



THIRD QUARTER RESULTS

Management's Discussion and Analysis of

VECIMA NETWORKS INC.

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

(unaudited)

VECIMA NETWORKS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MAY 12, 2020

This Management's Discussion and Analysis (MD&A) provides a review of significant developments that have affected the performance of Vecima Networks Inc. ("Vecima" or the "Company") during the three and nine months ended March 31, 2020.

Our MD&A supplements, but does not form part of, our unaudited interim condensed consolidated financial statements and related notes for the three and nine months ended March 31, 2020 and 2019. Consequently, the following discussion and analysis of the financial condition and results of operations should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes for the three months ended March 31, 2020 and 2019 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Our MD&A also includes certain non-IFRS financial measures which we use as supplemental indicators of our operating performance and financial position, as well as for internal planning purposes.

The content of this MD&A contains forward-looking statements, which are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements. Forward-looking statements include, but are not limited to our expectations related to general economic conditions and market trends and their anticipated effects on our business segments, our expectations related to customer demand and the impacts of novel coronavirus pandemic ("COVID-19"). For additional information related to forward-looking statements and material risks associated with them, please see the "Additional Information - Forward-Looking Information" section of this MD&A.

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

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Company Overview

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

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

Vecima's business is organized into three segments:

- 1) **Video and Broadband Solutions (VBS)** includes platforms and modules that process data from the cable network and deliver it in formats suitable to be consumed on televisions and Internet devices.
 - a. Our Terrace and TerraceQAM product families meet the needs of the business services vertical, including MDU (multi-dwelling units) and Hospitality (including hotels, motels and resorts).
 - b. Our next-generation Entra™ family of products and platforms addresses the network migration to a Distributed Access Architecture (as described below under Industry Developments). The Entra Distributed Access Architecture platform is Vecima's realization of the next generation of hybrid fiber-coaxial (HFC) nodes as optical transport moves away from analog radio frequency (RF) distribution to all-digital Ethernet. Our goal is to provide independent, agnostic and future-proof Distributed Access solutions that can work with every core vendor and be upgradable to Full Duplex (FDX), Extended Spectrum DOCSIS (ESD), Passive Optical Network (PON) or whatever the future of ultra high-speed networks require.

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

- Multiple variants of the Entra Access Node that can operate as Remote PHY or Remote MAC-PHY and provides a modular platform for deployment of access technologies;
 - The Entra Remote PHY Monitor (RPM), which offers unified control software for management, service assurance and monitoring of access nodes;
 - The Entra Legacy QAM Adapter (LQA), which provides a simple solution to adapt existing video QAM infrastructure for distributed access;
 - The Entra Video QAM Manager (VQM), which allows for the integration of video in a DAA environment within existing infrastructure, maximizing efficiency of fiber usage while reducing operational costs; and
 - The Entra Interactive Video Controller (IVC), which supports both next-generation DAA Remote PHY and traditional RF networks providing essential two-way network connectivity for QAM set-top boxes that are heavily deployed and in service today.
- 2) **Content Delivery and Storage (CDS)** includes solutions and software, under the MediaScaleX™ and ContentAgent™ brands, for industries and customers that focus on ingesting, producing, storing, delivering and streaming video content for live linear, Video On Demand (VOD), network Digital Video Recorder (nDVR) and time-shifted TV services.

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

- 3) **Telematics** provides fleet managers with the key information and analytics they require to optimally manage their mobile and fixed assets under the Contigo, Nero Global Tracking, and FleetLynx brands.

Industry Developments

Video and Broadband Solutions

Over the last several years, the cable industry has been transitioning towards Distributed Access Architectures under the latest DOCSIS 3.1 standard. Some top tier players have initiated a gradual roll-out of this new platform with further large-scale deployments anticipated over the next several years. DOCSIS 3.1 is a critical evolution for the industry in that it unlocks gigabit broadband speeds over existing coaxial cable by allowing data transmission up to 10 Gigabits per second (Gbps) for download speed and 3 Gbps for upload speed. The speed provided by DOCSIS 3.1 is comparable to that of fiber optic connections, thereby allowing cable operators to upgrade their systems, but without the added infrastructure costs of building fiber to the home. Global cable operators expect to benefit from a flexible migration given that DOCSIS 3.1 modems can coexist with older versions and build on top of their previously deployed capacity. The higher efficiency of DOCSIS 3.1 technology also enables significant cost-per-bit reductions relative to DOCSIS 3.0 network solutions.

Content Delivery and Storage

Global demand for Internet Protocol (IP) video content delivery and storage is growing, driven by the rapidly increasing consumption of IP video as consumers turn to streaming services and cable operators make vast arrays of new IP video content available to subscribers. Service providers are also pursuing new DVR opportunities that shift delivery and storage away from traditional set-top storage to cloud-based models. According to the latest industry analysis in the Cisco Visual Networking Index™, consumer Video On Demand traffic is expected to double by 2022 with IP video comprising 82% of all IP traffic.

Telematics

As asset tracking technology broadens beyond fleet management to new initiatives associated with asset management for asset-intensive industries such as manufacturing, construction, energy and aerospace, Vecima is developing products to capitalize on segments of these markets.

Our Strategy

Our growth strategy focuses on the development of our core technologies, including next generation platforms such as our new DOCSIS 3.1 platform, Entra, as well as new IP video storage and distribution technologies being developed under the MediaScaleX brand within the Content Delivery and Storage segment. We will continue to pursue profitable growth both organically and when appropriate, through value-enhancing strategic acquisitions.

Third Quarter 2020 Highlights

Financial and Corporate Highlights

- Consolidated sales increased 23.5% to \$25.1 million in Q3 fiscal 2020, from \$20.3 million in Q3 fiscal 2019
- Gross profit increased 22% to \$13.0 million, from \$10.7 million in Q3 fiscal 2019 delivering gross margin of 52%
- Adjusted EBITDA increased significantly to \$5.6 million, from \$0.4 million in Q3 fiscal 2019
- Adjusted EPS grew to \$0.03 per share from a loss of (\$0.07) per share in Q3 fiscal 2019
- Ended the quarter in strong financial position with \$36.2 million in cash and working capital of \$56.3 million
- Declared a dividend of \$0.055 per share payable on June 15, 2020 to shareholders of record on May 22, 2020. This represents \$28.7 million returned to shareholders through regular dividends since we initiated our dividends in October 2014
- Delivered a strong quarter while navigating the potential impact of COVID-19

Video and Broadband Solutions

- Segment sales of \$9.6 million increased 14% on a sequential quarterly basis, reflecting higher sales of Entra family and TerraceQAM products, but were lower year-over-year as a result of the anticipated decrease in legacy product sales

- **Entra family**
 - Achieved \$1.8 million of next generation Entra family product sales, an increase of 63% from \$1.1 million in Q2 fiscal 2020 and up by \$1.5 million compared to \$0.3 million in Q3 fiscal 2019, led by uptake of the Entra Interactive Video Controller (IVC) by Tier 1 and Tier 2 MSO customers
 - Multiple products within Vecima's broad Entra DAA ecosystem were purchased by a wide group of MSOs as the industry initiates the network evolution to distributed access architecture
 - Expanded a key field trial with a lead Tier 1 customer, moving to fully operationalized node field trials in multiple footprint locations where Entra nodes are providing live broadband internet service into a number of homes with paying subscribers
 - Remote-PHY Monitoring software application purchased in Q2 by a Tier 1 customer enabled flawless installation and activation of nodes in the field
- **Terrace family**
 - Increased TerraceQAM sales by 125% year-over-year and 5% quarter-over-quarter as the lead Tier 1 MSO widened its extensive hospitality services platform, while preparing for migration to the next generation TerracelQ system
 - Progressed development of the next generation TerracelQ platform, supporting the intent of customers to upgrade their widely deployed ecosystems of the Terrace and TerraceQAM products as networks move to IPTV
 - Sales of TC600E increased by 35% quarter-over-quarter as a Tier 1 extended MPEG 4 upgrade-related purchases and a second Tier 1 customer initiated MPEG 4 upgrade-related purchases

Content Delivery and Storage

- Generated strong segment sales of \$14.2 million with revenue increasing 119% year-over-year
- Achieved further advances in the burgeoning IPTV market with the win of four new customers for Vecima's MediaScaleX IPTV products, including three new wins during the third quarter and an additional customer win subsequent to quarter-end
- Further increased deployments of IPTV solutions with cable operators, telcos and broadcasters around the world, servicing over 130 million subscribers and managing 30 petabytes of content worldwide
- Ongoing feature enhancements to our MediaScaleX IPTV products aimed at amplifying the seamless user experience delivered while streaming content to the consumer

Telematics

- Further roll out of previously announced City of Saskatoon fleet management solution, which involves monitoring a fleet of over 1,000 powered and unpowered vehicles and assets
- Expanded penetration in the moveable assets market, adding six new restoration industry customers with vehicles being monitored with GPS beacons and valuable moveable assets being monitored through our Bluetooth Low Energy (BLE) tags

COVID-19 Business Update and Outlook

Around the globe, social distancing and stay-at-home mandates related to the COVID-19 pandemic are driving unusually high levels of utilization across our customers' cable and IPTV networks. As a manufacturer and provider of communications solutions that expand the capacity of our customers' networks, Vecima's operations are not only deemed essential, but we have seen interest in our solutions increase in recent months.

We have taken a number of proactive steps to protect the health and safety of our employees and to support our ability to provide our products and platforms to our customers worldwide.

Employee Health and Safety: Our highest priority continues to be the well-being of our employees, more than 80% of whom are able to perform their job functions outside of a Vecima facility and have transitioned to working remotely. A small number of Vecima employees, primarily those in our Saskatoon manufacturing facility, have roles whose physical presence is required to perform their job function. These employees continue to report to work but are subject to strict protocols intended to reduce the risk of transmission, including social distancing, increased cleaning and availability of personal protective equipment as necessary.

Operations and Supply Chain: Our manufacturing sites have continued to operate at or near normal levels, and by moving early to increase inventory levels, we have been successful in fulfilling orders. While lead times for some of our component supplies have subsequently increased, and in certain limited cases we have needed to seek out alternate sources of supply, we have not as of yet encountered significant disruptions to our supply chain.

Through April and thus far into May of this year, we have seen continued strong demand for our next generation products and for certain legacy products. We are also continuing to work with MSO customers to progress field and lab trials of our next generation Entra family of DAA products. Longer term, it is difficult to predict what the full economic, supply chain and network development impacts of the COVID-19 pandemic will be, given the evolving and uncertain nature of this crisis. See "Risks and Uncertainties and COVID-19" and "Forward Looking Information" for more information on COVID-19 as it pertains to our business.

We will continue to monitor the situation closely and make adjustments to our business as necessary. We thank all of our employees for their commitment to meeting our customers' needs through these challenging times and acknowledge the exceptional R&D, manufacturing and customer service work that continues to be done despite the changes to our normal ways of operating.

As it currently stands, we continue to feel well positioned to manage any COVID-19 related risks leading into Q4 fiscal 2020. Meanwhile, as anticipated Vecima's Content Delivery and Storage segment remains on track to deliver 20% or better segment sales growth in fiscal 2020.

Consolidated Results of Operations

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

Consolidated Statements of Comprehensive Income Data	Three months ended March 31,				Nine months ended March 31,			
	2020		2019		2020		2019	
Sales	\$ 25,093	100 %	\$ 20,328	100 %	\$ 70,328	100 %	\$ 64,317	100 %
Cost of sales	12,069	48 %	9,642	47 %	30,822	44 %	29,600	46 %
Gross profit	13,024	52 %	10,686	53 %	39,506	56 %	34,717	54 %
Operating expenses								
Research and development ⁽¹⁾	5,714	23 %	4,797	23 %	15,316	22 %	13,967	22 %
Sales and marketing	3,698	15 %	4,029	20 %	10,871	15 %	10,481	16 %
General and administrative	4,087	16 %	4,247	21 %	12,210	17 %	12,256	19 %
Restructuring costs	-	- %	-	- %	-	- %	757	1 %
Share-based compensation	13	- %	28	- %	47	- %	102	1 %
Other expense (income)	25	- %	(69)	- %	(130)	- %	(435)	(1)%
	13,537	54 %	13,032	64 %	38,314	54 %	37,128	58 %
Operating (loss) income	(513)	(2)%	(2,346)	(11)%	1,192	2 %	(2,411)	(4)%
Finance (expense) income	(238)	(1)%	301	1 %	524	- %	550	1 %
Foreign exchange gain (loss)	1,972	8 %	(619)	(3)%	1,793	3 %	457	1 %
Income (loss) before taxes	1,221	5 %	(2,664)	(13)%	3,509	5 %	(1,404)	(2)%
Income tax expense (recovery)	555	2 %	(1,203)	(6)%	666	1 %	(898)	(1)%
Net income (loss)	666	3 %	(1,461)	(7)%	2,843	4 %	(506)	(1)%
Other comprehensive income (loss)	2,416	9 %	(584)	(3)%	2,213	3 %	393	1 %
Comprehensive income (loss)	\$ 3,082	12 %	\$ (2,045)	(10)%	\$ 5,056	7 %	\$ (113)	- %
Net income per share⁽²⁾								
Basic	\$ 0.03		\$ (0.07)		\$ 0.13		\$ (0.02)	
Diluted	\$ 0.03		\$ (0.07)		\$ 0.13		\$ (0.02)	
Other Data								
Total research and development expenditures ⁽³⁾	\$ 6,763		\$ 7,521		\$ 18,995		\$ 23,165	
Adjusted EBITDA ⁽⁴⁾	\$ 5,617		\$ 423		\$ 14,445		\$ 7,896	
Adjusted earnings per share ⁽⁵⁾	\$ 0.03		\$ (0.07)		\$ 0.12		\$ -	
Number of employees ⁽⁶⁾	375		390		375		390	

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

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

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

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

⁽⁵⁾ Adjusted Earnings per Share does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. See "Adjusted Earnings per Share".

⁽⁶⁾ The number of employees is determined as of the end of the period.

Consolidated Statements of Financial Position (unaudited - in thousands of dollars except common share data)	March 31, 2020	June 30, 2019
Cash and cash equivalents	\$ 19,167	\$ 19,834
Short-term investments	\$ 17,009	\$ 24,569
Working capital	\$ 56,288	\$ 58,286
Total assets	\$ 212,564	\$ 200,770
Long-term debt ⁽¹⁾	\$ 5,151	\$ 1,729
Shareholders' equity	\$ 182,941	\$ 180,768
Number of common shares outstanding ⁽²⁾	22,403,397	22,362,031

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

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

Adjusted Net Income and Adjusted Earnings per Share

The following table reconciles net income for the period to adjusted net income as well as earnings per share to adjusted earnings per share. The term "adjusted net income" refers to net income or net loss as reported in the IFRS financial statements, excluding any amounts included in net income or net loss for gains and losses on the sale of non-core property, plant and equipment ("PP&E"), intangible assets, and assets held for sale, impairments of intangible assets, restructuring costs, and the tax effect of these adjusted items. We believe that adjusted net income and adjusted earnings per share provides supplemental information for management and our investors because they provide for the analysis of our results exclusive of certain items which do not directly correlate to our business of selling broadband access products, content delivery and storage products and services or supplying telematic services. Adjusted earnings and adjusted earnings per share do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers.

Calculation of Adjusted Earnings Per Share (unaudited - in thousands of dollars except per share amounts)	Three months ended March 31,		Nine months ended March 31,	
	2020	2019	2020	2019
Net income (loss)	\$ 666	\$ (1,461)	\$ 2,843	\$ (506)
Gain on sale of non-core intangibles, net of tax	-	-	-	(176)
Gain on sale of non-core PP&E, net of tax	-	-	(106)	-
Restructuring costs, net of tax	-	-	-	565
Adjusted net income (loss)	\$ 666	\$ (1,461)	\$ 2,737	\$ (117)
Net income per share	\$ 0.03	\$ (0.07)	\$ 0.13	\$ (0.02)
Gain on sale of non-core intangibles, net of tax	-	-	-	(0.01)
Gain on sale of non-core PP&E, net of tax	-	-	(0.01)	-
Restructuring costs, net of tax	-	-	-	0.03
Adjusted earnings per share	\$ 0.03	\$ (0.07)	\$ 0.12	\$ -

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

EBITDA and Adjusted EBITDA

The following table reconciles net income for the period to EBITDA and Adjusted EBITDA. The term “EBITDA” refers to net income or net loss as reported in the IFRS financial statements, excluding any amounts included in net income or net loss for income taxes, interest expense, and depreciation and amortization for PP&E, deferred development and intangible assets. The term “Adjusted EBITDA” refers to EBITDA adjusted for: gains and losses on sale of PP&E, intangible assets, and assets held for sale; impairment of PP&E; impairment of deferred development costs and other intangible assets; restructuring costs; and share-based compensation expense. We believe that Adjusted EBITDA is useful supplemental information for management and for our investors because it provides for the analysis of our results exclusive of certain non-cash items and other items which do not directly correlate to our business of selling broadband access products, content delivery and storage products and services or supplying telematic services. Adjusted EBITDA is not a recognized measure under IFRS and, accordingly, investors are cautioned that Adjusted EBITDA should not be construed as an alternative to net income, determined in accordance with IFRS, or as an indicator of our financial performance or as a measure of our liquidity and cash flows.

The adoption of IFRS 16 impacted the calculation of EBITDA with depreciation of right-of-use assets increasing Q3 fiscal 2020 EBITDA by \$351 (YTD - \$1,034) and interest on lease liabilities increasing EBITDA by \$57 (YTD - \$176).

Calculation of Adjusted EBITDA	Three months ended March 31,		Nine months ended March 31,	
	2020	2019	2020	2019
Net income (loss)	\$ 666	\$ (1,461)	\$ 2,843	\$ (506)
Income tax expense	555	(1,203)	666	(898)
Interest expense	74	24	232	79
Depreciation of PP&E	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 intangible assets	983	950	2,933	2,839
EBITDA	5,588	382	14,503	7,184
Gain (loss) on sale of property, plant and equipment	16	13	(105)	55
Gain on sale of intangible assets	-	-	-	(202)
Restructuring costs	-	-	-	757
Share-based compensation	13	28	47	102
Adjusted EBITDA	\$ 5,617	\$ 423	\$ 14,445	\$ 7,896
Adjusted EBITDA margin (%)	22 %	2 %	21 %	12 %

Total Research and Development Expenditures

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

Calculation of Research and Development Expenditures	Three months ended March 31,		Nine months ended March 31,	
	2020	2019	2020	2019
Research and development per statement of income	\$ 5,714	\$ 4,797	\$ 15,316	\$ 13,967
Deferred development costs	3,428	4,322	8,854	13,195
Investment tax credits	38	27	127	77
Amortization of deferred development costs	(2,417)	(1,499)	(5,204)	(3,899)
Government grants	-	(126)	(98)	(175)
Total research and development expenditure	\$ 6,763	\$ 7,521	\$ 18,995	\$ 23,165
Percentage of sales	27 %	37 %	27 %	36 %

Summary of Quarterly Results of Operations

The following information has been derived from our consolidated financial statements for the nine months ended March 31, fiscal 2020 and fiscal 2019 in accordance with IFRS. This information should be read in conjunction with those financial statements and their related notes as well as with the balance of this MD&A.

	Fiscal Year 2020				Fiscal Year 2019				2018
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
Sales	\$ 25,093	\$ 25,123	\$ 20,112	\$ 20,715	\$ 20,328	\$ 22,654	\$ 21,335	\$ 24,346	
Cost of sales	12,069	9,115	9,638	10,555	9,642	9,814	10,144	11,075	
Gross profit	13,024	16,008	10,474	10,160	10,686	12,840	11,191	13,271	
Operating expenses									
Research and development	5,714	4,534	5,068	5,006	4,797	4,567	4,604	4,427	
Sales and marketing	3,698	3,427	3,746	3,631	4,029	3,252	3,200	4,227	
General and administrative	4,087	4,142	3,981	4,340	4,247	4,006	4,003	3,979	
Impairment of intangible assets	-	-	-	-	-	-	-	22	
Restructuring costs	-	-	-	1,419	-	-	757	-	
Share-based compensation	13	17	17	10	28	40	34	31	
Other expense (income)	25	(145)	(10)	17	(69)	(278)	(88)	(92)	
	13,537	11,975	12,802	14,423	13,032	11,587	12,510	12,594	
Operating (loss) income	(513)	4,033	(2,328)	(4,263)	(2,346)	1,253	(1,319)	677	
Finance income	(238)	554	208	329	301	27	222	211	
Foreign exchange (loss) gain	1,972	(477)	298	(523)	(619)	1,593	(517)	454	
Income (loss) before income taxes	1,221	4,110	(1,822)	(4,457)	(2,664)	2,873	(1,614)	1,342	
Income tax expense (recovery)	555	549	(438)	(1,504)	(1,203)	823	(518)	554	
Net income (loss) from continuing operations	666	3,561	(1,384)	(2,953)	(1,461)	2,050	(1,096)	788	
Net income (loss) and comprehensive income (loss) from discontinued operations	-	-	-	-	-	-	-	(45)	
Net income (loss)	666	3,561	(1,384)	(2,953)	(1,461)	2,050	(1,096)	743	
Other comprehensive income (loss)	2,416	(426)	223	(460)	(584)	1,395	(418)	450	
Comprehensive income (loss)	\$ 3,082	\$ 3,135	\$ (1,161)	\$ (3,413)	\$ (2,045)	\$ 3,445	\$ (1,514)	\$ 1,193	
Net income (loss) per share									
Basic	\$ 0.03	\$ 0.16	\$ (0.06)	\$ (0.13)	\$ (0.07)	\$ 0.09	\$ (0.05)	\$ 0.03	
Diluted	\$ 0.03	\$ 0.16	\$ (0.06)	\$ (0.13)	\$ (0.07)	\$ 0.09	\$ (0.05)	\$ 0.03	
Adjusted EBITDA as reported	\$ 5,617	\$ 7,042	\$ 1,786	\$ 281	\$ 423	\$ 5,539	\$ 1,933	\$ 4,352	

Quarter-to-Quarter Sales Variances

There are many factors that contribute to the overall variances of our sales. Traditionally, one of the main factors has been that we continually develop new products to replace products that are reaching the end of their lifecycle. The timing of development can vary based on the size of the projects. The timing of regulatory certification and customer acceptance of new products can also affect the timing of sales.

Within the industry, spending by cable operators is impacted by new technology adoption such as the industry migration to DOCSIS 3.1. The budgeting cycles of larger cable operators can also result in quarter-to-quarter variability in customer orders as do their installation schedules. We are currently experiencing a slowdown in demand for some of our legacy Video and Broadband Solutions products as customers complete their digital networks and migrate to DOCSIS 3.1. We expect our sales to recover as our new products in the DOCSIS 3.1 Entra platform are commercialized.

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

Segmented Information

Sales

Segment	Three months ended March 31,		Nine months ended March 31,	
	2020	2019	2020	2019
Video and Broadband Solutions	\$ 9,561	\$ 12,429	\$ 25,393	\$ 30,775
Content Delivery and Storage	14,220	6,498	40,899	29,375
Telematics	1,312	1,401	4,036	4,167
Total sales	\$ 25,093	\$ 20,328	\$ 70,328	\$ 64,317

Three-Month Sales

Total sales grew to \$25.1 million in the third quarter of fiscal 2020, up 23% from \$20.3 million in Q3 fiscal 2019 and consistent with the \$25.1 million generated in Q2 fiscal 2020. The year-over-year sales growth reflects higher sales in our Content Delivery and Storage segment partially offset by a decrease in our Video and Broadband segment.

The Video and Broadband Solutions segment recorded third quarter sales of \$9.6 million a decrease of 23% from \$12.4 million in Q3 fiscal 2019 but an increase of 14% from \$8.4 million in Q2 fiscal 2020. The year-over-year decrease in Video and Broadband Solutions sales was driven by an anticipated decline in legacy product sales, partially offset by increased sales of Entra family and TerraceQAM products.

- Terrace family sales of \$4.0 million decreased 52% from \$8.5 million in the same period last year and increased 13% from \$3.6 million in Q2 fiscal 2020. The reduction in Terrace Family sales year-over-year was anticipated and primarily reflects lower sales of our legacy TC600 and TC600E products.
- TerraceQAM sales grew to \$3.3 million, up 125% from \$1.5 million in the third quarter of fiscal 2019 and an increase of 5% from \$3.1 million in Q2 fiscal 2020. While we anticipate continued ordering activity for TerraceQAM through the balance of fiscal 2020, we believe the deployment of the current generation platform is nearing saturation and we are working with customers on the next generation platform.
- Further deployments of our next generation Entra products contributed third quarter revenue of \$1.8 million, up from \$0.3 million in Q3 fiscal 2019 and \$1.1 million in Q2 fiscal 2020.

Our Content Delivery and Storage segment achieved strong quarterly sales of \$14.2 million, an increase of 119% from \$6.5 million in the third quarter of fiscal 2019. The more than doubling of sales reflects the expansion of our customer base and strong demand for our IPTV solutions, and also compares to a weaker-than-normal quarter for this segment in the prior year. On a sequential quarterly basis, Content Delivery and Storage sales were 8% lower than the record \$15.4 million generated in Q2 fiscal 2020, largely reflecting the timing of orders. Segment sales for the Q3 fiscal 2020 period included \$9.5 million of product sales and \$4.7 million of services revenue.

Telematics sales were stable at \$1.3 million in the third quarter of fiscal 2020, as compared to \$1.4 million in both Q3 fiscal 2019 and Q2 fiscal 2020. Results for the quarter were in line with our expectations.

Nine-Month Sales

For the nine months ended March 31, 2020 total sales increased 9% to \$70.3 million from \$64.3 million in the same period of fiscal 2019. The sales increase primarily reflects a strong contribution from our Content Delivery and Storage segment, partially offset by lower sales in the Video and Broadband Solutions segment.

Video and Broadband Solutions reported sales of \$25.4 million in the first nine months of fiscal 2020, as compared to \$30.8 million in the same period in fiscal 2019.

- Nine-month Terrace family sales of \$12.3 million decreased 38% from \$20.0 million in the same period of fiscal 2019. The year-over-year change reflects a slower pace of purchasing activity for legacy TC600E products.

- Sales of TerraceQAM increased by 91% to \$8.3 million in the first nine months of fiscal 2020, from \$4.4 million in the same period in fiscal 2019. While we anticipate continued ordering activity for TerraceQAM through the balance of fiscal 2020, overall, we believe the deployment of the current generation platform is nearing saturation and we are working with customers on the next generation platform.
- Initial deployments of our Entra family products contributed nine-month revenue of \$3.2 million, an increase of 396% from \$0.6 million in the first nine months of fiscal 2019.

Sales from our Content Delivery and Storage segment increased 39% to \$40.9 million in the first nine months of fiscal 2020, from \$29.4 million in the first nine months of fiscal 2019 driven by strong demand for our MediaScaleX family of products. Sales in the current period included \$27.8 million of product sales and \$13.1 million of services revenue.

Telematics sales were modestly lower at \$4.0 million in the first nine months of fiscal 2020, compared to \$4.2 million in the same period of fiscal 2019. These results were in line with our expectations.

Cost of Sales

Cost of sales consists primarily of product manufacturing and assembly expenses, with component parts, employee and third party supplier costs representing a significant portion of these costs. Costs associated with Video and Broadband Solutions sales include related overhead, compensation, final assembly, quality assurance, inventory management costs, and sales commissions, as well as support costs and payments to contract manufacturers that perform printed circuit board assembly functions. Costs associated with Content Delivery and Storage sales include the cost of the computer systems sold, including amortization of software development costs, depreciation, labour, material, overhead and third-party product costs, as well as the salaries, benefits and other costs of the maintenance, service and help desk personnel associated with product installation, support activities and sales commissions. Costs associated with Telematics sales consist of hardware amortization, inventory management costs, order fulfillment, wireless fees, server hosting services, mapping licenses and sales commissions.

Gross Profit and Gross Margin

Segment	Three months ended March 31,		Nine months ended March 31,	
	2020	2019	2020	2019
Video and Broadband Solutions	\$ 4,479	\$ 6,205	\$ 12,854	\$ 15,150
Content Delivery and Storage	7,625	3,520	23,894	16,689
Telematics	920	961	2,758	2,878
Total gross profit	\$ 13,024	\$ 10,686	\$ 39,506	\$ 34,717
Video and Broadband Solutions	46.8 %	49.9 %	50.6 %	49.2 %
Content Delivery and Storage	53.6 %	54.2 %	58.4 %	56.8 %
Telematics	70.1 %	68.6 %	68.3 %	69.1 %
Total gross margin	51.9 %	52.6 %	56.2 %	54.0 %

Three-Month Results

For the three months ended March 31, 2020, we achieved a gross margin of 52%, which was in line with our expectations and compares to 53% in Q3 fiscal 2019 and 64% in Q2 fiscal 2020. The Q2 fiscal 2020 gross margin was a particularly strong result and reflects higher-margin software sales in that quarter's product mix. Total gross profit increased to \$13.0 million in the third quarter of fiscal 2020, up 22% year-over-year from \$10.7 million as a result of higher sales but down from \$16.0 million in Q2 fiscal 2020 when we had both higher sales and the significantly higher gross margin.

Gross margin from the Video and Broadband Solutions segment was 47% (gross profit of \$4.5 million) in the third quarter of fiscal 2020, as compared to 50% (gross profit of \$6.2 million) in Q3 fiscal 2019 and 58% (gross profit of \$4.8 million) in Q2 fiscal 2020. The changes in gross profit reflect the different product mixes in each period, with Q2 fiscal 2020 benefitting from a larger proportion of higher-margin software sales.

The Content Delivery and Storage segment achieved a third quarter gross margin of 54% (gross profit of \$7.6 million), as compared to 54% (gross profit of \$3.5 million) in Q3 fiscal 2019 and 67% (gross profit of \$10.3 million) in Q2 fiscal 2020. The strong Q2 fiscal 2020 margin result again reflects an increased percentage of higher-margin software sales in the mix.

Gross margin from the Telematics segment was 70% (gross profit of \$0.9 million) in the third quarter of fiscal 2020, up from 69% (gross profit of \$1.0 million) in Q3 fiscal 2019 and 63% (gross profit of \$0.9 million) in Q2 fiscal 2020. The year-over-year decrease in gross profit is mainly the result of lower sales quarter-over-quarter.

Nine-Month Results

For the nine months ended March 31, 2020, gross margin increased to 56% from 54% in the same period last year while total gross profit increased 14% to \$39.5 million from \$34.7 million. The improved results reflect higher sales and an increase in higher-margin software and service sales in the current year-to-date period.

Gross margin from the Video and Broadband Solutions segment increased to 51% in the first nine months of fiscal 2020, from 49% in the same period last year, positively impacted by an increase in software sales and a weaker Canadian dollar relative to the U.S. dollar on a year-over-year basis. Nine-month Video and Broadband Solutions gross profit of \$12.9 million compares to \$15.2 million in the same period of fiscal 2019, reflecting lower sales, partially offset by a slightly higher gross margin.

The Content Delivery and Storage segment generated a gross margin of 58% in the first nine months of fiscal 2020, as compared to 57% in the same period last year. The improvement in gross margin primarily reflects a shift in customer and product mix. Gross profit for the first nine months of fiscal 2020 increased \$23.9 million, an increase of 43% from \$16.7 million in the same period last year. This improvement reflects higher sales with a slightly higher gross margin percentage in the current period.

The Telematics segment generated a gross margin of 68% (gross profit of \$2.8 million) in the nine months ended March 31, 2020, as compared to 69% (gross profit of \$2.9 million) during the same period in fiscal 2019. The slight decrease in gross profit reflects lower sales year-over-year, while the slightly lower margin was due to increased costs for some products.

Operating Expenses

Segment	Three months ended March 31,		Nine months ended March 31,	
	2020	2019	2020	2019
Video and Broadband Solutions	\$ 6,338	\$ 7,033	\$ 16,612	\$ 19,142
Content Delivery and Storage	6,407	5,317	19,339	15,830
Telematics	792	682	2,363	2,156
Total operating expense	\$ 13,537	\$ 13,032	\$ 38,314	\$ 37,128

Three-Month Results

For the three months ended March 31, 2020, total operating expenses increased to \$13.5 million, from \$13.0 million in the same period last year. The increase primarily reflects higher operating expenses in the Content Delivery and Storage segment partially offset by a reduction in costs in the Video and Broadband Solutions segment.

Video and Broadband Solutions operating expenses decreased to \$6.3 million, from \$7.0 million in Q3 fiscal 2019. The year-over-year reduction mainly reflects the realization of cost benefits related to the previous year's restructuring initiatives partially offset by higher amortization of deferred development costs.

Content Delivery and Storage operating expenses were higher at \$6.4 million in Q3 fiscal 2020, as compared to \$5.3 million in Q3 fiscal 2019 and in line with \$6.5 million in Q2 fiscal 2020. The year-over-year increase in segment operating expenses reflects increased research and development expenses due to higher amortization of deferred development costs, the addition of operating costs from the newly acquired ContentAgent business, and higher staffing costs to support sales growth.

Telematics operating expenses of \$0.8 million were in line with \$0.7 million in Q3 fiscal 2019. On a sequential quarterly basis, Telematics operating expenses were \$0.1 million lower than the \$0.9 million recorded in Q2 fiscal 2020 reflecting higher research and development expenses as a result of higher deferrals in the current quarter.

Research and development expenses for Q3 fiscal 2020, increased to \$5.7 million, or 23% of sales, from \$4.8 million, or 24% of sales in the same period of fiscal 2019. Our investment in research and development supports the launch of new products. Until these products are in commercial production, the development costs are deferred to future periods. Total research and development costs before deferrals, amortization of deferred development costs and income tax credits for Q3 fiscal 2020 decreased to \$6.8 million, or 27% of sales, from \$7.5 million, or 37% of sales in Q3 fiscal 2019. The decrease reflects lower staffing costs, subcontracting costs and prototyping costs in the current-year quarter as our next generation product families move closer to commercial deployment.

Sales and marketing expenses were \$3.7 million, or 15% of sales in Q3 fiscal 2020, as compared to \$4.0 million, or 20% of sales in the same period last year. The decrease in sales and marketing expense was primarily due to lower finished goods inventory allowances in the current period partially offset by higher staffing costs.

General and administrative expenses decreased to \$4.1 million in Q3 fiscal 2020 from \$4.2 million in the same period last year. A year-over-year reduction in Video Broadband Solutions staffing costs was partially offset by the addition of expenses from the newly acquired ContentAgent business.

Stock-based compensation expense decreased to \$0.01 million in Q3 fiscal 2020, from \$0.03 million in Q3 fiscal 2019.

Other expense (income) decreased to a loss of \$0.03 million in Q3 fiscal 2020 from income of \$0.07 million in Q3 fiscal 2019 due to a lower year-over-year gain on sales of property, plant and equipment and intangible assets.

Nine-Month Results

For the nine months ended March 31, 2020, total operating expenses increased to \$38.3 million, from \$37.1 million in the same period of fiscal 2019. This increase primarily reflects higher operating expenses in the Content Delivery and Storage segment, partially offset by lower operating expenses in the Video and Broadband Solutions segment as a result of the reorganization of the research and development and manufacturing cost areas.

Video and Broadband Solutions operating expenses decreased to \$16.6 million for the nine months ended March 31, 2020, from \$19.1 million in the same period last year. The significant \$2.5 million reduction reflects restructuring costs incurred in fiscal 2019 that did not repeat in fiscal 2020, together with subsequent savings from the restructuring efforts which benefitted fiscal 2020 results. These gains were partially offset by increased amortization of deferred development costs year-over-year.

Content Delivery and Storage operating expenses increased to \$19.3 million for the nine months ended March 31, 2020 from \$15.8 million in the same period of fiscal 2019. This primarily reflects higher staffing costs to support growth, and the addition of the ContentAgent business.

Telematics operating expenses increased to \$2.4 million in the first nine months of fiscal 2020, from \$2.2 million last year. This \$0.2 million increase primarily reflects higher finished goods inventory allowances for legacy telematic products.

Research and development expenses for the nine months ended March 31, 2020 increased to \$15.3 million, or 22% of sales, from \$14.0 million, or 22% of sales in the first nine months of fiscal 2019. Our investment in research and development supports the launch of new products. Until these products are in commercial production, the development costs are deferred to future periods. Total research and development costs before deferrals, amortization of deferred development costs and income tax credits for the nine months ended March 31, 2020 decreased to \$19.0 million, or 27% of sales, from \$23.2 million, or 36% of sales for the same period in the prior year. This decrease primarily reflects lower staffing, subcontracting and prototyping costs year-over-year as our next generation product families move closer to commercial deployment.

Sales and marketing expenses were \$10.9 million, or 15% of sales in the first nine months of fiscal 2020, as compared to \$10.5 million, or 16% of sales last year. The increased expense primarily reflects additional staffing costs in the Content Delivery and Storage segment in support of sales growth, as well as incremental costs related to the addition of the ContentAgent business.

General and administrative expenses decreased to \$12.2 million in the first nine months of fiscal 2020, from \$12.3 million in the same period of fiscal 2019. The year-over-year decrease primarily reflects lower staffing costs partially offset by the addition of the ContentAgent business.

Restructuring costs were \$nil for the nine months ended March 31, 2020 as compared to \$0.8 million in the first nine months of fiscal 2019 when we incurred severance costs related to the reorganization of our manufacturing operations.

Stock-based compensation expense was \$0.05 million in the first nine months of fiscal 2020 as compared to \$0.10 million in the same period in fiscal 2019.

Other expense (income) decreased to \$0.1 million for the nine months ended March 31, 2020, from \$0.4 million in the prior-year period. Sale of intellectual property in the fiscal 2019 period was the main driver of this decrease.

Operating (Loss) Income

Segment Operating Income (Loss)	Three months ended March 31,		Nine months ended March 31,	
	2020	2019	2020	2019
Video and Broadband Solutions	\$ (1,859)	\$ (828)	\$ (3,758)	\$ (3,992)
Content Delivery and Storage	1,218	(1,797)	4,555	859
Telematics	128	279	395	722
Total operating (loss) income	\$ (513)	\$ (2,346)	\$ 1,192	\$ (2,411)

Three-Month Results

Operating loss decreased to \$0.5 million in Q3 fiscal 2020, from \$2.3 million in Q3 fiscal 2019. The \$1.8 million improvement was mainly driven by the \$3.0 million increase in contribution from the Content Delivery and Storage segment partially offset by the \$1.0 million decrease in contribution from the Video and Broadband Solutions segment and the \$0.2 million decrease in contribution from the Telematics segment year-over-year.

The Video and Broadband Solutions segment generated a third quarter operating loss of \$1.9 million, as compared to an operating loss of \$0.8 million in Q3 fiscal 2019. The year-over-year change reflects the \$1.9 million decrease in gross profit partially offset by the \$0.8 million improvement in operating expenses.

Content Delivery and Storage increased operating income to \$1.2 million in the third quarter of fiscal 2020 from an operating loss of \$1.8 million in the same period of fiscal 2019. The year-over-year increase primarily reflects the \$4.1 million improvement in gross profit partially offset by the \$1.1 million increase in operating expenses.

Telematics operating income decreased to \$0.1 in Q3 fiscal 2020, from \$0.3 million in Q3 fiscal 2019. This reflects a \$0.1 million decrease in gross profits and \$0.1 million increase in operating expenses year-over-year.

Finance (expense) income was a loss of \$0.2 million in Q3 fiscal 2020, from income \$0.3 million in the same period last year. The loss in the current period relates to a loss on the value of shares held in AirIQ.

Foreign exchange gain (loss) for the third quarter increased to \$2.0 million, from a loss of \$0.6 million in the prior-year period.

Income tax expense (recovery) was \$0.6 million in Q3 fiscal 2020 as compared to a recovery of \$1.2 million in Q3 fiscal 2019.

Net income (loss) for Q3 fiscal 2020 increased to \$0.7 million or \$0.03 per share from a loss of \$1.5 million or \$0.07 per share in Q3 fiscal 2019.

Other comprehensive income (loss) improved to income of \$2.4 million in Q3 fiscal 2020 from other comprehensive loss of \$0.6 million in the same period in fiscal 2019. The year-over-year increase reflects foreign exchange differences on the translation of the foreign operations of our Content Delivery and Storage segment to Canadian dollars.

Comprehensive income (loss) for Q3 fiscal 2020 increased to \$3.1 million, from a comprehensive loss of \$2.0 million in Q3 fiscal 2019. The increase year-over-year is a result of the changes described above.

Nine-Month Results

For the nine months ended March 31, 2020, operating income increased to \$1.2 million up \$3.6 million from an operating loss of \$2.4 million in the same period in fiscal 2019. The year-over-year increase mainly reflects improved results from the Content Delivery and Storage segment and the Video and Broadband Solutions segment, partially offset by decreased operating income from the Telematics segment.

Video and Broadband Solutions reported an operating loss of \$3.8 million in the first nine months of fiscal 2020, as compared to an operating loss of \$4.0 million in the same period of fiscal 2019. The \$0.2 million year-over-year improvement reflects the \$2.6 million decrease in operating expenses partially offset by the \$2.4 million decrease in gross profit.

Content Delivery and Storage increased operating income to \$4.6 million from \$0.9 million in the first nine months of fiscal 2019. The \$3.7 million gain reflects the \$7.2 million increase in segment gross profit partially offset by the \$3.5 million increase in operating expenses.

Telematics operating income decreased to \$0.4 million in the nine months ended March 31, 2020, from \$0.7 million in the prior-year period. The \$0.3 million year-over-year change reflects the increase in operating expenses of \$0.2 million and a \$0.1 million decrease in gross profit.

Finance (expense) income decreased to \$0.5 million in the first nine months of fiscal 2020, from \$0.6 million in the previous year reflecting a decrease in short-term investment income year-over-year.

Foreign exchange gain (loss) for the nine months ended March 31, 2020 was a gain of \$1.8 million, compared to a gain of \$0.5 million in fiscal 2019.

Income tax expense (recovery) was \$0.7 million for the nine months ended March 31, 2020 compared to a recovery of \$0.9 million in the same period of fiscal 2019.

Net income (loss) for the nine months ended March 31, 2020 increased to income of \$2.8 million or \$0.13 per share from a loss of \$0.5 million or \$0.02 loss per share in the prior-year period.

Other comprehensive income was \$2.2 million in the nine months ended March 31, 2020, as compared to other comprehensive income of \$0.4 million in fiscal 2019. The year-over-year change reflects foreign exchange differences on the translation of the foreign operations of our Content Delivery and Storage segment to Canadian dollars.

Comprehensive income (loss) for the nine months ended March 31, 2020 increased to \$5.1 million, from comprehensive loss of \$0.1 million in the same period of fiscal 2019.

Operating Activities

For the three months ended March 31, 2020, cash flow from operating activities decreased to \$2.6 million, from \$8.6 million in the same period last year. The \$6.0 million decrease reflects a \$10.0 million reduction in cash flow from non-cash working capital, partially offset by a \$4.0 million increase in operating cash flow. IFRS 16 increased net cash provided by operating activities by \$0.4 million as a result of depreciation of right-of-use assets and increased interest expense.

For the nine months ended March 31, 2020, cash flow from operating activities decreased to \$7.3 million, from \$8.6 for the same period in fiscal 2019. This primarily reflects the \$7.8 million decrease in cash flow from non-cash working capital, partially offset by the \$6.4 million increase in operating cash flow. IFRS 16 increased net cash provided by operating activities by \$1.2 million as a result of depreciation of right-of-use assets and increased interest expense.

Investing Activities

For the three months ended March 31, 2020, cash flow used in investing activities increased to \$3.8 million from cash provided by investing activities of \$3.2 in the same period last year. This increase reflects the purchase of short-term investments of \$0.2 million (Q3 fiscal 2019 sale of marketable securities - \$0.5 million), deferred development expenditures of \$3.4 million (Q3 fiscal 2019 - \$4.3 million), and the purchase of property, plant and equipment of \$0.6 million (Q3 fiscal 2019 - \$0.7 million).

For the nine months ended March 31, 2020, cash flow used in investing activities decreased to \$2.8 million from cash provided by investing activities of \$3.7 million in fiscal 2019. The cash used by investing activities represents the net sale of short-term investments of \$7.6 million (fiscal 2019 - \$18.5 million), deferred development expenditures of \$8.9 million (fiscal 2019 - \$13.2 million), and the purchase of property, plant and equipment of \$1.7 million (fiscal 2019 - \$1.8 million).

Financing Activities

In the three months ended March 31, 2020, we repaid \$0.06 million of our long-term debt (Q3 fiscal 2019 - \$0.04 million repaid). We paid dividends of \$1.2 million (Q3 fiscal 2019 - \$1.2 million). We received proceeds from exercised options of \$0.003 million (Q3 fiscal 2019 - \$nil) and proceeds from government grants of \$0.004 million (Q3 fiscal 2019 - \$0.1 million) and we repaid lease liabilities of \$0.4 million (Q3 fiscal - \$nil). As a result of IFRS 16, lease liabilities are now reported under financing activities.

In the nine months ended March 31, 2020, we repaid \$0.2 million of our long-term debt (fiscal 2019 - \$0.2 million repaid). We paid dividends of \$3.7 million (fiscal 2019 - \$3.7 million). We received proceeds from exercised options of \$0.6 million (fiscal 2019 - \$nil) and proceeds from government grants of \$0.1 million (fiscal 2019 - \$0.1 million) and we repaid lease liabilities of \$1.0 million (Q3 fiscal 2019 - \$nil). As a result of IFRS 16, lease liabilities are now reported under financing activities.

Liquidity and Capital Resources

We manage our liquidity and capital resources to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. We believe that our current cash and short-term investments of \$36.2 million together with anticipated cash flow from operations will be sufficient to meet our working capital requirements and capital expenditure requirements for the foreseeable future.

As at March 31, 2020, we had access to our full revolving loan facility of \$14.0 million (\$14.0 million at June 30, 2019), of which \$nil was drawn as an operating line of credit (June 30, 2019 - \$nil was drawn). We had term credit of \$1.8 million as at March 31, 2020 (June 30, 2019 - \$2.0 million).

Capital expenditures for Q3 fiscal 2020 were \$0.6 million, compared to \$0.7 million in Q3 fiscal 2019.

Working Capital

Working capital represents current assets less current liabilities. Our working capital decreased slightly to \$56.3 million at March 31, 2020, from \$58.3 million at June 30, 2019. The decrease is mainly a result of changes from the adoption of IFRS 16 which increased the current portion of long-term debt. We note that working capital balances can also be subject to significant swings from quarter to quarter. Our product shipments are "lumpy", reflecting the requirements of our major customers. It is not unusual to ship \$5 to \$6 million of product in a one-week period. If this level of sales occurs in the first week of a succeeding quarter, we would expect to experience an increase in inventory levels and a drop in receivables in the prior quarter. Other timing issues, like contracts with greater than 30 day payment terms, also affect working capital, particularly if shipments are backend weighted for a quarter.

Accounts receivable balance increased to \$25.3 million at March 31, 2020, from \$15.2 million at June 30, 2019. This increase reflects the larger sales in Q3 fiscal 2020 compared to Q4 fiscal 2019, Q2 2020 sales that will be collected in Q4 fiscal 2020 and the timing of sales in Q3 fiscal 2020 as compared to Q4 fiscal 2019.

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

Asset held for sale represents a real estate property that the Company has sold and the deal will close on May 12, 2020.

Inventories increased by \$1.8 million to \$14.5 million at March 31, 2020, from \$12.7 million as at June 30, 2019. The increase represents the ramp up of inventory related to our new product inventory as well as some strategic inventory purchases in light of the COVID-19 situation. Finished goods inventories were \$5.6 million at March 31, 2020, compared to \$5.9 million at June 30, 2019. Raw material inventory increased to \$6.1 million at March 31, 2020, from \$5.5 million at June 30, 2019. Work-in-process inventories increased to \$2.8 million as at March 31, 2020, from \$1.3 million at June 30, 2019. We manufacture and assemble products, with the result that inventory levels will be substantially higher than for other companies in the industry that outsource manufacturing and assembly.

Investment tax credits were \$25.2 million at March 31, 2020 up from \$24.4 million at June 30, 2019. For every dollar we spend on eligible research and development in Canada, we generate approximately fifteen cents in income tax credits. These credits are used to offset our income tax payable. Increases in eligible credits were offset by the recording of the CRA tax ruling denying our SR&ED Notice of Objection that decreased our tax pools by \$0.6 million.

Accounts payable and accrued liabilities increased to \$14.9 million at March 31, 2020 from \$11.7 million at June 30, 2019.

Long-term debt, including the current portion, was \$6.9 million at March 31, 2020 as compared to \$2.0 million at June 30, 2019. The increase is a result of the adoption of IFRS 16 which requires the recording of contractual lease liabilities.

Dividends

Declaration Date	Dividend Amount (per share)	Record Date	Payable Date
May 7, 2019	\$0.055	May 24, 2019	June 17, 2019
September 24, 2019	\$0.055	October 11, 2019	November 1, 2019
November 12, 2019	\$0.055	November 22, 2019	December 16, 2019
February 4, 2020	\$0.055	February 21, 2020	March 23, 2020

Contractual Obligations

Due to the adoption of IFRS 16, as of the transition date of July 1, 2019, the contractual lease obligations have been recorded as lease liabilities of \$5.7 million with corresponding right-of-use assets of \$5.1 million on our unaudited interim condensed consolidated statements of financial position. Lease liabilities recorded on our interim condensed consolidated statements of financial position, as at March 31, 2020 were \$5.1 million. Our lease liabilities do not include short-term leases and low-value asset leases, as permitted under IFRS 16; and are of nominal value.

As at March 31, 2020, our undiscounted future cash payments in respect of our lease liabilities are as follows: due within one year is \$1.6 million; due between two to five years is \$3.4 million; and thereafter is \$0.2 million.

Contingencies

In March 2017, we received a re-assessment from the CRA regarding the eligibility of certain Scientific Research and Experimental Development ("SR&ED") claims on our 2015 tax return. The CRA re-assessment would result in a reduction of SR&ED expenditures claimed of \$1.3 million (\$0.6 million tax affected). We and our advisors have reviewed the applicable tax law and believe our original treatment of these SR&ED claims was appropriate. We filed a Notice of Objection in regards to this matter in June 2017. We received a Notice of Confirmation in February 2020 that our Notice of Objection was denied. We have recorded the adjustment in our current quarter financial statements. The impact of this adjustment was a \$0.6 million increase in deferred development amortization expense. We have filed a Notice of Appeal in April 2020 to defend our original tax treatment of these SR&ED claims.

Foreign Exchange

Approximately 97% of our revenues are denominated in U.S. dollars. We translate U.S. dollar sales to Canadian dollars on the date of delivery and subsequently when the accounts receivable is collected. If the U.S. dollar appreciates relative to the Canadian dollar after we collect the accounts receivable in U.S. dollars, we will receive more Canadian dollars when the U.S. dollars are converted to Canadian dollars in subsequent months. We also enjoy a natural hedge since the majority of our materials and components purchased are in U.S. dollars.

As at March 31, 2020, the exchange rate on the Canadian dollar relative to the U.S. dollar weakened to \$1.419 from \$1.313 as at June 30, 2019. This \$0.106 exchange difference increased the value of our \$39.8 million U.S. dollar net assets by approximately \$4.2 million Canadian.

Financial Instruments

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

As at March 31, 2020, we had forward contracts as at March 31, 2019 in a liability position of \$0.2 million (June 30, 2019 - \$nil).

Off-Balance Sheet Arrangements

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

Transactions Between Related Parties

We had leased a building in Saskatoon under a 10-year lease from Dr. Surinder Kumar, the Chairman of Vecima. The lease was entered into in fiscal 2010 at prevailing market rates at that time and expired at the end of March 2019. The rental expense from this transaction was \$nil for the nine months ended March 31, 2020 (2019 - \$0.2 million).

Proposed Transactions

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

Critical Accounting Estimates

The preparation of our interim condensed consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounting Pronouncements and Standards

Adoption of New Accounting Standards in 2020

IFRS 16 - Leases

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

IFRIC 23 - Uncertainty over Income Tax Treatments

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

IFRS 3 - Business Combinations

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

Disclosure Controls and Procedures

Disclosure controls and procedures were designed to provide reasonable assurance that material information relating to Vecima is made known by us to others, particularly during the period in which annual filings are being prepared, and information required to be disclosed by us in our annual filings, interim filings or other reports filed or submitted by us under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of our disclosure controls and procedures as defined under rules adopted by the Canadian securities regulatory authorities. Based on that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as at March 31, 2020.

Internal Control over Financial Reporting

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

Our CEO and CFO have evaluated the effectiveness of the internal control over financial reporting as at March 31, 2020 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 March 31, 2020. There has been no change in the internal controls over financial reporting that occurred during the period beginning on July 1, 2019 and ended on December 31, 2019 that has materially affected, or is reasonably likely to materially affect our internal controls on financial reporting

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

The following summary of financial information pertains to the ContentAgent acquisition that was included in our unaudited interim condensed consolidated financial statements for the period ended March 31, 2020:

Sales	\$	1,160
Net loss	\$	(538)
Current assets	\$	841
Non-current assets	\$	1,347
Current liabilities	\$	1,766
Non-current liabilities	\$	166

Business Combination

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

We determined and allocated the purchase price on acquisition to the tangible and intangible assets acquired and liabilities assumed as of the business combination date in accordance with IFRS 3 Business Combinations. The purchase price allocation process requires that we use significant estimates and assumptions, including fair value estimates, as of the acquisition date.

Goodwill recorded in connection with the acquisition is primarily attributable to: the expected future earnings potential as a result of expected synergies arising from the consolidation of ContentAgent and our existing business; expected growth in the underlying markets which ContentAgent serves; and the strength of the assembled workforce.

Legal Proceedings

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

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

Risks and Uncertainties and COVID-19

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

Vecima was founded by Dr. Surinder Kumar in 1988. Voting control of Vecima is held by Dr. Kumar through either direct or indirect ownership of the Company's common shares. As at March 31, 2020, Dr. Kumar collectively owned approximately 60.2% of our common shares outstanding. Each common share carries the right to one vote. We have no other classes of voting securities.

COVID-19

We have been closely monitoring the impact of COVID-19. At this time, our industry is recognized as an essential service in the areas where we operate. We have taken steps to allow most of our workforce to work remotely. We have also implemented all of the social distancing and increased facility sanitization guidelines and suspended all travel. In addition, we have increased production where possible to get ahead of any staffing challenges we might encounter.

It is too soon to gauge the impacts of the current outbreak, given the many unknowns related to COVID-19. These include the duration and severity of the outbreak. COVID-19 is altering business and consumer activity in affected areas and beyond. The global response to the COVID-19 outbreak has resulted in, among other things, border closures, severe travel restrictions, the temporary shut-down of non-essential services and extreme fluctuations in financial and commodity markets. Additional measures may be implemented by one or more governments in jurisdictions where we operate. Labour shortages due to illness, Company or government imposed isolation programs, or restrictions on the movement of personnel or possible supply chain disruptions could result in a reduction or cessation of all or a portion of our operations. The extent to which COVID-19 and any other pandemic or public health crisis impacts our business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of the COVID-19 virus and the actions required to contain the COVID-19 virus or remedy its impact, among others.

The actual and threatened spread of COVID-19 globally could also have a material adverse effect on the economies in which we operate and could continue to negatively impact stock markets, including the trading price of our shares. Potential impacts include, but are not limited to, an impairment of long-lived assets, an impairment of short-term investments and a change in the estimated credit loss on accounts receivable.

Any of these developments, and others, could have a material adverse effect on our business, financial condition, operations and results of operations. In addition, because of the severity and global nature of the COVID-19 pandemic, it is possible that estimates in our financial statements will change in the near term and the effect of any such changes could be material, which could result in, among other things, an impairment of long-lived assets, impairments of short-term investments and a change in the estimated credit losses on accounts receivable.

Our financial priorities remain unchanged. Importantly we continue to have a very strong balance sheet. We are continuing with the payment of our quarterly dividend.

Outstanding Share Data

As at May 12, 2020, we had 22,431,882 common shares outstanding as well as stock options outstanding that are exercisable for an additional 423,325 common shares.

On December 17, 2018, we filed a Notice of Intention with the Toronto Stock Exchange to acquire for cancellation, by way of normal course issuer bid, up to 600,000 common shares of the Company. We acquired no common shares of Vecima for cancellation in Q3 fiscal 2020 and 10,356 common shares in fiscal 2019. The normal course issuer bid expired on December 19, 2019.

Subsequent to quarter-end, on January 2, 2020, we filed a Notice of Intention with the Toronto Stock Exchange to acquire for cancellation, by way of normal course issuer bid, up to 600,000 common shares of the Company. The normal course issuer bid commenced on January 6, 2020 and expires on January 5, 2021.

Additional Information

Financial Governance

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

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

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

Forward-Looking Information

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

Forward-looking information in this MD&A includes but is not limited to statements that: we are currently experiencing a slowdown in demand for some of our legacy Video and Broadband Solutions products as customers complete their digital networks and migrate to DOCSIS 3.1 and we expect our sales to recover as our new products in the DOCSIS 3.1 Entra platform are commercialized; we believe that our customer's need for new systems is nearing saturation, while we anticipate continued ordering activity for TerraceQAM through the balance of fiscal 2020, overall, we believe the deployment of the current generation platform is nearing saturation and we are working with customers on the next generation platform; asset held for sale represents a real estate property that the Company has sold and the deal will close on May 12, 2020; and we believe that our current cash and short-term investments of \$36.2 million together with anticipated cash flow from operations will be sufficient to meet our working capital requirements and capital expenditure requirements for the foreseeable future. Forward-looking information also includes our Strategy, our Industry Developments and our COVID-19 Business Update and Outlook in this MD&A.

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

There are known and unknown risk factors which could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information contained in this MD&A. Known risk factors include, among others: our statement of financial position, as well as the value of our core technologies, business operations and asset holdings may be significantly weaker than we currently estimate; our operating results are expected to fluctuate; we derive a substantial part of our revenue from a few key customers; we may be unable to deliver products associated with key contracts; failure to manage our business or growth successfully may adversely affect our operating results; if we cannot meet our customers' requirements for manufacturing capacity, sales may suffer; our success depends on our ability to develop new products and enhance our existing products; we are dependent on the expansion of our current distribution channels and the development of new distribution channels; the budgeting cycles of larger cable operators can also result in quarter to quarter variability in customer orders generally large in volume, while availability of parts and production capacity can influence the timing of product deliveries; our ability to recruit and retain management and other qualified personnel is crucial to our business; if we are required to change our pricing models to compete successfully, our margins and operating results may be adversely affected; our reliance on third party suppliers and contract manufacturers reduces our control over our performance; if our intellectual property is not adequately protected, we may lose our competitive advantage; successful warranty or product liability claims could harm our business; acquisitions could divert management's attention and financial resources, may negatively affect our operating results and could cause significant dilution to shareholders; risks associated with our international operations; currency fluctuations may adversely affect us; growth in our key markets may not continue; our inability to adapt to technological change, new products and standards could harm our business; increased competition could have an adverse effect on our business; competition from new or existing technologies may adversely affect our business; government regulation of our products and new government regulation could harm our business; third parties may allege that we infringe on their intellectual property, and epidemics, pandemics or other public health crises, including the current outbreak of COVID-19. 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.