

ViXS SYSTEMS INC.

Unaudited Interim Condensed Consolidated
Financial Statements
April 30, 2017

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

<i>Dollar amounts in U.S. dollars</i> <i>Amounts in thousands, except loss per share</i>	Note	Three-month Period Ended	
		April 30, 2017	April 30, 2016
Revenue	3	\$4,812	\$5,702
Cost of sales		3,286	3,925
Gross margin		1,526	1,777
Operating expenses (1)			
Research and development	4	2,041	2,972
Selling, general and administrative	4	2,261	2,038
Total operating expenses		4,302	5,010
Loss before income (expense), currency gain (losses)		(2,776)	(3,233)
Other income (expenses):			
Finance income (expense)	7	(780)	(153)
Currency gain (loss)		(12)	141
Gain on sale of MoCA asset	8	4,786	-
Total other income (expenses)		3,994	(12)
Income (loss) before income taxes		\$1,218	(\$3,245)
Income tax recovery		(10)	(9)
Net income (loss) for the year		\$1,208	(\$3,254)
Other comprehensive income			
Item subject to reclassification			
Exchange difference on translating foreign operations		3	67
Comprehensive income (loss) for the period		\$1,211	(\$3,187)
Earning (loss) per share attributed to common equity holders			
Basic		\$0.02	(\$0.05)
Diluted		\$0.02	(\$0.05)
Weighted average number of common shares outstanding			
Basic		73,322	60,452
Diluted		73,322	60,452
(1) Includes share-based transaction expense of:			
Research and development		92	257
Selling and administrative		153	273
		<u>\$245</u>	<u>\$530</u>

See accompanying notes to the interim condensed consolidated financial statements.

ViXS Systems Inc.
Interim Condensed Consolidated Statements of Financial Position
(unaudited)
(See Basis of presentation and going concern uncertainty – note 1)

Dollar amounts in U.S. dollars Amounts in thousands	Note	As at April 30, 2017	As at January 31, 2017
Assets			
Current assets			
Cash and cash equivalents	11	\$6,636	\$2,732
Restricted cash	11	125	125
Trade accounts receivable	9	2,600	2,626
Other amounts receivable		486	445
Inventories		1,576	3,232
Prepayments		412	951
Total current assets		11,835	10,111
Non-current assets			
Property, plant and equipment		2,236	2,419
Intangible assets		6,328	6,860
Prepayments		464	203
Total non-current assets		9,028	9,482
Total assets		\$20,863	\$19,593
Liabilities and shareholders' equity			
Liabilities			
Current liabilities			
Revolving bank loan payable	6	5,647	\$5,685
Current portion of repayable government assistance	4	312	159
Trade and other payables		3,384	4,018
Deferred revenue		348	173
Total current liabilities		9,691	10,035
Non-current liabilities			
Accrued non-current liabilities		125	126
Convertible debt	7	5,475	4,685
Warrant liability	7	4	130
Repayable government assistance	4	853	1,388
Total non-current liabilities		6,457	6,329
Total liabilities		16,148	16,364
Shareholders' equity			
Issued capital		160,384	160,081
Contributed surplus		15,464	15,492
Cumulative translation adjustment		(58)	(61)
Deficit		(171,075)	(172,283)
Total shareholders' equity		4,715	3,229
Total liabilities and shareholders' equity		\$20,863	\$19,593

See accompanying notes to the interim condensed consolidated financial statements.

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

Dollar amounts in U.S. Dollars Amounts in Thousands	Notes	Number of Common Shares	Issued Capital	Contributed Surplus	Cumulative Translation Adjustment	Deficit	Total Equity
Balance, January 31, 2016		60,452	\$157,077	\$14,713	(\$93)	(\$161,327)	\$10,370
Loss for the period		-	-	-	67	(3,254)	(3,187)
Share-based payment transactions	4	-	-	530	-	-	530
Balance, April 30, 2016		60,452	\$157,077	\$15,243	(\$26)	(\$164,581)	\$7,713
Balance, January 31, 2017		73,317	160,081	15,492	(61)	(172,283)	3,229
Income for the period		-	-	-	3	1,208	1,211
Private placement		-	-	-	-	-	-
Shares/RSU vested		282	58	(28)	-	-	30
Share-based payment transactions	4	-	245	-	-	-	245
Balance, April 30, 2017		73,599	\$160,384	\$15,464	(\$58)	(\$171,075)	\$4,715

See accompanying notes to the interim condensed consolidated financial statements.

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

	Note	Three-month Period Ended	
		April 30, 2017	April 30, 2016
Dollar amounts in U.S. dollars			
Amounts in thousands			
Operating activities			
Net income (loss) for the period		\$1,208	(\$3,254)
Add (deduct) items not involving cash			
Depreciation of property, plant and equipment		60	129
Depreciation of mask costs		125	56
Amortization of intangible assets		473	143
Increase in non-current prepayments		(261)	345
Adjustment to provision for repayable government assistance	4	(342)	(272)
Share-based transaction expense		245	530
Finance costs (income)		780	168
Gain on sale of MoCA asset		(4,786)	-
Decrease (increase) in trade and other receivables and current prepayments		453	(213)
Decrease (increase) in inventories		1,656	(658)
increase (decrease) in trade and other payables		(728)	(679)
Increase (decrease) in deferred revenue		175	(143)
Cash flows provided from (used in) operating activities		(942)	(3,848)
Investing activities			
Interest received		8	1
Proceeds from sale of MoCA asset		5,000	-
Additions to property, plant and equipment		(2)	(1,316)
Disposals of intangible assets		59	-
Cash flows provided from (used in) investing activities		5,065	(1,315)
Financing activities			
Increase (Decrease) in bank borrowings		(38)	1,000
Decrease in provision for repayable government assistance	8	(40)	-
Interest and other finance costs		(116)	(154)
Cash flows provided from (used in) financing activities		(194)	846
Net decrease in cash and cash equivalents		3,929	(4,317)
Effect of foreign exchange		(25)	(105)
Cash and cash equivalents, beginning of year		\$2,857	7,272
Cash and cash equivalents, end of period		\$6,761	2,850
Interest paid (1)		(45)	-
Interest received (1)		8	-
Income taxes paid (1)		(10)	-

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

See accompanying notes to the interim condensed consolidated financial statements.

1. Basis of presentation

The unaudited interim condensed consolidated financial statements of ViXS Systems Inc. (the “Company” or “ViXS”) for the three-month period ended April 30, 2017 were approved and authorized for issue pursuant to a resolution of the Board of Directors dated June 7, 2017. 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 unaudited interim condensed consolidated financial statements of the Company and its subsidiaries were prepared in accordance with International Financial Reporting Standards (“IFRS”) International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”).

The unaudited 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, 2017, 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, 2017 are available at www.sedar.com.

The preparation of unaudited 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, 2017.

Going concern uncertainty

These unaudited 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 unaudited 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 April 30, 2017, the Company has not yet achieved ongoing profitable operations, and has an accumulated deficit of \$171.1 million. Whether, and when, the Company can attain sustainable profitability and positive cash flows from operations is dependent on the size and timing of incremental revenue growth which has a degree of uncertainty, that 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, if need be, 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.

On May 8, 2017, the Company completed an amendment to the Comerica loan agreement which extended the term of the loan to October 31, 2017 and reduced the maximum loan amount to \$6.8 million.

On April 12, 2017, ViXS sold its legacy XConnex (MoCA) product line to Maxlinear, Inc. for \$5.0 million in cash, which included a non-exclusive patent license limited to the manufacturing and implementation of that sold XConnex (MoCA) business. In addition to the \$5.0 million, this sale is also expected to free up a significant amount of working capital previously needed to support MoCA customers, including reimbursement on certain working capital transferred after the end of the quarter.

With these new funds, the Company believes it will have sufficient funds to cover planned operations through the next twelve-month period from anticipated revenue growth of new products during fiscal 2018 and through

continued credit access from its commercial bank. However, these plans may be adversely impacted by uncertain market conditions, credit access, and adverse results from operations. The certainty of these matters cannot be predicted at this time and may require the Company to raise additional capital in order to fund its operations.

Subsequent to the quarter end, on May 18, 2017, ViXS Systems Inc and Pixelworks Inc announced that the companies have entered into a definitive agreement under which Pixelworks will acquire all of the outstanding common shares of ViXS in an all-stock transaction consisting of approximately 3.7 million shares of Pixelworks common stock valued at approximately US\$20.2 million. (see 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, 2017.

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 unaudited 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 unaudited interim condensed consolidated financial statements.

iii) 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 unaudited interim condensed consolidated financial statements.

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	
	April 30, 2017	April 30, 2016	April 30, 2017	April 30, 2016
Taiwan	\$2,252	\$3,350	46.8%	58.8%
United States	254	232	5.3%	4.1%
Canada	769	290	16.0%	5.1%
Japan	434	412	9.0%	7.2%
China	558	409	11.6%	7.2%
Europe	91	521	1.9%	9.1%
Other	454	488	9.4%	8.5%
Total revenue	\$4,812	\$5,702	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 months ended April 30, 2017, three customers accounted for 46.5% of revenue, and for the three months ended April 30, 2016, two customers accounted for 67.3% of revenue.

4. Selected expense information

a) Government assistance	Three-month Period Ended	
	April 30, 2017	April 30, 2016
Canadian investment tax credits recognized	(140)	(239)
Amounts recognized under specific programs	-	(509)
Adjustment to provision for repayable government assistance	(342)	237
Government assistance deducted from research and development expenses	(\$482)	(\$511)

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 April 30, 2017.

Canada-Israel Industrial Research and Development Foundation (“CIIRDF”)

On March 17, 2010, ViXS entered into an agreement with CIIRDF for R&D funds pertaining to a joint project. Under this agreement, CIIRDF funded via grant, a sum of \$0.3 million for half of the proposed project expenditures. The project ended on October 31, 2011, with all funds having been expended during that project period. This funding was repayable through a royalty based on sales of products that were developed under the project, up to the amount received, without interest. However, there was no commercialization of the technology or innovations developed under the project, nor are there any future plans to do so, given that the technology is now mainly obsolete, the company has shifted its strategy, and terminated similar legacy projects. Therefore, on April 30, 2017 the Company removed the grant liability in the amount of \$0.3 million and recorded a credit to R&D expenses.

Technology Partnership Canada (“TPC”) Agreement

During the three-month period ended April 30, 2017, the Company reassessed its estimate of future royalties potentially payable to TPC. The Company decreased the total estimated liability by \$71 in the three-month period ended April 30, 2017 (April 30, 2016: \$0.2 million increase), which was recorded as a reduction to research and development costs.

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 (related to the share options) for the three-month periods ended April 30, 2017 and 2016 are disclosed in the following table:

Share-based transaction expense (recovery)	Three-month Period Ended	
	April 30, 2017	April 30, 2016
Included in research and development expenses	\$1	\$194
Included in selling, general and administrative expenses	16	225
Total share-based transaction expense	\$17	\$419

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 during the fiscal year ending January 31, 2017.

ViXS Systems Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the Three-month Period Ended April 30, 2017
(unaudited)

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, 2016	3,965	1.88
Cancelled	(2,266)	2.60
Outstanding, April 30, 2016	1,699	0.88
Outstanding, January 31, 2017	1,449	
Forfeited	(64)	1.60
Expired	(2)	1.75
Outstanding, April 30, 2017	1,383	0.81
Exercisable, April 30, 2016	436	2.12
Exercisable, April 30, 2017	735	1.07

The following table shows summary information about share options outstanding as at April 30, 2016:

Exercise prices	Outstanding options			Exercisable options	
	Number (000's)	Weighted average remaining contractual term (years)	Weighted average exercise price (\$)	Number (000's)	Weighted average exercise price (\$)
\$0.00-0.84	800	9.4	0.33	0	-
0.85-1.17	598	7.8	1.07	237	1.14
1.18-1.75	57	2.6	1.65	52	1.70
1.76-7.09	215	7.2	2.80	118	2.81
7.10	3	3.8	7.10	3	7.10
7.11-9.99	17	5.4	7.23	17	7.23
10.00	9	4.3	10.00	9	10.00
\$1.12-10.00	1,699			436	

ViXS Systems Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the Three-month Period Ended April 30, 2017
(unaudited)

The following table shows summary information about share options outstanding as at April 30, 2017:

Exercise prices	Outstanding options			Exercisable options	
	Number (000's)	Weighted average remaining contractual term (years)	Weighted average exercise price (\$)	Number (000's)	Weighted average exercise price (\$)
\$0.00-0.42	800	8.40	0.31	316	0.31
0.40-0.84	150	8.13	0.81	68	0.71
0.85 - 1.17	268	6.07	1.06	208	1.07
1.18 - 1.75	33	0.74	1.75	33	1.75
1.76 - 7.09	118	6.17	2.57	96	2.57
7.10-9.99	8	4.41	7.23	8	7.23
10.00	6	3.13	10.00	6	10.00
\$1.12-10.00	1,383			735	

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. RSUs are measured at the grant date. The following table shows summary information about RSUs outstanding as at April 30, 2017:

Share-based transaction expense - RSU portion	Three-month Period Ended	
	April 30, 2017	April 30, 2016
Included in research and development expenses	\$91	\$63
Included in selling, general and administrative expenses	138	48
Total share-based transaction expense	\$229	\$111

ViXS Systems Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the Three-month Period Ended April 30, 2017
(unaudited)

A summary of RSU activity is presented below:

	Number (000's) #
Outstanding, January 31, 2016	1,752
Cancelled	(4)
Outstanding, April 30, 2016	1,748
Weighted average contractual life (years)	1.84
Outstanding, January 31, 2017	7,493
Granted	289
Vested	(282)
Forfeited	(192)
Outstanding, April 30, 2017	7,308
Weighted average contractual life (years)	1.47

5. Income (loss) per share

Basic income (loss) per share amounts are calculated by dividing net income (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 income (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	
	April 30, 2017	April 30, 2016
Net income (loss) attributable to common equity holders for basic earnings	\$1,208	(\$3,254)
Weighted average number of common shares adjusted for the effect of dilution	73,322	60,452
Income (loss) per share	\$0.02	(\$0.05)

6. Revolving bank loan facility

The Company had an \$8 million revolving bank loan facility that expired on April 30, 2017. Pursuant to the borrowing formula calculated on balances as at April 30, 2017, the Company was in excess of its calculated borrowing capacity by \$1.6 million. As at January 31, 2017, the Company was in excess of its calculated borrowing capacity by \$17k.

ViXS Systems Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the Three-month Period Ended April 30, 2017
(unaudited)

	Interest rate (%)	Maturity	April 30, 2017	January 31, 2017
\$8.0 million revolving loan	Prime + 2%	April 30, 2017	5,647	5,685
			\$ 5,647	\$ 5,685

Interest rate for the period ended April 30, 2017 was 5.05% per annum.

On May 8, 2017 the Company completed an amendment to the loan agreement which extended the term of the loan to October 31, 2107 and reduced the maximum loan amount to \$6.8 million.

7. Convertible debt and warrant liability

January Private Placements

On January 12, 2016, ViXS completed two non-brokered private placements (collectively the “January Private Placements”), raising aggregate gross proceeds of approximately \$4.9 million (CAD\$6.9 million). Participants in the January Private Placements were primarily existing shareholders and senior management of the Company and the net proceeds were used to strengthen the Company’s financial position and fund working capital needs.

The January Private Placements consisted of a private placement (the “January Convertible Debenture Private Placement”) of secured subordinated convertible debentures (the “January Convertible Debentures”) and a private placement (the “January Unit Private Placement”) of units (the “January 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 January Private Placements included the issuance of common share purchase warrants (as described below) which could, assuming the exercise of all of the common share purchase warrants issued pursuant to the January Private Placements, generate additional aggregate gross proceeds of \$2.0 million (CAD \$2.8 million).

January Convertible Debenture Private Placement

Under the January Convertible Debenture Private Placement, the Company issued \$2.4 million (\$3.4 million CAD) principal amount of secured subordinated Convertible Debentures. The January Convertible Debentures will mature four years from the date of issuance on January 12, 2020, and bear interest at the rate of 10% per annum, payable semi-annually in arrears. If, at any time after the closing of the January Convertible Debenture Private Placement, the market price of the common shares of the Company exceeds \$0.80 CAD for 15 consecutive trading days, then the interest rate will be reduced to a fixed rate of 1% per annum.

The January Convertible Debentures are convertible into common shares at a conversion price \$ 0.34 CAD, in whole or in multiples of \$CAD 0.5 million.

The Company may, at its option, redeem the January Convertible Debentures in whole or in multiples of \$CAD 0.5 million at the following times and prices:

- Between April 30, 2016 and January 12, 2017, at a redemption price equal to 110% of the principal amount of the January Convertible Debentures plus accrued and unpaid interest; and

- Between January 13, 2017 and January 12, 2020, at a redemption price equal to the principal amount of the January Convertible Debentures plus accrued and unpaid interest.

The January Convertible Debentures are secured by a general security interest in all of the assets of the Company that is subordinated to the security interest of a senior lender to the Company.

In connection with the January Convertible Debenture Private Placement, the Company issued 2,517,842 common share purchase warrants (the “January Convertible Debenture Warrants”). The January Convertible Debenture Warrants are exercisable for a period of 12 months from the issue date at an exercise price of \$0.60 CAD per common share. If the market price of a common share exceeds \$0.65 CAD for 10 consecutive trading days, each Convertible Debenture Warrant will become exercisable at any time during the subsequent 20-day period. Any January Convertible Debenture Warrants not exercised during the 20-day period shall expire. As part of the September Convertible Debenture Private Placement (see below), the warrant expiry date was extended to September 9, 2017.

The aggregate maximum number of common shares issuable in connection with the conversion of the January Convertible Debentures is 10,071,371, and the exercise of January Convertible Debenture Warrants is 2,517,842.

January Unit Private Placement

Under the January Unit Private Placement, the Company issued 10,075,336 Units at a price of \$0.3453 CAD per Unit for gross proceeds of \$2.5 million (\$3.5 million CAD). Each Unit consisted of one common share of the Company and one-quarter of one common share purchase warrant (each whole warrant a “January Unit Warrant”). Each Unit Warrant enabled the holder to acquire one additional common share of the Company at an exercise price of \$0.50 CAD per common share for a period of 12 months from the issue date. The January Unit Warrants were not exercised and expired on January 12, 2017.

The costs to complete the January Private Placements totalled \$0.1 million, which consisted primarily of legal fees and were charged to finance costs.

September Private Placements

On September 9, 2016, ViXS completed the first tranche of two non-brokered private placements (collectively the “September Private Placements”), raising aggregate gross proceeds of approximately \$5.2 million (CAD\$6.64 million). Participants in the September Private Placements were primarily new and strategic investors along with senior management of the Company.

The September Private Placements consisted of a private placement (the “September Convertible Debenture Private Placement”) of secured subordinated convertible debentures (the “September Convertible Debentures”) and a private placement (the “September Unit Private Placement”) of units (the “September Units”). All securities sold in the September Private Placements, including any shares issued on the conversion of the September Convertible Debentures and the exercise of common share purchase warrants issued under the September 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.

On October 31, 2016, the Company completed the second tranche of its September Unit Private Placement, raising aggregate gross proceeds of approximately \$0.4 million (CAD \$0.5 million). On November 21, 2016, ViXS completed the second tranche of its September Convertible Debenture Private Placement, raising aggregate gross proceeds of approximately \$0.4 million (CAD \$0.5 million).

Total gross proceeds from both September Private Placements were \$5.9 million (CAD \$7.7 million). The September Private Placements included the issuance of common share purchase warrants (as described below) that

could, assuming the exercise of all of the common share purchase warrants issued pursuant to the Private Placements, generate additional aggregate gross proceeds of \$2.5 million (CAD \$3.2 million).

September Convertible Debenture Private Placement

Under the September Convertible Debenture Private Placement, the Company issued \$3.2 million (CAD \$4.2 million) principal amount of secured subordinated September Convertible Debentures. The September Convertible Debentures will mature three years from the date of issuance on September 9, 2016, and bear interest at the rate of 10% per annum, payable semi-annually in arrears. If, at any time after the closing of the Convertible Debenture Private Placement, the market price of the common shares of the Company exceeds CAD \$0.80 for 15 consecutive trading days, then the interest rate will be reduced to a fixed rate of 1% per annum.

The Convertible Debentures are convertible into common shares at a conversion price CAD \$0.35, in whole or in multiples of CAD \$0.5 million.

The Company may, at its option, redeem the Convertible Debentures in whole or in multiples of CAD \$0.5 million at the following times and prices:

- Between December 8, 2016 and September 9, 2017, at a redemption price equal to 110% of the principal amount of the September Convertible Debentures plus accrued and unpaid interest; and
- Between September 10, 2017 and September 9, 2019, at a redemption price equal to the principal amount of the September Convertible Debentures plus accrued and unpaid interest.

The September Convertible Debentures are secured by a general security interest in all of the assets of the Company, which is subordinated to the security interest of a senior lender to the Company.

In connection with the September Convertible Debenture Private Placement, the Company issued 2,999,991 common share purchase warrants (the "September Convertible Debenture Warrants"). The September Convertible Debenture Warrants are exercisable for a period of 12 months from the issue date at an exercise price of CAD \$0.60 per common share. If the market price of a common share exceeds CAD \$0.65 for 10 consecutive trading days, each Convertible Debenture Warrant will become exercisable at any time during the subsequent 20-day period. Any Convertible Debenture Warrants not exercised during the 20-day period shall expire.

The aggregate maximum number of common shares issuable in connection with the conversion of the September Convertible Debentures is 11,999,994, and the exercise of September Convertible Debenture Warrants is 2,999,991.

September Unit Private Placement

Under the September Unit Private Placement, the Company issued 11,583,333 Units at a price of CAD \$0.30 per Unit for gross proceeds of \$2.7 million (CAD \$3.5 million). Each Unit consisted of one common share of the Company and one-quarter of one common share purchase warrant (each whole warrant a "Unit Warrant"). Each Unit Warrant will enable the holder to acquire one additional common share of the Company at an exercise price of CAD \$0.50 per common share for a period of 12 months from the issue date. If all the Unit Warrants are exercised, this would result in the issuance of an additional 2,518,834 common shares for additional gross proceeds of \$1.1 million (CAD \$1.4 million).

The costs to complete the private placements totaled \$0.1 million, which consisted primarily of legal fees and were charged to finance costs.

The Company has determined the Convertible Debentures and related Convertible Debenture Warrants meet the definition of a financial liability due to the variability of the conversion ratio as a result of the potential differences in the foreign exchange rate. Accordingly, the fair value of the Convertible Debentures and Convertible Debenture

ViXS Systems Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the Three-month Period Ended April 30, 2017
(unaudited)

Warrants are treated as a financial liability measured at fair value through profit or loss. The fair value of the Convertible Debentures and Convertible Debenture Warrants are classified as Level 3 in the fair value hierarchy.

The Company has determined the shares issued as part of the Unit Private Placements meet the definition of equity. The related warrants have been determined to be a financial liability due to the variability of the conversion ratio as a result of the differences in the foreign exchange rate. Accordingly, the fair value of the Unit Warrants is treated as a financial liability measured at fair value through profit or loss. The fair value of the Unit Warrants financial liability is classified as Level 3 in the fair value hierarchy.

The gross proceeds on issuance of the Convertible Debenture Private Placements were allocated as follows:

	Convertible Debenture Private Placement	Convertible Debenture Private Placement Warrants
Convertible Debentures issued January, 2016	1,994	29
Convertible Debentures issued September, 2016	2,871	21
Convertible Debentures issued October, 2016	407	1
Total	<u>\$5,272</u>	<u>\$51</u>

The gross proceeds on issuance of the Unit Private Placements were allocated as follows:

	Unit private Placement	Unit Private Placement Warrants
Units issued January, 2016 (10,075,336 units)	2,448	-
Units issued September, 2016 (9,800,000 units)	2,280	-
Units issued October, 2016 (1.783.333 units)	369	-
Total	<u>\$5,097</u>	<u>\$0</u>

A fair value adjustment for the period ended April 30, 2017 and January 31, 2017 have been reflected in finance costs:

	April 30, 2017	January 31, 2017
January 2016 Private Placement	(\$861)	\$988
September 2016 Private Placement	69	178
October 2016 Private Placement	2	13
Total	<u>(\$790)</u>	<u>\$1,179</u>

The fair value of all other financial instruments within the Company's consolidated financial statements is not materially different from their carrying amount.

8. Sale of XConnex (MoCA) Product Line

On April 12, 2017, ViXS announced it had sold its legacy XConnex (MoCA) product line to Maxlinear, Inc. for \$5.0 million in cash, which included a non-exclusive patent license limited to the manufacturing and implementation of that sold XConnex (MoCA) business. In addition to the \$5.0 million, this sale is expected to free up a significant amount of working capital previously needed to support MoCA customers, including reimbursement on certain working capital transferred after the end of the quarter.

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 approximates their fair value 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, amounts owing by the Company denominated in Canadian Dollars, including the convertible debenture and warrant liabilities 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 April 30, 2017, 2.9% is denominated in Canadian dollars (January 31, 2017: 9.3%) and 0.3% is denominated in Japanese yen (January 31, 2017: 0.2%).

Of the Company's trade and other payables as at April 30, 2017, 11.0% is denominated in Canadian dollars (January 31, 2017: 7.5%).

ViXS Systems Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
For the Three-month Period Ended April 30, 2017
(unaudited)

Of the Company's cash and cash equivalents as at April 30, 2017, 3.0% is denominated in Canadian dollars (January 31, 2017: 0.6%), 0.3% in Japanese yen (January 31, 2017: 0.4%), 1.1% in Hong Kong dollars (January 31, 2017: 2.3%), 0.2% in euros (January 31, 2017: 0.5%) and 0% in Taiwan dollars (January 31, 2017: 1.5%).

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

	April 30, 2017	January 31, 2017
Current	\$2,464	\$2,490
30-60 days	136	136
61-90 days	-	-
Over 90 days	-	-
	\$2,600	\$2,626

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 April 30, 2017, the Company was holding cash and cash equivalents of \$6.7 million (January 31, 2017: \$2.9 million).

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 April 30, 2017, excluding estimated liability for contingently repayable government assistance ⁽¹⁾:

	<1 Yr 4/30/2017	1-2 Yrs 4/30/2018	3-5 Yrs 4/30/2022	Total
Operating leases	\$871	\$824	\$2,568	\$4,263
Technology license obligations	526	2,247	180	2,953
Purchase obligations	19	-	-	19
Total:	\$1,416	\$3,071	\$2,748	\$7,235

- (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 (\$2.4 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\$4.4 million, based on the closing Bank of Canada exchange rate of 0.7321 as at April 30, 2017).

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 April 30, 2017, the Company had commitments of \$7.2 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 \$125,000 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 May 8, 2017, the Company completed an amendment to the Comerica loan agreement which extended the term of the loan to October 31, 2017 and reduced the maximum loan amount to \$6.8 million.

On May 18, 2017, ViXS Systems Inc and San Jose California-based Pixelworks Inc announced that the companies have entered into a definitive agreement under which Pixelworks will acquire all of the outstanding common shares of ViXS in an all-stock transaction consisting of approximately 3.7 million shares of Pixelworks common stock valued at approximately US\$20.2 million. At the effective closing date, each share of ViXS will be exchanged for 0.04836 of a share of Pixelworks' common stock. The exchange ratio is equivalent to consideration of US\$0.26 per ViXS common share, based on the closing price of Pixelworks on May 17, 2017.