transition

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

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

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

***(in thousands of Canadian dollars except as otherwise noted)***

### *(c) Right-of-use assets*

For the nine months ended March 31, 2020, the Company's right-of-use assets solely comprised of real estate leases. The table below provides details of the Company's right-of-use assets:

| | | **Nine months ended March 31, 2020** |
|---|---|---|
| | | **Total** |
| **At cost** | | |
| As at July 1, 2019 | | |
| As previously reported | $ | - |
| IFRS 16 transition amount | | 5,109 |
| Adjusted balance, July 1, 2019 | | 5,109 |
| Additions | | 200 |
| Dispositions, retirements, other | | - |
| Effect of foreign exchange | | 226 |
| | **$** | **5,535** |
| **Accumulated depreciation** | | |
| As at July 1, 2019 | | |
| As previously reported | $ | - |
| Adjusted balance, July 1, 2019 | | - |
| Depreciation | | 1,034 |
| Dispositions, retirements, other | | - |
| Effect of foreign exchange | | 27 |
| | **$** | **1,061** |
| **Net book value** | | |
| At June 30, 2019 | $ | - |
| **At March 31, 2020** | **$** | **4,474** |

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

The Company applied the practical expedients permitted under IFRS 16 for short-term leases and leases of low value assets. For the three and nine months ended March 31, 2020, $15 and $43, respectively for short-term leases, and $3 and $13, respectively for leases of low-value assets are included in general and administration expense in the interim condensed consolidated statements of comprehensive income.

### *(e) Use of estimates and judgments*

Estimates

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

Judgments

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

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

***(in thousands of Canadian dollars except as otherwise noted)***

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

See Note 7 for our disclosure regarding lease liabilities.

## 4. ASSET HELD FOR SALE

The Company has one commercial building classified as an investment property held for sale that was listed with an external broker as at March 31, 2020 (March 31, 2019 – nil properties). This commercial building was previously reported under non-current assets in property, plant and equipment. The carrying amount of the commercial building as at March 31, 2020 is $490 (March 31, 2019 - $484, in property, plant and equipment). Please see Note 17 – Subsequent Events.

## 5. ACCOUNTS RECEIVABLE

| As at | | **March 31, 2020** | | June 30, 2019 |
|---|---|---|---|---|
| Trade receivables | **$** | **24,384** | $ | 13,943 |
| Less: allowance for doubtful accounts | | **(117)** | | (58) |
| | | **24,267** | | 13,885 |
| Goods and services tax | | **233** | | 542 |
| Government grants receivable | | **732** | | 258 |
| Leasehold improvement incentives | | **-** | | 335 |
| Other receivables | | **38** | | 134 |
| | **$** | **25,270** | $ | 15,154 |

All trade receivables are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the receivables.

Trade receivables as at March 31, 2020 increased approximately 75% from June 30, 2019. Contributing to the increase are the following:

- Timing of sales - increase in sales towards the end of March 31, 2020 had a corresponding increase in trade receivables. Additionally, sales for the quarter-ended March 31, 2020 was approximately $4,400 higher than sales for the quarter-ended June 30, 2019;
- Contract terms – a small number of contracts provided for a one-time only extension of payment terms; and
- Economic conditions – a few customers have notified the Company that payment will be forthcoming, but there will be a delay due to the impact that COVID-19 (see Note 16) has on their cash flow. The total impact related to trade receivables is $790.

We maintain allowances for lifetime expected credit losses related to the allowance for doubtful accounts. Current economic conditions, forward-looking information, historical information, and reasons for the accounts being past due are all considered when determining whether to make allowances for past-due accounts. The same factors are considered when determining whether to write-off amounts charged to the allowance for doubtful accounts against the customer accounts receivable.

Allowance for doubtful accounts and past due receivables are reviewed by management on a regular basis. As at March 31, 2020, management has determined that the trade receivables, net of the allowance for doubtful accounts, are collectible.

As at March 31, 2020, the weighted average age of customer accounts receivable was 38 days (June 30, 2019 – 34 days); and the weighted average age of past-due accounts receivable approximated 69 days (June 30, 2019 – 61 days). The increase in the number of days of collectability was anticipated given the contributing reasons for the increase in receivables identified above.

***(in thousands of Canadian dollars except as otherwise noted)***

## 6. INTANGIBLE ASSETS

| | Indefinite-life intangible assets | Finite-life intangible assets | | | | |
|---|---|---|---|---|---|---|
| | **Spectrum and other licenses** | **Customer contracts** | **Patents** | **Intellectual property** | **Deferred development costs** | **Total** |
| **At cost** | | | | | | |
| At July 1, 2019 | $ 105 | $ 20,866 | $ 644 | $ 10,316 | $ 60,521 | $ 92,452 |
| Additions | - | - | 54 | - | 8,854 | 8,908 |
| Government grant | - | - | - | - | (98) | (98) |
| Investment tax credits | - | - | - | - | (459) | (459) |
| Write-down, fully amortized | - | - | - | - | - | - |
| Effect of foreign exchange | 4 | 1,289 | 19 | 562 | 508 | 2,382 |
| **At March 31, 2020** | **$ 109** | **$ 22,155** | **$ 717** | **$ 10,878** | **$ 69,326** | **$ 103,185** |
| **Amortization** | | | | | | |
| At July 1, 2019 | $ - | $ 4,374 | $ 385 | $ 3,012 | $ 16,794 | $ 24,565 |
| Amortization | - | 1,798 | 49 | 1,086 | 5,204 | 8,137 |
| Writedown, fully amortized | - | - | - | - | - | - |
| Effect of foreign exchange | - | 320 | 3 | 169 | 200 | 692 |
| **At March 31, 2020** | **$ -** | **$ 6,492** | **$ 437** | **$ 4,267** | **$ 22,198** | **$ 33,394** |
| **Net book value** | | | | | | |
| At June 30, 2019 | $ 105 | $ 16,492 | $ 259 | $ 7,304 | $ 43,727 | $ 67,887 |
| **At March 31, 2020** | **$ 109** | **$ 15,663** | **$ 280** | **$ 6,611** | **$ 47,128** | **$ 69,791** |

## 7. LONG-TERM DEBT

| As at | **March 31, 2020** | June 30, 2019 |
|---|---|---|
| Term credit facility | **$ 1,771** | $ 1,979 |
| Lease liabilities (including lease liabilities under IFRS 16 (Note 3(a))) | **5,136** | - |
| | **$ 6,907** | $ 1,979 |
| Comprised of: | | |
| Current portion of term credit facility and lease liabilities | **$ 1,756** | $ 250 |
| Long-term portion of term credit facility and lease liabilities | **5,151** | 1,729 |
| | **$ 6,907** | $ 1,979 |

Term credit facility

The term credit facility is with a Canadian chartered bank. As at March 31, 2020, the facility is repayable in monthly instalments of $21 principal and interest at prime of 2.45% (June 30, 2019 - $21, and 3.95%, respectively), expires in October 2020 and is collateralized by a general security agreement. The Company has an authorized loan amount of $3,792 and annually renews this facility with the bank.

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

***(in thousands of Canadian dollars except as otherwise noted)***

Assuming that the existing payment terms are the same at the renewal date, the following are the future principal repayments for the term credit facility as at March 31, 2020:

| | | |
|---|---|---|
| 2020 | $ | 42 |
| 2021 | | 250 |
| 2022 | | 250 |
| 2023 | | 250 |
| 2024 | | 250 |
| Thereafter | | 729 |
| | $ | 1,771 |

Lease liabilities

The following is a reconciliation of the Company's lease liabilities as at March 31, 2020:

| | | |
|---|---|---|
| Lease liabilities, beginning of period | $ | 5,715 |
| Net additions during the period | | 206 |
| Interest on lease liabilities | | 176 |
| Principal repayments of lease liabilities | | (1,197) |
| Effect of foreign exchange | | 236 |
| Other | | - |
| Lease liabilities, end of period | **$** | **5,136** |
| Current portion | | 1,506 |
| | **$** | **3,630** |

As at March 31, 2020, the contractual undiscounted lease payments under the lease liabilities are as follows:

| | | |
|---|---|---|
| Less than one year | $ | 1,613 |
| One to five years | | 3,405 |
| More than five years | | 229 |
| Total undiscounted lease payments | **$** | **5,247** |

## 8. SHARE CAPITAL

Changes in share capital for the nine months ended March 31, 2020 are as follows:

| | Number of shares | | Carrying value |
|---|---|---|---|
| Balance at July 1, 2019 | 22,370,087 | $ | 1,916 |
| Shares issued by exercising options | 65,175 | | 761 |
| **Balance at March 31, 2020** | **22,435,262** | **$** | **2,677** |

Changes in the stock option plan for the nine months ended March 31, 2020 are as follows:

| | Number of options | | Weighted average exercise price |
|---|---|---|---|
| Outstanding, July 1, 2019 | 502,500 | $ | 8.95 |
| Granted | 9,000 | | 8.25 |
| Cancelled | (13,000) | | 8.62 |
| Exercised | (65,175) | | 8.62 |
| **Outstanding, March 31, 2020** | **433,325** | **$** | **9.00** |
| **Vested and exercisable, March 31, 2020** | **372,641** | **$** | **8.96** |

***(in thousands of Canadian dollars except as otherwise noted)***

## 9. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregated revenue

In the following table, gross revenue from contracts with customers is disaggregated by reporting segment and type. Refer to Note 13 for additional segmented financial information.

| | **Three months ended March 31, 2020** | | | |
|---|---|---|---|---|
| | **Video and Broadband Solutions** | **Content Delivery and Storage** | **Telematics** | **Total** |
| Product sales | $ 7,911 | $ 9,540 | $ 144 | $ 17,595 |
| Provision of services | 1,650 | 4,680 | 1,168 | 7,498 |
| | **$ 9,561** | **$ 14,220** | **$ 1,312** | **$ 25,093** |

| | Three months ended March 31, 2019 | | | |
|---|---|---|---|---|
| | Video and Broadband Solutions | Content Delivery and Storage | Telematics | Total |
| Product sales | $ 10,676 | $ 2,287 | $ 238 | $ 13,201 |
| Provision of services | 1,753 | 4,211 | 1,163 | 7,127 |
| | $ 12,429 | $ 6,498 | $ 1,401 | $ 20,328 |

| | **Nine months ended March 31, 2020** | | | |
|---|---|---|---|---|
| | **Video and Broadband Solutions** | **Content Delivery and Storage** | **Telematics** | **Total** |
| Product sales | $ 19,660 | $ 27,797 | $ 478 | $ 47,935 |
| Provision of services | 5,733 | 13,102 | 3,558 | 22,393 |
| | **$ 25,393** | **$ 40,899** | **$ 4,036** | **$ 70,328** |

| | Nine months ended March 31, 2019 | | | |
|---|---|---|---|---|
| | Video and Broadband Solutions | Content Delivery and Storage | Telematics | Total |
| Product sales | $ 24,976 | $ 18,405 | $ 703 | $ 44,084 |
| Provision of services | 5,799 | 10,970 | 3,464 | 20,233 |
| | $ 30,775 | $ 29,375 | $ 4,167 | $ 64,317 |

## 10. SHARE-BASED COMPENSATION

For all stock options granted, the Company determined compensation expense based on the estimated fair values at the grant date of the stock options using the Black-Scholes and binomial option-pricing models. The estimated fair value of the stock options is amortized to share-based compensation over the vesting period of the options. The share-based compensation expense included in the interim condensed consolidated statements of comprehensive income was $13 and $47 for the three and nine months ended March 31, 2020, respectively (March 31, 2019 - $28 and $102, respectively).

***(in thousands of Canadian dollars except as otherwise noted)***

## 11. OTHER (INCOME) EXPENSE

| | Three months | | Nine months | |
|---|---|---|---|---|
| Periods ended March 31, | **2020** | 2019 | **2020** | 2019 |
| Loss (gain) on sale of property, plant and equipment | **$ 16** | $ 13 | **$ (105)** | $ 55 |
| Gain on sale of intangible assets | **-** | - | **-** | (202) |
| Lease revenue | **(8)** | (98) | **(44)** | (307) |
| Other | **17** | 16 | **19** | 19 |
| | **$ 25** | $ (69) | **$ (130)** | $ (435) |

## 12. NET INCOME (LOSS) PER SHARE

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

| | Three months | | Nine months | |
|---|---|---|---|---|
| Periods ended March 31, | **2020** | 2019 | **2020** | 2019 |
| Net income (loss): basic and diluted | **$ 666** | $ (1,461) | **$ 2,843** | $ (506) |
| **Weighted average number of shares outstanding:** | | | | |
| Basic | **22,435,234** | 22,355,705 | **22,403,397** | 22,378,195 |
| Dilutive stock options | **39,458** | - | **28,922** | - |
| Diluted | **22,474,692** | 22,355,705 | **22,432,319** | 22,378,195 |
| Net income (loss) per share: basic | **$ 0.03** | $ (0.07) | **$ 0.13** | $ (0.02) |
| Net income (loss) per share: diluted | **$ 0.03** | $ (0.07) | **$ 0.13** | $ (0.02) |

Stock options could potentially dilute basic net income per share in the future. Options to purchase 372,641 common shares were vested and outstanding as at March 31, 2020 (March 31, 2019 – 424,492). Dilutive stock options are calculated using the treasury stock method.

***(in thousands of Canadian dollars except as otherwise noted)***

## 13. SEGMENTED FINANCIAL INFORMATION

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

**Segments**

| | Three months ended March 31, 2020 | | | | |
|---|---|---|---|---|---|
| | **Video and Broadband Solutions** | **Content Delivery and Storage** | **Telematics** | **Inter-Segment** | **Total** |
| **Sales** | $ 9,561 | $ 14,220 | $ 1,312 | $ - | **$ 25,093** |
| **Cost of sales** | 5,082 | 6,595 | 392 | - | **12,069** |
| **Gross profit** | 4,479 | 7,625 | 920 | - | **13,024** |
| Operating expenses | 4,085 | 4,622 | 583 | - | **9,290** |
| Depreciation and amortization | 2,253 | 1,785 | 209 | - | **4,247** |
| **Operating (loss) income** | (1,859) | 1,218 | 128 | - | **(513)** |
| Finance expense | (216) | (22) | - | - | **(238)** |
| Foreign exchange gain (loss) | 1,973 | (36) | 35 | - | **1,972** |
| **(Loss) income before taxes** | (102) | 1,160 | 163 | - | **1,221** |
| Income tax (recovery) expense | (17) | 531 | 41 | - | **555** |
| **Net (loss) income** | **$ (85)** | **$ 629** | **$ 122** | **$ -** | **$ 666** |

| | Three months ended March 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Video and Broadband Solutions | Content Delivery and Storage | Telematics | Inter-Segment | Total |
| Sales | $ 12,437 | $ 6,498 | $ 1,401 | $ (8) | $ 20,328 |
| Cost of sales | 6,232 | 2,978 | 440 | (8) | 9,642 |
| Gross profit | 6,205 | 3,520 | 961 | - | 10,686 |
| Operating expenses | 5,586 | 4,059 | 480 | - | 10,125 |
| Depreciation and amortization | 1,447 | 1,258 | 202 | - | 2,907 |
| Operating (loss) income | (828) | (1,797) | 279 | - | (2,346) |
| Finance income | 280 | 21 | - | - | 301 |
| Foreign exchange loss | (592) | (14) | (13) | - | (619) |
| (Loss) income before taxes | (1,140) | (1,790) | 266 | - | (2,664) |
| Income tax (recovery) expense | (304) | (966) | 67 | - | (1,203) |
| Net (loss) income | $ (836) | $ (824) | $ 199 | $ - | $ (1,461) |

***(in thousands of Canadian dollars except as otherwise noted)***

| | **Nine months ended March 31, 2020** | | | | |
|---|---|---|---|---|---|
| | **Video and Broadband Solutions** | **Content Delivery and Storage** | **Telematics** | **Inter-Segment** | **Total** |
| **Sales** | $ 25,393 | $ 40,899 | $ 4,036 | $ - | **$ 70,328** |
| **Cost of sales** | 12,539 | 17,005 | 1,278 | - | **30,822** |
| **Gross profit** | 12,854 | 23,894 | 2,758 | - | **39,506** |
| Operating expenses | 11,590 | 14,377 | 1,734 | - | **27,701** |
| Depreciation and amortization | 5,022 | 4,962 | 629 | - | **10,613** |
| **Operating (loss) income** | (3,758) | 4,555 | 395 | - | **1,192** |
| Finance income (expense) | 603 | (79) | - | - | **524** |
| Foreign exchange gain (loss) | 1,806 | (48) | 35 | - | **1,793** |
| **(Loss) income before taxes** | (1,349) | 4,428 | 430 | - | **3,509** |
| Income tax (recovery) expense | (308) | 865 | 109 | - | **666** |
| **Net (loss) income** | **$ (1,041)** | **$ 3,563** | **$ 321** | **$ -** | **$ 2,843** |

| | Nine months ended March 31, 2019 | | | | |
|---|---|---|---|---|---|
| | Video and Broadband Solutions | Content Delivery and Storage | Telematics | Inter-Segment | Total |
| Sales | $ 30,808 | $ 29,375 | $ 4,167 | $ (33) | $ 64,317 |
| Cost of sales | 15,658 | 12,686 | 1,289 | (33) | 29,600 |
| Gross profit | 15,150 | 16,689 | 2,878 | - | 34,717 |
| Operating expenses | 14,957 | 12,373 | 1,549 | - | 28,879 |
| Depreciation and amortization | 4,185 | 3,457 | 607 | - | 8,249 |
| Operating (loss) income | (3,992) | 859 | 722 | - | (2,411) |
| Finance income (expense) | 506 | 45 | (1) | - | 550 |
| Foreign exchange gain (loss) | 463 | (14) | 8 | - | 457 |
| (Loss) income before taxes | (3,023) | 890 | 729 | - | (1,404) |
| Income tax (recovery) expense | (855) | (228) | 185 | - | (898) |
| Net income (loss) | $ (2,168) | $ 1,118 | $ 544 | $ - | $ (506) |

## Geographical region

| | | **Three months** | | **Nine months** |
|---|---|---|---|---|
| Periods ended March 31, | **2020** | 2019 | **2020** | 2019 |
| **Sales to external customers:** | | | | |
| United States | **$ 19,979** | $ 15,927 | **$ 53,729** | $ 48,942 |
| Canada | **2,024** | 2,008 | **5,921** | 8,702 |
| Europe | **1,529** | 1,001 | **4,642** | 3,719 |
| Japan | **976** | 867 | **2,639** | 2,333 |
| Other | **585** | 525 | **3,397** | 621 |
| | **$ 25,093** | $ 20,328 | **$ 70,328** | $ 64,317 |

***(in thousands of Canadian dollars except as otherwise noted)***

**Sales to major customers**

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

| | Three months | | Nine months | |
|---|---|---|---|---|
| Periods ended March 31, | **2020** | 2019 | **2020** | 2019 |
| Customer A | **$ 759** | $ 2,058 | **$ 12,851** | $ 17,541 |
| Customer B | **3,344** | 2,775 | **10,048** | 7,464 |
| Customer C | **2,620** | 5,642 | **8,754** | 8,088 |
| | **$ 6,723** | $ 10,475 | **$ 31,653** | $ 33,093 |

Sales to these customers are with the Video and Broadband Solutions and Content Delivery and Storage segments.

## 14. FAIR VALUE HIERARCHY

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

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

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

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

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

| | **March 31, 2020** | | | June 30, 2019 | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | Level 1 | Level 2 | Level 3 |
| Short-term investments | **$ 17,009** | **$ -** | **$ -** | $ 24,569 | $ - | $ - |

## 15. SUPPLEMENTAL INFORMATION

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

Depreciation and amortization – operating activities

| | Three months | | Nine months | |
|---|---|---|---|---|
| Periods ended March 31, | **2020** | 2019 | **2020** | 2019 |
| Depreciation of property, plant and equipment | **$ 542** | $ 573 | **$ 1,591** | $ 1,771 |
| Depreciation of right-of-use assets | **351** | - | **1,034** | - |
| Amortization of deferred development costs | **2,417** | 1,499 | **5,204** | 3,899 |
| Amortization of finite-life intangible assets | **983** | 950 | **2,933** | 2,839 |
| | **$ 4,293** | $ 3,022 | **$ 10,762** | $ 8,509 |

***(in thousands of Canadian dollars except as otherwise noted)***

Net change in working capital – operating activities

| | Three months | | Nine months | |
|---|---|---|---|---|
| Periods ended March 31, | **2020** | 2019 | **2020** | 2019 |
| Accounts receivable | **$ (8,074)** | $ 3,566 | **$ (10,498)** | $ 2,935 |
| Inventories | **197** | 2,100 | **(1,414)** | 705 |
| Prepaid expenses | **(159)** | (127) | **1,315** | (690) |
| Contract assets | **(15)** | 206 | **11** | 158 |
| Current tax asset | **4** | - | **5** | - |
| Accounts payable and accrued liabilities | **5,149** | 1,130 | **3,601** | (1,636) |
| Deferred revenue | **1,321** | 1,573 | **1,365** | 787 |
| **Total change in net working capital** | **$ (1,577)** | $ 8,448 | **$ (5,615)** | $ 2,259 |

Capital expenditures, net – investing activities

| | Three months | | Nine months | |
|---|---|---|---|---|
| Periods ended March 31, | **2020** | 2019 | **2020** | 2019 |
| Capital expenditures before proceeds of disposition: | | | | |
| Property, plant and equipment | **$ (592)** | $ (699) | **$ (1,726)** | $ (1,789) |
| Intangible assets | **(6)** | (40) | **(54)** | (85) |
| Proceeds of disposition: | | | | |
| Property, plant and equipment | **1** | 5 | **258** | 8 |
| Intangible assets | **-** | - | **-** | 202 |
| **Total capital expenditures, net** | **$ (597)** | $ (734) | **$ (1,522)** | $ (1,664) |

## 16. COVID-19

Since March 2020, several measures have been implemented in Canada and the U.S. in response to the increased impact from novel coronavirus (COVID-19). We continue to serve customers through our available platforms. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impact on the Company's future earnings and cash flows cannot be estimated at this time. The Company continues to ensure the continuity of its global operations, servicing both new and current customer needs.

## 17. SUBSEQUENT EVENTS

On April 24, 2020, the Company received an offer from a third party to purchase the investment property classified as an asset held for sale in Note 4. The Company accepted the offer in the amount of $875. On May 12, 2020, the Company closed the sale of this property.

On May 12, 2020, the Board of Directors declared a dividend of $0.055 per common share, payable on June 15, 2020 to shareholders of record as at May 22, 2020 consistent with its previously announced dividend policy.