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ViXS SYSTEMS INC.

Unaudited Interim Condensed Consolidated Financial Statements
July 31, 2016

ViXS Systems Inc.
Interim Condensed Consolidated Statements of Loss and Comprehensive Loss
(unaudited)

Dollar amounts in U.S. dollars	Note	Three-month Period Ended July 31, 2016	Three-month Period Ended July 31, 2015	Six-month Period Ended July 31, 2016	Six-month Period Ended July 31, 2015
Amounts in thousands, except loss per share					
Revenue	3	**$7,875**	**$5,974**	**$13,577**	**$15,936**
Cost of sales		**5,413**	3,927	9,338	9,200
Gross margin		**2,462**	**2,047**	**4,239**	**6,736**
Operating expenses					
Research and development	4a, 4b	3,256	2,698	6,228	6,802
Selling, general and administrative	4a, 4b	1,947	1,923	3,985	4,508
Total operating expenses (1)		5,203	4,621	10,213	11,310
Loss before finance costs and income and currency gains		(2,741)	(2,574)	(5,974)	(4,574)
Other income (expenses):					
Finance costs	7	153	(155)	(1)	(247)
Finance income		-	8	1	30
Currency gains		(28)	(274)	113	40
Total other income (expenses)		125	(421)	113	(177)
Loss before income taxes		**($2,616)**	**($2,995)**	**($5,861)**	**($4,751)**
Income tax expense		-	(5)	(9)	(15)
Net loss for the period		**(2,616)**	**(3,000)**	**(5,870)**	**(4,766)**
Other comprehensive income (loss)					
Item subject to reclassification					
Exchange difference on translating foreign operations		(60)	(13)	7	(18)
Comprehensive loss for the period		**($2,676)**	**($3,013)**	**($5,863)**	**($4,784)**
Loss per share attributed to common equity holders					
Basic	5	($0.04)	($0.06)	($0.10)	($0.09)
Diluted		($0.04)	($0.06)	($0.10)	($0.09)
Weighted average number of common shares outstanding	5				
Basic		60,530	50,377	60,606	50,377
Diluted		60,530	50,377	60,606	50,377
(1) Includes share-based transaction expense (recovery) of:					
Research and development		14	(130)	271	33
Selling, general and administrative		96	55	369	(159)
		$110	($75)	$640	($126)

See accompanying notes to the interim condensed consolidated financial statements.

ViXS Systems Inc.
Interim Condensed Consolidated Statements of Financial Position
(unaudited)

Dollar amounts in U.S. dollars Amounts in thousands	Note	As at July 31, 2016	As at January 31, 2016
Assets			
Current assets			
Cash and cash equivalents		$1,932	$7,022
Restricted cash	6,9,11	250	250
Trade accounts receivable	9	1,936	2,291
Other amounts receivable		835	615
Inventories		2,928	2,151
Prepayments		1,997	6,614
Total current assets		**9,878**	**18,943**
Non-current assets			
Property, plant and equipment		2,879	1,759
Intangible assets		7,806	5,516
Prepayments		498	358
Total non-current assets		**11,183**	**7,633**
Total assets		**$21,061**	**$26,576**
Liabilities and shareholders' equity			
Liabilities			
Current liabilities			
Revolving bank loan payable	6	$6,285	$5,285
Current portion of repayable government assistance	4a	22	661
Trade and other payables		4,898	5,639
Deferred revenue		345	390
Total current liabilities		**11,550**	**11,975**
Non-current liabilities			
Accrued non-current liabilities		177	130
Convertible debt	7	2,393	2,623
Warrant liability	7	16	60
Repayable government assistance	4a	1,704	1,418
Total non-current liabilities		**4,290**	**4,231**
Total liabilities		**15,840**	**16,206**
Shareholders' equity			
Issued capital		157,187	157,077
Contributed surplus		15,240	14,713
Cumulative translation adjustment		(86)	(93)
Deficit		(167,120)	(161,327)
Total shareholders' equity		**5,221**	**10,370**
Total liabilities and shareholders' equity		**$21,061**	**$26,576**

See accompanying notes to the interim condensed consolidated financial statements.

ViXS Systems Inc.
Interim Condensed Consolidated Statements of Changes in Equity
(unaudited)

	Notes	Number of Common Shares	Issued Capital	Contributed Surplus	Cumulative Translation Adjustment	Deficit	Total Equity
Balance, January 31, 2015		**50,377**	**$154,683**	**$14,412**	**($83)**	**($149,693)**	**$19,319**
Loss for the period		-	-	-	(18)	(4,766)	(4,784)
Share-based payment transactions	5	-	-	(126)	-	-	(126)
Balance, July 31, 2015		**50,377**	**154,683**	**14,286**	**(101)**	**(154,459)**	**14,409**
Balance, January 31, 2016		**60,452**	**157,077**	**14,713**	**(93)**	**(161,327)**	**$10,370**
Loss for the period		-	-	-	7	(5,870)	(5,863)
Shares/RSU vested		154	113	(113)	-	-	-
Share-based payment transactions	5	-	(3)	640	-	-	637
Balance, July 31, 2016		**60,606**	**$157,187**	**$15,240**	**($86)**	**($167,197)**	**$5,144**

See accompanying notes to the interim condensed consolidated financial statements.

ViXS Systems Inc.
Interim Condensed Consolidated Statements of Cash Flows
(unaudited)

Dollar amounts in U.S. dollars Amounts in thousands	Note	Three-month Period Ended July 31, 2016	 July 31, 2015	Six-month Period Ended July 31, 2016	 July 31, 2015
Operating activities					
Net loss for the period		(2,616)	($3,000)	($5,870)	($4,766)
Add (deduct) items not involving cash					
Depreciation of property, plant and equipment		88	92	164	184
Depreciation of mask costs		79	56	135	112
Amortization of intangible assets		253	142	396	285
Decrease in non-current prepayments		(485)	1,549	(140)	1,835
Adjustment to provision for repayable government assistance	4a	-	(920)	(272)	(920)
Share-based transaction expense (recovery)	4b	110	(75)	640	(126)
Listing fees		-	-	15	-
Finance costs (income)		(153)	(287)	1	(217)
Net changes in non-cash working capital balances					
Decrease (increase) in trade and other receivables and current prepayments		4,965	(617)	4,752	982
Increase in inventories		(119)	63	(777)	(1,413)
Decrease in trade and other payables		13	(4,804)	(668)	(6,176)
Decrease in deferred revenue		98	(83)	(45)	(96)
Cash flows used in operating activities		**$2,233**	**($7,884)**	**($1,669)**	**($10,316)**
Investing activities					
Interest received		-	(52)	1	(30)
Additions of property, plant and equipment		(4)	(8)	(1,419)	(142)
Acquisition of intangible assets		(2,686)	(298)	(2,686)	(948)
Cash flows used in investing activities		**($2,690)**	**($358)**	**($4,104)**	**($1,120)**
Financing activities					
Increase in bank borrowings		-	2,500	1,000	2,500
Decrease in provision for repayable government assistance	4a	-	(133)	-	-
Decrease in Convertible Debt and Warrant valuation		(298)	-	(274)	-
Interest and other finance costs		153	339	(1)	247
Cash flows from financing activities		**($145)**	**2,706**	**$725**	**$2,747**
Net decrease in cash and cash equivalents		(602)	(5,536)	(5,048)	(8,689)
Effect of foreign exchange		(66)	(13)	(42)	(18)
Cash and cash equivalents, beginning of period		2,850	12,131	7,272	15,289
Cash and cash equivalents, end of period	10,11	**$2,182**	**$6,582**	**$2,182**	**$6,582**
Interest paid (1)		68	-	108	-
Interest received (1)		1	8	1	30
Income taxes paid (1)		-		9	25

(1) Amounts paid and received for interest and paid for income taxes were reflected as operating cash flows in the CondensedConsolidated Statements of Cash Flows.

See accompanying notes to the interim condensed consolidated financial statements.

1. Basis of presentation

The interim condensed consolidated financial statements of ViXS Systems Inc. (the "Company" or "ViXS") for the three and six-month periods ended July 31, 2016 were approved and authorized for issue pursuant to a resolution of the Board of Directors dated September 14, 2016. The interim condensed consolidated financial statements are presented in thousands of U.S. dollars, except for shares, units and per share amounts or unless otherwise indicated.

These interim condensed consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards ("IFRS") International Accounting Standard ("IAS") 34, *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB").

The interim condensed consolidated financial statements have been prepared in accordance with the accounting policies set out in the Company's consolidated financial statements for the year ended January 31, 2016, prepared in accordance with IAS 34, and the presentation of these interim condensed consolidated financial statements is consistent with, and should be read in conjunction with, those annual financial statements. The Company's consolidated financial statements for the year ended January 31, 2016 are available at www.sedar.com.

The preparation of interim condensed consolidated financial statements in accordance with IAS 34 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies, if any, as at the date of the interim condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are consistent with those disclosed in the notes to the consolidated financial statements for the year ended January 31, 2016.

Going concern uncertainty

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. Such adjustments could be material.

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 has 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 the 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 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. Subsequent to the quarter end, on September 9, 2016, the Company closed the first tranche of each of two non-brokered private placements (collectively the "Private Placements"), raising aggregate gross proceeds of approximately $5.1 million (CAD$6.64 million), with an additional second tranche for $0.9 million (CAD$1.16 million) expected to close shortly thereafter. The net proceeds will be used to strengthen the Company's financial position and fund general corporate and working capital needs (note 12).

a) 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.

b) 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 January 1, 2018. The effective date of this standard is for the Company's fiscal year commencing February 1, 2018. The Company is in the process of assessing the impact that this standard will have on the interim condensed consolidated financial statements.

ii) IFRS 9, *Financial Instruments* ("IFRS 9")

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 is 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 is in the process of evaluating the impact of this standard on its interim condensed consolidated financial statements.

iii) 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 interim condensed consolidated financial statements.

iv) IFRS 16, *Leases* ("IFRS 16")

IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Company has not yet assessed the impact this standard will have on the interim condensed consolidated financial statements.

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2. Seasonality and variability of results

The Company's revenue, operating expenses and loss from operations have fluctuated from quarter to quarter as a result of the timing of new customer designs incorporating its products entering production, fluctuating demand for customers' products, natural disasters and the timing of operating expenditures. It is expected that variations will continue.

3. Operating segment information

The Company is organized and operates as a single business unit for management purposes.

Geographic information

Substantially all of the Company's long-lived assets are located in Canada.

Revenue is attributed to a geographic location based on direct purchasers' bill-to locations, which may be different than the geographic location in which the products are consumed. The geographic location of a distributor's customers may be different from the geographic location of the distributor. The following table is based on the geographic location of the direct purchasers of the Company's products.

Geographic revenue information	Three-month Period Ended		Three-month Period Ended		Six-month Period Ended		Six-month Period Ended	
	July 31, 2016	July 31, 2015	July 31, 2016	July 31, 2015	July 31, 2016	July 31, 2015	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%

Major customers

The Company had certain customers whose revenue individually represented 10% or more of the Company's total revenue, as follows:

For the three-month period ended July 31, 2016, two customer accounted for 70.2% of revenue, and for the three-month period ended July 31, 2015, two customers accounted for 55.5% of revenue. For the six-month period ended July 31, 2016, two customers accounted for 69.0% of revenue and for the six-month period ended July 31, 2015 one customer accounted for 66.0% of revenue.

4. Selected expense information

a) Government assistance	Three-month Period Ended		Six-month Period Ended	
	July 31, 2016	July 31, 2015	July 31, 2016	July 31, 2015
Canadian investment tax credits recognized	-	-	(239)	(250)
Amounts recognized under specific programs	-	-	(509)	132
Adjustment to provision for repayable government assistance	(54)	(854)	183	(854)
Government assistance decrease deducted from research and development expenses	**($54)**	**($854)**	**($565)**	**($972)**

Canadian investment tax credits

As a publicly listed company, ViXS is not eligible to generate federal Canadian refundable investment tax credits for research and development costs; however, the Company remains eligible for refundable Ontario Innovation Tax Credits. These research and development costs will also generate non-refundable federal tax credits that can only be applied against income taxes payable. Recognition of these non-refundable tax credits is subject to estimates regarding the probability of their realization. As the Company does not have a prior history of non-refundable tax credits realized, or a history of taxes payable, no non-refundable tax credits have been accrued as at July 31, 2016.

Technology Partnership Canada (“TPC”) Agreement

During the three-month period ended July 31, 2016, the Company reassessed its estimate of future royalties potentially payable to TPC. The Company decreased the total estimated liability by $0.1 million in the three-month period ended July 31, 2016 (July 31, 2015: $0.9 million), which was recorded as a reduction to research and development costs.

Strategic Jobs and Investment Fund (“SJIF”)

On March 2, 2016, the Company received notice from the Government of Ontario that they had waived repayment of a SJIF loan (see note 19 in the consolidated financial statements for the year ended January 31, 2016). Accordingly, the Company recorded a $0.5 million reduction in research and development expenses during the six-month period ended July 31, 2016.

b) Share-based transaction expense

The Company has adopted a Long-Term Incentive Plan for employees and directors, which allows various forms of long-term equity incentives be awarded, including share options, non-statutory stock options, incentive stock options, share appreciation rights, restricted share units, performance units, and other share-based awards.

Share options

Share-based transaction expense (recovery) (related to the share options) for the three and six-month periods ended July 31, 2016 and 2015 are disclosed in the following table:

Share-based transaction expense - RSU portion	**Three-month Period Ended**		**Six-month Period Ended**	
	July 31, 2016	**July 31, 2015**	**July 31, 2016**	**July 31, 2015**
Included in research and development expenses	(41)	10	153	10
Included in selling, general and administrative expenses	32	14	257	14
Total share-based transaction expense	**($9)**	**$24**	**$410**	**$24**

On February 1, 2016, employees voluntarily surrendered 2,257,194 underwater share options that had an exercise price above $1.17 ($1.27 CAD) without receiving and without the expectation to receive any cash based awards, securities or other consideration. These options were immediately cancelled and resulted in a charge to income of $0.2 million for the six-month period ended July 31, 2016.

The following table shows the number and weighted average exercise prices of and movements in share options:

	Number (000's) #	Weighted Average Exercise Price $
Outstanding, January 31, 2015	**6,233**	**2.33**
Granted	150	0.85
Forfeited	(1,464)	2.21
Expired	(102)	2.83
Cancelled		
Outstanding, July 31, 2015	**4,817**	**2.32**
Outstanding, January 31, 2016	**3,956**	**2.03**
Cancelled	(2,338)	3.44
Expired	(5)	2.28
Outstanding, July 31, 2016	**1,613**	**1.30**

The following table shows summary information about share options outstanding as at July 31, 2015:

	Outstanding Options			Exercisable Options	
Exercise Prices	**Number (000's)**	**Weighted Average Remaining Contractual Term (yrs)**	**Weighted Average Exercise Price ($)**	**Number (000's)**	**Weighted Average Exercise Price ($)**
$1.12 - 1.17	1,266	7.8	1.17	268	1.15
1.18 - 1.75	1,282	0.5	1.75	1,282	1.75
1.76 - 7.09	1,974	7.2	2.97	1,208	2.73
7.10	109	4.6	7.10	109	7.10
7.11 - 7.23	158	6.2	7.23	152	7.23
7.24 - 10.00	28	5.1	10.00	28	10.00
$1.12 – 10.00	**4,817**			**3,047**	

The following table shows summary information about share options outstanding as at July 31, 2016:

	Outstanding Options			Exercisable Options	
Exercise Prices	**Number (000's)**	**Weighted Average Remaining Contractual Term (yrs)**	**Weighted Average Exercise Price ($)**	**Number (000's)**	**Weighted Average Exercise Price ($)**
$0.40 - 0.84	800	9.1	0.40	-	-
0.85 - 1.17	543	7.5	1.03	301	1.07
1.18 - 1.75	42	1.3	1.75	42	1.75
1.76 - 7.09	209	6.9	2.69	166	2.69
7.10	1	3.6	7.10	1	7.10
7.11 - 7.23	12	5.2	7.23	12	7.23
7.24 - 10.00	6	3.9	10.00	7	10.00
$0.40 – 10.00	**1,613**			**529**	

Restricted Share Units ("RSUs")

RSUs entitle participants the conditional right to receive one common share of the Company for each share unit. RSUs vest over a 24-month or 36-month period on the anniversary of the grant date, subject to certain vesting conditions. RSUs are measured at the grant date. The following table shows summary information about RSUs outstanding as at July 31, 2016:

Share-based transaction expense - RSU portion	**Three-month Period Ended**		**Six-month Period Ended**	
	July 31, 2016	**July 31, 2015**	**July 31, 2016**	**July 31, 2015**
Included in research and development expenses	55	10	118	10
Included in selling, general and administrative expenses	64	14	112	14
Total share-based transaction expense	**$119**	**$24**	**$230**	**$24**

A summary of RSU activity is presented below:

	Number (000's) #	**Weighted Average Fair Value $**
Outstanding, January 31, 2015	**-**	**-**
Granted	439	1.11
Outstanding, July 31, 2015	**439**	
Outstanding, January 31, 2016	**1,752**	
Granted	1,106	
Cancelled	(199)	
Exercised	(154)	
Outstanding, July 31, 2016	**2,504**	
Weighted average remaining contractual life (years)	2.06	

5. Loss per share

Basic loss per share amounts are calculated by dividing net loss for the period attributable to common equity holders by the weighted average number of common shares outstanding during that period.

Diluted loss per share amounts are calculated by dividing the net loss attributable to common equity holders by the weighted average number of common shares outstanding during the period plus the weighted average number of common shares that would be issued on conversion of potential common shares into common shares, provided the inclusion of the potential common shares is not anti-dilutive.

	Three-month Period Ended		Six-month Period Ended	
	July 31, 2016	July 31, 2015	July 31, 2016	July 31, 2015
Net loss attributable to common equity holders for basic earnings	($2,616)	($3,000)	($5,870)	($4,766)
Weighted average number of common shares adjusted for the effect of dilution	60,530	50,377	60,606	50,377
Loss per share	($0.04)	($0.06)	($0.10)	($0.09)

6. Revolving bank loan facility

	Interest rate (%)	Maturity	July 31, 2016	January 31, 2016
$8.0 million revolving loan	Prime + 1.5	January 31, 2017	$6,285	$5,285
			$6,285	$5,285

Interest rate for the period ended July 31, 2016 was 2.32% per annum. The Company completed an amendment to the Loan agreement, as of July 26, 2016, to mature on January 31, 2017. The Company was in excess of its calculated borrowing capacity as at July 31, 2016. See note 12.

7. Convertible debt and warrant liability

As at July 31, 2016, the fair market value on the convertible debenture is $2.4 million (CAD $3.1 million) (July 31, 2015: $142K (CAD $nil)). Upon conversion of the debenture, the proportionate share of the fair market value on the convertible debenture on the date of the conversion or exercise will be transferred to equity.

A fair value adjustment for the three-month period ended July 31, 2016, of $21K (July 31, 2015: nil) has been reflected in finance costs in the interim condensed consolidated statement of loss and comprehensive loss relating to the change in fair value for the quarter.

The Unit Private Placement and Convertible Debenture Private Placement (see note 2 of the consolidated financial statements for the year ended January 31, 2016) resulted in the issuance of Unit Warrants and Convertible Debenture Warrants. The total number of whole warrants issued was 5,036,676. Due to the Company's functional currency being the U.S. dollar, the warrants issued with these financing transactions have been classified as a liability. The initial fair value of these warrants was estimated to be $60K. The fair value as at July 31, 2016 was estimated to be $16K. A fair value gain of $21K was reflected in finance costs for the quarter. A fair value gain of $44K was reflected in finance costs for the six month periods ended July 31, 2016.

8. Related party disclosures

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 and 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-month period 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 no sales to Morega for the three-month and six-month periods ended July 31, 2016. As at July 31, 2016, there was no balance receivable from Morega (January 31, 2016: $nil).

The Company also subcontracts research and development services from Morega. The Company incurred $30K in consulting services for the three-month period ended July 31, 2016 (January 31, 2016: nil). The Company incurred $60K in consulting services for the six-month periods ended July 31, 2016 (January 31, 2016: nil).

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.

9. Financial instruments and risk management

The Company's financial instruments consist of cash and cash equivalents (including restricted cash), trade accounts receivable and other amounts receivable, repayable government assistance, trade and other payables and convertible debentures and warrants. The carrying values of cash and cash equivalents, trade accounts receivable, other amounts receivable and trade and other payables approximate their fair values due to their immediate or short-term maturity.

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 is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of four types of risk: interest rate risk, foreign currency risk, credit risk and liquidity 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 and expenses are denominated in a different currency from the Company's functional currency), amounts due from or payable to Canadian governments 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.

Of the Company's accounts receivable as at July 31, 2016, nil is denominated in Canadian dollars (January 31, 2016: 9.3%) and 0.2% is denominated in Japanese yen (January 31, 2016: 0.2%).

Of the Company's trade and other payables as at July 31, 2016, 20.0% is denominated in Canadian dollars (January 31, 2016: 33.0%).

Of the Company's cash and cash equivalents as at July 31, 2016, 1.3% is denominated in Canadian dollars (January 31, 2016: 55.5%), 0.3% in Japanese yen (January 31, 2016: 0.2%), 0.9% in Hong Kong dollars (January 31, 2016: 1.1%), 0.2% in euros (January 31, 2016: 0.2%) and 0.6% in Taiwan dollars (January 31, 2016: 0.2%).

Credit risk

Credit risk is the risk that a 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.

Accounts receivable

	July 31, 2016	**January 31, 2016**
Current	1,469	$1,693
30-60 days	140	335
61-90 days	-	81
Over 90 days	327	182
	$1,936	**$2,291**

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. As at July 31, 2016, the Company was holding cash and cash equivalents of $2.2 million (January 31, 2016: $7.3 million) (see note 1).

10. Commitments and contingencies

The Company has entered into commercial leases on certain facilities and for technology license obligations. These leases have an average life of between three and six years with no renewal option included in the contracts. There are no restrictions placed upon the Company by entering into these leases. The following table describes the Company's commitments to settle contractual obligations as at July 31, 2016, excluding the estimated liability for contingently repayable government assistance (1):

	<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**

(1) The actual amount of government assistance to be repaid in each year will be calculated as follows: a base royalty amount of CAD$3.3 million ($2.5 million) is payable in quarterly instalments 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 CAD$0.1 million minimum amount repayable, and the maximum amount repayable is CAD$6.0 million (US$4.6 million, based on the closing Bank of Canada exchange rate of 0.7665 as at July 31, 2016).

The Company may be involved in legal proceedings from time to time arising in the ordinary course of its business. Typically, the amount of ultimate liability with respect to these actions will not, in the opinion of management, materially affect the Company's financial position or results of operations.

Purchase commitments

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 blanket purchase orders for inventory purchases to be drawn down over the next year.

11. Restricted cash

Cash of $250,000 cash held in escrow represents amounts restricted for the future incentive payments to certain employees involved in the development of specified products to be paid out upon acceptance of the final product by the Company's customer.

12. Subsequent events

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.