MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT AND FOR THE THREE AND NINE MONTHS ENDED OCTOBER 31, 2015

DATED: DECEMBER 8, 2015

This Management's Discussion and Analysis ("MD&A") for the three and nine months ended October 31, 2015 provides detailed information on the operating activities, performance and financial position of ViXS Systems Inc. ("ViXS" or the "Company"). This discussion should be read in conjunction with the Company's audited annual consolidated financial statements and accompanying notes. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are reported in U.S. dollars, unless otherwise stated. The information contained herein is current to December 8, 2015, unless otherwise stated.

The Company's fiscal year commences February 1st of each year and ends on January 31st of the following year. The Company's fiscal year, which will end on January 31, 2016 is referred to as "current fiscal year", "fiscal 2016", "FY16" or using similar words. The previous fiscal year, which ended on January 31, 2015, is referred to as "previous fiscal year", "fiscal 2015", "FY15" or using similar words.

In this document unless otherwise specified, "we", "us", "our", "Company" and "ViXS" all refer to ViXS Systems Inc. collectively with its subsidiaries. The content of this MD&A has been approved by the Board of Directors, on the recommendation of its Audit Committee.

Additional information relating to the Company is available under the Company's profile on SEDAR at www.sedar.com, and on the Company's website at www.vixs.com.

CAUTION REGARDING FORWARD LOOKING INFORMATION

Certain statements in this MD&A which are not historical facts constitute forward-looking statements or information within the meaning of applicable securities laws ("forward-looking statements"). Such statements include, but are not limited to, statements regarding ViXS' projected revenues, gross margins, earnings, growth rates, the impact of new product design wins, market penetration and product plans. The use of terms such as "may", "anticipated", "expected", "projected", "targeting", "estimate", "intend" and similar terms are intended to assist in identification of these forward-looking statements. Readers are cautioned not to place undue reliance upon any such forward-looking statements. Such forward-looking statements are not promises or guarantees of future performance and involve both known and unknown risks and uncertainties that may cause ViXS' actual results to be materially different from historical results or from any results expressed or implied by such forward-looking statements. Accordingly, there can be no assurance that forward-looking statements will prove to be accurate and readers are therefore cautioned not to place undue reliance upon any such forward-looking statements.

Factors that could cause results or events to differ materially from current expectations expressed or implied by forward looking statements contained herein include, but are not limited to: our history of losses and the risks associated with not achieving or sustaining profitability; the Company's dependence on a limited number of customers for a substantial portion of revenues; fluctuating revenue and expense levels arising from changes in customer demand, sales cycles, product mix, average selling prices, manufacturing costs and timing of product introductions; risks associated with competing against larger and more established companies; competitive risks and pressures from further consoldiation amongst competitors, customers, and suppliers; market share risks and timing of revenue recognition associated with product transitions; risks associated with changing industry standards such as HEVC (High Efficiency Video Codec), HDR (High Dynamic Range) and Ultra HD resolution; risks related to intellectual property, including third party licensing or patent infringement claims; the loss of any of the Company's key personnel could seriously harm its business; risks associated with adverse economic conditions; delays in the launch of customer products; price re-negotiations by existing customers; the Company's dependence on a limited number of supply chain partners for the manufacture of its products, legal proceedings arising from the ordinary course of business; ability to raise needed capital; ongoing liquidity requirements;and other factors discussed in the

"Risk Factors" section of the Company's Annual Information Form dated May 7, 2015, a copy of which is available under the Company's profile on SEDAR at www.sedar.com. All forward-looking statements are qualified in their entirety by this cautionary statement. ViXS is providing this information as of the current date and does not undertake any obligation to update any forward-looking statements contained herein as a result of new information, future events or otherwise except as may be required by applicable securities laws.

Risks relating to the Company include, but are not limited to, the following:

- the Company has a history of losses and may not achieve profitability in the future;
- the Company receives a substantial portion of its revenue from a limited number of customers and historically this customer concentration has been derived from customers in Japan;
- the Company expects its operating results to continue to fluctuate;
- the Company faces intense competition and expects continued market competition in the future;
- assertions by third parties of infringement by ViXS of, or of ViXS' failure to protect, their intellectual property rights could result in significant costs and cause ViXS' operating results to suffer;
- the Company outsources its manufacturing operations to third parties and may be prone to the inability of those parties to meet its product specifications and schedules;
- the Company's customers may cancel their orders, change production quantities or delay production, and if it fails to forecast demand for its products accurately, ViXS may incur product shortages, delays in product shipments or excess or insufficient product inventory:
- the Company may have difficulty selling its products if its customers do not design ViXS' products into their systems, and the nature of the design process requires ViXS to incur expenses prior to recognizing revenue associated with those expenses, which may adversely affect its financial results.
- the Company may be unable to generate funds required to meet its funding requirements, and may need to raise additional funds;
- the Company's products are manufactured at a limited number of locations and any manufacturing problems at one given location could adversely affect its ability to meet its customers' orders and associated costs;
- the Company has no long-term supply contracts with foundries, which could adversely impact its ability to meet customer demand;
- changes in industry standards or technology could impede the sale of ViXS' products; such as High Dynamic Range, a new video enhancement technology, Ultra HD Video, an increased video resolution format, MoCA 2.0, a home entertainment networking standard for cable, satellite and IPTV, HEVC, the new broadcasting video standard and SCSA a new security standard;
- the loss of any of the Company's key personnel could seriously harm its business;
- the loss of customer design wins could affect the Company's financial returns and future plans;
- the Company relies on third parties to provide services, software, and technologies necessary for the operation and reporting of its business;
- the pattern of customer product ramps as they shift from legacy products to new products based on our more advanced designs could affect both the amount and timing of revenue recognized by the Company;
- the Company's failure to maintain compliance with applicable regulations in Japan or other jurisdictions may force it to recall products and cease their manufacture and distribution;
- the majority of the Company's operating expenses are denominated in Canadian dollars, U.S. dollars and Japanese Yen and, therefore, the Company's earnings are impacted by fluctuations in exchange rates between the U.S. dollar and these currencies; and
- the Company may be involved in legal proceedings from time to time; arising in the ordinary course of its business and such proceedings may affect the Company's financial position, results of operations or cash flows.

FINANCIAL HIGHLIGHTS

Revenues for the third quarter of fiscal 2016 totalled $5.1 million, down from $6.0 million recognized in the second quarter of fiscal 2016. This decrease was primarily due to lower volumes and pricing of MoCA based products in the third quarter, partially offset by higher sales of legacy XCode5, XCode3 and XCode4 products from seasonally low levels in the second quarter. Revenues decreased by $5.7 million from $10.8 million recognized a year ago in the third quarter. This decrease was primarily due to lower XCode 6400 sales shifting away from first generation Ultra HD TV companion designs, lower sales of more mature legacy products (XConnex, XCode3 and XCode4), and partially offset by increased sales of our XCode5, XCodePro, and higher NRE contributions.

Gross margin for the third quarter of fiscal 2016 was 43.9%, a 9.6% point increase from the previous quarter's level of 34.3%, but a 4.5% point decrease from the third quarter of fiscal 2015 gross margin of 48.4%. The sequential increase in margin from the second quarter of fiscal 2016 was primarily due higher volumes of product sold in the cloud infrastructure market during the quarter. The decrease in margin from the third quarter of fiscal 2015 was primarily due to lower volumes of the higher margin Xcode6400 plus weaker MoCA pricing, partially offset by higher support, SDK and NRE sales. Excluding the effects of amortization, support contracts, SDKs, non-recurring inventory adjustments, the product margin in the third quarter of fiscal 2016 was 49.8%.

IFRS comprehensive loss for the third quarter of fiscal 2016 was $(3.2) million, or a loss of $(0.06) per share basic and diluted. This is compared to a loss of $(3.0) million in the previous quarter, and a $0.3 million increase from the $(2.9) million loss in the third quarter of fiscal 2015.

Non-IFRS net loss for the current quarter (as defined in the Non-IFRS Financial Measures section) totalled $(2.8) million, a $0.8 improvement compared to the $(3.6) million loss in the previous quarter, but a $0.6 million increase from the $(2.2) million loss in the third quarter of fiscal 2015. The Non-IFRS loss for the fiscal year to date 2016 was $(8.7) million, lower than compared to the $(10.9) million loss for the same period last year. This continued year-over-year improvement in non-IFRS net loss from operations is a result of cost efficiencies we continue to implement in our operations and fluctuation in foreign currency exchange rates.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth selected financial information derived from the Company's unaudited interim condensed consolidated financial statements for the three and nine months ended October 31, 2015, July 31, 2015 and October 31, 2014. The selected financial information was prepared in accordance with IAS 34 in a manner consistent with the Company's annual financial statements. The following information should be read in conjunction with these statements and the accompanying notes.

	Three-Month Period Ended			Nine-Month Period Ended	
Dollar amounts in U.S. dollars Amounts in thousands, except loss per share	**October 31, 2015**	**July 31, 2015**	**October 31, 2014**	**October 31, 2015**	**October 31, 2014**
Revenue	**$5,138**	**$5,974**	**$10,757**	**$21,074**	**$27,187**
Cost of sales	2,884	3,927	5,552	12,084	14,952
Gross margin	**2,254**	**2,047**	**5,205**	**8,990**	**12,235**
Operating expenses					
Research and development	3,215	2,698	4,669	10,017	12,579
Selling, general and administrative	1,970	1,923	3,077	6,478	11,578
Total operating expenses (1)	5,185	4,621	7,746	16,495	24,157
Loss before finance costs and income, currency gains	**(2,931)**	**(2,574)**	**(2,541)**	**(7,505)**	**(11,922)**
Other income (expense):					
Finance costs	(89)	(155)	(33)	(336)	(90)
Finance income	3	8	19	33	65
Currency gains (losses)	(173)	(274)	(302)	(133)	225
Total other income (expense)	(259)	(421)	(316)	(436)	200
Loss before taxes	**($3,190)**	**($2,995)**	**($2,857)**	**($7,941)**	**($11,722)**
Income tax expense	(4)	(5)	(22)	(18)	(27)
Loss for the period	**(3,194)**	**(3,000)**	**(2,879)**	**(7,959)**	**(11,749)**
Other comprehensive income (loss)					
Item subject to reclassification					
Exchange difference on translating foreign operations	11	(13)	(27)	(7)	(45)
Comprehensive loss for the period	**($3,183)**	**($3,013)**	**($2,906)**	**($7,966)**	**($11,794)**
Loss per share attributed to common equity holders					
Basic	($0.06)	($0.06)	($0.06)	($0.16)	($0.23)
Diluted	($0.06)	($0.06)	($0.06)	($0.16)	($0.23)
Weighted average number of common shares outstanding					
Basic	50,377	50,377	50,375	50,377	50,368
Diluted	50,377	50,377	50,375	50,377	50,368
(1) Includes share-based transaction expense of:					
Research and development	92	(130)	251	125	702
Selling, general and administrative	111	55	156	(48)	815
	$203	($75)	$407	$77	$1,517

Thousands of US Dollars

	As at October 31, 2015	As at July 31, 2015	As at January 31, 2015
Cash and cash equivalents	$4,758	$6,582	$15,289
Trade accounts receivable	3,408	2,853	4,104
Inventories	3,339	4,281	2,868
Total assets	$24,386	$26,242	$35,844
Trade payables	2,644	3,932	$6,465
Accrued liabilities	3,224	3,013	6,656
Deferred revenues	14	72	168
Total liabilities	12,958	11,833	16,525
Total liabilities and shareholders' equity	$24,386	$26,242	$35,844

NON-IFRS FINANCIAL MEASURES

In addition to disclosing results in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"), the Company also provides supplementary non-IFRS financial measures as a method of evaluating the Company's performance. These non-IFRS measures are disclosed as a supplement to financial results prepared in accordance with IFRS in order to provide a further understanding of ViXS' results of operations from management's perspective. In particular, ViXS uses non-IFRS measures to provide investors with supplemental measures of its operating performance and highlight trends in its core business that may not otherwise be readily apparent solely from IFRS measures. ViXS management uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess ViXS' ability to meet its future capital expenditure and working capital requirements. ViXS believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers.

Non-IFRS net loss is defined as total comprehensive loss before share-based transaction expense, exchange difference related to translating foreign operations, unrealized currency gains/losses and non-recurring or one-time items such as: share offering costs, listing fees, convertible preferred share revaluation adjustment, fair value adjustment on warrant liability and provision for repayable government assistance. Non-IFRS net loss does not have any standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures presented by other companies. Non-IFRS net loss from operations should not be considered in isolation or as a substitute for comprehensive loss prepared in accordance with IFRS.

ViXS has provided a comparison of comprehensive loss to non-IFRS net loss in the following table:

	Three Month Period Ended			Nine Month Period Ended	
	October 31, 2015	July 31, 2015	October 31, 2014	October 31, 2015	October 31, 2014
Comprehensive loss for the period	**($3,183)**	**($3,013)**	**($2,906)**	**($7,967)**	**($11,794)**
R&D adjustments					
Stock-based compensation expense	92	(130)	251	125	702
Provision for repayment of government assistance	*(47)*	*(854)*	*(14)*	*-901*	*(419)*
Selling, general and administrative					-
Stock based compensation expense	111	55	156	-48	815
Other Income/Expense adjustments					-
Unrealized currency loss (gain)	*233*	*290*	*304*	*104*	*(255)*
Other adjustments					-
Exchange differences on translating foreign operations	(11)	13	27	7	45
Non-IFRS net loss	**($2,805)**	**($3,639)**	**($2,182)**	**($8,680)**	**($10,906)**
Non-IFRS EPS basic	**($0.06)**	**($0.07)**	**($0.04)**	**($0.15)**	**($0.17)**
Non-IFRS EPS Diluted	**($0.06)**	**($0.07)**	**($0.04)**	**($0.15)**	**($0.17)**

OVERVIEW

Our Company

ViXS is a pioneer in designing advanced video processing semiconductor solutions. With over 500 patents issued or pending worldwide, ViXS has been recognized with a number of industry awards for innovation. ViXS has shipped over 33 million system-on chip (SoCs) to date. The Company's solutions process and convert media to promote the enjoyment of video on a wide variety of devices. The Company has invested over $259 million of research and development in our unique suite of advanced semiconductor and software technologies to provide key product solutions for Pay-TV Operators, Consumer Electronic manufacturers and Cloud/Infrastructure equipment manufacturers to deliver the highest-quality video experience to consumers possible. The Company's design portfolio addresses multiple issues that plague consumers in today's world of fragmented content creation, delivery and consumption. The Company's solutions remove the clutter of today's video market, allowing consumers to seamlessly view content Anytime, Anywhere and on Any Device using multiple delivery methods, including traditional broadcast and Internet Protocol (IP) Streaming.

The video industry continues to evolve and adopt new video standards such as HEVC (High Efficiency Video Coding), Ultra HD and High Dynamic Range (HDR) video and Secure Content Storage Association (SCSA) standard. The technical and processing demands of these standards are complex and required to be deployed as a single SoC Complex video processing SoC designs play directly into ViXS' core competencies and underlie the importance of the research & development investment that has been built into ViXS' existing products. The Company's technologies are highly integrated, low power and provide best-in-class video processing allowing seamless connectivity between devices while maintaining end-to-end content security.

The company expanded its offerings to include Multimedia over Coax Alliance (MoCA) home networking market, Ethernet-over-Coax (EoC) multi dwelling unit market and the cloud video infrastructure market, bringing video to the end consumer through multiple delivery methods and ensuring content delivery is seamless, reliable and secure to the end viewer.

ViXS' family of SoC solutions are utilized in a variety of devices to enable consumers to stream video content, whenever they desire and to screens inside or outside the home. The Company's solutions also enable consumers to take and view content on-the-go while ensuring the content is protected. ViXS SoCs are utilized to compress content to reduce storage requirements as well as optimize the format of streaming video based on the device it is viewed on and the availability of network bandwidth, a concept known as adaptive bit-rate streaming (ABR). Our SoCs are designed to reduce cost and product development time for our customers, and to provide the end-user with higher performance (such as a 50% bandwidth savings from integrating HEVC), greater flexibility, multiple High Definition (HD) and Ultra HD streaming, better processing, advanced security (SCSA) and lower power consumption relative to our competitors

Products and Solutions

Products	Description	Target Market /Designs
XCode 6 Series	**XCode 6400** Ultra HD HEVC 10-Bit Colour 60p SoC with Multi-Stream Transcoding **XCode 6800** Ultra HD HEVC SoC With High Dynamic Range and 12-Bit Colour	**Pay TV and Consumer Electronics** • Ultra HD Headed / Headless Gateways • Streaming Boxes • Set-Top Boxes • PVR/Recorders • IP Media clients • Ultra HD TVs • Ultra HD Blu-Ray Players • SCSA Players
XCode 5 Series	High performance four-channel HD to HD Transcoder SoC	**Pay TV and Consumer Electronics** • Network Attached Storage (NAS) devices • Set-Top Boxes • PVR/Recorders • Headless Gateways
XCode 4 Series	Powerful media processor with the ability to enable multiple multimedia processing tasks simultaneously.	• Headed / Headless Gateways • Set-Top Boxes (STB) • PVR/Recorders • IP Media clients • Blu-Ray Players
XCodePro 200 / 300	Enables broadcast, professional & infrastructure OEMs to develop high performance and high density encoder / transcoder products.	**Cloud and Infrastructure OEMs** • Encoder / Transcoder Products
XConnex	Advanced home and Multi-Dewling Unit (MDU) networking and communication products.	**MoCA and Ethernet-Over-Coax**

Growth Strategy

ViXS' objective is to be the leading provider of media processing semiconductor for video. Elements key to this strategy include:

- targeting high-growth multimedia markets and developing advanced, comprehensive media processing technologies for an enhanced consumer experience;
- expand relationships with industry leaders and customers by working closing with service providers, ODMs and OEMS;
- extending our technology leadership positions;
- driving industry standards such as HEVC, SCSA, 10-bit and 12-bit colour, and HDR;
- creating development kits (such as Xtensiv) and reference designs (such as our HEVC "Golden Reference" platform) to facilitate our customer design needs and gain deeper penetration within our customers;
- potentially migrating into new, ancillary markets that can leverage our expertise;
- leveraging and enhancing our sophisticated software to enable our customers to bring their products quickly to market by referencing our designs and incorporating our solutions into their own products;
- expanding our global presence in North America, Europe and China by establishing strategic relationships with other leading service providers, ODMs, and OEMs; and
- licensing or acquiring complementary technologies to further augment our R&D leadership.

Sales and Distribution

ViXS sells its solutions directly to leading original equipment manufacturers (OEMs) including tier-1 customers, and indirectly to top-tier service providers via leading original design manufacturers (ODMs") worldwide and distributors in Japan. OEMs produce, brand, and market their own multimedia equipment while equipment produced by ODMs is either designed for OEM brands or white-labeled by service providers and distributed to their subscribers. Our SoCs can be found in products from blue-chip customers such as Panasonic, Sharp, Comcast, Cisco, DIRECTV, SFR, EchoStar / Sling Media, Sharp, Sony, NEC, and Toshiba.

Corporate Developments

On September 17, 2015, the company appointed industry veteran Sohail Khan as President and Chief Executive Officer.

During the quarter, the Company completed a third-party valuation of its portfolio of 510 patents and applications. This independent valuation was completed by Black Stone IP, LLC ("BSIP"), where BSIP estimated a range of value between $43 Million and $109 Million USD for the VIXS portfolio.

COMPOSITION OF REVENUE, EXPENSES AND OTHER INCOME (EXPENSE)

Revenue

Revenue consists primarily of sales of our semiconductor products to OEMs, directly or indirectly through distributors or contract manufacturers. Once a customer design enters production, the OEM may manufacture the product themselves or outsource the manufacturing to contract manufacturers. The OEM or the contract manufacturer may purchase our products directly from us or from our distributors. We use our distributors, primarily in Japan, to support international sales logistics, such as importation, foreign exchange and credit management. We price our products based on market and competitive conditions. We do not experience different margins on direct sales to OEMs and indirect sales through contract manufacturers, because in all cases we negotiate product pricing directly with the OEMs. Our revenue is concentrated by product series, with our XCode6, XCode5, and XConnex2 MoCA series of products currently comprising a substantial majority of our revenue.

We also derive revenue from customer development and support contracts, as well as from sales of development kits, which provide our customers with development platforms that help them design and build products around our semiconductor devices (collectively known as Non-Recurring Engineering (NRE) revenue). There was $0.5 million of NRE revenues for the third quarter of fiscal 2016 as compared to $0.5 in the second quarter of fiscal 2016 and $0.1 million in the third quarter of fiscal 2015. On a YTD basis the company had $1.1 million of NRE revenue for the nine months ending October 31, 2015 and $0.9 million for the nine months ending October 31, 2014.

Cost of sales

We outsource the wafer fabrication, assembly and test functions of our products to third-party foundries, primarily located in Taiwan. A significant portion of our cost of sales consists of payments for the purchase of wafers and for assembly and test services which are denominated in U.S. dollars. To a lesser extent, our cost of sales includes expenses relating to our internal operations that manage our contractors, the cost of shipping and logistics, royalties, inventory valuation adjustments, warranty costs and changes in product cost due to changes in sort, assembly and test yields. In general, our cost of sales associated with a particular product declines over time as a result of yield improvements, primarily associated with design and test enhancements, and reductions in wafer, package and test costs. As we develop new products, they are generally developed using smaller wafer fabrication geometries, which allows us to provide a similar feature set for a reduced product cost, or to increase the product features for the same cost, compared to using larger fabrication geometries. Historically we have focused on adding additional features rather than on reducing or maintaining features to enable cost reductions, although we may choose to develop reduced feature set products to target specific opportunities in the future.

We incur costs for the fabrication of masks used by our third-party wafer suppliers to manufacture wafers that incorporate our designs. Based on our historical experience, we expect the cost of fabrication mask sets to increase as we transition to ever-smaller geometries. Based on the prior, successful commercialization of our XCode2 to

XCode5 Series of products, we capitalize and amortize the cost of masks to cost of sales over the expected life of the related products, typically between a 24 and 60 month period, beginning on the date the products enter commercial production. We charge the cost of masks used for development purposes to research and development expenses when incurred if there is uncertainty as to the commercial viability of the developed products.

Operating expenses

Research and development

Research and development expenses primarily consist of personnel costs, non-recoverable engineering costs related to research, development, design and testing of a new product or project, (such as the cost of fabrication masks for prototypes, license fees, engineering development software and hardware tools), allocated facilities expenses, depreciation of equipment used in research and development, stock-based compensation expense and patent filing fees, less related government assistance received. Where government assistance agreements provide for repayment of amounts which previously reduced research and development expenses, a provision is recorded in the period in which conditions give rise to the repayment through the recognition of a liability and a corresponding increase to research and development expenses.

Government assistance deducted from research and development

We have received government assistance from programs specific to the Company, which may have repayment obligations. Our research and development expenses are affected by the amount of assistance we receive, and by our estimation of our repayment obligations. For example, in June 2008, we completed a development project which had received funding from the government of Canada through Technology Partnerships Canada (TPC). Under the terms of the TPC agreement, the funding may be repayable through a royalty based on a percentage of future revenue. While the project was under development, the funding was accounted for as a reduction of the related expenditures because future revenue is dependent on the successful completion of the project, which was not assured. Upon completion of the project a provision for the potential repayment of $8.9 million was created, based on the amounts previously received and estimates of future revenue in the repayment period, which was recorded as a research and development expense.

On September 30, 2013, the Company entered into a revised agreement with the TPC which requires the Company to repay funding via royalties to TPC (the “Settlement Agreement”). Under this agreement, the royalty period was extended from January 31, 2017 to January 31, 2023 and the cap on cumulative royalties payable was lowered to CAD$6.0 million ($4.6 million at October 31, 2015), from the prior maximum level of CAD $22.8 million. The adjustments from this renegotiation have resulted in positive non-cash contributions to periodic operating expenses. A base royalty amount of CAD $3.3 million ($2.5 million) is payable on a quarterly basis over the royalty period. An additional royalty based on 0.5% of the Company’s annual gross revenue in excess of $75.0 million is due within 120 days of each fiscal year ending January 31, 2014 to 2023. Gross revenue is defined in the TPC agreement as revenue from all sources, including revenue that arises from products not developed under the TPC Agreement. As at October 31, 2015, the provision for the potential repayment was $1.6 million (January 31, 2015 - $2.4 million).

We have also received government assistance from the Government of Ontario, through the Next Generation of Jobs Fund (NGOJF) and Strategic Jobs Investment Fund (SJIF) programs. Funding from these programs is conditional upon meeting specific investment and job targets. In the event these targets are not met, the amounts received from these programs are repayable. As at October 31, 2015, the Company was not in compliance with certain targets under the SJIF agreement. On August 21, 2015 the Company received office notice from the Government of Ontario of the Event of Default. The Government of Ontario is prepared to waive the repayment the $2.0 million (CAD) advance under the loan agreement provided that the company provide an auditors certificate and project expense certificate and a corrected annual certificate as outlined in their letter. The Company is in the process of meeting the above mentioned requirements. While the Company believes that the likelihood of immediate repayment under the SJIF agreement is low, the $0.6 million accrued has been classified as current. Amounts received and receivable from Ontario for current expenditures are accounted for as a reduction of research and development expense.

In addition, we receive assistance under programs that are available without seeking specific approval, such as refundable and non-refundable Canadian investment tax credits generated by incurring qualifying research and development expenses. As a public company, we are no longer eligible to generate federal Canadian refundable investment tax credits for our eligible research and development costs; however we remain eligible for refundable Ontario Innovation Tax Credits (OITC's). Non-refundable tax credits can be applied against income taxes payable. Because recognition of these non-refundable tax credits are subject to estimates regarding the probability of their realization, and the Company does not have a prior history of non-refundable tax credits realized, our reported research and development costs will increase going forward.

Selling, general and administrative

Selling, general and administrative expenses primarily consist of costs of personnel, accounting and legal fees, patent costs, information systems costs, sales commissions, costs for trade shows and marketing development programs, as well as depreciation, allocated facilities expenses, stock-based compensation expense and gains and losses on foreign currencies. Our personnel, facilities, accounting and legal costs are predominately denominated in Canadian dollars. Our costs related to sales commissions, trade shows and marketing development programs are predominately denominated in U.S. dollars. Accordingly, the reported costs in U.S. dollars vary based on the exchange rate between the U.S. dollar and the Canadian dollar.

Other income (expense)

Other income (expense) consists of finance costs and finance income.

Finance costs include interest expense and non-cash interest expense on our estimated liability for repayable government assistance. The amounts charged for non-cash interest on the provision for repayable government assistance vary depending on the estimates used for the amount and timing of potential repayments and the discount factor used.

Finance income includes investment income on cash and cash equivalents and available-for-sale financial investments. Increases and decreases in market value of available-for-sale financial investments are included in other comprehensive income until realized.

CURRENT PERIOD OPERATING RESULTS

Revenue

	Three Month Period Ended			Nine Month Period Ended	
	October 31, 2015	July 31, 2015	October 31, 2014	October 31, 2015	October 31, 2014
Revenues	$5,138	$5,974	$10,757	$21,074	$27,187

Q3 Fiscal 2016 compared to Q2 Fiscal 2016

Revenues for the third quarter of fiscal 2016 totalled $5.1 million, down from $6.0 million recognized in the second quarter of fiscal 2016. This decrease was primarily due to lower volumes and decreased pricing of MoCA (Multimedia over Coax Alliance) based products, partially offset by higher sales of new XCode5 products and a seasonal uptick in legacy XCode3 and XCode4 products.

Q3 Fiscal 2016 compared to Q3 Fiscal 2015

Revenues for the third quarter of fiscal 2016 were $5.7 million lower than the $10.8 million recognized in the third quarter of the prior year. This decrease mainly due to lower XCode 6400 sales as first generation Ultra HD TV companion designs came to an end plus lower MoCA based product sales. These declines were partially offset by increased sales of our XCode5 and XCodePro products, as well as higher NRE contributions.

Fiscal 2016 YTD compared to Fiscal 2015 YTD

Revenue for the nine month period ending October 31, 2015 was $21.1 million compared to $27.2 million for the nine month period ending October 31, 2014. This $6.1 million decrease was due primary to lower XCode 6400 sales shifting away from first generation UHD TV designs and lower legacy sales of XCode 3 and XCode4 products, offset by an increase in MoCA (XConnex) sales and higher XCodePro revenue.The Company expects to continue to see significant quarterly fluctuations in revenue due to the variability associated with the timing of significant customer purchase decisions, new customer design ramps, the adoption of new HEVC, HDR, Ultra HD and SCSA standards in the industry, and the transition of older legacy products to our next generation platforms.

Revenue by Geography

The following table shows revenue by geography, as a percentage of total revenue, for the fiscal periods indicated. The breakdown of the revenue by region is based on the geographic location of the entities that purchased our products (i.e. "shipped to" location). For sales to our distributors or contract manufacturers, their geographic location may be different from the geographic locations of the OEM/ODM customers, and the customers may in turn ship their products to other geographic locations.

As we expand our global presence and further penetrate new markets, such as the emerging cloud video infrastructure market, we expect our geographic diversification to continue.

	Three Month Period Ended			Three Month Period Ended			Nine Month Period Ended		Nine Month Period Ended	
Geographic revenue information	**Oct 31, 2015**	**July 31, 2015**	**Oct 31, 2014**	**Oct 31, 2015**	**July 31, 2015**	**Oct 31, 2014**	**Oct 31, 2015**	**Oct 31, 2014**	**Oct 31, 2015**	**Oct 31, 2014**
Taiwan	1,504	2,751	3,457	29.3%	46%	32.1%	11,989	8,507	56.9%	31.3%
United States	1,073	1,884	1,085	20.9%	31.5%	10.1%	3,800	1,604	18.0%	5.9%
Canada	419	38	429	8.2%	0.6%	4.0%	457	896	2.2%	3.3%
Mexico	-	-	454	0.0%	0.0%	4.2%	0	966	0.0%	3.6%
Japan	566	654	4,636	11.0%	10.9%	43.1%	2,029	10,752	9.6%	39.5%
Other	980	371	277	19.1%	6.2%	2.6%	1,674	582	7.9%	2.1%
China	583	168	150	11.3%	2.8%	1.4%	894	1,616	4.2%	5.9%
Europe	13	109	269	0.3%	1.8%	2.5%	231	2,264	1.2%	8.4%
Total revenues	5,138	$5,974	10,757	100%	100.0%	100.0%	21,074	27,187	100%	100%

Revenue by Sales Channel

The breakdown of revenue, as a percentage of the total, by direct and indirect sales channel is as follows:

	Three Month Period Ended			Nine Month Period Ended	
	October 31, 2015	**July 31, 2015**	**October 31, 2014**	**October 31, 2015**	**October 31, 2014**
Indirect					
Distributors	17.3%	13.6%	43.9%	12.6%	43.9%
Contract manufacturers	29.0%	50.0%	38.7%	58.3%	38.7%
Direct	53.7%	36.4%	17.4%	29.1%	17.4%

The percentage of revenue attributable to each distributor is as follows:

	Three Month Period Ended			Nine-month Period Ended	
	Oct 31, 2015	July 31, 2015	Oct 31, 2014	Oct 31, 2015	Oct 31, 2014
TED	9.6%	6.7%	22.4%	7.6%	15.9%
Alltek	2.9%	4.0%	0.0%	1.9%	0.0%
Metatech	4.7%	2.8%	0.0%	2.6%	0.0%
Tomen	0.0%	0.0%	20.4%	0.5%	23.2%
Other	0.0%	0.0%	1.1%	0.0%	4.8%
	17.2%	13.5%	43.9%	12.6%	43.9%

While we have agreements with some of our distributors, we do not have long-term supply contracts with any of our distributors' customers. Our distributor agreements limit our distributors' ability to return product for warranty replacements. Given our experience, together with our distributors' limited contractual return rights, we believe that we can reasonably estimate expected returns from our distributors. Accordingly, we recognize sales through distributors at the time of shipment, reduced by our estimate of expected returns. To date, there have been limited returns related to warranty replacements from distributors.

Revenue Derived from Major Customers

Our distributors place orders with us for specific customers and provide us with reports of shipments to those customers. Based on this information and on our direct shipments to customers and contract manufacturers, our customers representing greater than 10% of our revenue for the periods are:

	Three Month Period			Nine-month Period Ended	
	October 31, 2015	July 31, 2015	October 31, 2014	October 31, 2014	October 31, 2013
Customer A	26.4%	45.1%	31.5%	30.3%	25.6%
Customer F	*	*	11.6%	10.5%	*
Customer D	*	0.1%	*	9.7%	3.7%
Customer I	*	1.3%	12.2%	*	*
Customer E	*	*	*	*	12.1%
Customer H	16.0%	*	*	*	*
Customer J	8.6%	2.9%	10.2%	*	2.8%

Currently, the Company's quarterly revenues can be significantly impacted by the buying patterns of any single individual large customer, which will also impact the Company's revenue split by geography and sales channel. While we currently receive a substantial portion of our revenue from a limited number of customers, we expect our customer concentration to decline in the future.

Gross Margin

Our revenue, cost of sales, and gross margin for the fiscal periods indicated are as follows:

	Three Month Period Ended			Nine Month Period Ended	
	October 31, 2015	July 31, 2015	October 31, 2014	October 31, 2015	October 31, 2014
Revenues	$5,138	$5,974	$10,757	$21,074	$27,187
Cost of sales	2,884	3,927	5,552	12,084	14,952
Gross margin	$2,254	$2,047	$5,205	$8,990	$12,235
Gross margin %	43.9%	34.3%	48.4%	42.7%	45.0%

Q3 Fiscal 2016 compared to Q2 Fiscal 2016

Gross margin for the third quarter of fiscal 2016 was 43.9%, a 9.6% point sequential increase from the previous quarter's level of 34.3%. This sequential increase in margin was primarily due to higher volumes of XCodePro products sold in the cloud infrastructure market during the quarter. Product margin, which excludes the effects of amortization of mask-sets, support and development contracts and SDKs was 49.8% for the current quarter, which was higher than the 37.0% in the previous quarter, primarily due to favourable pricing and product mix.

Q3 Fiscal 2016 compared to Q3 Fiscal 2015

Gross margin for the current quarter represents a 4.5% point decrease from the third quarter of fiscal 2015. The decrease in margin from the third quarter of fiscal 2015 was primarily due to lower volumes of the higher margin XCode6400 products being sold plus weaker MoCA pricing. Excluding the effects of amortization, support contracts, Software Development Kits (SDKs), non-recurring inventory adjustments, the product margin in the third quarter of fiscal 2016 was 49.8%.

Fiscal 2016 YTD compared to Fiscal 2015 YTD

Gross margin for the nine month period ending October 31, 2015 was 42.7% compared to 45.0% for the nine month period ending October 31, 2014. This decrease was due to the impact amortization of mask-sets, aggressive market pricing and higher mix of discrete MoCA products, support and development contracts and SDKs and the timing of sales for higher margin products (such as XCode 6400).

We expect our gross margins in future quarters to fluctuate around recent levels. This will depend upon product mix as higher volumes of XConnex are offset by the expected incremental sale of new, more integrated function based SoCs (such as the Xcode 6 series), better yield and costs as our foundry partners ramp up new products into higher volume, and selling more higher margin products into the cloud video infrastructure equipment market. However, our gross margin has been and will continue to be affected by a variety of factors, including the average selling prices of our products, our product mix, the timing of cost reductions for fabricated wafers and assembly and test service costs, our inventory valuation reserves, the timing and changes in sort, assembly and test yields, as well as the timing of signing and entering into development agreements. Our overall product margin is generally impacted by the mix between more fully featured, higher-margin products and lower-feature, lower-margin products. In addition, we typically experience lower yields and higher associated costs on new products as they begin to ramp, yields typically improve as production volumes increase.

Operating Expenses

The following table provides an analysis of the Company's expenses as a percentage of total revenue.

	Three Month Period Ended			Nine Month Period Ended	
	October 31, 2015	July 31, 2015	October 31, 2014	October 31, 2015	October 31, 2014
Research and development	$3,215	$2,698	$4,669	$10,017	$12,579
% of revenue	62.6%	45.2%	43.4%	47.5%	46.3%
Selling, general and administrative	$1,970	$1,923	$3,077	$6,478	$11,578
% of revenue	38.3%	32.2%	28.6%	30.7%	42.6%
Total operating expenses	$5,185	$4,621	$7,746	$16,495	$24,157
% of revenue	100.9%	77.4%	72.0%	78.3%	88.9%

As a percentage of revenue, research and development costs fluctuate from one period to another, primarily as a result of the timing of license fees and other periodic expenses, revenue levels and the timing and availability of government assistance programs. Despite our focus on expense controls, we anticipate continued investment in our product roadmap, as we have in the past, to further improve our technological competitive advantage.

We plan to continue to adjust the size of our sales and marketing organizations to enable us to support new and recurring customers while we expand into existing and new markets. We also plan to continue to expand our domestic and international sales and marketing activities, while we build brand awareness. We expect our selling, general and administrative expenses to increase in absolute dollars longer term, but to generally decrease as a percentage of revenue in the future.

We note that there is a lag between the investment in new R&D and SG&A costs associated with new design wins and the revenue generated from those expenses – though the timing of that lag varies between products and markets (e.g. cloud and infrastructure designs typically have a longer lag).

Research and Development Expenses

Q3 Fiscal 2016 compared to Q2 Fiscal 2016

	Three Month Period Ended			
	October 31, 2015	July 31, 2015	Increase (Decrease) $	Increase (Decrease) %
Research and development	$3,215	$2,698	$517	19.2%

Research and development expenses for the third quarter for 2016 increased by $0.5 million compared with the second quarter of FY16. The Company experienced higher CAD software tool usage as well as additional consulting costs in the third quarter.

Q3 Fiscal 2016 compared to Q3 Fiscal 2015

	Three Month Period Ended			
	October 31, 2015	October 31, 2014	Increase (Decrease) $	Increase (Decrease) %
Research and development	$3,215	$4,669	($1,454)	(31.1%)

Research and development expenses for the third quarter for 2016 were $1.4 million lower than the third quarter of FY15. The Company experienced lower salary and related costs of $1.0 million, a $0.4 million reduction in consulting expense, and lower NRE costs of $0.2 million, offset by higher CAD software tool usage of $0.2 million.

Fiscal 2016 YTD compared to Fiscal 2015 YTD

	Nine Month Period Ended			
	October 31, 2015	October 31, 2014	Increase (Decrease) $	Increase (Decrease) %
Research and development	$10,017	$12,579	($2,562)	(20.4%)

Research and development expenses for the nine month period ending October 31, 2015 decreased by $2.6 million compared with the nine month period ending October 31, 2014. This decrease is primarily due to a $0.5 million reduction in stock compensation expense, a reduction of $0.4 million in overhead costs, $0.5 million in NRE related expenses and $1.6 million in lower salary and related costs, offset by a non-cash $0.4 million adjustment to government assistance obligations.

Selling, General and Administrative

Q3 Fiscal 2016 compared to Q2 Fiscal 2016

	Three Month Period Ended			
	October 31, 2015	July 31, 2015	Increase (Decrease) $	Increase (Decrease) %
Selling, general and administrative	$1,970	$1,923	$47	2.4%

Selling, general and administrative expenses for the third quarter of fiscal 2016 increased by $nil million compared with the second quarter of fiscal 2016. This is primarily due to $0.1 million of professional expense in the third quarter and $0.1 million in salary and other overhead costs offset by $0.2 million in collection of previous uncollectible amounts.

Q3 Fiscal 2016 compared to Q3 Fiscal 2015

	Three Month Period Ended			
	October 31, 2015	October 31, 2014	Increase (Decrease) $	Increase (Decrease) %
Selling, general and administrative	$1,970	$3,077	($1,107)	(36.0%)

The $1.1 million decrease in selling, general and administrative expense in the current quarter compared to the third quarter of fiscal 2015 is primarily due to a $0.3 million reduction in litigation related expenses, a $0.1 million reduction in stock compensation expense, $0.1 million lower commission and royalty expenses, $0.4 million in collection of previous uncollectible amounts and $0.2 million resulting from tighter controls over discretionary items and reduced overhead expenses.

Fiscal 2016 YTD compared to Fiscal 2015 YTD

	Nine Month Period Ended			
	October 31, 2015	October 31, 2014	Increase (Decrease) $	Increase (Decrease) %
Selling, general and administrative	$6,478	$11,578	($5,100)	(44.0%)

Selling, general and administrative expenses for the nine month period ending October 31, 2015 decreased by $5.1 million compared with the nine month period ending October 31, 2014. This decrease is primarily due to a $1.7 million reduction in litigation related expenses, a $1.0 million reduction in stock compensation expense, a reduction of $0.6 million in marketing co-op fees, a $0.5 million reduction in commission to distributions, $0.5 million in collection of previous uncollectible amounts and $0.8 million in salary and other overhead costs.

Other Income (Expense)

Beginning in Q1 2015, the Company started to report unrealized currency gains (losses) under the "Other Income (Expense)" section of our unaudited condensed consolidated financial statements, versus under the prior method of disclosure in the Operating Expense section.

	Three Month Period Ended			Nine Month Period Ended	
	October 31, 2015	July 31, 2015	October 31, 2014	October 31, 2015	October 31, 2014
Finance costs	(86)	(147)	(14)	(303)	(25)
Currency gain (loss)	(173)	(274)	(302)	(133)	225
Other income (expense), net	($259)	($421)	($316)	($436)	$200

Q3 Fiscal 2016 compared to Q2 Fiscal 2016

Other expense for the current quarter is $0.3 million, an decrease of $0.1 million from $0.4 million in other income recognized in the second quarter of fiscal 2016. This increase is primarily due to fluctuations in the Canadian to US Dollar exchange rates.

Q3 Fiscal 2016 compared to Q3 Fiscal 2015

Other expense for the current quarter is $0.3 million, equal to the $0.3 million in other income recognized in the third quarter of fiscal 2015.

Fiscal 2016 YTD compared to Fiscal 2015 YTD

Other expense for the nine months ending October 31, 2015 is $0.4 million, an increase of $0.6 million from $0.2 million in other income recognized for the nine months ending October 31, 2014. This increase is primarily due to fluctuations in the Canadian to US Dollar exchange rates and additional financing costs.

Provision for Income Taxes

We have recorded provisions for income tax expense for our US, Japan and Hong Kong subsidiaries. We estimate that no taxes are payable by the Company, as Canadian parent company, based on the availability, as at October 31, 2015, of: i) $109.3 million in Canadian research and development expense carry forwards that can be applied against future taxable income with no expiry date; ii) $23.7 million in investment tax credits that can be applied against future taxes payable; and iii) $18.6 million in net operating loss carry forwards that expire commencing in fiscal 2033 through fiscal 2035.

	Three Month Period Ended			Nine Month Period Ended	
	October 31, 2015	July 31, 2015	October 31, 2014	October 31, 2015	October 31, 2014
Income tax recovery	($4)	($5)	($22)	($19)	($27)
Percentage of revenues	(0.1%)	(0.1%)	(0.2%)	(0.1%)	(0.1%)

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company has financed its operations primarily through the sale of equity securities and cash from operating activities.

Cash and cash equivalents

As at October 31, 2015, the Company's cash and cash equivalents decreased by $10.8 million to $4.8 million, compared to $15.3 million as at January 31, 2015. This decrease was primarily due to lower than expected revenue levels in the quarter, certain working capital and operational cash outlays in support of our continued operations and projected growth, improved accounts receivable collection and accounts payable management. In addition, the company incurred a one-time payment to a customer to settle an unresolved contract payment rather than litigate.

Working capital

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance decreased by $10.7 million to $1.4 million in October 31, 2015 from $12.1 million at January 31, 2015. The decrease was primarily due to $8.0 million in net losses, a $0.5 million increase in inventory, a $7.3 million decrease in trade and other payables, a $0.8 million decrease in other receivable and prepaid and $4.8 million in bank borrowings.

The following table shows our cash flows from operating activities, investing activities and financing activities for the periods indicated.

	Three Month Period Ended			Nine Month Period Ended	
Cash inflows (outflows) by activity:	**Oct 31, 2015**	**July 31, 2015**	**October 31, 2014**	**Oct 31, 2015**	**October 31, 2014**
Operating activities	($3,507)	($7,700)	($1,866)	($13,757)	(7,684)
Investing activities	(722)	(358)	(1,047)	(1,842)	(1,301)
Financing activities	2,380	2,522	13	5,021	45
Effect of foreign exchange on foreign operations	25	(13)	(320)	47	(42)
	($1,824)	($5,549)	($3,220)	($10,531)	($8,982)

Cash Flows Used in Operating Activities

Cash flows applied to operating activities primarily consist of our net loss adjusted for non-cash expenses and for changes in working capital items. Non-cash adjustments generally include depreciation, share-based compensation expense, non-cash interest on provision for repayable government assistance, fair value adjustment on warrant liability, adjustments to the provision for repayable government assistance and convertible preferred share revaluation adjustments, which represent a change in the estimated value of the preferred share financial liability during the period. Working capital adjustments generally include changes in inventories and accounts receivable, which will increase as revenue increases, and changes to accounts payable as we purchase more goods and services from suppliers to support such growth.

Q3 Fiscal 2016 compared to Q2 Fiscal 2016

During the current quarter, the cash usage from operating activities was $3.5 million, compared to $7.7 million of cash used in the second quarter of fiscal 2016. During the current quarter, the Company had a net loss, adjusted for items not affecting cash, of $3.2 million and a $1.4 million increase in non-cash working capital balances. Non-cash adjustments to net loss included $0.3 million in depreciation and amortization, and $2.0 million decrease in non-current prepayments. Non-cash working capital included a $1.1 million decrease in trade and other payables and $1.6 million decrease in current prepayments and receivables.

Q3 Fiscal 2016 compared to Q3 Fiscal 2015

During the current quarter, the cash usage from operating activities was $3.5 million, compared to $1.9 million of cash used in the third quarter of fiscal 2015. During the current quarter, the Company had a net loss, adjusted for items not affecting cash, of $3.2 million and a $1.4 million increase in non-cash working capital balances. Non-cash adjustments to net loss included $0.3 million in depreciation and amortization and $2.0 million increase in non-current prepayments. Non-cash working capital included a $1.1 million decrease in trade and other payables and $1.8 million decrease in current prepayments and receivables. During the third quarter of fiscal 2015, the Company had a net loss, adjusted for items not affecting cash, of $3.0 million, with $1.0 million increase in non-cash working capital balances. Non-cash adjustments to net loss included $0.4 million stock compensation, $0.5 million in depreciation and amortization. Non-cash working capital included a $0.8 million increase in trade and other payables.

Fiscal 2016 YTD compared to Fiscal 2015 YTD

During the nine month period ended October 31, 2015, the Company had a net loss, adjusted for items not affecting cash, of $8.0 million with $5.4 million decrease in non-cash working capital balances. Non-cash adjustments to net loss included $0.1 million stock compensation, $0.9 million in depreciation and amortization, $0.2 million increase in non-current prepayments and $0.9 million reduction in repayable government assistance. Non-cash working capital included a $7.3 million decrease in trade and other payables, $0.5 million increase in inventories, $2.6 million increase in current prepayments and receivables. During the nine month period ended October 31, 2014, the Company had a net loss, adjusted for items not affecting cash, of $11.7 million with $3.7 million increase in non-cash working capital balances. Non-cash adjustments to net loss included $1.5 million stock compensation, $1.5 million in depreciation and amortization and $0.4 million decrease in provision for repayable government assistance. Non-cash working capital included a $1.9 million increase in inventories and $0.7 million increase in trade and other payables.

Cash Flows from Investing Activities

Net cash out flows from investing activities resulted from purchases and disposals of property, plant and equipment, and intangible assets such as third party licensed intellectual property, to support product development, facilities expansion and general growth.

Q3 Fiscal 2016 compared to Q3 Fiscal 2015

Net cash flows from investing activities for the three months ended October 31, 2015 was $0.7 million which consisted of the acquisition of intangible assets and property, plant and equipment. Net cash flows from investing activities for the three months ended October 31, 2014 was $1.0 million which consisted of the acquisition of intangible assets.

Fiscal 2016 YTD compared to Fiscal 2015 YTD

Net cash out flows from investing activities for the nine months ended October 31, 2015 was $1.8 million, which consisted of $1.6 million acquisition of intangible assets, $0.2 million acquisition of property plant and equipment and nominal interest received. Net cash inflows from investing activities for the nine months ended October 31, 2014 was $1.3 million, which consisted of $0.3 million acquisition of property plant and equipment and $1.0 million acquisition of intangible assets.

Other than mask costs for its next generation XCode products, the Company does not have any significant capital expenditures planned.

Cash Flows from Financing Activities

Q3 Fiscal 2016 compared to Q3 Fiscal 2015

Net cash inflows from financing activities were $2.4 million for the three months ended October 31, 2015 which consisted of $2.3 million in bank borrowings offset by a $0.1 million decrease in the provision for repayable government assistance.

Fiscal 2016 YTD compared to Fiscal 2015 YTD

Net cash flows from financing activities were $5.0 million for the nine months ended October 31, 2015 which consisted of $4.8 million in bank borrowings and $0.2 million in nominal interest received. Net cash inflows from financing activities were $nil for the nine months ended October 31, 2014, which consisted primarily of $0.4 million in proceeds from exercised options offset by $0.3 million in the provision for repayable government assistance and $0.1 million in interest.

Liquidity and Cash Resource Requirements

These interim condensed consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. These interim condensed consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

At October 31, 2015, the Company has not yet achieved profitable operations, and has an accumulated deficit of $158 million. Whether, and when, the company can attain profitability and positive cash flows from operations has uncertainty, which casts doubt upon the Company's ability to continue as a going concern. The application of the going concern assumption is dependent upon the Company's ability to generate future profitable operations and obtain necessary financing to do so. While the Company has been successful in obtaining financing to date, there can be no assurance that it will be able to do so in future. The company will need to raise capital in order to fund its operations. This need may be adversely impacted by: uncertain market conditions, approval by regulatory bodies, and adverse results from operations. The Company believes it will be able to acquire sufficient funds to cover planned operations through the next twelve month period from anticipated revenue growth during fiscal 2016 and by securing additional financing through additional credit access from its commercial bank, plus other financing alternatives and strategic options currently being explored with assistance of retained advisors. The outcome of these matters cannot be predicted at this time. [These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern. Such adjustments could be material.].

Off-Balance Sheet Arrangements

During the periods presented, the Company did not have, nor do we currently have, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contractual Obligations

The following table describes our commitments to settle contractual obligations as of October 31, 2015, excluding estimated liability for contingently repayable government assistance [(1)]:

	<1 Yr 10/31/2016	1-2 Yrs 10/31/2017	3-5 Yrs 10/31/2022	Total
Operating leases	$811	$673	$3,331	$4,815
Technology license obligations	709	224	1	934
Purchase obligations	6,060	-	-	6,060
Total:	**$7,580**	**$897**	**$3,332**	**$11,809**

(1) The actual amount of government assistance to be repaid in each year will be calculated as follows: a base royalty amount of Cdn$3.3 million ($2.5 million) is payable on a quarterly basis until January 31, 2023. An additional royalty based on 0.5% of the Company's annual gross revenue in excess of $75.0 million is due within 120 days of each fiscal year ending January 31, 2014 to 2023. There is $0.1 million repayable, and the maximum amount repayable is $5.3 million (Cdn $6.9 million, based on the closing Bank of Canada exchange rate of 0.7645 on October 31, 2015).

As described above, on February 23, 2010, the Company entered into a conditional grant agreement with the Government of Ontario through NGOJF. Under the terms of the conditional grant agreement, the Company agreed to invest a minimum of CAD$41.0 million in paying certain eligible costs related to a development project for new semiconductor products, of which a maximum of CAD$6.1 million will be reimbursed by NGOJF. The Company was required to fully fund our investment by October 31, 2014, the scheduled project completion date. The Company completed the project in June 2014. Under the terms of the agreement, Ontario will reimburse us at a rate of 15% of incurred eligible costs upon submission of periodic claim forms. The Company expects to fund the development work from cash generated from operations, refundable investment tax credits, available borrowing facilities and the assistance provided by Ontario.

As described above, in September 2011, the Company entered into the SJIF Agreement, under which Ontario agreed to provide a forgivable loan of up to CAD$5.0 million ($3.8 million at October 31, 2015) for specified research and development activities. The SJIF Agreement has a 10 year term, with the funding expected to be advanced over the first five years as the Company incurs eligible costs. Provided the Company meets its obligations as specified in the SJIF Agreement, up to 50% of this funding may be forgiven after five years with the balance, if any, repaid over the following five years, without interest. Any amounts due from or payable to Ontario are denominated in Canadian dollars.

In October 2012, we entered into an Amending Agreement with Ontario, under which the maximum funding amount of CAD$10.0 million ($7.6 million at October 31, 2015) was reduced to CAD$5.0 million ($3.8 million at October 31, 2015), based on revised project and job targets. Provided we meet our obligation as specified in the Amending Agreement, 100% of this funding may be forgiven after five years. In addition, Ontario shall be entitled to a holdback of CAD$0.10 of each dollar of disbursement up to a maximum amount of CAD$500,000 ($382,250 at October 31, 2015). In the event we do not complete the project or achieve the job targets by the project completion date, amounts received from Ontario will be fully repayable.

As at October 31, 2015, the Company was not in compliance with certain targets under the SJIF agreement. On August 21, 2015 the Company received office notice from the Government of Ontario of the Event of Default. The Government of Ontario is prepared to waive the repayment the $2.0 million (CAD)under the loan agreement provided that the company provide an auditors certificate and project expense certificate. The Company is in the process of meeting the above mentioned requirements. While the Company believes that the likelihood of immediate repayment under the SJIF agreement is low, the $0.6 million accrued has been classified as current.

Commitments and Contingencies

At October 31, 2015, the Company had commitments of $6.1 million to purchase goods and services in the ordinary course of business that had not yet been received or provided, primarily related to inventory purchases.

The Company from time to time, in relation to arrangements, services provided or given, with suppliers, customers, or consultants, makes provisions and accruals. For certain relationships, there is uncertainty as to the amount ultimately payable depending on the nature of the relationship and the services ultimately provided. The amount provided or accrued for represents the Company's best estimate of the amount ultimately to be paid by the Company for such arrangements. Such payments may ultimately differ either positively or negatively from what has been recorded.

Related Party Transactions

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are recorded at the exchange amount. Outstanding balances are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the three months ended October 31, 2015, the Company has not recorded any impairment of amounts owed by related parties.

Morega Systems, Inc.

The Company sells products to Morega Systems Inc. ("Morega"), a manufacturer of consumer electronics products, which it incorporates into its products. The Company had $nil in sales to Morega for the three and nine months ended October 31, 2015 and no sales for the three and nine months ended October 31, 2014. As at October 31, 2015, there was a $nil balance receivable from Morega (January 31, 2015: $73k).

Celtic House Venture Partners Fund III LP and Celtic House Venture Partners (Barbados) SRL, an affiliate of Celtic House Venture Partners Fund IIA LP, a significant shareholder of the Company, are shareholders of Morega. One of the Company's directors is a Director of and has direct or indirect financial interests in Morega.

On November 29, 2012, the Company entered into an agreement with Morega pursuant to which Morega sub-leased the first floor (equivalent to 7,203 sq. ft.) of the Company's leased premises at 1210 Sheppard Avenue East, Toronto, Ontario. The sub-lease term was for a 27-month period that commenced on November 29, 2012 and ended on March 31, 2015 at a monthly rate of $22k. The sub-lease with Morega was not renewed.

Financial Instruments and Risk Management

The Company's financial instruments consist of cash and cash equivalents, trade accounts receivable and other amounts receivables, revolving bank loan payable, repayable government assistance and trade and other payables.

The carrying value of cash and cash equivalents, trade accounts receivable and other amounts receivables and trade and other payables approximates fair value due to their immediate or short-term maturity.

The carrying value of the revolving bank loan payable is based on amortized cost.

The carrying value of repayable government assistance comprises the present value of the estimated future royalty amounts payable to TPC during the period from May 31, 2014 to January 31, 2023 based on estimated future revenues of the Company.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. The Board of Directors reviews and adopts policies for managing each of these risks, which are summarized below.

Market Risk and Foreign Currency risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings and deposits.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's bank debt obligations with floating interest rates.

Interest rate sensitivity

The Company has exposure to variable interest rates on its Comerica bank revolving loan. Based on its historic level of borrowings, the Company does not believe it has a material sensitivity to changes in interest rates.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Company's operating activities (where revenue or expense are denominated in a different currency from the Company's functional currency), amounts due from or payable to Canadian governments, cash balances held in currencies other than the Company's functional currency) and the Company's net investments in foreign subsidiaries. Management believes the foreign exchange risk derived from currency conversions is low and therefore does not hedge its foreign exchange risk.

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables and amounts receivable for investment tax credits and other government assistance) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade accounts receivable

Customer credit risk is managed through the Company's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on internal rating criteria. The Company periodically insures its non-North American trade receivables against non-payment.

Outstanding customer receivables are regularly monitored. Shipments to major customers are not generally covered by letters of credit or other forms of credit insurance. The requirement for an impairment adjustment is analyzed at each reporting date on an individual basis for major clients.

Financial instruments and cash deposits

Credit risk from balances on deposit with banks and financial institutions is managed in accordance with the Company's policies. Investments of surplus funds are made only with approved counterparties and within credit limits approved for each of those counterparties. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty failure. Under the terms of its loan agreement with Comerica Bank, the Company must hold its funds in the accounts of the lending bank, with limited exceptions.

Liquidity risk

The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and cash equivalents, managing cash from operations, and if required through financing activities.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred in the three months ended October 31, 2015 that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

As at October 31, 2015 our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision, the design and operation of our internal controls over financial reporting (as defined in *National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings)* and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with IFRS requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses in the reporting period. We regularly evaluate our estimates and assumptions related to revenue recognition, inventory reserves, share-based transaction expense, warrant liability, repayable government assistance and preferred share liability. We base our estimates and assumption on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the recording of revenues, costs and expenses that are not readily apparent from other sources. The actual results experienced by us may differ materially and adversely from our estimates. To the extent there are material differences between our estimates and actual results, our future results of operations will be affected. For a description of our critical accounting estimates, please refer to Note 3, *Accounting policies,* in our audited consolidated financial statements for the fiscal year ended January 31, 2015.

New standards, interpretations and amendments adopted by the Company

The accounting policies followed in these unaudited interim condensed consolidated financial statements are consistent with those used to prepare the annual consolidated financial statements for the year ended January 31, 2015, except as described below.

The nature and the impact of each new standard/amendment are described below:

Accounting Standards and amendments issued but not yet adopted

i) IFRS 15, Revenue from Contracts with Customers ("IFRS 15")
IFRS 15 provides guidance on revenue recognition and relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 was issued in May 2014 and applies to annual reporting periods beginning on or after 1 January 2017. The effective date of this standard is for the Company's fiscal year commencing February 1, 2017. The Company has not yet assessed the impact this standard will have on the consolidated financial statements.

ii) IFRS 9, Financial Instruments ("IFRS 9")
International Financial Reporting Standard 9, Financial Instruments ("IFRS 9"), as issued in 2014, introduces new requirements for the classification and measurement of financial instruments, a new expected loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. IFRS 9 also removes the volatility in profit or loss that was caused by changes in an entity's own credit risk for liabilities elected to be measured at fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company has not yet begun the process of evaluating the impact of this standard on its unaudited interim condensed consolidated financial statements.

iii) IAS 16, Property, Plant and Equipment and IAS 38, Intangibles ("IAS 16 and IAS 38")
In May 2014, the IASB issued amendments to IAS 16 and IAS 38, prohibiting the use of revenue based depreciation for property, plant and equipment and significantly limiting the use of revenue based amortization for intangible assets. These amendments are effective for annual periods beginning on or after January 1, 2016, and are to be applied prospectively. The Company has not yet begun the process of evaluating the impact of this standard on its unaudited interim condensed consolidated financial statements.

OUTSTANDING SHARE DATA

(in thousands)

	Oct 31, 2015	**January 31, 2015**	**October 31, 2014**
Common Shares	50,376	50,376	50,375
Share Options	4,337	6,233	6,426
RSUs	634	-	

For additional information on share data please refer to Notes 4, 6, 9, 20, 21, and 22 of the annual audited consolidated financial statements.

SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following table shows selected unaudited consolidated financial results for each of the eight most recent quarters:

	January 31, 2014	April 30, 2014	July 31, 2014	October 31, 2014	January 31, 2015	April 30, 2015	July 31, 2015	October 31, 2015
Revenue	$7,039	$7,441	8,989	$10,757	$11,229	$9,962	$5,974	$5,138
Cost of sales	4,173	4,305	5,095	5,552	5,708	5,273	3,927	2,884
Gross profit	2,866	3,136	3,894	5,205	5,521	4,689	2,047	2,254
Operating expenses (1)								
Research and development	4,548	4,255	3,655	4,669	4,026	4,104	2,698	3,215
Selling, general and administrative	4,358	4,246	4,255	3,077	3,697	2,585	1,923	1,970
Total operating expenses	8,906	8,501	7,910	7,746	7,723	6,689	4,621	5,185
Loss from operations	(6,040)	(5,365)	(4,016)	(2,541)	(2,202)	(2,000)	(2,574)	(2,931)
Other income (expense):								
Finance costs	(152)	(20)	(37)	(33)	217	(92)	(155)	(89)
Share offering costs	-	-		-	-	-	-	-
Finance income	33	24	22	19	19	22	8	3
Currency gain (loss)	(1,450)	291	236	(302)	(1,686)	314	(274)	(173)
Convertible preferred share revaluation adjustment	-	-	-	-				
Total other income (expense)	(1,569)	295	221	(316)	(1,450)	244	(421)	(259)
Income (loss) for the year	($7,609)	($5,070)	($3,795)	($2,857)	($3,652)	($1,756)	($2,995)	($3,190)
Income tax expense	(10)	(13)	8	(22)	(78)	(10)	(5)	(4)
Net income (loss) for the year	(7,619)	(5,083)	(3,787)	(2,879)	(3,730)	(1,766)	(3,000)	(3,194)
Exchange difference on translating foreign operations	-	(30)	12	(27)	(34)	(5)	(13)	11
Total comprehensive income (loss) for the year	($7,619)	($5,113)	($3,775)	($2,906)	($3,764)	($1,771)	($3,013)	($3,183)
Earnings (loss) per share:								
Basic	($0.15)	($0.10)	(0.08)	(0.06)	(0.07)	(0.04)	(0.06)	(0.06)
Diluted	($0.15)	($0.10)	(0.08)	(0.06)	(0.07)	(0.04)	(0.06)	(0.06)
(1) Includes share-based transaction expense of:								
Research and development	$250	$345	$106	$251	$55	$163	($130)	$92
Selling, general and administrative	251	199	460	156	317	(214)	55	111
	$501	$544	$566	$407	$372	($51)	($75)	$203

Expressed as a percentage of revenues:

Opex as a % of Revenue								
Revenue	100.0	100.0	100.0	100	100.0	100.0	100.0	100
Cost of sales	59.3	57.9	56.7	51.6	50.8	52.9	65.7	56.1
Gross margin	40.7	42.1	43.3	48.4	49.2	47.1	34.3	43.9
Total operating expenses	126.5	114.2	88.0	72.0	68.8	67.1	77.4	100.9
Income (loss) from operations	(85.8)	(72.1)	(44.7)	(23.6)	(19.6)	(20.1)	(43.1)	(57.0)
Other income (expense), net	(22.3)	4.0	2.5	(2.9)	(12.9)	2.4	(7.0)	(5.0)
Income (loss) for the year	(108.1)	(68.1)	(42.2)	(26.6)	(32.5)	(17.6)	(50.1)	(62.1)
Income tax (expense) recovery	(0.1)	(0.2)	0.1	(0.2)	(0.7)	(0.1)	(0.1)	(0.1)
Net income (loss)	(108.2)	(68.3)	(42.1)	(26.8)	(33.2)	(17.7)	(50.2)	(62.2)

Product Gross Margin

Product Gross Margin								
Gross Margin	40.7%	42.1%	43.3%	48.4%	49.2%	47.1%	34.3%	43.9%
Product Gross Margin	49.6%	47.4%	47.4%	50.7%	48.6%	45.7%	37.0%	49.8%

In addition to disclosing results in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"), the Company also provides supplementary non-IFRS financial measures as a method of evaluating the Company's performance. These non-IFRS measures are disclosed as a supplement to financial results prepared in accordance with IFRS in order to provide a further understanding of ViXS' results of operations from management's perspective. In particular, ViXS uses non-IFRS measures to provide investors with supplemental measures of its operating performance and highlight trends in its core business that may not otherwise be readily apparent solely from IFRS measures. ViXS management uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess ViXS' ability to meet its future capital expenditure and working capital requirements. ViXS believes that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers.

Product Gross Margin, or Product Margin, is defined as Gross Margin minus amortized IP and mask set expenses, which most semiconductor companies record as operating expenses versus ViXS recording them as COGS. ViXS has recorded these amortized expenses at the COGS line, instead of Research and Development, because the Company has had nine consecutive generations of chip designs which have gone into volume commercial production after the first design "spin", versus most other chip companies that require multiple spins before achieving production ready designs. ViXS believes our product margin is a useful and metric for assessing and comparing ViXS margins against other semiconductor competitors within our industry.

Historically, the Company's operating results have fluctuated on a quarterly basis and we expect that quarterly financial results will continue to fluctuate. If anticipated sales and shipments in any quarter do not occur when we expect, our expenses and inventory levels could be disproportionately high, and our operating results for that quarter and future quarters may be adversely affected. In addition, because of historical variations in our operating results, our limited operating history and the rapidly evolving nature of our business, we believe that period-to-period comparisons of our revenue and operating results, including our gross margin and our operating expenses as a percentage of total revenue, are not necessarily meaningful and should not be relied upon as indications of our future performance.