MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT AND FOR THE THREE AND SIX MONTHS ENDED JULY 31, 2016

DATED: SEPTEMBER 14, 2016

This Management's Discussion and Analysis ("MD&A") for the three months ended July 31, 2016 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 September 14, 2016, 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, 2017 is referred to as "current fiscal year", "fiscal 2017", "FY17" or using similar words. The previous fiscal year, which ended on January 31, 2016, is referred to as "previous fiscal year", "fiscal 2016", "FY16" 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 revenue, 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 revenue; 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 March 31, 2016, 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;
- 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 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

Revenue for the second quarter of fiscal 2017 totalled $7.9 million, a 38.1% sequential increase from $5.7 million recognized in the first quarter of fiscal 2017. This sequential increase was primarily driven by sales of XConnex products coupled with a higher sales for XCodePro and XCode5 products. Revenue increased by 31.8%, or $1.9 million from the $6.0 million recognized in the second quarter a year ago, due to double-digit growth from several product families, including XConnex, XCode4, XCode5, and XCodePro products. Gross margin for the second quarter of fiscal 2017 was 31.3%, a slight 0.1% point increase from the previous quarter's level of 31.2%, but a 3.0% point decrease from the second quarter of fiscal 2016 gross margin of 34.3%. This sequential change in margin from the first quarter of fiscal 2017 was due to improved product mix offset by an increase in technical support costs and the amortization of mask/IP costs associated with the production tape-out of our XCode 6800 chip which commenced during the quarter. This year-over-year decrease in margin second quarter of fiscal 2016 was due to lower pricing on XConnex MoCA related sales and product mix from lower sales of the higher margin XCode 6400 and the higher amortization costs in the current quarter. Excluding the effects of amortization, support contracts, SDKs, non-recurring inventory adjustments, the product margin in the second quarter of fiscal 2017 was 35.3%.

IFRS comprehensive loss for the second quarter of fiscal 2017 was $(2.7) million, or a loss of $0.04 per share basic and diluted. This is compared to a loss of $(3.2) million in the previous quarter, and a $0.3 million improvement from the $(3.0) million loss in the second quarter of fiscal 2016.

Non-IFRS net loss for the current quarter (as defined in the Non-IFRS Financial Measures section) totalled $(2.9) million, a $0.8 million change compared to the $(2.1) million loss in the previous quarter, and a $0.7 million improvement from the $(3.6) million loss in the second quarter of fiscal 2016. This continued year-over-year improvement in non-IFRS net loss from operations is a result of higher revenue, cost controls, efficiencies we continue to implement in our operations and fluctuation in foreign currency exchange rates.

Cash and Equivalents finished at $2.2 million, with $3.5 million in working capital spent with our foundries and back-end partners to support the ramp of our revenue backlog which now exceeds $7.8 million.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets forth selected financial information derived from the Company's unaudited interim consolidated financial statements for the three months ended July 31, 2016 and April 30, 2016, as well as for the three months ended July 31, 2015. 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			Six-month Period Ended	
Dollar amounts in U.S. dollars	**July 31, 2016**	**April 30, 2016**	**July 31, 2015**	**July 31, 2016**	**July 31, 2015**
Amounts in thousands, except loss per share					
Revenue	**$7,875**	**$5,702**	**$5,974**	**$13,577**	**$15,936**
Cost of sales	**5,413**	3,925	3,927	9,338	9,200
Gross margin	**2,462**	**1,777**	**2,047**	**4,239**	**6,736**
Operating expenses					
Research and development	3,256	2,972	2,698	6,228	6,802
Selling, general and administrative	1,947	2,038	1,923	3,985	4,508
Total operating expenses (1)	5,203	5,010	4,621	10,213	11,310
Loss before finance costs and income and currency gains	(2,741)	(3,233)	(2,574)	(5,974)	(4,574)
Other income (expenses):					
Finance costs	153	(154)	(155)	(1)	(247)
Finance income	-	1	8	1	30
Currency gains	(28)	141	(274)	113	40
Total other income (expenses)	125	(12)	(421)	113	(177)
Loss before income taxes	**($2,616)**	**($3,245)**	**($2,995)**	**($5,861)**	**($4,751)**
Income tax expense	-	(9)	(5)	(9)	(15)
Net loss for the period	**(2,616)**	**(3,254)**	**(3,000)**	**(5,870)**	**(4,766)**
Other comprehensive income (loss)					
Item subject to reclassification					
Exchange difference on translating foreign operations	(60)	67	(13)	7	(18)
Comprehensive loss for the period	**($2,676)**	**($3,187)**	**($3,013)**	**($5,863)**	**($4,784)**
Loss per share attributed to common equity holders					
Basic	($0.04)	($0.04)	($0.06)	($0.10)	($0.09)
Diluted	($0.04)	($0.04)	($0.06)	($0.10)	($0.09)
Weighted average number of common shares outstanding					
Basic	60,530	60,452	50,377	60,606	50,377
Diluted	60,530	60,452	50,377	60,606	50,377
(1) Includes share-based transaction expense (recovery) of:					
Research and development	14	257	(130)	271	33
Selling, general and administrative	96	273	55	369	(159)
	$110	$530	($75)	$640	($126)

BALANCE SHEET SUMMARY

in thousands of US Dollars	As at July 31, 2016	As at April 30, 2016	As at July 31, 2015
Cash and cash equivalents	$2,182	$2,850	$6,582
Trade accounts receivable	1,936	3,441	2,853
Inventories	2,928	2,809	4,281
Prepayments	2,495	5,469	4,406
Total assets	$21,061	$23,820	$26,242
Trade payables	$2,935	$3,339	$3,932
Accrued liabilities	2,140	1,617	3,013
Revolving bank loan payable	6,285	6,285	2,500
Deferred revenues	345	247	72
Total liabilities	15,840	16,107	11,833
Total liabilities and shareholders' equity	$21,061	$23,820	$26,242

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 convertible debt 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			Six Month Period Ended	
	July 31, 2016	April 30, 2016	July 31, 2015	July 31, 2016	July 31, 2015
Comprehensive loss for the period	**($2,676)**	**($3,187)**	**($3,013)**	**($5,863)**	**($4,784)**
R&D adjustments					
Stock-based compensation expense	$14	$257	(130)	271	33
Provision for repayment of government assistance	*(54)*	*238*	*(854)*	183	*(854)*
Selling, general and administrative					-
Stock based compensation expense	96	273	55	369	(159)
Legal fee settlement				0	
Other Income/Expense adjustments					
Listing Fees	-	15	-	15	-
Unrealized currency loss (gain)	*20*	*148*	*290*	168	*(129)*
Other adjustments					-
Fair value adjustment on convertible debt and warrant liability	(276)	46	-	(230)	-
Exchange differences on translating foreign operations	(60)	67	13	7	18
Non-IFRS net loss	**($2,936)**	**($2,143)**	**($3,639)**	**($5,080)**	**($5,875)**
Non-IFRS EPS basic	**($0.05)**	**($0.04)**	**($0.07)**	**($0.08)**	**($0.17)**
Non-IFRS EPS Diluted	**($0.05)**	**($0.04)**	**($0.07)**	**($0.08)**	**($0.17)**

OVERVIEW

Our Company

ViXS is a pioneer in designing advanced video processing semiconductor solutions. With over 511 patents issued or pending worldwide, ViXS has been recognized with a number of industry awards for innovation. ViXS has shipped over xx 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 $266 million of research and development in our unique suite of advanced semiconductor and software technologies to provide key product solutions for Cloud/Infrastructure, Consumer Electronic manufacturers and equipment manufacturers and Pay-TV Operators 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-Dwelling 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.

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, XCode4 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 $0.1 million of NRE revenue for the second quarter of fiscal 2017 as compared to $0.2 million in the first quarter of fiscal 2017 and $0.5 in the second quarter of fiscal 2016. The company had $0.3 million of NRE revenue for the six months ending July 31, 2016 and $0.5 million for the six months ending July 31, 2015.

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 as prepaid expenses when incurred if there is uncertainty as to the commercial viability of the developed products. When the new chips begin production, we reclassify these as capitalized assets that are then amortized, as cost of goods sold, over the expected life of the related 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 January 31, 2016), from the prior maximum level of CAD $22.8 million. The adjustments from this renegotiation 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 July 31, 2016, the provision for the potential repayment was $ 1.7 million (January 31, 2016 - $1.7 million).

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, and stock-based compensation expense. 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, finance income and fair value adjustments on the warrant and convertible debt liabilities.

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			Six Month Period Ended	
	July 31, 2016	**April 30, 2016**	**July 31, 2015**	**July 31, 2016**	**July 31, 2015**
Revenues	$7,875	$5,702	$5,974	$13,577	$15,936

Q2 Fiscal 2017 compared to Q1 Fiscal 2017

Revenue for the second quarter of fiscal 2017 totalled $7.9 million, up 38.1% from $5.7 million recognized in the first quarter of fiscal 2017. This increase was primarily due to higher sales of XConnex products coupled with higher demand for XCodePro products and higher sales of XCode5 units.

Q2 Fiscal 2017 compared to Q2 Fiscal 2016

Revenue for the second quarter of fiscal 2017 increased by $1.9 million, growth of 31.8%, from the $6.0 million recognized a year ago in the second quarter of fiscal 2016. This revenue increase was primarily due to higher XConnex sales, along with increased demand for XCode5 and XCodePro product and higher XCode4 sales, offset by lower year-over-year demand for certain legacy products, including first generation consumer products using the XCode6400.

Fiscal 2017 YTD compared to Fiscal 2016 YTD

Revenue for the six month period ending July 31, 2016 was $13.6 million compared to $15.9 million for the six month period ending July 31, 2015. This $2.4 million decrease was due to lower XConnex sales from an unusually high level in the first quarter of fiscal 2016.

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.

Geographic revenue information	Three-month Period Ended July 31, 2016	July 31, 2015	Three-month Period Ended July 31, 2016	July 31, 2015	Six-month Period Ended July 31, 2016	July 31, 2015	Six-month Period Ended July 31, 2016	July 31, 2015
Taiwan	4,963	2,751	63.0%	46.1%	8,313	10,485	61.2%	65.8%
United States	173	1,884	2.2%	31.5%	405	2,728	3.0%	17.1%
Canada	764	38	9.7%	0.6%	1,054	38	7.8%	0.2%
Japan	820	654	10.4%	10.9%	1,232	1,463	9.1%	9.2%
Other	221	370	2.8%	6.3%	709	693	5.2%	4.3%
China	55	168	0.7%	2.8%	464	311	3.4%	2.0%
Europe	879	109	11.2%	1.8%	1,400	218	10.3%	1.4%
Total revenues	$7,875	$5,974	100.0%	100.0%	$13,577	$15,936	100.0%	100.0%

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 July 31, 2016	April 30, 2016	July 31, 2015	Six Month Period Ended July 31, 2016	July 31, 2015
Indirect					
Distributors	16.4%	5.6%	13.6%	11.8%	11.1%
Contract manufacturers	58.8%	56.9%	50.0%	58.0%	67.8%
Direct	24.8%	37.5%	36.4%	30.2%	21.1%

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

	Three Month Period Ended July 31, 2016	April 30, 2016	July 31, 2015	Six Month Period Ended July 31, 2016	July 31, 2015
TED	10.0%	2.0%	6.7%	6.6%	7.0%
Alltek	5.0%	0.0%	4.0%	2.9%	1.5%
Metatech	1.3%	3.6%	2.8%	2.3%	1.9%
Tomen	0%	0.0%	0.0%	0.0%	0.6%
	16.3%	5.6%	13.5%	11.7%	11.0%

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			Six Month Period Ended	
	July 31, 2016	**April 30, 2016**	**July 31, 2015**	**July 31, 2016**	**July 31, 2015**
Customer A	59.0%	57.0%	*	58.1%	*
Customer B	11.2%	10.4%	*	10.9%	*

Currently, the Company's quarterly revenue 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:

	July 31, 2016	**April 30, 2016**	**July 31, 2015**	**July 31, 2016**	**July 31, 2015**
Revenues	$7,875	$5,702	$5,974	$13,577	$15,936
Cost of sales	5,413	3,925	3,927	9,338	9,200
Gross margin	$2,462	$1,777	$2,047	$4,239	$6,736
Gross margin %	31.3%	31.2%	34.3%	31.2%	42.3%

Q2 Fiscal 2017 compared to Q1 Fiscal 2017

Gross margin for the second quarter of fiscal 2017 was 31.3%, a 0.1% point increase from the previous quarter's level of 31.2%. This change in margin from the first quarter of fiscal 2017 was primarily due to better product mix of higher product sales in the cloud infrastructure market plus higher volume of XCode5 sales during the quarter offset by lower NRE revenue and an increase in technical support and amortization costs. The company commenced amortizing mask/IP costs associated with the production tape-out of our XCode 6800 chip, which had roughly a $0.1 million (or 160 basis point) incremental impact on gross margin. Excluding the effects of amortization, support contracts, SDKs, non-recurring inventory adjustments, the product margin in the second quarter of fiscal 2017 was 35.3%.

Q2 Fiscal 2017 compared to Q2 Fiscal 2016

Gross margin for the second quarter of fiscal 2017 was 31.3%, a 3.0% point decrease from the second quarter of fiscal 2016 gross margin of 34.3%. This decrease in margin from the second quarter of fiscal 2016 was primarily due to lower pricing on XConnex MoCA related sales, as well as an increase in technical support and mask-set related amortization costs.

Fiscal 2017 YTD compared to Fiscal 2016 YTD

Gross margin for the six month period ending July 31, 2016 was 31.2% compared to 42.3% for the six month period ending July 31, 2015. This decrease was due to impact of higher volumes and pricing from XConnex MoCA related sales, as well as an increase in technical support and amortization costs.

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 XCodePro and XCode6 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			Six Month Period Ended	
	July 31, 2016	April 30, 2016	July 31, 2015	July 31, 2016	July 31, 2015
Research and development	$3,256	$2,972	$2,698	$6,228	$6,802
% of revenue	41.3%	52.1%	45.2%	45.9%	42.7%
Selling, general and administrative	$1,947	$2,038	$1,923	$3,985	$4,508
% of revenue	24.7%	35.7%	32.2%	29.4%	28.3%
Total operating expenses	$5,203	$5,010	$4,621	$10,213	$11,310
% of revenue	66.1%	87.9%	77.4%	75.2%	71.0%

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

Q2 Fiscal 2017 compared to Q1 Fiscal 2017

	Three Month Period Ended			
	July 31, 2016	April 30, 2016	Increase (Decrease) $	Increase (Decrease) %
Research and development	$3,256	$2,972	$284	9.6%

Research and development expenses for the second quarter of FY17 were higher than the first quarter of FY17. The Company had a one-time $0.5 million non-cash reduction in the provision for government assistance in the first quarter of FY17 and cost reductions resulting lower salary and related costs in the second quarter of FY17.

Q2 Fiscal 2017 compared to Q2 Fiscal 2016

	Three Month Period Ended			
	July 31, 2016	July 31, 2015	Increase (Decrease) $	Increase (Decrease) %
Research and development	$3,256	$2,698	$558	20.7%

Research and development expenses for the second quarter for fiscal 2017 were $0.6 million higher than the second quarter of FY16. The Company experienced a $0.3 million reduction in software costs, lower salary and related costs of $0.3 million due reduction in headcount, offset by a $0.8 increase in the provision for government assistance, $0.2 million increase in mask costs and a $0.1 million change in stock compensation expense.

Fiscal 2017 YTD compared to Fiscal 2016 YTD

	Six Month Period Ended			
	July 31, 2016	July 31, 2015	Increase (Decrease) $	Increase (Decrease) %
Research and development	$6,228	$6,802	($574)	(8.4%)

Research and development expenses for fiscal 2017 were $0.6 million lower than the second quarter of fiscal 2016, due to continued cost controls as well as the positive impact from a one-time $0.5 million non-cash reduction in the provision for government assistance in the first quarter of FY17.

Selling, General and Administrative

Q2 Fiscal 2017 compared to Q1 Fiscal 2017

	Three Month Period Ended			
	July 31, 2016	April 30, 2016	Increase (Decrease) $	Increase (Decrease) %
Selling, general and administrative	$1,947	$2,038	($91)	(4.5%)

Selling, general and administrative expenses for the second quarter of fiscal 2017 decreased by $0.1 million compared with the first quarter of fiscal 2017. This was primarily due to continuing cost controls and fluctuations in foreign exchange rates.

Q2 Fiscal 2017 compared to Q2 Fiscal 2016

	Three Month Period Ended			
	July 31, 2016	July 31, 2015	Increase (Decrease) $	Increase (Decrease) %
Selling, general and administrative	$1,947	$1,923	$24	1.2%

Selling, general and administrative expense in the current quarter is consistent with the second quarter of fiscal 2016 is primarily due to an increase of $0.1 million increase in consulting expenses and an increase of $0.1 million in industry events offset with reductions of legal and other professional fees of $0.2 million

Fiscal 2017 YTD compared to Fiscal 2016 YTD

	Six Month Period Ended			
	July 31, 2016	July 31, 2015	Increase (Decrease) $	Increase (Decrease) %
Selling, general and administrative	$3,985	$4,508	($523)	(11.6%)

Selling, general and administration expenses for fiscal 2017 were $0.5 million lower than the second quarter of fiscal 2016, primarily due to the year-over year impact of one-time salary and related costs of $0.7 million and $0.2 million in legal fees incurred during prior year, offset by of $0.5 million in stock compensation costs and $0.1 million in bad debt recovery from the prior year.

Other Income (Expense)

The Company started to reports unrealized currency gains (losses) under the "Other Income (Expense)" section of our consolidated financial statements.

	Three Month Period Ended			Six Month Period Ended	
	July 31, 2016	April 30, 2016	July 31, 2015	July 31, 2016	July 31, 2015
Finance costs	153	(153)	(147)	-	(217)
Currency gain (loss)	(28)	141	(274)	113	40
Other income (expense), net	$125	($12)	($421)	$113	($177)

Q2 Fiscal 2017 compared to Q1 Fiscal 2017

Other income for the current quarter is $0.1 million, an increase of $0.1 million from the first quarter of fiscal 2017, primarily due to the revaluation of convertible debt and fluctuations in the Canadian to US dollar exchange rate.

Q2 Fiscal 2017 compared to Q2 Fiscal 2016

Other income for the current quarter is $0.1 million, an increase of $0.5 million from the $0.4 million in other expense recognized in the second quarter of fiscal 2016, primarily due to fluctuations in the Canadian to US Dollar exchange rates and the revaluation of convertible debt.

Fiscal 2017 YTD compared to Fiscal 2016 YTD

Other income for the six month period ending July 31, 2016 was $0.1 million compared to $0.2 million expense for the six month period ending July 31, 2015 due to the revaluation of convertible debt and fluctuations in the Canadian to US dollar exchange rate.

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 January 31, 2016, of: i) $114.4 million in Canadian research and development expense carry forwards that can be applied against future taxable income with no expiry date; ii) $25.9 million in investment tax credits that can be applied against future taxes payable; and iii) $28.2 million in net operating loss carry forwards that expire commencing in fiscal 2034 through fiscal 2036.

	Three Month Period Ended			Six Month Period Ended	
	July 31, 2016	April 30,, 2016	July 31, 2015	July 31, 2016	July 31, 2015
Income tax recovery	$0	($9)	($5)	($9)	($15)
Percentage of revenues	0.0%	(0.2%)	(0.1%)	(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 July 31, 2016, the Company's cash and cash equivalents decreased by $5.1 million to $2.2 million, compared to $7.3 million as at January 31, 2016. This decrease was primarily due to lower than expected revenue levels during the year, certain working capital and operational cash outlays in support of our continued operations and projected growth, improved accounts receivable collection and accounts payable management, offset by bank borrowings and the closing of a private placement in the fourth quarter of FY16.

Working capital

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance decreased by $5.5 million to ($1.7) million in July 31, 2016 from $3.8 million at April 30, 2016. This decrease was due to $0.7 million decrease in cash, a $0.1 million increase in inventory, a $0.6 million decrease in trade and other payables, a $1.5 million decrease in receivables, $3.5 million decrease in prepaid, $0.7 million decrease in the provision for government assistance and a $0.1 million increase in deferred revenue.

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

	Three Month Period Ended			Six Month Period Ended	
Cash inflows (outflows) by activity:	July 31, 2016	April 30, 2016	July 31, 2015	July 31, 2016	July 31, 2015
Operating activities	$2,233	($3,848)	($7,700)	($1,669)	($10,316)
Investing activities	(2,690)	(1,315)	(358)	(4,005)	(1,120)
Financing activities	(145)	846	2,522	701	2,747
Effect of foreign exchange on foreign operations	(66)	(105)	(13)	(42)	(18)
	($668)	($4,422)	($5,549)	($5,015)	($8,707)

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.

Q2 Fiscal 2017 compared to Q1 Fiscal 2017

During the current quarter, the cash received from operating activities was $2.2 million, compared to $3.8 million of cash used in the first quarter of fiscal 2017. During the current quarter, the Company had a net loss, adjusted for items not affecting cash, of $2.9 million and a $5.2 million decrease in non-cash working capital balances. Non-cash adjustments to net loss included $0.5 million in depreciation and amortization and $0.5 million decrease in non-current prepayments. Non-cash working capital included a $0.1 million increase in inventory and $5.0 million increase in current prepayments and receivables. During the first quarter of fiscal 2017, the Company had a net loss, adjusted for items not affecting cash, of $3.3 million and a $1.7 million decrease in non-cash working capital balances. Non-cash adjustments to net loss included $0.3 million in depreciation and amortization and $0.3 million decrease in non-current prepayments. Non-cash working capital included a $0.7 million decrease in trade and other payables, $0.7 million increase in inventory and $0.2 million increase in current prepayments and receivables.

Q2 Fiscal 2017 compared to Q2 Fiscal 2016

During the current quarter, the cash received from operating activities was $2.2 million, compared to $3.8 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 $2.9 million and a $5.2 million decrease in non-cash working capital balances. Non-cash adjustments to net loss included $0.5 million in depreciation and amortization and $0.5 million decrease in non-current prepayments. Non-cash working capital included a $0.1 million increase in inventory and $5.0 million increase in current prepayments and receivables. During the second quarter of fiscal 2016, the Company had a net loss, adjusted for items not affecting cash, of $3.0 million, and $0.9 million reduction in repayable government assistance. Non-cash adjustments to net loss included $0.1 million stock compensation, $0.3 million in depreciation and amortization, $0.1 million increase in inventory and $4.8 million decrease in trade and other payables.

Fiscal 2017 YTD compared to Fiscal 2016 YTD

During the six month period ended July 31, 2015, the Company had a net loss, of $6.2 million with $3.5 million decrease in non-cash working capital balances. Non-cash adjustments to net loss included $0.6 million stock compensation, $0.6 million in depreciation and amortization, $0.1 million decrease in non-current prepayments and $0.3 million reduction in repayable government assistance. Non-cash working capital included a $0.4 million decrease in trade and other payables, $0.7 million increase in inventories, $4.7 million increase in current prepaids, and receivables. During the six month period ended July 31, 2015, the Company had a net loss, of $4.8 million with $6.7 million decrease in non-cash working capital balances. Non-cash adjustments to net loss included $0.1 million stock compensation, $0.6 million in depreciation and amortization, $1.8 million decrease in non-current prepayments and $0.9 million reduction in repayable government assistance. Non-cash working capital included a $6.2 million decrease in trade and other payables, $1.4 million increase in inventories, $1.3 million increase in current prepaids, offset by a $2.3 million decrease in receivables arising from lower revenue.

Cash Flows from Investing Activities

Net cash outflows 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.

Q2 Fiscal 2017 compared to Q1 Fiscal 2017

Net cash outflows from investing activities for the three months ended July 31, 2016 was $2.7 million which consisted of the acquisition of intangible assets and property, plant and equipment. Net cash inflows from investing activities for the three months ended April 30, 2016 was $1.3 million which consisted of the a reclass of intangible assets and purchase of property plant and equipment (notably capitalized mask sets).

Q2 Fiscal 2017 compared to Q2 Fiscal 2016

Net cash outflows from investing activities for the three months ended July 31, 2016 was $2.7 million which consisted of the acquisition of intangible assets. Net cash outflows from investing activities for the three months ended July 31, 2015 was $0.3 million which consisted of the acquisition of property plant and equipment and acquisition of intangible assets.

Fiscal 2017 YTD compared to Fiscal 2016 YTD

Net cash outflows from investing activities for the six months ended July 31, 2016 was $4.0 million which consisted of the acquisition of intangible assets and property, plant and equipment. Net cash outflows from investing activities for the six months ended July 31, 2015 was $1.1 million which consisted of the acquisition of intangible assets and property, plant and equipment.

Cash Flows from Financing Activities

Q2 Fiscal 2017 compared to Q1 Fiscal 2017

Net cash inflows from financing activities were $0.1 million for the three months ended July 31, 2016 which consisted of $0.2 million in interest and other finance items and $0.3 million adjustment to convertible debt. Net cash inflows from financing activities were $0.9 million for the three months ended April 30, 2016 which consisted of $1.0 million increase in our loan facility, offset by $0.1 million in interest and other finance items.

Q2 Fiscal 2017 compared to Q2 Fiscal 2016

Net cash inflows from financing activities were $0.1 million for the three months ended July 31, 2016 which consisted of $0.2 million in interest and other finance items and $0.3 million adjustment to convertible debt. Net cash inflows from financing activities were $2.6 million for the three months ended July 31, 2015 which consisted of $0.2 million in interest and other finance items and $2.5 million increase in our loan facility.

Fiscal 2017 YTD compared to Fiscal 2016 YTD

Net cash inflows from financing activities were $0.7 million for the six months ended July 31, 2016 which consisted $0.1 million in interest and other finance items, $0.3 million adjustment to convertible debt and $1.0 million increase in our loan facility. Net cash inflows from financing activities were $1.1 million for the six months ended July 31, 2015 which consisted $0.2 million in interest and other finance items and $2.5 million increase in our loan facility.

Liquidity and Cash Resource Requirements

These annual audited 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 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.

As at July 31, 2016, the Company has not yet achieved profitable operations, and has an accumulated deficit of $167 million. Whether, and when, the Company can attain profitability and positive cash flows from operations have uncertainty, which casts significant 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 on terms favourable for the Company. 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 2017 and by securing additional financing through additional credit access from its commercial bank, plus other financing alternatives and strategic options currently being explored. The outcome of these matters cannot be predicted at this time.

Private placement transactions

On January 12, 2016, ViXS completed two non-brokered private placements (collectively the "Private Placements"), raising aggregate gross proceeds of approximately $4.9 million ($CAD 6.4 million). Participants in the Private Placements were primarily existing shareholders and senior management of the Company and the net proceeds will be used to strengthen the Company's financial position and fund working capital needs.

The Private Placements consisted of a private placement (the "Convertible Debenture Private Placement") of secured subordinated convertible debentures (the "Convertible Debentures") and a private placement (the "Unit Private Placement") of units (the "Units"). All securities sold in the Private Placements, including any shares issued on the conversion of the Convertible Debentures and the exercise of common share purchase warrants issued under the Private Placements, are subject to applicable four month hold periods pursuant to Canadian securities laws and such other hold periods in other jurisdictions applicable to the purchaser. The Private Placements included the issuance of common share purchase warrants which could, assuming the exercise of all of the common share purchase warrants issued pursuant to the Private Placements, generate additional aggregate gross proceeds of $2.1 million ($CAD 2.8 million). As at July 31, 2016, none of the warrants associated with these private placements had been exercised.

For more information and detail regarding ViXS' Private Placement Transactions, please refer to Note 2 of the Audited Annual Condensed Consolidated Financial Statements for the fiscal year ended January 31, 2016.

On September 12, 2016 ViXS the closed the first tranche of each of its two previously announced non-brokered private placement offerings to a group of strategic investors raising aggregate gross proceeds of approximately $5.1 million (CAD$6.6 million) The private placement offerings include:

- a unit offering consisting of common shares and warrants (the "**Unit Private Placement**") for up to $2.8 million (CAD$3.6 million); and
- a secured subordinated convertible debenture offering (the "**Convertible Debenture Private Placement**") of up to $3.2 million (CAD$4.2 million).

The net proceeds will be used for general corporate and working capital purposes in order to support the growth of the business.

Unit Private Placement

Under the Unit Private Placement, the Company has issued a total of 9,800,000 units ("**Units**") at a price of CAD$0.30 per Unit for gross proceeds of $2.3 million (CAD$2.9 million) with each Unit consisting of one Common Share and 0.25 Common Share purchase warrants ("**Unit Warrants**"). Each whole Unit Warrant is exercisable into one Common Share at an exercise price of CAD$0.50 per Common Share. The exercise of all of the Unit Warrants issued in connection with this first tranche closing would result in the issuance of an additional 2,450,000 Common Shares and aggregate gross proceeds to the Company of $1.0 million (CAD$1.3 million).

Convertible Debenture Private Placement

Under the Convertible Debenture Private Placement, the Company has issued $2.8 million (CAD$3.7 million) in aggregate principal amount of secured subordinated convertible debentures (the "**Convertible Debentures**"). The Convertible Debentures mature three years from the date of issuance and bear interest at the rate of 10% per annum, payable semi-annually in arrears in cash, subject to adjustment. The Convertible Debentures are convertible into common shares in the capital of the Company ("**Common Shares**") at a conversion price of C$0.35 per Common Share ("**Conversion Shares**"), subject to adjustment in certain circumstances (the "**Conversion Price**").

The Convertible Debentures are secured by a general security interest which is subordinated to the security interests of a senior lender to the Company and to the existing holders of secured debentures of the Company.

In connection with the issuance of the Convertible Debentures, the Company has issued 2,642,857 Common Shares purchase warrants (the "**Convertible Debenture Warrants**"), with each Convertible Debenture Warrant exercisable for one Common Share for a period of 12 months from the date of issuance at an exercise price of CAD$0.60 per Common Share. Each subscriber of Convertible Debentures has been issued that number of Convertible Debenture Warrants that is equal to twenty-five percent (25%) of the number of Conversion Shares issuable upon conversion of such holder's Convertible Debentures.

The Convertible Debenture Warrants are subject to accelerated expiry if the market price (as such term is defined in the TSX Company Manual) of the Company's Common Shares exceeds $0.65 for a ten consecutive trading day period (the "**Accelerated Expiry Period**"). The Convertible Debenture Warrants will remain exercisable for 20 trading days following the Accelerated Expiry Period, after which any unexercised Convertible Debenture Warrants shall expire.

The Company expects to close a second tranche of these private placements with certain other investors, insiders and management in the next several weeks to raise additional aggregate proceeds of up to $0.9 million (CAD$1.2 million) which is the aggregate balance from the announcement of these private placement financings on September 1, 2016.

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 July 31, 2016, excluding estimated liability for contingently repayable government assistance:

	<1 Yr 4/30/2016	**1-2 Yrs 4/30/2017**	**3-5 Yrs 1/31/2022**	**Total**
Operating leases	$846	$798	$2,682	$4,326
Technology license obligations	296	145	180	621
Purchase obligations	4,746	-	-	4,746
Total:	**$5,888**	**$943**	**$2,862**	**$9,693**

Commitments and Contingencies

As at July 31, 2016, the Company had commitments of $4.5 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 July 31, 2016, 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 months and fiscal year ended July 31, 2016 and $nil in sales for the three months and fiscal year ended July 31, 2015.   As at July 31, 2016, there was a $nil balance receivable from Morega (July 31, 2015: $21k).

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.

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 revenue 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 these 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 July 31, 2016 that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

As at January 31, 2016 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 revenue 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 convertible debt. 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 revenue, 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, 2016.

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, 2016, 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.

New standards, interpretations and amendments adopted by the Company

The Company has adopted the following new and revised standards, along with any consequential amendments, effective July 31, 2016. These changes were made in accordance with the applicable transitional provisions.

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

i) IAS 7, *Statement of Cash Flows* ("IAS 7")

In January, 2016, the IASB issued an amendment to IAS 7 in order to clarify and improve information provided to users of financial statements about an entity's financing activities. This amendment is effective for annual periods beginning on or after January 1, 2017, and is to be applied prospectively. Earlier application is permitted. The Company has not yet assessed the impact this standard will have on the consolidated financial statements.

OUTSTANDING SHARE DATA

(in thousands)

	July 31, 2016	April 30, 2016	January 31, 2016
Common Shares	60,606	60,582	60,582
Share Options	1,613	1,699	3,965
RSUs	2,504	1,748	1,752

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:

	October 31, 2014	January 31, 2015	April 30, 2015	July 31, 2015	October 31, 2015	January 31, 2016	April 30, 2016	July 31, 2016
Revenue	$10,757	$11,229	$9,962	$5,974	$5,138	$5,212	$5,702	$7,875
Cost of sales	5,552	5,708	5,273	3,927	2,884	3,946	3,925	5,413
Gross profit	5,205	5,521	4,689	2,047	2,254	1,266.094	1,777	2,462
Operating expenses (1)								
Research and development	4,669	4,026	4,104	2,698	3,215	3,211	2,972	3,256
Selling, general and administrative	3,077	3,697	2,585	1,923	1,970	1,450	2,038	1,947
Total operating expenses	7,746	7,723	6,689	4,621	5,185	4,661	5,010	5,203
Loss from operations	(2,541)	(2,202)	(2,000)	(2,574)	(2,931)	(3,394.937)	(3,233)	(2,741)
Other income (expense):								
Finance costs	(33)	217	(92)	(155)	(89)	(222)	(154)	153
Share offering costs	-	-	-	-	-		-	-
Finance income	19	19	22	8	3	24	1	-
Currency gain (loss)	(302)	(1,686)	314	(274)	(173)	(71)	141	(28)
Total other income (expense)	(316)	(1,450)	244	(421)	(259)	(269)	(12)	125
Income (loss) for the year	($2,857)	($3,652)	($1,756)	($2,995)	($3,190)	($3,664)	($3,245)	(2,616)
Income tax expense	(22)	(78)	(10)	(5)	(4)	(10)	(9)	-
Net income (loss) for the year	(2,879)	(3,730)	(1,766)	(3,000)	(3,194)	(3,674)	(3,254)	(2,616)
Exchange difference on translating foreign operations	(27)	(34)	(5)	(13)	11	(3)	67	(60)
Total comprehensive income (loss) for the year	($2,906)	($3,764)	($1,771)	($3,013)	($3,183)	($3,677)	($3,187)	($2,676)
Earnings (loss) per share:								
Basic	(0.06)	(0.07)	(0.04)	(0.06)	(0.06)	(0.07)	(0.04)	(0.04)
Diluted	(0.06)	(0.07)	(0.04)	(0.06)	(0.06)	(0.07)	(0.04)	(0.04)
(1) Includes share-based transaction expense of:								
Research and development	$251	$55	$163	($130)	$92	$100	$257	$14
Selling, general and administrative	156	317	(214)	55	111	124	273	96
	$407	$372	($51)	($75)	$203	$224	$530	$110

Expressed as a percentage of revenue:

Opex as a % of Revenue								
Revenue	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Cost of sales	51.6	50.8	52.9	65.7	56.1	75.7	68.8	68.7
Gross margin	48.4	49.2	47.1	34.3	43.9	24.3	31.2	31.3
Total operating expenses	72.0	68.8	67.1	77.4	100.9	89.4	87.9	66.1
Income (loss) from operations	(23.6)	(19.6)	(20.1)	(43.1)	(57.0)	(65.1)	(56.7)	(34.8)
Other income (expense), net	(2.9)	(12.9)	2.4	(7.0)	(5.0)	(5.2)	(0.2)	1.6
Income (loss) for the year	(26.6)	(32.5)	(17.6)	(50.1)	(62.1)	(70.3)	(56.9)	(33.2)
Income tax (expense) recovery	(0.2)	(0.7)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	-
Net income (loss)	(26.8)	(33.2)	(17.7)	(50.2)	(62.2)	(70.5)	(57.1)	(33.2)

Product Gross Margin

Gross Margin	48.4%	49.2%	47.1%	34.3%	43.9%	24.6%	31.2%	31.3%
Product Gross Margin	50.7%	48.6%	45.7%	37.0%	49.8%	26.8%	32.7%	35.3%

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 support contracts, SDK's, and non-recurring inventory adjustments, 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.