

May 31, 2016

File No.: 245491-63

FILED BY SEDAR

Dear Sirs/Mesdames:

Re: DragonWave Inc. – Filing of Annual Report on Form 20-F

Reference is made to the filing today with the United States Securities and Exchange Commission of the Annual Report on Form 20-F of DragonWave Inc. (“DragonWave” or the “Company”) for the fiscal year ended February 29, 2016 in accordance with United States securities laws requirements (the “Form 20-F”).

In accordance with Canadian securities laws requirements, the Form 20-F is being filed, together with this letter, on SEDAR. The Form 20-F references as exhibits certain documents previously filed by the Company on SEDAR which have been incorporated by reference into the Form 20-F.

The following table identifies the documents incorporated by reference into the Form 20-F and the location and date of the SEDAR filing of such documents:

Exhibit Number in the Form 20-F	Description	Location and date of SEDAR filing under the Company’s SEDAR profile
1.0	Restated Articles of Incorporation of the Company	Filed under “Annual report on Form 20-F - English” on May 27, 2015 as Exhibit 1.0 to an annual report on Form 20-F of the Company
1.1	Amendment to Restated Articles of Incorporation	Filed under “Other securityholders documents – English” on February 2, 2016
1.2	Composite Form of By-Laws (as amended) of the Company	Filed under “Annual report on Form 20-F - English” on May 27, 2015 as Exhibit 1.1 to an annual report on Form 20-F of the Company
4.1	DragonWave Inc. Employee Share Purchase Plan	Filed under “Management information circular - English” on June 19, 2008 as Schedule “B” to a management proxy

Exhibit Number in the Form 20-F	Description	Location and date of SEDAR filing under the Company's SEDAR profile
		circular of the Company
4.2	DragonWave Inc. Sixth Amended and Restated Key Employee Stock Option Plan	Filed under "Management information circular - English" on May 17, 2013 as Appendix C to a management proxy circular of the Company
4.3	DragonWave Inc. Share Based Compensation Plan	Filed under "Management information circular - English" on May 27, 2014 as Appendix B to a management proxy circular of the Company

Yours truly,
Dentons Canada LLP

(signed) "*Lara Vos Smith*"

Lara Vos Smith

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 20-F

- ☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended February 29, 2016
OR
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File No. 001-34491

DRAGONWAVE INC.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of the Registrant's name into English)

Canada

(Jurisdiction of incorporation)

411 Legget Drive, Suite 600, Ottawa, Ontario, Canada K2K 3C9

(Address of principal executive offices)

Peter Allen

President and Chief Executive Officer

411 Legget Drive, Suite 600, Ottawa, Ontario, Canada, K2K 3C9

(613) 599-9991

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.:

Title of each class

Common Shares, no par value

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. As at February 29, 2016, 3,020,069 common shares of the Registrant were issued and outstanding.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such a shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒ International Financial Reporting Standards Other ☐
as issued by the International Accounting Standards Board ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow: Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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Information Contained in this Annual Report

All information in this Annual Report on Form 20-F, or our Annual Report, is presented as of February 29, 2016 unless otherwise indicated.

Unless the context requires otherwise, references in this Annual Report to “DragonWave”, “we”, “us”, “our” or “the Company” include DragonWave Inc., incorporated in Canada, DragonWave Corp., incorporated in the state of Delaware, USA, DragonWave Pte. Ltd., incorporated in Singapore, DragonWave S.à r.l., incorporated in Luxembourg, DragonWave Telecommunication Technology (Shanghai) Co., Ltd., incorporated in China, DragonWave Mexico S.A. de C.V., incorporated in Mexico, Axerra Networks Asia Pacific Limited, incorporated in Hong Kong, DragonWave India Private Limited, incorporated in India and DragonWave Inc.’s majority owned subsidiary, DragonWave HFCL India Private Limited, incorporated in India.

References in this Annual Report to “Nokia” or “NSN” refer to both Nokia Solutions and Networks and its predecessor business as carried on under the name Nokia Siemens Networks. Nokia is a trademark of Nokia Corporation or its affiliates.

Words importing the singular, where the context requires, include the plural and vice versa and words importing any general include all genders.

Unless otherwise indicated, all currency amounts referenced in this Annual Report are denominated in United States dollars.

Forward-Looking Statements

This Annual Report contains “forward-looking information” and “forward-looking statements” within the meaning of applicable Canadian and United States securities laws. All statements other than statements that are reporting results or statements of historical fact are forward-looking. All forward-looking information and forward-looking statements are necessarily based on a number of estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words “may”, “will”, “should”, “continue”, “expect”, “anticipate”, “estimate”, “believe”, “intend”, “plan” or “project” or the negative of these words or other variations on or synonyms of these words or comparable terminology. Forward-looking statements include, without limitation, statements regarding strategic plans, future production, sales and revenue estimates, cost estimates and anticipated financial results, capital expenditures, results attributable to mergers and acquisitions activities and other objectives.

There can be no assurance that forward-looking statements will prove to be accurate and actual results and outcomes could differ materially from those expressed or implied in such statements.

PART I

ITEM 1. Identity of Directors, Senior Management and Advisers.

Not applicable.

ITEM 2. Offer Statistics and Expected Timetable.

Not applicable.

ITEM 3. Key Information.

A. Selected Financial Data

The selected financial data set forth in the table below has been derived from our audited historical financial statements for each of the years from 2012 to 2016. The selected consolidated statement of operations data for the years 2016 and 2015 and the selected consolidated balance sheet data at February 29, 2016 and 2015 have been derived from our audited consolidated financial statements set forth in “Part III — Item 18. Financial Statements”. The selected consolidated statement of operations data for the years 2012 through 2014 and the selected consolidated balance sheet data at February 29, 2012, February 28, 2013 and February 28, 2014 have been derived from our previously published audited consolidated financial statements, which are not included in this Annual Report. This selected financial data should be read in conjunction with our consolidated financial statements and are qualified entirely by reference to such consolidated financial statements. We prepare our consolidated financial statements in U.S. dollars and in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”). You should read the consolidated financial data with the section of this Annual Report entitled “Part I — Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements and the notes to those financial set forth in “Part III — Item 18. Financial Statements”.

The tables are expressed in USD \$000’s except share and per share amounts.

Selected Consolidated Statements of Operation Data

	For the year ended				
	Feb 29 2012	Feb 28 2013	Feb 28 2014	Feb 28 2015	Feb 29 2016
Revenue	45,656	123,877	90,011	157,766	86,295
Gross Profit	16,401	19,501	10,663	27,994	13,971
Gross Profit %	35.9%	15.7%	11.8%	17.7%	16.2%
Operating Expenses	54,956	76,709	50,236	47,717	37,776
Loss before other items	(38,555)	(57,208)	(39,573)	(19,723)	(23,805)
Net loss applicable to shareholders	(33,481)	(54,749)	(34,242)	(21,520)	(42,304)
Net loss per share					
Basic & Diluted	(23.57)	(36.50)	(20.66)	(7.90)	(14.01)
Weighted average number of shares outstanding					
Basic & Diluted	1,420,267	1,499,832	1,657,535	2,724,467	3,019,259

Selected Consolidated Balance Sheet Data

	For the year ended				
	Feb 29 2012	Feb 28 2013	Feb 28 2014	Feb 28 2015	Feb 29 2016
Cash and cash equivalents	52,975	22,959	18,992	23,692	4,277
Trade receivables	9,850	35,452	17,408	48,626	18,986
Inventory	27,043	32,722	30,416	24,294	22,702
Total other current assets	5,570	19,989	5,978	5,895	2,777
Long term assets	24,683	23,872	18,326	18,546	4,325
Total assets	120,121	134,994	91,120	121,053	53,067
Total liabilities	18,056	79,384	49,677	76,285	48,840
Shareholders' equity	101,727	55,594	41,524	43,801	2,520
Shares issued and outstanding	1,423,448	1,521,931	2,320,349	3,011,632	3,020,069

Share Consolidation

On February 2, 2016, following shareholder approval at a special meeting held on January 26, 2016, we confirmed the consolidation (the "Consolidation") of our common shares on the basis of twenty-five (25) pre-Consolidation shares for one (1) post-Consolidation share. Unless otherwise noted, the information contained in this Annual Report is presented on a post-Consolidation basis.

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

The following are some of the important factors related to our business and industry that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements:

- limited cash resources and our dependence on our credit facilities and accommodations by our lenders and certain suppliers;
- our reliance on a small number of customers for a large percentage of revenue;
- our need for working capital will intensify if we are successful in winning new business;
- intense competition from several competitors;
- competition from indirect competitors;
- our history of losses;
- our ability to implement our ongoing program of operating cost reductions;
- our dependence on our ability to develop new products, enhance existing products and execute product roll-outs on a basis that meets customer requirements;
- our exposure to product warranty claims, and inventory and account receivables exposure in relation to recent product quality issues;
- our ability to successfully manage our resources;
- our dependence on our ability to manage our workforce and recruit and retain management and other qualified personnel;
- quarterly revenue and operating results that are difficult to predict and can fluctuate substantially;

- a lengthy and variable sales cycle;
- our reliance on suppliers, including outsourced manufacturing, third party component suppliers and suppliers of outsourced services;
- our ability to manage the risks related to increasingly complex engagements with channel partners and end-customers;
- pressure on our pricing models from existing and potential customers and as a result of competition;
- our exposure to credit risk for accounts receivable;
- our dependence on the development and growth of the market for high-capacity wireless communications services;
- the allocation of radio spectrum and regulatory approvals for our products;
- the ability of our customers to secure a license for applicable radio spectrum;
- changes in government regulation or industry standards that may limit the potential market for our products;
- currency fluctuations;
- our ability to protect our own intellectual property and potential harm to our business if we infringe the intellectual property rights of others;
- risks associated with software licensed by us;
- a change in our tax status or assessment by domestic or foreign tax authorities;
- exposure to risks resulting from our international sales and operations, including the requirement to comply with export control and economic sanctions laws;
- our exposure to potential product defects and product liability claims and health and safety risk relating to wireless products;
- the impact that general economic weakness and volatility may be having on our customers; and
- disruption resulting from economic and geopolitical uncertainty.

In particular, in our most recent fiscal year ended on February 29, 2016, approximately 44% of our sales were through the Nokia channel. Recent developments within Nokia, including Nokia's combination with Alcatel-Lucent, have resulted in our conclusion that new product sales through this channel are unlikely.

See "Part I — Item 4. "Information on our Business — Mergers & Acquisitions and Joint Ventures — Acquisition of Microwave Transport Business of NSN and Relationship with Nokia".

Additional risks related specifically to our securities include:

- risks associated with our outstanding warrants and the impact that the terms of such warrants have on our ability to raise capital and to undertake certain business transactions;
- risks associated with our ability to raise additional capital;
- large fluctuations in the trading price of our common shares;
- our actual financial results may vary from our publicly disclosed forecasts;
- expense and risks associated with being a U.S. public company and possible loss of our foreign private issuer status;
- expense and risks associated with the loss of our ability to use the multi-jurisdictional disclosure system ("MJDS") adopted by the United States and Canada;
- an investor may not be able to bring actions or enforce judgment against us and certain of our directors and officers;

- we do not currently intend to pay dividends on our common shares;
- tax consequences associated with an investment in our securities;
- future sales of common shares by our existing shareholders could cause our share price to fall;
- our management's broad discretion over the use of proceeds of financings; and
- certain Canadian laws could prevent or deter a change of control.

Readers should carefully consider the following risk factors in addition to the other information contained in this Annual Report. The risks and uncertainties below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business operations and cause the price of our common shares or other securities to decline. Any of the matters highlighted in the following risks could have a material adverse effect on our business, results of operations and financial condition. In that event, the trading price of our common shares or other securities could decline, and a purchaser of our common shares or other securities may lose all or part of his, her or its investment.

Risks Related to our Business and Industry

We have limited cash resources and we have had to depend on our credit facilities and accommodations by our lenders and certain suppliers.

While our objective is cash flow break-even from operations, given the volatility in our revenues we cannot accurately predict when that objective will be achieved, if at all. We intend to continue to rely on our revolving credit facilities to provide working capital to finance our operations. As discussed above, during the fiscal year ended February 29, 2016, we were in breach of certain covenants under our credit facilities and entered into a forbearance agreement with Comerica Bank. Subsequent to February 29, 2016, we entered into a new forbearance agreement which expired on May 18, 2016. We are currently negotiating a new forbearance agreement with our lenders.

We are dependent on the continued availability of these credit facilities or alternative sources of financing. Alternative sources of financing could include public or private debt or equity financings. Our ability to access our existing credit facilities and/or alternative sources of funding is heavily dependent on the rollout by our customers of large network enhancement projects which include a microwave backhaul component. If one of our current or targeted large customers significantly reduces or delays expected purchases of our products or services, our cash resources will be materially adversely affected.

In order to maintain our credit facilities in good standing, we must comply with bank covenants and carefully manage our cash. From time to time this places constraints on our ability to make investments and ramp up our operations.

In addition, we have benefited from a low interest environment. If interest rates increase, our costs of borrowing will increase, which may adversely affect our financial condition.

The Company relies on flexible payment terms from its suppliers as part of its working capital strategy. In some case, this has included extended payment terms. While we expect our suppliers to continue to support this approach, there can be no guarantee that our suppliers will continue to support the payment terms that we have relied on in the past, and any changes would result in further working capital pressures on the Company.

We rely on a small number of customers for a large percentage of our revenue.

Historically, we have relied on a small numbers of customers for a large percentage of our revenue. During the fiscal year ended February 29, 2016, we reshaped our channel strategy. Our revised strategy primarily positions our latest and new products directly to customers. We have been dependent, and expect that in at least the next twelve months we will continue to be dependent, on a small number of key customers. Nokia represented approximately 44% of our sales for the fiscal year ended February 29, 2016 and we expect this revenue to decline rapidly over time. Other key customers accounted for 15% and 11% of revenue respectively in the fiscal year ended February 29, 2016.

We are heavily dependent on the rollout by our customers of large network enhancement projects which include a microwave backhaul component for our revenue. These projects are capital intensive for our target customers and are subject uncertain timing and budgetary decisions. If one of our large customers significantly reduces or delays expected purchases of our products or services, our revenue will be adversely affected.

We generally supply products to our end-customers and channel partners on a purchase order basis and, accordingly, customers are under no ongoing obligation to buy our products. Our relationships with our end-customers and channel partners are generally not exclusive. To the extent that certain of our end-customers and channel partners regard us as a critical supplier of equipment, such customers and channel partners may choose to develop alternative sources of supply, such as our competitors, in order to mitigate actual or perceived risk to their own supply chains. If one or more of our end-customers or channel partners discontinues its relationship with us for any reason, or reduces or postpones current or expected purchases of our products or services, our business, results of operations and financial condition could be materially adversely affected.

Strategic transactions within the service provider market, such as consolidation as a result of mergers as well as divestitures and restructurings, may introduce uncertainty into our customers and prospective customers as they realign their businesses. This may delay orders for our products and services, cause orders to be cancelled or the use of our products to be discontinued, which would have a material adverse effect on our business, financial condition and results of operations.

Our need for working capital will intensify if we are successful in winning new business.

An increase in demand for our products, including through successfully winning new business, will increase our need for working capital to support the supply of such products to our customers. Spikes in demand as a result of the project-based nature of network deployments will strain our financial resources. To the extent that our working capital funding requirements exceed our financial resources, we will need to seek additional sources of debt or equity financing to support our working capital needs. Furthermore, additional financing may not be available on terms favorable to us, or at all. A failure to obtain additional financing could prevent us from making expenditures that may be required to respond effectively to an increase in demand for our products.

We face intense competition from several competitors and if we do not compete effectively with these competitors, our revenue may not grow and could decline.

We have experienced, and expect to continue to experience, intense competition from a number of companies. Among independent microwave vendors, we compete principally with Aviat Networks, Inc., Ceragon Networks Ltd., SIAE Microelettronica and NEC Corporation. Our existing and/or new competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards or deeply discount the price of their products. Further, new competitors or alliances among competitors could emerge. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on our business, financial condition and results of operations. Our competitors may also establish or strengthen co-operative relationships with sales channel partners or other parties with whom we have strategic relationships, thereby limiting our ability to promote and sell our products. For example, certain of our competitors are included in Nokia's recently introduced microwave ecosystem.

Some of our competitors and potential competitors have significantly greater financial, technical, marketing and/or service resources than us and/or have greater geographical reach to existing and prospective customers. Some of these companies also have a larger installed base of products, longer operating histories or greater name recognition than we do. Some of our competitors have the ability to offer vendor financing to their customers which we do not currently have nor expect to have in the foreseeable future. Customers for our products are particularly concerned that their suppliers will continue to operate and provide upgrades and maintenance for their products over a long-term period. Our relatively small size and short operating history may be considered negatively by current and prospective customers. In addition, our competitors may be able to respond more quickly than us to changes in end-user requirements and devote greater resources to the enhancement, promotion and sale of their products.

We face competition from indirect competitors.

In addition to direct competitors, we face competition from broadband technologies that compete with wireless transmission. Our products compete to a certain extent with other high-speed communications solutions, including fiber optic lines, digital subscriber line (“DSL”), free space optics, low and medium capacity point-to-point radios and other wireless technologies. Some of these technologies utilize existing installed infrastructure and have achieved significantly greater market acceptance and penetration than high-capacity broadband wireless technologies. Our wireless products and many other wireless products require a direct line of sight between antennas, potentially limiting deployment options and the ability to deploy products in a cost-effective manner. In addition, customers may wish to use transmission frequencies for which we do not offer products and, therefore, such customers may turn to our competitors to fulfill their requirements. We expect to face increasing competitive pressures from both current and future technologies in the broadband backhaul market. In light of these factors, the market for broadband wireless solutions may fail to develop or may develop more slowly than expected. Any of these outcomes could have a material adverse effect on our business, results of operations and financial condition.

We have a history of losses and cannot provide assurance that we will achieve profitability. If we fail to do so, our share price may decline.

We expect our expenses will be managed in light of short term and long term revenue opportunities. We cannot provide assurance that we will be able to achieve profitability on a quarterly or annual basis. Our business strategies may be unsuccessful. If short term and long term revenue opportunities do not come to fruition, this will impact our ability to achieve profitability. If we are not able to achieve profitability, our share price may decline and we may require additional financing, which may not be available to us.

We depend on our ability to implement our ongoing program of operating cost reductions.

Our future success depends on both growing revenues and our ability to effectively implement our ongoing cost control and efficiency programs. There can be no guarantee that we will be able to successfully reduce our operating costs.

Our success depends on our ability to develop new products, enhance existing products, and execute product roll-outs on a basis that meets customer requirements.

The markets for our products are characterized by rapidly changing technology, evolving industry standards and increasingly sophisticated customer requirements. The introduction of products embodying new technology and the emergence of new industry standards can render our existing products obsolete and unmarketable and can exert price pressures on existing products. Our success depends on our ability to anticipate and react quickly to changes in technology or in industry standards and to successfully develop and introduce new, enhanced and competitive products on a timely basis. In particular, the continued acceptance and future success of our product offerings will depend on the capacity of those products to handle growing volumes of traffic, their reliability and security, and their cost-effectiveness compared to competitive product offerings. We cannot give assurance that we will successfully develop new products or enhance and improve our existing products, that new products and enhanced and improved existing products will achieve market acceptance, or that the introduction of new products or enhanced existing products by others will not render our products obsolete. Our inability to develop products that are competitive in technology and price and that meet customer needs could have a material adverse effect on our business, financial condition and results of operations. Accelerated product introductions and short product life cycles require high levels of expenditure for research and development that could adversely affect our operating results. Further, any new products that we develop could require long development and testing periods and may not be introduced in a timely manner or may not achieve the broad market acceptance necessary to generate significant revenue.

If a new product does receive market acceptance, it is often necessary to adapt our supply chain rapidly in order to meet customer expectations and demand. Constraints caused by component suppliers and outsourced manufacturers can slow the pace of new product rollouts, adversely affecting our business, financial condition and results of operations.

As we develop new products, our older products will reach the end of their lives. As we discontinue the sale of these older products, we must manage the liquidation of inventory, supplier commitments and customer expectations. Part of our inventory may be written off, which would increase our cost of sales. In addition, we may be exposed to losses on inventories purchased by our contract manufacturers. If we or our contract manufacturers are unable to properly manage the discontinuation of older products and/or if we are unable to secure customer acceptance of new products, our business, financial condition and results of operations could be materially and adversely affected.

We are subject to product warranty claims and inventory and account receivables exposure in relation to recent product quality issues.

As discussed under “Part I — Item 8. Financial Statements — A. Consolidated Financial Statements and Other Financial Information”, in January 2016, an arbitration process was initiated with a customer in India to resolve a dispute over inventory shipped to them in June 2015. The value of the inventory shipped is \$4.7 million. The customer has submitted their claim statement which we feel has no merit. We will submit a counter-claim for the material shipped, orders cancelled and other damages in June 2016. The arbitration hearing is set for July, 2016. As of the date of this Annual Report, the outcome of this matter is not determinable but there can be no guarantee that the arbitration decision in this matter will be favorable to us.

Future revenue opportunities through our channel partners is uncertain.

We are dependent upon our ability to establish and develop new relationships and to build on existing relationships with channel partners to sell our current and future products and services. We cannot provide assurance that we will be successful in maintaining or building on our relationships with channel partners. In addition, we cannot provide assurance that our channel partners will act in a manner that will promote the success of our products and services. Failure by channel partners to promote and support our products and services could adversely affect our business, results of operations and financial condition.

In our fiscal year ended February 29, 2016 our principal channel partner was Nokia. Our sales through the Nokia channel accounted for 44% of our revenues in the 2016 fiscal year. As discussed above, we expect sales through the Nokia channel to decrease significantly and rapidly as a result of Nokia’s acquisition of Alcatel-Lucent and its competing microwave product lines. See “Part I — Item 4. “Information on our Business — Mergers & Acquisitions and Joint Ventures — Acquisition of Microwave Transport Business of NSN and Relationship with Nokia”.”.

Most of our channel partners also sell products and services of our competitors. If some of our competitors offer their products and services to our channel partners on more favorable terms or have more products or services available to meet their needs, there may be pressure on us to reduce the price of our products or services or increase the commissions payable to channel partners, failing which our channel partners may stop carrying our products or services or de-emphasize the sale of our products and services in favor of the products and services of our competitors.

We believe that channel partners exert significant influence on customer purchasing decisions, especially purchasing decisions by large service provider customers. In particular, large service provider customers may choose to adopt strategies to limit the number of channel partners and/or equipment vendors for their network builds, or only contract with channel partners that offer “end to end” solutions, to address interoperability concerns among other reasons. This approach may reduce our opportunities to sell directly to end-customers and increase our reliance on our channel partners. In addition, several of our channel partners have developed their own microwave solutions internally. To the extent that our channel partners have or acquire their own microwave solutions that compete with our products, our relationships with these channel partners could be materially adversely affected.

Mergers and consolidations among channel partners could disrupt our sales channels, particularly if a merger partner introduces its own internal microwave solution into one of our established channel partners.

We are also directly and indirectly exposed to developments in our channel partners’ businesses. Competition in the mobile broadband infrastructure and related services market is intense. Our channel

partners may be unable to maintain or improve their market position or respond successfully to changes in the competitive environment. Our channel partners may fail to effectively and profitably invest in new competitive products, services, upgrades and technologies and bring them to market in a timely manner. To the extent that our business depends on our channel partners, the failure of our channel partners to adopt successful strategies and grow their own businesses could have a material adverse effect on our business, results of operations and financial condition.

Failure to successfully manage our managerial, financial and human resources through spikes in demand may adversely impact our operating results.

Given the project-based nature of deployments, we experience spikes in demand that are unpredictable and can place a strain on managerial, financial and human resources. Our ability to manage future growth will depend in large part upon a number of factors, including our ability to rapidly:

- build a network of channel partners to create an expanding presence in the evolving marketplace for our products and services;
- build a sales team to keep customers and channel partners informed regarding the technical features, issues and key selling points of our products and services;
- attract and retain qualified technical personnel in order to continue to develop reliable and flexible products and provide services that respond to evolving customer needs;
- develop support capacity for customers as sales increase, so that we can provide post-sales support without diverting resources from product development efforts; and
- expand our internal management and financial controls significantly, so that we can maintain control over our operations and provide support to other functional areas.

Our inability to achieve any of these objectives could harm our business, financial condition and results of operations.

Our ability to manage our workforce, recruit and retain management and other qualified personnel is crucial to our ability to develop, market, sell and support our products and services.

We depend on the services of our key technical, sales, marketing and management personnel. The loss of any of these key persons could have a material adverse effect on our business, results of operations and financial condition. Our success is also highly dependent on our continuing ability to identify, hire, train, motivate and retain highly qualified technical, sales, marketing and management personnel. Competition for such personnel can be intense, and we cannot provide assurance that we will be able to attract or retain highly qualified technical, sales, marketing and management personnel in the future. Stock options and other share based compensation comprise a significant component of our compensation of key employees, and if our share price declines, it may be difficult to recruit and retain such individuals. The size of our pool for share based awards (including options) may limit our ability to use equity incentives as a means to recruit and retain key employees. Our inability to attract and retain the necessary technical, sales, marketing and management personnel may adversely affect our future growth and profitability. We have recently implemented reductions in the salaries of our executive officers. In the future, it may be necessary for us to increase the level of compensation paid to existing or new employees to a degree that our operating expenses could be materially increased. We do not currently maintain corporate life insurance policies on key employees.

As we expand globally, we may add to our workforce in jurisdictions where it is common or legally required for employees to be unionized. In such case, we may become dependent on maintaining good relations with our workforce in order to, among other things, minimize the possibility of strikes, lock-outs and other stoppages that could affect our operations. Relations with our employees may be impacted by changes in labour relations which may be introduced by, among other things, employee groups, unions, and the relevant governmental authorities in whose jurisdictions we carry on business. Labour disruptions that directly or indirectly affect any of our operations could have a material adverse impact on our business, results of operations and financial condition.

Our quarterly revenue and operating results can be difficult to predict and can fluctuate substantially.

Our revenue is difficult to forecast, is likely to fluctuate significantly and may not be indicative of our future performance from quarter to quarter. In addition, our operating results may not follow any past trends. The factors affecting our revenue and results, many of which are outside of our control, include:

- competitive conditions in our industry, including strategic initiatives by us or our competitors, new products or services, product or service announcements and changes in pricing policy by us or our competitors;
- market acceptance of our products and services;
- our ability to maintain existing relationships and to create new relationships with channel partners;
- varying size, timing and contractual terms of orders for our products, which may delay the recognition of revenue;
- the project-based nature of deployments of our products;
- the discretionary nature of purchase and budget cycles of our customers and changes in their budgets for, and timing of, equipment purchases;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- general weakening of the economy resulting in a decrease in the overall demand for telecommunications products and services or otherwise affecting the capital investment levels of service providers;
- timing of product development and new product initiatives; and
- the length and variability of the sales cycles for our products.

Because our quarterly revenue is dependent upon a relatively small number of transactions, even minor variations in the rate and timing of conversion of our sales prospects into revenue could cause us to plan or budget inaccurately, and those variations could adversely affect our financial results. Delays or reductions in the amount or cancellations of customers' purchases would adversely affect our business, results of operations and financial condition.

We have a lengthy and variable sales cycle.

It is difficult for us to forecast the timing of revenue from sales of our products because our customers typically invest substantial time, money and other resources researching their needs and available competitive alternatives before deciding to purchase our products and services. Typically, the larger the potential sale, the more time, money and other resources will be invested by customers. As a result, it may take many months after our first contact with an end-customer before a sale can actually be completed. In addition, we rely on our channel partners to sell our products to customers and, therefore, our sales efforts are vulnerable to delays at both the channel partner and the end-customer level.

During these long sales cycles, events may occur that affect the size or timing of the order or even cause it to be cancelled, including:

- purchasing decisions may be postponed, or large purchases reduced, during periods of economic uncertainty;
- we or our competitors may announce or introduce new products or services;
- our competitors may offer lower prices on similar products; or
- budget and purchasing priorities of customers may change.

If these events were to occur, sales of our products or services may be cancelled or delayed, which would reduce our revenue.

We rely on our suppliers to supply components for our products and we are exposed to the risk that these suppliers will not be able to supply components on a timely basis, or at all.

The manufacturers of our products depend on obtaining adequate supplies of components on a timely basis. We source several key components used in the manufacture of our products from a limited number of suppliers, and in some instances, a single source supplier.

In addition, these components are often acquired through purchase orders and we may have no long-term commitments regarding supply or pricing from our suppliers. Lead-times for various components may lengthen, which may make certain components scarce. As component demand increases and lead-times become longer, our suppliers may increase component costs. We also depend on anticipated product orders to determine our materials requirements. Lead-times for limited-source materials and components can be as long as six months, vary significantly and depend on factors such as the specific supplier, contract terms and demand for a component at a given time. From time to time, shortages in allocations of components have resulted in delays in filling orders. Shortages and delays in obtaining components in the future could impede our ability to meet customer orders. Any of these sole source or limited source suppliers could stop producing the components, cease operations entirely, or be acquired by, or enter into exclusive arrangements with, our competitors. As a result, these sole source and limited source suppliers may stop selling their components to our outsourced manufacturers at commercially reasonable prices, or at all. Any such interruption, delay or inability to obtain these components from alternate sources at acceptable prices and within a reasonable amount of time would adversely affect our ability to meet scheduled product deliveries to our customers and reduce margins realized.

Alternative sources of components are not always available or available at acceptable prices. In addition, we rely on, but have limited control over, the quality, reliability and availability of the components supplied to us. If we cannot manufacture our products due to a lack of components, or are unable to redesign our products with other components in a timely manner, our business, results of operations and financial condition could be adversely affected.

Our dependence and exposure on component suppliers is heightened when we introduce new products. New products frequently include components that we do not use in other product lines. When we introduce new products, we must secure reliable sources of supply for those products at volumes that will be dictated by end-customer demand. Demand is often difficult to predict until the new product is better established. Constraints in our supply chain can slow the progress of new product roll-outs, adversely affecting our business, results of operations and financial condition.

We rely primarily upon two outsourced manufacturers for manufacturing and we are exposed to the risk that these manufacturers will not be able to satisfy our manufacturing needs on a timely basis.

We do not have any internal manufacturing capabilities and we rely upon a small number of outsourced manufacturers to manufacture our products. Substantially all of our products are currently manufactured by Jabil and Plexus. See “Part I — Item 4. Information on the Company — B. An Overview of our Business — Our Production and Repair Capabilities”. Our ability to ship products to our customers could be delayed or interrupted as a result of a variety of factors relating to our outsourced manufacturers, including:

- our outsourced manufacturers not being obligated to manufacture our products on a long-term basis in any specific quantity or at any specific price;
- early termination of, or failure to renew, contractual arrangements;
- our failure to effectively manage our outsourced manufacturer relationships;
- our outsourced manufacturers experiencing delays, disruptions or quality control problems in their manufacturing operations;
- lead-times for required materials and components varying significantly and being dependent on factors such as the specific supplier, contract terms and the demand for each component at a given time;
- underestimating our requirements, resulting in our outsourced manufacturers having inadequate materials and components required to produce our products, or overestimating our requirements,

resulting in charges assessed by the outsourced manufacturers or liabilities for excess inventory, each of which could negatively affect our gross margins;

- the possible absence of adequate capacity and reduced control over component availability, quality assurances, delivery schedules, manufacturing yields and costs; and
- our outsourced manufacturers experiencing financial instability which could affect their ability to manufacture or deliver our products.

Although we believe that Jabil and Plexus have sufficient economic incentive to perform our manufacturing, the resources devoted to these activities by Jabil and Plexus are not within our control, and there can be no assurance that manufacturing problems will not occur in the future. Insufficient supply or an interruption or stoppage of supply from Jabil and Plexus or our inability to obtain additional manufacturers when and if needed, could have a material adverse effect on our business, results of operations and financial condition.

If any of our outsourced manufacturers are unable or unwilling to continue manufacturing our products in required volumes and quality levels, we will have to identify, qualify, select and implement acceptable alternative manufacturers, which would likely be time consuming and costly. In addition, an alternate source may not be available to us or may not be in a position to satisfy our production requirements at commercially reasonable prices and quality. Therefore, any significant interruption in manufacturing would result in us being unable to deliver the affected products to meet our customer orders, which could have a material adverse effect on our business, results of operations and financial condition.

Our engagements with our channel partners and end-customers are increasingly complex, particularly for large network deployments, and failure to execute may result in commercial penalties or liquidated damages.

Some of the projects for which we offer products and services are increasing in size and complexity, both on a technical level and in terms of required interaction with our channel partners. The larger and more complex such projects are, the greater the risks associated with such projects. These risks may include exposure to penalties and liabilities resulting from a breach of contract, failure to deliver on the agreed product roadmap or warranted features, failure to resolve product quality or performance issues, failure to meet delivery lead times, or failure to effectively integrate our products with third party products.

We have to reduce our prices from time to time in response to intense competition. If we are required to change our prices in future to compete successfully, our margins and operating results may be adversely affected.

The intensely competitive market in which we conduct our business has required us to reduce our prices, and may require us to do so in the future. If our competitors offer deep discounts on certain products or services in an effort to recapture or gain market share or to sell other products and services, we may be required to lower our prices or offer other favorable terms to compete successfully. In the past, certain changes in our pricing models have had a negative impact on our margins and operating results. Any such changes in the future could reduce our margins and could adversely affect our operating results.

We may be adversely affected by credit risk.

We are exposed to credit risk for accounts receivable in the event that counterparties do not meet their obligations. We attempt to mitigate our credit risk to the extent possible by performing credit reviews. Both economic and geopolitical uncertainty can influence the ultimate collectability of these receivable amounts. Failure to collect outstanding receivables could have a material adverse effect on our business, results of operations and financial condition.

Our growth is dependent on the development and growth of the market for high-capacity wireless communications services.

The market for high-capacity wireless communications services is still emerging and the market demand, price sensitivity and preferred business model to deliver these services remain highly uncertain. Our growth is dependent on, among other things, the size and pace at which the market for high-capacity wireless communications services develops. If this market does not gain widespread acceptance and declines, remains

constant or grows more slowly than anticipated, we may not be able to grow or sustain our growth, and our overall revenues and operating results will be materially and adversely affected.

In particular, our products are optimized for service providers that wish to deploy networks based on emerging 3G+ technologies such as High-Speed Packet Access (“HSPA”), and Long-Term Evolution (“LTE”). There can be no assurance that there will be sufficient end-user demand for services offered using these emerging network technologies. Other competing technologies may be developed that have advantages over these emerging technologies, and service providers of other networks based on these competing technologies may be able to deploy their networks at a lower cost, which may allow these service providers to compete more effectively.

Service providers that do choose to deploy emerging technologies for high-capacity wireless communications services are also dependent on suppliers other than us in order to build and operate their networks. If these third party suppliers are unsuccessful in developing the network components, subscriber equipment and other equipment required by our customers in a timely and cost-efficient manner, network deployments by our customers and demand for our products will be materially and adversely affected.

If sufficient radio spectrum is not allocated for use by our products or if we fail to obtain regulatory approval for our products, our ability to market our products may be restricted.

Radio communications are subject to significant regulation in North America, Europe, India and other jurisdictions in which we sell our products. Generally, our products must conform to a variety of national and international standards and requirements established to avoid interference among users of radio frequencies and to permit the interconnections of telecommunications equipment. In addition, our products are affected by the allocation and licensing (by auction or other means) of radio spectrum by governmental authorities. Such governmental authorities may not allocate or license sufficient radio spectrum for use by prospective customers of our products. Historically, in many developed countries, the lack of availability of commercial radio spectrum or the failure by governments to license that spectrum has inhibited the growth of wireless telecommunications networks.

In order to sell our products in any given jurisdiction, we must obtain regulatory approval for our products. Each jurisdiction in which we market our products has its own rules relating to such approval. Products that support emerging wireless telecommunications services can be marketed in a jurisdiction only if permitted by suitable radio spectrum allocations and regulations, and the process of establishing new regulations is complex and lengthy.

Any failure by regulatory authorities to allocate suitable and sufficient radio spectrum to potential customers in a timely manner could adversely and materially impact demand for our products and may result in the delay or loss of potential orders for our products. In addition, any failure by us to obtain or maintain the proper regulatory approvals for our products could have a material adverse effect on our business, financial condition and results of operations.

If our current or prospective customers are unable to secure a license for applicable radio spectrum or other regulatory approvals to operate as a service provider, the customer may not be permitted to deploy or operate a wireless network using our products.

Our products operate primarily on government-licensed radio frequencies. Users of our products must either have a spectrum license to operate and provide communications services in the applicable frequency or must acquire the right to do so from another license holder. In many jurisdictions, regulatory approvals are also required in order to operate a telecommunications or radio-communications network. Obtaining such licenses and other approvals is a lengthy process and is subject to significant uncertainties, including uncertainties as to timing and availability. There can be no assurance as to when any government may license radio spectrum or as to whether our customers will be successful in securing, maintaining or renewing any necessary spectrum licenses or other regulatory approvals.

In addition, if a license holder of such radio spectrum files for liquidation, dissolution or bankruptcy, substantial time could pass before its licenses are transferred, cancelled, reissued or made available by the

applicable government licensing authority. Until the licenses are transferred, cancelled, reissued or otherwise made available, other operators may be precluded from operating in such licensed spectrum, which could decrease demand for our products. In addition, if the authorities choose to revoke licenses for certain radio frequencies, demand for our products may decrease as well.

Changes in government regulation, or industry standards, may limit the potential markets for our products. We may need to modify our products, which may increase our product costs and adversely affect our ability to become profitable.

Radio frequencies are subject to extensive regulation both nationally and internationally. The emergence or evolution of regulations and industry standards for wireless products, through official standards committees or widespread use by operators, could require us to modify our systems. This may be expensive and time-consuming. Each country has different regulations and procedures for the approval of wireless communications equipment and the uses of radio spectrum in association with that equipment. If new industry standards emerge that we do not anticipate, our products could be rendered obsolete.

We may be adversely affected by currency fluctuations.

The majority of our revenue and direct cost of sales is earned and incurred in U.S. dollars, while our operating expenses are (or have been) incurred in Canadian dollars, Israeli shekels, Chinese renminbi, U.S. dollars and EUROS. Fluctuations in the exchange rate between the U.S. dollar and other currencies, such as the Canadian dollar, may have a material adverse effect on our business, financial condition and operating results. As of March 1, 2010, we adopted the U.S. dollar as our functional and reporting currency. This was a result of the shift over time of the proportion of our revenues and expenses in U.S. dollars. We do not currently engage in transactional hedging schemes but we do attempt to hedge or mitigate the risk of currency fluctuations by actively monitoring and managing our foreign currency holdings relative to our foreign currency expenses.

If our intellectual property is not adequately protected, we may lose our competitive advantage.

Our success depends in part on our ability to protect our rights in our intellectual property. We rely on various intellectual property protections, including patents, copyright, trade-mark and trade secret laws and contractual provisions, to preserve our intellectual property rights. Our present protective measures may not be adequate or enforceable to prevent misappropriation of our technology or to prevent a third party from developing the same or similar technology. Despite our precautions, it may be possible for third parties to obtain and use our intellectual property without our authorization. Policing unauthorized use of intellectual property is difficult, and some foreign laws and jurisdictions do not protect proprietary rights to the same extent as the laws of Canada or the United States.

To protect our intellectual property, we may become involved in litigation, which could result in substantial expenses, divert management's attention, cause significant delays, materially disrupt the conduct of our business or adversely affect our revenue, financial condition and results of operations.

Our business may be harmed if we infringe on the intellectual property rights of others.

Our commercial success depends, in part, upon us not infringing intellectual property rights owned by others. A number of our competitors and other third parties have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used by us in our products. Some of these patents may grant very broad protection to the owners of the patents. We cannot determine with certainty whether any existing third party patents or the issuance of any third party patents would require us to alter our technology, obtain licenses or cease certain activities. We may become subject to claims by third parties that our technology infringes their intellectual property rights due to the growth of products in our target markets, the overlap in functionality of these products and the prevalence of products. Aggressive patent litigation is not uncommon in our industry and can be disruptive. We may become subject to these claims either directly or through indemnities against these claims that we routinely provide to our customers and channel partners. In some of our agreements we do not have a limit on our liability for such claims and therefore a successful claim could result in significant liability to us.

In addition, we have received, and may receive in the future, claims from third parties asserting infringement and other related claims. Litigation may be necessary to determine the scope, enforceability and validity of such third party proprietary rights or to establish our proprietary rights. Some of our competitors have, or are affiliated with companies having, substantially greater resources than us and these competitors may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than us. Regardless of their merit, any such claims could:

- be time consuming to evaluate and defend;
- result in costly litigation;
- cause product shipment delays or stoppages;
- divert the attention and focus of our management and technical personnel away from our business;
- subject us to significant damages, noting that in the United States plaintiffs may be entitled to treble damages if intellectual property infringement is found to be willful;
- subject us to significant other liabilities, including liability to indemnify end-customers pursuant to standard contractual indemnities entered into by us in favor of those customers;
- require us to enter into costly royalty or licensing agreements to avoid or settle infringement litigation; and
- require us to modify, rename or stop using the infringing technology.

We may be prohibited from developing or commercializing certain technologies and products unless we obtain a license from a third party. There can be no assurance that we will be able to obtain any such license on commercially favorable terms, or at all. If we do not obtain such a license, our business, results of operations and financial condition could be materially adversely affected and we could be required to cease related business operations in some markets and to restructure our business to focus on operations in other markets.

Moreover, license agreements with third parties may not include all intellectual property rights that may be issued to or owned by the licensors, and future disputes with these parties are possible. Current or future negotiations with third parties to establish license or cross license arrangements, or to renew existing licenses, may not be successful and we may not be able to obtain or renew a license on satisfactory terms, or at all. If we cannot obtain required licenses, or if existing licenses are not renewed, litigation could result.

If we lose our rights to use software we currently license from third parties, we could be forced to seek alternative technology, which could increase our operating expenses and could adversely affect our ability to compete.

We license certain software used in our products from third parties, generally on a non-exclusive basis. The termination of any of these licenses, or the failure of the licensors to adequately maintain or update their software, could delay our ability to ship our products while we seek to implement alternative technology offered by other sources and could require significant unplanned investments on our part if we are forced to develop alternative technology internally. In addition, alternative technology may not be available to us on commercially reasonable terms from other sources. In the future, it may be necessary or desirable to obtain other third party technology licenses relating to one or more of our products or relating to current or future technologies to enhance our product offerings. There is a risk that we will not be able to obtain licensing rights to the needed technology on commercially reasonable terms, or at all.

We are subject to taxation and review by international tax authorities as we continue to operate globally, which may adversely affect our business, financial condition and results of operations.

We operate in various tax jurisdictions throughout the world and also generate revenues through international sales efforts. A change in our tax status or assessment by domestic or foreign tax authorities may adversely impact our operating results. While we believe that all of our tax positions are reasonable and correctly determined, there can be no assurance that applicable tax authorities will agree with those positions.

Our international sales and operations subject us to additional risks that can adversely affect our operating results.

Our business model is to sell our products across the world in jurisdictions where service providers are building new communications networks or expanding existing networks, and our sales and operations are, therefore, global in nature. As a result of the completion of the NSN Transaction (as defined below), our exposure to international markets was significantly increased. Our current and future international operations subject us to a variety of risks, including:

- difficulty managing and staffing foreign offices and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- increased time and costs to ensure adequate business interruption controls, processes and facilities;
- increased time and costs to manage and evolve financial reporting systems, maintain effective financial disclosure controls and procedures, and comply with corporate governance requirements in multiple jurisdictions;
- increased costs and potential disruption of facilities transitions required in some business acquisitions;
- increased exposure to global social, political and economic instability, and changes in economic conditions;
- potential increased exposure to liability or damage of reputation resulting from a higher incidence of corruption or unethical business practices in some countries;
- difficulties in enforcing contracts, collecting accounts receivable and longer payment cycles, especially in emerging markets;
- the need to localize our products and licensing programs for international customers;
- tariffs, trade barriers, compliance with customs regulations and other regulatory or contractual limitations on our ability to sell or develop our products in certain foreign markets;
- increased exposure to foreign currency exchange rate risk;
- reduced protection and limited enforcement for intellectual property rights in some countries; and
- potential increased exposure to natural disasters, epidemics and acts of war or terrorism.

Because our products are sold and marketed in different countries, the products must function in and meet the requirements of many different environments and be compatible with various systems and products. If our products fail to meet these requirements, this could negatively impact on sales and have a material adverse effect on our business, results of operation and financial condition. If we are unable to successfully address the potential risks associated with our overall international operations, our operating results and financial condition may be negatively impacted.

We are subject to government regulations concerning our products and their sale and export and our failure or inability to comply with these regulations could materially restrict our operations and subject us to penalties.

As discussed above, our sales and operations are global in nature and we must comply with applicable export control and economic sanctions laws. Canadian export control and economic sanctions laws govern any information, products or materials that we ship from Canada or otherwise provide to non-Canadian persons. On May 27, 2009 and August 14, 2009, we filed a ‘non-compliance report’ with Canada’s Export and Import Controls Bureau (“EICB”) relating to our inadvertent non-compliance with the requirement to obtain an export permit covering certain of our products and a number of export sales and electronic transfers of these products since October 2004. While there can be no assurance that the Government of Canada will not exercise its discretion to impose penalties or impose conditions with respect to the issuance of new export permits in respect of the past acts of non-compliance, since the time we first reported past non-compliance on May 27, 2009, the EICB, on November 26, 2009, granted us a broad-based export permit for a period of two years. We have subsequently been issued a new broad-based export permit that is valid until November 2017. Regardless of its past practice, if the EICB elects to decline the issuance of further export permits or deems us to be in

non-compliance of such permits based on continuing disclosure, our ability to continue to export our products could be restricted which could materially disrupt the conduct of our business or adversely affect our revenue, financial condition and results of operations.

Finally, although we are a Canadian company, certain of our business transactions are also governed by U.S. export control requirements, including the export of items containing more than *de minimis* amounts of U.S. controlled content. While we are not aware of any instances of non-compliance with U.S. licensing requirements for hardware or technology exports made during the past five years, our internal review raised questions concerning certain past internet-based transfers of software (some of which apparently contained small amounts of low-level encryption for networking), and we filed a voluntary disclosure with the U.S. Department of Commerce.

In addition to government regulations regarding sale and export, we are subject to other regulations regarding our products. For example, the SEC has adopted disclosure rules for companies that use conflict minerals in their products, with substantial supply chain verification requirements in the event that the materials come from, or could have come from, the Democratic Republic of the Congo or adjoining countries. These new rules and verification requirements may impose additional costs on us and on our suppliers, and may limit the sources or increase the prices of materials used in our products. Further, if we are unable to certify that our products are conflict free, we may face challenges with our customers, which could place us at a competitive disadvantage, and our reputation may be harmed.

Defects in our products could result in significant costs to us and could impair our ability to sell our products.

Our products are complex and, accordingly, they may contain defects or errors, particularly when first introduced or as new versions are released. We may not discover such defects or errors until after a product has been released and used by our end-customers. Defects and errors in our products could materially and adversely affect our reputation, result in significant costs to us, delay planned release dates and impair our ability to sell our products in the future. The costs we incur correcting any product defects or errors may be substantial and could adversely affect our operating margins. While we plan to continually test our products for defects and errors and work with customers through our post-sales support services to identify and correct defects and errors, defects or errors in our products may be found in the future.

During the deployment phase with a new Tier 1 customer in India we experienced an unexpected problem with our product. Our root cause analysis identified the cause of the problem and a plan was developed which would fully address the problem through a retrofit. Replacement parts for the retrofit involve a well-known and reliable technology and are readily available. The customer was advised of this solution, however the deployment has not resumed and the customer has initiated an arbitration process with the Company. We continue to pursue a resolution to this matter and we may face additional costs associated with this situation. See “Part I – Item 8. Financial Statements – A. Consolidated Financial Statements and Other Financial Information” below.

If a successful product liability claim were made against us, our business could be seriously harmed.

Our agreements with our customers typically, although not always, contain provisions designed to limit our exposure to potential product liability claims. Despite this, it is possible that these limitations of liability provisions may not be effective as a result of existing or future laws or unfavorable judicial decisions. We have not experienced a material product liability claim to date; however, the sale and support of our products may entail the risk of those claims, which are likely to be substantial in light of the use of our products in critical applications. A successful product liability claim could result in significant monetary liability to us and could seriously harm our business.

A general global economic downturn may negatively affect our customers and their ability to purchase our products. A downturn may decrease our revenues and increase our costs and may increase credit risk with our customers and impact our ability to collect accounts receivable and recognize revenue.

Since the middle of 2008, there has been global economic uncertainty, including reduced economic growth, reduced confidence in financial markets, bank failures and credit availability concerns. Disruptions in the financial markets have had and may continue to have an adverse effect on the U.S. and world economies, which

could adversely and materially impact business spending patterns. Tightening of credit in financial markets could adversely affect the ability of our customers and suppliers to obtain financing for significant purchases and operations and could result in a decrease in or cancellation of orders for our products.

Economic downturns may exacerbate some of the other risks that affect our business, results of operations and financial condition. A tighter credit market for consumer, business, and service provider spending may have several adverse effects, including reduced demand for our products, increased price competition or deferment of purchases and orders by our customers. Additional effects may include increased demand for customer finance, difficulties in collection of accounts receivable and increased risk of counterparty failures.

We may be negatively affected by geopolitical uncertainty.

The market for our products depends on geopolitical conditions affecting the broader market. Acts of terrorism and the outbreak of hostilities and armed conflicts between countries can create geopolitical uncertainties that may affect the global economy. We have conducted significant business in the Middle East which has recently been subject to increased political tensions and changes. Some of these changes have in fact affected our ability in recent fiscal years to do business in this region. Downturns in the economy or geopolitical uncertainties may cause our customers to delay or cancel projects, reduce their overall capital or operating budgets or reduce or cancel orders for our products, which could have a material adverse effect on our business, results of operations and financial condition.

There may be health and safety risks relating to wireless products.

Our wireless communications products emit electromagnetic radiation. In recent years, there has been publicity regarding, and increased public attention with respect to, the potentially negative direct and indirect health and safety effects of electromagnetic emissions from cellular telephones and other wireless equipment sources, including allegations that these emissions may cause cancer. Health and safety issues related to our products may arise that could lead to litigation or other actions against us or to additional regulation of our products. We may be required to modify our technology and may not be able to do so. We may also be required to pay damages that may reduce our profitability and adversely affect our financial condition. Even if these concerns prove to be baseless, the resulting negative publicity could affect our ability to market our products and, in turn, could harm our business and results of operations.

Risks Related to our Common Shares & Warrants
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Price adjustment provisions in our outstanding 2013 Warrants may make it more difficult and expensive for us to raise additional capital in the future.

The 2013 Warrants (as defined below) issued in the 2013 Offering (as defined below) provide that the exercise price will adjust to the lowest price per share at which we sell or issue or are deemed to sell or issue additional shares (with certain exceptions) (a “full-ratchet” adjustment). Because these price adjustment provisions will have the effect of lowering the price at which our common shares are issued upon exercise of the Warrants, if we are unable to raise additional capital at an effective price per share that is higher than the exercise price of these Warrants, these provisions may make it more difficult and more expensive for us to raise capital in the future. As of the date of this Annual Report there are 2,088,750 of the 2013 Warrants outstanding exercisable for up to 522,187 common shares.

In connection with the 2014 Offering (as defined below), the “full-ratchet” adjustment provisions of the 2013 Warrants were engaged, and the exercise price of the 2013 Warrants was changed from \$2.70 per share to \$1.30 per share (on a pre-Consolidation basis). In connection with the 2016 Offering, the “full-ratchet” adjustment provisions of the 2013 Warrants was once again engaged, and the exercise price of the 2013 Warrants was changed such that 25 whole 2013 Warrants entitle the holder to purchase one common share at a price of \$6.76 per share.

Certain provisions of our outstanding 2013 Warrants and 2016 Warrants may make it more difficult and expensive, or impossible, for us to undertake or complete certain business transactions.

The 2013 Warrants and the 2016 Warrants (as defined below) provide that, upon the consummation of a “Fundamental Transaction”, we or our successor entity (if applicable) will purchase any outstanding 2013 Warrants or 2016 Warrants, as applicable, from the holders by paying to such holders an amount in cash equal to 100% of the “Black Scholes Value” (as such term is defined in the applicable form of warrant). As a result, completing certain business transactions may be more costly than anticipated and could result in an inability or failure to complete such transactions. A “Fundamental Transaction” means that we or any of our subsidiaries directly or indirectly, in one or more related transactions:

- consolidate, amalgamate or merge with or into (whether or not we are, or one of our subsidiaries is, the surviving corporation) any other “Person” (as that term is defined in the form of warrant); provided however that the winding-up, consolidation, amalgamation or merger of any of our wholly-owned subsidiaries into us, in which we are the continuing or surviving entity, shall not qualify as a Fundamental Transaction, or
- sell, lease, license, assign, transfer, convey or otherwise dispose of all or substantially all the properties or assets of us and our subsidiaries, considered on a consolidated basis, to any other Person (other than a transfer of assets among us and our wholly-owned subsidiaries), or
- allow any other Person to make a purchase, tender or exchange offer that is accepted by the holders of more than 50% of the outstanding common shares; (not including any common shares held by the Person or Persons making or party to, or associated or affiliated with the Persons making or party to, such purchase, tender or exchange offer), or
- consummate a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or plan of arrangement) with any other Person whereby such other Person acquires more than 50% of our outstanding common share (not including any common shares held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination), or
- reclassify our common shares, or
- for purposes of the 2013 Warrants, any “person” or “group” (as these terms are used for purposes of Sections 13(d) and 14(d) of the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the rules and regulations promulgated thereunder) is or shall become the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 50% of the aggregate ordinary voting power represented by our issued and outstanding common shares.

Due to the speculative nature of warrants, it may not be profitable for holders of the 2013 Warrants, the 2014 Warrants or 2016 Warrants to exercise such warrants.

The 2013 Warrants, the 2014 Warrants (as defined below) and the 2016 Warrants do not confer common share voting rights on their holders, but rather represent the right to acquire common shares for a limited period of time. Specifically, holders of the 2013 Warrants may exercise their right to acquire common shares and pay an exercise price of \$6.76 per share upon the exercise of 25 whole 2013 Warrants prior to September 23, 2018. The holders of the 2014 Warrants may exercise their right to acquire common shares and pay an exercise price of C\$56.25 per share upon the exercise of 25 whole 2014 Warrants prior to August 1, 2016. At any time after October 13, 2016, the holders of the 2016 Warrants may exercise their right to acquire common shares and pay an exercise price of \$8.50 per one whole 2016 Warrant. The market price of the common shares may not ever equal or exceed the exercise price of the 2013 Warrants, 2014 Warrants or 2016 Warrants, as applicable, and consequently, it may not be profitable for holders of the 2013 Warrants, 2014 Warrants or 2016 Warrants to exercise such warrants. The market value of the Warrants is uncertain.

We will require additional capital and no assurance can be given that such capital will be available at all or available on terms acceptable to us.

We may need to raise additional funds through public or private debt or equity financings in order to:

- fund ongoing operations;
- take advantage of opportunities, including more rapid expansion of our business or the acquisition of complementary products, technologies or businesses;
- develop new products; or
- respond to competitive pressures.

Any additional capital raised through the sale of equity will dilute the percentage ownership of the Company of each shareholder and such dilution may be significant. Capital raised through debt financing would require us to make periodic interest payments and may impose restrictive covenants on the conduct of our business. Furthermore, additional financing may not be available on terms favorable to us, or at all. A failure to obtain additional financing could prevent us from making expenditures that may be required to grow or maintain our operations.

The trading price of our common shares has been, and may continue to be, subject to large fluctuations.

Our outstanding common shares are listed on both the Toronto Stock Exchange (“TSX”) and NASDAQ Capital Market. The trading price of our common shares has been, and may continue to be, subject to large fluctuations and, therefore, the value of our common shares may also fluctuate significantly, which may result in losses to investors who have acquired or may acquire common shares.

The trading price of our common shares may increase or decrease in response to a number of events and factors, including:

- low trading volumes;
- actual or anticipated fluctuations in our results of operations;
- changes in estimates of our future results of operations by us or securities analysts;
- announcement of technological innovations or new products or services by us or our competitors;
- changes affecting the communications industry; and
- other events and factors, including but not limited to the risk factors identified in this Annual Report.

In addition, different liquidity levels, volume of trading, currencies and market conditions on the TSX and NASDAQ may result in different prevailing trading prices.

Securities class action litigation often has been brought against companies following periods of volatility in the market price of their securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and damages and divert management’s attention and resources, which could adversely affect our business. Any adverse determination in litigation against us could also subject us to significant liabilities.

Our actual financial results may vary from our publicly disclosed forecasts.

Our actual financial results may vary from our publicly disclosed forecasts and these variations could be material and adverse. We periodically provide guidance on future financial results. Our forecasts reflect numerous assumptions concerning our expected performance, as well as other factors that are beyond our control and which may not turn out to be correct. Although we believe that the assumptions underlying our guidance and other forward-looking statements are reasonable when we make such statements, actual results could be materially different. Our financial results are subject to numerous risks and uncertainties, including those identified throughout these risk factors and elsewhere in this Annual Report. Also see “Forward-Looking Statements”. If our actual results vary from our announced guidance, the price of our common shares may

decline, and such a decline could be substantial. Except as required under applicable securities legislation, we do not undertake to update any guidance or other forward-looking information we may provide, whether as a result of new information, future events or otherwise.

As a foreign private issuer, we are subject to different U.S. securities laws and rules than a domestic U.S. issuer, which may limit the information publicly available to our shareholders.

DragonWave is a “foreign private issuer” under applicable U.S. federal securities laws and, therefore, we are not required to comply with all the periodic disclosure and current reporting requirements of the Exchange Act and related rules and regulations. As a result, we do not file the same reports that a U.S. domestic issuer would file with the SEC, although we will be required to file or furnish to the SEC the continuous disclosure documents that we are required to file in Canada under Canadian securities laws. In addition, our officers, directors, and principal shareholders are exempt from the reporting and “short swing” profit recovery provisions of Section 16 of the Exchange Act. Therefore, our shareholders may not know on as timely a basis when our officers, directors and principal shareholders purchase or sell their common shares, as the reporting deadlines under the corresponding Canadian insider reporting requirements may be different. In addition, as a foreign private issuer we are exempt from the proxy rules under the Exchange Act.

We may lose our foreign private issuer status in the future, which could result in significant additional costs and expenses to us.

We would lose our foreign private issuer status if a majority of our common shares are held in the U.S. and we fail to meet the additional requirements necessary to avoid loss of foreign private issuer status. If we are not a foreign private issuer, we would not be eligible to use the MJDS, if we regain eligibility, or other foreign issuer forms and would be required to file periodic and current reports and registration statements on U.S. domestic issuer forms with the SEC, which are more detailed and extensive than the forms available to a foreign private issuer. In addition, we may lose the ability to rely upon exemptions from NASDAQ corporate governance requirements that are available to foreign private issuers.

As of the date of this Annual Report, we do not have the ability to use the MJDS, which may result in significant additional costs and expenses to us and make it more difficult to raise capital in the public markets.

At this time, we are not eligible to use MJDS. The regulatory and compliance costs to us under U.S. securities laws as a U.S. domestic issuer may be significantly more than the costs incurred as a Canadian foreign private issuer eligible to use MJDS. MJDS allows eligible Canadian issuers to use MJDS forms to offer securities publicly in the United States using a Canadian prospectus that is subject to review only by Canadian securities regulatory authorities. To be eligible to use MJDS, an issuer must have a public float of at least \$75 million. As of the date of filing this Annual Report our public float is below \$75 million. If we continue to be unable to use MJDS, it may be more difficult and costly for us to raise capital in the public markets.

The financial reporting obligations of being a public company in the U.S. are expensive and time consuming, and place significant additional demands on our management.

The obligations of being a public company in the U.S. require significant additional expenditures and place additional demands on our management. In particular, should we meet the requirements for eligibility to use MJDS, Section 404 of the Sarbanes-Oxley Act of 2002 and the SEC rules and regulations implementing Section 404 require an annual evaluation of our internal controls over financial reporting to be attested to by an independent auditing firm. If an independent auditing firm is unable to provide us with an attestation and an unqualified report as to the effectiveness of our internal controls, investors could lose confidence in the reliability of our financial statements, which could result in a decrease in the value of our common shares.

An investor may be unable to bring actions or enforce judgments against us and certain of our directors and officers.

DragonWave is incorporated under the laws of Canada, and our principal executive offices are located in Canada. Our directors and officers, and our independent public accounting firm, reside outside of the United States and all or a substantial portion of our assets and the assets of these persons are located outside the

United States. Consequently, it may not be possible for an investor to effect service of process within the United States on us or those persons. Furthermore, it may not be possible for an investor to enforce judgments obtained in United States courts based upon the civil liability provisions of United States federal securities laws or other laws of the United States against those persons or us.

We do not currently intend to pay dividends on our common shares and, consequently, a shareholder's ability to achieve a return on investment will depend on appreciation in the price of our common shares.

We have never declared or paid any dividends on our common shares. We currently intend to retain any future earnings to fund the development and growth of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend upon many factors, including our results of operations, capital requirements and other factors as the board of directors deems relevant. In addition, the covenants provided by us related to our debt facilities with Comerica Bank and Export Development Canada restrict our ability to make payments of dividends on our common shares.

We believe that we are not currently a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes, but this factual determination is made annually and could change in the future.

Based in part on current operations and financial projections, we are not classified as a PFIC for U.S. federal income tax purposes for our 2015 fiscal year. However, an annual determination will need to be made as to whether we are a PFIC based on the types of income we earn and the types and value of our assets from time to time, all of which are subject to change. Therefore, we cannot assure holders of our common shares that we will not be a PFIC for our current taxable year or any future taxable year. A non-U.S. corporation generally will be considered a PFIC for any taxable year if either (1) at least 75% of its gross income is passive income or (2) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income. The market value of our assets may be determined in large part by the market price of our common shares, which is likely to fluctuate. If we were to be treated as a PFIC for any taxable year, certain adverse U.S. federal income tax consequences could apply to U.S. holders of our common shares.

U.S. holders of our common shares are urged to consult their tax advisors with respect to the U.S. federal, state, local and non-U.S. tax consequences of the acquisition, ownership, and disposition of the common shares as may be applicable to their particular circumstances.

The acquisition of, investment in and disposition of our common shares and other securities has tax consequences.

Prospective investors should be aware that the acquisition, holding and/or disposition of our common shares and other securities has tax consequences both in the United States and Canada that are not described herein.

Purchasers should consult their own tax advisors with respect to the tax consequences of the acquisition, ownership, and disposition of our common shares and other securities as may be applicable to their particular circumstances.

Future sales of common shares by our existing shareholders could cause our share price to fall.

If our shareholders sell substantial amounts of our common shares in the public market, the market price of our common shares could fall. The perception among investors that these sales will occur could also produce this effect.

Our management has broad discretion over the use of proceeds from the equity offerings that the Company has completed and will have broad discretion over the use of proceeds from any financing we complete in the future. If we do not use the proceeds effectively to develop and grow our business, an investment in our common shares could suffer.

Our management has broad discretion in how it uses the net proceeds received by us from the 2016 Offering, as well as any offering we have completed or may complete in the future, and there can be no assurance that such proceeds will be used efficiently or effectively. We may spend these proceeds in ways that do

not increase our operating results or market value, which would adversely affect our business, results of operations and financial condition. Pending their use, we may invest the net proceeds from any offering in a manner that does not produce income or that loses value.

Further, if we do not restrict our investment of a sufficient portion of the net proceeds from the sale of our common shares, pending their use, to investments that are not “investment securities” within the meaning of the United States Investment Company Act of 1940, we may inadvertently become subject to regulation as an investment company under that Act. If such an event were to occur, the consequences to us would be material and adverse.

Certain Canadian laws could delay or deter a change of control.

The *Investment Canada Act* (Canada) subjects an acquisition of control of DragonWave by a non-Canadian to government review if the value of our assets as calculated pursuant to the legislation exceeds a certain threshold amount. A reviewable acquisition may not proceed unless the relevant Minister (of Canada’s federal government) is satisfied that the investment is likely to be a net benefit to Canada. This could prevent or delay a change of control and may eliminate or limit strategic opportunities for shareholders to sell their common shares.

ITEM 4. Information on our Company.

A. History & Business Developments

Name, Address and Incorporation

DragonWave Inc. was incorporated on February 24, 2000 by Certificate and Articles of Incorporation issued under the Canada Business Corporations Act (the “CBCA”). DragonWave’s last financial year ended on February 29, 2016. The head office of DragonWave is located at 411 Legget Drive, Suite 600, Ottawa, Ontario, Canada K2K 3C9.

Business Description

Founded in 2000, we are a leading provider of high-capacity wireless Ethernet equipment used in emerging internet protocol (“IP”) networks. We design, develop, market and sell proprietary, carrier-grade microwave radio frequency networking equipment (often referred to as “links”), that wirelessly transmit broadband voice, video and other data between two points. Our wireless carrier-Ethernet links, which are based on a native Ethernet platform, function as a wireless extension to an existing fiber and global optic core telecommunications network. The principal application for our products is the backhaul function in a wireless communications network. Backhaul links connect the large amounts of network traffic aggregated by base stations and other collection points on the edge of the network to the high-capacity fiber optic infrastructure at the core of the network. Additional applications for our products include point-to-point transport applications in private networks, including municipal and enterprise applications.

Our products principally perform the backhaul function in a communication service provider’s network, connecting high-traffic points of aggregation such as high-capacity wireless base stations (3G+ cellular, WiFi, LTE) small cells and large “out of territory” enterprises to nodes on the fiber optic core network.

Our line of wireless carrier-Ethernet links is marketed under the Horizon trade names. Our products are carrier-grade and operate primarily in licensed spectrum bands to minimize interference.

In 2011, we introduced our Avenue solution, which was designed to provide high levels of spectral efficiency and reliability for carrier-grade delivery of advanced applications and services. The Avenue solution is a small device, utilizing a small antenna, to integrate microcellular backhaul, third-party base stations, power supply, battery backup, switching, and management in an all-in-one, environmentally shielded enclosure. This is a hardened, all-outdoor, zoning-friendly and fully integrated solution that was designed specifically for service providers to deploy microcellular coverage with high-performance backhaul.

On June 1, 2012, we acquired our Harmony product line from Nokia pursuant to the NSN Transaction (as defined below). The Harmony product line is a multi-service wireless platform enabling time-division multiplexing (TDM) and packet-based services across wireless or wireline infrastructure. Harmony is rebranded by Nokia as FlexiPacket.

In 2013, we introduced our Harmony Lite and Avenue Link Lite products lines. These product lines are DragonWave's first products in the sub-6GHz bands. The Lite products operate in licensed and unlicensed bands, and provide line of sight (LoS), and non-line of sight connectivity. The Lite product line is an important part of our small cell backhaul offering in the Avenue family.

In 2014, we introduced our Harmony Eband product. Harmony Eband operates in the 70/80 GHz bands. It provides capacities of up to 2.5 Gbps, and operates in low cost bands, providing mobile operators with a much lower total cost of ownership and scalability strategy. Although the 70/80 GHz market is still evolving, we think it will expand quickly and we expect this expansion to be sustained.

Also in 2014, we introduced Harmony Enhanced, a high capacity, long reach, multi-service radio operating in the 6-42 GHz spectrum bands. Harmony Enhanced merges the performance and reliability of DragonWave's flagship Harmony Radio and Horizon Compact+ into a next-generation, ultra high-capacity microwave system.

In January 2016, we introduced Harmony Enhanced^{MC}, an ultra-high capacity, multi-service microwave system operating in the 6-42 GHz spectrum bands that provides dual channel support and extended reach. Harmony Enhanced^{MC} delivers the next level of capacity by introducing integrated dual carrier and fully integrated XPIC capabilities into a single Outdoor Unit (ODU) antenna configuration. With its integrated switch, and the industry's first 10GE port on a wireless backhaul radio, Harmony Enhanced^{MC} delivers a true all-outdoor, Ethernet solution with excellent system gain and spectral efficiency.

The demand for our products is driven by global trends, including IP convergence and pressure on backhaul capacity caused by increased functionality of mobile devices, the shift in demand from voice to multimedia content and services, growing demand for wireless coverage, increasing numbers of subscribers, and investment in radio access network spectrum. In our target markets, network traffic is shifting from legacy TDM traffic to IP-based traffic to improve network efficiency and enable IP-based services.

Principally, we target the global wireless communications service provider market and, in particular, those service providers offering high-capacity wireless communication services, including traditional cellular service providers and emerging broadband wireless access (BWA) service providers. These service providers offer high-speed digital communication services over wireless access networks, employing IP-based wireless network access technologies such as advanced (3G, 4G and 5G) cellular technologies, as well as WiFi. The market addressed by these wireless service providers is characterized by significant growth in number of subscribers, coverage area, and bandwidth requirements per subscriber, and a corresponding need to reduce the cost per bit of the backhaul network. (See Cisco® Visual Networking Index (VNI) Global Mobile Data Traffic Forecast Update dated February 3, 2016, <http://www.cisco.com/c/en/us/solutions/collateral/service-provider/visual-networking-index-vni/mobile-white-paper-c11-520862.html>). We also target other markets, including wireless extension of fixed-line networks to directly connect high-bandwidth end-customers to the core network, and private networks of large multi-site organizations such as Fortune 500 enterprises, municipalities and government organizations.

The key elements of our solutions include: high performance; carrier-grade availability; cost-competitiveness; support of legacy networking standards; and the availability of advanced network management and wireless network IP planning.

We commenced commercial deployment of our products in 2002 and, as of February 29, 2016, have shipped approximately 154,867 links (each link contains 2-4 units). In the fiscal year ended February 29, 2016, we delivered products to 184 customers, in 58 countries. Customers included: Nokia, Reliance Jio Infocomm (India) ("Reliance Jio"), TESSCO (United States), Samsung, Alliance Communications (United States) and Xplornet (Canada).

Mergers & Acquisitions and Joint Ventures

Acquisition of Microwave Transport Business of NSN and Relationship with Nokia

On November 4, 2011, we and our wholly-owned subsidiary incorporated in Luxembourg, DragonWave S.à r.l., entered into a master acquisition agreement (the “Original Master Acquisition Agreement”) with Nokia Siemens Networks B.V. to acquire certain assets and liabilities of NSN (now Nokia), namely its microwave transport business, including the associated operational support systems (OSS) and related support functions. The details of this proposed acquisition of certain assets and liabilities of NSN were disclosed in our press release dated November 4, 2011 and material change report dated November 14, 2011. On May 3, 2012, we announced that the terms of the proposed transaction had been revised pursuant to an Amended and Restated Master Acquisition Agreement (the “Amended and Restated Master Acquisition Agreement”) dated May 3, 2012. On June 1, 2012, we announced the closing of the transaction (the “NSN Transaction”) contemplated by the Amended and Restated Master Acquisition Agreement.

Consideration paid on closing by DragonWave S.à r.l. was \$12.7 million in cash and DragonWave common shares with a market value of \$5.3 million. The cash payment was made in Euros.

The fair values of the assets acquired and liabilities assumed by us in the NSN Transaction are as follows (in thousands USD\$):

Tangible Assets

Cash	—
Accounts receivable	—
Inventory	11,378
Lease holiday	2,093
Other current assets	2,564
Capital assets	6,115

Tangible Assets Acquired	22,150
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Tangible Liabilities

Accounts payable	—
Accrued liabilities	2,484
Capital lease obligation	4,162

Tangible Liabilities Acquired	6,646
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Fair Value of Net Tangible Assets	15,504
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Intangible Assets

Customer relationships	1,745
Developed technology	10,800

Intangible Assets Acquired	12,545
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Goodwill	—
Gain on purchase of business	(19,397)

Purchase Price	8,652
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Purchase Price

Cash	12,730
Common shares of DragonWave	5,279
Other consideration	1,205
Contingent receivable	(10,562)
	8,652

The purchase price set out in the table above consisted of the following components: (a) cash delivered on closing; (b) DragonWave common shares delivered on closing with a fair value of \$5.3 million which reflects that Nokia was subject to a lock-up provision restricting sale or disposition of the shares, subject to customary

exceptions; (c) other consideration deferred for specific tangible assets; and (d) a contingent receivable which was based on business performance in the twelve months following closing.

The NSN Transaction was financed through a combination of cash on our balance sheet and increased debt facilities provided by Comerica Bank and Export Development Canada.

We recognized a one-time gain on purchase of business of \$19.4 million in the year ended February 28, 2013 due to the difference between the cumulative tangible and intangible net assets and the purchase price.

As part of the NSN Transaction, we acquired Nokia's Chinese operations associated with its microwave transport business. The acquisition was completed on December 1, 2012 and at that time approximately 100 employees based in Shanghai transferred to DragonWave.

The microwave transport assets of Nokia in Italy, including Nokia employees based in Italy, were excluded from the acquisition. On closing, we entered into a services agreement with Nokia for outsourced R&D, product management, sales support and operations functions. This was aimed at enhancing our ability to continue to deliver on critical customer deliveries.

The Amended and Restated Master Acquisition Agreement entered into on May 3, 2012 included an arrangement with Nokia for additional consideration that was contingent on actual sales of products achieved in the first eighteen months subsequent to the acquisition date. The initial \$10.6 million value of the contingent receivable was increased during the year ended February 28, 2013 based on a change in fair value offset by payments received and foreign exchange. The contingent receivable balance carried on the balance sheet as at February 28, 2013 was \$13.8 million.

On April 10, 2013, we announced changes to our operational framework with Nokia (the "Renewed Framework"). Under the terms of the Renewed Framework, on April 12, 2013, Nokia paid \$13.8 million to us which settled the balance of our contingent receivable. Nokia took on additional commitments and costs so that we could continue to develop and supply the microwave product line we acquired from Nokia. The services agreement, pursuant to which Nokia provided research and development and certain other services to us since June 1, 2012, was terminated. As a result, we reduced accounts payable by \$13.3 million. We also eliminated capital assets with a net book value of \$0.6 million and the corresponding capital lease obligation associated with the Italian operations in the amount of \$1.3 million. During the year ended February 28, 2014, we also reduced a capital lease obligation associated with our operations in India by \$0.4 million based on a revised agreement with Nokia.

Under the terms of the Renewed Framework, we also recorded a liability for a termination fee for \$8.7 million at May 31, 2013 which was scheduled to be paid in several tranches. During the first quarter of fiscal 2015, we revised the estimated termination fee and entered into a revised payment schedule with Nokia consisting of quarterly payments through fiscal year 2015 and 2016. To the date of this Annual Report we have paid \$4.4 million, and the termination liability is currently valued at \$3.3 million. We expect to pay the balance during fiscal year 2017.

When the NSN Transaction was completed, many aspects of our business were substantially changed, including our revenue profile, product offering, mix of geographic markets, distribution channels, contract manufacturing arrangements, R&D activities and employee base.

In April 2015, Nokia announced its proposed combination with Alcatel-Lucent, which has a vertically integrated microwave business unit. The combination was finalized on January 14, 2016. As a result of these developments, we announced that we have reshaped our channel strategy. Our revised strategy primarily positions our latest and new products directly to customers. We will continue to provide software maintenance and level 3 hardware support to Nokia for the large installed base of network elements deployed by both our Company and Nokia to date. In addition, we expect to sell the Harmony FlexiPacket Multiradio (Harmony Radio) product family and legacy products through the Nokia channel to customers who wish to continue with this platform, although we do expect these sales levels to decrease over time. To facilitate these ongoing activities, our global framework agreements will continue in place.

Acquisition and Disposition of Axerra Networks, Inc.

On October 14, 2010, we announced the acquisition of Axerra Networks, Inc. (“Axerra”). Axerra was well known in the mobile network industry as a leader in pseudowire technology and had a product portfolio that allowed carriers to address the increasing need to carry legacy TDM traffic over a packet based network.

DragonWave acquired Axerra (the “Axerra Acquisition”) in an all cash transaction valued at \$9.5 million. The earn-out phase of the Axerra Acquisition was completed on February 13, 2012 and, based on sales performance since the completion of the Axerra Acquisition, the earn-out amount was \$1.9 million, raising the value of the transaction to \$11.4 million. At DragonWave’s option, a portion of the earn-out was paid in cash, in the amount of \$0.1 million with the balance of the earn-out being paid (on a pre-Consolidation basis) in 400,983 common shares of DragonWave, valued at \$4.49 per common share based on a 20 day volume weighted average price. Axerra was renamed DragonWave Ltd. following the Axerra Acquisition.

Over the course of the fiscal year ended February 28, 2013, the revenue levels generated by the product portfolio of Axerra declined dramatically and the R&D activity in Israel was discontinued. In addition, the closing of the NSN Transaction resulted in some product redundancies. On January 23, 2013, we entered into a share purchase agreement to dispose of all of the issued and outstanding shares of Axerra for a nominal amount to several Israeli based companies.

DragonWave and HFCL Address Strategic Indian Market by Forming Joint Venture

On October 19, 2010, DragonWave and Himachal Futuristic Communications Ltd. (“HFCL”), one of India’s leading telecommunication equipment manufacturers and turnkey service providers, announced the formation of a joint venture to provide leading packet microwave solutions to the Indian market. DragonWave owns 50.1% of the equity in DragonWave HFCL India Private Limited (the “Joint Venture Company”) and the balance of the equity is owned by HFCL. We do not control the board of the Joint Venture Company.

The Joint Venture Company, based in Delhi, utilizes HFCL’s local market knowledge and expertise to sell and market DragonWave products in India. HFCL has a telecommunication equipment manufacturing facility at Solan, Himachal Pradesh.

With the completion of India’s 3G and BWA radio-access spectrum auctions, service providers are rolling out 3G and 4G IP-based networks in order to support the bandwidth and service requirements of the new HSPA and LTE base stations that will use this spectrum.

The Joint Venture Company had sales in fiscal 2016 of \$10.1 million primarily as a result of locally sourced material and the provision of installation and commission services to Reliance Jio, as well as the sale of hardware through the Nokia channel in the region.

Equity Offerings & Transactions (Over the Last Three Fiscal Years)

Offerings of Units

On April 11, 2016, we completed an equity offering previously announced on April 7, 2016. In connection with this offering, we entered into securities purchase agreements (each a “Purchase Agreement”) with certain institutional investors providing for the issuance and sale by us of 599,998 common shares and a price per share equal to US\$7.25. The common shares were offered (the “Registered Offering”) by us pursuant to an effective shelf registration statement on Form F-3 (File No. 333-209969), which was declared effective by the U.S. Securities and Exchange Commission (the “SEC”) on March 14, 2016 (the “Registration Statement”). In a concurrent private placement (the “Private Placement” and, together with the Registered Offering, the “2016 Offering”), we issued warrants to purchase 299,999 common shares at an exercise price of \$8.50 per share (the “2016 Warrants”). The 2016 Warrants expire on March 12, 2020 at an exercise price of \$8.50 (the “2016 Warrants”). The net proceeds of the 2016 Offering is US\$4.09 million, after placement agent fees and estimated Offering expenses payable by us, and excluding any proceeds we may receive upon exercise of the warrants. The Company expects that any exercise of the warrants will result in the cash proceeds from the exercise of such warrants being paid to the Company. The 2016 Warrants cannot be exercised until October 12, 2016 and if, any time after October 13, 2016, there is no effective registration statement registering the common shares issuable

upon exercise of the 2016 Warrants, the 2016 Warrants can be cashlessly exercised. As of the date of this Annual Report there are 299,999 of the 2016 Warrants outstanding.

On August 1, 2014, we completed an underwritten public offering (the “2014 Offering”) of units. The 2014 Offering, on a pre-Consolidation basis, consisted of the issue and sale of 15,927,500 units (each a “2014 Unit”), at a price of C\$1.80 per 2014 Unit for aggregate gross proceeds of approximately C\$28.7 million. Of the 15,927,500 Units issued and sold, 2,077,500 2014 Units were issued and sold pursuant to the exercise in full of the over-allotment option by the underwriters. Each 2014 Unit consisted of one common share and one-half of one warrant (each whole warrant, a “2014 Warrant”) (on a pre-Consolidation basis). On a pre-Consolidation basis, each whole 2014 Warrant entitled the holder to purchase one common share of the Company at an exercise price of C\$2.25 per share until August 1, 2016, subject to certain standard adjustments. Subsequent to the Consolidation, 25 whole 2014 Warrants entitle the holder to purchase one common share of the Company at an exercise price of C\$56.25 per share. The 2014 Warrants trade on the Toronto Stock Exchange under the symbol “DWI.WT” and on the NASDAQ Capital Market under the symbol “DRWIW”. The Warrant Indenture and the related Supplemental Warrant Indentures for the 2014 Warrants were filed under our profile on SEDAR at www.sedar.com on August 1, 2014, September 4, 2014 and February 11, 2016, under the category “Other securityholders documents – English”. As of the date of this Annual Report there are 7,963,600 of the 2014 Warrants outstanding.

The gross proceeds of the 2014 Offering, before expenses, were approximately C\$28.7 million. We have used the net proceeds from the 2014 Offering to strengthen our balance sheet, to fund working capital and for general corporate purposes. We expect that any exercise of the 2014 Warrants will result in the cash proceeds from such exercise being paid to the Company.

On September 23, 2013, we completed a public offering (the “2013 Offering”) of units (“2013 Units”). The 2013 Offering, on a pre-Consolidation basis, consisted of the issue and sale of 11,910,000 2013 Units at a price of \$2.10 per 2013 Unit for aggregate gross proceeds of approximately \$25.0 million. Each 2013 Unit consisted of one common share and three quarters of one warrant (each whole warrant, a “2013 Warrant”)(on a pre-Consolidation basis). On a pre-Consolidation basis, each whole 2013 Warrant originally entitled the holder to purchase one of our common shares at an exercise price of \$2.70 per share until September 23, 2018, subject to certain adjustments. In connection with the 2014 Offering, and pursuant to the terms of the 2013 Warrants, the exercise price of the 2013 Warrants was changed to \$1.30 per share (on a pre-Consolidation basis). Subsequent to the Consolidation, 25 whole 2013 Warrants entitle the holder to purchase one common share at an exercise price of \$32.50 per share. In connection with the 2016 Offering, and pursuant to the terms of the 2013 Warrants, the exercise price of the 2013 Warrants was changed, such that 25 whole 2013 Warrants entitle the holder to purchase one common share at a price of \$6.76 per share. The form of 2013 Warrant setting out the terms of the 2013 Warrants was filed under our profile on SEDAR at www.sedar.com on September 17, 2013, under the category “Documents incorporated by reference not previously filed – English”. As of the date of this Annual Report there are 2,088,750 of the 2013 Warrants outstanding exercisable for up to 522,187 common shares.

The net proceeds of the 2013 Offering, after deducting commissions and listing expenses, were \$22.4 million. The net proceeds from the 2013 Offering were used to strengthen our balance sheet, to fund working capital and for general corporate purposes.

The 2013 Warrants contain a cashless exercise feature pursuant to which the holder may, in its sole discretion, exercise the 2013 Warrant in whole or in part and, in lieu of making the cash payment on account of the aggregate exercise price, elect instead to receive upon such exercise the net number of common shares determined according to the formula set forth in the form of Warrant and defined in the form of 2013 Warrant as the “Net Number”. Since November 12, 2013, an aggregate of 6,843,750 2013 Warrants have been exercised and 9,200,454 common shares, on a pre-Consolidation basis, have been issued pursuant to such cashless exercises.

Product and Business Developments (Over the Last Three Years)

Fiscal Year 2016 (March 1, 2015 until February 29, 2016)

- On February 29, 2016, we announced that we regained full compliance with NASDAQ's minimum bid price listing requirement.
- On February 2, 2016, we confirmed the Consolidation of our common shares on the basis of twenty-five (25) pre-Consolidation shares for one (1) post-Consolidation share.
- On January 25, 2016, we announced the expansion of our product portfolio with the introduction of Harmony Enhanced^{MC}, an ultra-high capacity, multi-service microwave system operating in the 6-42 GHz spectrum bands that provides dual channel support and extended reach.
- On January 19, 2016, we and Xi'an Potevio Communications, an ICT subsidiary company of China Potevio Corporation, announced the completion of the first stage deployment of DragonWave's Harmony Enhanced solutions to a Tier One Mobile Operator in the People's Republic of China.
- On December 16, 2015, we announced that we have reshaped our channel strategy to primarily position our latest and new products directly to customers.
- On September 1, 2015, we announced that our request to transfer the listing of our securities from The NASDAQ Global Market to The NASDAQ Capital Market was approved by the Staff of the NASDAQ Listing Qualifications Department, and effective with the open of trading on August 28, 2015.
- On August 26, 2015, we announced that Russell Frederick, Vice President and Chief Financial Officer, was leaving the Company due to personal reasons. Patrick Houston assumed Mr. Frederick's duties in the role of Interim Chief Financial Officer.
- On August 4, 2015, we announced an update to the market on a number of items that were all converging at the same time: we have entered an agreement with Nokia to address the impact of reduced demand being experienced through this channel in the first half of fiscal year 2016; we also confirmed that we are implementing further cost saving measures to reduce expenses; we provided the status of major carrier activity in North America, India and Europe; we updated our revenue expectations for the second quarter of fiscal year 2016.
- On June 4, 2015, we announced that we have received follow-on purchase orders for Horizon Compact+ radio systems from a major Indian Telecom and Broadband Service Provider.
- On May 15, 2015, we announced that we have signed a supply agreement for DragonWave microwave radio systems and related services with a leading Indian telecommunications company. Under this new supply agreement, DragonWave has received initial purchase orders to provide more than 3,000 turnkey links of its next-generation Harmony Enhanced high-capacity, long-reach microwave radio system to support the mobile operator's upgrade and expansion of its nationwide 3G and 4G wireless services in India.
- On April 22, 2015, we announced that we have signed a Master Purchase Agreement for Technical Products and Related Services with a tier one North American carrier.
- On April 7, 2015, we announced Saudi Telecom Company (STC), the largest network operator in the Kingdom of Saudi Arabia, has entered into a supply agreement for DragonWave products to support its enterprise network expansion.
- On March 5, 2015, we announced that we received a notice from The NASDAQ Stock Market that the Company was not in compliance with NASDAQ's Listing Rule 5450(a)(1), as the minimum bid price of DragonWave's common shares had closed below US\$1.00 per share for 30 consecutive business days.
- On March 3, 2015, we announced entry into Nokia's newly formed MicroWave Backhaul EcoSystem.

Fiscal Year 2015 (March 1, 2014 until February 28, 2015)

- On February 19, 2015, we provided an update on the growing business momentum for our small cell product line.
- On November 25, 2014, we announced orders in excess of \$10 million for the month of November from a Tier One North American mobile operator.
- On November 5, 2014, we announced that WIGO S.A., a Lima-based Wi-Fi service provider, has deployed Horizon Quantum and Horizon Compact+ links to interconnect base stations and MPLS nodes at speeds up to 800 Mbps in the 18 GHz and 13 GHz frequency bands.
- On October 22, 2014, we announced that we have received follow on purchase orders for Horizon Compact+ from a major Indian Telecom and Broadband Service Provider.
- On September 4, 2014, we announced the commencement of trading on NASDAQ under the symbol “DRWIW” of the 2014 Warrants.
- On September 3, 2014, we announced the introduction of Harmony Enhanced, a high capacity, long reach, multi-service radio operating in the 6-42 GHz spectrum bands.
- On August 21, 2014, we announced the completion of a series of extensive outdoor small cell backhaul propagation tests that have been conducted with a 3rd party for street level characterization.
- On August 1, 2014, we announced that we closed the 2014 Offering, described above.
- On June 17, 2014, we announced that our Horizon Quantum and Horizon Compact+ products have received Federal Information Processing Standard (FIPS) 140-2 Level 1 certification.
- On May 28, 2014, we announced the finalization of a frame agreement with Reliance Jio, a subsidiary of Reliance Industries Limited (RIL). As part of the agreement DragonWave has provided 5,000 turnkey Horizon Compact+ links in support of the Indian operator’s plan to roll out extensive, nationwide 4G/LTE networks.
- On May 12, 2014, we announced that we have opened a service and repair center in Delhi, India. The center will be supported by DragonWave’s joint venture DragonWave HFCL and will provide full, in-country repair service and support for DragonWave’s entire product portfolio.

Fiscal Year 2014 (March 1, 2013 until February 28, 2014)

- On February 19, 2014, we announced the expansion of our product portfolio with the introduction of the Harmony Eband, a compact, lightweight radio that operates in the 70-80 GHz spectrum with low-energy consumption. The Harmony Eband provides an enhanced option for mobile backhaul markets, providing reach comparable at 23-38 GHz, higher capacity and a lower OPEX expansion solution.
- On January 28, 2014, we announced the addition of the Harmony Trunk C hybrid trunking microwave radio, released to complement our existing high capacity Harmony Trunk microwave product portfolio.
- On January 22, 2014, we announced that we have been selected as a microwave solutions provider for backhaul connectivity as part of Gogo’s ongoing expansion efforts. Gogo is a leading provider of in-flight services, having equipped more than 2,000 commercial aircraft and more than 6,500 business jets with its exclusive online solutions. The DragonWave Horizon Quantum and Horizon Compact+ radios offer the performance parameters for linking Gogo’s remote tower locations back into a wired network.
- On January 15, 2014, we and Xi’an Potevio Communications, an ICT subsidiary company of China Potevio Corporation, announced the signing of a strategic sales agreement focused on the sale and distribution of DragonWave solutions in the People’s Republic of China. As part of the agreement Xi’an Potevio Communications, has made the first deliveries to a leading mobile services provider in Mainland China of Horizon Compact, all-outdoor radios and will expand its marketing of Horizon and Harmony microwave radios for use in the country’s growing mobile, fixed and enterprise markets.

- On January 7, 2014, we announced the amendment of our existing revolving credit facilities with Comerica Bank and Export Development Canada. The maximum amount of credit availability under the amended asset-based credit facility has been increased from \$20.0 million to \$40.0 million. Credit availability is subject to ongoing compliance with borrowing covenants and short term assets on hand. The revolving credit maturity date has also been extended from May 31, 2014 to June 1, 2016.
- On December 17, 2013, we announced that we have become the single-source microwave backhaul supplier for MADA Communications Kuwait (“MADA”) in its multi-million dollar network deployment. Enabling Multi Gigabit speeds with minimal latency and ease of capacity upgrades, our Horizon Compact and Quantum products allows MADA’s network to expand to meet the increasing demand for bandwidth from their customer base.
- On December 9, 2013, we announced an agreement with defense and security company Saab to work collaboratively on the expansion and enhancement of national security communication networks in Sweden, Norway, Finland, Denmark and Iceland. As a first step, we will work with Saab to deploy up to 1500 DragonWave Harmony Radio links and a supportive number of Harmony Hub 800 adaptable, multi-service nodal switches to build an extensive, mission critical network covering all of Sweden, including remote locations.
- On November 13, 2013, we announced the commercial availability of our 60 GHz technology in the Horizon Compact+ and Avenue Link product lines.
- On June 24, 2013, we announced the addition of our Avenue product line and complementary e-band solutions to the Cisco Small Cell Wireless Backhaul Ecosystem.
- On May 14, 2013, we, and our Peruvian-based, sales partner Electrodata, announced the ongoing deployment of over 200 new DragonWave Horizon links as part of regional service provider Olo del Peru’s expansion plans. Increased microwave backhaul capacity is enabling the carrier to reach more customers and offer new and enhanced services.
- On April 10, 2013, we announced the Renewed Framework.
- On March 11, 2013, we announced a product addition to our portfolio with the introduction of the Harmony Radio Lite. Harmony Radio Lite is specifically tailored to provide reliable and affordable connectivity to vertical markets, such as public safety, education, healthcare, oil and gas organizations and utilities, as well support growing mobile backhaul demand in rural and suburban communities.

B. An Overview of Our Business

Markets

Principal Markets

We target customers principally in the global communications service provider market, including broadband service providers and mobile service providers. In the broadband service provider market, our products are used to connect to the core of the network in both mature, developed markets as an extension or alternative to existing broadband infrastructure, and in emerging markets that possess limited broadband infrastructure as an alternative to deployment of wireline infrastructure. In the mobile service provider market, our products are used by service providers that provide emerging high-capacity mobile services to end-users. We also target enterprise and municipal/government customers that own or operate private networks requiring point-to-point applications. Our principal markets are described below.

Communications Service Provider Markets

Broadband Service Provider Market

Broadband is a high-speed digital communications medium that uses high-bandwidth channels for sending and receiving large amounts of voice, video and other data. Traditionally, broadband services have been delivered to end-users via cable, DSL or T1/E1 (TDM) networks, which transmit communications much faster than analog networks used for earlier data and voice communications.

Communications service providers provide broadband connectivity to business customers both “in territory” where they own the infrastructure connecting their points of presence and end-users, and “out of territory”, where they must lease or build this access infrastructure. The leased lines model is generally not optimal for these service providers, due to high lease costs and the fact that, in many cases, lines must be leased from direct competitors. As a result, these service providers have an economic and strategic imperative to find a cost-effective alternative to leased lines. We believe that Ethernet microwave transport technologies, such as those we provide, can serve as this alternative.

Mobile Service Provider Market

Wireless communications services is the provision of voice, video and other data communications services to users of wireless devices for network connectivity for fixed and/or mobile applications. Within this market, we focus on service providers offering emerging high-capacity services based upon 4G LTE.

In wireless networks, mobile wireless handsets and other subscriber devices connect to a network of wireless base stations, which are in turn interconnected by backhaul network solutions to the fiber optic core network. Cellular and other mobile networking technologies have evolved to provide higher bandwidth and IP networking capabilities. We believe that in markets where subscriber growth is most rapid, service providers will focus on building new networks to provide basic voice service, and in markets where the subscriber base is mature, service providers will focus on expanding the capacity of existing networks to roll out advanced data and video services which require higher network bandwidth per subscriber. Both scenarios create increased demand for backhaul capacity.

4G wireless technologies comprise a range of technologies that enable the provision of high-speed wireless access services for subscriber devices such as handsets and personal computers. The primary 4G wireless technology is the all IP-based Long Term Evolution (LTE) standard. LTE enables users to utilize voice services as well as high bandwidth applications such as downloading music and other content such as maps and video, exchanging email, multimedia messaging, and a broad array of Internet applications.

There are two primary forms of LTE deployments:

- *Macro Cellular LTE* – LTE is an advanced 3G+ technology for both global system for mobile communications (GSM) and code division multiple access (CDMA) cellular service providers. Approved in 2008, LTE is defined by the 3G Partnership Project with the latest release being 3GPP Release 11, also known as LTE Advanced. With typical download speeds of approximately 6 Mbps, LTE is considerably higher bandwidth than HSPA (evolved from GSM) and Evolution-Data Optimized (EV-DO) (evolved from CDMA). LTE is an IP networking technology that mobile operators are evolving to globally. Macro Cellular LTE deployments are installed primarily on towers and building times, like a traditional 2G/3G network, and primarily collocated with existing 3G network equipment.
- *Small Cell LTE* – Small cells are being widely planned by mobile network operators for deployment to increase total network capacity in high usage areas, such as urban metros. The deployments are on non-traditional locations, such as light poles, and will be very dependent on high capacity wireless backhaul. Some small deployments of outdoor small cell have started, but initially have tried to leverage existing fiber infrastructure as much as possible. As these deployments gain momentum, we expect there to be a stronger reliance on wireless backhaul.

Enterprise and Government/Municipal/Public Safety Markets

We also target large organizations, such as enterprises and government/municipal bodies, with diverse locations that require or own high bandwidth communications networks. This market includes the education sector (distance learning and Internet access for schools), the health sector (remote imaging and campus networks) and municipalities that deploy networks for city-wide public Internet access and/or government and emergency services. In this market, we target our products at organizations that build their own communications networks rather than lease services from service providers. We believe that as bandwidth demand continues to grow, these organizations will increasingly consider the implementation of private networks to reduce service lease costs. Examples of our end-customers that have deployed private networks include JP Elektroprivreda BiH

(Bosnia), SAAB (Sweden National Security Communication Network), The City of Barrie (Ontario, Canada), South Wales Fire Department (U.K.), The Palm Springs School District (California, United States), South Georgia Regional Information Technical Authority (Georgia, United States), Nexus Systems (Louisiana, United States), City of Joliet (Illinois, United States), City of Plano (Texas, United States), City of Hoffman Estates (Illinois, United States), City of Melrose Park (Illinois, United States), Crane Naval Base (Indiana, United States), Ventura County (California, United States), the Dubai Police (Dubai, U.A.E.) and the WireIE (Canada).

Distribution Methods

We distribute our products and services both directly and indirectly through channel partners. This strategy permits us to broaden our customer coverage, while at the same time retaining contact with our customer base and managing costs. The sales cycles can be lengthy and often include network studies and trials of our equipment in laboratory and field environments. Because our products are utilized in large network deployments, the sales are project-based and accordingly are highly variable from quarter to quarter.

Our sales and business development team of 32 employees is organized across four geographic regions: North America, Europe, the Middle East and Africa (“EMEA”), Asia-Pacific and the Caribbean and Latin America (“CALA”). These employees are currently based in the United States, Canada, Mexico, the United Kingdom, Italy, the Netherlands, Russia, the United Arab Emirates, South Africa, China and Argentina. Our sales and business development team is comprised of dedicated personnel assigned to specific customer accounts. Sales personnel have extensive knowledge of network infrastructure. In addition to monitoring closely the target markets for potential network deployments and new customer opportunities, our sales team builds on our existing relationships with our customers’ network planning organizations, including participating in business case development and technical analysis of projects.

Direct Sales Strategy

Our direct customers are typically service providers that operate networks in large geographical areas. The sales cycle to this class of customer typically involves a trial (or trials), and typically requires nine to twelve months from first contact before orders are received. However, the sales cycle can be longer, particularly in green field situations. Once the order stage is reached, a supply agreement is usually established and multiple orders are processed under one master supply agreement. Master supply agreements provide the framework for future business and do not generally include any volume commitments.

The sales team targets service providers across the world and our products have been deployed in numerous countries including: across Europe (in France, Germany, Sweden, Spain, Italy, Cyprus and the United Kingdom), the Middle East and Africa (in the United Arab Emirates, Saudi Arabia, Jordan, Kuwait, Israel, Lebanon, Nigeria and South Africa), CALA (Peru, Mexico), and Asia (India, Pakistan, China and Australia).

Our direct sales and business development team primarily focuses on Tier 1 service providers, such as Reliance Jio, Sprint, Xplornet, and WireIE. This channel represented approximately 39% of revenue for the fiscal year ended February 29, 2016 (fiscal year ended February 28, 2015 – 29%).

Indirect Sales Channel Strategy

Nokia Channel

Following the NSN Transaction, we added Nokia to our distribution process. This relationship provided a historically large indirect sales channel in which the product lines we purchased in the NSN Transaction, as well as other product lines we offer, were sold through Nokia’s worldwide channel. Effective January 14, 2016, Nokia combined with Alcatel-Lucent, which has a vertically integrated microwave business unit. During the fiscal year ended February 29, 2016, revenue from the Nokia channel represented 44% of our total revenue (fiscal year ended February 28, 2015 – 53%). We expect the revenue derived from this channel will continue to rapidly decline. See “Part I – Item 4. “Information on our Business – Mergers & Acquisitions and Joint Ventures – Acquisition of Microwave Transport Business of NSN and Relationship with Nokia” for a description of our current relationship with Nokia.

DragonWave is strategically approaching customers that had been served through the Nokia channel to pursue a direct relationship both for legacy care services and for new products.

Other Indirect Channels

Our indirect sales channel consists primarily of distributors and regional value-added resellers (“VARs”), and is involved in both channel-initiated sales (sales initiated and serviced by third parties) and channel-fulfilled sales (sales initiated by our direct sales team and serviced by third party resellers). Our principal North American distributors are TESSCO Technologies Inc., Talley Inc., Alliance Communications Corporation and Hutton Communications Inc. These distributors have been selected based on geographic coverage and access to markets. Within North America, the VARs are identified by our distributors. We have agreements with several regional VARs in North America. Outside of North America, we select the VARs directly. We qualify our VARs based on experience deploying microwave equipment, contacts in our target customer segments, and financial stability. We provide ongoing training to our VARs, and our VARs work with our dedicated account managers, participate in co-operative marketing programs for customer sales. Our personnel assist our VARs with initial installations of our products to provide quality assurance to end-customers.

We also work with OEMs (original equipment manufacturers), including system integrators and network equipment vendors, to assist them in providing complete network solutions for their end-customers, who are primarily Tier 1 service providers.

In EMEA and Asia-Pacific, we have agreements with regional VARs in the United Kingdom, Ireland, Spain, France, Germany, Belgium, the Netherlands, Sweden, Norway, Hungary, the Czech Republic, Russia, Israel, Saudi Arabia, United Arab Emirates, Kuwait, South Africa, Australia, Pakistan and Singapore.

Our indirect sale channel represented approximately 17% of revenue for the fiscal year ended February 29, 2016 (fiscal year ended February 28, 2015 – 18%).

Our Revenue

Our revenue for the fiscal year ended February 29, 2016 was \$86.3 million, compared with \$157.8 million for the fiscal year ended February 28, 2015. We prepare consolidated financial statements, which include the revenue from the Joint Venture Company. All intercompany accounts and transactions have been eliminated upon consolidation.

We analyze our sales according to geographic region and target product development and sales strategies by region. The following tables present total revenues by geographic location through direct and indirect sales and through our channel partner, Nokia:

	For the year ended							
	February 29, 2016				February 28, 2015			
	Direct & Indirect Sales	OEM Sales through Nokia	Total	% of total revenue	Direct & Indirect Sales	OEM Sales through Nokia	Total	% of total revenue
Canada	2,255	—	2,255	3%	4,358	—	4,358	3%
Europe, Middle East and Africa . .	6,753	31,109	37,862	44%	12,554	61,467	74,021	47%
India	13,993	3,787	17,780	21%	26,291	10,854	37,145	24%
United States	19,577	19	19,596	23%	23,451	—	23,451	15%
Rest of world	6,095	2,707	8,802	10%	6,825	11,966	18,791	12%
	<u>48,673</u>	<u>37,622</u>	<u>86,295</u>	<u>100%</u>	<u>73,479</u>	<u>84,287</u>	<u>157,766</u>	<u>100%</u>

In previous fiscal years we did not have visibility to the geographic breakdown of sales shipped through Nokia's warehouses to the end customer. Below is the financial information available on the geographic distribution of our sales for the fiscal year ended February 28, 2014.

	For the year ended	
	February 28, 2014	
	Amount	%
Canada	5,288	6%
North America (excluding Canada)	19,035	21%
Europe, Middle East, and Africa (excluding Finland)	11,330	13%
Finland	38,140	42%
India	9,093	10%
Other	7,125	8%
Total Revenue	90,011	100%

During each of the periods presented below, revenue is comprised of product sales and services, as indicated:

	For the year ended					
	February 29, 2016		February 28, 2015		February 28, 2014	
	Amount	%	Amount	%	Amount	%
Product Sales	71,393	83%	150,432	95%	84,960	94%
Services	14,902	17%	7,334	5%	5,051	6%
Total Revenue	86,295	100%	157,766	100%	90,011	100%

Our Production and Repair Capabilities

We have several providers of outsourced manufacturing, repair and logistic services including: Plexus Corp. ("Plexus"), C.R. & CS.R.L. ("CRC"), Radio Design Ltd ("RD"), Jabil Circuit ("Jabil"), Lloyd Douglas Solutions ("LDS"), and Panalpina World Transport LTD ("Panalpina").

- Jabil is an electronics manufacturing services company headquartered in St. Petersburg, Florida with facilities located around the world. Our products are manufactured and repaired at Jabil facilities in Penang, Malaysia and Marcianise, Italy.
- Plexus is an electronics manufacturing services company headquartered in Neenah, Wisconsin with manufacturing facilities located around the world. Plexus provides product design, supply chain and materials management, manufacturing, test, fulfillment and aftermarket solutions to branded product companies in the wireline networking, wireless infrastructure, medical, industrial and defense/security/aerospace market sectors. Our products are manufactured at Plexus facilities in Boise, Idaho and Penang, Malaysia.
- Panalpina headquartered in Basel, Switzerland provides logistics services for us globally as well as at facilities located in Prague, Czech Republic and Johor, Malaysia.
- CRC is an electronic services company headquartered in Sulbiate Monza e Brianza, Italy providing DragonWave with engineering, repair, supply chain management and logistic services.
- RD is a wireless infrastructure company headquartered in Shipley, West Yorkshire England with facilities around the world providing DragonWave repair services primarily in India.
- LDS provides manufacturing and repair services to us from its manufacturing and repair facility located in Kanata, Ontario.

We have allocated manufacturing of our products (including components) among key suppliers to reduce the risks associated with using a single supply source and to ensure competitive pricing and levels of service. Using multiple suppliers also enables us to respond more rapidly to increases in demand for our products.

Our Competitive Environment

We face competition in our target markets from two types of microwave equipment suppliers: Hybrid equipment suppliers and Ethernet equipment suppliers.

There is a broad range of microwave equipment suppliers for backhaul applications that are, like us, focused on Ethernet-based products in IP networks. These suppliers are our main competitors and include SIAE Microelettronica, Ceragon Networks Ltd., NEC Corporation and Aviat Networks, Inc. (formerly Harris Stratex Networks, Inc.). We encounter these competitors in network builds focused on IP traffic. We believe that our high bandwidth capability/flexibility, industry leading system gain, broad small cell portfolio, performance and simplicity differentiate our solution from products offered by our competitors.

We also face competition from full service network integrators such as Huawei, Ericsson, and Nokia (through its newly acquired Alcatel-Lucent microwave division), who have developed competing Ethernet-based products for IP networks.

The telecommunications equipment industry has experienced significant consolidation among its participants, and we expect this trend to continue. These consolidations have increased the size and resources of our competitors. Most recently, our principal channel partner Nokia acquired Alcatel-Lucent. As indicated above, Alcatel-Lucent has a vertically integrated microwave business unit.

Our assessment of our competitive position, as described above, is based, among other factors, on our knowledge of the telecommunications equipment industry and communications with our customers.

Our Products

Our principal commercialized product lines are Harmony, Horizon, Avenue and NetViewer.

Harmony Product Family

The Harmony product line is a multi-service wireless platform enabling TDM and packet-based services across wireless or wireline infrastructure. This product line was originally acquired through the NSN Transaction, and is currently resold by Nokia under the brand name “Flexipacket”. This product is unique in that it has true hybrid capabilities, with software upgradability to an all-IP network.

Harmony First Mile 200

Harmony First Mile 200 is a reliable and flexible indoor unit (IDU) of the Harmony family, which can be used for tail or chain application in the mobile backhaul. It can be connected to the Harmony Radio outdoor units (ODU) to carry traditional E1/T1 and Ethernet traffic. The Harmony First Mile 200 directly powers the Harmony Radio, offers flexible protection architectures including Hot-Standby and ring capability. The Harmony First Mile 200 also provides multiple end-to-end synchronization options.

Harmony Hub 800

With the Harmony Hub 800, we deliver a multi-service platform that provides packet, pseudowire and hybrid capabilities. Hub 800 is a reliable and flexible indoor unit (IDU), which can be used for tail, hub and edge application in the mobile backhaul. It provides up to 12 ODU directions with high capacity TDMoP (up to 128E1s) and full protection scenario, and is able to have interface to SDH network as well. The Hub 800 uses a multi-slot structure, and provides microwave integration with the Harmony Radio. Optional cards are used to fit the requirements of different applications. The Harmony Hub 800 also provides multiple end-to-end synchronization options.

Harmony Radio

Harmony Radio is a reliable and flexible microwave radio, which efficiently transports Ethernet traffic in RF bands from 3.5 GHz up to 38 GHz. Harmony Radio can be used in different transmission networks: mobile networks, fixed networks or private networks. Harmony Radio is the traditional outdoor unit of the Harmony product Line: a packet microwave system designed to meet the requirements of evolved transport networks with the target of minimizing the total cost of ownership for the operator. Harmony Radio joins together the benefits of an advanced scalable microwave radio and of a real carrier grade Ethernet nodal solution. Harmony Radio provides field upgradability from a hybrid to an all-IP architecture. The Harmony Radio supports overhead compression, and all-outdoor XPIC. In addition, multi-radio provides advanced protection capability.

Harmony Enhanced

Harmony Enhanced is the next generation of the Harmony Radio and Horizon Compact+ integrated into a single platform. Harmony Enhanced was launched in September 2014, and the complete frequency coverage of this platform will continue development during the fiscal year ending February 28, 2017. Harmony Enhanced is DragonWave's high capacity, single channel system in the 6-42GHz frequency bands, offering new 4096QAM modulation support, and Bandwidth Accelerator Plus, which is the combination of both header and bulk compression. The Harmony Enhanced also enables future scalability by being MIMO-ready. Harmony Enhanced is an all-outdoor radio, with integrated Ethernet switching, including 4 GigE ports, MPLS-TP and H-QoS support. Harmony Enhanced will support the longest all-outdoor reach in the industry through the optional high power system.

Harmony Enhanced^{MC}

Harmony Enhanced^{MC} is the next generation of the Horizon Quantum, evolved into an all outdoor platform. Harmony Enhanced^{MC} was launched in February, 2016, and the complete frequency coverage of this platform will continue development during the fiscal year ending February 29, 2016. Harmony Enhanced^{MC} is DragonWave's highest capacity radio, delivering >3Gbps in a single radio, and >6Gbps on a single antenna in the 6-42GHz frequency bands, through dual channel capability, integrate XPIC, 4096QAM modulation support, and Bandwidth Accelerator Plus, which is the combination of both header and bulk compression. Harmony Enhanced^{MC} will improve operator total cost of ownership by enabling smaller antennas and resulting tower lease costs through its industry leading system gain. The Harmony Enhanced^{MC} also enables future scalability by being MIMO-ready. Harmony Enhanced is an all-outdoor radio, with integrated Ethernet switching, including 4 ports including and a 10GE port, MPLS-TP and H-QoS support.

Harmony Radio Lite

The Harmony Radio Lite is a sub-6 GHz product with near and non-line of sight capabilities in the licensed and unlicensed bands. With an all-outdoor architecture and integrated 6" antennas, the Harmony Radio Lite is optimized for 3G and 4G small cell backhaul. The Harmony Radio Lite is a differentiated platform with SynchE, 1588, low delay and low PDV capabilities. In addition, the Harmony Radio Lite can be deployed as an integrated ODU with the Harmony First Mile 200 or Harmony Hub 800, and provides end to end Ethernet capabilities within the Harmony product family.

Harmony Eband

Harmony Eband is, a compact, lightweight, low energy consumption radio operating in the 70-80 GHz spectrum. The Harmony Eband is ideally suited for mobile backhaul markets, providing reach comparable to a 23-38 GHz offering, higher capacity and a lower OPEX expansion solution.

Harmony Eband allows operators to tap into readily available spectrum that is generally lower cost and more lightly licensed than lower frequencies and it is equipped with a number of features that increase spectral efficiency and extend the radio's reach, while also providing extensive networking capabilities compliant with the latest Carrier Ethernet standards. Harmony Eband's industry leading performance is demonstrated by operation up to 64 QAM to achieve throughput of 2.5 Gbps full duplex in 500 MHz mode. Spectral efficiency is further enhanced by both payload and header compression to deliver capacity of up to 4 Gbps. Additionally, Harmony

Eband features the DragonWave Reach Extender, which leverages Waveform and Modulation Adaptivity (WMA) and MIMO to extend the radio's reach and deliver 3-6 KM links with high availability. With an ultra-low delay mode and a CPRI interface, the Harmony Eband radio is also an ideal solution for front haul applications.

Harmony Trunk

The Harmony Trunk is a traditional microwave system used for high-capacity multi-channel applications. This product is primarily used in emerging markets, and offers all-indoor configurations in a rack mount system. It operates in the sub-11 GHz bands, with focus on reach capabilities, and both packet and hybrid configurations. We work in partnership with Fujitsu to provide our Harmony Trunk product and we act as an integrator/reseller of this product through our established sales channels.

Horizon Product Family

We commenced commercial production of our Horizon product line in 2007. Our Horizon product line was designed as a next-generation product to follow our AirPair product line, which was introduced in 2002 and is now in its end of life stage.

Our Horizon product family is an Ethernet microwave portfolio and consists of Horizon Compact+ and Horizon Quantum. Key features across our Horizon product line include adaptive modulation, ring/mesh support, advanced prioritization, jumbo frames, flow control, ATPC (adaptive transmission power control) and layer 2 transparencies.

Horizon Compact+

In February 2011, we launched the Horizon Compact+ globally. Horizon Compact+ is the evolution of our Horizon Compact product. Horizon Compact+ is an all-outdoor platform that is fully interoperable with Horizon Compact, enabling rapid adoption by existing customers.

As the first all-outdoor system to include 2048 QAM, Horizon Compact+ has industry leading capacity and spectral efficiency capabilities. Building on the capacity increases enabled by our previously announced Bandwidth Accelerator technology, this spectrum-doubling capability increases the data bandwidth of Horizon Compact+ to as high as 2 Gbps. This industry leading spectral efficiency, offers a significant total cost of ownership benefit, especially in markets with high spectrum costs, such as Europe, India and Asia.

Horizon Compact+ offers all the packet-based features of Horizon Compact, and introduces SynchE, as well as up to 4 ports of Ethernet access. Horizon Compact+ operates in licensed spectrum from 6 to 60 GHz.

Horizon Quantum

In September 2009, we launched our Horizon Quantum product in North America and in February 2010, we launched Horizon Quantum in Europe. We have designed Horizon Quantum to provide significantly increased bandwidth capacity of up to 4 Gbps per link. Horizon Quantum is a native Ethernet implementation supporting sub-0.1-ms latencies and is optimized for the rollout of LTE services. Horizon Quantum is a half-rack-unit device incorporating a Bandwidth Accelerator feature that enables superior spectral efficiency by up to a factor of 2.5 times as compared to conventional systems. The combination of these features results in a five times improvement in rack density per unit of available bandwidth capacity. Horizon Quantum also integrates key nodal intelligence that enables network operations to be streamlined and simplified to yield significant cost efficiencies. For example, Horizon Quantum incorporates integrated switching capability enabling aggregation and switching to optimize ring-and-mesh network deployments by requiring reduced network equipment to be deployed, powered and maintained. Horizon Quantum also incorporates our standard user-scalable bandwidth enabling simple and remote scaling, without truck rolls, providing our customers with key operational-cost benefits.

Avenue

Our Avenue portfolio comprises three microcellular solutions ranging from an access microcell backhaul link (Avenue Link Lite), to a high capacity aggregation link (Avenue Link) to the industry's first fully-integrated

microcellular platform (Avenue Site), with multi-beam backhaul and independently-aligned antenna array, Ethernet switching, power supply, battery backup and a slot for a 3G/4G micro base station; all within a single zoning-friendly enclosure.

Our Avenue solutions are integrated within environmentally hardened enclosures, optimized for street-level deployments. Engineered to provide the greatest flexibility for mobile operators, our Avenue products can be deployed on any number of structures including street lamps, traffic light poles, or building sides. Our Avenue solutions are designed to blend into the urban environment, meeting the size, weight and aesthetic requirements set by city zoning officials.

NetViewer

NetViewer is a multi-service, multi-product network management platform, sold directly and through the Nokia channel. The NetViewer platform supports the Harmony product line and the Horizon and Avenue product lines. NetViewer enables provisioning, management, monitoring, and configuration across the line of products in a single graphical user interface (GUI)-based system. NetViewer also manages legacy Nokia microwave products. NetViewer is an industry leading end-end Ethernet provisioning engine.

The Components for Our Products

Our product solution consists of links. Each link is comprised of two radios, two modems, and two antennas and includes our proprietary embedded software and FPGA (field-programmable gate array) firmware. Our links incorporate commercially available electronic components sourced from third party suppliers, including FPGAs, monolithic microwave integrated circuits and microprocessors. The antennas used in our wireless carrier Ethernet links are manufactured by third party suppliers.

Component pricing is impacted by a number of factors including the volume we are purchasing, the demand in the industry for similar products which can limit supply, and economic factors such as the price of oil which can impact the landed cost of our components.

The manufacturing of our products depends on obtaining adequate supplies of third party components on a timely basis. We source several key components used in the manufacture of our products from a limited number of suppliers, and in some instances, a single source supplier. Because certain components have longer lead times, we often pre-order components based on sales forecasts. This can result in oversupply or undersupply of components if actual sales are different from forecast sales. See “Part I – Item 3. Key Information – D. Risk Factors”.

Intellectual Property

In accordance with industry practice, we seek to protect our proprietary rights through a combination of patent, copyright, trade-mark and trade secret laws and contractual provisions.

Patent law offers some protection for our current and future products and may protect certain elements of our manufacturing processes. Our patent strategy is focused on protecting novel elements of the following aspects of our product and manufacturing design, such as:

- core design features (including certain circuits and algorithms required for advanced, low-cost point-to-point radio implementations);
- implementation technologies (consisting of the proprietary aspects of our manufacturing design that permit low-cost automated assembly and testing);
- certain key Ethernet microwave networking technologies for high-speed, high-performance metro Ethernet networking applications (including bandwidth scaling feature (marketed as “Flex”), mesh rapid link shutdown feature, mesh node packaging/integration); and
- other key features of our products (including Flex functionality, RF-loopback, mesh nodes and tri-mode mesh panel features).

Our patent portfolio consists of 25 issued U.S. patents, two issued Canadian patents, 30 issued European patents, ten pending European applications and 20 pending U.S. applications.

In connection with the NSN Transaction, we use certain patents and other intellectual property rights owned by Nokia under license and in connection with the disposition of Axerra, we use certain patents and other intellectual property rights owned by the acquirers of Axerra under license.

The executable code for our software and firmware, the embedded software and firmware in our hardware products and our manufacturing designs are protected under trade secret law and as unpublished, copyrighted works. Software is only provided to our customers in binary format, subject to industry standard source code escrow arrangements with key customers. We license the use of our product to our customers and resellers. These licenses contain standard provisions prohibiting the unauthorized reproduction, disclosure, reverse engineering or transfer of our product. In addition, we are designing product changes intended to enable the implementation of encrypted embedded firmware to further enhance our ability to protect our intellectual property. We recognize, however, that effective copyright protection may not be available in some countries in which we distribute products.

Our general practice is to enter into confidentiality and non-disclosure agreements with our employees, consultants, manufacturers, suppliers, customers, channel partners and others to attempt to limit access to and distribution of our proprietary information. In addition, our practice is to enter into agreements with our employees that include an assignment to us of all intellectual property developed by each of them in the course of their employment.

We have registered trade-marks DRAGONWAVE and HORIZON in Canada and AVENUE in the U.S. We have a registered trade-mark for DRAGONWAVE in China and in the European Union and have a pending trade-mark application in India for DRAGONWAVE. We have a pending trade-mark application in India for AVENUE. In connection with the Renewed Framework, we have been granted an exclusive license, without the right to grant sub-licenses, to use the trade-marks HUB800 and FIRSTMILE200 and an exclusive license for certain field of use and a non-exclusive license for certain other fields of use, without the right to grant sub-licenses, to use the trade-marks LITE and NETVIEWER.

“See “Part I – Item 3. Key Information – D. Risk Factors”.

Research and Development Activities

Our ability to develop technologically superior and cost-effective solutions relative to our competitors can only be achieved through our continued research and development (“R&D”) efforts.

Our R&D activities take place at our headquarters in Ottawa, Ontario, Canada and in Shanghai, China. We currently have approximately 68 personnel in our engineering group, representing approximately 40% of our total personnel. The majority of our engineering staff hold degrees in engineering. A large number of our senior engineering personnel have worked together for several years and have been responsible for the development of our products. Our R&D team works closely with our diverse customer base, and incorporates feedback from our direct and indirect sales teams into our product development plans to improve our products and address emerging market requirements.

Our R&D expenses have historically been, and will continue to be, a significant portion of our overall cost structure as we will continue to invest in new product features and new platforms to better serve the current and future needs of our customers. We invested 16% and 11% of our revenues in R&D during fiscal year 2016 and fiscal year 2015, respectively.

For further analysis on Research and Development, see the management’s discussion and analysis of the Company’s consolidated results of operations and financial condition for the three and twelve months ended February 29, 2016 incorporated by reference into this Annual Report as Exhibit 15.1.

Cycles

There is no seasonal effect on our sales patterns; however, quarterly results may fluctuate especially when multi-year or multi-quarter projects are booked.

Economic Dependence

In the fiscal year ended February 29, 2016, Nokia and two other customers each contributed over 10% of our revenue. Specifically, revenue through the Nokia channel represented approximately 44% of our total revenue during the fiscal year ended February 29, 2016. Our other key customers accounted for 15% and 11% of revenue respectively in the fiscal year ended February 29, 2016.

As noted above, following Nokia's announced combination with Alcatel-Lucent, which has a vertically integrated microwave business unit, we announced that we have reshaped our channel strategy. Our revised strategy primarily positions our latest and new products directly to customers. See "Part I – Item 4. Information on the Company – A. History & Business Developments – Mergers & Acquisitions and Joint Ventures – Acquisition of Microwave Transport Business of NSN and Relationship with Nokia", "Our Competitive Environment" above and "Part I – Item 3. Key Information – D. Risk Factors".

We supply products to our customers, including Nokia, on a purchase order basis and, accordingly, customers are generally under no ongoing obligation to buy our products. If one or more of our customers discontinues its relationship with us for any reason, or reduces or postpones current or expected purchases of our products or services, our business, results of operations and financial condition could be materially adversely affected.

Environmental Protection

Environmental protection requirements currently have no material financial or operational effect on our capital expenditures, earnings or competitive position, and are not expected to have any material effect in future years. While we are currently unaware of any negative effects associated with our products, allegations of health and safety risks associated with wireless products have been publicized from time to time.

See "Part I – Item 3. Key Information – D. Risk Factors".

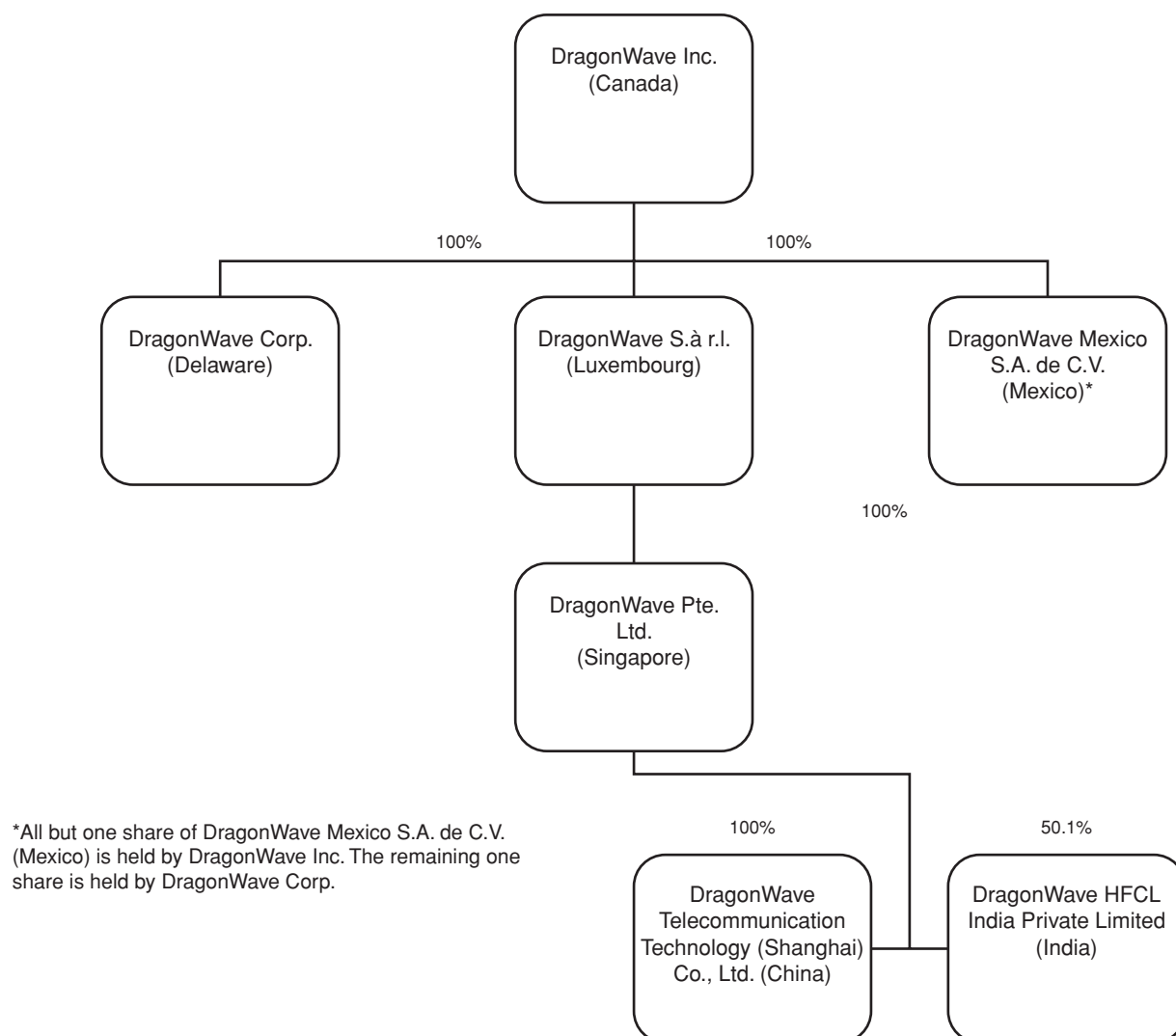
Employees

As of February 29, 2016, we had 171 full-time employees and contractors. The following is a breakdown of our employees and contractors by main category of activity and geographic location:

<u>Category of Activity</u>	<u>February 29, 2016</u>	<u>Geographic Location</u>
General and administrative:	14	Canada, China
Operations:	40	Canada, Global
Research and development:	68	Canada, China
Sales and marketing/customer support:	49	Global
Total:	<u>171</u>	

C. Corporate Structure

The intercorporate relationships between DragonWave and its material subsidiaries are set out in the chart below. As noted below, DragonWave has a 50.1% equity interest in DragonWave HFCL India Private Limited. DragonWave does not control the board of DragonWave HFCL India Private Limited.



D. Property, Plants and Equipment

Our corporate headquarters are located in Ottawa, Ontario where we lease and occupy 33,286 square feet of space. The lease for our office expires in November 2016. Our headquarters do not include product manufacturing facilities. The aggregate monthly rental payment for our corporate headquarters, together with the maintenance fees, is approximately \$63,451.

We also lease and occupy 20,734 square feet of space in another office in Ottawa, Ontario, mainly as a warehousing and testing facility. The lease for this space expires in November 2016 and the aggregate monthly rental payment is \$35,869, including maintenance fees.

In Shanghai, China, we lease and occupy 14,272 square feet of space for research and development activities. The lease expires in September 2017 and the aggregate monthly rental payment is \$20,309, including maintenance fees.

We also lease space in other regions to support the sales and marketing activities of our branches and subsidiaries in those regions.

ITEM 4A. Unresolved Staff Comments.

None.

ITEM 5. Operating and Financial Review and Prospects.

A. Operating Results

DragonWave is a leading provider of high-capacity packet microwave solutions that drive next-generation IP networks. DragonWave's carrier-grade point-to-point packet microwave systems transmit broadband voice, video and data, enabling service providers, government agencies, enterprises and other organizations to meet their increasing bandwidth requirements rapidly and affordably. The principal application of DragonWave's products is mobile network backhaul. Additional applications include leased line replacement, last mile fiber extension and enterprise networks.

Historically, our financial results have fluctuated on a quarterly basis and we expect that quarterly financial results will continue to fluctuate in the future. The results of operations for interim periods should not be relied upon as an indication of the results to be expected or achieved in any future period or any fiscal year as a whole. Fluctuations in results reflect the project nature of network installations, including for end-customers we supply through Nokia. In addition, results may vary as a result of the timing of staffing, infrastructure additions required to support growth, and material costs required to support design initiatives.

During fiscal year 2016, neither inflation nor deflation had a material impact on our operations. However, in light of the uncertain global economic outlook we cannot provide any assurance that there will be no

significant variations on our operations, or the business operations of our customers and suppliers in the future which may have a material impact on our results of operations.

	Twelve Months Ended		
	February 29, 2016	February 28, 2015	February 28, 2014
REVENUE			
Hardware and other	71,393	150,432	84,960
Services	14,902	7,334	5,051
	<u>86,295</u>	<u>157,766</u>	<u>90,011</u>
COST OF SALES			
Hardware and other	58,991	123,950	77,625
Services	8,917	3,051	645
	<u>67,908</u>	<u>127,001</u>	<u>78,270</u>
Gross profit before inventory provisions (note 1)	<u>18,387</u>	<u>30,765</u>	<u>11,741</u>
	21.3%	19.5%	13.0%
Inventory provision	4,416	2,771	1,078
Gross profit	<u>13,971</u>	<u>27,994</u>	<u>10,663</u>
	16.2%	17.7%	11.8%
EXPENSES			
Research and development	13,406	18,657	19,948
Selling and marketing	10,572	13,975	13,201
General and administrative	13,798	15,085	17,087
	<u>37,776</u>	<u>47,717</u>	<u>50,236</u>
Loss before other items	<u>(23,805)</u>	<u>(19,723)</u>	<u>(39,573)</u>
Other Expenses			
Goodwill impairment	(11,927)	—	—
Restructuring costs	(1,549)	—	—
Amortization of intangible assets	(577)	(1,188)	(1,900)
Accretion expense	(205)	(168)	(222)
Interest expense	(2,014)	(1,557)	(1,750)
Warrant issuance expenses	—	(221)	(662)
Gain on change in estimate	—	67	2,759
(Loss) Gain on contract amendment	—	—	—
Gain on sale of fixed assets	—	18	—
Fair value adjustment – warrant liability	1,119	2,007	3,235
Foreign exchange (loss) gain	(331)	846	(1,530)
Loss before income taxes	<u>(39,289)</u>	<u>(19,919)</u>	<u>(39,643)</u>
Income tax expense/(recovery)	2,275	717	398
Net Loss	<u>(41,564)</u>	<u>(20,636)</u>	<u>(34,339)</u>
Net (income) loss attributable to non-controlling interest	(740)	(884)	97
Net Loss attributable to shareholders	<u>(42,304)</u>	<u>(21,520)</u>	<u>(34,242)</u>
Basic & Diluted loss per share	(14.01)	(7.90)	(20.66)
Basic & Diluted weighted average shares outstanding	3,019,259	2,724,469	1,657,535

Note 1: Gross profit before inventory provisions is a non-GAAP financial measure. See “Use of Non-GAAP Performance Measures” in Exhibit 15.1 to this Annual Report.

The principal differences between the twelve months ended February 29, 2016 and February 28, 2015 are explained as follows:

- Revenue changes between these two periods can be attributed to lower sales through all sales channels, most significantly through the Nokia channel. Higher services revenue in fiscal year 2016 relative to the prior year relates to installation services to tier 1 carriers in India and North America.
- Before considering inventory provisions, our gross profit percentage increased by 1.8% in the twelve months ended February 29, 2016 when compared to the same period one year prior. A higher percentage of sales in fiscal year 2015 was made through both original equipment manufacturers (OEMs) channels and through a customer in India. These channels have inherently lower gross profit percentage levels than other sales channels.
- The inventory provisions taken in fiscal year 2016 were higher in the twelve months ended February 29, 2016 than they were in the same period in the prior fiscal year. The increase was driven by the inventory provisions taken in fiscal year 2016 which related primarily to excess inventory due to the change in sales through the Nokia channel.
- Operating expenses were lower as a result of the steps taken to restructure the business in fiscal year 2016 in order to reduce spending. In addition, a weakened Canadian dollar (“CAD”) reduced our USD-translated operating expenses in fiscal year 2016.

The principal differences between the twelve months ended February 29, 2016 and February 28, 2014 are explained as follows:

- Revenue was lower in fiscal year 2016 compared to fiscal year 2014 as a result of lower sales through most customer channels globally. Higher sales to India in fiscal year 2016 offset this downward trend. Services revenue in fiscal year 2016 was dominated by installation services to Tier 1 carriers in India and North America. These installation contracts did not exist in fiscal year 2014.
- Before considering inventory provisions, the gross profit percentage increased by 8.3% between the full fiscal year 2016 compared to the twelve months two years prior. Improvements relate primarily to material cost improvements since fiscal year 2014 which have resulted in improved gross profit percentages.
- Inventory provisions were \$3.3 million higher for fiscal year 2016 than they were in fiscal year 2014. Inventory provisions were taken in fiscal year 2016 to reflect the continued evolution of the product portfolio and the risk of excess inventory as a result of the change in the relationship with Nokia.
- Operating expenses were \$12.5 million lower in the twelve months ended February 29, 2016 than they were in the same period two years prior. This reduction is primarily the result of lower compensation related spending following global restructuring activities in fiscal year 2016 and lower depreciation levels as well. A weakened CAD also reduced our USD-translated operating expenses in fiscal year 2016.

For further analysis on our results of operations, see management’s discussion and analysis of the Company’s consolidated results of operations and financial condition for the three and twelve months ended February 29, 2016 incorporated by reference into this Annual Report as Exhibit 15.1, and the Company’s consolidated results of operations and financial condition for the three and twelve months ended February 28, 2015 incorporated by reference into this Annual Report as Exhibit 15.2.

B. Liquidity and Capital Resources

Since our initial public offering in April 2007 (our “IPO”), we have financed our operations primarily through the proceeds of our IPO and other follow-on public offerings and debt arrangements.

Our IPO raised net proceeds of CAD\$26.9million. This was followed by five further public offerings: (1) an offering in September 2007 which raised net proceeds of CAD\$22.1 million, (2) our NASDAQ initial public offering in October 2009 which raised net proceeds of CAD\$70.5 million, (3) an offering in September 2013 an offering which raised net proceeds of \$22.4 million, (4) an offering in August 2014 which raised net proceeds of \$24.0 million, and an offering in April 2016 which raised net proceeds of \$4.0 million.

We have established a long term credit facility with Comerica Bank and Export Development Canada (“Comerica”). As at February 29, 2016, this asset based credit facility was for a total of \$40.0 million plus \$4.0 million for letters of credit and foreign exchange facilities. Credit availability is subject to ongoing compliance with borrowing covenants and short term assets on hand. As at February 29, 2016 we had drawn \$22.15 million on the facility and \$1.85 million against our letter of credit facility.

The credit facility was extended on January 6, 2014, matures on June 1, 2016 and is secured by a first priority charge on all of our assets and the assets of our principal direct and indirect subsidiaries. The credit facility includes other customary terms, conditions, covenants, and representations and warranties. Borrowing options under the credit facility include U.S. dollar, Canadian dollar, and Euro loans. Interest rates vary with market rate fluctuations, with loans bearing interest in the range of 3% to 4% above the applicable base rates.

The credit facility contains financial covenants including minimum tangible net worth requirements, minimum cash levels to be held at Comerica and minimum liquidity ratio requirements. The credit facility also imposes certain restrictions on the Company’s ability to acquire capital assets above a threshold over a trailing six month period.

During the fiscal year ended February 29, 2016, we entered into a forbearance agreement which ended on January 29, 2016. The Company entered into a new forbearance agreement until May 18, 2016, which identified new minimum covenant levels reflecting the Company’s revised financial plans. The forbearance agreement included a requirement to hold a minimum of \$1.0 million at Comerica. In addition, the forbearance agreement reduced the facility commitment from \$40.0 million to \$35.0 million and implemented more frequent monitoring. We are currently negotiating a new forbearance agreement with our lenders.

Subsequent to February 29, 2016, we repaid \$3.3 million on this debt facility. As at the date of this Annual Report, the drawn portion on the facility is \$18.9 million.

The consolidated financial statements for the year ended February 29, 2016 were prepared assuming we will continue as a going concern, which contemplates the realization of assets and the disbursement of liabilities and commitments in the normal course of business in the foreseeable future. We have a history of losses and we have consumed significant cash resources in the past, and we have continued to do so in the year ended February 29, 2016. Recently, we have experienced additional liquidity pressure as a result of reduced revenue from a significant OEM channel and a dispute over inventory shipped to a customer in India in June 2015.

We have been able to make progress in restructuring the business. This progress includes the following highlights:

- Reduced operating expenses by 33% in the fourth quarter of fiscal year 2016 compared to the same period in the previous fiscal year primarily through a reduction in staff levels;
- Raised \$4.4 million in equity in an offering completed on April 11, 2016;
- Reduced outstanding debt on our credit facility by \$10.2 million between February 28, 2015 and February 29, 2016 by leveraging our working capital;
- Negotiated forbearance terms with our credit facility partners; and
- Engagement in arbitration proceedings to seek resolution to our customer dispute in India.

Despite the progress identified above, we remain in breach of the terms of our debt facility and we are currently operating under our second forbearance period pursuant to the terms of a forbearance agreement which expires on May 18, 2016. No long term debt facility agreement has been reached. The continued consumption of cash has raised substantial doubt about our ability to continue as a going concern. Our plans to restructure the business and overcome these difficulties include initiatives in a number of areas including:

- Targeting our sales efforts to direct and indirect opportunities in markets with higher gross margins, and lower working capital requirements;
- Adjusting our business focus and resources away from Nokia in order to support new sales channels;
- Renegotiating the terms of existing debt facilities;

- Continuing to minimize fixed and variable operating expenses, by tightly controlling discretionary spending and headcount growth;
- Actively investigating and pursuing alternative forms of financing;
- Reducing inventory levels in both raw material and finished goods inventory; and
- Working closely with vendors to ensure supply continuity.

These plans may be difficult to achieve. They are dependent on a number of key assumptions including the timing of significant new customer projects, and success in arbitration with the customer located in India. It is possible that the plans described above may not be fully executed or may occur too slowly to solve our current liquidity concerns. There can be no assurance that the existing financing facility can be renegotiated or that any other forms of financing can be arranged on satisfactory terms. These consolidated financial statements do not include any adjustments to the accounts and classification of assets and liabilities that may be necessary if we are unable to continue as a going concern. Such adjustments could be material.

For further analysis on Liquidity and Capital Resources, see the management's discussion and analysis of the Company's consolidated results of operations and financial condition for the three and twelve months ended February 29, 2016 incorporated by reference into this Annual Report as Exhibit 15.1, and the Company's consolidated results of operations and financial condition for the three and twelve months ended February 28, 2015 incorporated by reference into this Annual Report as Exhibit 15.2.

C. Research and Development

We continue to believe that investment in R&D is pivotal to our ability to develop technologically superior and cost-effective solutions relative to our competitors.

Our R&D activities take place both at our headquarters in Ottawa, Ontario, Canada and in Shanghai, China. We currently have approximately 68 employees in our engineering group, representing approximately 40% of our total personnel.

Our R&D expenses have historically been, and will continue to be, a significant portion of our overall cost structure as we will continue to invest in new product features and new platforms to better serve the current and future needs of our customers. We invested 16% and 11% of our revenues in R&D during fiscal year 2016 and fiscal year 2015, respectively.

For further analysis on Research and Development, see the management's discussion and analysis of the Company's consolidated results of operations and financial condition for the three and twelve months ended February 29, 2016 incorporated by reference into this Annual Report as Exhibit 15.1.

D. Trend Information

For a description of the trend information relevant to us see discussions in Parts A and B of Item 5. "Operating and Financial Review and Prospects".

E. Off-Balance Sheet Arrangements

(Actual Dollars)

City	Country	Lessor	Lease Expiry	Cost per Month
Dubai	UAE	TECOM Investments FZ-LLC	November, 2016	\$ 3,450
Luxembourg City	Luxembourg	ME Business Solutions S.à r.l.	Month to Month	\$ 1,700
Ottawa (Warehouse & Operations at Terry Fox Drive + Office Space at 411 Legget Drive) . . .	Canada	Kanata Research Park	November, 2016	\$90,000
Herzlyia	Israel	Margalin Holdings Ltd.	November, 2016	\$ 2,500
Shanghai	China	Shanghai Lingang Economic Development Group	September, 2017	\$20,800
Gurgaon	India	Narinder Singh & Songs (P) LTD	March, 2018	\$ 4,430

The leases listed above are arranged at market pricing levels in all jurisdictions and the lease periods listed above represent a commitment for the time period indicated. We are actively seeking sub-lease arrangements in a number of locations as part of our efforts to reduce costs. There can be no assurance that we will secure sub-leases or that sub-lease terms will be favorable.

On January 21, 2014, we subleased a portion of our Kanata office space and as such during the year ended February 28, 2014 we recorded net rent expense of \$84 thousand, representing the present value of our estimated remaining rent expense for the duration of the lease after taking into account estimated future sublease income and deferred rent on the facility.

We use an outsourced manufacturing model in which most of the component acquisition and assembly of our products is executed by third parties. Generally, we provide the supplier with a purchase order 90 days in advance of expected delivery. We are responsible for the financial impact of any changes to the product requirements within this period. In some cases when a product has been purchased by a contract manufacturer but not pulled on for a build after a certain amount of time, we provide a deposit against that inventory, but do not take ownership of it.

Our contract manufacturers currently have inventory intended for use in the production of our products, and we have purchase orders in place for raw materials and manufactured products with these contract manufacturers as well. The value of the inventory held by our primary contract manufacturer at February 29, 2016 was \$16.8 million (February 28, 2015 – \$13.4 million)

All of this material is considered to be part of the normal production process and we take provisions against any portion of that inventory that we do not expect to be fully used based on current forecasts and projections. As mentioned previously, we would generally be responsible for the cost of the material approved to be purchased on our behalf by our contract manufacturers should those forecasts or projections change.

As at February 29, 2016, we have provisions totaling \$3.1 million on inventory held by contract manufacturers that we do not expect to be fully used.

F. Tabular Disclosure of Contractual Obligations

Future minimum operating lease payments which relate to office and warehouse space in various countries as at February 29, 2016 per fiscal year are as follows:

2017	1,144
2018	134
2019	10
Thereafter	—
	<u>1,288</u>

ITEM 6. Directors, Senior Management, and Employees.

A. Directors and Senior Management

Name, Occupation and Security Holding

Our directors as at February 29, 2016 were as follows:

<u>Name and Municipality of Residence</u>	<u>Principal Occupation</u>	<u>Director Since</u>	<u>Holdings of Outstanding Common Shares as at February 29, 2016</u>
PETER ALLEN Ottawa, Ontario, Canada	Chief Executive Officer, DragonWave Inc.	March 4, 2004	18,346
CLAUDE HAW ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾ Ottawa, Ontario, Canada	President of Venture Coaches	November 10, 2003	1,000
LORI O'NEILL ⁽¹⁾⁽²⁾⁽³⁾ Ottawa, Ontario, Canada	Independent Consultant and Corporate Director	June 13, 2013	800
CESAR CESARATTO ⁽¹⁾⁽²⁾⁽³⁾ Gatineau, Quebec, Canada	Retired	June 12, 2012	1,600

(1) As of February 29, 2016, the audit committee members are Lori O'Neill (Chair), Claude Haw and Cesar Cesaratto.

(2) As of February 29, 2016, compensation committee members are Cesar Cesaratto (Chair), Claude Haw and Lori O'Neill.

(3) As of February 29, 2016, the nominating and governance committee members are Claude Haw (Chair), Lori O'Neill and Cesar Cesaratto.

(4) Chairman of the board of directors.

Our directors, as at the date of this Annual Report, are Peter Allen, Claude Haw, Lori O'Neill and Cesar Cesaratto. Each of our directors holds office until the next annual meeting of shareholders or until his successor is duly elected or appointed, unless his office becomes vacant by resignation, death, removal or other cause.

Our directors and executive officers, as a group, beneficially own, or control or direct, directly or indirectly, a total of 42,232 common shares, representing 1.17% of the total outstanding common shares as of the date of this Annual Report.

Our executive officers as at February 29, 2016 were, and as except as otherwise noted, as of the date hereof are, as follows:

<u>Name and Municipality of Residence</u>	<u>Offices with the Company</u>
PETER ALLEN Ottawa, Ontario, Canada	President, Chief Executive Officer and Director
PATRICK HOUSTON Ottawa, Ontario, Canada	Chief Financial Officer
ERIK BOCH Ottawa, Ontario, Canada	Vice President, Engineering and Chief Technology Officer
BARRY DAHAN London, England, United Kingdom	Executive Vice President, Global Sales
DAVID FARRAR Ottawa, Ontario, Canada	Vice President, Operations
GREG FRIESEN Ottawa, Ontario, Canada	Vice President, Product Management
TOM MCLELLAN Ottawa, Ontario, Canada	Vice President, Services

As at the date of this Annual Report, our board of directors has three standing committees: the audit committee, the compensation committee and the nominating and governance committee. Detailed information regarding the mandate and procedures of the audit committee can be found below under “Part I – Item 6. Directors, Senior Management and Employees – C. Board Practices – Audit Committee”, as required by National Instrument 52-110 – *Audit Committees* promulgated under applicable securities legislation.

We have also established a disclosure committee composed of members of management, namely Peter Allen and Patrick Houston.

The principal occupations of our directors and executive officers as at February 29, 2016, for at least the five preceding years are as follows:

Directors

Cesar Cesaratto: Mr. Cesaratto has more than 40 years of experience in the technology industry. Mr. Cesaratto joined Nortel Networks Corporation, a communications equipment manufacturing company, in 1970 and assumed increasingly senior management roles during his 31 year career with Nortel, culminating in the role of President, Wireless Solutions for Europe, Middle East and Africa. Mr. Cesaratto retired from Nortel in 2001 and has continued to be active in the technology sector. He is currently a member of an angel investment group dedicated to the development of technology start-up companies in the Ottawa area. He was a director of Tundra Semiconductor (2007 to 2009) and Breconridge Manufacturing Solutions (2007 to 2010) and is currently Chairman of the board of directors of Applied Micro Circuits Corporation and serves on the Board of two private start-up companies. Mr. Cesaratto holds a Bachelor of Engineering in Electrical Engineering from McGill University.

Claude Haw, Director: Claude Haw is President of Venture Coaches, a private consulting and investment company, which he founded in 2000. From 2009 to 2011 he was President and Chief Executive Officer of the Ottawa Centre for Regional Innovation (OCRI), Ottawa’s leading economic development organization. From 2003 to early 2007, Mr. Haw was also a general partner at Skypoint Capital Corporation, an Ottawa based venture capital firm. Prior to Venture Coaches, Mr. Haw held a number of executive positions at Newbridge Networks Corporation, including Vice President of Corporate Business Development. In this role, he managed strategic investment programs in more than 20 companies. Mr. Haw has also held senior management positions at Mitel Networks Corporation and Leigh Instruments Ltd. Mr. Haw serves on the board of directors of two private companies, Signority Inc. and Rent Frock Repeat Inc., as well as on the board of a not-for-profit

association, Public Services Health and Safety Association. Mr. Haw holds a Bachelor of Electrical Engineering degree from Lakehead University in Thunder Bay, Ontario, Canada and has completed the Canadian Securities Course. He has completed the ICD Director Education Program and attained the ICD.D designation in 2012. Mr. Haw was also recognized for his contribution to Canadian innovation with the Queen Elizabeth II Diamond Jubilee Medal in 2012.

Lori O'Neill, Director: Lori O'Neill is a Chartered Professional Accountant and Certified Public Accountant (Illinois) and currently provides consulting services to growth companies. She retired from partnership in the global professional services firm Deloitte LLP in 2012 after over 24 years serving growth companies from startups to multinationals, supporting complex transactions, private and public equity offerings, mergers and acquisitions in Canada and the U.S. Ms. O'Neill serves as board member and chair of the Audit and Risk Management Committee of the Ontario Lottery and Gaming Corporation, board member and chair of the Audit Committee of Defence Construction Canada, member of the board of directors of Hydro Ottawa, the University of Ottawa Heart Institute, Startup Canada, PageCloud Inc. and the board of governors of Ashbury College. Ms. O'Neill graduated from Carleton University with a Bachelor of Commerce Highest Honours in 1988, achieved her CA designation in 1990, her CPA designation in 2003, was recognized as "Top Forty under Forty" in 1999 by the Ottawa Business Journal, and completed the ICD Director Education Program attaining the ICD.D designation in 2012.

Peter Allen is also a director and his biographical information is set out below.

Executive Officers

Peter Allen, President and Chief Executive Officer: Prior to joining DragonWave in 2004, Peter Allen was President and CEO of Innovance Inc. ("Innovance"), a private reconfigurable optical networking company. Prior to 2000, Peter was the Vice President of Business Development for the Optical Networks Division of Nortel Networks Limited ("Nortel"), holding leadership responsibility for Nortel's optical components business as well as business development responsibility for system activities. At Nortel, Peter led a 5,000-employee global operation spanning R&D, manufacturing and sales and marketing. Peter has also held managerial positions at Ford Motor Company and Rothmans International plc, and has lived and worked in North America, Europe and Africa.

Patrick Houston, Chief Financial Officer: Patrick Houston oversees the accounting, business support, treasury, financial planning and analysis at DragonWave. Patrick joined the Company in 2007 and has served in various senior roles in both finance and operations. Patrick has over 12 years of experience in various finance roles in both industry and public practice. Prior to DragonWave, Patrick was with Deloitte LLP where he was a Senior Associate. Patrick is a Certified Public Accountant and holds a Bachelor of Commerce degree from the University of Ottawa.

Erik Boch, Founder, Vice President, Engineering and Chief Technology Officer: Prior to co-founding DragonWave in February 2000, Erik Boch held senior engineering or technical management positions at a number of communications and aerospace companies, namely Litton Systems Canada Ltd., ComDev International Ltd., Lockheed Martin Corporation and Newbridge (since acquired by Alcatel Canada, Inc.). While at Newbridge, Erik was Assistant Vice President of the Wireless Systems Group. Erik has been involved in various aspects of microwave and millimetre wave subsystem and system design for more than 22 years. Erik led the R&D team at Newbridge that introduced the first ATM-based fixed wireless access system in our industry. Erik has been published extensively in major networking publications, including Telephony, Microwave Journal, Wireless Review, Internet Telephony and America's Network. Erik holds several approved radio frequency ("RF") design patents and numerous patents pending. He is on the Technical Advisory Board of PMC-Sierra, Inc. (NASDAQ: PMCS), a company that designs, develops, markets and support semiconductor solutions. Erik holds a Bachelor and a Master's degree in Electrical Engineering from Carleton University, Ottawa, Ontario, Canada and is a registered professional engineer.

Barry Dahan, Executive Vice President, Global Sales: Barry Dahan has 30 years' experience in the International Telecom industry in various roles. Prior to joining DragonWave in 2011, Barry was tasked with building the business and infrastructure for Starent Networks. Barry was employed with ALU and Nortel in

various Executive / Leadership roles. Since 2010, Barry has been investing in private growth companies. Barry holds a Business Degree in Finance as well as a bachelor in engineering from Polytechnique in Canada.

David Farrar, Founder & Vice President, Operations: Prior to co-founding DragonWave in February 2000, David Farrar was employed by Newbridge, where he held senior management positions in product management, R&D, operations, and information technology. Prior to joining Newbridge, David was Director of Engineering at Synapse Corporation, a private data communications design company, and an Engineering Manager at Mitel. David holds a Bachelor of Science in Electrical Engineering from the University of Waterloo in Waterloo, Ontario, Canada.

Greg Friesen, Vice President, Product Management: Prior to joining DragonWave in 2004, Greg Friesen held senior product management, business development, network design and planning roles, at a number of communications firms, including Innovance (2000-2004), Nortel (1997-2000), and Fundy Telecom (1996). As Senior Product Manager at Innovance he was responsible for all product definition, architecture, and network design. He has been involved in the planning and engineering of over 10 nationwide network deployments. Greg has authored numerous papers and magazine articles in publications including Microwave Journal, Telecommunications, Xchange, Telephony Online, Last Mile, AGL, Radio World, and has spoken at numerous industry conferences such as WiMax World, CTIA, Telecom Next, ISPCon and UTC. Greg holds two granted patents in the networking area. Greg holds a Bachelor of Science in Electrical Engineering from the University of Saskatchewan in Saskatoon, Saskatchewan, Canada.

Tom McLellan, Vice President, Services: Tom McLellan joined DragonWave in February 2010, to lead the Services and Customer Support Team. Prior to joining DragonWave, Tom spent close to 30 years with Nortel, in a diverse number of roles. He ran the Global Product Support team for several years, an organization of 1200 people worldwide supporting all aspects of Nortel's product portfolio, Optical, Wireless and Carrier Wireline to Enterprise IP. During his tenure at Nortel he also held roles at Bell Northern Research as Director of its Carrier Platform business, as well as Project Management and Verification roles, managing teams in a wide number of locations, including Raleigh, North Carolina, Dallas, Texas and Santa Clara, California in the U.S., Istanbul, Maidenhead in the United Kingdom and Beijing, China. Tom has a C&G of London Institute Diploma in Telecommunications and graduated with a BSc in Electrical and Electronic Engineering from Glasgow, Scotland.

B. Compensation

The following table sets forth all amounts of compensation earned by the directors of the Corporation (other than Peter Allen who was not separately compensated for his service as director and whose compensation is reflected in the "Summary Compensation Table" under "Information on Executive Compensation" below) for the financial year ended February 29, 2016.

Name of Director	Fees Earned ⁽¹⁾	Option Based Awards ⁽²⁾	Share Based Awards ⁽³⁾	Non-equity Incentive Plan Compensation	Pension Value	All other compensation	Total compensation
Claude Haw (Chair)	\$65,890	\$4,024	\$8,462	Nil	Nil	Nil	\$78,377
Cesar Cesaratto	\$36,979	\$2,258	\$8,462	Nil	Nil	Nil	\$47,699
Lori O'Neill	\$31,600	\$1,929	\$8,462	Nil	Nil	Nil	\$41,992
Robert Pons⁽⁴⁾⁽⁵⁾	\$12,000	Nil	Nil	Nil	Nil	Nil	\$12,000

(1) All compensation, with the exception of Mr. Pons, was paid in CAD dollars. The amount disclosed above is the USD equivalent of the Canadian dollar amount paid based on an average exchange rate for the 2016 fiscal year of 0.7684 (1.3014).

(2) Option based award values are calculated at their market value established using the Black-Scholes methodology, which has been chosen as the method to value options as it is the most widely recognized methodology and is accepted as a US generally accepted accounting standard. The Black-Scholes methodology considers various factors including historical share prices, price volatility and interest rates.

(3) Represents the value of restricted share units that vested based on the fair market value of the Common Shares on the vesting date of CAD\$13.75, and an exchange rate of CAD to USD of 0.7693.

(4) Mr. Pons resigned as a director of the Corporation effective on April 14, 2015.

(5) Mr. Pons' compensation was paid in USD dollars.

The following table sets forth compensation information for the fiscal year ended February 28, 2014, the fiscal year ended February 28, 2015 and the fiscal year ended February 29, 2016 for the Corporation's Named Executive Officers.

Name and principal position	Fiscal Year ended Feb. 28/29	Salary (\$)	Share-based awards (\$)	Option-based awards (\$) ⁽¹⁾⁽²⁾	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation (\$)	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans			
Peter Allen President and Chief Executive Officer	2016	\$308,445 ⁽⁶⁾	Nil	\$84,226	Nil	Nil	Nil	Nil	\$392,670
	2015	\$365,196 ⁽⁶⁾	Nil	\$108,211	Nil	Nil	Nil	Nil	\$473,407
	2014	\$335,265 ⁽⁶⁾	Nil	\$205,326	Nil	Nil	Nil	\$928	\$541,519
Russell Frederick⁽⁴⁾ Former Vice President, Finance and Chief Financial Officer	2016	\$164,198 ⁽⁶⁾	Nil	Nil	Nil	Nil	Nil	\$383	\$164,580
	2015	\$231,559 ⁽⁶⁾	Nil	\$75,747	Nil	Nil	Nil	\$2,188	\$309,494
	2014	\$239,475 ⁽⁶⁾	Nil	\$159,155	Nil	Nil	Nil	\$2,235	\$400,866
Patrick Houston⁽⁵⁾ Vice President, Finance and Chief Financial Officer	2016	\$123,503 ⁽⁶⁾	Nil	\$20,449	Nil	Nil	Nil	Nil	\$143,952
Erik Boch Vice President, Engineering and Chief Technology Officer	2016	\$186,473 ⁽⁶⁾	Nil	\$39,858	Nil	Nil	Nil	Nil	\$226,331
	2015	\$231,559 ⁽⁶⁾	Nil	\$75,747	Nil	Nil	Nil	Nil	\$307,306
	2014	\$239,475 ⁽⁶⁾	Nil	\$148,331	Nil	Nil	Nil	Nil	\$387,806
Barry Dahan Executive Vice President, Global Sales	2016	\$224,205 ⁽⁷⁾	Nil	\$28,027	\$124,350 ⁽³⁾	Nil	Nil	Nil	\$445,109
	2015	\$261,104 ⁽⁷⁾	Nil	\$32,463	\$306,931 ⁽³⁾	Nil	Nil	Nil	\$532,212
	2014	\$251,040 ⁽⁷⁾	Nil	\$70,885	\$107,082 ⁽³⁾	Nil	Nil	Nil	\$435,211
David Farrar Vice President, Operations	2016	\$186,473 ⁽⁶⁾	Nil	\$39,858	Nil	Nil	Nil	\$1,104	\$227,435
	2015	\$231,559 ⁽⁶⁾	Nil	\$75,747	Nil	Nil	Nil	\$4,377	\$311,683
	2014	\$239,475 ⁽⁶⁾	Nil	\$147,565	Nil	Nil	Nil	\$4,471	\$391,511

- (1) Option based award values are calculated at their fair market value established using the Black-Scholes methodology, which has been chosen as the method to value options as it is the most widely recognized methodology and is accepted as a US generally accepted accounting standard. The Black-Scholes methodology considers various factors including historical share prices, price volatility and interest rates.
- (2) Foreign currency is translated at the average rate for the 2016 fiscal year. CAD to USD is 0.7684 (1.3014).
- (3) Non-equity incentive plan compensation consists of sales commission.
- (4) Mr. Frederick resigned as a director and officer of the Corporation effective on August 26, 2015.
- (5) Mr. Houston was appointed as Interim Chief Financial Officer effective on August 26, 2015, and as Chief Financial Officer effective October 28, 2015.
- (6) All compensation, with the exception of compensation paid to Mr. Dahan, is paid in CAD dollars. All compensation is translated at the average rate for the 2016 fiscal year, 2015 fiscal year and the 2014 fiscal year. The rates used were CAD to USD, 0.7684 (1.3014), CAD to USD, 0.8929 (1.1199), and CAD to USD, 0.9579 (1.0439), respectively.
- (7) Mr. Dahan's compensation is paid in Great Britain pounds sterling ("GBP"). His compensation is translated at the average rate for the 2016 fiscal year, 2015 fiscal year and the 2014 fiscal year. The rates used were GBP to USD, 1.5149 (0.6601), GBP to USD, 1.6319 (0.6128), and GBP to USD, 1.5690 (0.6370), respectively.

C. Board Practices

The Corporation and its Board are committed to exercising effective corporate governance in the conduct of the Corporation's business and the Board's affairs. National Instrument 58-101 – Disclosure of Corporate Governance Practices (the "National Instrument") promulgated by the applicable Canadian securities regulatory authorities requires reporting issuers to disclose their approach to corporate governance and relate

their corporate governance practices to specific guidelines. The National Instrument serves as the reference point for this Statement of Corporate Governance Practices.

Overview

The Board is responsible for managing the business and affairs of the Corporation. It is the Board's belief that good corporate governance improves corporate performance and benefits all shareholders.

Board of Directors

The Board is currently comprised of four directors. Directors of the Corporation are elected annually by the shareholders. The composition of the Board, assuming the election of the director nominees of management, provides a mix of skills and experience, including a diversity of geographic bases and cultural groups, to guide the strategy and operations of the Corporation, which the board considers important considering the increasingly global nature of the Corporation's stakeholders.

The Board has concluded that three of the four current directors (namely Cesar Cesaratto, Claude Haw and Lori O'Neill) are "independent" within the meaning of the National Instrument and NASDAQ rules. The definitions of "independence" in the National Instrument and NASDAQ rules generally focus on whether a director, directly or indirectly, has a material relationship with an issuer that could reasonably be expected to interfere with the exercise of that director's independent judgment, provided that employees and certain other categories of individuals are considered to have material relationships with an issuer.

The Board determines, on an annual basis, whether Board members are "independent" within the meaning of the National Instrument and NASDAQ rules. On May 18, 2016, the Board undertook its annual determination of the independence status of each of the directors in relation to the solicitation of proxies for this Meeting. If all of management's nominees are elected at the Meeting, three of the four directors (namely Cesar Cesaratto, Claude Haw and Lori O'Neill) will be "independent" within the meaning of the National Instrument and NASDAQ rules. Peter Allen is not "independent" as a result of his being an executive officer of the Corporation. The Board believes that the extensive knowledge of the Corporation's business and industry brought to the Corporation by Mr. Allen is beneficial to the other directors and contributes to the effectiveness of the Board.

The following is a list of those management nominees for election as directors of the Corporation who are also directors of other reporting issuers:

Director	Reporting Issuer	Exchange/Market
Claude Haw	Edgewater Wireless Systems Inc.	TSX-V
Cesar Cesaratto	Applied Micro Circuits Corporation	NASDAQ-GS

At each Board meeting, the "independent" directors have the ability to hold *in camera* sessions without the presence of the non-independent directors and other members of the Corporation's management, a process intended to facilitate open and candid discussion among the "independent" directors. Although not regularly scheduled, the Board exercises its ability to hold such *in camera* sessions whenever any "independent" director deems it necessary. For the period of March 1, 2015 through February 29, 2016 the Board met in person on five occasions and conducted four formal *in camera* sessions.

Claude Haw, an "independent" director, serves as the Board's Chair. In addition to chairing all Board meetings, the Chair's role is to facilitate and chair discussions among the Corporation's "independent" directors, facilitate communication between the "independent" directors and the Corporation's management, and, if and when necessary, act as a spokesperson on behalf of the Board in dealing with the press and members of the public. The Chair's responsibilities and duties are described in detail in a position description developed by the Board in co-operation with the current Chair. The existence of the position of Chair is not intended in any way to inhibit discussions among the directors or between any of them and the Corporation's management. The Chair, the Nominating and Governance Committee, the Audit Committee, the Compensation Committee, the

Disclosure Committee and the Board at large are responsible for ensuring that the Board effectively discharges its mandate.

Majority Voting for Directors

The Board believes that each of its members should have the confidence and support of the Corporation's shareholders. On May 2, 2012, as recommended by the Nominating and Governance Committee, the Board adopted a majority voting policy for the election of directors at the Meeting. This policy provides that in an uncontested election, any nominee for director who receives more "withheld" votes than "for" votes will tender his or her resignation to the Board, effective on acceptance by the Board. The Board will refer the resignation to the Nominating and Governance Committee for consideration. The Board will promptly accept the resignation unless the Nominating and Governance Committee determines that there are extraordinary circumstances relating to the composition of the Board or the voting results that should delay the acceptance of the resignation or justify rejecting it. In any event, it is expected that the resignation will be accepted (or in rare cases rejected) within 90 days of the Meeting.

Mandate of the Board

On February 23, 2007, the Board adopted a written mandate of directors' duties and responsibilities. A copy of the Corporation's Mandate for the Board of Directors is available on the Corporation's website at www.dragonwaveinc.com.

The Board has the authority to retain independent legal, accounting and other consultants. The Board may request any officer or employee of the Corporation or outside counsel or the external/internal auditors to attend a meeting of the Board or to meet with any member of, or consultant to, the Board.

Board Committees

The Board of Directors has established the Audit Committee, the Compensation Committee, the Nominating and Governance Committee and the Disclosure Committee to assist the Board in efficiently carrying out its responsibilities. The Board does not currently have an executive committee. In January 2013, the Strategy Committee was formed to assist the Board of Directors in monitoring the Corporation's progress in achieving its goals and objectives and for the setting the direction in response to changing circumstances and specifically to investigate, review, consider and advise the Board of Directors in relation to the Corporation's strategy. In April 2015, the Strategy Committee was dissolved and the full board continues to monitor the Corporation's progress and to investigate, review, consider the Corporation's strategy.

Audit Committee

The mandate, role, responsibilities and procedures of the Audit Committee are set forth in the Corporation's Audit Committee Charter. The Audit Committee is responsible for, among other things, reviewing the Corporation's financial reporting procedures, internal controls and the performance of the Corporation's external auditors. The Audit Committee is also responsible for reviewing quarterly financial statements, the annual financial statements and related press releases prior to their approval by the full Board and certain other documents required by regulatory authorities. The Audit Committee Charter addresses in detail the relationship between the Audit Committee, the Corporation's external auditors and management of the Corporation, and contemplates direct communication channels between the Audit Committee and the external auditors. The Audit Committee is empowered to retain persons having special competence as necessary to assist it in fulfilling its responsibilities. Each of the Audit Committee members must be "independent" within the meaning of the National Instrument, NASDAQ rules and Rule 10A-3 under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act").

The Audit Committee is currently comprised of three "independent" directors: Lori O'Neill (Committee Chair), Claude Haw and Cesar Cesaratto, each of whom is "independent", including within the meaning of Rule 10A-3 of the Exchange Act. Each audit committee member is "financially literate" within the meaning of National Instrument 52-110 – Audit Committees ("NI 52-110") and each of Lori O'Neill and Claude Haw is an "audit committee financial expert", as defined by U.S. Securities and Exchange Commission rules.

A copy of the Corporation's Audit Committee Charter is available on the Corporation's website at www.dragonwaveinc.com

Compensation Committee

The Compensation Committee makes recommendations to the Board on executive compensation, including the compensation of the President and Chief Executive Officer. The responsibilities of the Compensation Committee also include oversight of the Corporation's equity compensation plans and management succession strategy. Each of the Compensation Committee members must be "independent" within the meaning of the National Instrument and NASDAQ rules.

The Compensation Committee is currently composed of three "independent" directors: Cesar Cesaratto (Committee Chair), Claude Haw and Lori O'Neill. During the fiscal year ended February 29, 2016, Mr. Robert Pons was also a member of the Compensation Committee until his resignation, which was effective on April 14, 2015. Ms. O'Neill joined the Compensation Committee upon the resignation of Mr. Pons.

The members of the Compensation Committee have direct experience with matters related to compensation policies and practices. Mr. Haw, in particular, has been a member of the Compensation Committee since November 2003, and has been directly involved with compensation matters as a member of the compensation committees of Meriton Networks Corporation from 2000 to 2008. He has also served as a member of the compensation committee for Accedian and Teradici Corporation.

The members of the Compensation Committee have a breadth and depth of experience with both public and private companies that enables them to make decisions on the suitability of our compensation policies and practices. As noted above in their respective biographies, each member of the Compensation Committee has held executive positions with entities in the technology sector and each is well positioned to make determinations with respect to the compensation policies and practices of the Corporation. Moreover, if the Compensation Committee determines that additional information is required in order to make a decision with respect to any compensation policy or practice, the Compensation Committee has the authority to engage external consultants at the expense of the Corporation.

The Compensation Committee meets a minimum of twice every year and after each meeting reports to the Board the results of its activities and any reviews undertaken. The Compensation Committee makes recommendations to the Board as deemed appropriate.

Nominating and Governance Committee

Pursuant to the Nominating and Governance Committee Charter, the mandate of the Nominating and Governance Committee is to assist the directors of the Corporation in carrying out the Board's oversight responsibility for ensuring that the strategic direction of the Corporation is reviewed annually and that the Board and each of its committees carry out their respective functions in accordance with an appropriate process. The Nominating and Governance Committee is responsible for governance issues and for identifying, recruiting, nominating, endorsing, recommending the appointment of, and orienting, new directors and committee members, as well as the ongoing training and education of existing directors. The Nominating and Governance Committee is also responsible for assessing the effectiveness of the Board as a whole, each committee of the Board, and the contribution of each individual director. At least every two years, this includes a survey of board effectiveness, which was most recently conducted and reported on to the Board in May 2015. As part of this review process, the Board also discussed and considered the constitution of the Board and the committees of the Board, including board size, split between executive and non-executive members, diversity of directors and skills and experience relevant to the Corporation.

The Nominating and Governance Committee is responsible for annually recommending to the Board whether a director should be nominated for re-election based upon the Nominating and Governance Committee's consideration of his or her performance in office and any other factors deemed relevant. The Chair of the Board, the Chief Executive Officer and other individual directors may also identify potential candidates as directors and the Nominating and Governance Committee or the full Board, as the case may be, may review such candidates and make appropriate recommendations. Following the resignation of Mr. Robert Pons in

April 2015 and Mr. Russell Frederick in August 2015, the Nominating and Governance Committee considered the size and composition of the Board in light of the challenges facing the Corporation. The Nominating and Governance Committee recommended that the Board maintain four directors and not seek to replace the departed directors at this point in time. The Nominating and Governance Committee may recommend that the Board appoint an additional director should the circumstances of the Corporation warrant the addition of a new director to the Board. The Nominating and Governance Committee has developed a competency matrix that will assist the Committee and the Board in identifying and assessing candidates for appointment to the Board.

The Nominating and Governance Committee also monitors the size and composition of the Board and its committees to ensure effective decision making and reports to the full Board on any resulting recommendations.

The Nominating and Governance Committee also reviews the Corporation's Insider Trading Policy, Disclosure Policy and Code of Business Conduct and Ethics and is responsible for recommending changes and any action that may be required or desired to respond to any breach of any such policy or code. On May 2, 2012, the Nominating and Governance Committee recommended that the Board adopt amendments to the Corporation's Insider Trading Policy to restrict the purchase of certain financial instruments by directors, officers and employees of the Corporation.

Each of the Nominating and Governance Committee members must be "independent" within the meaning of the National Instrument and NASDAQ rules. The Nominating and Governance Committee is currently composed of three "independent" directors: Claude Haw (Committee Chair), Cesar Cesaratto and Lori O'Neill.

The full Board will continue to be directly involved in corporate governance matters upon the recommendation of the Nominating and Governance Committee and where otherwise appropriate.

A copy of the Corporation's Nominating and Governance Committee Charter is available on the Corporation's website at www.dragonwaveinc.com and otherwise may be obtained free of charge upon request from Investor Relations at the Corporation's head office located at 411 Legget Drive, Suite 600, Ottawa, Ontario, K2K 3C9.

Disclosure Committee

The Corporation has adopted a written Disclosure Policy and has formed a Disclosure Committee consisting of members of senior management (namely, Peter Allen and Patrick Houston) in order to oversee the Corporation's disclosure practices and generally regulate the manner in which the Corporation and its directors, officers, employees and other representatives interact with shareholders and other stakeholders, analysts and the public. The Corporation's Disclosure Policy has been established in accordance with relevant disclosure requirements set out in applicable Canadian securities legislation. The Disclosure Committee was formed in February 2007 and meets periodically on an as-needed basis throughout the year.

A copy of the Corporation's Disclosure Committee Charter and Disclosure Policy is available on the Corporation's website at www.dragonwaveinc.com and otherwise may be obtained free of charge upon request from Investor Relations at the Corporation's head office located at 411 Legget Drive, Suite 600, Ottawa, Ontario, K2K 3C9.

Position Descriptions

The Board has adopted written position descriptions for the Chair of the Board and the chairs of each of the Audit Committee, the Compensation Committee and the Nominating and Governance Committee. The Board and the Chief Executive Officer have jointly developed and adopted a written position description for the Chief Executive Officer.

Term Limits and Board Renewal

The Corporation has not adopted term limits for its directors or other mechanisms for Board renewal. The Nominating and Governance Committee, on an annual basis, reviews the size, composition, mandate and performance of the Board and the various committees of the Board, and makes recommendations for appointment, removal of directors or other adjustments as appropriate. The Nominating and Governance

Committee has considered whether to propose that the Board adopt term limits for directors and has determined not to do so after consideration of a number of factors, including the significant advantages associated with the continued involvement of long-serving directors who have gained a deep understanding of the Corporation's projects, operations and objectives during their tenure; the experience, corporate memory and perspective of such directors; the professional experience, areas of expertise and personal character of members of the Board; and the current needs and objectives of the Corporation. Within that context, the Nominating and Governance Committee has developed a competency matrix to be used in determining the needs of the Board.

Diversity and Inclusion

At least every two years, the Nominating and Governance Committee conducts a survey of board effectiveness, which was most recently conducted and reported on to the Board in May 2015. As part of this review process, the Board also discussed and considered the constitution of the Board and the committees of the Board, including board size, split between executive and non-executive members, diversity of directors and skills and experience relevant to the Corporation. The Corporation does not currently have a written policy relating to the identification and nomination of women directors, and does not have specific targets with respect to the representation of women on its Board or in executive officer positions based on any particular personal experience or characteristic, including gender. The review conducted by Nominating and Governance Committee in May 2015 and the Board discussion concerning the diversity of directors and the skills and experience relevant to the Corporation included considerations related to the gender representation on the Board and at the executive level. The Nominating and Governance Committee has developed a competency matrix to help determine qualifications to prioritize in candidates, and to assist Board of Directors in identifying the highest quality candidates for the Board. Due to the current limited size of the Board, it has not adopted a written policy relating to the identification and nomination of women directors, but will consider adopting such a policy, and targets, in the future. The Corporation focuses on choosing the most appropriate candidate for each position having regard to the experience, skillset, educational background, gender, ethnicity and other personal characteristics of both the candidate and, as applicable, the Board and management team as a whole and, as a result, the Corporation has not adopted a target regarding the number of women on the Board as gender is one of many attributes to be considered in determining the composition of the Board. Currently, one of four members of the Board (or 25%) is a woman, being Lori O'Neill, who also serves as Chair of our Audit Committee.

With respect to executive roles, the Corporation is sensitive to the value of having representation of women, as well as other underrepresented groups. Disclosure rules define an "executive officer" to include a vice-president in charge of a principal business unit, division or function, or a person performing a policy-making function for the issuer. Based on this limited definition, the Corporation only has seven executive officers. As a result, none (zero percent) of the Corporation's "executive officers" are women. The Corporation has not adopted a target regarding the number of women in executive officer positions, as the Board and management are confident that women will continue to progress in our organization over time.

Skills and Experience of the Board

As noted above, the Nominating and Governance Committee has developed a "competency" matrix in which directors indicate their strongest experience in the eight key competencies identified as important for a company like DragonWave. Each director must indicate in which four (4) of these competencies the director

believes he or she possesses the greatest strength. The table below illustrates the mix of experiences in these competencies of our four nominee directors.

Director	Tenure at DragonWave			Top Four Core Competencies								Other
	0-5 Years of Service	5-10 Years of Service	> 10 Years of Service	Accounting and Finance	CEO/Senior Management	Governance	HR/Compensation	International Business Development	Investment Banking/M&A	Risk Management	Telecommunications	ICDD Certification
Claude Haw			√		√	√			√		√	√
Cesar Cesaratto		√			√		√	√			√	
Lori O'Neill	√			√		√			√	√		√
Peter Allen			√		√		√	√	√		√	

The definitions of the core competencies set out above are:

- Accounting and Finance: experience with, or understanding of, financial accounting and reporting, corporate finance and familiarity with financial internal controls, and IFRS
- CEO/Senior Management: experience as a CEO or senior executive
- Governance: experience in corporate governance principles and practices
- HR/Compensation: experience in, or understanding of, compensation plans, leadership development, talent management, succession planning and human resource principles and practices generally
- International Business Development: experience in the successful development of business outside of Canada and the United States
- Investment Banking/M&A: experience in investment banking and/or major transactions
- Risk Management: experience in, or understanding of, internal risk controls, risk assessment, risk management and/or reporting
- Telecommunications: senior executive experience in the telecommunications industry

Orientation and Continuing Education

Pursuant to the Corporation's Nominating and Governance Committee Charter, the Nominating and Governance Committee monitors and recommends training and development programs for the Board and individual directors. The Corporation encourages its directors to pursue continuing education relating to their positions as members of the Board. From time to time, management arranges for the Corporation's external advisors to provide materials to, or meet with, the Board in order to address continuing education topics such as governance and continuous disclosure obligations. The meetings in which new directors participate (including the annual review sessions of strategic plans and budgets), as well as informal discussions with other directors

and the Corporation's senior management, also permit new directors to rapidly familiarize themselves with the Corporation's operations and history.

Ethical Business Conduct

The Corporation is committed to a culture of honesty, integrity and accountability and strives to operate its business in accordance with the highest ethical standards and applicable laws, rules and regulations. In furtherance of the foregoing, the Corporation has adopted a written Code of Business Conduct and Ethics (the "Code of Conduct") which governs the behaviour of its directors, officers and employees. The Code of Conduct provides that all directors, officers and employees must avoid any situation that constitutes a conflict of interest or the appearance of a conflict of interest with the Corporation.

As required by the CBCA, directors formally disclose to the Board any material transactions or arrangements in which the director has an interest, and interested directors refrain from voting on such transaction or agreement.

The full Board is responsible for monitoring compliance with the Code of Conduct, for regularly assessing its adequacy, for interpreting the Code of Conduct in any particular situation and for approving any changes to the Code of Conduct from time to time. The Code of Conduct provides that all directors, officers and employees of the Corporation are required to immediately report any violation of the Code of Conduct or any applicable law, rule or regulation to the Audit Committee or to a third party engaged by the Corporation. In 2011, the Corporation enhanced the independence and accessibility of the process related to reporting any possible violations of applicable laws, rules or regulations or the Code of Conduct, by engaging a third party intake service provider, EthicsPoint, to run a web and phone based ethics helpline. Web based reports are routed initially to EthicsPoints. There have been no reports made through EthicsPoint since its engagement by the Corporation and the Corporation is considering other approaches for addressing matters related to compliance with the Code of Conduct. A copy of the Code of Conduct is available on SEDAR at www.sedar.com, or the Corporation's website at www.dragonwaveinc.com, and otherwise may be obtained free of charge upon request from Investor Relations at the Corporation's head office located at 411 Legget Drive, Suite 600, Ottawa, Ontario, K2K 3C9.

The Corporation has also adopted an Insider Trading Policy which governs the conduct of directors, officers, employees and other insiders of the Corporation with respect to the trading of the Corporation's securities, particularly when in possession of material information concerning the Corporation and its affairs that has not been generally disclosed to the public. Among other matters, the Insider Trading Policy sets out prohibited trading activities, establishes guidelines for identifying insiders of the Corporation and describes reporting requirements applicable to insiders. As noted above, the Insider Trading Policy was amended by the Board on May 2, 2012.

Compensation

The Board, acting on the recommendations of the Compensation Committee which is composed entirely of "independent" directors, reviews the adequacy of management's and the directors' compensation, as determined based on reviews of the competitive marketplace, to ensure that such compensation is current and reflective of the roles of each director. Additional disclosure relating to compensation matters is found above under "Information on Executive Compensation" and "Board Committees – Compensation Committee".

Assessment

In general, since the directors work closely as a group throughout the year, the Chair, the full Board and each committee thereof are able to continuously assess whether each director is contributing towards the fulfillment of the Mandate for the Board and otherwise performing his or her duties at the highest level. As noted above, in March 2013 the Nominating and Governance Committee also administered a Board effectiveness survey which was presented to the Board in May 2015. Directors are also asked to self-identify and confirm their skills competencies pursuant to the competency matrix set out above.

D. Employees

As of February 29, 2016 we had 171 full-time employees and contractors in comparison to 268 and 253 full time employees and contractors during the two previous year-end periods. A three year breakdown of our employees and contractors by main category of activity and geographic location is as follows:

Category of Activity	February 29, 2016	February 28, 2015	February 28, 2014	Geographic Location
General and administrative	14	20	18	Canada, China
Operations	40	55	44	Canada, Global
Research and development	68	127	134	Canada, China
Sales and marketing/customer support	49	66	57	North America, Europe, the Middle East, Asia, Africa, South America
Total	<u>171</u>	<u>268</u>	<u>253</u>	

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our common shares as at May 30, 2016 by each of our directors and all our directors and executive officers as a group as at that date. As used in this table, beneficial ownership means the sole or shared power to vote or direct the voting or to dispose of or direct the sale of any security. A person is deemed to be the beneficial owner of securities that can be acquired within 60 days upon the exercise of any option, warrant or right.

Name of Director	Common Shares
Claude Haw (Chair)	1,200
Cesar Cesaratto	1,600
Lori O'Neill	800

Name of Executive Officer	Common Shares
Peter Allen	18,346
Patrick Houston	5
Erik Boch	6,201
Barry Dahan	—
Dave Farrar	13,875

Outstanding Option-Based Awards for Directors as at February 29, 2016

The following table sets forth all unexercised options outstanding as of February 29, 2016 for each director of the Corporation (other than Peter Allen and Russell Frederick (who was a director of the Corporation until

August 26, 2015) whose unexercised options are reflected in the table titled “Outstanding Option Based Awards and Share Based Awards as at February 29, 2016” under “Information on Executive Compensation” below).

Name of Director	Number of Common Shares underlying unexercised options	Option exercise price (CAD\$)	Option expiration date	Aggregate value of unexercised in-the-money options as at February 29, 2016 (US\$) ⁽¹⁾⁽²⁾
Claude Haw (Chair)	2,793 231 580 540	\$ 3.00 \$53.75 \$56.00 \$73.50	November 23, 2020 July 18, 2019 May 8, 2018 July 11, 2017	Nil
Cesar Cesaratto	1,567 231 580 540	\$ 3.00 \$53.75 \$56.00 \$73.50	November 23, 2020 July 18, 2019 May 8, 2018 July 11, 2017	Nil
Lori O'Neill	1,339 231 580	\$ 3.00 \$53.75 \$70.00	November 23, 2020 July 18, 2019 June 13, 2018	Nil
Robert Pons ⁽³⁾	Nil	Nil	Nil	Nil

(1) The closing market price of the Common Shares on the TSX on February 29, 2016 was CAD\$2.81 per Common Share.

(2) Foreign currency is translated at the closing rate for the 2016 fiscal year. CAD to USD is 0.7395 (1.3523).

(3) Mr. Pons resigned as a director of the Corporation effective on April 14, 2015.

Outstanding Option-Based Awards and Share-Based Awards as at February 29, 2016

The following table sets forth all unexercised options outstanding as of February 29, 2016 for each Named Executive Officer.

Name of Executive Officer	Option-Based Awards				Share-Based Awards	
	Number of Common Shares underlying unexercised options	Option exercise price (CAD \$)	Option expiration date	Aggregate value of unexercised in-the-money options as at February 29, 2016 (US \$) ⁽¹⁾⁽²⁾	Number of Common Shares that have not vested	Market value of share-based awards that have not vested as at February 29, 2016 (\$) ⁽¹⁾⁽²⁾
Peter Allen	12,206 8,000 4,000 4,800 1,400 2,800 1,600	\$ 3.00 \$19.25 \$53.75 \$30.25 \$51.75 \$56.00 \$76.50	November 23, 2020 May 21, 2020 July 21, 2019 November 19, 2018 October 9, 2018 May 8, 2018 July 11, 2017	Nil	Nil	Nil
Russell Frederick⁽³⁾	Nil	Nil	Nil	Nil	Nil	Nil
Patrick Houston⁽⁴⁾	4,057 2,000 1,292 1,000 280 400 840 500	\$ 3.00 \$ 4.00 \$19.25 \$53.75 \$30.25 \$51.75 \$56.00 \$73.50	November 23, 2020 October 15, 2020 May 21, 2020 July 9, 2019 November 19, 2018 October 9, 2018 May 8, 2018 July 11, 2017	Nil	Nil	Nil
Erik Boch	4,538 4,000 2,800 2,800 1,400 20 2,000 60 20 1,200	\$ 3.00 \$19.25 \$53.75 \$30.25 \$51.75 \$73.25 \$56.00 \$68.25 \$68.25 \$73.50	November 23, 2020 May 21, 2020 July 21, 2019 November 19, 2018 October 9, 2018 June 27, 2018 May 8, 2018 October 31, 2017 September 18, 2017 July 11, 2017	Nil	Nil	Nil
Barry Dahan	5,577 2,400 1,200 1,400 600 1,000 1,200	\$ 3.00 \$19.25 \$53.75 \$30.25 \$51.75 \$56.00 \$73.50	November 23, 2020 May 21, 2020 July 21, 2019 November 19, 2018 October 9, 2018 May 8, 2018 July 11, 2017	Nil	Nil	Nil
Dave Farrar	4,538 4,000 2,800 2,800 1,400 2,000 1,200	\$ 3.00 \$19.25 \$53.75 \$30.25 \$51.75 \$56.00 \$73.50	November 23, 2020 May 21, 2020 July 21, 2019 November 19, 2018 October 9, 2018 May 8, 2018 July 11, 2017	Nil	589	\$1,224

(1) The closing market price of the Common Shares on the TSX on February 29, 2016 was CAD\$2.81 per Common Share.

- (2) Foreign currency is translated at the closing rate for the 2016 fiscal year. CAD to USD is 0.7395 (1.3523).
- (3) Mr. Frederick resigned as a director and officer of the Corporation effective on August 26, 2015.
- (4) Mr. Houston was appointed as Interim Chief Financial Officer effective on August 26, 2015, and as Chief Financial Officer effective on October 28, 2015.

Share-Based Awards

Description of the Share Based Compensation Plan

After a review of the Corporation's compensation policies in May 2014, the Board of Directors recommended that shareholders approve the Share Based Compensation Plan which replaced the Sixth Amended and Restated Key Employee Stock Option Plan (the "Old Option Plan"). This recommendation was made to bring the Corporation's compensation policies in line with trends in compensation practice, which includes a move away from stock options to other forms of equity based compensation.

The following disclosure is a summary of the Share Based Compensation Plan and is qualified in its entirety by reference to the Share Based Compensation Plan, a copy of which is set out in Appendix B to the Management Information Circular dated May 23, 2014 of the Corporation and filed under the Corporation's profile on SEDAR. Capitalized terms used but not defined in the following disclosure shall have the meanings ascribed thereto in the Share Based Compensation Plan. The following is not a comprehensive discussion of all of the terms and conditions of the Share Based Compensation Plan. Readers are advised to review the full text of the Share Based Compensation Plan to fully understand all terms and conditions of the plan.

As described above, subject to the adjustment provisions provided for in the Share Based Compensation Plan and the applicable rules and regulations of all regulatory authorities to which the Corporation is subject (including any stock exchange), the total number of Common Shares reserved for issuance pursuant to the Share Based Compensation Plan shall not exceed 10% of the issued and outstanding Common Shares, provided that the maximum number of Bonus Shares (as defined in the Share Based Compensation Plan) issued in any 12 month period shall not exceed 1.0% of the total number of issued and outstanding Common Shares (calculated on a non diluted basis). Should the Corporation issue additional Common Shares in the future, the number of Common Shares issuable under the Share Based Compensation Plan will increase accordingly. For purposes of calculating the available pool of Common Shares for awards under the Share Based Compensation Plan, Common Shares issuable upon the exercise of options granted under the Old Option Plan that are outstanding as of June 20, 2014 will not be available for grant. However, the following will not be counted in calculating the available pool of Common Shares:

- i. Common Shares issued pursuant to the exercise of options granted under the Share Based Compensation Plan, which shall be returned to the pool of Common Shares and may be made subject to additional awards granted pursuant to the Share Based Compensation Plan;
- ii. Common Shares issued pursuant to the exercise of options granted under the Old Option Plan, which shall be returned to the pool of Common Shares and may be made subject to additional awards granted pursuant to the Share Based Compensation Plan;
- iii. Common Shares issued pursuant to the settlement of vested awards, which shall be returned to the pool of Common Shares and may be made subject to additional awards granted pursuant to the Share Based Compensation Plan;
- iv. (Bonus Shares (as defined in the Share Based Compensation Plan));
- v. Common Shares which by reason of the expiration, cancellation or termination of an unexercised option are no longer subject to purchase pursuant to an Option granted under the Share Based Compensation Plan, which shall be returned to the pool of Common Shares and may be made subject to additional awards granted pursuant to the Share Based Compensation Plan; and
- vi. Common Shares which by reason of the expiration without vesting of a PSU, RSU, or DSU (as defined below), or by reason of the cancellation of a PSU, RSU or DSU are no longer subject to issuance,

which shall be returned to the pool of Common Shares and may be made subject to additional awards granted pursuant to the Share Based Compensation Plan.

For purposes of the above, if an award entitles the holder to receive or purchase Common Shares, the number of Common Shares covered by such award or to which such award relates will be counted on the date of grant of such award against the aggregate number of Common Shares available for granting awards under the Share Based Compensation Plan.

Common Shares will not be deemed to have been issued pursuant to the Share Based Compensation Plan with respect to any portion of an award that is settled in cash.

The Share Based Compensation Plan includes provision for granting of performance based share units (“PSUs”), RSUs, deferred share units (“DSUs”), Bonus Shares (as defined in the Share Based Compensation Plan) and options to purchase Common Shares. Settlement of vested PSUs, RSUs and DSUs is effected by delivering Common Shares acquired in the open market and/or issued from treasury, or by making a cash payment equal to the number of PSUs, RSUs or DSUs multiplied by the volume weighted average trading price of the Common Shares on the applicable stock exchange for the five trading days preceding the settlement date, or by a combination of these methods. The manner of settlement for RSUs, PSUs and DSUs is determined by the Compensation Committee in its sole discretion.

As of the date of this Annual Report, options to purchase 187,137 Common Shares (representing approximately 5.17% of the issued and outstanding Common Shares at the date of this Circular) are outstanding under the Share Based Compensation Plan and 101,608 Common Shares (representing approximately 2.81% of the issued and outstanding Common Shares at the date of this Circular) are available for future grants under the Share Based Compensation Plan. Should the Corporation issue additional Common Shares in the future, the number of Common Shares issuable under the Share Based Compensation Plan will increase accordingly.

All awards granted pursuant to the Share Based Compensation Plan will be subject to all statutory tax withholdings under applicable tax laws.

PSUs. PSUs are performance based share units which are granted to participants in the Share Based Compensation Plan based on either individual and corporate performance criteria, or a combination thereof. Performance objectives are established at the beginning of each fiscal year and the participant is awarded a number of share units based on measured performance against these objectives at the end of the year. The share units are paid out to the participant at some later date but no later than three years from the year in which the PSUs were granted. Subject to the terms of any applicable grant, non vested PSUs are forfeited if the participant voluntarily leaves his or her employment with the Corporation.

The Corporation believes that PSUs will provide it with a transparent and objective tool for rewarding performance, while providing participants with a defined incentive award.

RSUs. RSUs are share units which are granted to participants which vest over time. RSUs may, at the discretion of the Board or the Compensation Committee, include performance objectives. The share units are paid out to the participant at some later date but no later than three years from the year in which the RSUs were granted. Subject to the terms of any applicable grant, non vested RSUs are forfeited if the participant voluntarily leaves his or her employment with the Corporation.

DSUs. The proposed Share Based Compensation Plan also makes provision for the use of DSUs as payment of directors’ fees. A DSU is a notional share that has the same value as one Common Share. Under the proposed plan, directors may choose, with the consent of the Corporation, and subject to restrictions and procedures imposed by applicable law, to take all or part of their fees in DSUs.

DSUs may be paid out to directors as Common Shares in the Corporation or in cash, at the discretion of the Board, when they retire from the Board. Subject to compliance with applicable tax laws, a retiring director may be able to defer the payment of such awards and decide to receive all or a portion of the cash payout the following year. The Corporation believes that the use of DSUs can have the advantage of encouraging higher levels of share ownership by the directors, thereby aligning their interests more closely with that of the Corporation while also preserving cash for the Corporation.

Bonus Shares. The proposed Share Based Compensation Plan permits Common Shares to be issued as a discretionary bonus to participants. The maximum number of Common Shares issued as Bonus Shares in any 12 month period cannot exceed 1.0% of the total number of issued and outstanding Common Shares (calculated on a non diluted basis).

Administration. Under the Share Based Compensation Plan, the Board may, at any time, appoint a committee to, among other things, interpret, administer and implement the Share Based Compensation Plan on behalf of the Board of Directors in accordance with such terms and conditions as the Board may prescribe, consistent with the Share Based Compensation Plan. The Compensation Committee will administer the Share Based Compensation Plan.

Eligible Persons. Under the Share Based Compensation Plan, awards may be granted to any Non Employee Director, Officer, Employee or Consultant (all as defined in the Share Based Compensation Plan), or any of its Related Entities (as defined in the Share Based Compensation Plan). As used in this summary and the Share Based Compensation Plan, a participant is an eligible person to whom an award has been granted under the Share Based Compensation Plan. With regard to options granted to participants who are subject to the tax rules imposed by the United States Internal Revenue Code of 1986, as amended (the “IRC”), the options may be either “incentive stock options” (as defined in Section 422 of the IRC or “nonstatutory stock options.” Under the IRC, the maximum number of options which can first become eligible to be exercised in any calendar year is limited to U.S. \$100,000 (based on the fair market value of the Common Shares on the date of grant). Any amount in excess of this figure will be nonstatutory stock options.

Exercise Price of Options. The exercise price per Common Share for options is fixed by the Compensation Committee but under no circumstances can the exercise price at the time of the grant be less than the fair market value of the Common Shares determined in accordance with the terms of the Share Based Compensation Plan. The exercise price of “incentive stock options” (as defined in Section 422 of the IRC) granted to shareholders owning 10% or more of the Corporation must equal 110% of the fair market value of the Common Shares on the date of grant.

Term of Options. Subject to certain extensions in the case of a blackout period, the term of options granted will be determined by the Board or the Compensation Committee and specified in the option agreement pursuant to which such option is granted, provided that the date cannot be the earlier of: (i) the date which is the 10th anniversary of the date on which such option is granted; and (ii) the last date permitted under the applicable rules and regulations of all regulatory authorities to which the Corporation is subject. Any “incentive stock option” (as defined in Section 422 of the IRC) granted to a 10% shareholder in the preceding paragraph may have a maximum term of only five years.

If the term of any options granted pursuant to the Share Based Compensation Plan is scheduled to expire: (i) at a time when the holder of the option is subject to restrictions on trading of securities of the Corporation under a trading “blackout” established by the Corporation (pursuant to the disclosure policy of the Corporation then in effect or otherwise) or pursuant to any lock-up agreement or other similar trading restriction (a “Blackout Period”); or (ii) within ten business days after the termination of a Blackout Period, the terms of the option will, notwithstanding the scheduled expiry date of the term of such Option, expire as of the date that is ten business days following the end of the applicable Blackout Period (the “Revised Expiry Date”) and shall continue to be exercisable, convertible or otherwise remain outstanding for the benefit of the holder, as applicable, at any time up to the applicable time on the Revised Expiry Date.

Limit on Incentive Stock Option Awards. The maximum number of Common Shares issuable upon the exercise of “incentive stock options” (as defined in Section 422 of the IRC) under the Share Based Compensation Plan is 84,000.

Vesting of PSUs and RSUs. The Board or the Compensation Committee may determine the vesting schedule of any PSU or RSU at the time of grant. PSUs vest based on performance criteria as determined by the Board or Compensation Committee. RSUs generally vest in three annual increments. Subject to the terms of any applicable grant in the event that the participant terminates employment with the Corporation or its subsidiaries by reason of Eligible Retirement (as defined in the Share Based Compensation Plan), death or total

disability (as determined by the Compensation Committee in good faith) (each an “Accelerated Vesting Event”), the non vested PSU or RSU will: (i) in the case of Eligible Retirement or death being the Accelerated Vesting Event, immediately become 100% vested, or (ii) in the case of total disability being the Accelerated Vesting Event, vest on the sixtieth (60th) day following the participant’s termination.

Subject to the terms of any applicable grant if the participant terminates employment with the Corporation and its subsidiaries for any reason other than such Eligible Retirement, total disability or death or termination without cause, any non vested PSUs and/or RSUs granted thereunder will be immediately cancelled without liability or compensation therefor and be of no further force and effect. For clarity, where the participant voluntarily terminates his/her employment with the Corporation or is otherwise terminated by the Corporation for cause, all non vested PSUs and RSUs of the participant shall be immediately cancelled without compensation or liability therefor and be of no further force and effect.

In the case of termination without cause, all unvested PSUs and RSUs immediately become 100% vested on the termination date.

Settlement of Vested Units. Payment to the participant in respect of vested RSUs or PSUs will be as soon as practicable following the date on which the RSUs or PSUs become vested; provided that the settlement date shall not be later than the third anniversary of the date of grant and all payments in respect of vested units in the participant’s notional account maintained by the Corporation shall be paid in full on or before December 31 of the same calendar year.

Vesting of DSUs. Subject to the vesting provisions otherwise stipulated by the Board or the Compensation Committee, where a participant is terminated for cause or where a non employee director resigns or is otherwise removed as a result of losing his/her eligibility to serve on the Board due to an order by a regulatory body or stock exchange or for culpable conduct as determined by the Compensation Committee, all unvested DSUs in the participant’s notional account maintained by the Corporation shall be immediately cancelled without liability or compensation therefor and be of no further force and effect (unless otherwise determined by the Compensation Committee).

Assignability. Awards granted under the Share Based Compensation Plan are non transferable and non assignable to anyone other than to the estate of a participant in the event of death and then only in accordance with the terms of the Share Based Compensation Plan.

Termination Provisions. Subject to the terms of the Share Based Compensation Plan and any particular award granted under such plan, the following table describes the impact of certain events upon the rights of

holders under the Share Based Compensation Plan. See also the discussion above under “Vesting of PSUs and RSUs” and “Vesting of DSUs”.

Event	Effect on Award
Termination without cause of an Employee, Officer, or Non-Employee Director	Any options held at the date of the event shall be exercisable until the earlier of 30 days after the date of the event and the date on which the particular option otherwise expires.
Eligible Retirement	Vested options may be exercised until the earlier of 30 days after the date of the event or the date on which the option otherwise expires.
Death of an Employee, Non- Employee Director or Consultant	Any non-vested portion of any outstanding award shall immediately terminate and no further vesting shall occur. Any vested option shall expire upon the earlier of the expiry date of the award or 120 days after the date of the event.
Disability of an Employee, Officer, or Non-Employee Director	Any non-vested portion of any outstanding award shall immediately terminate and no further vesting shall occur. Any vested option shall expire upon the earlier of the expiry date of the award or 30 days after the date of the event.
Termination for cause of an Employee, Officer or Non-Employee Director	Any non-vested award granted outstanding on date of the event and all rights thereunder shall terminate and no further vesting shall occur.
Resignation of an Employee or Officer	Any options held that are exercisable at the date of the event shall be exercisable until the earlier of 30 days after the date of the event or the date on which the option otherwise expires.
Termination for cause, breach of fiduciary duty or for retirement which is not Eligible Retirement	Any options held at the event date, whether or not exercisable on the date of the event, immediately expire and are cancelled on such date at a time determined by the Granting Authority, in its sole discretion.

Procedure for Amending. The Share Based Compensation Plan may be amended, altered or discontinued by the Board at any time, subject to obtaining any necessary approval of any applicable regulatory authority including, any rules imposed by any stock exchange or other quotation system upon which the Common Shares are traded, and to the extent otherwise imposed by applicable law and/or the rules of such stock exchange or other quotation system, and such amendment, alteration, or discontinuance shall be subject to the approval of the shareholders in accordance with the rules, regulations and policies of any applicable stock exchange at a duly constituted meeting of shareholders of the Corporation. In addition to the extent necessary or desirable to comply with applicable law or any rules imposed by any stock exchange or quotation system upon which the Common Shares are traded, the Share Based Compensation Plan shall be subject to the re approval of shareholders of the Corporation pursuant to a duly authorized meeting of shareholders held no later than June 20, 2024.

Other Material Information. Appropriate adjustments to the Share Based Compensation Plan and to awards granted thereunder will be made by the Corporation to give effect to adjustments in the number and type of Common Shares (or other securities or other property) resulting from subdivisions, consolidations, substitutions, or reclassifications of Common Shares, payment of share dividends or other prescribed changes in the Corporation's capital. In the event of any merger, acquisition, amalgamation, arrangement or other scheme of reorganization that results in a Change of Control, the Board or the Compensation Committee may, subject to the terms of any applicable grant, take any action with respect to outstanding awards that it deems necessary or desirable, including the acceleration of any vesting provisions.

The Share Based Compensation Plan does not limit participation by insiders or provide for a maximum number of shares that may be issued to any one participant in the Share Based Compensation Plan.

Description of the Old Option Plan

Following the approval of the Share Based Compensation Plan, no further options will be granted under the Old Option Plan but the options granted under the Old Option Plan will continue to be governed by the terms of the Old Option Plan. The Old Option Plan was established to attract, retain and provide an incentive to the employees, directors, officers and consultants of the Corporation or its related entities (which includes any individual or company that controls or is controlled by the Corporation, or that is controlled by the same person or company that controls the Corporation), and to advance the Corporation's interests by providing these persons with the opportunity, through stock options, to acquire an ownership interest in the Corporation.

The Old Option Plan is administered by the Compensation Committee, or if a Compensation Committee is not appointed, by the Board (in either case, the "Plan Administrator").

As of the date of this Annual Report, options to purchase 73,305 Common Shares (representing approximately 2.02% of the issued and outstanding Common Shares at the date of this Circular) are outstanding under the Old Option Plan. No future grants will be made under the Old Option Plan.

Under the Old Option Plan, unless otherwise determined by the Board, options vest as to 25% on the first anniversary of the date of grant and thereafter, as to 1/36th of the remaining 75% of the optioned shares on the last day of each month, such that the option is fully vested on that date which is four years from the date of the grant.

No option granted under the Old Option Plan shall extend for a period longer than seven years from the date of grant, provided that options granted prior to June 15, 2010 shall expire, subject to accelerated terms as provided for in the Old Option Plan, in accordance with the terms of the option. The Old Option Plan contains provisions governing the termination of options in the event of a termination of employment or service of a director, officer, consultant or employee. In such circumstances, unvested options terminate immediately. Vested options expire 120 days after the death of the participant or 30 days after the termination of the participant's service "without cause" or by reason of voluntary resignation (or earlier if the option was otherwise due to expire). In the case of termination of the participant's services "for cause", or by reason of the breach of the participant's fiduciary duty to the Corporation or consulting arrangement with the Corporation, vested options terminate immediately.

If an option expires (other than an expiry by reason of the termination of the participant's services "for cause", or by reason of the breach of the participant's fiduciary duty to the Corporation or consulting arrangement with the Corporation) during or within ten days after a period during which a participant is prohibited from exercising options pursuant to the Corporation's insider trading policy, as in effect from time to time (a "Black Out Period"), the participant may elect for the term of such option to be extended to the date which is ten business days after the last day of the Black Out Period; provided that the expiration date as extended will not in any event be beyond the later of: (i) December 31 of the calendar year in which the option was otherwise due to expire; and (ii) the 15th day of the third month following the month in which the option was otherwise due to expire.

In the event of a "Corporate Event" (as defined below), the Board in its sole discretion (but subject to obtaining the prior approval of the TSX if required by the rules, regulations and policies of the TSX) may, without any action or consent of the participants, provide for: (a) the continuation or assumption of outstanding options by or to the successor to all or substantially all of the assets or capital shares of the Corporation, or any other successor of the business of the Corporation as determined by the Board (the "Acquirer"); (b) the substitution of options for options and/or shares of restricted stock and/or other securities of the Acquirer; (c) the substitution of options with a cash incentive program of the Acquirer; (d) the acceleration of the vesting of options and, in the case of outstanding options the right to exercise such options, to a date prior to or on the date of the Corporate Event, and the expiration of outstanding options to the extent not timely exercised by the date of the Corporate Event or such other date as may be designated by the Board; (e) the cancellation of all or any portion of the outstanding options by a cash payment and/or other consideration receivable by the holders of Common Shares as a result of the Corporate Event equal to the excess, if any, of the fair market value (as determined by the Board), on the date of the Corporate Event, over the exercise price of the Common Shares subject to the outstanding options or portion thereof being cancelled; or (f) such other actions or combinations of the foregoing actions as it deems fair and reasonable in the circumstances. A "Corporate Event" is defined as: (i) a merger, amalgamation, consolidation, reorganization or arrangement of the Corporation with or into another corporation (other than a merger, amalgamation, consolidation, reorganization or arrangement of the Corporation with one or more of its Related Entities); (ii) a tender offer for all or substantially all of the outstanding Common Shares; (iii) the sale of all or substantially all of the assets of the Corporation; or (iv) any other acquisition of the business of the Corporation as determined by the Board.

The Old Option Plan contains additional restrictions that are only applicable to options which are characterized as "incentive stock options" for the purposes of the IRC. In the case of incentive stock option grants to holders of 10% or more of the Common Shares, the exercise price of such incentive stock options must be not less than 110% of the fair market value of the Common Shares (provided that such fair market value shall not be less than the 5 day volume weighted trading price on the date of grant).

Except in the case of death of an optionee or in accordance with the applicable law, options are not assignable without the consent of the Corporation, provided that with the prior written consent of the Plan Administrator and subject to such conditions as the Plan Administrator may designate, allow options, other than incentive stock options, to be transferred or assigned to a registered retirement savings plan (RRSP), registered retirement income fund (RRIF) or tax free savings account (TFSA).

ESPP

The ESPP was established on July 17, 2008 (the "Effective Date") following approval of the ESPP at the Corporation's 2008 annual and special meeting of shareholders.

The ESPP is open for participation to all employees (including directors and officers who are under a permanent full time or part time contract of employment with the Corporation) of the Corporation and any subsidiary subject to certain provisions contained within the ESPP.

Summary of ESPP

Pursuant to the ESPP, 20,000 Common Shares (approximately 0.55% of the 3,620,506 issued and outstanding Common Shares on the Record Date) are reserved for issuance under the ESPP. All Common Shares purchased or issued pursuant to the ESPP come from the treasury of the Corporation.

The Board has full power and authority to administer the ESPP on behalf of the Corporation, including the power and authority to delegate the administration of the ESPP to the Compensation Committee. The Board determines questions of interpretation or application of the ESPP and its decisions are final and binding on all participants. Board members receive no additional compensation for their services in administering the ESPP.

Eligible employees become participants in the ESPP by delivering to the Corporation an election to purchase shares prior to the commencement of the applicable purchase period. Each participant contributes to the ESPP, at the participant's option, an amount equal to or between the following minimum and maximum amounts (in whole percentages): a minimum of one percent (1%) of the participant's basic compensation, and a maximum of ten percent (10%) of the participant's basic compensation. The contributions are made through payroll deductions at the end of each employee's bi weekly or monthly pay period, as applicable. The Corporation, as agent of the participant, makes such deductions and pays the participant's contribution to the Administrator (as such term is defined in the ESPP).

On the last business day of each month, the Administrator purchases Common Shares from the Corporation based on the contributions received from each participant during the preceding month (the "Participant Shares"). The purchase price of the Participant Shares is the volume weighted average closing trading price of the Common Shares on the TSX for the five trading days immediately preceding the last business day of such month. The Administrator deposits the Participant Shares into an account in the name of the participant and holds such shares on behalf of such participant.

The Corporation matches a portion of each employee's participation in the ESPP by issuing additional Common Shares to each participant (through the Administrator). Specifically, on the last business day of each month, the Corporation issues to the Administrator that number of Common Shares (the "Matching Shares") equal to twenty five percent (25%) of the aggregate number of Participant Shares purchased by the Administrator on behalf of the participants for such month for each participant. The Matching Shares are deposited into a trust account by the Administrator on behalf of the Corporation.

The Participant Shares purchased on behalf of each participant vest immediately to the benefit of such participant. Subject to provisions in the ESPP relating to a change in control of the Corporation, the Matching Shares vest one year from the date of issuance of such Matching Shares.

In the event of a change of control of the Corporation, the Board, in its sole discretion (but subject to obtaining the prior approval of the TSX if required by the rules, regulations and policies of the TSX) may, without any action or consent of the participants in the ESPP, provide for: (a) the continuation of the vesting period with regard to any unvested Matching Shares; (b) the substitution of any unvested Matching Shares for shares of the acquirer; (c) the substitution of any unvested Matching Shares with a cash incentive program of the acquirer; (d) the acceleration of the vesting period to a date prior to or on the date of the change of control; (e) the cancellation of all or any portion of any unvested Matching Shares by a cash payment and/or other consideration receivable by the holders of any unvested Matching Shares as a result of the change in control equal to the market price of the unvested Matching Shares on the date of the change of control; or (f) such other actions or combinations of the foregoing actions as it deems fair and reasonable in the circumstances.

Upon the termination of employment of any participant for any reason, any unvested Matching Shares held by the Administrator for such participant are forfeited by such participant. A participant whose employment is terminated for any reason other than death must withdraw or otherwise transfer all of their Participant Shares and vested Matching Shares in such participant's account within ninety (90) days of such termination of employment. The participant may also request that the Administrator sell the Participant Shares and vested Matching Shares in the participant's account and distribute the cash proceeds to the participant. In the event of the death of a participant, the Participant Shares and vested Matching Shares in such participant's account are distributed to such participant's estate in accordance with the instructions of such participant's legal representative. Such distribution may take the form of a distribution of the cash realized from the sale of such Participant Shares and vested Matching Shares by the Administrator if so requested by the legal representative of the participant's estate.

The Corporation reserves the right to discontinue use of payroll deductions at any time such action is deemed advisable. The ESPP will terminate on the date which is ten (10) years from the Effective Date (as such

term is defined in the ESPP), unless earlier terminated by the Board. No right or interest of any participant in or under the ESPP may be assigned by such participant.

No Common Shares are issuable under the ESPP at any time to any Insider (as such term is defined in the ESPP) if such issuance, together with all of the Corporation's previously established or proposed Share Compensation Arrangements (as such term is defined in the ESPP), including the ESPP, could result, at any time, in: (i) the number of Common Shares issued to Insiders pursuant to the ESPP, together with all of such other Share Compensation Arrangements, within any one (1) year period exceeding ten percent (10%) of the issued and outstanding Common Shares; or (ii) the number of Common Shares issuable to Insiders at any time pursuant to the ESPP and all such other Share Compensation Arrangements exceeding ten percent (10%) of the issued and outstanding Common Shares.

Amendments to the ESPP generally require the consent of the TSX and the shareholders of the Corporation given at a duly constituted meeting. However, the following amendments to the ESPP may be made by the Board without TSX or other stock exchange approval and without shareholder approval: (a) amendments of a technical, clerical or "housekeeping" nature, or to clarify any provision of the ESPP, including without limiting the generality of the foregoing, any amendment for the purpose of curing any ambiguity, error or omission in the ESPP or to correct or supplement any provision of the ESPP that is inconsistent with any other provision of the ESPP; (b) suspension or termination of the ESPP; (c) amendments to respond to changes in legislation, regulations, instruments (including National Instrument 45 106), stock exchange rules (including the rules, regulations and policies of the TSX) or accounting or auditing requirements; (d) amendments respecting administration of the ESPP; (e) any amendment to the definition of "Employee" in the ESPP; (f) any amendment to the definition of "Subsidiary" in the ESPP and the consequential amendments to Appendix "B" of the ESPP; (g) changes to the vesting provisions for any outstanding Unvested Matching Shares (as defined in the ESPP); (h) amendments to the participant contribution provisions of the ESPP; (i) amendments to the withdrawal and suspension provisions of the ESPP; (j) amendments to the number or percentage of Matching Shares contributed by the Corporation; (k) amendments to the termination provisions of the ESPP; (l) adjustments to reflect stock dividends, stock splits, reverse stock splits, share combinations or other alterations of the capital stock of the Corporation; and (m) any other amendment, whether fundamental or otherwise, not requiring shareholder approval under applicable law (including, without limitation, the rules, regulations and policies of the TSX).

Shareholder approval will be required for the following types of amendments of the ESPP: (a) amendments to the number of Common Shares issuable under the ESPP, including an increase to the fixed maximum number of Common Shares or a change from a fixed maximum number of Common Shares to a fixed maximum percentage; and (b) amendments required to be approved by shareholders under applicable law (including, without limitation, the rules, regulations and policies of the TSX).

ITEM 7. Major Shareholders and Related Party Transactions.

A. Major Shareholders.

The common shares are the only class of shares of the Company authorized and, therefore, the only shares eligible to vote. To our knowledge, there is only one person who beneficially owns, directly or indirectly, or exercises control or direction over, common shares carrying more than 5% of the voting rights attached to the 3,620,506 shares outstanding at May 30, 2016.

Name	Number of Common Shares	Percentage of Outstanding Common Shares
Timothy J. McDonald	270,500	7.5%

B. Related Party Transactions.

We purchased repair services from a network repair company which has a member who serves on both companies' board of directors. During the years ended February 28, 2016 and 2015 we paid a nominal amount relating to the purchase of services from this repair facility.

All transactions are in the normal course of business and have been recorded at the exchange amount.

Interests of management and others in material transactions

No person or company, for which we are required under National Instrument 51-102 – Continuous Disclosure Obligations to disclose such information, has any material interest, direct or indirect, in any transaction completed in the three most recently completed financial years or the current financial year that has or is reasonably expected to materially affect us.

C. Interests of Experts and Counsel.

Not applicable.

ITEM 8. Financial Information.

A. Consolidated Financial Statements and Other Financial Information.

See “Part III – Item 18. Financial Statements” for a list of all financial statements filed as part of this Annual Report.

Export Sales

During the year ended February 29, 2016, our sales to end users located outside of Canada amounted to \$84.0 million, or 97% of our \$86.3 million revenues for this year.

Legal proceedings

It is common in our industry to receive notices alleging patent infringement arising in the normal course of business. We have set up internal procedures to deal with such notices, which include assessing the merits of each notice and seeking, where appropriate, a business resolution. Where a business resolution cannot be reached, litigation may be necessary. The ultimate outcome of any litigation is uncertain, and regardless of outcome, litigation can have an adverse impact on our business because of defense costs, negative publicity, diversion of management resources and other factors. Our failure to obtain any necessary license or other rights on commercially reasonable terms or litigation arising out of intellectual property claims could materially adversely affect our business. For the fiscal year ended February 29, 2016 and as of the date of this Annual Report, we are not party to any litigation related to intellectual property rights.

In January 2016, an arbitration process was initiated with a customer in India, Bharti Airtel Limited, through an arbitral tribunal to resolve a dispute over inventory (with a value of \$4.7 million) shipped to this customer in June 2015. The customer has now submitted its claim statement, which discloses an aggregate claim amount of approximately \$6.5 million in respect of, among other things, damages claimed with respect to lost revenue, import duties, and inventory replacement costs. We feel that the claim has no merit. We will submit a counter-claim by June 2016 and the arbitration hearing is expected to be held in July 2016. As of the date of this Annual Report, the outcome of this matter is not determinable. We do not believe that we will incur a loss related to this claim. Under the generally accepted accounting principles applicable to us, we are not required to make any accrual in our financial statements with respect to any loss if it is not probable that a loss has been incurred. Based on these rules, we have not booked any accrual in our financial statements with respect to this dispute.

Dividends

We currently intend to retain any future earnings to fund the development and growth of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend upon many factors, including our results of operations, capital requirements and other factors that our board of directors deems relevant. There are no restrictions in our articles preventing us from declaring dividends or paying dividends to our shareholders. However, our debt facilities with Comerica contain covenants restricting our ability to make payments of dividends on our common shares. We have not paid any dividends during our last three financial years.

ITEM 9. The Offer and Listing.

Trading Price and Volume

Our common shares are publicly traded on the TSX under the symbol “DWI”. Trading of the common shares on the TSX commenced with the closing of our initial public offering on April 19, 2007. Our common shares are also traded on the NASDAQ Capital Market under the symbol “DRWI”. Trading of our common shares on NASDAQ commenced on October 15, 2009.

The Company’s warrants issued from the public issuance on August 1, 2014 are traded on the Toronto Stock Exchange under the symbol DWI.WT and on the NASDAQ Capital Market under the symbol DRWIW.

The ranges of our common shares on the TSX and NASDAQ for the annual high and low market prices during the five most recent full financial years ended February 28/29 are as follows:

Annual	DWI.TO Common Shares – TSX		DRWI.NSDQ Common Shares – NASDAQ	
	High	Low	High	Low
2012	211.75	71.50	218.75	67.50
2013	112.50	42.50	114.25	43.75
2014	92.00	28.25	89.50	27.00
2015	68.75	24.75	63.75	19.50
2016	28.00	2.00	22.50	1.50

The ranges of our common shares on the TSX and NASDAQ for the quarterly high and low market prices during the two most recent full financial years ended February 28/29 are as follows:

	DWI.TO Common Shares – TSX		DRWI.NSDQ Common Shares – NASDAQ	
	High	Low	High	Low
Quarterly 2015				
First Quarter	46.75	30.00	42.25	27.50
Second Quarter	68.75	32.50	63.75	30.00
Third Quarter	41.50	25.00	38.25	22.00
Fourth Quarter	34.25	24.75	29.50	19.50
Quarterly 2016				
First Quarter	28.00	16.25	22.50	12.50
Second Quarter	20.00	6.50	16.00	4.75
Third Quarter	8.25	2.50	6.50	1.75
Fourth Quarter	5.75	2.00	4.25	1.50

The volume of trading and price ranges of our common shares on the TSX and NASDAQ for the last twelve months of the fiscal year ending February 29, 2016 are set out in the following table:

Month	DWL.TO Common Shares – TSX		DRWLNSDQ Common Shares – NASDAQ	
	Price Range (CAD)	Average Daily Volume	Price Range (USD)	Average Daily Volume
March 2015	16.25 – 27.50	5,035	13.90 – 22.50	11,614
April 2015	17.50 – 23.25	1,641	14.25 – 19.00	7,691
May 2015	16.50 – 22.50	1,163	14.51 – 18.55	6,649
June 2015	15.75 – 18.75	1,818	12.97 – 15.13	4,834
July 2015	6.63 – 16.25	4,113	5.75 – 13.19	13,583
August 2015	6.38 – 9.88	1,884	5.00 – 7.75	12,453
September 2015	5.63 – 7.38	2,524	4.28 – 6.13	13,983
October 2015	3.38 – 6.38	5,069	2.70 – 4.90	13,357
November 2015	2.50 – 4.00	3,752	1.94 – 3.43	21,622
December 2015	2.63 – 4.38	4,222	2.23 – 4.00	53,533
January 2016	2.00 – 3.75	5,303	1.55 – 2.75	27,192
February 2016	2.28 – 3.19	5,000	1.79 – 2.33	51,883

ITEM 10. Additional Information.

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Articles of Incorporation and By-laws

The Company's Articles of Incorporation are on file with Corporations Canada under Corporation Number 351766-7. Our Articles of Incorporation and by-laws do not include a stated purpose and do not place any restrictions on the business that the Company may carry on.

Directors

A director of our Company need not be a shareholder. In accordance with our by-laws and the CBCA, at least 25% of our directors must be residents of Canada. In order to serve as a director, a person must be a natural person at least 18 years of age, of sound mind and not bankrupt. Neither our Articles of Incorporation or by-laws, nor the CBCA, impose any mandatory retirement requirements for directors.

Our by-laws and the CBCA authorize the directors from time to time to determine the remuneration for their services. There is no requirement for an independent quorum.

A director who is a party to, or who is a director or officer of or has a material interest in any person who is a party to, a material contract or transaction or proposed material contract or transaction with our Company must disclose to the Company the nature and extent of his or her interest at the time and in the manner provided by the CBCA. The CBCA prohibits such a director from voting on any resolution to approve the contract or transaction unless the contract or transaction:

- relates primarily to his or her remuneration as a director, officer, employee or agent of the Company or an affiliate;

- is for indemnity or insurance for director's liability as permitted by the CBCA; or
- is with an affiliate.

Our board of directors may, on behalf of the Company and without authorization of our shareholders:

- borrow money upon the credit of the Company;
- issue, reissue, sell or pledge debt obligations of the Company; give a guarantee on behalf of the Company to secure performance of an obligation of any person; and
- mortgage, hypothecate, pledge or otherwise create a security interest in all or any property of the Company, owned or subsequently acquired, to secure any obligation of the Company.

These borrowing powers may be varied by the Company's by-laws or its Articles of Incorporation. However, our by-laws and Articles of Incorporation do not contain any restrictions on or variations of these borrowing powers.

Common Shares

Our Articles of Incorporation authorize the issuance of an unlimited number of common shares. They do not authorize the issuance of any other class of shares.

The holders of the common shares of our Company are entitled to receive notice of and to attend all meetings of the shareholders of our Company and have one vote for each common share held at all meetings of the shareholders of our Company. Our directors are elected at each annual meeting of shareholders and do not stand for re-election at staggered intervals.

The Company may from time to time pay dividends on the issued and outstanding common shares in the capital of the Company, as and when declared by our board of directors, from any assets properly applicable to the payment of dividends. The Company may pay a dividend by issuing fully paid common shares of the Company and, subject to the foregoing, the Company may pay a dividend in money or property. The board of directors shall not declare and the Company shall not pay a dividend if there are reasonable grounds for believing that: (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or (b) the realizable value of the Company's assets would thereby be less than the aggregate of its liabilities and stated capital of all classes of shares.

In the event of the liquidation, dissolution or winding-up of the Company or other distribution of assets of the Company among shareholders for the purpose of winding-up its affairs, subject to the prior rights of any other class of shares ranking senior to the common shares, the holders of common shares shall be entitled to receive the remaining assets of the Company. The Company has not issued any shares which rank senior to the common shares.

There are no redemption provisions and no liability for further capital calls associated with the Company's common shares.

Actions Necessary to Change Rights of Shareholders

In order to change the rights of our shareholders, we would need to amend our Articles of Incorporation to effect the change. Such an amendment would require the affirmative vote of holders of two-thirds of the shares cast at a duly called special meeting of shareholders. For certain amendments such as those creating of a class of preferred shares, a shareholder is entitled to dissent in respect of such a resolution amending our articles and, if the resolution is adopted and the Company implements such changes, demand payment of the fair value of its shares.

Meetings of Shareholders

An annual meeting of shareholders is held each year for the purpose of considering the financial statements and reports, electing directors, appointing auditors and for the transaction of other business as may be brought before the meeting. The board of directors has the power to call a special meeting of shareholders at any time. A

quorum at any meeting of shareholders shall be persons present not being less than two in number and holding or representing more than twenty-five percent (25%) of the total number of issued and outstanding common shares of the Company.

Notice of the time and place of each meeting of shareholders must be given not less than 21 days, nor more than 60 days, before the date of each meeting to each director, to the auditor and to each shareholder who at the close of business on the record date for notice is entered in the securities register as the holder of one or more shares carrying the right to vote at the meeting. Notice of meeting of shareholders called for any other purpose other than consideration of the minutes of an earlier meeting, financial statements and auditor's report, election of directors and reappointment of the incumbent auditor, must state the nature of the business in sufficient detail to permit the shareholder to form a reasoned judgment on and must state the text of any special resolution or by-law to be submitted to the meeting.

The only persons entitled to be present at a meeting of shareholders are those entitled to vote, the directors of the Company and the auditor of the Company. Any other person may be admitted only on the invitation of the chairman of the meeting or with the consent of the meeting. In circumstances where a court orders a meeting of shareholders, the court may direct how the meeting may be held, including who may attend the meeting.

Limitations on Right to Own Securities

There is no limitation imposed by the laws of Canada or by the by-laws or Articles of Incorporation of the Company on the right of a non-resident to hold or vote the common shares, other than as provided in the *Investment Canada Act*. The *Investment Canada Act* may require review and approval by the Minister of Industry (Canada) of certain acquisitions of "control" of the Company by a "non-Canadian". The threshold for acquisitions of control is generally defined as being one-third or more of the voting shares of the Company. "Non-Canadian" generally means an individual who is not a Canadian citizen, or a corporation, partnership, trust or joint venture that is ultimately controlled by non-Canadian.

Change of Control

There are no provisions in our by-laws or Articles of Incorporation that would have an effect of delaying, deferring or preventing a change in control of the Company and that would operate only with respect to a merger, acquisition or corporate restructuring involving the Company. Our by-laws do not contain a provision governing the ownership threshold above which shareholder ownership must be disclosed.

C. Material Contracts

The Original Master Acquisition Agreement is a material contract which was entered into in the financial year ended February 29, 2012, and, as noted above, this agreement has been superseded and replaced by the Amended and Restated Master Acquisition Agreement, particulars of which are set out above under "General Development of the Business – History & Business Developments – Mergers & Acquisitions and Joint Ventures".

There are no other material contracts which were entered into in the financial year ended February 29, 2016, or before the financial year ended February 29, 2016 which are still in effect as of the date of this Annual Report, other than those not required to be disclosed under applicable securities laws.

D. Exchange Controls

There are no governmental laws, decrees, regulations or other legislation, including foreign exchange controls, in Canada which may affect the export or import of capital or that may affect the remittance of dividends, interest or other payments to non-resident holders of the Company's securities.

E. Taxation

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS FOR NON-RESIDENTS OF CANADA

The following summary describes the principal Canadian federal income tax considerations generally applicable to a purchaser who acquires, as a beneficial owner, common shares and who, at all relevant times, for the purposes of the application of the *Income Tax Act* (Canada) (the "Tax Act") and the regulations thereunder, (1) is not, and is not deemed to be, resident in Canada; (2) does not use or hold, and is not deemed to use or hold, the common shares in a business carried on in Canada; (3) deals at arm's length with us; (4) is not affiliated with us or a subsequent purchaser of the common shares; and (5) holds the common shares as capital property (a "Non-Resident Holder"). Generally, the common shares will be capital property to a Non-Resident Holder provided the Non-Resident Holder does not acquire or hold those common shares in the course of carrying on a business or as part of an adventure or concern in the nature of trade.

Special rules, which are not discussed in this summary, may apply to a Non-Resident Holder that is an insurer that carries on an insurance business in Canada and elsewhere.

This summary is based on the current provisions of the Tax Act, and counsel's understanding of the current administrative policies and assessing practices of the Canada Revenue Agency ("CRA") published in writing prior to the date hereof. This summary takes into account all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "Proposed Amendments") and assumes that all Proposed Amendments will be enacted in the form proposed. However, no assurances can be given that the Proposed Amendments will be enacted as proposed, or at all. This summary does not otherwise take into account or anticipate any changes in law or administrative policy or assessing practice whether by legislative, regulatory, administrative or judicial action nor does it take into account tax legislation or considerations of any province, territory or foreign jurisdiction, which may differ from those discussed herein.

This summary is of a general nature only and is not, and is not intended to be, legal or tax advice to A Non-Resident Holder. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, Non-Resident Holders should consult their own tax advisors with respect to their particular circumstances.

Currency Conversion

Generally, for purposes of the Tax Act, all amounts relating to the acquisition, holding or disposition of the common shares must be converted into Canadian dollars based on the exchange rates as determined in accordance with the Tax Act. The amount of dividends required to be included in the income of, and capital gains or capital losses realized by, a Non-Resident Holder may be affected by fluctuations in exchange rates.

Dividends

Dividends paid or credited or deemed to be paid or credited to a Non-Resident Holder by us will be subject to Canadian withholding tax at the rate of 25 per cent of the gross amount of the dividend, subject to any reduction in the rate of withholding to which the Non-Resident Holder is entitled under any applicable income tax convention between Canada and the country in which the Non-Resident Holder is resident. For example, where the Non-Resident Holder is a U.S. resident entitled to benefits under the Canada-U.S. Income Tax Convention (1980) and is the beneficial owner of the dividends, the applicable rate of Canadian withholding tax is generally reduced to 15 per cent.

Dispositions

A Non-Resident Holder will not be subject to tax under the Tax Act on any capital gain realized on a disposition or deemed disposition of our common shares, unless the common share is or is deemed to be "taxable Canadian property" to the Non-Resident Holder for the purposes of the Tax Act and the Non-Resident Holder is not entitled to relief under an applicable income tax convention between Canada and the country in which the Non-Resident Holder is resident.

Generally, provided the common shares are listed on a “designated stock exchange” as (defined in the Tax Act) (which includes the TSX and NASDAQ) at the time of disposition, the common shares will not constitute taxable Canadian property of a Non-Resident Holder, unless at any time during the 60-month period immediately preceding the disposition: (i) (a) the Non-Resident Holder, (b) persons with whom the Non-Resident Holder did not deal at arm’s length, (c) partnerships in which the Non-Resident Holder or a person described in (b) holds a membership interest directly or indirectly through one or more partnerships, or (d) the Non-Resident Holder together with such persons, owned 25% or more of our common shares, and (ii) more than 50% of the fair market value of the common shares was derived directly or indirectly from one or any combination of: (a) real or immovable property situated in Canada, (b) “Canadian resources properties” (as defined in the Tax Act), (c) “timber resource properties” (as defined in the Tax Act), and (d) options in respect of, or interests in or for civil law rights in, property described in (a) to (c), whether or not such property exists. Notwithstanding the foregoing, our common shares may otherwise be deemed to be taxable Canadian property to a Non-Resident Holder for purposes of the Tax Act. Non-Resident Holders whose common shares constitute taxable Canadian property should consult with their own tax advisors.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS FOR U.S. HOLDERS

This section describes the material United States federal income tax considerations of the acquisition, ownership and disposition of our common shares. This summary addresses only persons or entities that are “U.S. holders” (as defined below). This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax consequences that may apply to a U.S. holder arising from or relating to the acquisition, ownership, and disposition of our common shares. In addition, this summary does not take into account the individual facts and circumstances of any particular U.S. holder that may affect the U.S. federal income tax consequences to such U.S. holder. Accordingly, this summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any U.S. holder. This summary does not address the U.S. state and local, U.S. federal estate and gift, or foreign tax consequences or the alternative minimum tax provisions of the Code (as defined below). Each U.S. holder should consult its own financial advisor, legal counsel, or accountant regarding the U.S. federal income, U.S. state and local, and foreign tax consequences arising from and relating to the acquisition, ownership, and disposition of common shares.

This section does not apply to you if you are a member of a class of holders subject to special rules, including, but not limited to:

- U.S. holders that are tax-exempt organizations, qualified retirement plans, individual retirement accounts, or other tax-deferred accounts;
- U.S. holders that are financial institutions, insurance companies, real estate investment trusts, or regulated investment companies;
- U.S. holders that are dealers in securities or currencies or U.S. holders that are traders in securities that elect to apply a mark-to-market accounting method;
- U.S. holders that have a “functional currency” other than the U.S. dollar;
- U.S. holders that own common shares as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other arrangement involving more than one position;
- U.S. holders who use common shares as security for a loan;
- U.S. holders that acquired common shares in connection with the exercise of employee stock options or otherwise as compensation for services;
- U.S. holders that hold common shares other than as capital assets within the meaning of Section 1221 of the Code;
- U.S. expatriates or former residents of the U.S.; and
- U.S. holders that own (directly, indirectly, or by attribution) 10% or more of the total combined voting power of our outstanding shares.

This section is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations under the Code, published rulings and court decisions, the Convention Between Canada and the United States of America with Respect to Taxes on Income and on Capital, signed September 26, 1980, as amended (the "Canada-U.S. Tax Convention"), all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation that, if enacted, could be applied on a retroactive basis.

This summary is not binding upon the Internal Revenue Service (the "IRS") and no rulings have been or will be sought from the IRS regarding any matters discussed in this summary. In that regard, there can be no assurance that one or more of the tax considerations described in this summary will not be challenged by the IRS or a U.S. court.

If a partnership (or other entity or arrangement treated as a partnership for United States federal income tax purposes) holds our common shares, the United States federal income tax treatment of a partner (or member) will generally depend on the status of the partner and the tax treatment of the partnership (or other entity). A partner in a partnership (or member of such other entity) holding our common shares should consult its tax advisor with regard to the U.S. federal income tax treatment of an investment in our common shares.

You are a U.S. holder if you are a beneficial owner of a common share and you are:

- an individual who is a citizen or resident (including a lawful permanent resident alien holding a green card) of the United States as determined for U.S. federal income tax purposes;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States or any state thereof or the District of Columbia;
- an estate whose income is subject to U.S. federal income tax regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a federal, state or local court within the United States and one or more United States persons are authorized to control all substantial decisions of the trust or (2) has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

The United States federal income tax consequences of the acquisition, ownership and disposition of our common shares can be very complex and, in certain cases, uncertain or potentially unfavorable to a U.S. holder. Accordingly, each prospective investor considering an acquisition of, or who acquires common shares is strongly urged to consult its own tax advisor with respect to the United States federal, state or local income and alternative minimum tax, United States federal estate or gift, or foreign tax consequences of such acquisition, ownership and disposition of common shares in light of its own particular facts and circumstances.

U.S. Holders

Taxation of Distributions

Under the U.S. federal income tax laws, and subject to the passive foreign investment company ("PFIC") rules discussed below, if you are a U.S. holder, a distribution of cash, if any, paid on a common share, including a constructive distribution, generally will be included in your gross income as a dividend (without reduction for any amounts withheld in respect of Canadian federal income tax) to the extent of our current or accumulated "earnings and profits" (as computed under United States federal income tax rules).

If you are a non-corporate U.S. holder, dividends paid to you that constitute qualified dividend income will be taxable to you at a maximum tax rate of 23.8% (including the 3.8% tax on net investment income discussed below) provided that you hold our common shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends we pay with respect to our common shares should be qualified dividend income provided that we are not a PFIC in the year the dividend is paid or the previous taxable year.

You must include any Canadian tax withheld from the dividend payment in this gross amount even though you do not in fact receive the withheld amount. The dividend is taxable to you when you receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Canadian dollar payments made, determined at the spot Canadian dollar/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes.

To the extent that a distribution paid on our common shares is in excess of our current and accumulated “earnings and profits” (as determined for U.S. federal income tax purposes), such distribution generally will be treated as a non-taxable return of capital to the extent of your adjusted tax basis in our common shares, with any excess treated as a gain from the sale or exchange of the Shares.

A U.S. holder that pays (whether directly or through withholding) Canadian income tax with respect to distributions by us generally will be entitled, at the election of such U.S. holder, to receive either a deduction or a credit for such Canadian income tax paid. Complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of a U.S. holder’s U.S. federal income tax liability that such U.S. holder’s “foreign source” taxable income bears to such U.S. holder’s worldwide taxable income. In applying this limitation, a U.S. holder’s various items of income and deduction must be classified, under complex rules, as either “foreign source” or “U.S. source.” Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 20% tax rate.

For foreign tax credit purposes, dividends will be income from sources outside the United States and will, depending on your circumstances, be either “passive category” or “general category” income for purposes of computing the foreign tax credit allowable to you. However, the amount of a distribution with respect to our common shares that is treated as a “dividend” may be lower for U.S. federal income tax purposes than it is for Canadian federal income tax purposes, potentially resulting in a reduced foreign tax credit allowance to a U.S. holder. The foreign tax credit rules are complex, and each U.S. holder should consult its own U.S. tax advisor regarding the foreign tax credit rules.

Taxation of Sale, Exchange or other Taxable Disposition

Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your common shares, you will recognize gain or loss for United States federal income tax purposes equal to the difference between the United States dollar value of the amount that you realize and your tax basis, determined in United States dollars, in your common shares. Any such gain or loss will be capital gain or loss if our common shares are held by you as capital assets. Any such gain or loss generally will be United States source income or loss for purposes of applying the United States foreign tax credit rules unless the gain is subject to tax in Canada and is re-sourced as “foreign source” under the Convention and such U.S. holder elects to treat such gain as “foreign source.” Capital gain of a non-corporate U.S. holder is generally taxed at a maximum rate of 23.8% (including the 3.8% tax on net investment income discussed below) where the U.S. holder has a holding period greater than one year. Deductions for capital losses are subject to limitations.

PFIC Rules

If we are considered to be a PFIC, as that term is defined in Section 1297 of the Code, at any time during a U.S. holder’s holding period, the following sections will generally describe the United States federal income tax consequences to a U.S. holder in relation to the acquisition, ownership and disposition of common shares.

We generally will be regarded as a PFIC for United States federal income tax purposes if, for a taxable year, either (i) 75% or more of our gross income for such taxable year is passive income or (ii) on the basis of a quarterly average, 50% or more of the assets held by us either produce passive income or are held for the production of passive income, based on the fair market value of such assets. “Passive income” includes, for

example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions. If a foreign corporation (such as DragonWave) owns, directly or indirectly, at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests described above as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income. In addition, under certain attribution rules, if we are a PFIC, U.S. holders will be deemed to own their proportionate share of the our subsidiaries which are PFICs (such subsidiaries referred to as "Subsidiary PFICs"), and will be subject to U.S. federal income tax on (i) a distribution on the shares of a Subsidiary PFIC and (ii) a disposition of shares of a Subsidiary PFIC, both as if the holder directly held the shares of such Subsidiary PFIC.

PFIC classification is fundamentally factual in nature, generally cannot be determined until the close of the taxable year in question, and is determined annually. Consequently, there can be no assurance that we have never been and will not become a PFIC for any taxable year during which U.S. holders hold common shares.

In any given taxable year for which we are classified as a PFIC, during which a U.S. holder holds common shares, a U.S. holder would be subject to increased tax liability (possibly including a non-deductible interest charge) upon the sale or other disposition of our common shares or upon the receipt of certain distributions treated as "excess distributions," unless such U.S. holder elects to be taxed currently, by making a Mark-to-Market or a Qualified Electing Fund ("QEF") Election. An excess distribution generally would be any distribution to a U.S. holder with respect to common shares during a single taxable year over 125% of the average annual distributions received by such U.S. holder with respect to our common shares during the three preceding taxable years or, if shorter, during such U.S. holder's holding period for our common shares. In addition, certain special, generally adverse rules would apply to our common shares if we are a PFIC. For example, under certain proposed Treasury regulations, a "disposition" for this purpose may include, under certain circumstances, transfers at death, gifts, pledges, transfers pursuant to tax-deferred reorganizations and other transactions with respect to which gain ordinarily would not be recognized. In addition, if we are treated as a PFIC, dividends paid by us will not be eligible for taxation at the preferential tax rates described above under the heading "Taxation of Distributions".

If a U.S. holder owns our common shares during any year in which we are a PFIC, such U.S. holder must also file IRS Form 8621 regardless of whether such holder makes a Mark-to-Market or QEF Election.

Under the PFIC rules:

- the gain or excess distribution will be allocated ratably over the applicable holding period for your common shares;
- the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income;
- the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year; and
- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year. A U.S. holder that is not a corporation must treat such interest as non-deductible personal interest.

If we were a PFIC, a U.S. holder might be able to make a Mark-to-Market Election with respect to our common shares to mitigate some of these adverse tax consequences. A U.S. holder that holds stock of a PFIC generally may make a Mark-to-Market Election with respect to its stock if the stock constitutes "marketable stock". Marketable stock is stock that is regularly traded (other than in de minimis quantities) on a U.S. or non-U.S. exchange or other market that the U.S. Treasury Department determines has trading, listing, financial disclosure, and other rules adequate to carry out the purposes of the Mark-to-Market Election. The common shares should constitute marketable stock with respect to which a Mark-to-Market Election could be made. In such case, a U.S. holder would generally include as ordinary income or loss the difference between the fair market value of our common shares at the end of the taxable year and the adjusted tax basis of our common shares (but loss could only be included to the extent of the net amount of previously included income as a result of the Mark-to-Market Election). If a U.S. holder made the election, the U.S. holder's tax basis in our common

shares would be adjusted to reflect any such income or loss amounts. Any gain recognized on the sale or other disposition of common shares would be treated as ordinary income. A U.S. holder should consult their own tax advisors regarding the availability and advisability of making a Mark-to-Market Election with respect to our common shares in their particular circumstances in the event the Company is or becomes a PFIC. A Mark-to-Market Election would not be available for any Subsidiary PFIC.

The QEF Election, if available, generally would allow a U.S. holder to avoid the consequences of the PFIC rules but would require such holder to include its pro rata share of the Company's ordinary income and net capital gain in income currently, whether or not distributed. However, the Company does not intend to provide

U.S. holders with such information as may be required to make a QEF Election effective in the event it is a PFIC.

The PFIC rules are complex and in certain cases, uncertain. Each U.S. holder is strongly urged to consult its tax advisor regarding application and operation of the PFIC rules, including the availability and advisability of, and procedure for, making the Mark-to-Market and/or QEF Elections.

Additional Tax on Passive Income

Certain individuals, estates and trusts whose income exceeds certain thresholds will be required to pay a 3.8% Medicare surtax on "net investment income" including, among other things, dividends and net gain from disposition of property (other than property held in certain trades or businesses). U.S. holders should consult their own tax advisors regarding the effect, if any, of this tax on their ownership and disposition of common shares.

Withholding Requirements Relating to Foreign Accounts

Withholding taxes may apply to certain types of payments made to "foreign financial institutions" (as specially defined under applicable rules) and certain other non-U.S. entities. Specifically, a 30% withholding tax may be imposed on dividends on, and gross proceeds from the sale or other disposition of, common shares paid to a foreign financial institution or to a foreign non-financial foreign entity, unless (1) the foreign financial institution undertakes certain diligence and reporting, (2) the non-financial foreign entity either certifies it does not have any substantial United States owners or furnishes identifying information regarding each substantial United States owner, or (3) the foreign financial institution or non-financial foreign entity otherwise qualifies for an exemption from these rules. If the payee is a foreign financial institution and is subject to the diligence and reporting requirements in clause (1) above, it must enter into an agreement with the United States Treasury requiring, among other things, that it undertake to identify accounts held by certain United States persons or United States-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to non-compliant foreign financial institutions and certain other account holders.

The IRS has issued administrative guidance providing that the withholding provisions described above will generally apply to payments of dividends on common shares made on or after July 1, 2014, and to payments of gross proceeds from a sale or other disposition of such shares on or after January 1, 2017. U.S. holders should consult their tax advisors regarding these withholding provisions.

Backup Withholding and Information Reporting

Under U.S. federal income tax law and Treasury regulations, certain categories of U.S. holders must file information returns with respect to their investment in, or involvement in, a foreign corporation. Penalties for failure to file certain of these information returns are substantial. U.S. holders who acquire or hold common shares should consult with their own tax advisors regarding the requirements of filing information returns, and if applicable, any Mark-to-Market Election or QEF Election.

If the holder is a non-corporate U.S. holder, then payments to it made within the United States, or by a United States payor or United States middleman, of dividends on or proceeds arising from the sale or other taxable disposition of common shares, and/or proceeds arising from the sale or other taxable disposition of common shares, generally will be subject to information reporting and backup withholding (currently at the rate of 28%), where such U.S. holder fails to furnish its correct United States taxpayer identification number

(generally on IRS Form W-9), and to make certain certifications, or otherwise fails to establish an exemption from backup withholding. Any amounts withheld under the backup withholding rules from a payment to a U.S. holder generally may be refunded (or credited against its United States federal income tax liability, if any) provided the required information is furnished to the IRS in a timely manner. Each U.S. holder should consult its own tax advisor regarding the backup withholding tax.

F. Dividends and Paying Agents

Not applicable.

G. Statements by Experts

Not applicable.

H. Documents on Display

The documents referred to and/or incorporated by reference in this Annual Report can be obtained free of charge upon request from Investor Relations at the Company's head office located at 411 Legget Drive, Suite 600, Ottawa, Ontario, K2K 3C9, Canada.

We are required to file financial statements and other information with the securities regulatory authorities electronically through the Canadian System for Electronic Document Analysis and Retrieval (SEDAR), which can be viewed at www.sedar.com.

We are subject to the informational requirements of the U.S. Exchange Act and files reports and other information with the SEC. You may read and copy any of the Company's reports and other information at, and obtain copies upon payment of prescribed fees from, the Public Reference Room maintained by the SEC at 100 F Street, N.E., Washington, D.C., U.S., 20549. In addition, the SEC maintains a website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC at <http://www.sec.gov>. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

I. Subsidiary Information

Not applicable.

ITEM 11. Quantitative and Qualitative Disclosures About Market Risk.

Quantitative and Qualitative Disclosure About Market Risk

Interest rate risk

Cash, cash equivalents and our debt facility, which has interest rates with market rate fluctuations, expose us to interest rate risk on these financial instruments. Net interest expense, excluding deferred financing costs, recognized during the twelve months ended February 29, 2016 was \$2.0 million on our cash, cash equivalents and debt facility (twelve months ended February 28, 2015 – expense of \$1.4 million respectively).

Credit risk

In addition to trade receivables and other receivables, we are exposed to credit risk on our cash and cash equivalents in the event that our counterparties do not meet their obligations. We do not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or fair value of the financial instrument. We minimize credit risk on cash and cash equivalents by transacting with only reputable financial institutions and customers.

Foreign exchange risk

Foreign exchange risk arises because of fluctuations in exchange rates. To mitigate exchange risk, we may utilize forward contracts to secure exchange rates with the objective of offsetting fluctuations in our operating

expenses incurred in foreign currencies with gains or losses on the forward contracts. We had no forward contracts in place at February 29, 2016 (February 28, 2015 – nil). All foreign currency gains and losses related to forward contracts are included in foreign exchange gain (loss) in the consolidated statements of operations.

As of February 29, 2016, if the US dollar had appreciated 1% against all foreign currencies, with all other variables held constant, the impact of this foreign currency change on our foreign denominated financial instruments would have resulted in a nominal decrease in after-tax net loss for the twelve months ended February 29, 2016 (twelve months ended February 28, 2015 – nominal decrease) with an equal and opposite effect if the US dollar had depreciated 1% against all foreign currencies at February 29, 2016.

ITEM 12. Description of Securities Other Than Equity Securities.

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Not applicable.

PART II

ITEM 13. Defaults, Dividend Arrearages and Delinquencies.

None.

ITEM 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

A. Not applicable.

B. Not applicable.

C. Not applicable.

D. Not applicable.

E. Use of Proceeds

2016 Offering

On April 6, 2016, we entered into a Securities Purchase Agreement (the “Purchase Agreement”) with certain institutional investors (the “Purchasers”) providing for the issuance and sale by us of 599,998 common shares and a price per share equal to US\$7.25. The shares were being offered (the “Registered Offering”) by us pursuant to an effective shelf registration statement on Form F-3 (File No. 333-209969), which was declared effective by the Securities and Exchange Commission (the “SEC”) on March 14, 2016 (the “Registration Statement”). In a concurrent private placement (the “Private Placement” and, together with the Registered Offering, the “Offerings”), we issued warrants to purchase 299,999 common shares at an exercise price of US\$8.50 per share. The warrants are exercisable six months and one day after the date of issuance and expire five years from the date of issuance. The net proceeds of the Offerings is US\$4.09 million, after placement agent fees and estimated Offering expenses payable by us, and excluding any proceeds we may receive upon exercise of the warrants.

2014 Offering

On August 1, 2014 we completed the 2014 Offering. Under the terms of the 2014 Offering, we issued and sold 15,927,500 2014 Units at CAD\$1.80 per 2014 Unit for aggregate gross proceeds of \$26.2 million (CAD\$28.7 million). After deducting commissions and expenses, we realized net proceeds of \$24.0 million. Each 2014 Unit consisted of one common share of the Company and one half of one 2014 Warrant. Each whole 2014 Warrant originally entitled the holder to purchase one of our common shares at an exercise price of CAD\$2.25 per share until August 1, 2016. Upon issuance, we recognized a liability in the amount of \$2.6 million for the 2014 Warrants. The shelf registration statement was declared effective on August 29, 2013. The file number is 333-190674. The 2014 Offering had CIBC acting as the sole book-runner for the offering and H.C. Wainwright & Co., LLC acting as lead manager (together, the “underwriters”).

2013 Offering

On September 23, 2013, pursuant to the 2013 Offering, we issued 11,910,000 common shares and 8,932,500 2013 Warrants for proceeds, before deducting fees and expenses, of approximately \$25.0 million. After deducting fees and expenses, we realized net proceeds of \$22.4 million. The 2013 Units were offered at a price of \$2.10 per 2013 Unit. Each 2013 Unit consisted of one common share and three quarters of one 2013 Warrant. Each whole 2013 Warrant originally entitled the holder to purchase one common share at an exercise price of \$2.70 per share until September 23, 2018, subject to certain adjustments. In connection with the 2014 Offering, and pursuant to the terms of such warrants, the exercise price of the 2013 Warrants issued in the 2013 Offering was changed to \$1.30 per share. As at September 23, 2013 we recognized a liability in the amount of \$6.4 million for the 2013 Warrants. The shelf registration statement was declared effective on August 29, 2013. The file number is 333-190674. The 2013 Offering had Canaccord Genuity acting as the sole book running manager.

Use of Proceeds

Proceeds from the 2014 Offering and 2013 Offering were used to fund the operations of the business.

ITEM 15. Controls and Procedures.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

At the end of the period covered by this Annual Report for the year ended February 29, 2016 and up to May 30, 2016, an evaluation was carried out under the supervision of, and with the participation of, our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, which are our principal executive officer and principal financial officer, respectively, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act. Based upon that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as at February 29, 2016 to give reasonable assurance that the information we are required to disclose in reports that we file or submit under the Exchange Act and/or applicable Canadian securities legislation is (i) recorded, processed, summarized and reported, within the time periods specified in the U.S. Securities and Exchange Commission's as well as in accordance with applicable Canadian securities legislation rules and forms, and (ii) accumulated and communicated to management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is also responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f) as well as National Instrument 52-109 of the Canadian Securities Administrators. These controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. Under the supervision and with the participation of our management, including our principal executive officer, our CEO, and principal financial officer, our CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework). Based on our evaluation under the framework in Internal Control – Integrated Framework, our management concluded that our internal control over financial reporting was effective and that there are no material weaknesses in the Company's disclosure controls and procedures as of February 29, 2016.

Changes in Internal Control over Financial Reporting

During the period covered by this Annual Report, no changes occurred in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. RESERVED

ITEM 16A. Audit Committee Financial Expert.

Audit Committee

We have a separately designated standing Audit Committee established in accordance with section 3(a)(58)(A) of the Exchange Act and NASDAQ Rule 5605(c)(2). Our Audit Committee is composed of Lori O'Neill (Chair), Claude Haw, and Cesar Cesaratto, each of whom, in the opinion of the directors, is financially literate and independent as determined under National Instrument 52-110 (Audit Committees) ("NI 52-110"), Rule 10A-3 of the Exchange Act and NASDAQ Rule 5605(a)(2).

The Audit Committee assists the board of directors in fulfilling its responsibilities for oversight of financial and accounting matters. In addition to recommending the auditors to be nominated and reviewing the compensation of the auditors, the Audit Committee is responsible for overseeing the work of the auditors and

pre-approving non-audit services. The Audit Committee also reviews our annual and interim financial statements and news releases containing information taken from our financial statements prior to their release. The Audit Committee is responsible for reviewing the acceptability and quality of our financial reporting and accounting standards and principles and any proposed material changes to them or their application.

The Audit Committee has a published charter, which is available at www.sedar.com and on our website, www.dragonwaveinc.com.

Audit Committee Financial Expert

Our board of directors has determined that each of Lori O'Neill and Claude Haw qualifies as an "audit committee financial expert" within the meaning of the SEC's rules and each of the members of the Audit Committee is independent as determined under Exchange Act Rule 10A-3 and NASDAQ Rule 5605(a)(2).

ITEM 16B. Code of Ethics.

We have adopted a Code of Business Conduct and Ethics (the "Code of Ethics") that is applicable to each of our employees, including our principal executive officer, principal financial officer, principal accounting officer or controller. Our Code of Ethics is available at on our website at www.dragonwaveinc.com.

Any amendments to our Code of Ethics, and all waivers of the Code of Ethics with respect to any of the officers covered by it, will be posted on our website within four business days of such amendment or waiver and shall be provided in print to any shareholder who requests them.

There have been no waivers or implicit waivers to the Code of Ethics during the fiscal year ended February 29, 2016.

ITEM 16C. Principal Accountant Fees and Services.

The following table sets out the fees billed to us by EY LLP and its affiliates for professional services for the year ended February 29, 2016 and the year ended February 28, 2015. During these years, EY LLP was our only external auditor.

The aggregate fees billed by EY LLP were as follows:

	Year Ended February 29, 2016	Year Ended February 28, 2015
Audit Fees	\$289,129	\$375,000
Audit Related Fees	\$ 1,600	\$ 30,000
Tax Fees	\$ 84,366	\$136,000
All Other Fees	\$ 39,364	\$ 70,000
TOTAL	<u>\$414,459</u>	<u>\$611,000</u>

PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES PROVIDED BY INDEPENDENT AUDITORS

In addition to recommending the auditors to be nominated and reviewing the compensation of the auditors, the Audit Committee is responsible for overseeing the work of the auditors and pre-approving non-audit services. As a matter of practice, the Audit Committee, and/or the Audit Committee Chairman acting on behalf of the Audit Committee, will generally pre-approve all audit and permitted non-audit services to be performed by our external auditors. None of the fees reported above under the heading "Part II – Item 16C. Principal Accountant Fees and Services" that were paid to Ernst & Young LLP were approved by our Audit Committee pursuant to the *de minimis* exception provided by Section (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

ITEM 16D. Exemptions from the Listing Standards for Audit Committees.

Not applicable.

ITEM 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

On April 9, 2010, the TSX accepted the Company's notice of intention to repurchase up to 3,508,121 common shares (10 percent of the Company's issued and outstanding common shares) through a normal course issuer bid ("NCIB"). The NCIB was effective April 13, 2010 and expired April 12, 2011. Daily purchases over the facilities of the NASDAQ were limited to 25% of the average daily trading volume of the common shares on NASDAQ other than pursuant to block purchase exemptions. Daily purchases over the facilities of the TSX were limited to 25% of the average daily trading volume of the common shares on TSX other than pursuant to block purchase exemptions. Except in the case of an exempt purchase, the prices that the Company paid for the common shares purchased was the market price of the shares at the time of acquisition.

During fiscal year 2011, the Company acquired 1,865,549 common shares pursuant to the NCIB at prevailing market prices. These shares were purchased for cancellation at an aggregate cost of \$10.7 million of which \$9.0 million was charged to share capital, based on the historical weighted per share value at the date of purchase, and the balance of \$1.7 million was charged to deficit.

ITEM 16F. Change in Registrant's Certifying Accountant.

Not applicable.

ITEM 16G. Corporate Governance.

Our common shares are quoted for trading on the NASDAQ Capital Market under the symbol DRWI. NASDAQ Marketplace Rule 5615(a)(3) permits a foreign private issuer to follow its home country practice in lieu of certain of the requirements of the Rule 5600 Series. A foreign private issuer that follows a home country practice in lieu of one or more provisions of the Rule 5600 Series is required to disclose in its annual report filed with the SEC, or on its website, each requirement of the Rule 5600 Series that it does not follow and describe the home country practice followed by the issuer in lieu of such NASDAQ corporate governance requirements.

We do not follow Marketplace Rule 5620(c), but instead follow our home country practice. The NASDAQ minimum quorum requirement under Rule 5620(c) for a meeting of shareholders is 33.33% of the outstanding common shares. In addition, Rule 5620(c) requires that an issuer listed on NASDAQ state its quorum requirement in its governing documents. Our quorum requirement is set forth in our by-laws. A quorum for a meeting of our shareholders is two persons present in person or by proxy who, in the aggregate, hold at least 25% of the issued shares entitled to be voted at the meeting. The foregoing is consistent with the laws, customs and practices in Canada and the rules of the Toronto Stock Exchange.

ITEM 16H. Mine Safety Disclosure.

Not applicable.

PART III

ITEM 17. Financial Statements.

We have responded to Item 18 in lieu of responding to this item.

ITEM 18. Financial Statements.

The Consolidated Financial Statements of the Company for the years ended February 29, 2016, and February 28, 2015 including the reports of our independent registered public accounting firm thereon are set forth beginning on page F-1.

DragonWave
Inc.

For the year ended
February 29

2016

Consolidated
Financial
Statements

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of
DragonWave Inc.

We have audited the accompanying consolidated financial statements of **DragonWave Inc.**, which comprise the consolidated balance sheets as at February 29, 2016 and February 28, 2015 and the consolidated statements of operations, comprehensive loss, cash flows and changes in equity for each of the years in the two-year period ended February 29, 2016, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with United States generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of DragonWave Inc. as at February 29, 2016 and February 28, 2015, and the results of its operations and its cash flows for each of the years in the two-year period ended February 29, 2016 in accordance with United States generally accepted accounting principles.

Emphasis of matter

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has recurring losses from operations and has a capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Ottawa, Canada
May 18, 2016

/s/ Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

CONSOLIDATED BALANCE SHEETS
Expressed in US \$000's except share amounts

	<i>Note</i>	As at February 29, 2016	As at February 28, 2015
Assets			
Current Assets			
Cash and cash equivalents	4	4,277	23,692
Trade receivables	5	18,986	48,626
Inventory	6	22,702	24,294
Other current assets	7	2,777	5,895
		<u>48,742</u>	<u>102,507</u>
Long Term Assets			
Property and equipment	8	3,702	4,322
Deferred tax asset	20	—	1,485
Deferred financing cost		—	18
Intangible assets	9	623	794
Goodwill	9	—	11,927
		<u>4,325</u>	<u>18,546</u>
Total Assets	11	<u>53,067</u>	<u>121,053</u>
Liabilities			
Current Liabilities			
Debt facility	11	22,152	—
Accounts payable and accrued liabilities	10	23,557	40,677
Deferred revenue		1,944	830
Deferred tax liability	20	294	—
Warrant liability	13, 17	117	—
		<u>48,064</u>	<u>41,507</u>
Long Term Liabilities			
Debt facility	11	—	32,400
Other long term liabilities	12	773	1,139
Warrant liability	13, 17	3	1,239
		<u>776</u>	<u>34,778</u>
Commitments	15		
Shareholders' equity			
Capital stock	13	221,128	220,952
Contributed surplus	13	9,235	8,388
Deficit		(218,225)	(175,921)
Accumulated other comprehensive loss		(9,618)	(9,618)
Total Shareholders' equity		<u>2,520</u>	<u>43,801</u>
Non-controlling interests	3	1,707	967
Total Equity		<u>4,227</u>	<u>44,768</u>
Total Liabilities and Equity		<u>53,067</u>	<u>121,053</u>
Shares issued & outstanding	14	3,020,069	3,011,632

(Signed) CLAUDE HAW
Director

(Signed) LORI O'NEILL
Director

See Note 1: Nature of Business, Basis of Presentation and Going Concern
See accompanying notes

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

Expressed in US \$000's except share and per share amounts

		Twelve months ended	
	<i>Note</i>	February 29, 2016	February 28, 2015
REVENUE			
Hardware and other	18	71,393	150,432
Services	18	14,902	7,334
		<u>86,295</u>	<u>157,766</u>
COST OF SALES			
Hardware and other	6	58,991	123,950
Services	6	8,917	3,051
Inventory provision	6	4,416	2,771
		<u>72,324</u>	<u>129,772</u>
Gross profit		<u>13,971</u>	<u>27,994</u>
EXPENSES			
Research and development		13,406	18,657
Selling and marketing		10,572	13,975
General and administrative		13,798	15,085
		<u>37,776</u>	<u>47,717</u>
Loss before other items		<u>(23,805)</u>	<u>(19,723)</u>
Goodwill impairment	9	(11,927)	—
Restructuring costs	22	(1,549)	—
Amortization of intangible assets	9	(577)	(1,188)
Accretion expense		(205)	(168)
Interest expense	11, 17	(2,014)	(1,557)
Warrant issuance expenses		—	(221)
Gain on change in estimate		—	67
Gain on sale of fixed assets		—	18
Fair value adjustment — warrant liability	13	1,119	2,007
Foreign exchange (loss) gain		<u>(331)</u>	<u>846</u>
Loss before income taxes		<u>(39,289)</u>	<u>(19,919)</u>
Income tax expense	20	2,275	717
Net loss and comprehensive loss		<u>(41,564)</u>	<u>(20,636)</u>
Net income attributable to non-controlling interest		<u>(740)</u>	<u>(884)</u>
Net loss and comprehensive loss attributable to shareholders		<u><u>(42,304)</u></u>	<u><u>(21,520)</u></u>
Net loss and comprehensive loss per share			
Basic and diluted	14	(14.01)	(7.90)
Weighted average shares outstanding			
Basic and diluted	14	3,019,259	2,724,467

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in US \$000's

		Twelve months ended	
	Note	February 29, 2016	February 28, 2015
Operating activities			
Net loss		(41,564)	(20,636)
Items not affecting cash			
Goodwill impairment	9	11,927	—
Amortization of property and equipment	8	1,931	2,320
Amortization of intangible assets	9	577	1,188
Accretion expense		205	168
Interest expense		—	28
Gain on change in estimate		—	(67)
Gain on contract amendment		—	(530)
Fair value adjustment – warrant liability	13	(1,119)	(2,007)
Stock-based compensation	13	988	1,270
Unrealized foreign exchange loss		485	913
Deferred income tax expense		1,841	59
		(24,729)	(17,294)
Changes in non-cash working capital items	16	18,236	(14,343)
		(6,493)	(31,637)
Investing activities			
Acquisition of property and equipment		(1,311)	(3,474)
Acquisition of intangible assets		(406)	(347)
		(1,717)	(3,821)
Financing activities			
Repayments on capital lease obligation		(507)	(739)
Contribution by non-controlling interest in DW-HFCL	3	—	164
Proceeds from issuance of warrant		—	2,551
Proceeds from debt facility	11	1,300	17,400
Repayment of debt facility	11	(11,548)	—
Issuance of common shares, net		35	21,695
		(10,720)	41,071
Effect of foreign exchange on cash and cash equivalents		(485)	(913)
Net increase / (decrease) in cash and cash equivalents		(19,415)	4,700
Cash and cash equivalents at beginning of period		23,692	18,992
Cash and cash equivalents at end of period		4,277	23,692
Cash paid during the year for interest		2,335	1,190
Cash paid during the year for taxes		522	802

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Expressed in US \$000's except share amounts

	Common Shares	Capital Stock	Contributed Surplus	Deficit	AOCL	Non- Controlling Interest	Equity
Balance at February 28, 2014	2,320,349	\$198,593	\$7,118	\$(154,505)	\$(9,682)	\$ (81)	\$ 41,443
Stock-based compensation	—	—	1,270	—	—	—	1,270
Public offering	637,100	21,631	—	—	—	—	21,631
Exercise of warrants	52,042	664	—	—	—	—	664
Share issuance	2,141	64	—	104	64	—	232
Other comprehensive loss	—	—	—	—	—	164	164
Net (loss) / income	—	—	—	(21,520)	—	884	(20,636)
Balance at February 28, 2015	3,011,632	\$220,952	\$8,388	\$(175,921)	\$(9,618)	\$ 967	\$ 44,768
Stock-based compensation	—	—	988	—	—	—	988
Exercise of restricted share units . . .	2,400	133	(133)	—	—	—	—
Share issuance	6,037	43	(8)	—	—	—	35
Net (loss)/income	—	—	—	(42,304)	—	740	(41,564)
Balance at February 29, 2016	3,020,069	\$221,128	\$9,235	\$(218,225)	\$(9,618)	\$1,707	\$ 4,227

See accompanying notes

DragonWave Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Expressed in US \$000's except share and per share amounts

1. NATURE OF BUSINESS, BASIS OF PRESENTATION AND GOING CONCERN

DragonWave Inc. [the “Company”], incorporated under the *Canada Business Corporations Act* in February 2000, is a provider of high-capacity packet microwave solutions that drive next-generation IP networks.

The Company’s common shares are traded on the Toronto Stock Exchange under the trading symbol DWI and on the NASDAQ Capital Market under the symbol DRWI.

The Company’s warrants issued from the public issuance on August 1, 2014 are traded on the Toronto Stock Exchange under the symbol DWI.WT and on the NASDAQ Capital Market under the symbol DRWIW.

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: DragonWave Corp., incorporated in the state of Delaware, USA, DragonWave PTE. LTD., incorporated in Singapore, DragonWave S.à r.l., incorporated in Luxembourg, DragonWave Telecommunication Technology (Shanghai) Co., Ltd., incorporated in China, DragonWave Mexico S.A. de C.V., incorporated in Mexico, Axerra Networks Asia Pacific Limited, incorporated in Hong Kong, DragonWave India Private Limited, incorporated in India and DragonWave Inc.’s majority owned subsidiary, DragonWave HFCL India Private Limited, incorporated in India. All intercompany accounts and transactions have been eliminated upon consolidation.

The consolidated financial statements of the Company have been prepared in United States dollars following United States Generally Accepted Accounting Principles [“U.S. GAAP”].

The consolidated financial statements for the year ended February 29, 2016 has been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and the disbursement of liabilities and commitments in the normal course of business in the foreseeable future. The Company has a history of losses and has consumed significant cash resources in the past, and has continued to do so in the year ended February 29, 2016. Recently, additional pressure has been placed on the Company’s liquidity position as a result of reduced revenue from a significant OEM channel and a dispute over inventory shipped to a customer in India in June 2015.

The Company has been able to make progress in restructuring the business. This progress includes the following highlights:

- Reduced operating expenses by 33% in the fourth quarter of fiscal year 2016 compared to the same period in the previous year primarily through reduction in international staff levels;
- Raised \$4,350 in equity in a registered direct offering on April 7, 2016;
- Reduced outstanding debt on the Company’s credit facility by \$10,248 between February 28, 2015 and February 29, 2016 by leveraging its working capital;
- Negotiated forbearance terms with its credit facility partners;
- Initiated arbitration proceedings to seek resolution to its customer dispute in India.

Despite the progress identified above, the Company remains in breach of the terms of its debt facility and is currently operating under its second forbearance period. See Note 11 for further details on the debt facility. No long term debt facility agreement has been reached. The continued consumption of cash has raised substantial doubt about DragonWave Inc.’s ability to continue as a going concern. Management’s plans to restructure the business and overcome these difficulties include initiatives in a number of areas including:

- Targeting its sales efforts to direct and indirect opportunities in markets with higher gross margins, and lower working capital requirements;

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

1. NATURE OF BUSINESS, BASIS OF PRESENTATION AND GOING CONCERN (Continued)

- Adjusting its business focus and resources away from Nokia in order to support new sales channels;
- Renegotiating the terms of existing debt facilities;
- Continuing to minimize fixed and variable operating expenses, by tightly controlling discretionary spending and headcount growth;
- Actively investigating and pursuing alternative forms of financing;
- Reducing inventory levels in both raw material and finished goods inventory; and,
- Working closely with vendors to ensure supply continuity.

These plans may be difficult to achieve. They are dependent on a number of key assumptions including the timing of significant new customer projects, and success in arbitration with the customer located in India. It is possible that the plans described above may not be fully executed or may occur too slowly to solve the Company's current liquidity concerns. There can be no assurance that the existing financing facility can be renegotiated or that any other forms of financing can be arranged on satisfactory terms. These consolidated financial statements do not include any adjustments to the accounts and classification of assets and liabilities that may be necessary if the Company is unable to continue as a going concern. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of accounting estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires the Company's management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from the estimates made by management.

The following include estimates by management: allowance for doubtful accounts, inventory allocations, inventory provisions, accrued liabilities, warranty provisions, warrant liability, property and equipment amortization, tax valuation allowance, impairment of intangible assets and goodwill, vendor specific objective evidence, estimated selling price and estimated returns as it relates to revenue recognition, and stock-based compensation.

These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and actions that the Company may undertake in the future. Certain of these estimates require subjective or complex judgments by management about matters that are uncertain and changes in those estimates could materially impact the amounts reported in the consolidated financial statements and accompanying notes.

Foreign currency translation

The Company's operations and balances denominated in foreign currencies, including those of its foreign subsidiaries which are primarily a direct and integral component or extension of the Company's operations, are translated into US dollars (USD) using the following: monetary assets and liabilities are translated at the period end exchange rate, non-monetary assets are translated at the historical exchange rate, and revenue and expense items are translated at the average exchange rate. Gains or losses resulting from the translation adjustments are included in the consolidated statement of operations.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

The Company derives revenue from the sale of broadband wireless backhaul equipment which includes embedded software and a license to use said software and extended product warranties. Software is considered to be incidental to the product. Services range from installation and training to basic consulting. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred and there are no significant remaining vendor obligations, collection of receivables is reasonably assured and the fee is fixed and determinable. Where conditions to final acceptance of the product is specified by the customer, revenue is deferred until acceptance criteria have been met.

The Company's sales agreements may also contain multiple elements. Accordingly, the Company is required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, the fair value of these separate units of accounting and when to recognize revenue for each element. For arrangements involving multiple elements, the Company allocates revenues to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE") if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. In multiple element arrangements, revenues are allocated to each separate unit of accounting for each of the deliverables using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. The Company has determined the selling price for both the undelivered items and the delivered items using ESP.

The Company generates revenue through direct sales and sales to distributors. The Company defers the recognition of a portion of sales to distributors based on estimated sales return and stock rotation granted to customers on products in the same period the related revenues are recorded. These estimates are based on historical sales returns; stock rotations and other known factors.

Revenue associated with extended warranty and advanced replacement warranty is recognized ratably over the life of the contracted service.

Revenue from engineering services or development agreements is recognized according to the specific terms and acceptance criteria as services are rendered.

The Company accrues estimated potential product liability as warranty costs when revenue on the sale of equipment is recognized. Warranty liability is estimated based on recent actual return experience and repair costs. Where product defects have been identified which would cause the cost or warranty experience to change, additional warranty costs are recognized.

Shipping and handling costs borne by the Company are recorded in cost of sales. Shipping and handling costs charged to customers are recorded as revenue, if billed at the time of shipment. Costs charged to customers after delivery are recorded in cost of sales.

The Company generates revenue through royalty agreements as a result of the use of its Intellectual Property. Royalty revenue is recognized as it is earned.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

The Company classifies its financial instruments as assets held at fair value, loans and receivables, other financial liabilities, or liabilities held at fair value. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and management's intent. Management determines the classification of financial assets and liabilities at initial recognition and the classification is not changed subsequent to initial recognition.

The Company designated its cash and cash equivalents and foreign exchange contracts as assets held at fair value which are measured at fair value, with changes in fair value being recorded in net earnings. Trade receivables and other receivables have been classified as loans and receivables which are measured at amortized cost. Accounts payable, accrued liabilities and the debt facility have been classified as other financial liabilities, which are measured at amortized cost. Liabilities held at fair value include the warrant liability which is measured at fair value, with changes in fair value being recorded in net earnings.

Transaction costs directly attributable to the acquisition of financial assets are recorded in net loss in the period in which they are incurred.

Inventory

Inventory is valued at the lower of cost and net realizable value ["NRV"]. The cost of inventory is calculated on a standard cost basis, which approximates average actual cost. NRV is determined as the market value for finished goods, replacement cost for raw materials, and finished goods market value less cost to complete for work in progress inventory.

The Company regularly reviews inventory quantities on hand and records a provision for excess and obsolete inventory based on factors including its estimated forecast of product demand, the stage of the product life cycle and production requirements for the units in question.

The Company carries inventory for the purposes of supporting its product warranty. Standard warranty is typically 13 to 36 months but the Company earns revenue by providing enhanced and extended warranty and repair service during and beyond the standard warranty period. Customer service inventory consists of both component parts and finished units.

Indirect manufacturing costs and direct labour expenses are allocated systematically to the total production inventory.

Income taxes

Income taxes are accounted for using the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. Deferred income tax assets and liabilities are measured using enacted tax rates that apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The Company provides a valuation allowance against its deferred tax assets when it believes that it is more likely than not that the assets will not be realized.

The Company determines whether it is more likely than not that an uncertain tax position will be sustained upon examination by the tax authorities. The tax benefit of any uncertain tax position that meets the more likely than not recognition threshold is calculated as the largest amount that is more than 50% likely of being realized upon successful resolution. To the extent a full benefit is not expected to be realized, an income tax liability is

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

effectively established. The Company recognizes accrued interest and penalties on unrecognized tax benefits as interest expense.

Management periodically reviews the Company's provision for income taxes and valuation allowance to determine whether the overall tax estimates are reasonable. When management performs its assessments of the provision and valuation allowance, it may be determined that an adjustment is required. This adjustment may have a material impact on the Company's financial position and results of operations.

Property and equipment

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the anticipated useful lives of the assets as follows:

Test equipment and research and development equipment	4 - 5 years
Computer hardware	2 years
Production fixtures	3 years
Leasehold improvements	5 years
Furniture and fixtures	5 years
Communication equipment	3 years
Other	3 - 5 years

Management evaluates the carrying value of its property and equipment assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To the extent the estimated undiscounted future net cash inflows attributable to the asset are less than the carrying amount, an impairment loss is recognized. The amount of impairment loss to be recorded is the difference between the asset's carrying value and fair value.

Goodwill and intangible assets

Intangible assets include Infrastructure Systems Software and Computer Software and are amortized over their estimated useful life of 2 and 3 years. Management evaluates the carrying value of its intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To the extent the estimated undiscounted future net cash inflows attributable to the asset are less than the carrying amount, an impairment loss is recognized. The amount of impairment loss to be recorded is the difference between the asset's carrying value and the net discounted estimated future cash flows.

Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and intangible assets acquired in business combinations. The Company reviews the carrying value of goodwill on an annual basis or more frequently if circumstances indicate that it is more likely than not that the fair value of the goodwill is below its carrying amount. The goodwill impairment test is a two-step process which requires management to make judgmental assumptions regarding fair value. The Company looks at any qualitative factors that would suggest that further analysis is required. The first step consists of estimating the fair value of its reporting unit. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. If the fair value is less than the carrying amount, the Company compares the implied fair value of the goodwill, determined as if a purchase had just occurred, to the carrying amount to determine the amount of impairment charge to be recorded. Changes in the estimates and assumptions used in assessing the projected cash flows could materially affect the results of management's evaluation.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share based compensation plan and employee share purchase plan

The Company has a share based compensation plan and an employee share purchase plan which are described in note 13. The Company accounts for stock options granted to employees using the fair value method. In accordance with the fair value method, the Company recognizes estimated compensation expense related to stock options over the vesting period of the options granted, with the related credit being charged to contributed surplus.

The Company launched an employee share purchase plan on October 20, 2008. The plan includes provisions to allow employees to purchase common shares. The Company will match the employees' contribution at a rate of 25%. Proceeds from employees are received and the cost of the matching shares are recorded in share capital, with the related debit applied to contributed surplus at the time the shares are issued. The shares contributed by the Company will vest 12 months after issuance with a corresponding compensation expense recognized in loss.

Research and development

Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet generally accepted accounting criteria for deferral and amortization. Development costs incurred prior to establishment of technological feasibility do not meet these criteria, and are expensed as incurred.

Loss per share

Basic loss per share is calculated by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. For all periods presented, the net loss available to common shareholders equates to the net loss.

In the computation of diluted earnings per share, the Company includes the number of additional common shares that would have been outstanding if the dilutive potential equity instruments had been issued.

Non-controlling interest

Non-controlling interest consists of the minority owned portion of the Company's 50.1% owned subsidiary, DragonWave HFCL India Private Limited.

FUTURE ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU No. 2014-9, "Revenue from Contracts with Customers". The amendments in this Update create Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts, and create new Subtopic 340-40, Other Assets and Deferred Costs-Contracts with Customers. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers" which reflects decisions reached by the FASB at its meeting earlier in the year to defer the effective date to fiscal years beginning after December 15, 2017, with early adoption permitted for the year beginning after December 15, 2016. The Company is currently assessing the impact this amendment will have on the Company's consolidated financial statements.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern". The update provides U.S. GAAP guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The amendments in this ASU are effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The Company is currently assessing the impact this amendment will have on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases". The amendments in this Update create Topic 842, Leases, and supersede the lease requirements in Topic 840, Leases. The Update will require companies to recognize a right-of-use (ROU) asset and a lease liability in their balance sheets, while still distinguishing between finance leases and operating leases. For finance leases, the lessee would recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income, and for operating leases, the lessee would recognize a straight-line lease expense. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Company is currently assessing the impact this amendment will have on the Company's consolidated financial statements.

3. BUSINESS COMBINATIONS

DragonWave HFCL India Private Limited

Non-controlling interest consists of the minority owned portion of the Company's 50.1% owned subsidiary, DragonWave HFCL India Private Limited. During the year ended February 29, 2016, the minority owner, HFCL, made a capital contribution of nil (2015 – \$164).

4. CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Native Currency	February 29, 2016				February 28, 2015	
	Native Currency \$	Foreign Exchange Rate to USD	USD Amount	% of Total	USD Amount	% of Total
US Dollar	1,600	1.000	1,600	37.4%	15,010	63.4%
Canadian Dollar	53	0.736	39	0.9%	4,106	17.3%
Indian Rupee	158,951	0.015	2,317	54.2%	2,497	10.5%
Other			321	7.5%	2,079	8.8%
Total Cash and Cash Equivalents			4,277	100.0%	23,692	100.0%

The Company is required to have a minimum of \$1,000 held at Comerica Bank [2015 – \$10,000].

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

5. TRADE RECEIVABLES

The Company is exposed to credit risk with respect to trade receivables in the event that its counterparties do not meet their obligations. The Company minimizes its credit risk with respect to trade receivables by performing credit reviews for each of its customers. The Company's allowance for doubtful accounts reflects the Company's assessment of collectability across its global customer base.

	February 29, 2016	February 28, 2015
Trade receivables	19,209	49,295
Allowance for doubtful accounts	(223)	(669)
Total trade receivables	<u>18,986</u>	<u>48,626</u>

As at February 29, 2016, two customers exceeded 10% of the total receivable balance. These customers represented 52% and 16% of the trade receivables balance [2015 – two customers represented 37% and 34% of the trade receivables balance].

Included in general and administrative expenses is an expense of \$240 related to bad debt expense for the year ended February 29, 2016 [2015 – expense of \$160].

6. INVENTORY

Inventory is comprised of the following:

	February 29, 2016	February 28, 2015
Raw materials	2,389	7,469
Work in progress	614	577
Finished goods	16,986	13,709
Total production inventory	<u>19,989</u>	<u>21,755</u>
Inventory held for customer service/warranty	2,713	2,539
Total inventory	<u>22,702</u>	<u>24,294</u>

Cost of sales for the year ended February 29, 2016 was \$72,324 [2015 – \$129,772], which included \$56,296 of product costs [2015 – \$115,309]. The remaining costs of \$16,028 [2015 – \$14,463] related principally to warehousing, freight, warranty, overhead and other direct costs of sales.

For the year ended February 29, 2016, the Company recognized an impairment loss on inventory of \$4,416 [2015 – \$2,771]. This impairment loss related primarily to raw material and finished goods for certain older product lines.

The Company allocates overhead and labour to inventory. Included in cost of sales for the year ended February 29, 2016 were overhead and labour allocations of \$1,746 [2015 – \$3,860]. Included in inventory at February 29, 2016 were overhead and labour allocations of \$551 [2015 – \$461].

The Company uses an outsourced manufacturing model in which most of the component acquisition and assembly of its products is executed by third parties. The Company's contract manufacturers currently have inventory intended for use in the production of its products, and the Company has purchase orders or demand

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

6. INVENTORY (Continued)

forecasts in place for raw materials and manufactured products with these contract manufacturers. The value of the inventory held by the Company's primary contract manufacturer at February 29, 2016 was \$16,848 [February 28, 2015 – \$13,565]

7. OTHER CURRENT ASSETS

Other current assets are comprised of the following:

	February 29, 2016	February 28, 2015
Deposits on inventory	670	1,240
Prepaid expenses	1,355	2,082
Indirect taxes	610	1,079
Income tax receivable	—	390
Deferred financing costs	18	55
Deferred tax asset	—	61
Receivable from contract manufacturers and other items	124	988
Total other current assets	<u>2,777</u>	<u>5,895</u>

8. PROPERTY AND EQUIPMENT

Property and equipment are apportioned as follows:

		February 29, 2016		February 28, 2015
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Test and research and development equipment	24,236	21,581	2,655	3,056
Computer hardware	3,702	3,489	213	260
Production fixtures	2,433	1,874	559	661
Leasehold improvements	1,081	978	103	146
Furniture and fixtures	864	761	103	145
Communication equipment	289	285	4	8
Other	448	383	65	46
Total property and equipment	<u>33,053</u>	<u>29,351</u>	<u>3,702</u>	<u>4,322</u>

Depreciation expense relating to the above property and equipment was allocated to operating expenses as follows:

	February 29, 2016	February 28, 2015
Research and development ("R&D")	364	1,067
Selling and marketing ("S&M")	40	56
General and administrative ("G&A")	1,527	1,197
Total	<u>1,931</u>	<u>2,320</u>

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

8. PROPERTY AND EQUIPMENT (Continued)

Depreciation expense includes amortization of assets recorded under capital lease.

9. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill are apportioned as follows:

	February 29, 2016			February 28, 2015
	Cost	Accumulated Amortization	Impairment	Net Book Value
Infrastructure Systems Software and Computer Software	7,046	6,423	—	623
Goodwill	11,927	—	11,927	—
				11,927

For the year ended February 29, 2016, the Company recognized amortization of intangible assets of \$577 [2015 – \$1,188]. The Company estimates that it will recognize \$305, \$304 and \$14 respectively for the next three succeeding years.

The Company tests goodwill for impairment annually on August 31 and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Consistent with the Company's assessment that it has only one reporting unit, the Company tests goodwill for impairment at the entity level. The Company tests goodwill using a two-step process. The Company looks at any qualitative factors that would suggest that further analysis is required. The Company determined that the continuing decline of DragonWave's market capitalization and continued losses in fiscal year 2016 warranted further analysis. The first step consists of estimating the fair value of the Company's single reporting unit and comparing that to the carrying amount of the Company's net assets. At August 31, 2015 management used both an income-based and market-based approach to value the single reporting unit. Under the income-based approach, the Company used a discounted cash flow methodology, while under the market-based approach, the Company considered its market capitalization in addition to an estimated control premium based on a review of comparative market transactions. In the second step, the Company compared the implied carrying value of the goodwill to the values determined previously in the process and concluded that its goodwill was fully impaired. As a result, the Company recorded a non-cash impairment charge of \$11,927 in the three month period ended August 31, 2015.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are apportioned as follows:

	February 29, 2016	February 28, 2015
Trade payables	11,858	23,474
Accrued liabilities	5,830	9,394
Termination fee	3,337	4,227
Payroll related accruals	1,257	2,076
Warranty accrual	651	335
Income taxes payable	555	657
Capital lease obligation	69	514
Total accounts payable and accrued liabilities	<u>23,557</u>	<u>40,677</u>

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (Continued)

On April 10, 2013, the Company announced changes to its existing operational framework with Nokia. Included in the changes was an agreement to a termination fee in the amount of \$8,668 to be paid to Nokia in installments. During the year ended February 28, 2015, the Company revised the termination fee liability which resulted in a gain of \$301. Payments totaling \$3,287 were made during the year ended February 28, 2015. During the year ended February 29, 2016 the Company made a payment of \$1,119. As at February 29, 2016 the liability is valued at \$3,337 and is considered short term in nature [2015 – \$4,383; short term: \$4,227 and long term: \$156].

Warranty accrual:

The Company records a liability for future warranty costs based on management's best estimate of probable claims within the Company's product warranties. The accrual is based on the terms of the warranty, which vary by customer, product, or service and historical experience. The Company regularly evaluates the appropriateness of the remaining accrual.

The following table details the changes in the warranty accrual for the respective periods:

	February 29, 2016	February 28, 2015
Balance at the beginning of the period	678	619
Accruals	2,057	1,031
Utilization	(1,809)	(972)
Ending Balance	926	678
Short term Portion	651	335
Long term Portion	275	343

11. DEBT FACILITY

The Company has established a credit facility with Comerica Bank and Export Development Canada. As at February 29, 2016, this asset based credit facility was for a total of \$40,000 plus \$4,000 for letters of credit and foreign exchange facilities. Credit availability is subject to ongoing compliance with borrowing covenants and short term assets on hand. The Company had drawn \$22,152 on the facility as at February 29, 2016 [2015 – \$32,400], and \$1,853 against its letter of credit facility [2015 – \$1,864].

The credit facility which was extended on January 6, 2014, matures on June 1, 2016 and is secured by a first priority charge on all of the assets of DragonWave Inc. and its principal direct and indirect subsidiaries. The terms of the credit facility include other customary terms, conditions, covenants, and representations and warranties. Borrowing options under the credit facility include US dollar, Canadian dollar, and Euro loans. Interest rates vary with market rate fluctuations, with loans bearing interest in the range of 3% to 4% above the applicable base rates. Direct costs associated with obtaining the debt facility such as closing fees, registration and legal expenses have been capitalized and will be amortized over the 30 month term of the facility. During the year ended February 29, 2016 the weighted average debt outstanding was \$29,765 [2015 – \$20,304] and the Company recognized \$2,007 in interest expense related to the debt facility [2015 – \$1,401] and expensed \$55 in deferred financing cost [2015 – \$187].

The credit facility contains financial covenants including minimum tangible net worth requirements, minimum cash levels to be held at Comerica bank and minimum liquidity ratio requirements. The credit facility also imposes certain restrictions on the Company's ability to acquire capital assets above a threshold over a trailing six month period.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

11. DEBT FACILITY (Continued)

The Company has in place a forbearance agreement until May 18, 2016, which identifies new minimum covenant levels reflecting the Company's revised financial plans. The forbearance agreement includes a requirement to hold a minimum of \$1,000 at Comerica Bank. In addition, the forbearance agreement reduces the facility commitment from \$40,000 to \$35,000 and implements more frequent monitoring. Subsequent to February 29, 2016, DragonWave Inc. repaid \$3,285 on the debt facility. As of May 18, 2016 the Company is in compliance with the financial terms of the forbearance agreement.

12. OTHER LONG TERM LIABILITIES

Other long term liabilities are apportioned as follows:

	February 29, 2016	February 28, 2015
Warranty accrual	275	343
Deferred revenue	498	578
Termination fee	—	156
Capital lease obligation	—	62
Total other long term liabilities	<u>773</u>	<u>1,139</u>

13. SHAREHOLDERS' EQUITY

Number of shares authorized

The Company has an unlimited amount of common shares authorized for issuance.

On September 23, 2013 the Company completed a public equity offering. Under the terms of the offering, the Company issued and sold 11,910,000 units at \$2.10 on a pre-consolidation basis, for aggregate gross proceeds of \$25,011. After deducting commissions and listing expenses, the Company realized net proceeds of \$22,434. Each unit consisted of one common share of the Company and three quarters of one warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of \$2.70 per share, subsequently changed to purchase 1/25th of one common share at an exercise price of \$67.50 per share following the share consolidation, until September 23, 2018, subject to certain adjustments. Upon issuance, the Company recognized a liability in the amount of \$6,425 for the warrants, see Warrants section for further details.

On August 1, 2014 the Company completed a public equity offering. Under the terms of the offering, the Company issued and sold 15,927,500 units at \$1.80 CAD on a pre-consolidation basis, for aggregate gross proceeds of \$28,670 CAD. After deducting commissions and listing expenses, the Company realized net proceeds of \$23,960 (\$26,184 CAD). Each unit consisted of one common share of the Company and one half of one warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of \$2.25 CAD per share, subsequently changed to purchase 1/25th of one common share at an exercise price of \$56.25 CAD per share following the share consolidation, until August 1, 2016. Upon issuance, the Company recognized a liability in the amount of \$2,551 for the warrants, see Warrants section for further details.

On February 2, 2016, the Company effected a share consolidation of the Company's common shares at a ratio of 1-for-25. As a result of the share consolidation, every 25 shares of the issued and outstanding common shares consolidated into one newly-issued outstanding common share. Each fractional share remaining after the share consolidation was cancelled. The number of outstanding stock options and restricted share units were

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

13. SHAREHOLDERS' EQUITY (Continued)

proportionately adjusted by the consolidation ratio and the exercise prices correspondingly increased by the same consolidation ratio. All shares and exercise prices are presented on a post-consolidation basis in these consolidated financial statements.

Share based compensation plan

The Company had previously established the DragonWave Inc. Key Employee Stock Option/Stock Issuance Plan (the "Previous Plan") applicable to full-time employees, directors and consultants of the Company for purchase of common shares. Options are granted with an exercise price equal to the fair value of the common shares of the Company, and generally vest at a rate of 25% one year from the date of the option grant, and 1/36th of the remaining 75% per additional month of full-time employment with the Company. All remaining outstanding options expire five years from the grant date, or upon termination of employment. The maximum number of common shares issuable under the previous plan was 10% of the common shares issued and outstanding.

On June 20, 2014 the Shareholders approved the adoption of a new Share Based Compensation Plan (the "Plan") to replace the Previous Plan. The Plan includes provision for granting of performance share units ("PSUs"), restricted share units ("RSUs"), deferred share units ("DSUs"), Bonus Shares (as defined in the Plan) and options to purchase common shares. Settlement of vested PSUs, RSUs and DSUs is effected by delivering common shares acquired in the open market and/or issued from treasury, or by making a cash payment equal to the number of PSUs, RSUs or DSUs multiplied by the volume weighted average trading price of the common shares on the applicable stock exchange for the five trading days preceding the settlement date, or by a combination of these methods. The manner of settlement for RSUs, PSUs and DSUs is determined by the Compensation Committee in its sole discretion. The maximum number of common shares issuable under the Plan is 302,007, which represents 10% of the common shares issued and outstanding as at February 29, 2016.

The following is a summary of stock option activity:

	February 29, 2016		February 28, 2015	
	Options	Weighted Average Exercise Price (CAD)	Options	Weighted Average Exercise Price (CAD)
Opening balance	159,421	\$76.34	127,149	\$ 92.70
Granted	172,974	\$ 8.64	43,156	\$ 52.76
Forfeited	(55,667)	\$82.34	(10,884)	\$173.94
Closing balance	<u>276,728</u>	<u>\$32.82</u>	<u>159,421</u>	<u>\$ 76.34</u>

The following table shows the weighted average values used in determining the fair value of options granted during the years ended February 29, 2016 and February 28, 2015:

	February 29, 2016	February 28, 2015
Volatility	95.6%	75.8%
Risk free rate	0.58%	1.35%
Dividend yield	Nil	Nil
Average expected life	3.97 yrs	4 yrs

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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13. SHAREHOLDERS' EQUITY (Continued)

The 172,974 options granted during the year ended February 29, 2016 were determined to have a fair value of \$683 [2015 – 43,156 options valued at \$1,204].

The following table summarizes the various exercise prices inherent in the Company's stock options outstanding and exercisable on February 29, 2016:

Exercise Price		Options Outstanding			Options Exercisable		
Low (CAD)	High (CAD)	Quantity of options	Weighted average remaining contractual life (yrs)	Weighted average exercise price (CAD)	Quantity of options	Weighted average remaining contractual life (yrs)	Weighted average exercise price (CAD)
\$ 3.00	\$ 3.25	102,737	4.73	\$ 3.00	51,616	4.73	\$ 3.00
\$ 3.26	\$ 16.88	4,017	4.73	\$ 3.97	969	4.86	\$ 3.50
\$16.89	\$ 21.00	50,016	4.22	\$ 19.25	—	0.00	\$ 0.00
\$21.01	\$ 46.88	19,764	2.78	\$ 30.54	17,567	2.74	\$ 30.55
\$46.89	\$ 52.88	15,589	2.44	\$ 51.80	10,244	2.40	\$ 51.81
\$52.89	\$ 54.88	33,245	3.37	\$ 53.75	14,579	3.37	\$ 53.75
\$54.89	\$ 62.13	21,677	2.19	\$ 56.00	15,287	2.19	\$ 56.00
\$62.14	\$ 79.25	16,705	1.41	\$ 73.32	14,941	1.40	\$ 73.35
\$79.26	\$169.25	12,978	0.22	\$166.23	12,978	0.22	\$166.23
		276,728	3.60	\$ 32.82	138,181	3.10	\$ 44.28

The Company has recognized \$941 for the year ended February 29, 2016 as compensation expense for stock-based grants, with a corresponding credit to contributed surplus [2015 – \$1,177]. Stock compensation expense was allocated to operating expenses as follows:

	February 29, 2016	February 28, 2015
Research and development	172	297
Sales and marketing	204	333
General and administrative	565	547
Total	941	1,177

As at February 29, 2016, compensation costs not yet recognized relating to stock option awards outstanding is \$1,476 [2015 – \$1,926] net of estimated forfeitures. Performance vesting awards will vest as performance conditions are met. Compensation will be adjusted for subsequent changes in estimated forfeitures.

Restricted Share Units (RSU's)

The Company has entered into restricted stock agreements with certain of its independent directors. These units which were issued during July 2014 were subject to each director's continued engagement on the Board for a period of one year from the date of issuance. All of the originally issued RSUs vested during the second quarter of fiscal year 2016 with the exception of 800 RSUs which were cancelled on April 14, 2015.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

13. SHAREHOLDERS' EQUITY (Continued)

The following table sets forth the summary of restricted share activity under the Company's Share Based Compensation Plan for the year ended February 29, 2016:

	Year ended February 29, 2016	
	RSU's	Weighted Average Price (CAD)
RSU balances at February 28, 2014	—	—
Granted	3,200	\$53.75
RSU balances at February 28, 2015	3,200	\$53.75
Forfeited	(800)	\$53.75
Vested	(2,400)	\$53.75
RSU balances at February 29, 2016	<u>—</u>	<u>—</u>

The Company has recognized \$39 for the year ended February 29, 2016 as compensation expense for restricted share units, with a corresponding credit to contributed surplus [2015 – \$93].

Restricted shares & employee share purchase plan

The Company launched an Employee Share Purchase Plan ["ESPP"] on October 20, 2008. The plan includes provisions to allow employees to purchase common shares. The Company will match the employees' contribution at a rate of 25%. During the year ended February 29, 2016 a total of 5,207 common shares were purchased by employees at fair market value, while the Company issued 1,227 common shares, net of forfeitures, as its matching contribution during the year ended February 29, 2016. The shares contributed by the Company will vest 12 months after issuance.

The Company records an expense equal to the fair value of shares granted pursuant to the employee share purchase plan over the period the shares vest, with a corresponding credit to contributed surplus. The total fair value of the shares earned during the year ended February 29, 2016 was \$13 [2015 – \$13]. The fair value of the unearned ESPP shares as at February 29, 2016 was \$8 [2015 – \$13]. The number of shares held for release, and still restricted under the plan at February 29, 2016 was 978 [2015 – 440].

Warrants

Effective May 30, 2007, the Company granted warrants to purchase up to 5,050 common shares of the Company at a price of \$88.75 CAD per share. The warrants expire 10 years after the date of issuance. The warrants vested based on the achievement of pre-determined business milestones and resulted in 31,562 warrants being eligible for exercise. Each whole warrant entitles the holder to purchase 1/25th of one common share of the Company.

On September 23, 2013 the Company completed a public equity offering. Under the terms of the offering, the Company issued and sold 11,910,000 units at \$2.10 on a pre-consolidation basis, for aggregate gross proceeds of \$25,011. Equity issuance expenses relating to the offering totaled \$2,576 of which \$662 was expensed as the proportionate warrant costs. Each unit consisted of one common share of the Company and three quarters of one warrant (warrants issued – 8,932,500). Each whole warrant entitles the holder to purchase 1/25th common share of the Company at an exercise price of \$67.50 per share until September 23, 2018. On August 1, 2014 the warrant exercise price was adjusted to \$32.50 as a result of a subsequent equity financing undertaken by the

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

13. SHAREHOLDERS' EQUITY (Continued)

Company. In the event of a fundamental transaction the Company may be required to settle the warrants with a cash payment. As a result, the Company recognized a warrant liability of \$6,425 which represented the estimated fair value of the liability as at September 23, 2013. The warrant liability is adjusted quarterly to its estimated fair value. Increases or decreases in the fair value of the warrants are presented as "Fair value adjustment – warrant liability" in the consolidated statement of operations. As at February 29, 2016, 2,088,750 warrants were outstanding and the liability for warrants was decreased to \$3. In the year ended February 29, 2016 the Company realized a gain in the amount of \$600 in the consolidated statement of operations which represented the change in fair value of the remaining warrant liability of \$3.

On August 1, 2014 the Company completed a public equity offering. Under the terms of the offering, the Company issued and sold 15,927,500 units at \$1.80 CAD on a pre-consolidation basis for aggregate gross proceeds of \$28,670 CAD. Each unit consisted of one common share of the Company and one half of one warrant. Each whole warrant entitles the holder to purchase 1/25th of one common share of the Company at an exercise price of \$56.25 CAD per share until August 1, 2016, subject to certain adjustments. Equity issuance expenses relating to the offering totaled \$2,275 of which \$221 was expensed as the proportionate warrant costs. As a result of the offering, the Company issued warrants totaling 7,963,750 and recognized a warrant liability of \$2,551 which represented the estimated fair value of the liability as at August 1, 2014. During the year ended February 29, 2016 the Company realized a gain in the amount of \$519 in the consolidated statement of operations which represented the change in fair value of the remaining warrant liability of \$117.

The following is a summary of outstanding warrants:

	February 29, 2016		
	Warrants Outstanding	Shares Purchasable	Exercise Price
May 2007 Issuance	31,562	1,262	\$88.75
September 2013 Issuance	2,088,750	83,550	\$32.50
August 2014 Issuance	7,963,750	318,550	\$56.25 CAD

14. NET LOSS PER SHARE

Basic loss per share is calculated by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. In the computation of diluted earnings per share, the Company includes the number of additional common shares that would have been outstanding if the dilutive potential equity instruments had been issued.

As at February 29, 2016 a total of 276,728 options and 10,084,062 warrants have been excluded from the diluted net loss per share calculations, as their effect would have been anti-dilutive.

The following table illustrates the dilutive impact on net loss per share during the year ended including the effect of outstanding options and warrants:

	Year ended	
	February 29, 2016	February 28, 2015
Net loss attributable to shareholders	(42,304)	(21,520)
Weighted average number of shares outstanding	3,019,259	2,724,467
Basic net loss/dilutive net loss per share	\$ (14.01)	\$ (7.90)

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

15. COMMITMENTS AND CONTINGENCIES

Future minimum operating lease payments which relate to office and warehouse space in various countries as at February 29, 2016 per fiscal year are as follows:

2017	1,144
2018	134
2019	10
	<u><u>1,288</u></u>

In January 2016, a customer in India initiated an arbitration process with the Company to resolve the dispute over inventory shipped to this customer in June 2015, with a value of \$4,707. The customer has submitted a claim statement which the Company feels has no merit. The Company will submit a counter-claim in June 2016. Since the arbitration hearing is set for July 2016, the outcome of this matter is not determinable as of the date of this report.

See Note 6 for the discussion on the purchase order commitments with contract manufacturers.

16. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended	
	February 29, 2016	February 28, 2015
Changes in non-cash working capital balances:		
Trade receivables	29,640	(31,218)
Inventory	1,592	6,122
Other current assets	3,074	65
Accounts payable and accrued liabilities	(16,880)	10,173
Deferred revenue	1,114	(154)
Other long term liabilities	(304)	669
	<u><u>18,236</u></u>	<u><u>(14,343)</u></u>

17. FINANCIAL INSTRUMENTS

Financial instruments are classified into one of the following categories: assets held at fair value, loans and receivables, other financial liabilities, or liabilities held at fair value.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

17. FINANCIAL INSTRUMENTS (Continued)

Categories for financial assets and liabilities

The following table summarizes the carrying values of the Company's financial instruments:

	February 29, 2016	February 28, 2015
Assets held at fair value (A)	4,277	23,692
Loans and receivables (B)	19,110	49,614
Other financial liabilities (C)	44,434	71,728
Liabilities held at fair value (D)	120	1,239

(A) Includes cash and cash equivalents

(B) Includes trade receivables and other miscellaneous receivables

(C) Includes accounts payable, accrued liabilities, payroll related accruals, debt facility and termination fee

(D) Warrant liability

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The inputs fall into three levels that may be used to measure fair value.

Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs which are supported by little or no market activity.

Cash and cash equivalents are measured using Level 1 inputs.

The August 1, 2014 warrant liability is classified as Level 1 as the warrants are traded on the Toronto Stock Exchange and on the NASDAQ Capital Market.

The September 23, 2013 warrant liability is classified as Level 3 as it is measured at fair value using significant unobservable inputs. Significant assumptions used at February 29, 2016 for the warrants include a dividend yield of 0%, a 1% assumption that the fundamental transaction will happen every year, volatility of 60%, and a risk free spot rate term structure.

As at February 29, 2016 the Company held the following Level 3 financial instruments carried at fair value on the consolidated balance sheet.

	<u>Level 3</u>	<u>Total</u>
Financial Liabilities		
Warrant liability	3	3

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

17. FINANCIAL INSTRUMENTS (Continued)

As at February 28, 2015, the Company held the following Level 3 financial instruments carried at fair value on the consolidated balance sheet.

	<u>Level 3</u>	<u>Total</u>
Financial Liabilities		
Warrant liability	603	603

A reconciliation of the Level 3 warrant liability measured at fair value for the year ended February 29, 2016 follows:

	<u>Warrants</u>	<u>\$</u>
Balance at February 28, 2015	2,088,750	603
Fair value adjustment – warrant liability	—	(600)
Balance at February 29, 2016	<u>2,088,750</u>	<u>3</u>

Interest rate risk

Cash and cash equivalents and the Company's debt facility which has interest rates with market rate fluctuations expose the Company to interest rate risk on these financial instruments. Net interest expense, excluding deferred financing costs, recognized during the year ended February 29, 2016 was \$1,959 on the Company's cash, cash equivalents, and debt facility [2015 – expense of \$1,369].

Credit risk

In addition to trade receivables and other receivables, the Company is exposed to credit risk on its cash and cash equivalents in the event that its counterparties do not meet their obligations. The Company does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or fair value of the financial instrument. The Company minimizes credit risk on trade receivables and other receivables, and cash and cash equivalents by transacting with only reputable financial institutions and customers.

Foreign exchange risk

Foreign exchange risk arises because of fluctuations in exchange rates. To mitigate exchange risk, the Company may utilize forward contracts to secure exchange rates with the objective of offsetting fluctuations in the Company's operating expenses incurred in foreign currencies with gains or losses on the forward contracts.

As of February 29, 2016, if the US dollar had appreciated 1% against all foreign currencies to which the Company is exposed, with all other variables held constant, the impact of this foreign currency change on the Company's foreign denominated financial instruments would have resulted in an increase in after-tax net loss of \$27 for the year ended February 29, 2016 [2015 – decrease of \$42], with an equal and opposite effect if the US dollar had depreciated 1% against all foreign currencies at February 29, 2016.

Liquidity risk

A risk exists that the Company will encounter difficulty in satisfying its financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

17. FINANCIAL INSTRUMENTS (Continued)

and financing activities. As at February 29, 2016, the Company had cash and cash equivalents totaling \$4,277 [2015 – \$23,692]. See Note 1 for further discussion of liquidity risk associated with the Company and Note 11 for details of the debt facility requirement.

18. SEGMENTED INFORMATION

The Company operates in one operating segment—broadband wireless backhaul equipment.

The following table presents total net book value of property and equipment, intangible assets and goodwill by geographic location:

	Year Ended			
	February 29, 2016		February 28, 2015	
	Amount	%	Amount	%
Canada	1,860	43%	2,017	12%
United States	—	0%	11,927	70%
Malaysia	1,492	34%	2,004	12%
Other	973	23%	1,095	6%
Total	4,325	100%	17,043	100%

The Company analyzes its sales according to geographic region and targets product development and sales strategies by region. The following table presents total revenues by geographic location through direct and indirect sales and through its Original Equipment Manufacturer (OEM) partner, Nokia:

	Year Ended February 29, 2016				Year Ended February 28, 2015			
	Direct & Indirect Sales	OEM Sales through Nokia	Total	% of total revenue	Direct & Indirect Sales	OEM Sales through Nokia	Total	% of total revenue
Canada	2,255	—	2,255	3%	4,358	—	4,358	3%
Europe, Middle East & Africa	6,753	31,109	37,862	44%	12,554	61,467	74,021	47%
India	13,993	3,787	17,780	21%	26,291	10,854	37,145	24%
United States	19,577	19	19,596	23%	23,451	—	23,451	15%
Rest of World	6,095	2,707	8,802	9%	6,825	11,966	18,791	11%
	48,673	37,622	86,295	100%	73,479	84,287	157,766	100%

The Company has shown revenue by the customers' purchasing entities' geographic location, except in cases where the geographic location of the product deployment is explicitly known.

During each of the periods presented, revenue is comprised of:

	For the year ended			
	February 29, 2016		February 28, 2015	
	Amount	%	Amount	%
Product Sales	71,393	83%	150,432	95%
Services	14,902	17%	7,334	5%
Total Revenue	86,295	100%	157,766	100%

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

19. ECONOMIC DEPENDENCE

For the year ended February 29, 2016, the Company was dependent on three key customers with respect to revenue. These customers represented approximately 44%, 15% and 11% of sales during that twelve month period [2015 – two customers represented 53% and 16%].

20. INCOME TAXES

The components of the Company's income (loss) before income taxes, by taxing jurisdiction, were as follows:

	February 28, 2016	February 28, 2015
Canada	(22,994)	(24,558)
Luxembourg	(7,222)	322
India	1,756	2,721
China	706	991
Other	(11,535)	605
	<u>(39,289)</u>	<u>(19,919)</u>

Income tax expense, both current and deferred, relates to jurisdictions outside of Canada where losses are not sufficient to cover the tax liability in the region. For the year ended February 29, 2016, the current income tax expenses was \$434 [2015 – \$658] and the deferred income tax expense was \$1,841 [2015 – \$59].

The reported income tax provision differs from the amount computed by applying the Canadian statutory rate to the net income (loss), for the following reasons:

	2016	2015
Income (loss) before income taxes	(39,289)	(19,919)
Statutory income tax rate	26.5%	26.5%
Expected income tax expense	(10,412)	(5,279)
Change in valuation allowances	6,043	6,682
Goodwill impairment	4,420	—
Prior year adjustments	1,444	859
Foreign tax rate differences	578	(177)
Other	165	66
Non-deductible expenses and non-taxable income	37	(105)
Share issue costs	—	(435)
Research and development tax credits	—	(894)
	<u>2,275</u>	<u>717</u>

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

20. INCOME TAXES (Continued)

The Company's deferred tax assets and liabilities include the following significant components:

	<u>2016</u>	<u>2015</u>
Income tax loss carryforwards	39,322	32,643
Capital Loss	19,011	19,015
Research and development tax credits	13,180	14,052
SR&ED Expenditures	6,872	7,845
Book and tax differences on assets	1,256	1,486
Share issue expenses	443	591
Income and expense reserves	236	192
Total gross deferred tax assets	80,320	75,824
Valuation allowance	(80,320)	(74,278)
Income and expense reserves	(294)	
Net deferred tax (liability)/asset	<u>(294)</u>	<u>1,546</u>

As at February 29, 2016, the Company had cumulative tax loss carryforwards in the following jurisdictions: Canada – \$136,221, United States – \$7,888, Luxembourg – \$36,077. The Company also has capital losses being carried forward in the following jurisdictions: Canada – \$16,302; United States – \$45,543.

The losses in Canada expire starting in fiscal 2031 until fiscal 2036. The losses in Luxembourg can be carried forward indefinitely. Income tax benefits relating to the losses in Canada and Luxembourg have not been recognized in the consolidated financial statements as the recognition requirements under the liability method of accounting for income taxes have not been met.

The losses in the U.S. expire between fiscal 2022 and fiscal 2032. Internal Revenue Code Section 382 imposes an annual limitation on the use of a company's net operating loss carryforwards when a company has an ownership change. The acquisition of Axerra Networks, Inc by the Company resulted in an ownership change as understood by Section 382. As a result, the annual restriction of the amount of losses of Axerra Networks, Inc that may be used has been calculated as \$521.

As at February 29, 2016, the Company had \$14,720 of investment tax credits available to reduce future federal Canadian income taxes payable. These investment tax credits begin to expire in 2022. In addition, the Company had provincial research and development tax credits of \$2,361, which are available to reduce future provincial income taxes payable. These provincial tax credits begin to expire in 2029. The tax benefit of the federal and provincial tax credits has not been recognized in the consolidated financial statements.

As at February 29, 2016, the Company has not recorded any liabilities associated with uncertain tax positions.

The Company remains subject to examination by tax authorities in Canada for years 2009 to 2016 and in the other jurisdictions for tax years 2011 to 2016.

No deferred income taxes have been provided on undistributed earnings or relating to cash held in foreign jurisdictions, as the Company has determined that any income or withholding taxes on repatriation would either not be significant, or the Company has decided to permanently reinvest the earnings in the foreign jurisdiction.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current fiscal year.

22. RESTRUCTURING COSTS

In September 2015, the Company implemented a restructuring plan in line with its objective of reducing its net losses and cash usage. The plan included a 23% reduction of the workforce across a variety of functional areas of the business. The restructuring plan impacted staff primarily in China and Canada, and to a lesser extent other countries globally. The corresponding reduction in compensation related spending is intended to help better align the Company's costs with its revenues.

Restructuring charges of \$1,549 related to severance costs have been recognized during the year ended February 29, 2016 [2015 – nil]. As at February 29, 2016 the Company has paid \$1,257 in restructuring costs and has a liability of \$292 related to restructuring activities on the consolidated balance sheet [2015 – nil].

23. SUBSEQUENT EVENT

On April 11, 2016, the Company issued 599,998 common shares in a Registered Direct Offering, and concurrently in a private placement, issued warrants to purchase 299,999 common shares exercisable in the future at an exercise price of \$8.50. The price per common share and one half of a warrant was \$7.25 and resulted in total gross proceeds to the Company of \$4,350 million. The warrants are not exercisable for six months and one day from issuance and will expire five years from the date of issuance.

The exercise price of the September 23, 2013 warrants was adjusted to \$6.76 as a result of the Offering.

DragonWave
Inc.

For the year ended
February 28

2015

Consolidated
Financial
Statements

INDEPENDENT AUDITORS' REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of
DragonWave Inc.

We have audited the accompanying consolidated financial statements of **DragonWave Inc.**, which comprise the consolidated balance sheets as at February 28, 2015 and 2014, and the consolidated statements of operations, comprehensive loss, changes in equity and cash flows for each of the years in the two-year period ended February 28, 2015, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with United States generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of DragonWave Inc. as at February 28, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the two-year period ended February 28, 2015 in accordance with United States generally accepted accounting principles.

Other matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), DragonWave's internal control over financial reporting as of February 28, 2015, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated May 12, 2015 expressed an unqualified opinion on DragonWave Inc.'s internal control over financial reporting.

Ottawa, Canada
May 12, 2015

/s/ Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of:
DragonWave Inc.

We have audited DragonWave Inc.'s internal control over financial reporting as of February 28, 2015, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) (the COSO criteria). DragonWave Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying reports from management. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with United States generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, DragonWave Inc. maintained, in all material respects, effective internal control over financial reporting as of February 28, 2015 based on the COSO criteria.

We also have audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of DragonWave Inc. as at February 28, 2015 and 2014, and the consolidated statements of operations, comprehensive loss, changes in equity and cash flows for each of the years in the two-year period ended February 28, 2015 of DragonWave Inc. and our report dated May 12, 2015 expressed an unqualified opinion thereon.

Ottawa, Canada
May 12, 2015

/s/ Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants

CONSOLIDATED BALANCE SHEETS

Expressed in US \$000's except share amounts

	<i>Note</i>	As at February 28, 2015	As at February 28, 2014
Assets			
Current Assets			
Cash and cash equivalents	4	23,692	18,992
Trade receivables	5	48,626	17,408
Inventory	6	24,294	30,416
Other current assets	7	5,834	5,909
Deferred tax asset	18	61	69
		<u>102,507</u>	<u>72,794</u>
Long Term Assets			
Property and equipment	8	4,322	3,168
Deferred tax asset	18	1,485	1,536
Deferred financing cost	11	18	60
Intangible assets	9	794	1,635
Goodwill	9	11,927	11,927
		<u>18,546</u>	<u>18,326</u>
Total Assets		<u><u>121,053</u></u>	<u><u>91,120</u></u>
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	10	40,163	29,964
Deferred revenue		830	984
Capital lease obligation	3, 13	514	1,795
		<u>41,507</u>	<u>32,743</u>
Long Term Liabilities			
Debt facility	11	32,400	15,000
Other long term liabilities	12	1,139	574
Warrant liability	14, 20	1,239	1,360
		<u>34,778</u>	<u>16,934</u>
Commitments	16		
Shareholders' equity			
Capital stock	14	220,952	198,593
Contributed surplus	14	8,388	7,118
Deficit	14	(175,921)	(154,505)
Accumulated other comprehensive loss	14	(9,618)	(9,682)
Total Shareholders' equity		<u>43,801</u>	<u>41,524</u>
Non-controlling interests	3	967	(81)
Total Equity		<u>44,768</u>	<u>41,443</u>
Total Liabilities and Equity		<u><u>121,053</u></u>	<u><u>91,120</u></u>
Shares issued & outstanding	14	75,290,818	58,008,746

(Signed) CLAUDE HAW
Director

(Signed) LORI O'NEILL
Director

See accompanying notes

CONSOLIDATED STATEMENTS OF OPERATIONS

Expressed in US \$000's except share and per share amounts

	<i>Note</i>	Year Ended	
		February 28, 2015	February 28, 2014
REVENUE	<i>21</i>	157,766	90,011
Cost of sales	<i>6</i>	129,772	79,348
Gross profit		27,994	10,663
EXPENSES			
Research and development		16,812	19,948
Selling and marketing		13,975	13,201
General and administrative	<i>5</i>	16,930	17,087
		47,717	50,236
Loss before amortization of intangible assets and other items		(19,723)	(39,573)
Amortization of intangible assets	<i>9</i>	(1,188)	(1,900)
Accretion expense		(168)	(222)
Interest expense	<i>11, 20</i>	(1,557)	(1,750)
Warrant issuance expenses	<i>14</i>	(221)	(662)
Gain on change in estimate		67	2,759
Gain on contract amendment	<i>3</i>	—	5,702
Gain on sale of fixed assets		18	—
Fair value adjustment – warrant liability	<i>14</i>	2,007	3,235
Foreign exchange gain (loss)		846	(1,530)
Loss before income taxes		(19,919)	(33,941)
Income tax expense	<i>18</i>	717	398
Net Loss		(20,636)	(34,339)
Net (Income) Loss Attributable to Non-Controlling Interest		(884)	97
Net Loss applicable to shareholders		(21,520)	(34,242)
Net loss per share			
Basic	<i>15</i>	(0.32)	(0.83)
Diluted	<i>15</i>	(0.32)	(0.83)
Weighted Average Shares Outstanding			
Basic	<i>15</i>	68,111,696	41,438,383
Diluted	<i>15</i>	68,111,696	41,438,383

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Expressed in US \$000's except share and per share amounts

	Year Ended	
	February 28, 2015	February 28, 2014
Net Comprehensive Loss	(20,636)	(34,339)
Total Comprehensive (Loss) Income attributable to:		
Shareholders of the Company	(21,520)	(34,242)
Non-controlling interest	884	(97)
	(20,636)	(34,339)

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in US \$000's

		Year ended	
	Note	February 28, 2015	February 28, 2014
Operating Activities			
Net Loss		(20,636)	(34,339)
Items not affecting cash			
Amortization of property and equipment	8	2,320	4,648
Amortization of intangible assets	8	1,188	1,900
Accretion expense		168	222
Bad debt expense		160	541
Interest expense		28	719
Gain on change in estimate	3	(67)	(2,759)
Gain on contract amendment	3	(530)	(5,702)
Fair value adjustment – warrant liability	14	(2,007)	(3,235)
Stock-based compensation		1,270	1,278
Unrealized foreign exchange loss		913	294
Deferred income tax expense		—	398
Inventory impairment		2,771	1,078
		(14,422)	(34,957)
Changes in non-cash working capital items	17	(17,215)	11,055
		(31,637)	(23,902)
Investing Activities			
Acquisition of property and equipment		(3,474)	(1,000)
Acquisition of intangible assets		(347)	(764)
		(3,821)	(1,764)
Financing Activities			
Capital lease obligation		(739)	(1,436)
Contribution by non-controlling interest in DW-HFCL	3	164	—
Warrant liability		2,551	6,425
Deferred financing cost		—	(60)
Debt facility	11	17,400	—
Issuance of common shares net of issuance costs		21,695	17,127
		41,071	22,056
Effect of foreign exchange on cash and cash equivalents		(913)	(357)
Net increase (decrease) in cash and cash equivalents		4,700	(3,967)
Cash and cash equivalents at beginning of period		18,992	22,959
Cash and cash equivalents at end of period		23,692	18,992
Cash paid during the period for interest		1,190	1,030
Cash paid during the period for taxes		802	10

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Expressed in US \$000's except common share amounts

	Common Shares	Capital Stock	Contributed Surplus	Deficit	AOCL	Non- Controlling Interest	Equity
Balance at February 28, 2013	38,048,297	\$179,429	\$6,047	\$(120,263)	\$(9,682)	\$ 16	\$ 55,547
Stock-based compensation	—	—	1,278	—	—	—	\$ 1,278
Exercise of stock options	313,914	595	(208)	—	—	—	\$ 387
Public offering	11,910,000	16,671	—	—	—	—	\$ 16,671
Exercise of warrants	7,700,009	1,830	—	—	—	—	\$ 1,830
Other	36,526	68	1	—	—	—	\$ 69
Net (Loss)/Income	—	—	—	(34,242)	—	(97)	\$(34,339)
Balance at February 28, 2014	58,008,746	\$198,593	\$7,118	\$(154,505)	\$(9,682)	\$(81)	\$ 41,443
Stock-based compensation	—	—	1,270	—	—	—	\$ 1,270
Public offering	15,927,500	21,631	—	—	—	—	\$ 21,631
Exercise of warrants	1,301,057	664	—	—	—	—	\$ 664
Other	53,515	64	—	104	64	—	\$ 232
Other comprehensive loss	—	—	—	—	—	164	\$ 164
Net (Loss)/Income	—	—	—	(21,520)	—	884	\$(20,636)
Balance at February 28, 2015	75,290,818	\$220,952	\$8,388	\$(175,921)	\$(9,618)	\$967	\$ 44,768

See accompanying notes

DragonWave Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Expressed in US \$000's except share and per share amounts

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION

DragonWave Inc. [the “Company”], incorporated under the *Canada Business Corporations Act* in February 2000, is a provider of high-capacity packet microwave solutions that drive next-generation IP networks.

The Company’s common shares are traded on the Toronto Stock Exchange under the trading symbol DWI and on NASDAQ Global Market under the symbol DRWI.

The Company’s warrants issued from the public issuance on August 1, 2014 are traded on the Toronto Stock Exchange under the symbol DWI.WT and on the NASDAQ Global Market under the symbol DRWIW.

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: DragonWave Corp., incorporated in the state of Delaware, USA, DragonWave PTE. LTD., incorporated in Singapore, DragonWave S.r.l, incorporated in Italy, DragonWave S.a r.l., incorporated in Luxembourg, DragonWave Comercio de Equipamentos De Telecomunicacao Ltda., incorporated in Brazil, DragonWave Telecommunication Technology (Shanghai) Co., Ltd., incorporated in China, DragonWave Mexico S.A. de C.V., incorporated in Mexico, Axerra Networks Asia Pacific Limited, incorporated in Hong Kong, and DragonWave Inc.’s majority owned subsidiary, DragonWave HFCL India Private Ltd. All intercompany accounts and transactions have been eliminated upon consolidation.

The consolidated financial statements of the Company have been prepared in United States dollars following United States Generally Accepted Accounting Principles [“U.S. GAAP”].

In the opinion of management, the consolidated financial statements reflect all adjustments necessary to present fairly the financial position as at February 28, 2015 and 2014 and the results of operations, cash flows and changes in equity for the years ended February 28, 2015 and 2014.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of accounting estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires the Company’s management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent amounts of assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from the estimates made by management.

The following include estimates by management: allowance for doubtful accounts, inventory allocations, inventory provisions, accrued liabilities, warranty provisions, warrant liability, property and equipment amortization, tax valuation allowance, impairment of intangible assets and goodwill, vendor specific objective evidence, estimated selling price and estimated returns as it relates to revenue recognition, and stock-based compensation.

These estimates and assumptions are based on management’s historical experience, best knowledge of current events and conditions and actions that the Company may undertake in the future. Certain of these estimates require subjective or complex judgments by management about matters that are uncertain and changes in those estimates could materially impact the amounts reported in the consolidated financial statements and accompanying notes.

Foreign currency translation

The Company’s operations and balances denominated in foreign currencies, including those of its foreign subsidiaries which are primarily a direct and integral component or extension of the Company’s operations, are

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

translated into US dollars (USD) using the following: monetary assets and liabilities are translated at the period end exchange rate, non-monetary assets are translated at the historical exchange rate, and revenue and expense items are translated at the average exchange rate. Gains or losses resulting from the translation adjustments are included in income (loss).

Revenue recognition

The Company derives revenue from the sale of broadband wireless backhaul equipment which includes embedded software and a license to use said software and extended product warranties. Software is considered to be incidental to the product. Services range from installation and training to basic consulting. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred and there are no significant remaining vendor obligations, collection of receivables is reasonably assured and the fee is fixed and determinable. Where final acceptance of the product is specified by the customer, revenue is deferred until acceptance criteria have been met.

The Company's business agreements may also contain multiple elements. Accordingly, the Company is required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, the fair value of these separate units of accounting and when to recognize revenue for each element. For arrangements involving multiple elements, the Company allocates revenues to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE") if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. In multiple element arrangements, revenues are allocated to each separate unit of accounting for each of the deliverables using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. The Company has determined the selling price for both the undelivered items and the delivered items using ESP.

The Company generates revenue through direct sales and sales to distributors. The Company defers the recognition of a portion of sales to distributors based on estimated stock rotation granted to customers on products in the same period the related revenues are recorded. These estimates are based on historical sales returns; stock rotations and other known factors.

Revenue associated with extended warranty and advanced replacement warranty is recognized ratably over the life of the contracted service.

Revenue from engineering services or development agreements is recognized according to the specific terms and acceptance criteria as services are rendered.

The Company accrues estimated potential product liability as warranty costs when revenue on the sale of equipment is recognized. Warranty costs are calculated on a percentage of revenue per month based on current actual warranty costs and return experience.

Shipping and handling costs borne by the Company are recorded in cost of sales. Shipping and handling costs charged to customers are recorded as revenue, if billed at the time of shipment. Costs charged to customers after delivery are recorded in cost of sales.

The Company generates revenue through royalty agreements as a result of the use of its Intellectual Property. Royalty revenue is recognized as it is earned.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Financial instruments

The Company classifies its financial instruments as assets held at fair value, loans and receivables, other financial liabilities, or liabilities held at fair value. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and management's intent. Management determines the classification of financial assets and liabilities at initial recognition and the classification is not changed subsequent to initial recognition.

The Company designated its cash and cash equivalents and foreign exchange contracts as assets held at fair value which are measured at fair value, with changes in fair value being recorded in net earnings. Trade receivables and other receivables have been classified as loans and receivables which are measured at amortized cost. Accounts payable, accrued liabilities and the debt facility have been classified as other financial liabilities, which are measured at amortized cost. Liabilities held at fair value include the warrant liability which is measured at fair value, with changes in fair value being recorded in net earnings.

Transaction costs directly attributable to the acquisition of financial assets are recorded in net loss in the period in which they are incurred.

Inventory

Inventory is valued at the lower of cost and net realizable value ["NRV"]. The cost of inventory is calculated on a standard cost basis, which approximates average actual cost. NRV is determined as the market value for finished goods, replacement cost for raw materials, and finished goods market value less cost to complete for work in progress inventory.

We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based on factors including our estimated forecast of product demand, the stage of the product life cycle and production requirements for the units in question.

We carry inventory for the purposes of supporting our product warranty. Standard warranty is typically 13 to 36 months but we earn revenue by providing enhanced and extended warranty and repair service during and beyond the standard warranty period. Customer service inventory consists of both component parts and finished units.

Indirect manufacturing costs and direct labour expenses are allocated systematically to the total production inventory.

Income taxes

Income taxes are accounted for using the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. Deferred income tax assets and liabilities are measured using enacted tax rates that apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The Company provides a valuation allowance against its deferred tax assets when it believes that it is more likely than not that the assets will not be realized.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company determines whether it is more likely than not that an uncertain tax position will be sustained upon examination by the tax authorities. The tax benefit of any uncertain tax position that meets the more likely than not recognition threshold is calculated as the largest amount that is more than 50% likely of being realized upon successful resolution. To the extent a full benefit is not expected to be realized, an income tax liability is effectively established. The Company recognizes accrued interest and penalties on unrecognized tax benefits as interest expense.

Management periodically reviews the Company's provision for income taxes and valuation allowance to determine whether the overall tax estimates are reasonable. When management performs its quarterly assessments of the provision and valuation allowance, it may be determined that an adjustment is required. This adjustment may have a material impact on the Company's financial position and results of operations.

Property and equipment

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the anticipated useful lives of the assets as follows:

Test equipment	4 years
Research and development equipment	5 years
Computer hardware	2 years
Production fixtures	3 years
Leasehold improvements	5 years
Furniture and fixtures	5 years
Communication equipment	3 years
Other	3 - 5 years

Management evaluates the carrying value of its property and equipment assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To the extent the estimated undiscounted future net cash inflows attributable to the asset are less than the carrying amount, an impairment loss is recognized. The amount of impairment loss to be recorded is the difference between the asset's carrying value and fair value.

Goodwill and intangible assets

Intangible assets include Infrastructure Systems Software and Computer Software and are amortized over their estimated useful life of 2 and 3 years. Management evaluates the carrying value of its intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To the extent the estimated undiscounted future net cash inflows attributable to the asset are less than the carrying amount, an impairment loss is recognized. The amount of impairment loss to be recorded is the difference between the asset's carrying value and the net discounted estimated future cash flows.

Goodwill represents the excess of the purchase price over the estimated fair value of net tangible and intangible assets acquired in business combinations. The Company reviews the carrying value of goodwill on an annual basis or more frequently if circumstances indicate that it is more likely than not that the fair value of the goodwill is below its carrying amount. The goodwill impairment test is a three-step process which requires management to make judgmental assumptions regarding fair value. The first step in the impairment test is to assess qualitative factors to determine whether it is necessary to perform the subsequent two steps of the goodwill impairment test. The second step consists of estimating the fair value of our reporting unit. When the

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the third step of the impairment test is unnecessary. If the fair value is less than the carrying amount, the Company compares the implied fair value of the goodwill, determined as if a purchase had just occurred, to the carrying amount to determine the amount of impairment charge to be recorded. Changes in the estimates and assumptions used in assessing the projected cash flows could materially affect the results of management's evaluation.

Share based compensation plan and employee share purchase plan

The Company has a Share based compensation plan and an employee share purchase plan which is described in note 14. The Company accounts for stock options granted to employees using the fair value method. In accordance with the fair value method, the Company recognizes estimated compensation expense related to stock options over the vesting period of the options granted, with the related credit being charged to contributed surplus.

The Company launched an employee share purchase plan on October 20, 2008. The plan includes provisions to allow employees to purchase Common shares. The Company will match the employees' contribution at a rate of 25%. Proceeds from employees are received and the cost of the matching shares are recorded in share capital, with the related debit applied to contributed surplus at the time the shares are issued. The shares contributed by the Company will vest 12 months after issuance with a corresponding compensation expense recognized in income (loss).

Expenses

The Company defines general and administrative expenses to be administrative, finance, and operational costs. Selling and marketing expenses are defined as costs related to worldwide sales, marketing and product management. Research and development costs are defined as costs related to research and development related activities.

Research and development

Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet generally accepted accounting criteria for deferral and amortization. Development costs incurred prior to establishment of technological feasibility do not meet these criteria, and are expensed as incurred.

Income (loss) per share

Basic income (loss) per share is calculated by dividing net (income) loss available to Common shareholders by the weighted average number of Common shares outstanding during the period. For all periods presented, the net income (loss) available to Common shareholders equates to the net income (loss).

In the computation of diluted earnings per share, the Company includes the number of additional common shares that would have been outstanding if the dilutive potential equity instruments had been issued.

Non-controlling interest

Non-controlling interest consists of the minority owned portion of the Company's 50.1% owned subsidiary, DragonWave HFCL India Private Limited.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

ACCOUNTING POLICIES ADOPTED IN THE CURRENT FISCAL YEAR

Parent's Accounting for the Cumulative Translation Adjustment Upon Derecognition of Certain Subsidiaries or Groups of Assets Within a Foreign Entity or of an Investment in a Foreign Entity

In March 2013, the FASB issued ASU 2013-05, "Foreign Currency Matters." ASU 2013-05 resolves the diversity in practice about whether Subtopic 810-10, "Consolidation – Overall", or Subtopic 830-30 "Foreign Currency Matters, Translation of Financial Statements", applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. In addition, the amendments in ASU 2013-05 resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. ASU 2013-05 became effective for the Company on March 1, 2014. The adoption did not have an impact on the Company's consolidated financial statements.

Obligations Resulting From Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date

In February 2013, the FASB issued ASU No. 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date" ("ASU 2013-04"). ASU 2013-04 provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors as well as any additional amount the reporting entity expects to pay on behalf of its co-obligors. ASU 2013-04 also requires an entity to disclose the nature and amount of those obligations. The ASU became effective for the Company on March 1, 2014. The adoption did not have an impact on the Company's consolidated financial statements.

Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In June 2013, the FASB issued ASU No. 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists" ("ASU 2013-11"). The amendments provide guidance on the presentation of unrecognized tax benefits and will better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The amendments in this ASU became effective for the Company on March 1, 2014. The adoption did not have an impact on the Company's consolidated financial statements.

FUTURE ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU No. 2014-9, "Revenue from Contracts with Customers". The amendments in this Update create Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contracts, and create new Subtopic 340-40, Other Assets and Deferred Costs-Contracts with Customers. In April 2015, the FASB decided to propose a one-year deferral of the effective date by one year for fiscal years beginning after December 15, 2017, with early adoption permitted. The Company is currently assessing the impact this amendment will have on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation – Stock Compensation". The amendments apply to reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target can be achieved after the requisite service period. The amendments in this ASU are effective for fiscal years beginning after December 15, 2015, early adoption permitted. The Company does not expect the adoption of this guidance to have a material effect on the Company's Consolidated Financial Statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern". The update provides U.S. GAAP guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The amendments in this ASU are effective for reporting periods beginning after December 15, 2016, early adoption permitted. The Company does not expect the adoption of this guidance to have a material effect on the Company's consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement – Extraordinary and Unusual Items". The amendments objective is to simplify the income statement presentation requirements in Subtopic 225-20 by eliminating the concept of extraordinary items. The amendments in this ASU are effective for fiscal years beginning after December 15, 2015, early adoption permitted. The Company does not expect the adoption of this guidance to have a material effect on the Company's Consolidated Financial Statements.

3. BUSINESS COMBINATIONS

Nokia Solutions and Networks' Microwave Transport Business

On June 1, 2012 the Company announced the closing of the acquisition of the microwave transport business of Nokia Siemens Networks (whose name was changed to Nokia Solutions and Networks, also referred to as NSN, in August 2013 in connection with the acquisition of Nokia Corporation of Siemens' 50% stake in Nokia Siemens Networks, was recently renamed Networks and now operates under the Nokia brand, and is referred to herein as "Nokia" or "Nokia's Networks business"), including its associated operational support system (OSS) and related support functions. The acquisition was effected pursuant to the Amended and Restated Master Acquisition Agreement between DragonWave Inc., its wholly-owned subsidiary DragonWave S.à.r.l and Nokia dated May 3, 2012. The terms "Nokia" or "Nokia's Networks business" are used interchangeably herein to refer to Nokia Solutions Networks or NSN.

On April 10, 2013, the Company announced changes to its existing operational framework with Nokia. In line with the renewed framework, the Company will continue to be the preferred, strategic supplier to Nokia of packet microwave and related products, and the companies will jointly coordinate technology development activities.

The Company also recorded a liability included in accounts payable and accrued liabilities, based on management's estimate, for a termination fee valued at \$8,668 at May 31, 2013 and scheduled to be paid in several tranches. Under the terms of the renewed framework, on April 12, 2013 Nokia paid \$13,843 to the Company which settled the balance of the Company's contingent receivable. Nokia took on additional

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

3. BUSINESS COMBINATIONS (Continued)

commitments and costs so that DragonWave can continue to develop and supply microwave products. The Italian services agreement, pursuant to which Nokia has provided research & development and certain other services to DragonWave since June 1, 2012, was terminated. As a result, the Company reduced accounts payable by \$13,258. Capital assets with a net book value of \$628 and the corresponding capital lease obligation associated with the Italian operations in the amount of \$1,323 was also eliminated by the Company during the year ended February 28, 2014. The net impact of these items resulted in a gain on contract amendment of \$5,285 in the statement of operations during the year ended February 28, 2014. During the year ended February 28, 2014, the Company also reduced a capital lease obligation associated with its operations in India by \$417 based on a revised agreement.

The net impact of these items resulted in a gain of \$5,702 in the consolidated statement of operations in the year ended February 28, 2014.

During the year ended February 28, 2014, the Company reduced its estimated liability for the termination fee based on a change in estimate. The Company has also reduced an accrued liability that was recorded upon the acquisition of the microwave transport business of NSN (now Nokia) which was based on a change in estimate. The net impact of these items resulted in a gain in change of estimate of \$2,970 in the statement of operations in the year ended February 28, 2014.

During the first quarter of fiscal 2015, the Company revised the estimated termination fee and also entered into a revised payment schedule with Nokia consisting of quarterly payments through fiscal year 2015 and 2016. This led to a gain of \$101 recorded in the statement of operations. The first payment in the amount of \$694 was made in May 2014 and second payment for \$1,344 in August 2014. During the third quarter of 2015, the final invoice related to the termination fee was received from Nokia and resulted in a gain of \$200. This is shown as a change of estimate in the statement of operations. The third scheduled payment of \$1,249 was made in the fourth quarter of 2015. The total termination fee liability is valued at \$4,383 as at February 28, 2015 (short term: \$4,227 and long term: \$156). [2014 – \$9,085 entirely classified as short term].

During the year ended February 28, 2015 the Company negotiated a reduction in capital lease payments to Nokia resulting in a \$530 gain on contract amendment. As part of the same overall arrangement, the amount was offset by a related expense associated with the modification of an existing supply contract.

Disposition of DragonWave Limited

On January 22, 2013, the Company sold all of its shares of DragonWave Ltd (“DWL”), incorporated in Israel. The shares were sold for a nominal amount. Under the share purchase agreement, the Company has a liability to pay certain future obligations. During the year ended February 28, 2014, the Company reduced the contingent liability by \$342 based on a change in circumstance which is included in the consolidated statement of operations as a change in estimate. As at February 28, 2014, the Company has extinguished both the discounted liability and the maximum potential liability.

As at February 28, 2014, under the terms of a supply and services agreement, the Company has an opportunity to earn an additional \$5,068 based on business performance subsequent to the disposition for which the Company has recorded a receivable of \$52 which represents management’s estimate of the amounts to be collected based on the discounted forecasted future cash inflows. A reduction in the receivable of \$553 was included in the consolidated statement of operations as a change in estimate during the year ended February 28, 2014.

DragonWave Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Expressed in US \$000's except share and per share amounts

3. BUSINESS COMBINATIONS (Continued)

DragonWave HFCL India Private Limited

Non-controlling interest consists of the minority owned portion of the Company's 50.1% owned subsidiary, DragonWave HFCL India Private Limited. During the year ended February 28, 2015, the minority owner, HFCL, made a capital contribution of \$164. The Company had contributed its portion during the year ended February 28, 2014.

4. CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Native Currency	as at February 28, 2015				as at February 28, 2014	
	Domestic Currency	Foreign Exchange Rate to USD	USD Amount	% of total	USD Amount	% of total
US Dollar	15,010	1.000	15,010	63.5%	16,934	89.2%
Canadian Dollar	5,135	0.800	4,106	17.4%	979	5.2%
Indian Rupee	154,287	0.016	2,497	10.4%	90	0.5%
Mexican Peso	13,729	0.067	919	3.9%	33	0.2%
Euro	537	1.121	602	2.5%	235	1.2%
Other			558	2.3%	721	3.7%
Total Cash & Cash Equivalents			23,692	100.0%	18,992	100.0%
TOTAL			23,692	100.0%	18,992	100.0%

As at February 28, 2015, the Company is required to have a minimum of \$10,000 held at Comerica Bank [2014 – \$10,000].

5. TRADE RECEIVABLES

The Company is exposed to credit risk with respect to trade receivables in the event that its counterparties do not meet their obligations. The Company minimizes its credit risk with respect to trade receivables by performing credit reviews for each of its customers. The Company's allowance for doubtful accounts reflects the Company's assessment of collectability across its global customer base.

	February 28, 2015	February 28, 2014
Trade Receivables (gross)	49,295	17,936
Allowance for doubtful accounts	(669)	(528)
Trade Receivables (net)	48,626	17,408

As at February 28, 2015, two customers exceeded 10% of the total receivable balance. These customers represented 37% and 34% of the trade receivables balance [2014 – one customer represented 56% of the trade receivables balance].

Included in general and administrative expenses is an expense of \$160 related to bad debt expense for the year ended February 28, 2015 [2014 – expense of \$541].

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

6. INVENTORY

Inventory is comprised of the following:

	February 28, 2015	February 28, 2014
Raw Materials	7,469	6,368
Work in Progress	577	696
Finished Goods	13,709	20,748
Total Production Inventory	21,755	27,812
Inventory held for customer service/warranty	2,539	2,604
Total Inventory	24,294	30,416

Cost of sales for the year ended February 28, 2015 was \$129,772 [2014 – \$79,348], which included \$115,309 of product costs [2014 – \$74,327]. The remaining costs of \$14,463 [2014 – \$5,021] related principally to warehousing, freight, warranty, overhead and other direct costs of sales.

For the year ended February 28, 2015, the Company recognized an impairment loss on inventory of \$2,771 [2014 – \$1,078]. This impairment loss related primarily to raw material and finished goods for certain older product lines.

The Company allocates overhead and labour to inventory. Included in cost of goods sold for the year ended February 28, 2015 was overhead allocations of \$3,860 [2014 – \$3,283]. Included in inventory at February 28, 2015 was overhead allocations of \$461 [2014 – \$1,400].

7. OTHER CURRENT ASSETS

Other current assets are comprised of the following:

	February 28, 2015	February 28, 2014
Deposits on inventory	1,240	1,345
Prepaid expenses	2,082	1,759
Indirect taxes (net)	1,079	614
Income tax receivable	390	—
Deferred financing costs	55	176
Receivable from Contract Manufacturers and other items	988	2,015
Total other current assets	5,834	5,909

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

8. PROPERTY AND EQUIPMENT

	February 28, 2015			February 28, 2014
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Test and research & development equipment	23,517	20,461	3,056	2,214
Computer hardware	3,507	3,247	260	267
Production fixtures	2,141	1,480	661	245
Leasehold improvements	1,058	912	146	139
Furniture and fixtures	852	707	145	168
Communication equipment	288	280	8	14
Other	375	329	46	121
Total	31,738	27,416	4,322	3,168

Depreciation expense relating to the above property and equipment was allocated to operating expenses as follows:

	February 28, 2015	February 28, 2014
Research and development ("R&D")	1,067	3,573
Selling and marketing ("S&M")	56	67
General and administrative ("G&A")	1,197	1,008
Total	2,320	4,648

Depreciation expense includes amortization of assets recorded under capital lease.

9. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill are apportioned as follows:

	February 28, 2015			February 28, 2014
	Cost	Accumulated Amortization	Impairment	Net Book Value
Infrastructure Systems Software and				
Computer Software	6,639	5,845	—	794
Goodwill	11,927	—	—	11,927

For the year ended February 28, 2015, the Company recognized amortization of intangible assets of \$1,188 [2014 – \$1,900 of which \$598 was amortization of Customer Relationships during the year]. The Company estimates that it will recognize \$454 and \$340 respectively for the next two succeeding years.

The Company conducts its annual impairment test in its second fiscal quarter and any other time when indicators of impairment exist. The analysis for fiscal 2015 and 2014 did not result in any impairment loss. The goodwill impairment test is a three-step process: the first is a qualitative assessment, the second and third are quantitative tests which require the Company make assumptions regarding fair value. The Company believed

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

9. INTANGIBLE ASSETS AND GOODWILL (Continued)

that there were qualitative factors in-place that would suggest that the second quantitative test would need to be performed because of the existence of losses realized over successive quarters.

The second step consisted of calculating the fair value of the aggregated reporting unit using both a market-based approach and an estimate of discounted future cash flows. In applying the market-based approach the Company calculated its market capitalization using values from a reasonable time period around the date of the impairment test. The Company applied a control premium that was identified using recent comparable transactions. In applying the discounted cash flow methodology, the Company relied on a number of factors, including future business plans, actual and forecasted operating results, and market data. The significant assumptions employed under this method include discount rates; revenue growth rates, including assumed terminal growth rates; and operating margins used to project future cash flows for a reporting unit. The discount rates utilized reflect market-based estimates of capital costs and discount rates adjusted for management's assessment of a market participant's view with respect to other risks associated with the projected cash flows of the individual reporting unit. Management's estimates were based upon assumptions believed to be reasonable, but which by nature are uncertain and unpredictable. Because the second step indicated that no impairment existed, the third step of the process was not required.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable and Accrued Liabilities are apportioned as follows:

	February 28, 2015	February 28, 2014
Trade payables	23,474	12,684
Accrued liabilities	9,394	5,452
Termination fee	4,227	9,085
Payroll related accruals	2,076	1,769
Warranty accrual	335	506
Income taxes payable	657	468
Total Accounts Payable and Accrued Liabilities	<u>40,163</u>	<u>29,964</u>

Warranty accrual:

Within accrued liabilities, the Company records a liability for future warranty costs based on management's best estimate of probable claims within the Company's product warranties. The accrual is based on the terms of the warranty which vary by customer, product, or service and historical experience. The Company regularly evaluates the appropriateness of the remaining accrual.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES (Continued)

The following table details the changes in the warranty liability for the respective years ended:

	February 28, 2015	February 28, 2014
Balance at beginning of the period	619	825
Accruals	1,031	750
Utilization	(972)	(956)
Ending Balance	<u>678</u>	<u>619</u>
Short term portion	335	506
Long term portion	343	113

11. DEBT FACILITY

The Company has established a long term credit facility with Comerica Bank and Export Development Canada. As at February 28, 2015, this asset based credit facility was for a total of \$40,000 plus \$4,000 for letters of credit and foreign exchange facilities. Credit availability is subject to ongoing compliance with borrowing covenants and short term assets on hand. The Company had drawn \$32,400 on the facility as at February 28, 2015 [2014 – \$15,000], and \$1,864 against its letter of credit facility.

The credit facility which was extended on January 6, 2014, matures on June 1, 2016 and is secured by a first priority charge on all of the assets of DragonWave and its principal direct and indirect subsidiaries. The terms of the credit facility include other customary terms, conditions, covenants, and representations and warranties, consistent with the facility already in place. Borrowing options under the credit facility include US dollar, Canadian dollar, and Euro loans. Interest rates vary with market rate fluctuations, with loans bearing interest in the range of 3% to 4% above the applicable base rates. Direct costs associated with obtaining the debt facility such as closing fees, registration and legal expenses have been capitalized and will be amortized over the 30 month term of the facility. During the year-ended February 28, 2014 the weighted average debt outstanding was \$20,304 [2014 – \$15,000] and the Company recognized \$1,401 in interest expense related to the debt facility [2014 – \$1,016] and expensed \$187 in deferred financing cost [2014 – \$622].

The credit facility contains financial covenants including minimum tangible net worth requirements, holding a minimum of \$10,000 within the Company's lenders (Comerica Bank) operating account, and minimum liquidity ratio requirements. The credit facility also imposes certain restrictions on the Company's ability to acquire capital assets above a threshold over a trailing six month period. Certain of the Company's assets, including accounts receivable, inventory, and equipment, are pledged as collateral.

The Company was in breach of one of its covenants in February 2014, March 2014 and April 2014. DragonWave obtained a waiver for these breaches which eliminated any acceleration of repayment of the Company's obligation and amended the terms of the facility on May 13, 2014. The Company is in compliance with all covenants as at February 28, 2015.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

12. OTHER LONG TERM LIABILITIES

Other long term liabilities are apportioned as follows:

	February 28, 2015	February 28, 2014
Warranty accrual	343	113
Deferred revenue	578	461
Termination fee	156	—
Capital lease obligation	62	—
Total Other Long Term Liabilities	<u>1,139</u>	<u>574</u>

13. CAPITAL LEASES

As at February 28, 2015 the Company has capital assets classified as Test Equipment with a cost value of \$899, accumulated amortization of \$92 and a net book value of \$807. The amortization of these assets are included in the Company's depreciation expense and totaled \$92 for the year ended February 28, 2015. Total future minimum lease payments under capital leases are \$576 of which \$62 is classified as long term.

As at February 28, 2014 the Company had capital assets which were acquired as part of the microwave transport business of Nokia Siemens Networks classified as Test Equipment with a net book value of \$500 and associated capital lease obligation of \$1,795. These capital assets which were originally acquired as part of the NSN acquisition were fully amortized and the remaining obligation fully eliminated during the year ended February 28, 2015 [2014 Amortization – \$2,113].

There was no interest expense associated with the capital lease during the year ended February 28, 2015 [2014 – \$98] and accretion expense of \$55 [2014 – \$222] for the year ended February 28, 2015.

14. SHAREHOLDERS' EQUITY

Number of shares authorized

The Company has an unlimited amount of common shares authorized for issuance.

On September 23, 2013 the Company completed a public equity offering. Under the terms of the offering, the Company issued and sold 11,910,000 units at \$2.10 for aggregate gross proceeds of \$25,011. After deducting commissions and listing expenses, the Company realized net proceeds of \$22,434. Each unit consisted of one common share of the Company and three quarters of one warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of U.S. \$2.70 per share until September 23, 2018, subject to certain adjustments. As at September 23, 2013 the Company recognized a liability in the amount of \$6,425 for the warrants, see Warrants section for further details.

On August 1, 2014 the Company completed a public equity offering. Under the terms of the offering, the Company issued and sold 15,927,500 units at \$1.80 CDN for aggregate gross proceeds of \$28,670 CDN. After deducting commissions and listing expenses, the Company realized net proceeds of \$23,960 USD (\$26,184 CND). Each unit consisted of one common share of the Company and one half of one warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of \$2.25 CND per share until August 1, 2016. Upon issuance, the Company recognized a liability in the amount of \$2,551 for the warrants, see Warrants section for further details.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

14. SHAREHOLDERS' EQUITY (Continued)

Share Based Compensation Plan

The Company had previously established the DragonWave Inc. Key Employee Stock Option/Stock Issuance Plan (the "previous plan") applicable to full-time employees, directors and consultants of the Company for purchase of common shares. Options are granted with an exercise price equal to the fair value of the common shares of the Company, and generally vest at a rate of 25% one year from the date of the option grant, and 1/36th of the remaining 75% per additional month of full-time employment with the Company. Options expire in periods ranging from three to six years, or upon termination of employment. The maximum number of Common Shares issuable under the previous plan was 10% of the Common Shares issued and outstanding.

On June 20, 2014 the Shareholders approved the adoption of a new Share Based Compensation Plan (the "Plan") to replace the previous Key Employee Stock Option/Stock Issuance Plan. The Share Based Compensation Plan includes provision for granting of performance share units ("PSUs"), restricted share units ("RSUs"), deferred share units ("DSUs"), Bonus Shares (as defined in the Share Based Compensation Plan) and options to purchase Common Shares. Settlement of vested PSUs, RSUs and DSUs is effected by delivering Common Shares acquired in the open market and/or issued from treasury, or by making a cash payment equal to the number of PSUs, RSUs or DSUs multiplied by the volume weighted average trading price of the Common Shares on the applicable stock exchange for the five trading days preceding the settlement date, or by a combination of these methods. The manner of settlement for RSUs, PSUs and DSUs is determined by the Compensation Committee in its sole discretion. The maximum number of Common Shares issuable under the Plan is 7,529,082, which represents 10% of the Common Shares issued and outstanding as at February 28, 2015.

The following is a summary of stock option activity:

	Year ended February 28, 2015		Year ended February 28, 2014	
	Options	Weighted Average Price (CAD)	Options	Weighted Average Price (CAD)
Opening Balance	3,173,321	\$3.71	2,529,088	\$4.89
Granted	1,084,476	\$2.11	1,649,550	\$1.86
Exercised	—	—	(313,914)	\$1.35
Forfeited	(272,210)	\$6.96	(691,403)	\$4.70
Closing Balance	<u>3,985,587</u>	<u>\$3.05</u>	<u>3,173,321</u>	<u>\$3.71</u>

The following table shows the weighted average values used in determining the fair value of options granted during the year ended February 28, 2015 and 2014:

	Year ended	
	February 28, 2015	February 28, 2014
Volatility	75.8%	77.9%
Risk Free Rate	1.35%	1.33%
Dividend Yield	Nil	Nil
Average Expected Life	4 yrs	4 yrs

The 1,084,476 options granted during the year ended February 28, 2015 were determined to have a fair value of \$1,204 [2014: 1,649,550 options valued at \$1,714].

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

14. SHAREHOLDERS' EQUITY (Continued)

The following table summarizes the various exercise prices inherent in the Company's stock options outstanding and exercisable on February 28, 2015:

Exercise Price		Options Outstanding			Options Exercisable		
Low (CAD)	High (CAD)	Quantity of Options	Weighted Average Remaining Contractual Life (yrs)	Weighted Average Exercise Price (CAD)	Quantity of Options	Weighted Average Remaining Contractual Life (yrs)	Weighted Average Exercise Price (CAD)
\$1.07	\$1.34	538,546	3.74	\$1.21	362,358	3.72	\$1.21
\$1.35	\$2.07	434,660	3.65	\$2.02	137,547	3.62	\$2.05
\$2.08	\$2.12	105,236	2.75	\$2.08	60,506	2.75	\$2.08
\$2.13	\$2.20	1,009,676	4.37	\$2.15	—	—	—
\$2.21	\$2.49	627,767	3.19	\$2.24	278,084	3.19	\$2.24
\$2.50	\$3.17	486,558	2.41	\$2.93	310,876	2.39	\$2.94
\$3.18	\$6.27	271,015	0.42	\$5.91	268,230	0.41	\$5.93
\$6.28	\$7.00	362,029	1.20	\$6.77	338,960	1.20	\$6.77
\$7.01	\$9.36	150,100	0.21	\$9.11	150,100	0.21	\$9.11
		3,985,587	3.03	\$3.05	1,906,661	2.20	\$4.00

The Company has recognized \$1,177 for the year ended February 28, 2015 as compensation expense for stock-based grants, with a corresponding credit to contributed surplus [2014 – \$1,292]. Stock compensation expense was allocated to operating expenses as follows:

	February 28, 2015	February 28, 2014
R&D	297	505
S&M	333	249
G&A	547	538
Total Stock Option Expense	1,177	1,292

As at February 28, 2015, compensation costs not yet recognized relating to stock option awards outstanding is \$1,926 [2014 – \$2,509] net of estimated forfeitures. Performance vesting awards will vest as performance conditions are met. Compensation will be adjusted for subsequent changes in estimated forfeitures.

There were no options exercised with an intrinsic value during the year ended February 28, 2015 [2014 – \$194].

There was no intrinsic value associated with fully vested options at February 28, 2015 and 2014.

Restricted Share Units (RSU's)

The Company has entered into restricted stock agreements with certain of its independent directors. These units which were issued during July 2014 are unvested and subject to each director's continued engagement on the Board for a period of one year from the date of issuance.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

14. SHAREHOLDERS' EQUITY (Continued)

The following table sets forth the summary of restricted share activity under the Company's Share Based Compensation Plan for the year ended February 28, 2015:

	<u>Twelve months ended February 28, 2015</u>	
	<u>RSU's</u>	<u>Weighted Average Price (CAD)</u>
RSU balances at February 28, 2014	—	—
Granted	<u>80,000</u>	<u>\$2.15</u>
RSU balances at February 28, 2015	<u>80,000</u>	<u>\$2.15</u>

The Company has recognized \$93 for the year ended February 28, 2015 as compensation expense for restricted stock units, with a corresponding credit to contributed surplus.

There were no restricted stock units exercisable as of February 28, 2015. All RSU's will be exercisable during the second quarter of fiscal year 2016.

Restricted Shares & Employee Share Purchase Plan

The Company launched an Employee Share Purchase Plan ["ESPP"] on October 20, 2008. The plan includes provisions to allow employees to purchase Common shares. The Company will match the employees' contribution at a rate of 25%. During the year ended February 28, 2015 a total of 44,012 common shares were purchased by employees at fair market value, while the Company issued 11,003 common shares as its matching contribution expressed net of 1,500 forfeited shares. The shares contributed by the Company will vest 12 months after issuance.

The Company records an expense equal to the fair value of shares granted pursuant to the employee share purchase plan over the period the shares vest. The total fair value of the shares earned during the year ended February 28, 2015 was \$13 [2014 – \$23]. The fair value of the unearned ESPP shares as at February 28, 2015 was \$13 [2014 – \$13]. The number of shares held for release, and still restricted under the plan at February 28, 2015 was 11,000 [2014 – 7,305].

Warrants

Effective May 30, 2007, the Company granted warrants to purchase up to 126,250 common shares of the Company at a price of \$3.56 CAD per share. The warrants expire 10 years after the date of issuance. The warrants vested based on the achievement of pre-determined business milestones and resulted in 31,562 warrants being eligible for exercise. As at August 31, 2008, a revenue reduction provision in the amount of \$64 was recognized with a corresponding increase in contributed surplus based on achievement. The provision was determined using the Black-Scholes Options Pricing Model using a volatility factor of 50%, risk free rate of 3.3% dividend yield of nil, and an expected life of 8.75 years.

On September 23, 2013 the Company completed a public equity offering. Under the terms of the offering, the Company issued and sold 11,910,000 units at \$2.10 for aggregate gross proceeds of \$25,011. Equity issuance expenses relating to the offering totaled \$2,576 of which \$662 was expensed as the proportionate warrant costs. Each unit consisted of one common share of the Company and three quarters of one warrant (warrants issued – 8,932,500). Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of U.S. \$2.70 per share until September 23, 2018. On August 1, 2014 the warrant exercise price was

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

14. SHAREHOLDERS' EQUITY (Continued)

adjusted to U.S. \$1.30 as a result of a subsequent equity financing undertaken by the Company. In the event of a fundamental transaction the Company may be required to settle the warrants with a cash payment. As a result the Company recognized a warrant liability of \$6,425 which represented the estimated fair value of the liability as at September 23, 2013. The warrant liability is adjusted quarterly to its estimated fair value. Increases or decreases in the fair value of the warrants are presented as "Fair value adjustment-warrant liability" in the consolidated statement of operations. As at February 28, 2015, 2,088,750 warrants were outstanding and the liability for warrants was decreased to \$603. In the year ended February 28, 2015 the Company increased its common stock value by \$664 which represented the value of the 1,082,250 warrants exercised on a cash-less basis to 1,301,057 common shares. In the year ended February 28, 2015 the Company realized a gain in the amount of \$93 in the consolidated statement of operations which represented the change in fair value of the remaining warrant liability of \$603.

On August 1, 2014 the Company completed a public equity offering. Under the terms of the offering, the Company issued and sold 15,927,500 units at \$1.80 CDN for aggregate gross proceeds of \$26,234 (\$28,670 CDN). Each unit consisted of one common share of the Company and one half of one warrant. Each whole warrant entitles the holder to purchase one common share of the Company at an exercise price of \$2.25 CDN per share until August 1, 2016, subject to certain adjustments. Equity issuance expenses relating to the offering totaled \$2,275 of which \$221 was expensed as the proportionate warrant costs. As a result of the offering, the Company issued warrants totaling 7,963,750 and recognized warrant liability of \$2,551 which represented the estimated fair value of the liability as at August 1, 2014 and August 30, 2014. During the year ended February 28, 2015 the Company realized a gain in the amount of \$1,914 in the consolidated statement of operations which represented the change in fair value of the remaining warrant liability of \$636.

15. NET LOSS PER SHARE

Basic loss per share is calculated by dividing net loss available to Common shareholders by the weighted average number of Common shares outstanding during the period. In the computation of diluted earnings per share, the Company includes the number of additional common shares that would have been outstanding if the dilutive potential equity instruments had been issued.

As at February 28, 2015 a total of 3,985,587 options, 80,000 RSUs and 10,052,500 warrants have been excluded from the diluted net loss per share calculations, as their effect would have been anti-dilutive.

	Year Ended	
	February 28, 2015	February 28, 2014
Net loss applicable to shareholders	(21,520)	(34,242)
Weighted average number of shares outstanding	68,111,696	41,438,383
Basic Net Loss/Dilutive Loss per share	<u><u>\$(0.32)</u></u>	<u><u>\$(0.83)</u></u>

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

16. COMMITMENTS

Future minimum operating lease payments which relate to office and warehouse space in various countries as at February 28, 2015 per fiscal year are as follows:

2016	1,527
2017	1,087
2018	86
Thereafter	—
	2,700

On January 21, 2014, the Company subleased a portion of its Kanata office space and as such has recorded, during the year ended February 28, 2014, net rent expense of \$84 representing the present value of the Company's estimated remaining rent expense for the duration of the lease after taking into account estimated future sublease income and deferred rent on the facility.

17. SUPPLEMENTAL CASH FLOW INFORMATION

	Year Ended	
	February 28, 2015	February 28, 2014
Changes in non-cash working capital balances:		
Trade receivables	(31,378)	17,503
Inventory	3,351	1,228
Other current assets	65	(305)
Contingent receivable	—	13,843
Deferred tax asset	59	—
Accounts payable and accrued liabilities	10,173	(20,603)
Deferred revenue	(154)	(179)
Contingent liabilities	—	(432)
Other long term liabilities	669	—
	(17,215)	11,055

18. INCOME TAXES

The components of the Company's income (loss) before income taxes, by taxing jurisdiction, were as follows:

	February 28, 2015	February 28, 2014
Canada	(24,558)	(22,021)
Luxembourg	322	(12,989)
India	2,721	(155)
China	991	951
Other	605	273
	(19,919)	(33,941)

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

18. INCOME TAXES (Continued)

Income tax expense, both current and deferred, relates to jurisdictions outside of Canada where losses are not sufficient to cover the tax liability in the region. For the year ended February 28, 2015, the current income tax expenses was \$658 [2014 – \$353] and the deferred income tax expense was \$59 [2014 – \$45].

The reported income tax provision differs from the amount computed by applying the Canadian statutory rate to the net income (loss), for the following reasons:

	<u>2015</u>	<u>2014</u>
Income (loss) before income taxes	(19,919)	(33,941)
Statutory income tax rate	26.50%	26.50%
Expected income tax recovery	(5,279)	(8,994)
Foreign tax rate differences	(177)	3,235
Non-deductible expenses and non-taxable income	(105)	(577)
Change in valuation allowances	6,682	8,307
Share issue costs	(435)	—
Expiry of unrecognized tax credits	—	1,079
Research and development tax credits	(894)	(959)
Prior year adjustments	859	(1,669)
Other	66	(24)
	<u>717</u>	<u>398</u>

The Company's deferred tax assets and liabilities include the following significant components:

	<u>2015</u>	<u>2014</u>
SR&ED expenditures	7,845	7,595
Research and development tax credits	14,052	13,980
Income tax loss carry forwards	32,643	27,785
Income and expense reserves	192	122
Book and tax differences on assets	1,486	602
Share issue expenses	591	102
Capital loss	19,015	19,015
Gross future tax assets	75,824	69,201
Valuation allowance	(74,278)	(67,596)
Net deferred tax assets	<u>1,546</u>	<u>1,605</u>

As at February 28, 2015, the Company had cumulative tax loss carryforwards in the following jurisdictions: Canada – \$109,014, United States – \$7,978, Luxembourg – \$53,514. The Company also has capital losses being carried forward in the following jurisdictions: Canada – \$16,302; United States – \$45,543.

The losses in Canada expire starting in fiscal 2031 until fiscal 2035. The losses in Luxembourg can be carried forward indefinitely. Income tax benefits relating to the losses in Canada and Luxembourg have not been recognized in the consolidated financial statements as the recognition requirements under the liability method of accounting for income taxes have not been met.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

18. INCOME TAXES (Continued)

The losses in the U.S. expire between fiscal 2022 and fiscal 2032. Internal Revenue Code Section 382 imposes an annual limitation on the use of a company's net operating loss carryforwards when a company has an ownership change. The acquisition of Axerra Networks, Inc by the Company resulted in an ownership change as understood by Section 382. As a result, the annual restriction of the amount of losses of Axerra Networks, Inc that may be used has been calculated as \$521.

As at February 28, 2015, the Company had \$15,574 of investment tax credits available to reduce future federal Canadian income taxes payable. These investment tax credits begin to expire in 2022. In addition, the Company had provincial research and development tax credits of \$2,604, which are available to reduce future provincial income taxes payable. These provincial tax credits begin to expire in 2029. The tax benefit of the federal and provincial tax credits has not been recognized in the consolidated financial statements.

As at February 28, 2015, the Company has not recorded any liabilities associated with uncertain tax positions.

The Company remains subject to examination by tax authorities in Canada for years 2006 to 2015 and in the other jurisdictions for tax years 2010 to 2015.

No deferred income taxes have been provided on undistributed earnings or relating to cash held in foreign jurisdictions, as the Company has determined that any income or withholding taxes on repatriation would either not be significant, or the Company has decided to permanently reinvest the earnings in the foreign jurisdiction.

19. RELATED PARTY TRANSACTIONS

The Company purchased repair services from a network repair company which has a member who serves on both companies' Board of Directors. During the year ended February 28, 2015, the Company paid \$40, relating to the purchase of services from this repair facility (2014 – \$73).

All transactions are in the normal course of business and have been recorded at the exchange amount.

20. FINANCIAL INSTRUMENTS

Financial instruments are classified into one of the following categories: assets held at fair value, loans and receivables, other financial liabilities, or liabilities held at fair value.

Categories for financial assets and liabilities

The following table summarizes the carrying values of the Company's financial instruments:

	February 28, 2015	February 28, 2014
Assets held at fair value (A)	23,692	19,011
Loans and receivables (B)	49,614	19,405
Other financial liabilities (C)	71,728	44,043
Liabilities held at fair value (D)	1,239	1,360

(A) Includes cash, cash equivalents and foreign exchange forward contracts

(B) Includes trade receivables and other & miscellaneous receivables

(C) Includes accounts payable, accrued liabilities, debt facility and termination fee

(D) Warrant liability

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

20. FINANCIAL INSTRUMENTS (Continued)

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The inputs fall into three levels that may be used to measure fair value.

Level 1 – Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs which are supported by little or no market activity.

Cash and cash equivalents are measured using Level 1 inputs.

The August 1, 2014 warrant liability is classified as Level 1 as they are traded on the Toronto Stock Exchange and on the NASDAQ Global Market.

The Company's foreign exchange forward contracts are classified within Level 2 as they are based on foreign currency rates quoted by banks and other public data source. The fair values of the foreign exchange forward contracts are based upon the difference between the forward exchange rate and the contract rate with expected cash flows and effect on the consolidated statements of operations expected to occur upon settlement.

The September 23, 2013 warrant liability is classified as Level 3 as it is measured at fair value using significant unobservable inputs. Significant assumptions used at February 28, 2015 for the warrants include a dividend yield of 0%, a 1% assumption that the fundamental transaction will happen every year, volatility of 60%, and a risk free spot rate term structure.

As at February 28, 2015 the Company held the following Level 3 financial instruments carried at fair value on the consolidated balance sheet.

	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial Liabilities			
Warrant liability	—	603	603

As at February 28, 2014, the Company held the following Level 2 and Level 3 financial instruments carried at fair value on the consolidated balance sheet.

	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial Assets			
Foreign exchange forward contracts	19	—	19
Financial Liabilities			
Warrant liability	—	1,360	1,360

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

20. FINANCIAL INSTRUMENTS (Continued)

A reconciliation of the Level 3 warrant liability measured at fair value for the year ended February 28, 2015 follows:

	<u>Warrants</u>	<u>\$</u>
Balance at February 28, 2014	3,171,000	1,360
Fair value adjustment – warrant liability	—	(93)
Exercise of warrants	(1,082,250)	(664)
Balance at February 28, 2015	<u>2,088,750</u>	<u>603</u>

Interest rate risk

Cash and cash equivalents and the Company's debt facility which has interest rates with market rate fluctuations expose the Company to interest rate risk on these financial instruments. Net interest expense, excluding deferred financing costs, recognized during the year ended February 28, 2015 was \$1,369 on the Company's cash, cash equivalents, and debt facility [2014 – Expense of \$1,128].

Credit risk

In addition to trade receivables and other receivables, the Company is exposed to credit risk on its cash and cash equivalents in the event that its counterparties do not meet their obligations. The Company does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or fair value of the financial instrument. The Company minimizes credit risk on cash and cash equivalents by transacting with only reputable financial institutions and customers.

Foreign exchange risk

Foreign exchange risk arises because of fluctuations in exchange rates. To mitigate exchange risk, the Company may utilize forward contracts to secure exchange rates with the objective of offsetting fluctuations in the Company's operating expenses incurred in foreign currencies with gains or losses on the forward contracts. As at February 28, 2015, the Company had no forward contracts in place [February 28, 2014 – one forward contract with a notional value of \$1,242 resulting in a gain of \$19]. All foreign currency gains and losses related to forward contracts are included in foreign exchange gain (loss) in the consolidated statements of operations.

As of February 28, 2015, if the US dollar had appreciated 1% against all foreign currencies, with all other variables held constant, the impact of this foreign currency change on the Company's foreign denominated financial instruments would have resulted in a decrease in after-tax net loss of \$42 for the year ended February 28, 2015 [2014 – decrease of \$135], with an equal and opposite effect if the US dollar had depreciated 1% against all foreign currencies at February 28, 2015.

Liquidity risk

A risk exists that the Company will encounter difficulty in satisfying its financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. As at February 28, 2015, the Company had cash and cash equivalents totaling \$23,692 [2014 – \$18,992]. Based on current revenue expectations, the continuing availability of credit facilities, the Company believes that its liquidity risk is manageable.

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

21. SEGMENTED INFORMATION

The Company operates in one operating segment – broadband wireless backhaul equipment.

The following table presents total net book value of property and equipment, intangible assets and goodwill by geographic location:

	For the Year Ended			
	February 28, 2015		February 28, 2014	
	Amount	%	Amount	%
Canada	2,017	12%	1,785	11%
United States	11,927	70%	11,927	71%
Malaysia	2,004	12%	571	3%
Luxembourg	97	1%	1,381	8%
Other	998	5%	1,066	7%
Total	17,043	100%	16,730	100%

The Company analyzes its sales according to geographic region and target product development and sales strategies. The following table presents total revenues by geographic location through direct and indirect sales and through Original Equipment Manufacturers (OEM) partner, Nokia:

	Year Ended February 28, 2015			
	Direct/ Indirect Sales	OEM sales through Nokia	Total	% of total revenue
Canada	4,358	—	4,358	3%
Europe	4,484	39,734	44,218	28%
India	26,291	10,854	37,145	24%
United States	23,451	—	23,451	15%
Middle East	6,311	11,412	17,723	11%
Asia Pacific	1,559	11,823	13,382	8%
Africa	1,759	10,321	12,080	8%
Caribbean & Latin America	5,266	143	5,409	3%
	73,479	84,287	157,766	100%

DragonWave Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Expressed in US \$000's except share and per share amounts

21. SEGMENTED INFORMATION (Continued)

In the previous fiscal year we did not have visibility to the geographic breakdown of sales shipped through Nokia's warehouses to the end customer. Below is the financial information available on the geographic distribution of the Company's sales at that time.

	For the year ended	
	February 28, 2014	
	Amount	%
Canada	5,288	6%
United States	19,035	21%
Europe, Middle East, and Africa (excluding Finland)	11,330	13%
Finland	38,140	42%
India	9,093	10%
Other	7,125	8%
Total Revenue	90,011	100%

The Company has shown revenue by the customers' purchasing entities' geographic location, except in cases where the geographic location of the product deployment is explicitly known.

During each of the periods presented revenue is comprised of:

	For the year ended			
	February 28, 2015		February 28, 2014	
	Amount	%	Amount	%
Product Sales	150,432	95%	84,960	94%
Services	7,334	5%	5,051	6%
Total Revenue	157,766	100%	90,011	100%

22. ECONOMIC DEPENDENCE

The Company was dependent on two key customers with respect to revenue in the year ended February 28, 2015. These customers represented approximately 53% and 16% of sales for the year ended February 28, 2015 [2014 – one customer represented 59%].

23. EXPENSES

Included in general and administrative expenses is \$405 related to premises rental expense for the year ended February 28, 2015 [2014 – \$528]. Total rental expense for the year ended February 28, 2015 was \$2,189 [2014 – \$2,602].

24. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current fiscal year.

ITEM 19. Exhibits.

- 1.0 Restated Articles of Incorporation of the Company (filed as Exhibit 1.0 on Form 20-F filed with the Securities and Exchange Commission on May 27, 2015)
 - 1.1 Amendment to Restated Articles of Incorporation (filed as Exhibit 99.3 on Form 6-K filed on February 2, 2016)
 - 1.2 Composite Form of By-Laws (as amended) of the Company (filed as Exhibit 1.1 on Form 20-F filed with the Securities and Exchange Commission on May 27, 2015)
 - 4.1 DragonWave Inc. Employee Share Purchase Plan (filed as Exhibit 4.1 on Form S-8 filed with the Securities and Exchange Commission on February 24, 2010)
 - 4.2 DragonWave Inc. Sixth Amended and Restated Key Employee Stock Option Plan (filed as Appendix C to Exhibit 99.1 on Form 6-K filed with the Securities and Exchange Commission on May 17, 2013)
 - 4.3 DragonWave Inc. Share Based Compensation Plan (filed as Exhibit 4.2 on Form S-8 with the Securities and Exchange Commission on July 8, 2014)
 - 8.1 List of subsidiaries
 - 12.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
 - 12.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
 - 13.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
 - 15.1 Management's discussion and analysis of the Company's consolidated results of operations and financial condition for the three and twelve months ended February 29, 2016
 - 15.2 Management's discussion and analysis of the Company's consolidated results of operations and financial condition for the three and twelve months ended February 28, 2015
-
- 101.INS XBRL Instance Document
 - 101.SCH XBRL Taxonomy Extension Schema Document
 - 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
 - 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
 - 101.LAB XBRL Taxonomy Extension Label Linkbase Document
 - 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

DRAGONWAVE INC.

By: /s/ PETER ALLEN

Peter Allen

President and Chief Executive Officer

Date: May 30, 2016

Exhibit 8.1

Company Name	Jurisdiction of Incorporation	Ownership %
DragonWave Corp.	United States	100%
DragonWave S.à r.l.	Luxembourg	100%
DragonWave Mexico S.A. de C.V.	Mexico	DWI 99.9%, DWC 0.1%
DragonWave Pte. Ltd.	Singapore	100%
DragonWave Telecommunication Technology (Shanghai) Co., Ltd.	China	100%
DragonWave HFCL India Private Limited	India	50.1%

CERTIFICATION

I, Peter Allen, certify that:

1. I have reviewed this Annual Report on Form 20-F of DragonWave Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

By: /s/ Peter Allen
Peter Allen
President and Chief Executive Officer

Date: May 30, 2016

CERTIFICATION

I, Patrick Houston, certify that:

1. I have reviewed this Annual Report on Form 20-F of DragonWave Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

By: /s/ Patrick Houston
Patrick Houston
Chief Financial Officer

Date: May 30, 2016

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of DragonWave Inc. (the “Company”) on Form 20-F for the period ending February 29, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned hereby certify that to the best of our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

By: /s/ Peter Allen
Peter Allen
President and Chief Executive Officer

By: /s/ Patrick Houston
Patrick Houston
Chief Financial Officer

Date: May 30, 2016

The certification set forth above is being furnished as an exhibit solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the Annual Report on Form 20-F for the period ended February 29, 2016, or as a separate disclosure document of the Company or the certifying officers.

Exhibit 15.1



Management's Discussion and Analysis

For the three and twelve months ended February 29, 2016

May 18, 2016



DragonWave Inc.
Management's Discussion and Analysis
For the three and twelve months ended February 29, 2016

Tables are expressed in USD \$000's except share and per share amounts unless otherwise indicated

The following is management's discussion and analysis ("MD&A") of DragonWave Inc.'s consolidated results of operations and financial condition for the three and twelve months ended February 29, 2016. This MD&A should be read in conjunction with our audited consolidated financial statements and corresponding notes for the three and twelve months ended February 29, 2016 and our Annual Information Form for the year ended February 29, 2016 (the "AIF") filed on SEDAR at www.sedar.com (SEDAR) and on EDGAR at www.sec.gov/edgar/searchedgar/companysearch.html (EDGAR). Our audited consolidated financial statements and corresponding notes for the three and twelve months ended February 29, 2016, as well as additional information about us, are available on SEDAR and EDGAR.

Our audited consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles (GAAP) and are reported in United States dollars (USD). The information contained in this MD&A is dated as of May 18, 2016 and is current to that date, unless otherwise stated. Our fiscal year commences on March 1 of each year and ends on the last day of February of the following year.

In this document, unless the context requires otherwise, "we", "us", "our", the "Company" and "DragonWave" all refer to DragonWave Inc. collectively with its direct and indirect subsidiaries. The contents of this MD&A have been approved by our Board of Directors, on the recommendation of its Audit Committee.

We refer to both Nokia Solutions and Networks and its predecessor business Nokia Siemens Networks as "Nokia" in this MD&A. Nokia is a trademark of Nokia Corporation or its affiliates.

Unless otherwise indicated, all currency amounts referenced in this MD&A are denominated in USD.

Forward-Looking Statements

This MD&A contains "forward-looking information" and "forward-looking statements" within the meaning of applicable Canadian and U.S. securities laws. All statements in this MD&A, other than statements that are reporting results or statements of historical fact, are forward-looking statements which involve assumptions and describe our future plans, strategies and expectations. Forward-looking statements are generally identifiable by use of the words "may", "will", "should", "continue", "expect", "anticipate", "estimate", "believe", "intend", "plan" or "project" or the negative of these words or other variations of these words or comparable terminology. Forward-looking statements include, without limitation, statements regarding: our cash resources and liquidity; our strategic plans and objectives; growth strategy; customer diversification and expansion initiatives; our expectations with respect to our relationships with channel partners; our expectations with respect to end-customer demand for our products; our expectations regarding the development of our target markets; and our plans, objectives and targets for operating cost reductions, revenue growth and margin performance. There can be no assurance that forward-looking statements will prove to be accurate and actual results or outcomes could differ materially from those expressed or implied in such statements. Important factors that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements are set forth in this MD&A under the heading "Risks and Uncertainties". Forward-looking statements are provided to assist external stakeholders in understanding management's expectations and plans relating to the future as of the date of this MD&A and may not be appropriate for other purposes. Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements are made as of the date of this MD&A and we do not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent expressly required by law.



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Risks and Uncertainties

We are exposed to risks and uncertainties in our business, including the risk factors set forth below:

- limited cash resources and our dependence on our credit facilities and accommodations by our lenders and certain suppliers;
- our reliance on a small number of customers for a large percentage of revenue;
- our need for working capital will intensify if we are successful in winning new business;
- intense competition from several competitors;
- competition from indirect competitors;
- our history of losses;
- our ability to implement our ongoing program of operating cost reductions;
- our dependence on our ability to develop new products, enhance existing products and execute product roll-outs on a basis that meets customer requirements;
- our exposure to product warranty claims, and inventory and account receivables exposure in relation to recent product quality issues;
- our ability to successfully manage our resources;
- our dependence on our ability to manage our workforce and recruit and retain management and other qualified personnel;
- quarterly revenue and operating results that are difficult to predict and can fluctuate substantially;
- a lengthy and variable sales cycle;
- our reliance on suppliers, including outsourced manufacturing, third party component suppliers and suppliers of outsourced services;
- our ability to manage the risks related to increasingly complex engagements with channel partners and end-customers;
- pressure on our pricing models from existing and potential customers and as a result of competition;
- our exposure to credit risk for accounts receivable;
- our dependence on the development and growth of the market for high-capacity wireless communications services;
- the allocation of radio spectrum and regulatory approvals for our products;
- the ability of our customers to secure a license for applicable radio spectrum;
- changes in government regulation or industry standards that may limit the potential market for our products;
- currency fluctuations;



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- our ability to protect our own intellectual property and potential harm to our business if we infringe the intellectual property rights of others;
- risks associated with software licensed by us;
- a change in our tax status or assessment by domestic or foreign tax authorities;
- exposure to risks resulting from our international sales and operations, including the requirement to comply with export control and economic sanctions laws;
- our exposure to potential product defects and product liability claims and health and safety risk relating to wireless products;
- the impact that general economic weakness and volatility may be having on our customers; and
- disruption resulting from economic and geopolitical uncertainty.

Additional risks related specifically to our securities include:

- risks associated with our outstanding warrants and the impact that the terms of such warrants have on our ability to raise capital and to undertake certain business transactions;
- risks associated with our ability to raise additional capital;
- large fluctuations in the trading price of our common shares;
- our actual financial results may vary from our publicly disclosed forecasts;
- expense and risks associated with being a U.S. public company and possible loss of our foreign private issuer status;
- expense and risks associated with the loss of our ability to use the multi-jurisdictional disclosure system ("MJDS") adopted by the United States and Canada;
- an investor may not be able to bring actions or enforce judgment against us and certain of our directors and officers;
- we do not currently intend to pay dividends on our common shares;
- tax consequences associated with an investment in our securities;
- future sales of common shares by our existing shareholders could cause our share price to fall;
- our management's broad discretion over the use of proceeds of financings; and
- certain Canadian laws could prevent or deter a change of control.

In our most recent fiscal year ended on February 29, 2016, approximately 44% of our sales were through the Nokia channel. Recent developments within Nokia, including Nokia's combination with Alcatel-Lucent, have resulted in our conclusion that new product sales through this channel are unlikely. See "Nokia Sales Channel Update".

Also see the discussion under "Recent Developments-Liquidity Discussion" in this MD&A, as well as the discussion under "Risk Factors" contained in our most recently filed AIF.



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Any of the risks referred to above could cause actual results or outcomes to differ materially from those discussed in forward-looking statements. Although we have attempted to identify important factors that could cause our actual results to differ materially from expectations, intentions, estimates or forecasts, there may be other factors that could cause our results to differ from what we currently anticipate, estimate or intend. Ongoing global economic uncertainty could impact forward-looking statements contained in this MD&A in an unpredictable and possibly detrimental manner. In light of these risks and uncertainties, the forward-looking events described in this MD&A might not occur or might not occur when stated.

Non-GAAP Performances Measures

Readers are cautioned that this MD&A contains certain information that is not consistent with financial measures prescribed under GAAP. See discussion below under "Use of Non-GAAP Performance Measures".



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SELECTED FINANCIAL INFORMATION

	Three Months Ended			Twelve Months Ended		
	February 29, 2016	February 28, 2015	February 28, 2014	February 29, 2016	February 28, 2015	February 28, 2014
REVENUE						
Hardware and other	8,601	41,654	16,228	71,393	150,432	84,960
Services	3,440	2,088	1,629	14,902	7,334	5,051
	12,041	43,742	17,857	86,295	157,766	90,011
COST OF SALES						
Hardware and other	7,794	32,923	14,418	58,991	123,950	77,625
Services	1,563	1,135	324	8,917	3,051	645
	9,357	34,058	14,742	67,908	127,001	78,270
Gross profit before inventory provisions (note 1)	2,684	9,684	3,115	18,387	30,765	11,741
	22.3%	22.1%	17.4%	21.3%	19.5%	13.0%
Inventory provision	3,181	1,187	526	4,416	2,771	1,078
Gross profit	(497)	8,497	2,589	13,971	27,994	10,663
	(4.1%)	19.4%	14.5%	16.2%	17.7%	11.8%
EXPENSES						
Research and development	2,425	4,271	4,863	13,406	18,657	19,948
Selling and marketing	1,858	3,745	3,165	10,572	13,975	13,201
General and administrative	3,311	3,288	3,762	13,798	15,085	17,087
	7,594	11,304	11,790	37,776	47,717	50,236
Loss before other items	(8,091)	(2,807)	(9,201)	(23,805)	(19,723)	(39,573)
Other Expenses						
Goodwill impairment	—	—	—	(11,927)	—	—
Restructuring costs	(130)	—	—	(1,549)	—	—
Amortization of intangible assets	(96)	(207)	(404)	(577)	(1,188)	(1,900)
Accretion expense	(37)	(59)	(48)	(205)	(168)	(222)
Interest expense	(424)	(452)	(440)	(2,014)	(1,557)	(1,750)
Warrant issuance expenses	—	—	—	—	(221)	(662)
Gain on change in estimate	—	(234)	(553)	—	67	2,759
Gain on contract amendment	—	—	—	—	—	5,702
Gain on sale of fixed assets	—	—	—	—	18	—
Fair value adjustment — warrant liability	(69)	979	(352)	1,119	2,007	3,235
Foreign exchange (loss) gain	(307)	327	(311)	(331)	846	(1,530)
Loss before income taxes	(9,154)	(2,453)	(11,309)	(39,289)	(19,919)	(33,941)
Income tax expense/(recovery)	129	(330)	128	2,275	717	398
Net Loss	(9,283)	(2,123)	(11,437)	(41,564)	(20,636)	(34,339)
Net (income) loss attributable to non-controlling interest	152	(145)	(162)	(740)	(884)	97
Net Loss attributable to shareholders	(9,131)	(2,268)	(11,599)	(42,304)	(21,520)	(34,242)
Basic & Diluted loss per share	(3.02)	(0.75)	(17.86)	(14.01)	(7.90)	(20.66)
Basic & Diluted weighted average shares outstanding	3,019,712	3,011,065	1,521,744	3,019,259	2,724,469	1,657,535

Note 1: "Gross profit before inventory provisions" is a non-GAAP financial measure. See "Use of Non-GAAP Performance Measures".



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The principal differences between the three and twelve months ended February 29, 2016 and February 28, 2015 are explained as follows:

- Revenue changes between these two periods can be attributed to lower sales through all sales channels, most significantly through the Nokia channel. Higher services revenue in fiscal year 2016 relative to the prior year relates to installation services to tier 1 carriers in India and North America.
- Before considering inventory provisions, our gross profit percentage increased by 1.8% in the twelve months ended February 29, 2016 when compared to the same period one year prior. A higher percentage of sales in fiscal year 2015 was made through both original equipment manufacturers (OEMs) channels and through a customer in India. These channels have inherently lower gross profit percentage levels than other sales channels.
- The inventory provisions taken in fiscal year 2016 were higher in both the three and twelve months ended February 29, 2016 than they were in the same periods in the prior fiscal year. (Fourth quarter higher by \$2.0 million; full year higher by \$1.6 million) The increase was driven by the inventory provisions taken in fiscal year 2016 which related primarily to excess inventory.
- Operating expenses were lower as a result of the steps taken to restructure the business in fiscal year 2016 in order to reduce spending. In addition, a weakened Canadian dollar ("CAD") reduced our USD-translated operating expenses in fiscal year 2016.

The principal differences between the three and twelve months ended February 29, 2016 and February 28, 2014 are explained as follows:

- Revenue was lower in fiscal year 2016 compared to fiscal year 2014 as a result of lower sales through most customer channels globally. Higher sales to India in fiscal year 2016 offset this downward trend. Services revenue in fiscal year 2016 was dominated by installation services to tier 1 carriers in India and North America. These installation contracts did not exist in fiscal year 2014.
- Before considering inventory provisions, the gross profit percentage increased by 4.9% and 8.3% respectively between the fourth quarter and full fiscal year 2016 compared to the same periods two years prior. Improvements relate primarily to material cost improvements since fiscal year 2014 which have resulted in improved gross profit percentages.
- Inventory provisions were \$2.7 million higher in the fourth quarter, and \$3.3 million higher for the fiscal year 2016 than they were in the same periods in fiscal year 2014. Inventory provisions were taken in fiscal year 2016 to reflect the continued evolution of the product portfolio and the risk of excess inventory as a result of the change in the relationship with Nokia.
- Operating expenses were \$4.2 million and \$12.5 million lower respectively in the three and twelve months ended February 29, 2016 than they were in the same periods two years prior. This reduction is primarily the result of lower compensation related spending following global restructuring activities in fiscal year 2016 and lower depreciation levels as well. A weakened CAD also reduced our USD-translated operating expenses in fiscal year 2016.



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Consolidated Balance Sheet Data

	As at February 29, 2016	As at February 28, 2015
Assets		
Current Assets		
Cash and cash equivalents	4,277	23,692
Trade receivables	18,986	48,626
Inventory	22,702	24,294
Other current assets	2,777	5,895
	<u>48,742</u>	<u>102,507</u>
Long Term Assets		
Property and equipment	3,702	4,322
Deferred tax asset	—	1,485
Deferred financing cost	—	18
Intangible assets	623	794
Goodwill	—	11,927
	<u>4,325</u>	<u>18,546</u>
Total Assets	<u><u>53,067</u></u>	<u><u>121,053</u></u>
Liabilities		
Debt facility	22,152	
Accounts payable and accrued liabilities	23,557	40,677
Deferred revenue	1,944	830
Deferred tax liability	294	—
Warrant liability	117	—
	<u>48,064</u>	<u>41,507</u>
Long Term Liabilities		
Debt facility	—	32,400
Other long term liabilities	773	1,139
Warrant liability	3	1,239
	<u>776</u>	<u>34,778</u>
Shareholders' equity		
Capital stock	221,128	220,952
Contributed surplus	9,235	8,388
Deficit	(218,225)	(175,921)
Accumulated other comprehensive loss	(9,618)	(9,618)
Total Shareholder's equity	<u>2,520</u>	<u>43,801</u>
Non-controlling interests	1,707	967
Total Equity	<u>4,227</u>	<u>44,768</u>
Total Liabilities and Equity	<u><u>53,067</u></u>	<u><u>121,053</u></u>
Shares issued & outstanding	<u>3,020,069</u>	<u>3,011,632</u>



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SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following table sets out selected financial information for each of our most recently completed eight fiscal quarters. In the opinion of management, this information has been prepared on the same basis as our audited consolidated financial statements, and all necessary adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with our consolidated financial statements and related notes.

Historically, our financial results have fluctuated on a quarterly basis and we expect that quarterly financial results will continue to fluctuate in the future. The results of operations for interim periods should not be relied upon as an indication of the results to be expected or achieved in any future period or any fiscal year as a whole. Fluctuations in results reflect the project nature of network installations. In addition, results may vary as a result of staffing levels, infrastructure additions required to support our operations and material costs required to support design initiatives.

	FY15				FY16			
	May 31 2014	Aug 31 2014	Nov 30 2014	Feb 28 2015	May 31 2015	Aug 31 2015	Nov 30 2015	Feb 29 2016
Revenue	28,771	37,933	47,320	43,742	26,340	26,917	20,997	12,041
Gross Profit before inventory provisions (note 1)	5,976	7,116	7,990	9,684	5,844	4,715	5,144	2,684
Gross Profit %	20.8%	18.8%	16.9%	22.1%	22.2%	17.5%	24.5%	22.3%
Inventory provisions	90	1,223	272	1,187	295	730	210	3,181
Gross Profit after inventory provisions	5,886	5,893	7,718	8,497	5,549	3,985	4,934	(497)
Gross Profit % after inventory provisions	20.5%	15.5%	16.3%	19.4%	21.1%	14.8%	23.5%	(4.1%)
Operating Expenses	12,056	12,165	12,192	11,304	10,963	10,530	8,689	7,594
Loss before other items — (gross profit less operating expenses)	(6,170)	(6,272)	(4,474)	(2,807)	(5,414)	(6,545)	(3,755)	(8,091)
Loss for the period	(6,667)	(8,410)	(3,436)	(2,123)	(5,824)	(20,703)	(5,754)	(9,283)
Net loss per share								
Basic and Diluted	(2.75)	(3.50)	(1.25)	(0.75)	(1.98)	(7.00)	(2.07)	(3.02)
Weighted average number of shares outstanding								
Basic & Diluted	2,327,766	2,555,762	3,010,178	3,011,065	3,011,941	3,014,892	3,018,034	3,019,712
Total Assets	86,130	110,597	120,291	121,053	113,587	88,327	69,241	53,067

Note 1: Gross profit before inventory provisions is a non-GAAP financial measure. See "Use of Non-GAAP Performance Measures".

Overview

DragonWave is a leading provider of high-capacity packet microwave solutions that drive next-generation IP networks. DragonWave's carrier-grade point-to-point packet microwave systems transmit broadband voice, video and data, enabling service providers, government agencies, enterprises and other organizations to meet their increasing bandwidth requirements rapidly and affordably. The principal application of DragonWave's products is mobile network backhaul. Additional applications include leased line replacement, last mile fiber extension and enterprise networks.



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We support product lines branded under the names Horizon, Avenue and Avenue Lite, Harmony and Harmony Lite, Harmony Eband and Harmony Enhanced. The key elements of our solutions include: high performance; carrier-grade availability; cost-competitiveness; support of legacy networking standards; and the availability of advanced network management and wireless network IP planning.

The demand for our products is driven by global trends, including IP convergence and pressure on backhaul capacity caused by increased functionality of mobile devices, the shift in demand from voice to multimedia content and services, growing demand for wireless coverage, increasing number of subscribers, and investment in radio access network spectrum. In our target markets, network traffic is shifting from legacy TDM traffic to IP-based traffic to improve network efficiency and enable IP-based services. Principally, we target the global wireless communications service provider market and, in particular, those service providers offering high-capacity wireless communication services, including traditional cellular service providers and emerging broadband wireless access (BWA) service providers.

We sell our products both directly and indirectly through our channel partners.

Our direct customers are typically service providers that operate networks in large geographical areas. The sales cycle to this class of customer typically involves a trial (or trials), and typically requires twelve to eighteen months from first contact before orders are received, but can be longer, particularly in greenfield situations. Once the order stage is reached, a supply agreement is usually established and multiple orders are processed under one master supply agreement. Master supply agreements provide the framework for future business and do not generally include any volume commitments.

Our channel partners are distributors, value-added resellers and OEMs including system integrators and network equipment vendors. In 2012, we acquired Nokia's microwave product line. Nokia rebrands our Harmony product as FlexiPacket. During the three and twelve months ended February 29, 2016, the Nokia channel accounted for 47% and 44% respectively of our sales. See "Relationship with Nokia" below.

We also have a 50.1% owned subsidiary, DragonWave HFCL India Private Limited ("DragonWave HFCL") to address the Indian market. Because we have a controlling interest in the subsidiary we consolidate its results. Our sales of services and locally sourced material in India flowed through DragonWave HFCL and accounted for \$1.6 million and \$10.1 million of our total revenue in the three and twelve months ended February 29, 2016.

We outsource most of our manufacturing and certain elements of the supply chain management and distribution functions. Outsourcing these functions allows us to focus on designing, developing, selling and supporting our products. Our research and development expenses have historically been, and will continue to be, a significant portion of our overall cost structure as we will continue to invest in new product features and new platforms to better serve the current and future needs of our customers.

Our industry is global and highly competitive. We face competition in our target markets from two types of microwave equipment suppliers: hybrid equipment suppliers (including NEC Corporation, Alcatel-Lucent (recently acquired by Nokia), Ericsson and Huawei) and suppliers, like us, of Ethernet equipment (including SIAE Microelettronica, Ceragon Networks Ltd. and Aviat Networks, Inc.). We also face competition from full service network integrators such as Huawei, NEC Corporation, Alcatel-Lucent (recently acquired by Nokia) and Ericsson, who have developed competing Ethernet-based products for IP networks.

Our business priorities include: managing resources to minimize cash demands; strengthening our balance sheet; maintaining our global reach while focusing on key revenue growth areas; maintaining and growing our



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relationships with channel partners; building on customer wins; and building toward leadership in outdoor smallcell backhaul.

Our primary operational objective is to achieve cash flow break-even and reduce our net losses. To this end, we plan to focus on revenue opportunities with higher gross margin potential and lower working capital requirements, at the same time as we restructure the size of the organization to stay in line with our current revenue levels and geographic focus.

Recent Developments

Highlights of Our Financial Results

The following are key points on our results of operations for the fourth quarter and full year ended February 29, 2016, compared to the same periods in the prior fiscal year:

- Our revenue decreased by \$31.7 million when comparing the three month periods ended February 29, 2016 and February 28, 2015. When comparing the twelve month periods, revenue decreased by \$71.5 million between fiscal year 2015 and fiscal year 2016.

	Three months period	Twelve months ended
Revenue ended February 28, 2015	43,742	157,766
Decrease in sales through Nokia Channel	(14,681)	(46,665)
Decrease in direct sales to a Tier 1 carrier located in India	(6,065)	(12,298)
Decrease in direct and indirect sales in North America	(7,229)	(5,977)
Decrease in direct sales in Europe, Middle East & Africa	(3,790)	(5,801)
Other	64	(730)
Total Change	(31,701)	(71,471)
Revenue ended February 29, 2015	<u>\$12,041</u>	<u>\$86,295</u>

- Our gross profit percentage, before inventory provisions, in the fourth quarter of fiscal year 2016 remained consistent with the same period in the prior year despite the significant decline in revenue. The gross profit percentage, before inventory provisions, improved to 21.3% in the twelve months ended February 29, 2016 from 19.5% for the same twelve month period in the prior year. A change in customer and product mix has driven this improvement.
- Operating expenses decreased as well. The following table highlights the key factors contributing to lower operating expenses.



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	Q4 FY2016 vs. Q4 FY2015	YTD FY2016 vs. YTD FY2015
<i>Key Drivers:</i>		
Compensation related spending	(2.7)	(3.6)
Travel & living	(0.4)	(1.3)
Material spending on prototypes & tooling costs	0.1	(1.2)
Contractor and professional services spending	(0.3)	(0.6)
Depreciation	—	(0.4)
DragonWave HFCL (India) spending	0.2	0.4
Foreign exchange benefit to operating expenses of translating Canadian dollar expenses to USD	(0.6)	(3.2)
<i>(as the Canadian dollar has weakened our USD translated expenses have decreased) . . .</i>	<u>(3.7)</u>	<u>(9.9)</u>

- We recorded a restructuring expense in the amount of \$0.1 million and \$1.5 million respectively in the three and twelve months ended February 29, 2016 related to staff reductions which took place in the third quarter of fiscal year 2016.
- We recorded a non-cash impairment charge of \$11.9 million in the three months ended August 31, 2015 after performing our annual goodwill impairment test. This adjustment is reflected in the twelve months ended February 29, 2016.
- A fair value adjustment gain of \$1.1 million was realized during the twelve months ended February 29, 2016, as a result of a change in the warrant valuation on the remaining warrants outstanding from the public equity offerings completed in September 2013 and August 2014. A small loss of \$0.1 million was recognized in the three months ended February 29, 2016 as the warrant valuation increased during this period.
- Other items before taxes impacting the loss in the fourth quarter and during the twelve months ended February 29, 2016 totaled \$0.9 million and \$3.1 million, respectively, and included amortization of software assets, accretion expense, interest expense, and a foreign exchange loss.
- In the three and twelve months ended February 29, 2016 we recognized a tax expense of \$0.1 million and \$2.3 million respectively. The tax expense was comprised of an increase in a valuation allowance on a deferred tax asset related to net operating loss carry-forwards in the United States in the amount of \$1.6 million, (recognized in the second quarter of fiscal year 2016), a tax expense associated with taxes owing in profitable jurisdictions (fourth quarter of fiscal year 2016 — \$0.1 million; full fiscal year 2016 — \$0.4 million) and a deferred tax liability in the amount of \$0.3 million related to income in India (recognized in the fourth quarter of fiscal year 2016).
- The net loss applicable to shareholders was \$9.1 million and \$42.3 million, respectively, for the three and twelve months ended February 29, 2016.
- In the three months ended February 29, 2016, we repaid \$4.5 million on our line of credit which decreased the outstanding debt balance to \$22.2 million. Before the debt repayment we generated cash of \$0.9 million during this period primarily as a result of our receivable collection efforts. Our ending cash position at February 29, 2016 was \$4.3 million.



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- We repaid a further \$3.3 million between March 1, 2016 and the date of this MD&A. As at May 18, 2016 the balance of our outstanding debt is \$18.9 million.

Liquidity and Cash Resources

The consolidated financial statements for the year ended February 29, 2016 have been prepared assuming we will continue as a going concern, which contemplates the realization of assets and the disbursement of liabilities and commitments in the normal course of business in the foreseeable future. We have a history of losses and we have consumed significant cash resources in the past, and we have continued to do so in the year ended February 29, 2016. Recently, we have experienced additional liquidity pressure as a result of reduced revenue from a significant OEM channel and a dispute over inventory shipped to a customer in India in June 2015.

We have been able to make progress in restructuring the business. This progress includes the following highlights:

- Reduced operating expenses by 33% in the fourth quarter of fiscal year 2016 compared to the same period in the previous fiscal year primarily through a reduction in staff levels;
- Raised \$4.4 million in equity in an offering completed on April 11, 2016;
- Reduced outstanding debt on our credit facility by \$10.2 million between February 28, 2015 and February 29, 2016 by leveraging our working capital;
- Negotiated forbearance terms with our credit facility partners; and
- Engagement in arbitration proceedings to seek resolution to our customer dispute in India.

Despite the progress identified above, we remain in breach of the terms of our debt facility and we are currently operating under our second forbearance period pursuant to the terms of a forbearance agreement which expires on May 18, 2016. No long term debt facility agreement has been reached. The continued consumption of cash has raised substantial doubt about our ability to continue as a going concern. Our plans to restructure the business and overcome these difficulties include initiatives in a number of areas including:

- Targeting our sales efforts to direct and indirect opportunities in markets with higher gross margins, and lower working capital requirements;
- Adjusting our business focus and resources away from Nokia in order to support new sales channels;
- Renegotiating the terms of existing debt facilities;
- Continuing to minimize fixed and variable operating expenses, by tightly controlling discretionary spending and headcount growth;
- Actively investigating and pursuing alternative forms of financing;
- Reducing inventory levels in both raw material and finished goods inventory; and
- Working closely with vendors to ensure supply continuity.

These plans may be difficult to achieve. They are dependent on a number of key assumptions including the timing of significant new customer projects, and success in arbitration with the customer located in India. It is possible that the plans described above may not be fully executed or may occur too slowly to solve our current



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liquidity concerns. There can be no assurance that the existing financing facility can be renegotiated or that any other forms of financing can be arranged on satisfactory terms. These consolidated financial statements do not include any adjustments to the accounts and classification of assets and liabilities that may be necessary if we are unable to continue as a going concern. Such adjustments could be material.

Expense Reduction Actions

As part of an overall plan to decrease our operating expenses we reduced our global workforce early in the third quarter of fiscal year 2016 by approximately 23%. The reductions impacted our Shanghai design center as well as a number of sales and customer support centers around the world. Staff changes also occurred across a variety of functional areas in Canada. We recognized a restructuring expense of \$0.1 million and \$1.5 million in the fourth quarter and full year of fiscal 2016 respectively. Approximately \$0.3 million of that amount remains as a liability on the balance sheet at February 29, 2016. It is expected that the reduction in staff will enable us to reduce operating expenses by approximately \$7.0 million annually.

Arbitration Process in India

In January 2016, a customer in India initiated an arbitration process with us to resolve the dispute over inventory shipped to them in June 2015. The value of the inventory shipped is \$4.7 million. The customer has submitted their claim statement which we feel has no merit. We will submit a counter-claim for the material shipped, orders cancelled and other damages in June 2016. The arbitration hearing is set for July, 2016. As of the date of this MD&A, the outcome of this matter is not determinable.

Nokia Sales Channel Update

Following Nokia's announced combination with Alcatel-Lucent, which has a vertically integrated microwave business unit, we announced that we have reshaped our channel strategy. Our revised strategy primarily positions our latest and new products directly to customers. We will continue to provide software maintenance and level 3 hardware support to Nokia for the large installed base of network elements deployed by both our Company and Nokia to date. In addition, we expect to sell the Harmony FlexiPacket Multiradio (Harmony Radio) product family and legacy products through the Nokia channel to customers who wish to continue with this platform, although we do expect these sales levels to decrease over time. To facilitate these ongoing activities, our global framework agreements will continue in place.

Debt Facility

In light of our liquidity issues, our credit facility and our relationship with our lenders is a primary focus for us.

We have an existing credit facility with Comerica Bank and Export Development Canada which is an asset based credit facility and was structured for a total of \$40.0 million plus \$4.0 million for letters of credit and foreign exchange facilities. We had drawn \$22.2 million on the facility as at February 29, 2016 (February 28, 2015 — \$32.4 million), and \$1.9 million against our letter of credit facility (February 28, 2015 — \$1.9 million). The credit facility which was extended on January 6, 2014, matures on June 1, 2016 and is secured by a first priority charge on all of our assets and our principal direct and indirect subsidiaries. The terms of the credit facility include other customary terms, conditions, covenants, and representations and warranties and credit availability is subject to ongoing compliance with borrowing covenants and short term assets on hand.



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We have in place a forbearance agreement until May 18, 2016, which identifies new minimum covenant levels reflecting our revised financial plans. The forbearance agreement includes a requirement to hold a minimum of \$1.0 million at Comerica Bank. In addition, the forbearance agreement reduces the facility commitment from \$40.0 million to \$35.0 million and implements more frequent monitoring. Subsequent to February 29, 2016, we repaid \$3.3 million on the line of credit. As of the date of this MD&A the balance of the line of credit is \$18.9 million. We are in compliance with the financial terms of the forbearance agreement at May 18, 2016.

Strategic Review Process

Our Board of Directors reviews our corporate strategy on an ongoing basis. The Board continues to review all strategic and financial alternatives that may be available, including a potential sale of the Company, debt or equity financing, business combinations, joint ventures and strategic alliances, and ways to optimize our stand alone plan. CIBC World Markets Inc. has been engaged since January, 2014 to assist in the analysis of our strategic and financing alternatives. They continue to be engaged in this capacity. HC Wainwright has been engaged to investigate financing options, and recently represented us in the registered direct offering in April, 2016 discussed further below.

Transfer of Securities to the NASDAQ Capital Market

On September 1, 2015 we announced that the transfer of the listing of our securities from The NASDAQ Global Market to The NASDAQ Capital Market ("NASDAQ") had been approved by the Staff of the NASDAQ Listing Qualifications Department ("NASDAQ Staff"), effective as of the opening of trading on August 28, 2015. Our common shares continue to trade under the symbol "DRWI".

As previously announced, on March 5, 2015, we received notice that our closing bid price had been below US\$1.00 per share for 30 consecutive business days and that, accordingly, the NASDAQ Staff had granted us an extension through November 30, 2015 to regain compliance with the US\$1.00 per share bid price requirement. We were not able to regain compliance with this requirement within such period, and as a result we transferred the listing of our common shares from The NASDAQ Global Market to The NASDAQ Capital Market. In connection with such transfer, we were granted an additional 180 days to regain compliance with the minimum \$1.00 bid price per share requirement. The new extension period ran through February 29, 2016. A notice from NASDAQ, received February 19, 2016, noted that the closing bid price of our common shares had been at US\$1.00 per share or greater from February 4, 2016 to February 18, 2016. Accordingly, the Company has regained compliance with the US\$1.00 per share bid price requirement.

Share Consolidation

On December 11, 2015 we proposed in a Management Proxy Circular a consolidation of our shares (the "Consolidation"). The resolution to consolidate the shares was passed at a special meeting of shareholders on Tuesday, January 26, 2016. The resolution authorized a consolidation ratio of between 1-for-15 and 1-for-25. The Board of Directors effected the share Consolidation on February 2, 2016 on the basis of twenty-five (25) pre-Consolidation shares for one (1) post-Consolidation share. The Consolidation of our common shares was intended to establish the basis for the shares to trade above US\$1.00, as per the listing requirements of the NASDAQ. The Consolidation reduced the number of outstanding common shares from approximately 75,493,513 to approximately 3,019,717. Each fractional share remaining after the share consolidation was cancelled. The number of outstanding warrants, stock options and restricted share units were proportionately



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adjusted by the consolidation ratio and the exercise prices correspondingly increased by the same consolidation ratio. All shares and exercise prices are presented on a post-consolidation basis in our annual consolidated financial statements and in this MD&A.

Registered Direct Offering

On April 7, 2016 we announced our intention to complete a registered direct offering, which was completed on April 11, 2016. Under the offering, we issued 599,998 common shares and concurrently in a private placement issued warrants to purchase 299,999 common shares exercisable until March 12, 2020 at an exercise price of \$8.50. The price per common share and one half of a warrant was \$7.25 and resulted in total gross proceeds of \$4.35 million. The net proceeds of the offering, before expenses, were approximately US\$4.0 million. We expect that any exercise of the warrants will result in the cash proceeds from the exercise of such warrants being paid to us. Rodman & Renshaw, a unit of H.C. Wainwright & Co., LLC acted as the exclusive placement agent for the registered direct offering and concurrent private placement.

Continued Investment in New Technology and New Customer Opportunities

We continue to invest in new technology in order to meet the changing needs of the market with a focus on both increased capability and operating cost efficiencies for carriers. Evidence of that objective includes the announcement of product offerings like Harmony Care designed to support the extended life of a variety of our hardware and software products and the recently announced joint initiative with Mitel Networks Corporation which will be focused on advancing the development of 5G networking. We continue to work toward the adoption of our products with existing and new customers including the recently launched Harmony Enhanced^{MC} dual carrier product by supporting active trials throughout the world.

We are also actively engaged in supporting bids for opportunities which will leverage the high capacity and operating efficiency characteristics that our products are optimized for, including opportunities with a major Tier 1 carrier in North America.



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Adjusted Cashflow from Operations/Adjusted EBITDA

Please note: Adjusted Cashflow from Operations/Adjusted EBITDA is a non-GAAP measure. See "Use of Non-GAAP Performance Measures".

	FY16 Q4	FY16 Q3	FY16 Q2	FY16 Q1
Revenue	12,041	20,997	26,917	26,340
Cost of Sales	12,538	16,063	22,236	20,791
Gross Profit	(497) (4.1%)	4,934 23.5%	3,985 14.8%	5,549 21.1%
Add:				
Inventory Provisions	3,181	210	730	295
Gross profit before inventory provisions (Note 1)	2,684 22.3%	5,144 24.5%	4,715 17.5%	5,844 22.2%
Operating Expenses	7,594	8,689	10,530	10,963
Less:				
Amortization	(467)	(494)	(498)	(472)
Stock-based compensation	(210)	(273)	(228)	(277)
	6,917	7,922	9,804	10,214
Adjusted Cashflow from Operations/Adjusted EBITDA	(4,233)	(2,778)	(5,089)	(4,370)

Note 1: Gross profit before inventory provisions is a non-GAAP financial measure. See "Use of Non-GAAP Performance Measures".

Comparison of the three and twelve months ended February 29, 2016 and February 28, 2015

Revenue

	Three Months Ended			Twelve Months Ended		
	February 29, 2016	February 28, 2015	Variance	February 29, 2016	February 28, 2015	Variance
	\$	\$	\$	\$	\$	\$
Hardware and other	8,601	41,654	(33,053)	71,393	150,432	(79,039)
Services	3,440	2,088	1,352	14,902	7,334	7,568
	12,041	43,742	(31,701)	86,295	157,766	(71,471)

Hardware and other sales include both the microwave backhaul equipment shipped and the related software upgrades. The Services category includes software maintenance contracts, extended warranty programs and site planning and installation services. The growth in Services revenue in fiscal year 2016 in both the three and twelve months ended February 29, 2016 compared to the same periods in the prior year relates to an increase in installation services in India and North America.



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We analyze our sales according to geographic region and target product development and sales strategies to meet the unique requirements of each region. The table below displays this information for the three months ended February 29, 2016 and February 28, 2015.

	Three Months Ended February 29, 2016				Three Months Ended February 28, 2015			
	Direct & Indirect Sales	OEM Sales through Nokia	Total	% of total revenue	Direct & Indirect Sales	OEM Sales through Nokia	Total	% of total revenue
Canada	156	—	156	1%	1,136	—	1,136	3%
Europe, Middle East & Africa	1,357	4,979	6,336	53%	5,147	17,008	22,155	51%
India	1,245	506	1,751	15%	7,310	2,622	9,932	23%
United States	2,179	—	2,179	18%	8,428	—	8,428	19%
Rest of World	1,489	130	1,619	13%	1,425	666	2,091	4%
	<u>6,426</u>	<u>5,615</u>	<u>12,041</u>	<u>100%</u>	<u>23,446</u>	<u>20,296</u>	<u>43,742</u>	<u>100%</u>

The table below displays the geographic comparatives for the twelve months ended February 29, 2016 and February 28, 2015.

	Year Ended February 29, 2016				Year Ended February 28, 2015			
	Direct & Indirect Sales	OEM Sales through Nokia	Total	% of total revenue	Direct & Indirect Sales	OEM Sales through Nokia	Total	% of total revenue
Canada	2,255	—	2,255	3%	4,358	—	4,358	3%
Europe, Middle East & Africa	6,753	31,109	37,862	44%	12,554	61,467	74,021	47%
India	13,993	3,787	17,780	21%	26,291	10,854	37,145	24%
United States	19,577	19	19,596	23%	23,451	—	23,451	15%
Rest of World	6,095	2,707	8,802	9%	6,825	11,966	18,791	11%
	<u>48,673</u>	<u>37,622</u>	<u>86,295</u>	<u>100%</u>	<u>73,479</u>	<u>84,287</u>	<u>157,766</u>	<u>100%</u>



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The following chart identifies the major contributors to the decrease in sales between fiscal year 2016 and fiscal year 2015.

	Three month period
Revenue ended February 28, 2015	43,742
Increased sales to a carrier in Mexico	707
New installation with a Czech carrier (existing customer)	163
New customer in Finland	163
New installation with a customer in the U.A.E.	204
Two new customers in the USA	117
Sales through the Nokia channel in India	181
Nokia channel — outside of India	(14,862)
Decrease in direct sales to a tier 1 carrier in India	(6,065)
Decrease in direct and indirect sales in North America	(8,257)
Decrease in direct sales in Europe, Middle East & Africa	(4,116)
Other	64
Net Change	(31,701)
Revenue ended February 29, 2016	12,041
	Twelve Month Period
Revenue for the year ended February 28, 2015	157,766
Increase sales to a tier 1 carrier in the USA (primarily installation services)	1,482
Increase in sales to existing distributors in the USA (2 distributors)	1,104
New installation with a Czech carrier (existing customer)	1,067
Two new customers in the USA	1,010
New customers in Saudi Arabia and the U.A.E.	668
New customer in South Africa (previously purchased through Nokia)	641
Nokia Channel	(46,665)
Decrease in direct sales to a tier 1 carrier in India	(12,298)
Decrease in direct and indirect sales in North America	(9,573)
Decrease in direct sales in Europe, Middle East & Africa	(8,177)
Other	(730)
Net change	(71,471)
Revenue for the year ended February 29, 2016	86,295



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Gross Profit

	Three Months Ended			Twelve Months Ended		
	February 29, 2016	February 28, 2015	Variance	February 29, 2016	February 28, 2015	Variance
	\$	\$	\$	\$	\$	\$
Hardware and other	7,794	32,923	(25,129)	58,991	123,950	(64,959)
Services	1,563	1,135	428	8,917	3,051	5,866
	9,357	34,058	(24,701)	67,908	127,001	(59,093)
Gross Profit before inventory provisions	2,684	9,684	(7,000)	18,387	30,765	(12,378)
(Note)	22.3%	22.1%	0.1%	21.3%	19.5%	1.8%
Inventory provisions	3,181	1,187	1,994	4,416	2,771	1,645
Gross Profit	(497)	8,497	(8,994)	13,971	27,994	(14,023)
	(4.1%)	19.4%	(23.6%)	16.2%	17.7%	(1.6%)

Note: Gross profit before inventory provision is a non-GAAP financial measure. See "Use of Non-GAAP Performance Measures".

A large component of our cost of sales for hardware is the cost of products purchased from outsourced manufacturers. Final testing and assembly for the links sold by us is carried out both at our premises and at the premises of our contract manufacturers. Additional costs for logistics and warranty activities are included in the Hardware and other category as well.

Services costs relate primarily to the cost of third party installation service providers.

Despite the decrease in sales, our gross profit percentage before inventory provisions remained consistent during the three months ended February 29, 2016 and increased by 1.8% in the twelve months ended February 29, 2016 compared to the same periods in the prior fiscal year. The primary reasons for the improvement relates to a change in the mix of customers, and an increase in the percentage of higher margin products in fiscal year 2016.

The increase in the inventory provision in fiscal year 2016 relates to the excess provisions taken in this year associated with products sold substantially through the Nokia sales channel given the decrease in future demand through this customer.



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Expenses

The foreign exchange benefit on the charts below is the estimated reduction in the expenses paid in Canadian dollars when translated to USD. The Canadian dollar has weakened relative to the USD between fiscal year 2015 and fiscal year 2016.

	Fiscal Year 2016	Fiscal Year 2015	Difference	% Difference
Average foreign exchange rate CAD to USD	0.768	0.893	(0.125)	(14%)

Research and Development

Three Months Ended			Twelve Months Ended		
February 29, 2016	February 28, 2015	Variance	February 29, 2016	February 28, 2015	Variance
\$	\$	\$	\$	\$	\$
2,425	4,271	(1,846)	13,406	18,657	(5,251)

Research and development ("R&D") costs relate mainly to the compensation of our engineering group and the material consumption associated with prototyping activities. Staff employed in this functional area are located in Canada and China. Staff levels declined by approximately 47% between February 28, 2015 and February 29, 2016 primarily as a result of restructuring initiatives.

Changes to R&D Expenses in USD Millions:

	Q4 FY2016 vs. Q4 FY2015	YTD FY2016 vs. YTD FY2015
Key Drivers:		
Compensation related spending	(1.2)	(1.5)
Depreciation	(0.1)	(0.7)
Material spending on prototypes	(0.1)	(1.8)
Rent (China)	(0.2)	(0.4)
Foreign exchange — benefit of Canadian to USD conversion	(0.2)	(0.9)
	<u>(1.8)</u>	<u>(5.3)</u>

Sales and Marketing

Three Months Ended			Twelve Months Ended		
February 29, 2016	February 28, 2015	Variance	February 29, 2016	February 28, 2015	Variance
\$	\$	\$	\$	\$	\$
1,858	3,745	(1,887)	10,572	13,975	(3,403)



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Sales and marketing ("S&M") expenses include the remuneration of sales, marketing, product line management and customer service staff, including their associated travel and other spending. Recent staff reductions which were part of the restructuring efforts undertaken in September, 2015 impacted the S&M organization as well.

Changes to S&M Expenses in USD Millions:

	Q4 FY2016 vs. Q4 FY2015	YTD FY2016 vs. YTD FY2015
<i>Key Drivers:</i>		
Compensation related spending	(0.8)	(1.1)
Variable compensation (program changes and lower revenue)	(0.4)	(0.7)
Travel & living	(0.3)	(0.7)
External contracted services	(0.2)	(0.1)
Foreign exchange	(0.2)	(0.8)
	<u>(1.9)</u>	<u>(3.4)</u>

General and Administrative

	Three Months Ended			Twelve Months Ended		
	February 29, 2016	February 28, 2015	Variance	February 29, 2016	February 28, 2015	Variance
	\$	\$	\$	\$	\$	\$
	3,311	3,288	23	13,798	15,085	(1,287)
<i>Breakdown by functional area:</i>						
Finance, human resources and exec office	1,363	1,750	(387)	5,962	7,416	(1,454)
Operations groups not in Cost of Sales	1,639	1,442	197	6,202	6,788	(586)
DragonWave HFCL spending	309	96	213	1,634	881	753
	<u>3,311</u>	<u>3,288</u>	<u>23</u>	<u>13,798</u>	<u>15,085</u>	<u>(1,287)</u>

General and administrative ("G&A") expenses include finance, human resources and the executive office, as well as the portion of the costs of the operations organization which does not flow directly into Cost of Sales. This operations team includes inventory and production management, as well as IT and purchasing.



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Changes to G&A Expenses in USD Millions:

	Q4 FY2016 vs. Q4 FY2015	YTD FY2016 vs. YTD FY2015
<i>Key Drivers:</i>		
Compensation related spending	(0.4)	(0.3)
DragonWave HFCL related spending	0.2	0.8
Travel & living	(0.2)	(0.5)
Professional fees and insurance costs	(0.1)	(0.2)
Warehousing costs	0.3	0.3
Operations/IT related contractor spending	(0.4)	(0.3)
Operations spending not recovered through Cost of Sales	0.9	0.4
<i>(results from lower volumes)</i>		
Foreign exchange	<u>(0.3)</u>	<u>(1.5)</u>
	<u>—</u>	<u>(1.3)</u>

Goodwill Impairment

Three Months Ended			Twelve Months Ended		
February 29, 2016	February 28, 2015	Variance	February 29, 2016	February 28, 2015	Variance
\$	\$	\$	\$	\$	\$
—	—	—	11,927	—	11,927

We recorded a non-cash impairment charge of \$11.9 million in the twelve months ended February 29, 2016 after performing our annual goodwill impairment test which indicated the carrying value of the goodwill was fully impaired.

Restructuring Costs

Three Months Ended			Twelve Months Ended		
February 29, 2016	February 28, 2015	Variance	February 29, 2016	February 28, 2015	Variance
\$	\$	\$	\$	\$	\$
130	—	130	1,549	—	1,549

In September 2015, we implemented a restructuring plan in line with our objective of reducing our net losses and cash usage. Our plan included a 23% reduction of the workforce across a variety of functional areas of the business. The restructuring plan impacted staff primarily in China and Canada and, to a lesser extent, other countries globally. The corresponding reduction in compensation related spending is intended to help better align our costs with our revenues. Restructuring charges take the form of severance paid to employees. We have paid \$1.3 million of the total restructuring charge, while \$0.3 million remains unpaid and is reflected in our liabilities at February 29, 2016.



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Amortization of Intangible Assets

	Three Months Ended			Twelve Months Ended		
	February 29, 2016	February 28, 2015	Variance	February 29, 2016	February 28, 2015	Variance
	\$	\$	\$	\$	\$	\$
Amortization of computer software & infrastructure software	96	207	(111)	577	1,188	(611)

The amortization of software has decreased significantly as the net book value of software on the balance sheet has been declining.

Accretion Expense

Three Months Ended			Twelve Months Ended		
February 29, 2016	February 28, 2015	Variance	February 29, 2016	February 28, 2015	Variance
\$	\$	\$	\$	\$	\$
37	59	(22)	205	168	37

Accretion expenses have been recognized for both capital leases and for the termination liability which exists in connection with the termination of a services agreement with Nokia. In the prior fiscal year capital leases accounted for 100% of the accretion expense. In fiscal year 2016 the accretion expense associated with the termination liability represents approximately 80% of the total expense in this category.

Interest Expense

Three Months Ended			Twelve Months Ended		
February 29, 2016	February 28, 2015	Variance	February 29, 2016	February 28, 2015	Variance
\$	\$	\$	\$	\$	\$
424	452	(28)	2,014	1,557	457

Interest expense relates primarily to interest on our debt facility, this expense increased in the twelve month period ending February 29, 2016 compared with the same period in the prior year because the weighted average debt outstanding has increased between fiscal year 2016 and fiscal year 2015.

During the three month period ended February 29, 2016 the weighted average debt outstanding was \$23.7 million (three month period ended February 28, 2015 — \$27.9 million) while for the twelve month period ended February 29, 2016 it was \$29.8 million (twelve months ended February 28, 2015 — \$20.3 million). Interest rates vary with market rate fluctuations, with loans bearing interest in the range of 3% to 4% above the applicable base rates.



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Warrant Issuance Expenses

Three Months Ended			Twelve Months Ended		
February 29, 2016	February 28, 2015	Variance	February 29, 2016	February 28, 2015	Variance
\$	\$	\$	\$	\$	\$
—	—	—	—	221	(221)

On August 1, 2014 we completed an equity offering which included the issuance of warrants. Of the total equity issuance costs of \$2.3 million, \$0.2 million was attributed to the warrants specifically and expensed to our consolidated statement of operations in the twelve months ended February 28, 2015.

Loss (Gain) on Change in Estimate

Three Months Ended			Twelve Months Ended		
February 29, 2016	February 28, 2015	Variance	February 29, 2016	February 28, 2015	Variance
\$	\$	\$	\$	\$	\$
—	234	(234)	—	(67)	67

During the twelve months ended February 28, 2015, we revised the Nokia termination fee estimate, received the final invoice, and determined the payment schedule of the Italian operations termination fee. This resulted in a gain in change in estimate.

The total termination fee liability is valued at \$3.3 million as at February 29, 2016. All of this liability is considered short term in nature.

Fair Value Adjustment — Warrant Liability

Three Months Ended			Twelve Months Ended		
February 29, 2016	February 28, 2015	Variance	February 29, 2016	February 28, 2015	Variance
\$	\$	\$	\$	\$	\$
69	(979)	1,048	(1,119)	(2,007)	888

The warrant liability is required to be presented at its estimated fair value as at each balance sheet date. As DragonWave's share price has decreased, the liability has decreased as well, which has resulted in a recognition of a gain in the consolidated statement of operations. In the three months ended February 29, 2016 our share price increased which resulted in a \$0.1 million loss during this period as the corresponding value of the liability on the balance sheet also increased.



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Foreign Exchange (Gain)/Loss

Three Months Ended			Twelve Months Ended		
February 29, 2016	February 28, 2015	Variance	February 29, 2016	February 28, 2015	Variance
\$	\$	\$	\$	\$	\$
307	(327)	634	331	(846)	1,177

The foreign exchange gains and losses result from the translation of foreign denominated monetary accounts and the strength of the U.S. dollar relative to foreign currencies. During the three and twelve months ended February 29, 2016 the translation of bank and receivable accounts resulted in foreign currency losses of \$0.3 million and \$0.3 million respectively. These losses are driven by the devaluation of the Indian Rupee in fiscal year 2016.

Income Taxes Expense

	Three Months Ended			Twelve Months Ended		
	February 29, 2016	February 28, 2015	Variance	February 29, 2016	February 28, 2015	Variance
	\$	\$	\$	\$	\$	\$
Increase in valuation allowance on deferred tax asset	25	—	25	1,546	—	1,546
Deferred Tax Expense	294	—	294	294	—	294
Current Tax Expense/(Recovery) . .	(190)	(330)	140	435	717	(282)
	<u>129</u>	<u>(330)</u>	<u>459</u>	<u>2,275</u>	<u>717</u>	<u>1,558</u>

As of February 28, 2015, our deferred tax assets related to net operating loss carry-forwards in the United States. During the twelve months ended February 29, 2016, we recorded an increase in the valuation allowance of \$1.5 million as we believe it is more likely than not that the related deferred tax assets will not be realized (increase in the valuation allowance in the three and twelve months ended February 28, 2015 — nil).

We accrue tax expenses for entities located in foreign jurisdictions that are anticipated to be profitable for fiscal year 2016. The determination of our tax provision is based on the statutory tax rates applicable in each region and takes into account any available tax losses in each country. For the three and twelve months ended February 29, 2016, we recognized a deferred tax expense of \$0.3 million related DragonWave HFCL. We recognized a current tax true up of (\$0.2) million and a tax expense of \$0.4 million in the three and twelve months ended February 29, 2016 respectively related to foreign jurisdictions which are anticipated to be profitable within the current fiscal year.

We have losses available in the following jurisdictions:

	Net Operating Losses	Capital Losses	Investment Tax Credits	Ontario R&D Tax Credits
Canada	136,221	16,302	14,720	2,361
US	7,888	45,543		
Luxembourg	36,007			



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The losses in Canada expire starting in fiscal 2031 until fiscal 2036. The losses in Luxembourg can be carried forward indefinitely. Income tax benefits relating to the losses in Canada and Luxembourg have not been recognized in the consolidated financial statements as the recognition requirements under the liability method of accounting for income taxes have not been met.

The losses in the U.S. expire between fiscal 2022 and fiscal 2032. Internal Revenue Code Section 382 imposes an annual limitation on the use of a company's net operating loss carryforwards when a company has an ownership change. Our acquisition of Axerra Networks, Inc. resulted in an ownership change as understood by Section 382. As a result, the annual restriction of the amount of losses of Axerra Networks, Inc. that may be used has been calculated as \$0.5 million

The investment tax credits available to reduce future federal Canadian income taxes payable begin to expire in 2022. The provincial research and development tax credits are available to reduce future provincial income taxes payable and these provincial tax credits begin to expire in 2029. The tax benefit of the federal and provincial tax credits has not been recognized in the consolidated financial statements.

As at February 29, 2016, we have not recorded any liabilities associated with uncertain tax positions.

We remain subject to examination by tax authorities in Canada for years 2009 to 2016 and in the other jurisdictions for tax years 2011 to 2016.

No deferred income taxes have been provided on undistributed earnings or relating to cash held in foreign jurisdictions, as we have determined that any income or withholding taxes on repatriation would either not be significant, or we have decided to permanently reinvest the earnings in the foreign jurisdiction.

Use of Non-GAAP Performance Measures

"Gross profit before inventory provisions"

In this MD&A, we break out "Gross profit before inventory provisions" as this measure allows management to evaluate our operational performance and compare to prior periods more effectively. "Gross profit before inventory provisions" does not have any standardized meaning prescribed by GAAP, it is therefore unlikely to be comparable to similar measures presented by other issuers and is not designed to replace other measures of financial performance or the statement of operations as an indicator of performance. This measure should not be considered in isolation or as a substitute for other measures of performance calculated according to GAAP. We believe that it is useful to compare gross profit results without the impact of inventory provisions, since our inventory provisions generally relate to technical obsolescence and excess due to market changes. We believe this non-GAAP measure also provides investors with a better ability to understand our operational performance. We calculate "Gross profit before inventory provisions" consistently over each fiscal period.

The most directly comparable GAAP measure presented in our consolidated financial statements for the three and twelve months ended February 29, 2016 to "Gross profit before inventory provisions" is "Gross profit".

"Adjusted Cashflow from Operations/Adjusted EBITDA"

In this MD&A, we also break out "Adjusted Cashflow from Operations" also called "Adjusted EBITDA". This measure corresponds to earnings before interest, taxes, depreciation and amortization less elements that are non-cash in nature. Because it omits non-cash items, we feel that Adjusted Cashflow from Operations/Adjusted EBITDA better represents the cash impact of the results of operations in the period. Adjusted



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Cashflow from Operations/Adjusted EBITDA does not have any standardized meaning prescribed by GAAP, and is not designed to replace other measures of financial performance or the statement of operations as an indicator of performance. This measure should not be considered in isolation or as a substitute for other measures of performance calculated according to GAAP. Consistent improvement in Adjusted Cashflow from Operations/Adjusted EBITDA is one of management's primary objectives. Reducing cash usage from drivers other than working capital and capital investments is an important objective for us and we believe this financial measure is therefore useful to investors in evaluating our operating performance.

The most directly comparable GAAP measure presented in our consolidated financial statements for the three and twelve months ended February 29, 2016 to "Adjusted Cashflow from Operations/Adjusted EBITDA" is "Net Loss". A reconciliation of "Adjusted Cashflow from Operations/Adjusted EBITDA" to "Net Loss" is set out below.

"Days Sales Outstanding excluding Tier 1 carrier in India"

In this MD&A we break out "Days Sales Outstanding excluding Tier 1 carrier in India" as this measure allows management to evaluate our Days Sales Outstanding (DSO) performance and compare to prior periods absent the effect of the extended payment terms granted to this customer. "Days Sales Outstanding excluding Tier 1 carrier in India" does not have any standardized meaning prescribed by GAAP, it is therefore not comparable to similar measures presented by other issuers and is not designed to replace other measures of financial performance or the statement of operations as an indicator of performance. This measure should not be considered in isolation or as a substitute for other measures of performance calculated according to GAAP. We believe that it is useful to compare DSO results without the impact of extended payment terms granted to one customer, since these terms are not standard for us and are unlikely to be afforded to other customers. We believe this non-GAAP measure also provides investors with a better ability to understand our operational performance. The most directly comparable GAAP measure presented in our consolidated financial statements for the three months ended February 29, 2016 to "Days Sales Outstanding excluding Tier 1 carrier in India" is "Days Sales Outstanding".



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Reconciliation of Adjusted Cashflow from Operations/Adjusted EBITDA to Net Loss

	FY16 Q4	FY16 Q3	FY16 Q2	FY16 Q1
Adjusted Cashflow from Operations/Adjusted EBITDA	(4,233)	(2,778)	(5,089)	(4,370)
Include the following items:				
Stock-based compensation	(210)	(273)	(228)	(277)
Inventory provisions	(3,181)	(210)	(730)	(295)
Amortization of Property Plant and Equipment	(467)	(494)	(498)	(472)
Goodwill impairment	—	—	(11,927)	—
Restructuring Costs	(130)	(1,419)	—	—
Amortization of intangible assets	(96)	(149)	(149)	(183)
Accretion expense	(37)	(36)	(61)	(71)
Interest expense	(424)	(499)	(560)	(531)
Fair value adjustment — warrant liability	(69)	293	373	522
Foreign exchange (loss) gain	(307)	270	(214)	(80)
Income taxes	(129)	(459)	(1,620)	(67)
Net Loss	<u>(9,283)</u>	<u>(5,754)</u>	<u>(20,703)</u>	<u>(5,824)</u>

Liquidity and Capital Resources

The following table sets out some of the key balance sheet metrics:

	As at February 29, 2016	As at February 28, 2015
Key Balance Sheet Amounts and Ratios:		
Cash and Cash Equivalents	4,277	23,692
Working Capital (Note 1)	678	61,000
Long Term Assets	4,325	18,546
Long Term Liabilities	776	34,778
Working Capital Ratio	1 : 1	2.5 : 1
Days Sales Outstanding in accounts receivable (Note 2)	114 days	96 days
Inventory Turnover	1.6 times	6.5 times

Note 1: The debt facility was included in long term liabilities at February 28, 2015.

Note 2: Days Sales Outstanding in accounts receivable excluding a Tier 1 carrier in India at February 29, 2016 were 68 days (59 days at February 28, 2015). This is a non-GAAP measure. See "Use of Non-GAAP performance measures".

Cash and Cash Equivalents

As at February 29, 2016, we had \$4.3 million in Cash and Cash Equivalents ("Cash"), representing a \$19.4 million decrease from the Cash balance at February 28, 2015.



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The following table explains the change in Cash during the three and twelve months ended February 29, 2016.

	Three Months Ended February 29, 2016	Twelve Months Ended February 29, 2016
Operating activities		
Net loss	(9,283)	(41,564)
Items not affecting cash	1,235	16,350
Net loss excluding items not affecting cash	<u>(8,048)</u>	<u>(25,214)</u>
Working Capital Changes		
Trade receivables	8,580	29,640
Inventory	2,701	1,592
Other current assets	834	3,074
Accounts payable and accrued liabilities	(2,561)	(16,880)
Deferred revenue and other long term liabilities	(276)	810
Changes in non-cash working capital items	<u>9,278</u>	<u>18,236</u>
Investing activities		
Acquisition of property and equipment	(21)	(1,311)
Acquisition of intangible assets	(15)	(406)
	<u>(36)</u>	<u>(1,717)</u>
Financing activities — excluding debt repayment		
Repayments on capital lease obligation	(204)	(507)
Issuance of common shares, net	3	35
	<u>(201)</u>	<u>(472)</u>
Cash generated/(used) before debt repayment	<u>993</u>	<u>(9,167)</u>
Debt repayment	<u>(4,500)</u>	<u>(10,248)</u>
Cash and cash equivalents at beginning of period	7,784	23,692
Cash and cash equivalents at end of period	<u>4,277</u>	<u>4,277</u>

Key points associated with the Cash decrease of \$3.5 million in the fourth quarter of fiscal year 2016 include:

- We repaid \$4.5 million on the debt facility.
- Working capital changes provided \$9.3 million in cash.
- We used \$8.0 million in cash as a result of our net loss from operations.
- Spending on capital acquisitions and software spending have been strictly controlled.



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Key points associated with the Cash decrease of \$19.4 million in fiscal year 2016 include:

- We repaid \$10.2 million on the debt facility.
- Working capital changes provided \$18.2 million in cash.
- We used \$25.2 million in cash as a result of our net loss from operations.
- Spending on capital acquisitions and software spending was limited to \$1.7 million

Working Capital

<u>Changes in working capital</u>	<u>November 30, 2015 to February 29, 2016</u>	<u>February 28, 2015 to February 29, 2016</u>
Beginning working capital balance	9,337	61,000
Cash and cash equivalents	(3,507)	(19,415)
Trade receivables	(8,580)	(29,640)
Inventory	(2,701)	(1,592)
Other current assets	(834)	(3,118)
Future income tax asset	(25)	—
Debt facility	4,500	(22,152)
Accounts payable and accrued liabilities	2,561	17,120
Deferred revenue	80	(1,114)
Capital lease obligation	(83)	(294)
Warrant liability	(70)	(117)
Net change in working capital	<u>(8,659)</u>	<u>(60,322)</u>
Ending working capital balance	<u>678</u>	<u>678</u>

Trade Receivables

Our trade receivables balance decreased by \$29.6 million between February 29, 2016 and February 28, 2015 primarily due to lower sales levels in the three months ended February 29, 2016, compared to the fourth quarter of fiscal year 2015 (fourth quarter of fiscal year 2016 vs. fourth quarter of fiscal year 2015 — \$31.7 million lower). Our rate of collection has remained fairly consistent for most of our customers, so the reduction in accounts receivable is attributed primarily to the lower sales levels. Our allowance for doubtful accounts continues to represent a small percentage of our total trade receivables outstanding (February 29, 2016 — 1.0%; February 28, 2015 — 1.0%).

As at February 29, 2016, two customers exceeded 10% of the total receivable balance. These customers represented 52% and 16% of the trade receivables balance (February 28, 2015 — two customers represented 37% and 34% of the trade receivables balance).

Included in G&A expenses is bad debt expense of \$0.2 million and \$0.2 million for the three and twelve months ended February 29, 2016 (three and twelve months ended February 28, 2015 — nominal and \$0.2 million).



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Inventory

The inventory balance decreased by \$1.6 million relative to the closing balance at February 28, 2015. By product category the changes in inventory are as follows in USD millions:

Closing inventory February 28, 2015	24.3
Increase in Harmony Enhanced (product built for Tier 1 customer in India)	4.5
Increase in Horizon Compact Plus	1.2
Increase in inventory held for customer support & warranty	0.2
Decrease in Harmony (Flexipacket & Hubs for Enhanced) product portfolio	(7.2)
<i>driven by a sale of raw material back to a contract manufacturer</i>	
Other	(0.3)
Net Change in Inventory	(1.6)
Ending inventory at February 29, 2016	<u>22.7</u>

During the twelve months ended February 29, 2016, we entered into an agreement to sell back inventory to a contract manufacturer. The total reduction of raw material inventory was \$10.2 million and we reduced accounts payable owing to the contract manufacturer by the same amount. The balance of inventory held at this contract manufacturer at February 29, 2016 was \$16.8 million (February 28, 2015 — \$13.6 million).

We provide for inventory which we believe will not be consumed in the normal course of business either because we believe the part has become technically obsolete or because we believe that the demand for the part is too low to consume the remaining inventory on hand. We created inventory provisions of \$2.9 million and \$4.4 million in the three and twelve months ended February 29, 2016 to reflect this risk. (Fourth quarter fiscal year 2015 — \$1.2 million; Full fiscal year 2015 — \$2.8 million)

Accounts Payable and Accrued Liabilities

The accounts payable and accrued liabilities balance decreased by \$17.1 million between February 28, 2015 and February 29, 2016. This decrease was driven by the inventory transaction described above which decreased the payable balance to a contract manufacturer by \$10.2 million. In addition we have reduced our inventory purchasing over the year as sales levels have declined.

Equity Offerings

2016 Equity Offering

On April 11, 2016, we issued 599,998 common shares in a registered direct offering, and concurrently in a private placement, issued warrants to purchase 299,999 common shares (the "2016 Warrants") exercisable at an exercise price of \$8.50 until March 12, 2020 (the "2016 Equity Offering"). The price per common share and one half of a warrant was \$7.25 and resulted in total gross proceeds of \$4.4 million. The warrants are not exercisable until October 12, 2016. The proceed from the 2016 Equity Offering are expected to be used for general corporate purposes, which may include working capital, general and administrative expenses, capital expenditures and implementation of our strategic priorities.



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2014 Equity Offering

On August 1, 2014 we completed a public equity offering (the "2014 Equity Offering"). Under the terms of the 2014 Equity Offering, we issued and sold 15,927,500 units at CAD\$1.80 per unit for aggregate gross proceeds of \$26.2 million (CAD\$28.7 million). After deducting commissions and expenses, we realized net proceeds of \$24.0 million. Each unit consisted of one common share of the Company and one half of one warrant (each whole warrant a "2014 Warrant"). On a pre-Consolidation basis, each whole 2014 Warrant entitled the holder to purchase one common share of the Company at an exercise price of CAD\$2.25 per share until August 1, 2016, subject to certain standard adjustments. Subsequent to the Consolidation, 25 whole 2014 Warrants entitle the holder to purchase one common share of the Company at an exercise price of C\$56.25 per share.

Upon issuance, we recognized a liability in the amount of \$2.6 million for the 2014 Warrants.

2013 Equity Offering

On September 23, 2013, pursuant to the public equity offering of units (the "2013 Equity Offering"), we issued 11,910,000 common shares and 8,932,500 warrants for proceeds, before deducting fees and expenses, of approximately \$25.0 million. After deducting fees and expenses, we realized net proceeds of \$22.4 million. The units were offered at a price of \$2.10 per unit. Each unit consisted of one common share and three quarters of one warrant (each whole warrant a "2013 Warrant"). Each whole warrant 2013 Warrant originally entitled the holder to purchase one common share at an exercise price of \$2.70 per share until September 23, 2018, subject to certain adjustments. In connection with the 2014 Equity Offering, and pursuant to the terms of such warrants, the exercise price of the warrants issued in the 2013 Equity Offering was changed to \$1.30 per share (on a pre-Consolidation basis). Subsequent to the Consolidation, 25 whole 2013 Warrants entitle the holder to purchase one common share at an exercise price of \$32.50 per share. In connection with the 2016 Equity Offering, and pursuant to the terms of the 2013 Warrants, the exercise price of the 2013 Warrants was changed, such that 25 whole 2013 Warrants entitle the holder to purchase one common share at a price of \$6.76 per share.

As at September 23, 2013 we recognized a liability in the amount of \$6.4 million for the 2013 Warrants.

Commitments as at February 29, 2016

Future minimum operating lease payments as at February 29, 2016 per fiscal year relate to leases of office and warehouse space.

They are as follows:

<u>Contractual Obligations</u>	<u>Total</u>	<u>Payment due by period</u> (Figures are in thousands of USD)			
		<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Total Operating Lease Obligations	<u>1,288</u>	<u>1,144</u>	<u>134</u>	<u>10</u>	<u>—</u>

In January 2016, a customer in India initiated an arbitration process with us to resolve the dispute over inventory shipped to this customer in June 2015. The value of the inventory shipped is \$4.7 million. The customer submitted a claim statement which we believe has no merit. We will submit a counter claim in June 2016. The arbitration hearing is set for July 2016 and as of the date of this MD&A the outcome of this matter is not determinable.



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Off-Balance Sheet Arrangements

(Actual Dollars)

<u>City</u>	<u>Country</u>	<u>Lessor</u>	<u>Lease Expiry</u>	<u>Cost per Month</u>
Dubai	UAE	TECOM Investments FZ-LLC	November, 2016	\$ 3,450
Luxembourg City	Luxembourg	ME Business Solutions S.à r.l.	Month to Month	\$ 1,700
Ottawa (Warehouse & Operations at Terry Fox Drive + Office Space at 411 Legget Drive)	Canada	Kanata Research Park	November, 2016	\$90,000
Herzlyia	Israel	Margalin Holdings Ltd.	November, 2016	\$ 2,500
Shanghai	China	Shanghai Lingang Economic Development Group	September, 2017	\$20,800
Gurgaon	India	Narinder Singh & Songs (P) LTD	March, 2018	\$ 4,430

The leases listed above are arranged at market pricing levels in all jurisdictions and the lease periods listed above represent a commitment for the time period indicated. We are actively seeking sub-lease arrangements in a number of locations as part of our efforts to reduce costs, and have in place subleases in Ottawa which reduce the monthly cost by approximately 10%. We expect that, if any of the above noted leases were terminated, we would be able to lease premises on substantially similar terms.

We use an outsourced manufacturing model in which most of the component acquisition and assembly of our products is executed by third parties. Generally, we provide the supplier with a purchase order 90 days in advance of expected delivery. We are responsible for the financial impact of any changes to the product requirements within this period. In some cases when a product has been purchased by a contract manufacturer but not pulled on for a build after a certain amount of time, we provide a deposit against that inventory, but do not take ownership of it.

As at February 29, 2016, we have provisions totaling \$3.1 million on inventory held by contract manufacturers that we do not expect to be fully used.

Outstanding Share Data

Our common shares are listed on the Toronto Stock Exchange under the symbol DWI and on the NASDAQ under the symbol DRWI.

Our warrants issued on August 1, 2014 in connection with the 2014 Equity Offering are traded on the Toronto Stock Exchange under the symbol DWI.WT and on the NASDAQ Capital Market under the symbol DRWIW.



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The following tables show common share activity in the three and twelve months ended February 29, 2016 (on a post-Consolidation basis).

	<u>Common Shares</u>
Balance at February 28, 2015	<u>3,011,632</u>
ESPP	5,473
Exercise of restricted share units	2,400
Balance at November 30, 2015	<u>3,019,505</u>
ESPP	564
Balance at February 29, 2016	<u>3,020,069</u>

The following is a summary of stock option activity:

	<u>Options</u>	<u>Weighted Average Price (CAD)</u>
Options outstanding at February 28, 2015	<u>159,421</u>	<u>\$76.34</u>
Granted	171,037	\$ 8.70
Forfeited	(43,675)	\$96.14
Options outstanding at November 30, 2015	<u>286,783</u>	<u>\$33.48</u>
Granted	1,937	\$ 3.50
Forfeited	(11,992)	\$32.09
Options outstanding at February 29, 2016	<u>276,728</u>	<u>\$32.82</u>

As at February 29, 2016 the following securities were issued and outstanding: 3,020,069 common shares, options to purchase 276,728 common shares granted under our Share Based Compensation Plan, and 10,084,062 warrants exercisable for 403,362 common shares. The number of common shares issuable upon the exercise of the warrants is subject to adjustment in accordance with terms of the warrants.

As of May 18, 2016 the following securities were issued and outstanding: 3,620,506 common shares, options to purchase 260,442 common shares granted under our Share Based Compensation Plan, and warrants exercisable for 403,362 common shares. The number of common shares issuable upon the exercise of the warrants is subject to adjustment in accordance with terms of the warrants.

Restricted Shares & Employee Share Purchase Plan

We launched an Employee Share Purchase Plan ("ESPP") on October 20, 2008. The plan includes provisions to allow employees to purchase common shares. We will match the employees' contribution at a rate of 25%. During the three and twelve months ended February 29, 2016 a total of 470 and 5,207 common shares were purchased by employees at fair market value, while we issued 114 and 1,227 common shares, net of forfeitures, as its matching contribution. The shares we contributed will vest twelve (12) months after issuance.

We record an expense equal to the fair value of shares granted pursuant to the ESPP over the period the shares vest, with a corresponding credit to contributed surplus. The total fair value of the shares earned during



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the three and twelve months ended February 29, 2016 was \$5 thousand and \$13 thousand (three and twelve months ended February 28, 2015 — \$3 thousand and \$13 thousand). The fair value of the unearned ESPP shares as at February 29, 2016 was \$8 thousand (February 28, 2015 — \$13 thousand). The number of shares held for release, and still restricted under the ESPP at February 29 2016 was 978 (February 28, 2015 — 440).

Restricted Share Units (RSUs)

Pursuant to the terms of our Share Based Compensation Plan, we entered into restricted share unit agreements with certain of our independent directors. These units which were issued during July 2014 were subject to each director's continued engagement on the Board for a period of one year from the date of issuance. All of the originally issued RSUs vested during the second quarter of fiscal year 2016 with the exception of 800 RSUs which were cancelled on April 14, 2015.

The following table sets forth the summary of RSU activity under our Share Based Compensation Plan for the three and twelve months ended February 29, 2016:

	Twelve months ended February 29, 2016	
	RSU's	Weighted Average Price (CAD)
RSU balances at February 28, 2015	3,200	\$53.75
Forfeited	(800)	\$53.75
Vested	(2,400)	\$53.75
RSU balances at February 29, 2016	—	—

We have recognized \$nil and \$39 thousand for the three and twelve months ended February 29, 2016 as compensation expense for restricted share units, with a corresponding credit to contributed surplus.

Financial Instruments

Financial instruments are classified into one of the following categories: assets held at fair value, loans and receivables, other financial liabilities, or liabilities held at fair value.



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Categories for financial assets and liabilities

The following table summarizes the carrying values of our financial instruments:

	February 29, 2016	February 28, 2015
Assets held at fair value (A)	4,277	23,692
Loans and receivables (B)	19,110	49,614
Other financial liabilities (C)	44,434	71,728
Liabilities held at fair value (D)	120	1,239

(A) Includes cash and cash equivalents

(B) Includes trade receivables and other miscellaneous receivables

(C) Includes accounts payable, accrued liabilities, payroll related accruals, debt facility and termination fee

(D) Warrant liability

We classify our fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The inputs fall into three levels that may be used to measure fair value.

Level 1 — Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Significant unobservable inputs which are supported by little or no market activity.

Cash and cash equivalents are measured using Level 1 inputs.

The August 1, 2014 warrant liability is classified as Level 1 as the warrants are traded on the Toronto Stock Exchange and on the NASDAQ Capital Market.



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The September 23, 2013 warrant liability is classified as Level 3 as it is measured at fair value using significant unobservable inputs. Significant assumptions used at February 29, 2016 for the warrants include a dividend yield of 0%, a 1% assumption that the fundamental transaction will happen every year, volatility of 60%, and a risk free spot rate term structure.

As at February 29, 2016 we held the following Level 3 financial instruments carried at fair value on the consolidated balance sheet.

	<u>Level 3</u>	<u>Total</u>
Financial Liabilities		
Warrant liability	3	3

As at February 28, 2015, we held the following Level 3 financial instruments carried at fair value on the consolidated balance sheet.

	<u>Level 3</u>	<u>Total</u>
Financial Liabilities		
Warrant liability	603	603

A reconciliation of the Level 3 warrant liability measured at fair value for the year ended February 29, 2016 follows:

	<u>Warrants</u>	<u>\$</u>
Balance at February 28, 2015	2,088,750	603
Fair value adjustment — warrant liability	—	(600)
Balance at February 29, 2016	<u>2,088,750</u>	<u>3</u>

Interest rate risk

Cash, cash equivalents and our debt facility, which has interest rates with market rate fluctuations, expose us to interest rate risk on these financial instruments. Net interest expense, excluding deferred financing costs, recognized during the three and twelve months ended February 29, 2016 was \$0.4 million and \$2.0 million on our cash, cash equivalents and debt facility (three and twelve months ended February 28, 2015 — expense of \$0.4 million and \$1.4 million).

Credit risk

In addition to trade receivables and other receivables, we are exposed to credit risk on our cash and cash equivalents in the event that our counterparties do not meet their obligations. We do not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or fair value of the financial instrument. We minimize credit risk on trade receivables and other receivables, and cash and cash equivalents by transacting with only reputable financial institutions and customers.



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Foreign exchange risk

Foreign exchange risk arises because of fluctuations in exchange rates. To mitigate exchange risk, we may utilize forward contracts to secure exchange rates with the objective of offsetting fluctuations in our operating expenses incurred in foreign currencies with gains or losses on the forward contracts.

As of February 29, 2016, if the U.S. dollar had appreciated 1% against all foreign currencies to which we have exposure, with all other variables held constant, the impact of this foreign currency change on our foreign denominated financial instruments would have resulted in a \$27 thousand after-tax net loss for the three and twelve months ended February 29, 2016 (three and twelve months ended February 28, 2015 — \$42 thousand) with an equal and opposite effect if the U.S. dollar had depreciated 1% against all foreign currencies at February 29, 2016.

The risk described above relates to balance sheet accounts. However, as the section under “Expenses” indicates fluctuations in the Canadian dollar relative to the USD make it relatively more or less expensive to operate our R&D and head office functions in Canada.

Economic Dependence

We were dependent on two key customers with respect to revenue in the three months ended February 29, 2016. These customers represented approximately 47% and 11% of sales for the three months ended February 29, 2016 (three months ended February 28, 2015 — three customers represented 46%, 16% and 10%).

We were dependent on three key customers with respect to revenue in the twelve months ended February 29, 2016. These customers represented approximately 44%, 15% and 11% of sales for the twelve months ended February 29, 2016 (twelve months ended February 28, 2015 — two customers represented 53% and 16%).

Controls and Procedures

At the end of the period covered by this MD&A (such period being the three and twelve months ended February 29, 2016), an evaluation was carried out under the supervision of, and with the participation of, our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, which are our principal executive officer and principal financial officer, respectively, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based upon that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as at February 29, 2016 to give reasonable assurance that the information we are required to disclose in reports that we file or submit under the Exchange Act and/or applicable Canadian securities legislation is (i) recorded, processed, summarized and reported, within the time periods specified in the U.S. Securities and Exchange Commission's as well as in accordance with applicable Canadian securities legislation rules and forms, and (ii) accumulated and communicated to management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Our management is also responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f) as well as National Instrument 52-109 of the Canadian Securities Administrators. These controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. Under the supervision and with the participation of our management, including our principal



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executive officer, our CEO, and principal financial officer, our CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control — Integrated Framework, our management concluded that our internal control over financial reporting was effective and that there are no material weaknesses in our disclosure controls and procedures as of February 29, 2016.

Changes in Internal Control over Financial Reporting

During the period covered by this report, no changes occurred in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Critical Accounting Policies and Estimates

Inventory

Inventory is valued at the lower of cost and net realizable value ("NRV"). The cost of inventory is calculated on a standard cost basis, which approximates average actual cost. NRV is determined as the market value for finished goods, replacement cost for raw materials, and finished goods market value less cost to complete for work in progress inventory.

We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based on factors including our estimated forecast of product demand, the stage of the product life cycle and production requirements for the units in question.

We carry inventory for the purposes of supporting our product warranty. Our standard warranty is typically between 12 and 36 months but we earn revenue by providing enhanced and extended warranty and repair service during and beyond the standard warranty period. Customer service inventory consists of both component parts and finished units. Indirect manufacturing costs and direct labour expenses are allocated systematically to the total production inventory.

Revenue recognition

We derive revenue from the sale of broadband wireless backhaul equipment which includes embedded software and a license to use said software and extended product warranties. Software is considered to be incidental to the product. Services range from installation and training to basic consulting. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred and there are no significant remaining vendor obligations, collection of receivables is reasonably assured and the fee is fixed and determinable. Where conditions to final acceptance of the product are specified by the customer, revenue is deferred until acceptance criteria have been met.

Our business agreements may also contain multiple elements. Accordingly, we are required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, the fair value of these separate units of accounting and when to recognize revenue for each element. For arrangements involving multiple elements, we allocate revenues to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE") if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. In



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multiple element arrangements, revenues are allocated to each separate unit of accounting for each of the deliverables using the relative estimated selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. We have determined the selling price both for the undelivered items and the delivered items using ESP.

We generate revenue through direct sales and sales to distributors. We defer the recognition of a portion of sales to distributors based on estimated sale returns and stock rotation granted to customers on products in the same period the related revenues are recorded. These estimates are based on historical sales returns, stock rotations and other known factors.

Revenue associated with extended warranty and advanced replacement warranty is recognized ratably over the life of the contracted service.

Revenue from engineering services or development agreements is recognized according to the specific terms and acceptance criteria as services are rendered.

We accrue estimated potential product liability as warranty costs when revenue on the sale of equipment is recognized. Warranty liability is estimated based on recent actual return experience and repair costs. Where product defects have been identified which would cause the cost or warranty experience to change, additional warranty costs are recognized.

Shipping and handling costs borne by us are recorded in cost of sales. Shipping and handling costs charged to customers are recorded as revenue, if billed at the time of shipment. Costs charged to customers after delivery are recorded in cost of sales.

We generate revenue through royalty agreements as a result of the use of our intellectual property. Royalty revenue is recognized as it is earned.

Advanced Replacement and Extended Warranty

We offer our customers the option to purchase advanced replacement and extended warranty contracts either at the time the goods are shipped or at any time after shipment takes place. Many customers wait to purchase extended warranty coverage until their standard warranty period ends.

Advanced replacement is a service we sell which provides customers with the benefit of having a replacement radio or modem shipped to them when a unit they own has been confirmed by us to be malfunctioning. When the customer receives the replacement radio or modem, they ship the malfunctioning unit back to us. We repair and keep the returned unit.

Our standard warranty for customers generally varies between 12 and 36 months. Our extended warranty programs enable customers to continue to have repairs made as needed and customer support guidance beyond the standard warranty period.

Training

We earn a minimal portion of our total revenue from the sale of training services primarily to installation companies. Only in rare circumstances do we provide or sub-contract installation services (see below), as the customers to whom we sell microwave equipment outsource the installation to specialized companies. As a result, installation training revenue is generally not sold as a bundled service because it is sold to a different customer base. Further, any training that is provided is not essential to the functionality of our product offerings,



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and is thus considered an insignificant deliverable to the overall arrangement and is not considered a separate unit of accounting.

Installation

Periodically, a customer may request that we arrange for the installation of our equipment. Installations are performed by a third party service provider. In this case, a separate services agreement is created between us and the end-user of our equipment, and we sub-contract the installation to a qualified installer. Evidence that the revenue associated with the installation service represents the fair value of the offering is provided by the sub-contracted value of the installation.

Research and Development

Our research costs are expensed as incurred. Our development costs are expensed as incurred unless we meet generally accepted accounting criteria for deferral and amortization. Development costs incurred prior to establishment of technological feasibility do not meet these criteria, and are expensed as incurred.

Income taxes

Income taxes are accounted for using the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. Deferred income tax assets and liabilities are measured using enacted tax rates that apply to taxable income in the years in which temporary differences are expected to be recovered or settled. We provide a valuation allowance against our deferred tax assets when we believe that it is more likely than not that the assets will not be realized.

We determine whether it is more likely than not that an uncertain tax position will be sustained upon examination by the tax authorities. The tax benefit of any uncertain tax position that meets the more-likely-than-not recognition threshold is calculated as the largest amount that is more than 50% likely of being realized upon successful resolution. To the extent a full benefit is not expected to be realized, an income tax liability is effectively established. We recognize accrued interest and penalties on unrecognized tax benefits as interest expense.

We periodically review our provision for income taxes and valuation allowance to determine whether the overall tax estimates are reasonable. When we perform our quarterly assessments of the provision and valuation allowance, it may be determined that an adjustment is required. This adjustment may have a material impact on our financial position and results of operations.

FUTURE ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2014-9, "Revenue from Contracts with Customers". The amendments in this Update create Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts, and create new Subtopic 340-40, Other Assets and Deferred Costs-Contracts with Customers. In August 2015, the FASB issued ASU No. 2015-14, "Revenue



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from Contracts with Customers” which reflects decisions reached by the FASB at its meeting earlier in the year to defer the effective date to fiscal years beginning after December 15, 2017, with early adoption permitted for the year beginning after December 15, 2016. We are currently assessing the impact this amendment will have on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements — Going Concern”. The update provides U.S. GAAP guidance on management’s responsibility in evaluating whether there is substantial doubt about a company’s ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company’s ability to continue as a going concern within one year from the date the financial statements are issued. The amendments in this ASU are effective for reporting periods beginning after December 15, 2016, with early adoption permitted. We are currently assessing the impact this amendment will have on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases”. The amendments in this Update create Topic 842, Leases, and supersede the lease requirements in Topic 840, Leases. The Update will require companies to recognize a right-of-use (ROU) asset and a lease liability in their balance sheets, while still distinguishing between finance leases and operating leases. For finance leases, the lessee would recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income, and for operating leases, the lessee would recognize a straight-line lease expense. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We are currently assessing the impact this amendment will have on our consolidated financial statements.



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For the three and twelve months ended February 28, 2015

May 12, 2015



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For the three and twelve months ended February 28, 2015

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The following is management's discussion and analysis ("MD&A") of DragonWave Inc.'s consolidated results of operations and financial condition for the three and twelve months ended February 28, 2015. This MD&A should be read in conjunction with our audited consolidated financial statements and corresponding notes for the three and twelve months ended February 28, 2015 and our Annual Information Form for the year ended February 28, 2015 (the "AIF") filed on SEDAR at www.sedar.com (SEDAR) and on EDGAR at www.sec.gov/edgar/searchedgar/companysearch.html (EDGAR) as an exhibit to our Annual Report on Form 20-F for the year ended February 28, 2015. Our audited consolidated financial statements and corresponding notes for the three and twelve months ended February 28, 2015 are available on SEDAR and EDGAR.

Our consolidated financial statements have been prepared in accordance with United States Generally Accepted Accounting Principles (GAAP) and are reported in United States dollars (USD). The information contained in this MD&A is dated as of May 12, 2015 and is current to that date, unless otherwise stated. Our fiscal year commences on March 1 of each year and ends on the last day of February of the following year.

In this document, unless the context requires otherwise, "we", "us", "our", the "Company" and "DragonWave" all refer to DragonWave Inc. collectively with its direct and indirect subsidiaries. The contents of this MD&A have been approved by our Board of Directors, on the recommendation of its Audit Committee.

We refer to both Nokia Solutions and Networks and its predecessor business Nokia Siemens Networks as "Nokia" in this MD&A. Nokia is a trademark of Nokia Corporation or its affiliates.

Unless otherwise indicated, all currency amounts referenced in this MD&A are denominated in USD.

Forward-Looking Statements

This MD&A contains "forward-looking information" and "forward-looking statements" within the meaning of applicable Canadian and U.S. securities laws. All statements in this MD&A, other than statements that are reporting results or statements of historical fact, are forward-looking statements which involve assumptions and describe our future plans, strategies and expectations. Forward-looking statements are generally identifiable by use of the words "may", "will", "should", "continue", "expect", "anticipate", "estimate", "believe", "intend", "plan" or "project" or the negative of these words or other variations of these words or comparable terminology. Forward-looking statements include, without limitation, statements regarding: our strategic plans and objectives; growth strategy; customer diversification and expansion initiatives; our expectations with respect to our relationships with channel partners; our expectations with respect to end-customer demand for our products; our expectations regarding the development of our target markets; and our plans, objectives and targets for operating cost reductions, revenue growth and margin performance. There can be no assurance that forward-looking statements will prove to be accurate and actual results or outcomes could differ materially from those expressed or implied in such statements. Important factors that could cause actual results or outcomes to differ materially from those discussed in the forward-looking statements are set forth in this MD&A under the heading "Risks and Uncertainties". Forward-looking statements are provided to assist external stakeholders in understanding management's expectations and plans relating to the future as of the date of this MD&A and may not be appropriate for other purposes. Readers are cautioned not to place undue reliance on forward-looking statements. Forward-looking statements are made as of the date of this MD&A and we do not undertake to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except to the extent expressly required by law.



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Risks and Uncertainties

We are exposed to risks and uncertainties in our business, including the risk factors set forth below:

- our ability to maintain and grow our relationships with channel partners, including Nokia;
- our reliance on a small number of customers for a large percentage of revenue;
- intense competition from several competitors;
- competition from indirect competitors;
- our history of losses;
- our ability to implement our ongoing program of operating cost reductions;
- our dependence on our credit facilities;
- our dependence on our ability to develop new products, enhance existing products and execute roll-outs on a basis that meets customer requirements;
- our ability to successfully manage our resources;
- our dependence on our ability to manage our workforce and recruit and retain management and other qualified personnel;
- quarterly and annual revenue and operating results that are difficult to predict and can fluctuate substantially;
- a lengthy and variable sales cycle;
- our reliance on suppliers, including outsourced manufacturing, third party component suppliers and suppliers of outsourced services;
- our ability to manage the risks related to increasingly complex engagements with channel partners and end-customers;
- pressure on our pricing models from existing and potential customers and as a result of competition;
- our exposure to credit risk for accounts receivable;
- our dependence on the development and growth of the market for high-capacity wireless communications services;
- the allocation of radio spectrum and regulatory approvals for our products;
- the ability of our customers to secure a license for applicable radio spectrum;
- changes in government regulation or industry standards that may limit the potential market for our products;
- currency fluctuations;
- our ability to protect our own intellectual property and potential harm to our business if we infringe the intellectual property rights of others;
- risks associated with software licensed by us;



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- a change in our tax status or assessment by domestic or foreign tax authorities;
- exposure to risks resulting from our international sales and operations, including the requirement to comply with export control and economic sanctions laws;
- product defects, product liability claims, and health and safety risks relating to wireless products;
- the impact that general economic weakness and volatility may be having on our customers;
- disruption resulting from economic and geopolitical uncertainty;
- risks associated with our outstanding warrants and the impact that the terms of such warrants may have on our ability to raise capital and undertake certain business transactions;
- risks associated with possible loss of our foreign private issuer status; and
- risks and expenses associated with our common shares, including large fluctuations in the trading price of our common shares, and being a public company.

In our most recent fiscal year ended on February 28, 2015, approximately 53 percent of our sales were through the Nokia channel. Recent developments within Nokia, including Nokia's introduction of a multi-vendor microwave ecosystem and Nokia's proposed combination with Alcatel-Lucent, have increased uncertainty for the future of this channel. See "Relationship with Nokia".

Also see the discussion under "Liquidity and Capital Resources — Liquidity Discussion" in this MD&A, as well as the discussion under "Risk Factors" contained in our most recently filed AIF.

Any of the risks referred to above could cause actual results or outcomes to differ materially from those discussed in forward-looking statements. Although we have attempted to identify important factors that could cause our actual results to differ materially from expectations, intentions, estimates or forecasts, there may be other factors that could cause our results to differ from what we currently anticipate, estimate or intend. Ongoing global economic uncertainty could impact forward-looking statements contained in this MD&A in an unpredictable and possibly detrimental manner. In light of these risks and uncertainties, the forward-looking events described in this MD&A might not occur or might not occur when stated.

Non-GAAP Performances Measures

Readers are cautioned that this MD&A contains certain information that is not consistent with financial measures prescribed under GAAP. See discussion below under "Use of Non-GAAP Performance Measures".



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SELECTED FINANCIAL INFORMATION

	Three Months Ended			Year Ended		
	February 28, 2015	February 28, 2014	February 28, 2013	February 28, 2015	February 28, 2014	February 28, 2013
REVENUE	43,742	17,857	28,294	157,766	90,011	123,877
Cost of sales before inventory provisions	34,058	14,742	26,055	127,001	78,270	100,933
Gross profit before inventory provisions (note 1)	9,684	3,115	2,239	30,765	11,741	22,944
	22.1%	17.4%	7.9%	19.5%	13.0%	18.5%
Inventory provisions	1,187	526	752	2,771	1,078	3,443
Gross profit	8,497	2,589	1,487	27,994	10,663	19,501
	19.4%	14.5%	5.3%	17.7%	11.8%	15.7%
EXPENSES						
Research and development	3,766	4,863	7,713	16,812	19,948	34,020
Selling and marketing	3,745	3,165	4,138	13,975	13,201	16,088
General and administrative	3,793	3,762	6,600	16,930	17,087	26,601
	11,304	11,790	18,451	47,717	50,236	76,709
Loss before other items	(2,807)	(9,201)	(16,964)	(19,723)	(39,573)	(57,208)
Amortization of intangible assets	(207)	(404)	(845)	(1,188)	(1,900)	(3,748)
Accretion expense	(59)	(48)	(56)	(168)	(222)	(124)
Restructuring expense	—	—	(448)	—	—	(2,085)
Interest expense	(452)	(440)	(451)	(1,557)	(1,750)	(1,662)
Impairment of intangible assets	—	—	(5,388)	—	—	(13,812)
(Loss) / Gain on change in estimate	(234)	(553)	—	67	2,759	6,958
Warrant issuance expenses	—	—	—	(221)	(662)	—
Gain on contract amendment	—	—	—	—	5,702	—
Gain on sale of fixed assets	—	—	—	18	—	—
Gain on purchase of business	—	—	—	—	—	19,397
Fair value adjustment — warrant liability	979	(352)	—	2,007	3,235	—
Loss on sale of assets	—	—	(2,827)	—	—	(2,827)
Foreign exchange gain (loss)	327	(311)	145	846	(1,530)	23
Net Loss before income taxes	(2,453)	(11,309)	(26,834)	(19,919)	(33,941)	(55,088)
Income tax (recovery) expense	(330)	128	428	717	398	(81)
Net Loss	(2,123)	(11,437)	(27,262)	(20,636)	(34,339)	(55,007)
Net (Income) Loss Attributable to Non-Controlling Interest	(145)	(162)	81	(884)	97	258
Net Loss applicable to shareholders	(2,268)	(11,599)	(27,181)	(21,520)	(34,242)	(54,749)
Basic & Diluted loss per share	(0.03)	(0.20)	(0.71)	(0.32)	(0.83)	(1.46)
Basic & Diluted weighted average shares outstanding	75,276,644	57,062,936	38,043,594	68,111,696	41,438,383	37,495,818

Note 1: "Gross profit before inventory provisions" is a non-GAAP financial measure. See "Use of Non-GAAP Performance Measures"



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The principal differences between the three months and years ended February 28, 2015 and February 28, 2013 are explained as follows:

- In the three month period ended February 28, 2015 the most significant contributor to the increase in revenue over the same period in fiscal year 2013 was the increase in direct sales through India and through the Nokia channel. It should be noted that revenue through the Nokia channel only commenced in June of 2012. As a result, the Nokia revenue stream is only relevant to nine of the months in the year ended February 28, 2013.
- Our gross profit percentage was higher in both the three and twelve months ended February 28, 2015 compared to the same periods in fiscal year 2013 because of a change in the mix of customers, and higher revenue levels which enabled us to better leverage our fixed costs of sales. In both periods, inventory provisions on older product lines reduced the gross profit percentage.
- Operating expenses in the current year compared to the same period two years prior were significantly lower. The reduction primarily resulted from the termination of a services agreement with Nokia and other management actions to reduce expenses. The terminated services agreement was originally established in connection with our 2012 acquisition of Nokia's microwave products business.

The principal differences between the three months and years ended February 28, 2015 and February 28, 2014 are explained as follows:

- Revenue growth in this period can be attributed to improved sales through the Nokia channel and to increased sales to a Tier 1 carrier located in India.
- The gross profit percentage improved due to decreases in material costs and decreases in overhead and repair costs.
- Operating expenses decreased primarily as a result of lower depreciation and lower professional fees, bad debt expense and commodity taxes in China. These reductions were partially offset by increased spending on software and materials as well as compensation and travel. A weakened Canadian dollar ("CAD") also reduced our USD-translated operating expenses.



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Consolidated Balance Sheet Data

	As at February 28, 2015	As at February 28, 2014
Assets		
Current Assets		
Cash and cash equivalents	23,692	18,992
Trade receivables	48,626	17,408
Inventory	24,294	30,416
Other current assets	5,834	5,909
Deferred tax asset	61	69
	<u>102,507</u>	<u>72,794</u>
Long Term Assets		
Property and equipment	4,322	3,168
Deferred tax asset	1,485	1,536
Deferred financing cost	18	60
Intangible assets	794	1,635
Goodwill	11,927	11,927
	<u>18,546</u>	<u>18,326</u>
Total Assets	<u>121,053</u>	<u>91,120</u>
Liabilities		
Accounts payable and accrued liabilities	40,163	29,964
Deferred revenue	830	984
Capital lease obligation	514	1,795
	<u>41,507</u>	<u>32,743</u>
Long Term Liabilities		
Debt facility	32,400	15,000
Other long term liabilities	1,139	574
Warrant Liability	1,239	1,360
	<u>34,778</u>	<u>16,934</u>
Shareholders' equity		
Capital stock	220,952	198,593
Contributed surplus	8,388	7,118
Deficit	(175,921)	(154,505)
Accumulated other comprehensive loss	(9,618)	(9,682)
Total Shareholder's equity	<u>43,801</u>	<u>41,524</u>
Non-controlling interests	967	(81)
Total Equity	<u>44,768</u>	<u>41,443</u>
Total Liabilities and Shareholder's equity	<u>121,053</u>	<u>91,120</u>
Shares issued and outstanding	75,290,818	58,008,746



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SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following table sets out selected financial information for each of our most recently completed eight fiscal quarters. In the opinion of management, this information has been prepared on the same basis as our audited consolidated financial statements, and all necessary adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with our consolidated financial statements and related notes.

Historically, our financial results have fluctuated on a quarterly basis and we expect that quarterly financial results will continue to fluctuate in the future. The results of operations for interim periods should not be relied upon as an indication of the results to be expected or achieved in any future period or any fiscal year as a whole. Fluctuations in results reflect the project nature of network installations. In addition, results may vary as a result of staffing levels, infrastructure additions required to support our operations, and material costs required to support design initiatives.

	FY14				FY15			
	May 31 2013	Aug 31 2013	Nov 30 2013	Feb 28 2014	May 31 2014	Aug 31 2014	Nov 30 2014	Feb 28 2015
Revenue	24,532	25,453	22,169	17,857	28,771	37,933	47,320	43,742
Gross Profit before inventory provisions (note 1)	2,919	2,858	2,849	3,115	5,976	7,116	7,990	9,684
Gross Profit %	11.9%	11.2%	12.9%	17.4%	20.8%	18.8%	16.9%	22.1%
Inventory provisions . .	99	64	389	526	90	1,223	272	1,187
Gross Profit after inventory provisions .	2,820	2,794	2,460	2,589	5,886	5,893	7,718	8,497
Gross Profit % after inventory provisions	11.5%	11.0%	11.1%	14.5%	20.5%	15.5%	16.3%	19.4%
Operating Expenses . . .	13,432	12,391	12,623	11,790	12,056	12,165	12,192	11,304
Loss before other items — (gross profit less operating expenses)	(10,612)	(9,597)	(10,163)	(9,201)	(6,170)	(6,272)	(4,474)	(2,807)
Loss for the period . . .	(6,679)	(10,601)	(5,622)	(11,599)	(6,667)	(8,410)	(3,436)	(2,123)
Net loss per share Basic and Diluted	(0.17)	(0.28)	(0.12)	(0.20)	(0.11)	(0.14)	(0.05)	(0.03)
Weighted average number of shares outstanding Basic & Diluted	38,059,919	38,112,887	47,329,275	57,062,936	58,194,153	63,894,060	75,254,452	75,276,644
Total Assets	104,254	89,221	98,113	91,120	86,130	110,597	120,291	121,053

Note 1: Gross profit before inventory provisions is a non-GAAP financial measure. See "Use of Non-GAAP Performance Measures".

Overview

DragonWave is a leading provider of high-capacity packet microwave solutions that drive next-generation IP networks. DragonWave's carrier-grade point-to-point packet microwave systems transmit broadband voice, video and data, enabling service providers, government agencies, enterprises and other organizations to meet



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their increasing bandwidth requirements rapidly and affordably. The principal application of DragonWave's products is mobile network backhaul. Additional applications include leased line replacement, last mile fiber extension and enterprise networks.

We support product lines branded under the names Horizon, Avenue and Avenue Lite, Harmony and Harmony Lite, and Harmony Eband. The key elements of our solutions include: high performance; carrier-grade availability; cost-competitiveness; support of legacy networking standards; and the availability of advanced network management and wireless network IP planning.

The demand for our products is driven by global trends, including IP convergence and pressure on backhaul capacity caused by increased functionality of mobile devices, the shift in demand from voice to multimedia content and services, growing demand for wireless coverage, increasing numbers of subscribers, and investment in radio access network spectrum. In our target markets, network traffic is shifting from legacy TDM traffic to IP-based traffic to improve network efficiency and enable IP-based services. Principally, we target the global wireless communications service provider market and, in particular, those service providers offering high-capacity wireless communication services, including traditional cellular service providers and emerging broadband wireless access (BWA) service providers.

We sell our products both directly and indirectly through our channel partners.

Our direct customers are typically service providers that operate networks in large geographical areas. The sales cycle to this class of customer typically involves a trial (or trials), and typically requires nine to twelve months from first contact before orders are received, but can be longer, particularly in greenfield situations. Once the order stage is reached, a supply agreement is usually established and multiple orders are processed under one master supply agreement. Master supply agreements provide the framework for future business and do not generally include any volume commitments.

Our channel partners are distributors, value-added resellers and OEMs (original equipment manufacturers) including system integrators and network equipment vendors. In 2012, we acquired Nokia's microwave product line, and since that time Nokia has been our principal channel partner. Nokia rebrands our Harmony product as FlexiPacket. In our fiscal year ended February 28, 2015, the Nokia channel accounted for 53% of our sales.

We also have a 50.1% owned subsidiary, DragonWave HFCL India Private Limited ("DragonWave HFCL") to address the Indian market. Because we have a controlling interest in the subsidiary we consolidate its results. In fiscal 2015, our sales of services and locally sourced material in India flowed through DragonWave HFCL.

We outsource most of our manufacturing and certain elements of the supply chain management and distribution functions. Outsourcing these functions allows us to focus on designing, developing, selling and supporting our products. Our research and development expenses have historically been, and will continue to be, a significant portion of our overall cost structure as we will continue to invest in new product features and new platforms to better serve the current and future needs of our customers.

Our industry is global and highly competitive. We face competition in our target markets from two types of microwave equipment suppliers: hybrid equipment suppliers (including NEC Corporation, Alcatel-Lucent, Ericsson and Huawei) and suppliers, like us, of Ethernet equipment (including SIAE Microelettronica, Ceragon Networks Ltd. and Aviat Networks, Inc.). We also face competition from full service network integrators such as Huawei, NEC Corporation, Alcatel-Lucent and Ericsson, who have developed competing Ethernet-based products for IP networks.



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Our business priorities include: managing resources to minimize cash demands; strengthening our balance sheet; maintaining our global reach while focusing on key revenue growth areas; maintaining and growing our relationships with channel partners; building on customer wins; and building toward leadership in outdoor smallcell backhaul.

Our primary operational objective continues to be to achieve cash flow break-even from operations. To this end, we plan to focus on new revenue opportunities; continuing to optimize costs associated with manufacturing and logistics with the objective of improving gross profit performance and; closely monitoring operating expenses to ensure we maintain the leverage in our current business model.

Recent Developments

Highlights of Our Financial Results

The following are key points on our results of operations for the fourth quarter and full year ended February 28, 2015, compared to the same periods in fiscal 2014:

- Our revenue increased by \$25.9 million between the fourth quarter of fiscal year 2014 and the fourth quarter of fiscal year 2015. When comparing the full year, revenue increased by \$67.8 million between fiscal year 2014 and fiscal year 2015. The primary factors contributing to revenue changes are:
 - Growth in sales through the Nokia channel (Q4 FY2015 vs. Q4 FY2014 increase of \$10.3 million; FY2015 vs. FY2014 increase of \$37.0 million).
 - Growth in direct sales to a Tier 1 carrier located in India (Q4 FY2015 vs. Q4 FY2014 increase of \$7.3 million; FY2015 vs. FY2014 increase of \$26.3 million).
 - Increases in direct and indirect sales in North America, Europe, and the Middle East & Africa were only partially offset by smaller decreases in other regions (Q4 FY2015 vs. Q4 FY2014 net increase of \$8.3 million; FY2015 vs. FY2014 net increase of \$4.5 million).
- Our gross profit percentage in the fourth quarter of FY2015 increased to 19.4%, compared to 14.5% in the fourth quarter of FY2014. The increased gross profit percentage relates to lower material costs and lower production and repair costs.



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- Operating expenses decreased \$0.5 million and \$2.5 million, respectively, compared to the same three and twelve month periods in the previous fiscal year. The following table highlights the key factors contributing to the decrease.

	Q4 FY2015 vs. Q4 FY2014	Full Year FY2015 vs. Full Year FY2014
<i>Key Drivers:</i>		
Lower depreciation on fixed assets	(0.4)	(2.4)
Lower professional fees, bad debt expense and commodity tax in China	—	(1.0)
Decreased global rental costs	(0.1)	(0.3)
Changes in spending on software and materials for prototype	(0.3)	0.5
Increased compensation related spending and travel	1.0	2.1
Other	(0.1)	0.4
Foreign exchange	<u>(0.6)</u>	<u>(1.8)</u>
	<u>(0.5)</u>	<u>(2.5)</u>

- A fair value adjustment gain of \$1.0 million and \$2.0 million, respectively, was realized during the three and twelve month periods ended February 28, 2015, as a result of a depreciation of the warrant valuation on the remaining warrants outstanding from the public equity offerings completed in September 2013 and August 2014. This compared to a fair value adjustment loss of \$0.4 million and gain of \$3.2 million in the three and twelve month periods ended February 28, 2014 resulting from the September 2013 public equity offering.
- Other items before taxes impacting the loss in the fourth quarter and in fiscal 2015 totaled \$0.6 million and \$2.2 million, respectively, and included amortization of software assets, accretion expense, interest expense, a gain on change in estimate, a gain on sale of fixed assets and a foreign exchange gain.
- The net loss applicable to shareholders was \$2.3 million and \$21.5 million, respectively, for the three and twelve months ended February 28, 2015.
- In the three and twelve month periods ended February 28, 2015 we drew an additional \$5.8 million and \$17.4 million respectively on our line of credit which became available to us as our accounts receivable balance increased. Our ending cash position at February 28, 2015 was \$23.7 million, as compared to \$29.5 million at the end of the third quarter of fiscal 2015 and \$19.0 million at February 28, 2014.

New Wins

On April 22, 2015 we announced that we had signed a Master Purchase Agreement for Technical Products and Related Services with a tier one North American carrier. This new agreement complements and expands current agreements between us and this customer. In keeping with industry norms, the agreement does not include any volume commitments; it establishes the framework for future business from this important, long-standing customer.

On April 7, 2015 we announced that Saudi Telecom Company (STC), the largest network operator in the Kingdom of Saudi Arabia, had entered into a supply agreement for our products to support its enterprise network expansion. STC has ordered Horizon Compact+ and Harmony Enhanced high capacity microwave products in its aggressive network expansions. Our agreement with STC was made in partnership with Creative



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Telecom Company (CTC) and Waseela For Technology Consultations (Waseela), which will provide local integration services.

We continue to pursue opportunities to expand our customer base and our sales to existing customers around the world.

Revenue Expectations — Update to Guidance During Q4

On January 13, 2015, at the time of the release of our financial statements for the third quarter ended February 28, 2015, we announced that we anticipated fourth quarter revenue growth in the range of up to 10% over the \$47.3 million revenue we achieved in the third quarter of fiscal year 2015. On March 5, 2015, we communicated updated revenue expectations of approximately \$44.0 million for the quarter ended February 28, 2015. Revenue was anticipated to be lower due to uneven timing of installation services revenue, shipments that did not make the Q4 cut-off date, and delays in equipment orders. Actual revenue in Q4 decreased by \$3.6 million compared to Q3 of fiscal year 2015. The primary drivers for the decrease were as follows:

Three months ended November 30, 2014	47,320
Decrease in direct sales to a Tier 1 carrier located in India	(5,056)
Decrease in sales through Nokia Channel	(3,432)
Increase in direct and indirect sales in North America	3,357
Increase in direct sales in Europe, Middle East & Africa	3,292
Other	(1,739)
	<u>(3,578)</u>
Three months ended February 28, 2015	<u>43,742</u>

Relationship with Nokia

We closed our acquisition of Nokia's microwave transport business on June 1, 2012. At the time of the acquisition we became the preferred strategic supplier of packet microwave and related products to Nokia. The integration phase for the transaction is now complete.

On April 10, 2013 we announced a renewed framework with Nokia which included:

- The settlement of a contingent receivable whereby Nokia paid us \$13.8 million (balance sheet impacting only).
- The termination of a services agreement with Nokia which resulted in a reduction of our accounts payable by \$13.3 million.
- The elimination of a capital lease obligation (\$1.3 million) and corresponding assets (\$0.6 million).
- Our agreement to a termination fee in the amount of \$8.7 million to be paid by us to Nokia in installments. As of the date of this MD&A, \$4.4 million of this fee has been paid.

The net impact to the statement of operations resulting from the renewed framework was a gain on contract amendment of \$5.3 million during the year ended February 28, 2014. During the year ended February 28, 2014, we also entered into a revised agreement that reduced a capital lease obligation with Nokia associated with our operations in India by \$0.4 million, which impacted the gain on contract amendment.



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Over time, our relationship with Nokia has become one based on the value that each party brings to the other across diverse domains including technology collaboration, product management and customer services and support. Either party may use alternative partners or products. Nokia has recently announced the formation of a microwave ecosystem administered through its Partner Business Unit (PBU). The PBU was established to facilitate Nokia's delivery of partner products and services alongside the Nokia portfolio. We are a member of PBU's microwave ecosystem together with other microwave vendors. In April 2015, Nokia announced its proposed combination with Alcatel-Lucent (ALU), which has a vertically integrated microwave business unit. The combination is subject to regulatory approvals and other conditions.

While Nokia has reaffirmed its commitment to partnering, both the introduction of the multi-vendor microwave ecosystem and the proposed Alcatel-Lucent combination increases uncertainty for the future of this channel. In recognition of this, we are seeking Nokia's agreement to changes to our existing contractual framework to support our cash flows and rationalize future legacy support obligations.

Adjusted Cashflow from Operations/Adjusted EBITDA

Please note: Adjusted Cashflow from Operations/Adjusted EBITDA is a non-GAAP measure. See "Use of Non-GAAP Performance Measures".

	FY15 Q4	FY15 Q3	FY15 Q2	FY15 Q1
Revenue	43,742	47,320	37,933	28,771
Cost of Sales	35,245	39,602	32,040	22,885
Gross Profit	8,497	7,718	5,893	5,886
	19.4%	16.3%	15.5%	20.5%
Add:				
Inventory Provisions	1,187	272	1,223	90
Gross profit before inventory provisions (Note 1)	9,684	7,990	7,116	5,976
	22.1%	16.9%	18.8%	20.8%
Operating Expenses	11,304	12,192	12,165	12,056
Less:				
Amortization	(446)	(519)	(658)	(697)
Options Expense	(302)	(321)	(288)	(359)
	10,556	11,352	11,219	11,000
Adjusted Cashflow from Operations/Adjusted EBITDA	(872)	(3,362)	(4,103)	(5,024)

Note 1: Gross profit before inventory provisions is a non-GAAP financial measure. See "Use of Non-GAAP Performance Measures".

Revenue and Expenses

Revenue

We continue to have one reportable segment, broadband wireless backhaul equipment. The vast majority of our sales come from the shipment of equipment (as opposed to services or software) either through direct sales, sales to distributors, or through original equipment manufacturers (OEMs).



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We also analyze our sales according to geographic region and target product development and sales strategies to meet the unique requirements of each region. Through co-operation with our channel partner, Nokia, we have visibility to the geographical location of our shipments through Nokia's various warehouses. The table below displays this information.

	Three months ended February 28, 2015				Twelve months ended February 28, 2015			
	Direct & Indirect Sales	OEM Sales through Nokia	Total	% of total revenue	Direct & Indirect Sales	OEM Sales through Nokia	Total	% of total revenue
Canada	1,136	—	1,136	3%	4,358	—	4,358	3%
Europe	406	9,338	9,744	22%	4,484	39,734	44,218	28%
India	7,310	2,622	9,932	23%	26,291	10,854	37,145	24%
United States	8,428	—	8,428	19%	23,451	—	23,451	15%
Asia Pacific	609	663	1,272	3%	1,559	11,823	13,382	8%
Africa	1,093	4,068	5,161	12%	1,759	10,321	12,080	8%
Middle East	3,648	3,602	7,250	17%	6,311	11,412	17,723	11%
Caribbean & Latin America	816	3	819	1%	5,266	143	5,409	3%
	<u>23,446</u>	<u>20,296</u>	<u>43,742</u>	<u>100%</u>	<u>73,479</u>	<u>84,287</u>	<u>157,766</u>	<u>100%</u>

In the fiscal year ended February 28, 2014 we did not have visibility as to the geographic breakdown of sales shipped through Nokia's warehouses to the end customer. Below is the financial information available on the geographic distribution of our sales at that time.

	For the three months ended		For the year ended	
	February 28, 2014		February 28, 2014	
	Amount	%	Amount	%
Canada	848	5%	5,288	6%
North America (excluding Canada)	3,222	18%	19,035	21%
Europe, Middle East, and Africa (excluding Finland)	883	5%	11,330	13%
Finland	7,880	44%	38,140	42%
India	2,127	12%	9,093	10%
Other	2,897	16%	7,125	8%
Total Revenue	<u>17,857</u>	<u>100%</u>	<u>90,011</u>	<u>100%</u>

Volume of Units Shipped

The number of units shipped has increased substantially over time and this trend indicates in part the ability of the logistics and operations segments of the business to scale our manufacturing and shipping capacity to larger volume levels. It also indicates the significant downward pricing pressure experienced by our business.

	FY2015	FY2014	FY2013	FY2012	FY2011
Revenue	\$157,766	\$90,011	\$123,877	\$45,656	\$118,010
Number of Units (Links) shipped	42,860	26,652	25,465	4,100	10,117



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Cost of Sales and Expenses

A large component of our cost of sales is the cost of products purchased from outsourced manufacturers. Final testing and assembly for the links sold by us is carried out both at our premises and at the premises of our contract manufacturers. Additional costs for logistics and warranty activities are included in cost of sales. We use the services of a number of outsourced contract manufacturers with locations in Germany, China and Malaysia.

Research and development ("R&D") costs relate mainly to the compensation of our engineering group and the material consumption associated with prototyping activities.

Sales and marketing ("S&M") expenses include the remuneration of sales staff, travel and trade show activities and customer support services.

General and administrative ("G&A") expenses relate to the remuneration of related personnel, professional fees associated with tax, accounting and legal advice, and insurance costs.

Occupancy and information systems costs are related to our leasing costs and communications networks and are accumulated and allocated, based on headcount, to all functional areas in our business.

Additional Investment in DragonWave HFCL India Private Limited.

During the year ended February 28, 2014 we contributed an additional \$0.2 million to DragonWave HFCL India Private Limited, in the form of a capital contribution. Subsequent to year end, the non-controlling shareholder which owns 49.9% of the subsidiary contributed its portion of the capital contribution.

Comparison of the three months and twelve months ended February 28, 2015 and February 28, 2014

Revenue

Three Months Ended			Twelve Months Ended		
February 28, 2015	February 28, 2014	Variance	February 28, 2015	February 28, 2014	Variance
\$	\$	\$	\$	\$	\$
43,742	17,857	25,885	157,766	90,011	67,755



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The two main factors which led to the increase in revenue when compared to the prior year period were (1) an increase in sales through the Nokia channel and (2) a key account win with Reliance Jio in India. We saw increases in direct sales to North America, Europe, and the Middle East resulting from project-based deployments.

	Three months ended	Twelve months ended
Revenue ended February 28, 2014	17,857	90,011
Growth in sales through Nokia Channel	10,289	36,971
Growth in direct sales to a Tier 1 carrier located in India	7,310	26,291
Increase in direct and indirect sales in North America	6,527	4,201
Increase in direct sales in Europe, Middle East & Africa	3,581	1,559
Other	(1,822)	(1,267)
Total Change	25,885	67,755
Revenue ended February 28, 2015	\$43,742	\$157,766

Gross Profit

	Three Months Ended			Twelve Months Ended		
	February 28, 2015	February 28, 2014	Variance	February 28, 2015	February 28, 2014	Variance
	\$	\$	\$	\$	\$	\$
Gross Profit before inventory provisions	9,684	3,115	6,569	30,765	11,741	19,024
(Note)	22.1%	17.4%	4.7%	19.5%	13.0%	6.5%
Inventory provisions	1,187	526	661	2,771	1,078	1,693
Gross Profit	8,497	2,589	5,908	27,994	10,663	17,331
	19.4%	14.5%	4.9%	17.7%	11.8%	5.9%

Note: Gross profit before inventory provision is a non-GAAP financial measure. See "Use of Non-GAAP Performance Measures".

Our gross profit percentage improved relative to the previous year in both the three and twelve month periods ended February 28, 2015. This improvement relates to lower material costs, lower overhead costs driven by the increased focus on outsourcing and warehousing changes and reduced warranty costs. These changes were offset by inventory provisions in the three and twelve months ended February 28, 2015 of \$1.2 million and \$2.8 million respectively. The inventory provisions were taken on older product platforms as customers continue the rapid adoption of our higher capacity products. The increase in total sales volume also resulted in an increase in our gross profit. We continue to actively pursue additional gross profit improvements through better material costs and more favourable logistics performance.



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Expenses

The Impact of Foreign Exchange ("FX") on Operating Expenses

Operating expenses include compensation costs, professional fees and consulting services paid in local currencies. We pay for expenses in a variety of currencies most notably Canadian dollars. The following table breaks down the composition of our operating expense disbursements by currency.

During the fiscal year ended February 28, 2015, the Canadian dollar weakened relative to the U.S dollar, and as a result expenses paid for in Canadian dollars when translated to U.S. dollars are lower. The table below highlights the change in the foreign exchange rates used to translate Canadian dollars to United States dollars in operating expenses.

Operating expenses by Currency			FY2014 Average	FY2015 Average CAD to USD	% change
CAD	48%	Q1	0.983	0.907	8%
USD	19%	Q2	0.963	0.924	4%
CNY	16%	Q3	0.958	0.898	6%
EUR	6%	Q4	0.928	0.843	9%
Other	11%				
	100%	Yearly Average	0.958	0.893	7%

Research and Development ("R&D")

Three Months Ended			Twelve Months Ended		
February 28, 2015	February 28, 2014	Variance	February 28, 2015	February 28, 2014	Variance
\$	\$	\$	\$	\$	\$
3,766	4,863	(1,097)	16,812	19,948	(3,136)

Depreciation expense levels are lower than they were in the previous year because spending on R&D test equipment has been limited for the past two years. A favourable commodity tax ruling in China also resulted in lower expenses (approximately \$0.5 million for the fiscal year ended February 28, 2015) for our R&D organization, and spending on external contractors has decreased as well. The impact of a weakened Canadian dollar reduced our United States dollar denominated expenses by \$0.5 million in fiscal year 2015.



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Changes to R&D Expense in USD Millions:

	Q4 FY2015 vs. Q4 FY2014	Full Year FY2015 vs. Full Year FY2014
<i>Key Drivers:</i>		
Lower depreciation on fixed assets	(0.5)	(2.5)
Lower external contractor costs, and commodity tax in China	(0.4)	(1.3)
Occupancy costs and rental fees (new location in China in Q4)	(0.1)	—
Changes in spending on software and materials for prototype	(0.1)	0.2
Increased compensation related spending and travel	0.4	0.7
Other (including government subsidy in China in Q4)	(0.2)	0.2
Foreign exchange	(0.2)	(0.4)
	<u>(1.1)</u>	<u>(3.1)</u>

Sales and Marketing (“S&M”)

Three Months Ended			Twelve Months Ended		
February 28, 2015	February 28, 2014	Variance	February 28, 2015	February 28, 2014	Variance
\$	\$	\$	\$	\$	\$
3,745	3,165	580	13,975	13,201	774

The S&M organization, which includes marketing, product line management, customer service and sales, grew between the fourth quarter of fiscal year 2014 and the fourth quarter of fiscal year 2015. We continue to adjust these teams internationally to meet the regional requirements of our customer base.

Changes to S&M expense in USD Millions:

	Q4 FY2015 vs. Q4 FY2014	Full Year FY2015 vs. Full Year FY2014
<i>Key Drivers:</i>		
Variable compensation — corresponding to increase in sales	0.3	0.3
Compensation related spending — growth primarily outside of Canada	0.2	0.5
Trial equipment write off	0.2	0.2
Travel, professional fees and other	0.1	0.3
Foreign exchange	(0.2)	(0.5)
	<u>0.6</u>	<u>0.8</u>



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General and Administrative ("G&A")

Three Months Ended			Twelve Months Ended		
February 28, 2015	February 28, 2014	Variance	February 28, 2015	February 28, 2014	Variance
\$	\$	\$	\$	\$	\$
3,793	3,762	31	16,930	17,087	(157)

G&A expenses include Finance, HR, the Executive office, as well as the portion of the costs of the Operations organization which do not flow directly into Cost of Goods sold. The table below shows that growth in a number of areas has been offset by the impact of the foreign currency translation of the largely Canadian expense base.

Changes to G&A Expenses in USD Millions:

	Q4 FY2015 vs. Q4 FY2014	Full Year FY2015 vs. Full Year FY2014
<i>Key Drivers:</i>		
Operations & warehouse spending (portion not in COGS)	0.1	(0.4)
Rental fees and occupancy costs	(0.1)	(0.4)
Professional fees & bad debt expense	0.5	0.3
Compensation related spending	0.1	0.4
DragonWave HFCL (India) higher spending	(0.1)	0.2
Travel expenses	—	0.3
IT infrastructure and software costs	(0.3)	0.3
Foreign exchange	(0.2)	(0.9)
	<u>—</u>	<u>(0.2)</u>

Amortization of Intangible Assets

	Three Months Ended			Twelve Months Ended		
	February 28, 2015	February 28, 2014	Variance	February 28, 2015	February 28, 2014	Variance
	\$	\$	\$	\$	\$	\$
Amortization of Nokia intangible — favourable AR terms	—	—	—	—	598	(598)
Amortization of computer software & infrastructure software .	207	404	(197)	1,188	1,302	(114)
	<u>207</u>	<u>404</u>	<u>(197)</u>	<u>1,188</u>	<u>1,900</u>	<u>(712)</u>

The amortization of software is decreasing slightly as the net book value of intangible assets including Infrastructure Systems Software and Computer Software is reduced. During the twelve months ended February 28, 2014, we fully amortized the remaining balance associated with favourable Accounts Receivable terms which was an intangible asset acquired as part of our acquisition of Nokia's microwave transport business.



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Accretion Expense

Three Months Ended			Twelve Months Ended		
February 28, 2015	February 28, 2014	Variance	February 28, 2015	February 28, 2014	Variance
\$	\$	\$	\$	\$	\$
59	48	11	168	222	(54)

During the three and twelve months ended February 28, 2015 we incurred accretion expenses associated with the termination liability in connection with the termination of a services agreement with Nokia discussed above under "Relationship with Nokia" and a smaller portion associated with capital leases. The accretion expense in both the three and twelve months ended February 28, 2014 relates to capital leases which we acquired as part of our acquisition of Nokia's microwave transport business.

Interest Expense

	Three Months Ended			Twelve Months Ended		
	February 28, 2015	February 28, 2014	Variance	February 28, 2015	February 28, 2014	Variance
	\$	\$	\$	\$	\$	\$
Amortization of deferred financing costs	14	138	(124)	187	622	(435)
Interest on the Debt	470	259	211	1,401	1,016	385
Other	(32)	43	(75)	(31)	112	(143)
	452	440	12	1,557	1,750	(193)

We have a credit line available to us of \$40.0 million plus \$4.0 million for letters of credit and foreign exchange facilities. The credit line will expire on June 1, 2016.

As of February 28, 2015, \$32.4 million is outstanding on the line of credit and \$1.9 million against its letter of credit facility. As of the date of this MD&A, no additional funds have been drawn down on the line of credit. Interest rates vary with market rate fluctuations, with loans bearing interest in the range of 3% to 4% above the applicable base rates. During the three and twelve months ended February 28, 2015 the weighted average debt outstanding was \$27.9 million and \$20.3 million, respectively (three months and twelve months ended February 28, 2014 — \$15.0 million). We capitalized the fees associated with the creation and renegotiation of the line and are amortizing those costs over the life of the facility.

(Loss) / Gain on Change in Estimate

Three Months Ended			Twelve Months Ended		
February 28, 2015	February 28, 2014	Variance	February 28, 2015	February 28, 2014	Variance
\$	\$	\$	\$	\$	\$
(234)	(553)	319	67	2,759	(2,692)



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There are three factors contributing to the (loss)/gain on change in estimate during the three and twelve months ended February 28, 2015:

- In the fourth quarter of fiscal year 2015, we reduced the estimated receivable related to the disposition of DragonWave Ltd. (Israel); this estimate change had a (\$52 thousand) impact on the Statement of Operations (Q4 FY2014 impact of (\$0.6 million)).
- In the fourth quarter of fiscal year 2015, we increased the value of product related accrued liabilities by (\$0.2 million) estimated at the time of the acquisition of Nokia's microwave transport (fiscal year 2014 — we reduced the liability by \$2.7 million).
- In the twelve months ended February 28, 2015 we reduced the termination liability for the Italian services agreement which created a gain of \$0.3 million (fiscal year 2014 — gain of \$0.3 million).

In the twelve months ended February 28, 2014 we also changed the estimate of our Israeli lease liability which created a gain of \$0.3 million.

Gain on Contract Amendment

Three Months Ended			Twelve Months Ended		
February 28, 2015	February 28, 2014	Variance	February 28, 2015	February 28, 2014	Variance
\$ —	\$ —	\$ —	\$ —	\$ 5,702	\$ (5,702)

As described in the section entitled "Relationship with Nokia", a number of factors make up the gain on contract amendment in the previous fiscal year. The following table breaks down those elements, in USD millions:

	FY2014
Reduction in an Indian capital lease obligation	(0.4)
Reduction in accounts payable balance	(13.3)
Reduction in capital assets	0.6
Elimination of the capital lease obligation	(1.3)
Recognition of the termination fee	8.7
Gain on Contract Amendment	<u>(5.7)</u>

Warrant Issuance Costs

Three Months Ended			Twelve Months Ended		
February 28, 2015	February 28, 2014	Variance	February 28, 2015	February 28, 2014	Variance
\$ —	\$ —	\$ —	\$ (221)	\$ (662)	\$ 441

On August 1, 2014 we completed an equity offering which included the issuance of warrants. Of the total equity issuance costs of \$2.3 million, \$0.2 million was attributed to the warrants specifically and expensed to our



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consolidated statement of operations in the twelve months ended February 28, 2015. The remaining issuance costs were netted against the proceeds of the offering. Similarly, in the previous fiscal year, on September 23, 2013, we completed an equity offering, which included the issuance of warrants. A portion of the total issuance costs were also expensed to our consolidated statement of operations in the twelve months ended February 28, 2014. See "Equity Offerings and Use of Proceeds" below.

Fair Value Adjustment — Warrant Liability

Three Months Ended			Twelve Months Ended		
February 28, 2015	February 28, 2014	Variance	February 28, 2015	February 28, 2014	Variance
\$	\$	\$	\$	\$	\$
979	(352)	1,331	2,007	3,235	(1,228)

The warrant liability is required to be presented at its estimated fair value as at each balance sheet date. Increases or decreases in fair value of the warrants are included as a component of other income (expense) in our consolidated statement of operations. The income for the three and twelve months ended February 28, 2015 related to the warrants which were issued pursuant to the 2013 Equity Offering and the 2014 Equity Offering.

Foreign Exchange Gain (Loss)

Three Months Ended			Twelve Months Ended		
February 28, 2015	February 28, 2014	Variance	February 28, 2015	February 28, 2014	Variance
\$	\$	\$	\$	\$	\$
327	(311)	638	846	(1,530)	2,376

The foreign exchange gains and losses for both the three and twelve months ended February 28, 2015 resulted from the translation of foreign denominated monetary accounts and the strength of the U.S. dollar relative to foreign currencies. During the three and twelve months ended February 28, 2015 the translation of cash accounts resulted in foreign currency losses of \$0.4 million and \$0.9 million respectively, while the translation of foreign currency denominated liability accounts, particularly those denominated in Euro, resulted in foreign currency gains which more than offset the foreign exchange losses.

Income Taxes (Recovery) Expense

Three Months Ended			Twelve Months Ended		
February 28, 2015	February 28, 2014	Variance	February 28, 2015	February 28, 2014	Variance
\$	\$	\$	\$	\$	\$
(330)	128	(458)	717	398	319

The tax expense in the three and twelve months ended February 28, 2015 reflects the anticipated payment of taxes in entities which perform R&D or sales and customer support services for DragonWave internationally. It also reflects the anticipated payment of taxes in India. In fiscal year 2014 our tax expense related primarily to China. In fiscal year 2015 our tax expense relates to anticipated cash taxes payable in China and India offset by a



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\$0.4 million refund anticipated from the U.S.A. as a result of a favourable tax ruling related to fiscal year 2010. We actively seek and apply for all tax incentive programs available in these jurisdictions to minimize these expenses wherever possible.

As at February 28, 2015, we had cumulative operating tax loss carry forwards in the following jurisdictions: Canada — \$109.0 million, United States — \$8.0 million and Luxembourg — \$53.5 million. We also had capital loss carryforwards in the following jurisdictions: Canada — \$16.3 million, and the United States — \$45.5 million. In addition, we had \$15.6 million of investment tax credits available to reduce future federal Canadian income taxes payable and \$2.6 million available to reduce future provincial income taxes payable.

Use of Non-GAAP Performance Measures

“Gross profit before inventory provisions”

In this MD&A we break out “Gross profit before inventory provisions” as this measure allows management to evaluate our operational performance and compare to prior periods more effectively. “Gross profit before inventory provisions” does not have any standardized meaning prescribed by GAAP, it is therefore unlikely to be comparable to similar measures presented by other issuers and is not designed to replace other measures of financial performance or the statement of operations as an indicator of performance. This measure should not be considered in isolation or as a substitute for other measures of performance calculated according to GAAP. We believe that it is useful to compare gross profit results without the impact of inventory provisions, since our inventory provisions generally relate to discontinuance of products. We believe this non-GAAP measure also provides investors with a better ability to understand our operational performance. We calculate “Gross profit before inventory provisions” consistently over each fiscal period.

The most directly comparable GAAP measure presented in our interim financial statements for the three and twelve months ended February 28, 2015 to “Gross profit before inventory provisions” is “Gross profit”.

“Adjusted Cashflow from Operations/Adjusted EBITDA”

In this MD&A we also break out “Adjusted Cashflow from Operations” also called “Adjusted EBITDA”. This measure corresponds to earnings before interest, taxes, depreciation and amortization less elements that are non-cash in nature. Because it omits non-cash items, we feel that Adjusted Cashflow from Operations / Adjusted EBITDA better represents the cash impact of the results of operations in the period. Adjusted Cashflow from Operations/Adjusted EBITDA does not have any standardized meaning prescribed by GAAP, and is not designed to replace other measures of financial performance or the statement of operations as an indicator of performance. This measure should not be considered in isolation or as a substitute for other measures of performance calculated according to GAAP. Consistent improvement in Adjusted Cashflow from Operations/Adjusted EBITDA is one of management's primary objectives. Reducing cash usage from drivers other than working capital and capital investments is an important objective for us and we believe this financial measure is therefore useful to investors in evaluating our operating performance.

The most directly comparable GAAP measure presented in our interim financial statements for the three and twelve months ended February 28, 2015 to “Adjusted Cashflow from Operations/Adjusted EBITDA” is “Net Loss”. A reconciliation of “Adjusted Cashflow from Operations/Adjusted EBITDA” to “Net Loss” is set out below.



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Reconciliation of Adjusted Cashflow from Operations/Adjusted EBITDA to Net Loss

	FY15 Q4	FY15 Q3	FY15 Q2	FY15 Q1
Adjusted Cashflow from Operations/Adjusted EBITDA	(872)	(3,362)	(4,103)	(5,024)
Include the following items:				
Amortization	(446)	(519)	(658)	(697)
Options expense	(302)	(321)	(288)	(359)
Inventory provisions	(1,187)	(272)	(1,223)	(90)
Amortization of intangible assets	(207)	(333)	(339)	(309)
Accretion expense	(59)	(69)	—	(40)
Interest expense	(452)	(301)	(379)	(425)
(Loss)/Gain on change in estimate	(234)	200	—	101
Gain on sale of fixed assets	—	18	—	—
Warrant issuance expenses	—	—	(221)	—
Fair value adjustment — warrant liability	979	1,880	(1,002)	150
Foreign exchange gain (loss)	327	145	253	121
Income taxes	330	(502)	(450)	(95)
Net Loss	<u>(2,123)</u>	<u>(3,436)</u>	<u>(8,410)</u>	<u>(6,667)</u>

Liquidity and Capital Resources

The following table sets out some of the key balance sheet metrics:

	As at February 28, 2015	As at February 28, 2014
Key Balance Sheet Amounts and Ratios:		
Cash and Cash Equivalents	23,692	18,992
Working Capital	61,000	40,051
Long Term Assets	18,546	18,326
Long Term Liabilities	34,778	16,934
Working Capital Ratio	2.5 : 1	2.2 : 1
Days Sales Outstanding in accounts receivable	96 days	81 days
Inventory Turnover	6.5 times	1.9 times

Note: Days Sales Outstanding in accounts receivable excluding a Tier 1 carrier in India were 59 days

Cash and Cash Equivalents

As at February 28, 2015, we had \$23.7 million in Cash and Cash Equivalents ("Cash"), representing a \$4.7 million increase from the Cash balance at February 28, 2014.



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The following table explains the change in Cash during the three and twelve months ended February 28, 2015.

	Three Months Ended February 28, 2015	Twelve Months Ended February 28, 2015
Beginning Cash Balance	29,546	18,992
Net Loss — adjusted for non cash items	(254)	(14,421)
Change in inventory (net of inventory provisions)	(2,535)	3,351
Change in accounts receivable, and other current assets	(5,253)	(31,313)
Change in accounts payable and other liabilities	(2,006)	12,584
Nokia termination liability	(1,249)	(3,286)
Change in other	424	535
Working capital changes and other changes	<u>(10,619)</u>	<u>(18,129)</u>
Capital asset acquisitions	(702)	(3,474)
Purchases of software	(73)	(347)
Cash used in investing activities	<u>(775)</u>	<u>(3,821)</u>
Change in debt facility	5,800	17,400
Capital leases	(24)	(739)
Net proceeds from the Offering	0	23,960
Other changes to equity (ESPP and issuance costs charged to warrant) . .	18	450
Cash provided through financing activities	<u>5,794</u>	<u>41,071</u>
Total Change in Cash	<u>(5,854)</u>	<u>4,700</u>
Ending Cash Balance	<u>23,692</u>	<u>23,692</u>

Key points associated with the Cash decrease of \$5.9 million in the fourth quarter of fiscal year 2015 include:

- We borrowed a further \$5.8 million against the line of credit.
- Inventory levels grew slightly as a result of the lower than anticipated sales in the quarter.
- Receivables, with longer payment terms than the terms we have with suppliers, grew at a greater rate than our payables.
- We continued to invest in capital equipment and software required to meet capacity requirements for the recent increase in sales.



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Working Capital

<u>Changes in working capital</u>	November 30, 2014 to February 28, 2015	February 28, 2014 to February 28, 2015
Beginning working capital balance	58,048	40,051
Cash and cash equivalents	(5,854)	4,700
Trade receivables	4,863	31,218
Inventory	1,348	(6,122)
Other current assets	355	(75)
Future income tax asset	(58)	(8)
Accounts payable and accrued liabilities	2,456	(10,199)
Deferred revenue	(163)	154
Capital lease obligation	5	1,281
Net change in working capital	<u>2,952</u>	<u>20,949</u>
Ending working capital balance	<u>61,000</u>	<u>61,000</u>

Trade Receivables

Our trade receivables balance increased by \$31.2 million between February 28, 2014 and February 28, 2015 as a result of the increase in sales and variable payment terms of select customers. Our days sales outstanding increased to 96 days at February 28, 2015 versus 81 days at February 28, 2014. Our allowance for doubtful accounts continues to represent a small percentage of our total trade receivables outstanding (February 28, 2015 — 1.0%; February 28, 2014 — 3.0%).

As at February 28, 2015, two customers exceeded 10% of the total receivable balance. These customers represented 37% and 34% of the trade receivables balance (February 28, 2014 — one customer represented 56% of the trade receivables balance).

Included in G&A expenses is a nominal bad debt expense for the three month period ended February 28, 2015 and \$0.2 million for the twelve month period ended February 28, 2015 (fourth quarter fiscal year 2014 — \$48 thousand; full fiscal year 2014 — \$0.5 million).



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Inventory

The inventory balance decreased by \$6.1 million relative to the closing balance at February 28, 2014. By product category the decreases in inventory are as follows in USD millions:

Closing inventory February 28, 2014	30.4
Decrease in Horizon Compact Plus	(2.5)
Decrease in Quantum	(2.2)
Decrease in Horizon Compact (including provision increase of \$0.7 million)	(1.7)
Lower Overhead and Labour costs in inventory	(0.9)
Decrease in Antennas, peripherals and other	(0.6)
Increase in the Flexipacket product portfolio	1.8
Net Change in Inventory	(6.1)
Ending inventory at February 28, 2015	<u>24.3</u>

Accounts Payable and Accrued Liabilities

The accounts payable and accrued liabilities balance increased by \$10.2 million between February 28, 2014 and February 28, 2015 primarily due to an increase in purchases tied to higher sales levels.

Debt Facility

On January 6, 2014, we extended the credit facility with Comerica Bank and Export Development Canada which was set to mature on June 1, 2016. The revised line has been increased to \$40.0 million plus \$4.0 million for letters of credit and foreign exchange facilities and will expire on June 1, 2016. The new terms of the credit facility include customary terms, conditions, covenants, and representations and warranties. Credit availability is subject to ongoing compliance with borrowing covenants and short term assets on hand. As at February 28, 2015, we had \$32.4 million drawn on this facility, and in addition had utilized \$1.9 million for letters of credit. Access to additional available funds is geared to future growth in accounts receivable. The credit facility is secured by a first priority charge on all of our assets and principal direct and indirect subsidiaries. Borrowing options under the credit facility include U.S. dollars, Canadian dollars and Euro loans. Interest rates vary with market rate fluctuations, with loans bearing interest in the range of 3% to 4% above the applicable base rates. Direct costs associated with obtaining the debt facility such as closing fees, registration and legal expenses have been capitalized and will be amortized over the thirty month term of the facility.

The credit facility contains financial covenants including minimum tangible net worth requirements, holding a minimum of \$10.0 million within our lenders (Comerica Bank) operating account, and minimum liquidity ratio requirements. The credit facility also imposes certain restrictions on our ability to acquire capital assets above a threshold over a trailing six month period. Certain of our assets, including accounts receivable, inventory, and equipment, are pledged as collateral for the credit facility. Upon an event of default, outstanding obligations would be immediately due and payable unless a waiver is received.

We were in breach of one of our covenants in both March, 2014 and April, 2014. We obtained waivers for these breaches and amended the terms of the facility on May 13, 2014. We were in compliance with all covenants as at February 28, 2015.



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Equity Offerings and Use of Proceeds

2014 Equity Offering

On August 1, 2014 we completed a public equity offering (the "2014 Equity Offering"). Under the terms of the 2014 Equity Offering, we issued and sold 15,927,500 units at CAD\$1.80 per unit for aggregate gross proceeds of \$26.2 million (CAD\$28.7 million). After deducting commissions and expenses, we realized net proceeds of \$24.0 million. Each unit consisted of one common share of the Company and one half of one warrant. Each whole warrant originally entitled the holder to purchase one of our common shares at an exercise price of CAD\$2.25 per share until August 1, 2016. Upon issuance, we recognized a liability in the amount of \$2.6 million for the warrants.

2013 Equity Offering

On September 23, 2013, pursuant to the public equity offering of units (the "2013 Equity Offering"), we issued 11,910,000 common shares and 8,932,500 warrants for proceeds, before deducting fees and expenses, of approximately \$25.0 million. After deducting fees and expenses, we realized net proceeds of \$22.4 million. The units were offered at a price of \$2.10 per unit. Each unit consisted of one common share and three quarters of one warrant. Each whole warrant originally entitled the holder to purchase one common share at an exercise price of \$2.70 per share until September 23, 2018, subject to certain adjustments. In connection with the 2014 Equity Offering, and pursuant to the terms of such warrants, the exercise price of the warrants issued in the 2013 Equity Offering was changed to \$1.30 per share. As at September 23, 2013 we recognized a liability in the amount of \$6.4 million for the warrants.

Use of Proceeds

On August 1, 2014, pursuant to the 2014 Equity Offering, we issued 15,927,500 common shares and 7,963,750 warrants for proceeds, before deducting fees and expenses, of approximately CAD\$28.7 million. After deducting fees and expenses, we realized net proceeds of \$24.0 million (CAD\$26.2 million).

As previously disclosed, we planned to use the proceeds we received from the 2014 Equity Offering as follows: approximately CAD\$11.5 million to strengthen our balance sheet, approximately CAD\$5.7 million to fund working capital and approximately CAD\$5.7 million for general corporate purposes. A portion of the aggregate net proceeds of the 2014 Equity Offering (being CAD\$3.3 million) was received by us as a result of the exercise of the over-allotment option by the underwriters on August 1, 2014. As a result, the net proceeds were greater than anticipated. The additional net proceeds will be used to fund working capital.

In our industry, a strong balance sheet (in the sense of a cushion of available cash) is attractive to customers as it demonstrates the capacity to ramp up and support higher production levels. In some longer term and larger deployments, a certain amount of cash on the balance sheet is a precondition to qualifying to supply products. To the extent we are successful in winning more business, funds allocated to strengthening our balance sheet may be reallocated to supporting higher levels of production, including purchases of component inventory to support our supply chain. Any amounts for general working capital remain unallocated and will be expended at the discretion of management.

Although we intend to use the net proceeds from the 2014 Equity Offering for the purposes set forth above, we reserve the right to use such net proceeds for other purposes to the extent that circumstances, including unforeseen events and other sound business reasons, make such use necessary or prudent.



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Reconciliation of Use of Proceeds

The following table sets out a comparison of the intended use of proceeds disclosed in the prospectus supplement dated July 25, 2014 publicly filed in connection with the 2014 Equity Offering (other than working capital):

<u>Intended Use of Proceeds</u>	<u>Estimated Amount</u>	<u>Actual Use of Proceeds</u>	<u>Actual Amount</u>	<u>Variances</u>
Strengthen our balance sheet . .	CAD\$11.5 million	Strengthen our balance sheet	CAD\$11.5 million	No variances to date
General corporate purposes . . .	CAD\$5.7 million	General corporate purposes	CAD\$5.7 million	No variances to date

Liquidity Discussion

Our consolidated financial statements for the three and twelve months ended February 28, 2015 have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and the disbursement of liabilities in the normal course of business. We have consumed a significant amount of cash resources during the past three years, mainly attributable to material and operating expense base reductions that lagged reductions in sales volumes, and our acquisition and integration of Nokia's microwave transport business.

We have formulated a plan to return to cashflow break-even from operations and to continue to operate as a going concern. We plan to continue utilizing our asset backed lending facilities described in the "Debt Facility" section above to finance our working capital needs.

Some of the significant assumptions and associated risks of our plan to achieve cashflow break-even from operations include:

- Achieving growth in sales including capturing new accounts;
- Reducing the costs of our products to improve margin performance on hardware;
- Efficiently and cost effectively expanding into new regions including India and Russia;
- Continued access to debt under arrangements with our current lenders including renewal of credit line; and
- Adapting to changes resulting from Nokia's creation of its PBU and microwave ecosystem and Nokia's proposed combination with ALU.

While we believe that our assumptions are reasonable, actual events or circumstances may cause our assumptions to be incorrect and actual results may differ materially from the plan.

Commitments as at February 28, 2015

Future minimum operating lease payments as at February 28, 2015 per fiscal year relate to leases of office and warehouse space.



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They are as follows:

<u>Contractual Obligations</u>	<u>Total</u>	<u>Payment due by period</u> (Figures are in thousands of USD)			
		<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>More than 5 years</u>
Total Operating Lease Obligations	<u>\$2,700</u>	<u>\$1,527</u>	<u>\$1,173</u>	<u>—</u>	<u>—</u>

We are subject to claims and legal actions in the normal course of our business activities. We recognize a provision for estimated loss contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In management's opinion, adequate provisions have been made for all current and future claims.

Outstanding Share Data

Our common shares are listed on the Toronto Stock Exchange under the symbol DWI and on the NASDAQ under the symbol DRWI.

Our warrants issued on August 1, 2014 in connection with the 2014 Equity Offering are traded on the Toronto Stock Exchange under the symbol DWI.WT and on the NASDAQ Global Market under the symbol DRWIW.

The following tables show common share activity in the three and twelve months ended February 28, 2015.

	<u>Common Shares</u>
Balance at February 28, 2014	<u>58,008,746</u>
Exercise of warrants	1,301,057
Public offering	15,927,500
Other	32,805
Balance at November 30, 2014	<u>75,270,108</u>
Other	20,710
Balance at February 28, 2015	<u>75,290,818</u>



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The following is a summary of stock option activity:

	Three and twelve months ended February 28, 2015	
	Options	Weighted Average Price (CAD)
Options outstanding at February 28, 2014	3,173,321	\$3.71
Granted	1,079,976	\$2.11
Forfeited	(143,723)	\$4.95
Options outstanding at November 30, 2014	4,109,574	\$3.25
Granted	4,500	\$1.07
Forfeited	(128,487)	\$9.19
Options outstanding at February 28, 2015	3,985,587	\$3.05

As at February 28, 2015 the following securities were issued and outstanding: 75,290,818 common shares, options to purchase 3,985,587 common shares granted under our Share Based Compensation Plan, 80,000 restricted share units ("RSUs") granted under our Share Based Compensation Plan, and warrants exercisable for 10,052,500 common shares. The number of common shares issuable upon the exercise of the warrants is subject to adjustment in accordance with terms of the warrants.

On March 5, 2015 we announced that we had received a notice from NASDAQ that we were not in compliance with NASDAQ's Listing Rule 5450(a)(1), as the minimum bid price of our common shares had closed below \$1.00 per share for 30 consecutive business days. The notification of noncompliance has no immediate effect on the listing or trading of our common shares on the NASDAQ Global Market under the symbol "DRWI".

As of May 8, 2015 the following securities were issued and outstanding: 75,305,761 common shares, options to purchase 3,834,757 common shares granted under our Share Based Compensation Plan, 60,000 RSUs granted under our Share Based Compensation Plan, and warrants exercisable for 10,052,500 common shares. The number of common shares issuable upon the exercise of the warrants is subject to adjustment in accordance with terms of the warrants.

Restricted Shares & Employee Share Purchase Plan

We launched an Employee Share Purchase Plan ("ESPP") on October 20, 2008. The plan includes provisions to allow employees to purchase common shares. We will match the employees' contribution at a rate of 25%. During the three and twelve months ended February 28, 2015 a total of 16,567 and 44,012 common shares were purchased by employees at fair market value, while we issued 4,139 and 11,003 common shares as its matching contribution, expressed net of 1,500 forfeited shares during the twelve months ended February 28, 2015. The shares we contributed will vest twelve (12) months after issuance.

We record an expense equal to the fair value of shares granted pursuant to the ESPP over the period the shares vest. The total fair value of the shares earned during the three and twelve months ended February 28, 2015 was \$3 thousand and \$13 thousand (three and twelve months ended February 28, 2014 — \$3 thousand and \$23 thousand). The fair value of the unearned ESPP shares as at February 28, 2015 was \$13 thousand



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(February 28, 2014 — \$13 thousand). The number of shares held for release, and still restricted under the ESPP at February 28, 2015 was 11,000 (February 28, 2014 — 7,305).

Restricted Share Units (RSUs)

Pursuant to the terms of our Share Based Compensation Plan, we entered into restricted share unit agreements with certain of our independent directors. These units which were issued during July 2014 are unvested and subject to each director's continued engagement on the Board for a period of one year from the date of issuance.

The following table sets forth the summary of RSU activity under our Share Based Compensation Plan for the three and twelve months ended February 28, 2015:

	Three and twelve months ended February 28, 2015	Weighted Average Price (CAD)
	RSU's	
RSU balances at February 28, 2014	—	—
Granted	<u>80,000</u>	<u>\$2.15</u>
RSU balances at November 30, 2014	<u>80,000</u>	<u>\$2.15</u>
Granted	—	—
RSU balances at February 28, 2015	<u>80,000</u>	<u>\$2.15</u>

We have recognized \$36 thousand and \$94 thousand for the three and twelve months ended February 28, 2015 as compensation expense for restricted share units, with a corresponding credit to contributed surplus.

There were no RSUs vested as of February 28, 2015. All RSUs will vest during the second quarter of fiscal year 2016 with the exception of 20,000 RSUs which were cancelled on April 14, 2015.

Off-Balance Sheet Arrangements

(Actual Dollars)

City	Country	Lessor	Lease Expiry	Cost per Month
Dubai	UAE	TECOM Investments FZ-LLC	November, 2015	\$ 5,490
Luxembourg City	Luxembourg	FPS Office Center S.A.R.L.	Month to Month	\$ 1,225
Singapore	Singapore	ARCC	February, 2016	\$ 3,085
Ottawa (Warehouse & Operations at Terry Fox Drive and Frank Neighbor Place + Office Space at 411 Legget Drive)	Canada	Kanata Research Park	November, 2016	\$118,000
Herzlyia	Israel	Margalin Holdings Ltd.	November, 2015	\$ 2,950
Shanghai	China	Shanghai Lingang Economic Development Group	September, 2017	\$ 21,230
New Delhi	India	WEL Intertrade Private Limited Holdings Ltd.	March, 2015	\$ 6,300
Gurgaon	India	Pinki Bansal	Month to Month	\$ 370



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The leases listed above are arranged at market pricing levels in all jurisdictions and the lease periods listed above represent a commitment for the time period indicated. We are actively seeking sub-lease arrangements in a number of locations as part of our efforts to reduce costs. There can be no assurance that we will secure sub-leases or that sub-lease terms will be favorable.

On January 21, 2014, we subleased a portion of our Kanata office space and as such during the year ended February 28, 2014 we recorded net rent expense of \$84 thousand, representing the present value of our estimated remaining rent expense for the duration of the lease after taking into account estimated future sublease income and deferred rent on the facility.

We use an outsourced manufacturing model in which most of the component acquisition and assembly of our products is executed by third parties. Generally, we provide the supplier with a purchase order 90 days in advance of expected delivery. We are responsible for the financial impact of any changes to the product requirements within this period. In some cases when a product has been purchased by a contract manufacturer but not pulled on for a build after a certain amount of time, we provide a deposit against that inventory, but do not take ownership of it.

Our contract manufacturers currently have inventory intended for use in the production of our products, and we have purchase orders in place for raw materials and manufactured products with these contract manufacturers as well. All of this material is considered to be part of the normal production process and we take provisions against any portion of that inventory that we do not expect to be fully used based on current forecasts and projections. As mentioned previously, we would generally be responsible for the cost of the material approved to be purchased on our behalf by our contract manufacturers should those forecasts or projections change.

As at February 28, 2015, we have provisions totaling \$0.1 million on inventory held by contract manufacturers that we do not expect to be fully used.

Financial Instruments

Financial instruments are classified into one of the following categories: assets held at fair value, loans and receivables, other financial liabilities, or liabilities held at fair value.

Categories for financial assets and liabilities

The following table summarizes the carrying values of our financial instruments:

	February 28, 2015	February 28, 2014
Assets held at fair value (A)	23,692	19,011
Loans and receivables (B)	49,614	19,405
Other financial liabilities (C)	71,728	44,043
Liabilities held at fair value (D)	1,239	1,360

(A) Includes cash, cash equivalents and foreign exchange forward contracts

(B) Includes trade receivables and other & miscellaneous receivables

(C) Includes accounts payable, accrued liabilities, debt facility and termination fee

(D) Warrant liability



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Fair value

We classify our fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The inputs fall into three levels that may be used to measure fair value.

The September 23, 2013 warrant liability is classified as Level 3 as it is measured at fair value using significant unobservable inputs.

The August 1, 2014 warrant liability is classified as Level 1 as the warrants issued in the 2014 Equity Offering are traded on the Toronto Stock Exchange and on the NASDAQ Global Market.

As at February 28, 2015 we held the following Level 3 financial instruments carried at fair value on the consolidated balance sheet.

	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial Liabilities			
Warrant liability	—	603	603

As at February 28, 2014, we held the following Level 2 and Level 3 financial instruments carried at fair value on the consolidated balance sheet.

	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial Assets			
Foreign exchange forward contracts	19	—	19
Financial Liabilities			
Warrant liability	—	1,360	1,360

A reconciliation of the Level 3 warrant liability measured at fair value for the three and twelve months ended February 28, 2015 follows:

	Three and twelve months ended February 28, 2015	
	<u>Warrants</u>	<u>\$</u>
Balance at February 28, 2014	3,171,000	1,360
Fair value adjustment — warrant liability	—	128
Exercise of warrants	(1,082,250)	(664)
Balance at November 30, 2014	10,052,500	824
Fair value adjustment — warrant liability	—	(221)
Balance at February 28, 2015	2,088,750	603



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Interest rate risk

Cash, cash equivalents and our debt facility, which has interest rates with market rate fluctuations, expose us to interest rate risk on these financial instruments. Net interest expense, excluding deferred financing costs, recognized during the three and twelve months ended February 28, 2015 was \$0.4 million and \$1.4 million on our cash, cash equivalents and debt facility (three and twelve months ended February 28, 2014 — expense of \$0.3 million and \$1.0 million respectively).

Credit risk

In addition to trade receivables and other receivables, we are exposed to credit risk on our cash and cash equivalents in the event that our counterparties do not meet their obligations. We do not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or fair value of the financial instrument. We minimize credit risk on cash and cash equivalents by transacting with only reputable financial institutions and customers.

Foreign exchange risk

Foreign exchange risk arises because of fluctuations in exchange rates. To mitigate exchange risk, we may utilize forward contracts to secure exchange rates with the objective of offsetting fluctuations in our operating expenses incurred in foreign currencies with gains or losses on the forward contracts. We had no forward contracts in place at February 28, 2015 (February 28, 2014 — \$1.2 million). All foreign currency gains and losses related to forward contracts are included in foreign exchange gain (loss) in the consolidated statements of operations.

As of February 28, 2015, if the U.S. dollar had appreciated 1% against all foreign currencies, with all other variables held constant, the impact of this foreign currency change on our foreign denominated financial instruments would have resulted in a nominal decrease in after-tax net loss for the three and twelve months ended February 28, 2015 (three and twelve months ended February 28, 2014 — decrease of \$0.1 million) with an equal and opposite effect if the U.S. dollar had depreciated 1% against all foreign currencies at February 28, 2015.

Economic Dependence

We were dependent on three key customers with respect to revenue in the three months ended February 28, 2015. These customers represented approximately 46%, 16% and 10% of sales (three months ended February 28, 2014 — one customer represented 68%).

In the twelve months ended February 28, 2015 we were also dependent on two key customers with respect to revenue. These customers represented approximately 53% and 16% of sales (twelve months ended February 28, 2014 — one customer represented 59%).

Controls and Procedures

At the end of the period covered by this MD&A (such period being the three and twelve months ended February 28, 2015), an evaluation was carried out under the supervision of, and with the participation of, our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, which are our principal executive officer and principal financial officer, respectively, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange



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Act of 1934, as amended (the "Exchange Act")). Based upon that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as at February 28, 2015 to give reasonable assurance that the information we are required to disclose in reports that we file or submit under the Exchange Act and/or applicable Canadian securities legislation is (i) recorded, processed, summarized and reported, within the time periods specified in the U.S. Securities and Exchange Commission's as well as in accordance with applicable Canadian securities legislation rules and forms, and (ii) accumulated and communicated to management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Our management is also responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f) as well as National Instrument 52-109 of the Canadian Securities Administrators. These controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. Under the supervision and with the participation of our management, including our principal executive officer, our CEO, and principal financial officer, our CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control — Integrated Framework, our management concluded that our internal control over financial reporting was effective and that there are no material weaknesses in the Company's disclosure controls and procedures as of February 28, 2015.

Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements filed on SEDAR on May 12, 2015, has also audited the effectiveness of our internal control over financial reporting as of February 28, 2015, as stated in their report which is included in the annual audited financial statements.

Changes in Internal Control over Financial Reporting

During the period covered by this report, no changes occurred in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Critical Accounting Policies and Estimates

Inventory

Inventory is valued at the lower of cost and net realizable value ("NRV"). The cost of inventory is calculated on a standard cost basis, which approximates average actual cost. NRV is determined as the market value for finished goods, replacement cost for raw materials, and finished goods market value less cost to complete for work in progress inventory.

We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based on factors including our estimated forecast of product demand, the stage of the product life cycle and production requirements for the units in question.

We carry inventory for the purposes of supporting our product warranty. Our standard warranty is typically between 12 and 36 months but we earn revenue by providing enhanced and extended warranty and repair service during and beyond the standard warranty period. Customer service inventory consists of both component parts and finished units.



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Indirect manufacturing costs and direct labour expenses are allocated systematically to the total production inventory.

Revenue recognition

We derive revenue from the sale of broadband wireless backhaul equipment which includes embedded software and a license to use said software and extended product warranties. Software is considered to be incidental to the product. Services range from installation and training to basic consulting. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred and there are no significant remaining vendor obligations, collection of receivables is reasonably assured and the fee is fixed and determinable. Where conditions to final acceptance of the product are specified by the customer, revenue is deferred until acceptance criteria have been met.

Our business agreements may also contain multiple elements. Accordingly, we are required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, the fair value of these separate units of accounting and when to recognize revenue for each element. For arrangements involving multiple elements, we allocate revenues to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence ("VSOE") if available, third party evidence ("TPE") if VSOE is not available, or estimated selling price ("ESP") if neither VSOE nor TPE is available. In multiple element arrangements, revenues are allocated to each separate unit of accounting for each of the deliverables using the relative estimated selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. We have determined the selling price both for the undelivered items and the delivered items using ESP.

We generate revenue through direct sales and sales to distributors. We defer the recognition of a portion of sales to distributors based on estimated sale returns and stock rotation granted to customers on products in the same period the related revenues are recorded. These estimates are based on historical sales returns, stock rotations and other known factors.

Revenue associated with extended warranty and advanced replacement warranty is recognized ratably over the life of the contracted service.

Revenue from engineering services or development agreements is recognized according to the specific terms and acceptance criteria as services are rendered.

We accrue estimated potential product liability as warranty costs when revenue on the sale of equipment is recognized. Warranty costs are calculated on a percentage of revenue per month based on current actual warranty costs and return experience.

Shipping and handling costs borne by us are recorded in cost of sales. Shipping and handling costs charged to customers are recorded as revenue, if billed at the time of shipment. Costs charged to customers after delivery are recorded in cost of sales.

We generate revenue through royalty agreements as a result of the use of our intellectual property. Royalty revenue is recognized as it is earned.



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Advanced Replacement and Extended Warranty

We offer our customers the option to purchase advanced replacement and extended warranty contracts either at the time the goods are shipped or at any time after shipment takes place. Many customers wait to purchase extended warranty coverage until their standard warranty period ends.

Advanced replacement is a service we sell which provides customers with the benefit of having a replacement radio or modem shipped to them when a unit they own has been confirmed by us to be malfunctioning. When the customer receives the replacement radio or modem, they ship the malfunctioning unit back to us. We repair and keep the returned unit.

Our standard warranty for customers generally varies between 12 and 36 months. Our extended warranty programs enable customers to continue to have repairs made as needed and customer support guidance beyond the standard warranty period.

Training

We earn a minimal portion of our total revenue from the sale of training services primarily to installation companies. Only in rare circumstances do we provide or sub-contract installation services (see below), as the customers to whom we sell microwave equipment outsource the installation to specialized companies. As a result, installation training revenue is generally not sold as a bundled service because it is sold to a different customer base. Further, any training that is provided is not essential to the functionality of our product offerings, and is thus considered an insignificant deliverable to the overall arrangement and is not considered a separate unit of accounting.

Installation

Periodically, a customer may request that we arrange for the installation of our equipment. Installations are performed by a third party service provider. In this case, a separate services agreement is created between us and the end-user of our equipment, and we sub-contract the installation to a qualified installer. Evidence that the revenue associated with the installation service represents the fair value of the offering is provided by the sub-contracted value of the installation.

The revenue recognition concepts highlighted above have not changed as a result of our acquisition of Nokia's microwave transport business. Shipping terms through the Nokia OEM sales channel follow the Incoterms used by our other customers and do not include acceptance criteria.

Research and Development

Our research costs are expensed as incurred. Our development costs are expensed as incurred unless we meet generally accepted accounting criteria for deferral and amortization. Development costs incurred prior to establishment of technological feasibility do not meet these criteria, and are expensed as incurred.

Income taxes

Income taxes are accounted for using the liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are determined based on differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. Deferred income tax assets and



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liabilities are measured using enacted tax rates that apply to taxable income in the years in which temporary differences are expected to be recovered or settled. We provide a valuation allowance against our deferred tax assets when we believe that it is more likely than not that the assets will not be realized.

We determine whether it is more likely than not that an uncertain tax position will be sustained upon examination by the tax authorities. The tax benefit of any uncertain tax position that meets the more-likely-than-not recognition threshold is calculated as the largest amount that is more than 50% likely of being realized upon successful resolution. To the extent a full benefit is not expected to be realized, an income tax liability is effectively established. We recognize accrued interest and penalties on unrecognized tax benefits as interest expense.

We periodically review our provision for income taxes and valuation allowance to determine whether the overall tax estimates are reasonable. When we perform our quarterly assessments of the provision and valuation allowance, it may be determined that an adjustment is required. This adjustment may have a material impact on our financial position and results of operations.

ACCOUNTING POLICIES ADOPTED IN THE CURRENT FISCAL YEAR

Parent's Accounting for the Cumulative Translation Adjustment Upon Derecognition of Certain Subsidiaries or Groups of Assets Within a Foreign Entity or of an Investment in a Foreign Entity

In March 2013, the FASB issued ASU 2013-05, "Foreign Currency Matters." ASU 2013-05 resolves the diversity in practice about whether Subtopic 810-10, "Consolidation-Overall", or Subtopic 830-30 "Foreign Currency Matters, Translation of Financial Statements", applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. In addition, the amendments in ASU 2013-05 resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. ASU 2013-05 became effective for us on March 1, 2014. The adoption did not have an impact on our consolidated interim financial statements.

Obligations Resulting From Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date

In February 2013, the FASB issued ASU No. 2013-04, "Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date" ("ASU 2013-04"). ASU 2013-04 provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors as well as any additional amount the reporting entity expects to pay on behalf of its co-obligors. ASU 2013-04 also requires an entity to disclose the nature and amount of those obligations. The ASU became effective for us on March 1, 2014. The adoption did not have an impact on our consolidated interim financial statements.



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Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists

In June 2013, the FASB issued ASU No. 2013-11, "Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists". The amendments provide guidance on the presentation of unrecognized tax benefits and will better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. The amendments in this ASU became effective for us on March 1, 2014. The adoption did not have an impact on our consolidated interim financial statements.

FUTURE ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU No. 2014-9, "Revenue from Contracts with Customers". The amendments in this Update create Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts, and create new Subtopic 340-40, Other Assets and Deferred Costs-Contracts with Customers. In April 2015, the FASB decided to propose a one-year deferral of the effective date by one year for fiscal years beginning after December 15, 2017, with early adoption permitted. We are currently assessing the impact this amendment will have on our consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation — Stock Compensation". The amendments apply to reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target can be achieved after the requisite service period. The amendments in this ASU are effective for fiscal years beginning after December 15, 2015, early adoption permitted. We do not expect the adoption of this guidance to have a material effect on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements — Going Concern". The update provides U.S. GAAP guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The amendments in this ASU are effective for reporting periods beginning after December 15, 2016, early adoption permitted. We do not expect the adoption of this guidance to have a material effect on our consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement — Extraordinary and Unusual Items". The amendments objective is to simplify the income statement presentation requirements in Subtopic 225-20 by eliminating the concept of extraordinary items. The amendments in this ASU are effective for fiscal years beginning after December 15, 2015, early adoption permitted. We do not expect the adoption of this guidance to have a material effect on our Consolidated Financial Statements.