# SECOND QUARTER RESULTS

*Management's Discussion and Analysis and*

*Interim Condensed Consolidated Financial Statements of*

## VECIMA NETWORKS INC.

*For the three and six months ended December 31, 2020 and 2019*

*(unaudited)*

# Vecima Networks Inc.
# MANAGEMENT'S DISCUSSION AND ANALYSIS
# February 9, 2021

This Management's Discussion and Analysis (MD&A) provides a review of significant developments that have affected the performance of Vecima Networks Inc. ("Vecima" or the "Company") during the three and six months ended December 31, 2020.

Our MD&A supplements, but does not form part of, our unaudited interim condensed consolidated financial statements and related notes for the three and six months ended December 31, 2020 and 2019. Consequently, the following discussion and analysis of the financial condition and results of operations should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes for the three and six months ended December 31, 2020 and 2019 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Our MD&A also includes certain non-IFRS financial measures which we use as supplemental indicators of our operating performance and financial position, as well as for internal planning purposes.

The content of this MD&A contains forward-looking statements, which are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements. Forward-looking statements include, but are not limited to our expectations related to general economic conditions and market trends and their anticipated effects on our business segments, as well as our expectations related to customer demand. For additional information related to forward-looking statements and material risks associated with them, please see the "Additional Information - Forward-Looking Information" section of this MD&A.

Additional information regarding Vecima, including our Annual Information Form, can be found on SEDAR at www.sedar.com.

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## 1. Company Overview

Vecima Networks Inc. (TSX:VCM) is a Canadian company founded in 1988 in Saskatoon, Saskatchewan. Today, Vecima has a global presence with offices in Vancouver, Atlanta, Raleigh, Sunnyvale, Qingdao, Shanghai, Tokyo, Amsterdam, London, and a manufacturing facility in Saskatoon. Vecima's corporate head office is located in Victoria, British Columbia.

Vecima is a global leader focused on developing integrated hardware and scalable software solutions for broadband access, content delivery, and telematics. We enable the world's leading innovators to advance, connect, entertain, and analyze. We build technologies that transform content delivery and storage, enable high-capacity broadband network access, and streamline data analytics.

Vecima's business is organized into three segments:

1) **Video and Broadband Solutions** (VBS) includes platforms and modules that process data from the cable network and deliver it in formats suitable to be consumed on televisions and Internet devices.

   a. Our Terrace and TerraceQAM product families meet the needs of the business services vertical, including MDU (multi-dwelling units) and Hospitality (including hotels, motels and resorts).

   b. Our next generation Entra™ family of products and platforms addresses the network migration to a Distributed Access Architecture (as described below under Industry Developments). The Entra Distributed Access Architecture platform is Vecima's realization of the next generation of hybrid fiber coaxial (HFC) and 10G EPON nodes as optical transport moves away from analog radio frequency (RF) distribution to all digital Ethernet. Our goal is to provide independent, agnostic and future proof Distributed Access solutions that can work with every core vendor and be upgradable to Full Duplex (FDX), Extended Spectrum DOCSIS (ESD), Passive Optical Network (PON) or whatever the future of ultra high speed networks require.

   The Entra Distributed Access Architecture (DAA) family of products is divided into five core categories:

   - EntraPHY - Multiple variants of the Entra Access Node that can operate as Remote PHY provides a modular platform for deployment of access technologies;
   - EntraMAC - Multiple variants of the Entra Access Node that can operate as Remote MAC-PHY and provides a modular platform for deployment of access technologies;
   - EntraOptical - Consists of both a chassis and node based 10G EPON access technologies;
   - EntraControl -
     - The Entra Remote PHY Monitor (RPM), which offers unified control software for management, service assurance and monitoring of access nodes;
     - The Entra Video QAM Manager (VQM), which allows for the integration of video in a DAA environment within existing infrastructure, maximizing efficiency of fiber usage while reducing operational costs; and
     - The Entra Access Controller (EAC) manages all components of a Virtual CCAP Solution; and
   - EntraVideo -
     - The Entra Legacy QAM Adapter (LQA) and DV-12, which provide a simple solution to adapt existing video QAM infrastructure for distributed access; and
     - The Entra Interactive Video Controller (IVC), which supports both next-generation DAA Remote PHY and traditional RF networks providing essential two-way network connectivity for QAM set-top boxes that are heavily deployed and in service today.

2) **Content Delivery and Storage** (CDS) includes solutions and software, under the MediaScaleX™ and ContentAgent™ brands, for industries and customers that focus on ingesting, producing, storing, delivering and streaming video content for live linear, Video on Demand (VOD), network Digital Video Recorder (nDVR) and time-shifted TV services.

   Our Content Delivery and Storage business focuses specifically on multiple system operators' ("MSO") video content delivery and storage needs under the product categories: Storage, Cache, Origin and Transcode.

3) **Telematics** provides fleet managers with the key information and analytics they require to optimally manage their mobile and fixed assets under the Contigo, Nero Global Tracking, and FleetLynx brands.

## 2. Industry Developments

### Video and Broadband Solutions

Over the last several years, the cable industry has been transitioning towards Distributed Access Architectures (DAA) under the latest DOCSIS 3.1 standard. Some top tier players have initiated a gradual roll-out of this new platform with further large-scale deployments anticipated over the next several years. DOCSIS 3.1 is a critical evolution for the industry in that it unlocks gigabit broadband speeds over existing coaxial cable by allowing data transmission up to 10 Gigabits per second (Gbps) for download speed and 3 Gbps for upload speed. The speed provided by DOCSIS 3.1 is comparable to that of fiber optic connections, thereby allowing cable operators to upgrade their systems, but without the added infrastructure costs of building fiber to the home. Global cable operators expect to benefit from a flexible migration given that DOCSIS 3.1 modems can coexist with older versions and build on top of their previously deployed capacity. The higher efficiency of DOCSIS 3.1 technology also enables significant cost-per-bit reductions relative to DOCSIS 3.0 network solutions.

Starting in calendar 2020, the cable market began a broad shift towards DAA, focusing on Remote PHY technology as more operators recognized its suitability for market needs in terms of speed, agility, user experience and cost savings. The social impacts of the COVID-19 pandemic have since increased demands on network bandwidth, accelerating the push towards distributed access solutions. In 2020, Cable Television Laboratories or CableLabs, a not-for-profit innovation and research and development lab that works in cooperation with cable companies and cable equipment manufacturers, released the DOCSIS 4.0 specifications which includes full duplex DOCSIS (FDX) and extended spectrum DOCSIS (ESD), allowing multi system operators (MSO) to significantly increase their upstream bandwidth.

### Content Delivery and Storage

Global demand for Internet Protocol (IP) video content delivery and storage is growing, driven by the rapidly increasing consumption of IP video as consumers turn to streaming services, and cable operators make vast arrays of new IP video content available to subscribers. Service providers are also pursuing new DVR opportunities that shift delivery and storage away from traditional set-top storage to cloud-based models. According to the latest industry analysis in the Cisco Visual Networking Index™, consumer Video on Demand traffic is expected to double by 2022 with IP video comprising 82% of all IP traffic.

### Telematics

As asset tracking technology broadens beyond fleet management to asset-intensive industries such as manufacturing, construction, energy and aerospace, Vecima is developing products to capitalize on segments of these markets.

### Our Strategy

Our growth strategy focuses on the development of our core technologies, including next generation platforms such as our DOCSIS 3.1 platform, Entra, as well as new IP video storage and distribution technologies being developed under the MediaScaleX brand within the Content Delivery and Storage segment. We will continue to pursue profitable growth both organically and when appropriate, through value-enhancing strategic acquisitions.

## 3. Second Quarter Fiscal 2021 Highlights

### Financial and Corporate Highlights

- Second quarter revenue grew to $30.4 million, up 21% year-over-year and 9% quarter-over-quarter
- Gross profit of $15.2 million and gross profit margin of 50% grew sequentially from $13.0 million and 47%, respectively, in Q1 fiscal 2021
- Generated adjusted EBITDA of $2.5 million as compared to $7.0 million in Q2 fiscal 2020 and $2.2 million in Q1 fiscal 2021
- Adjusted EPS was $(0.14) per share, as compared to $0.15 per share in Q2 fiscal 2020 and adjusted loss of $0.04 in Q1 FY2021
- Ended the quarter in strong financial position with $20.8 million in cash and working capital of $46.2 million
- Declared a dividend of $0.055 per share payable on March 29, 2021 to shareholders of record on February 26, 2021. This represents $32.4 million returned to shareholders through regular dividends since we initiated our dividends in October 2014

- Cable industry veteran and 2020 Cable Hall of Fame Honoree, Mr. James Blackley, was elected to Vecima's Board of Directors at the Company's Annual General Meeting on December 7, 2020. Mr. Blackley brings extensive cable industry experience to the board, including senior management experience with both Charter Communications and Cablevision. Mr. Ben Colabrese stepped down as Director of the Board, having served since 2017 and having provided valuable contributions to Vecima during his tenure

**Video and Broadband Solutions (VBS)**

- The VBS segment delivered exceptional revenue growth of 98% year-over-year and 22% quarter-over-quarter, generating $16.5 million in sales as customers continued to transition to next generation networks using Vecima's platforms
- DAA (Entra family)
  - Deployments of our next generation Entra DAA products with the industry only in the beginning phases of the DAA market, accelerated to $8.0 million, an increase by over six times from $1.1 million in Q2 2020 and up 54% from $5.2 million in Q1 fiscal 2021. Entra results for the quarter included $3.4 million of sales from the portfolio of DAA and EPON/DPoE solutions acquired from Nokia in Q1 FY2021. Sales from the acquired portfolio were $1.0 million in Q1 fiscal 2021
  - Production deployments of our industry-leading, multi-core interoperable Entra Remote PHY Node began ramping at the lead Tier 1 customer and deployment-related purchases were initiated at multiple additional MSOs in the second quarter. Combined with the Entra Remote MAC-PHY Node and 10G EPON solutions, Entra DAA platforms are now being sold to 24 operators on five continents
  - Our global engagements for Entra have expanded to include 58 MSOs, including operators in the US, Canada, CALA, EMEA and APAC. This includes over 40 operators across the globe that are either in lab trial, field trial, or live deployment phases
  - Introduced new major software release for the Entra Remote MAC-PHY and DPoE/EPON Unified Cable Access Solution portfolio of products, enabling service providers worldwide to increase network scalability, performance, and upstream capacity
- Commercial Video (Terrace family)
  - Second quarter Terrace family sales grew 51% to $5.9 million, from $3.9 million in Q2FY2020, supported by strong demand for the TC600E
  - TerraceQAM sales remained on track for a strong year with solid Q2 sales of $2.5 million following very strong Q1 sales of $4.2 million
  - Achieved a significant milestone as we launched our next-generation TerraceIQ system and delivered initial deployment orders to a new Tier 1 MSO customer

**Content Delivery and Storage (CDS)**

- Continued to consolidate the record new business wins of fiscal 2020, generating CDS sales of $12.5 million with service revenues hitting an all-time high and growing by 12% year-over-year
- Secured an additional IPTV customer win for the entire MediaScaleX portfolio, encompassing IP Linear, IP Video on Demand, and cloud DVR
- Won three new broadcast post-production customers for ContentAgent, our video workflow management system
- Released multiple new product versions within MediaScaleX, adding significant new functionality in the areas of visual trick play, multi-tenancy, dynamic ad insertion, integration with additional partners, and support for new content formats

**Telematics**

- Increased engagement with municipal government customers with expansions adding 330 new subscribers
- Continued penetration in the moveable assets market with 190 new subscribers in the restoration and emergency medical services industries

## 4. Outlook

Around the globe, high levels of utilization across our customers' cable and IPTV networks are requiring that operators continue to expand capacity across their networks. Vecima is responding to this demand with an industry-leading portfolio of Distributed Access Architecture (DAA), commercial video and IPTV solutions that enable our customers to expand their capacity and network offerings.

**In our Video and Broadband Solutions (VBS) segment**, we anticipate further building of momentum for our next generation Entra DAA through the second half of fiscal 2021. A lead Tier 1 DAA customer is now preparing to transition to scale deployment, while a broader set of MSOs are expected to shift from lab trials to initial field deployments in the second half. Together with the new DAA Remote MAC-PHY, access controller and 10G EPON products gained through our Q1 acquisition of the Nokia cable access portfolio, we believe Vecima now offers the industry's strongest and most relevant DAA portfolio for the cable industry evolution underway and we anticipate meaningful sales growth for our entire Entra portfolio in fiscal 2021. We expect the Entra growth to be accompanied by continued demand for our TerraceQAM solution and emerging opportunities for our next generation TerraceIQ solution, which will help offset the impact of tapering demand for our legacy cable products.

**Our Content Delivery and Storage segment** remains positioned for measured growth in fiscal 2021 as we consolidate the record-setting new business wins of fiscal 2020 and attract new operators that are just beginning their evolution to IPTV. We note, as always, that the Content Delivery and Storage segment is prone to significant quarter-to-quarter revenue variations due to the size and timing of orders.

**In the Telematics segment**, we anticipate incremental growth in demand from the fleet tracking market in fiscal 2021, along with continued gradual growth in demand for our asset tracking services.

Overall, we anticipate a very strong fiscal 2021 for Vecima as our multi-year investment, development, and strategic acquisition strategy continues to bear fruit.

## 5. COVID-19 Business Update

Social distancing and stay at home mandates related to the COVID-19 pandemic continue to drive unusually high levels of utilization across our customers' cable and IPTV networks. As a manufacturer and provider of communications solutions that expand the capacity of our customers' networks, Vecima's operations are not only deemed essential, but we have seen interest in our solutions increase since the onset of the pandemic.

We have taken a number of proactive steps to protect the health and safety of our employees and to support our ability to provide our products and platforms to our customers worldwide.

**Employee Health and Safety:** Our highest priority continues to be the well-being of our employees, more than 80% of whom are able to perform their job functions outside of a Vecima facility and are working remotely. A small number of Vecima employees, primarily those in our Saskatoon manufacturing facility, have roles whose physical presence is required to perform their job function. These employees continue to report to work but are subject to strict protocols intended to reduce the risk of transmission, including social distancing, increased cleaning and availability of personal protective equipment as necessary.

**Operations and Supply Chain:** Our manufacturing sites have continued to operate at or near normal levels, and we have increased inventory levels to enhance our ability to fulfill orders. While lead times for some of our component supplies have subsequently increased, and in certain limited cases we have needed to seek out alternate sources of supply, we have not encountered significant disruptions to our supply chain to date.

While it is difficult to predict what the full economic, supply chain and network development impacts of the COVID-19 pandemic will be, given the evolving and uncertain nature of this crisis, we will continue to monitor the situation closely and make adjustments to our business as necessary. Please see "Risks and Uncertainties and COVID-19" and "Forward Looking Information" for more information on COVID-19 as it pertains to our business.

# 6. Consolidated Results of Operations

Amounts are presented in thousands of Canadian dollars except percentages, employees, dividends and per share amounts. This information should be read in conjunction with our financial statements for the relevant periods, including the related notes, and the balance of this MD&A.

| **Consolidated Statements of Comprehensive Income Data** | **Three months ended December 31,** | | | | **Six months ended December 31,** | | | |
|---|---|---|---|---|---|---|---|---|
| | **2020** | | 2019 | | **2020** | | 2019 | |
| **Sales** | **$ 30,372** | 100 % | $ 25,123 | 100 % | **$ 58,216** | 100 % | $ 45,235 | 100 % |
| **Cost of sales** | **15,193** | 50 % | 9,115 | 36 % | **30,028** | 52 % | 18,753 | 41 % |
| **Gross profit** | **15,179** | 50 % | 16,008 | 64 % | **28,188** | 48 % | 26,482 | 59 % |
| **Operating expenses** | | | | | | | | |
| Research and development[1] | **7,158** | 24 % | 4,534 | 18 % | **13,502** | 23 % | 9,602 | 22 % |
| Sales and marketing | **3,646** | 12 % | 3,427 | 14 % | **6,855** | 12 % | 7,173 | 16 % |
| General and administrative | **4,627** | 15 % | 4,142 | 17 % | **9,418** | 16 % | 8,123 | 18 % |
| Share-based compensation | **1,210** | 4 % | 17 | - % | **1,449** | 2 % | 34 | - % |
| Other income (expense) | **3** | - % | (145) | (1)% | **-** | - % | (155) | - % |
| | **16,644** | 55 % | 11,975 | 48 % | **31,224** | 53 % | 24,777 | 56 % |
| **Operating (loss) income** | **(1,465)** | (5)% | 4,033 | 16 % | **(3,036)** | (5)% | 1,705 | 3 % |
| Finance income | **1** | - % | 554 | 2 % | **162** | - % | 762 | 2 % |
| Foreign exchange loss | **(1,222)** | (4)% | (477) | (2)% | **(1,447)** | (2)% | (179) | - % |
| **(Loss) income before taxes** | **(2,686)** | (9)% | 4,110 | 16 % | **(4,321)** | (7)% | 2,288 | 5 % |
| Income tax expense (recovery) | **432** | 1 % | 549 | 2 % | **(365)** | (1)% | 111 | - % |
| **Net (loss) income** | **(3,118)** | (10)% | 3,561 | 14 % | **(3,956)** | (7)% | 2,177 | 5 % |
| **Other comprehensive loss** | **(1,538)** | (5)% | (426) | (2)% | **(2,150)** | (4)% | (203) | - % |
| **Comprehensive (loss) income** | **$ (4,656)** | (15)% | $ 3,135 | 12 % | **$ (6,106)** | (11)% | $ 1,974 | 4 % |
| **Net (loss) income per share[2]** | | | | | | | | |
| Basic | **$ (0.14)** | | $ 0.16 | | **$ (0.18)** | | $ 0.10 | |
| Diluted | **$ (0.14)** | | $ 0.16 | | **$ (0.18)** | | $ 0.10 | |
| **Other Data** | | | | | | | | |
| Total research and development expenditures[3] | **$ 9,066** | | $ 6,179 | | **$ 17,225** | | $ 12,232 | |
| Adjusted EBITDA[4] | **$ 2,477** | | $ 7,042 | | **$ 4,684** | | $ 8,828 | |
| Adjusted earnings per share[5] | **$ (0.14)** | | $ 0.15 | | **$ (0.18)** | | $ 0.09 | |
| Number of employees[6] | **466** | | 368 | | **466** | | 368 | |

(1) *Net of investment tax credits and capitalized development costs.*

(2) *Based on weighted average number of common shares outstanding.*

(3) *See "Total Research and Development Expenditures".*

(4) *Adjusted EBITDA does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. See "EBITDA and Adjusted EBITDA".*

(5) *Adjusted Earnings per Share does not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. See "Adjusted Earnings per Share".*

(6) *The number of employees is determined as of the end of the period.*

| **Consolidated Statements of Financial Position** *(unaudited – in thousands of dollars except common share data)* | | **December 31, 2020** | | June 30, 2020 |
|---|---|---|---|---|
| Cash and cash equivalents | **$** | **10,869** | $ | 17,350 |
| Short-term investments | **$** | **9,885** | $ | 17,165 |
| Working capital | **$** | **46,248** | $ | 55,280 |
| Total assets | **$** | **205,945** | $ | 210,298 |
| Long-term debt[(1)] | **$** | **4,099** | $ | 4,613 |
| Shareholders' equity | **$** | **174,088** | $ | 179,762 |
| Number of common shares outstanding[(2)] | | **22,607,863** | | 22,411,612 |

[(1)] *Since fiscal 2020 Long-term debt now includes lease liabilities per IFRS 16.*

[(2)] *Based on weighted average number of common shares outstanding.*

## Adjusted Net Income and Adjusted Earnings per Share

The following table reconciles net income for the period to adjusted net income as well as earnings per share to adjusted earnings per share. The term "adjusted net income" refers to net income or net loss as reported in the IFRS financial statements, excluding any amounts included in net income or net loss for gains and losses on the sale of non-core property, plant and equipment ("PP&E"), intangible assets, and assets held for sale, impairments of intangible assets, restructuring costs, and the tax effect of these adjusted items. We believe that adjusted net income and adjusted earnings per share provides supplemental information for management and our investors because they provide for the analysis of our results exclusive of certain items which do not directly correlate to our business of selling broadband access products, content delivery and storage products and services or supplying telematic services. Adjusted net income and adjusted earnings per share do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers.

| **Calculation of Adjusted Earnings Per Share** | **Three months ended December 31,** | | | | **Six months ended December 31,** | | | |
|---|---|---|---|---|---|---|---|---|
| *(unaudited – in thousands of dollars except per share amounts)* | | **2020** | | 2019 | | **2020** | | 2019 |
| Net (loss) income | **$** | **(3,118)** | $ | 3,561 | **$** | **(3,956)** | $ | 2,177 |
| Gain on sale of non-core PP&E, net of tax | | **-** | | (118) | | **-** | | (106) |
| **Adjusted net income** | **$** | **(3,118)** | $ | 3,443 | **$** | **(3,956)** | $ | 2,071 |
| Net (loss) income per share | **$** | **(0.14)** | $ | 0.16 | **$** | **(0.18)** | $ | 0.10 |
| Gain on sale of non-core PP&E, net of tax | | **-** | | (0.01) | | **-** | | (0.01) |
| **Adjusted earnings per share[(1)(2)]** | **$** | **(0.14)** | $ | 0.15 | **$** | **(0.18)** | $ | 0.09 |

[(1)] *Adjusted earnings per share includes non-cash share-based compensation of $1.2 million or $0.05 per share for the three months ended December 31, 2020, and $1.4 million or $0.06 per share for the six months ended December 31, 2020. The non-cash share-based compensation primarily reflects certain performance-based vesting thresholds achieved under the Company's Performance Share Unit Plan.*

[(2)] *Adjusted earnings per share includes foreign exchange loss of $1.2 million or $0.05 per share for the three months ended December 31, 2020 and $1.4 million or $0.06 per share for the six months ended December 31, 2020.*

**EBITDA and Adjusted EBITDA**

The following table reconciles net income for the period to EBITDA and Adjusted EBITDA. The term "EBITDA" refers to net income or net loss as reported in the IFRS financial statements, excluding any amounts included in net income or net loss for income taxes, interest expense, and depreciation and amortization for PP&E, right-of-use assets, deferred development and intangible assets. The term "Adjusted EBITDA" refers to EBITDA adjusted for: gains and losses on sale of PP&E, intangible assets, and assets held for sale; impairment of PP&E; impairment of deferred development costs and other intangible assets; restructuring costs; and share-based compensation expense. We believe that Adjusted EBITDA is useful supplemental information for management and for our investors because it provides for the analysis of our results exclusive of certain non-cash items and other items which do not directly correlate to our business of selling broadband access products, content delivery and storage products and services or supplying telematic services. EBITDA and Adjusted EBITDA are not recognized measures under IFRS and, accordingly, investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as alternatives to net income, determined in accordance with IFRS, or as indicators of our financial performance or as measures of our liquidity and cash flows.

| **Calculation of Adjusted EBITDA** | **Three months ended December 31,** | | **Six months ended December 31,** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Net (loss) income | **$ (3,118)** | $ 3,561 | **$ (3,956)** | $ 2,177 |
| Income tax expense (recovery) | **432** | 549 | **(365)** | 111 |
| Interest expense | **57** | 78 | **116** | 158 |
| Depreciation of PP&E | **632** | 540 | **1,199** | 1,049 |
| Depreciation of right-of-use assets | **383** | 341 | **747** | 683 |
| Amortization of deferred development costs | **1,953** | 1,118 | **3,627** | 2,787 |
| Amortization of intangible assets | **921** | 973 | **1,858** | 1,950 |
| **EBITDA** | **1,260** | 7,160 | **3,226** | 8,915 |
| Loss (gain) on sale of property, plant and equipment | **7** | (135) | **9** | (121) |
| Share-based compensation | **1,210** | 17 | **1,449** | 34 |
| **Adjusted EBITDA** | **$ 2,477** | $ 7,042 | **$ 4,684** | $ 8,828 |
| Percentage of sales | **8%** | 28% | **8%** | 20% |

**Total Research and Development Expenditures**

The following table reconciles research and development expenses reported in accordance with IFRS as shown on the consolidated statements of comprehensive income (research and development) to our actual cash research and development expenditures (total research and development expenditure) below:

| **Calculation of Research and Development Expenditures** | **Three months ended December 31,** | | **Six months ended December 31,** | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| Research and development per statement of income | **$ 7,158** | $ 4,534 | $ **13,502** | $ 9,602 |
| Deferred development costs | **3,832** | 2,776 | **7,280** | 5,426 |
| Investment tax credits | **29** | 51 | **70** | 89 |
| Amortization of deferred development costs | **(1,953)** | (1,118) | **(3,627)** | (2,787) |
| Government grants | **-** | (64) | **-** | (98) |
| Total research and development expenditures | **$ 9,066** | $ 6,179 | $ **17,225** | $ 12,232 |
| Percentage of sales | **30%** | 25% | **30%** | 27% |

# 7. Summary of Quarterly Results of Operations

The following information has been derived from our consolidated financial statements for the six months ended December 31, fiscal 2021 and fiscal 2020 in accordance with IFRS. This information should be read in conjunction with those financial statements and their related notes as well as with the balance of this MD&A.

| | Fiscal Year 2021 | | Fiscal Year 2020 | | | | Fiscal Year 2019 | |
|---|---|---|---|---|---|---|---|---|
| | **Q2** | **Q1** | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| **Sales** | **$ 30,372** | **$ 27,844** | $ 26,088 | $ 25,093 | $ 25,123 | $ 20,112 | $ 20,715 | $ 20,328 |
| **Cost of Sales** | **15,193** | **14,836** | 13,290 | 12,069 | 9,115 | 9,638 | 10,555 | 9,642 |
| **Gross profit** | **15,179** | **13,008** | 12,798 | 13,024 | 16,008 | 10,474 | 10,160 | 10,686 |
| **Operating expenses** | | | | | | | | |
| Research and development | **7,158** | **6,343** | 6,857 | 5,714 | 4,534 | 5,068 | 5,006 | 4,797 |
| Sales and marketing | **3,646** | **3,209** | 3,177 | 3,698 | 3,427 | 3,746 | 3,631 | 4,029 |
| General and administrative | **4,627** | **4,791** | 4,070 | 4,087 | 4,142 | 3,981 | 4,340 | 4,247 |
| Restructuring costs | **-** | **-** | - | - | - | - | 1,419 | - |
| Share-based compensation | **1,210** | **239** | 12 | 13 | 17 | 17 | 10 | 28 |
| Other expense (income) | **3** | **(3)** | (348) | 25 | (145) | (10) | 17 | (69) |
| | **16,644** | **14,579** | 13,767 | 13,537 | 11,975 | 12,802 | 14,423 | 13,032 |
| **Operating (loss) income** | **(1,465)** | **(1,571)** | (969) | (513) | 4,033 | (2,328) | (4,263) | (2,346) |
| Finance income (expense) | **1** | **161** | 108 | (238) | 554 | 208 | 329 | 301 |
| Foreign exchange (loss) gain | **(1,222)** | **(225)** | (453) | 1,972 | (477) | 298 | (523) | (619) |
| **(Loss) income before income taxes** | **(2,686)** | **(1,635)** | (1,313) | 1,221 | 4,110 | (1,822) | (4,457) | (2,664) |
| Income tax expense (recovery) | **432** | **(797)** | (276) | 555 | 549 | (438) | (1,504) | (1,203) |
| **Net (loss) income** | **(3,118)** | **(838)** | (1,037) | 666 | 3,561 | (1,384) | (2,953) | (1,461) |
| **Other comprehensive (loss) income** | **(1,538)** | **(612)** | (1,125) | 2,416 | (426) | 223 | (460) | (584) |
| **Comprehensive (loss) income** | **$ (4,656)** | **$ (1,450)** | $ (2,162) | $ 3,082 | $ 3,135 | $ (1,161) | $ (3,413) | $ (2,045) |
| **Net (loss) income per share** | | | | | | | | |
| Basic | **$ (0.14)** | **$ (0.04)** | $ (0.05) | $ 0.03 | $ 0.16 | $ (0.06) | $ (0.13) | $ (0.06) |
| Diluted | **$ (0.14)** | **$ (0.04)** | $ (0.05) | $ 0.03 | $ 0.16 | $ (0.06) | $ (0.13) | $ (0.06) |
| Adjusted EBITDA as reported | **$ 2,477** | **$ 2,207** | $ 3,827 | $ 5,617 | $ 7,042 | $ 1,785 | $ 281 | $ 424 |

### Quarter-to-Quarter Sales Variances

There are many factors that contribute to the overall variances of our sales. Traditionally, one of the main factors has been that we continually develop new products to replace products that are reaching the end of their lifecycle. The timing of development can vary based on the size of the projects. The timing of regulatory certification and customer acceptance of new products can also affect the timing of sales.

Within the industry, spending by cable operators is impacted by new technology adoption such as the industry migration to DOCSIS 3.1. The budgeting cycles of larger cable operators can also result in quarter-to-quarter variability in customer orders as do their installation schedules. We are currently experiencing a slowdown in demand for some of our legacy Video and Broadband Solutions products as customers complete their digital networks and migrate to DOCSIS 3.1.

Our Content Delivery and Storage segment also contributes to variation in our quarterly sales. Quarterly sales fluctuations are typical of this business due to the typically large size of customer orders and associated IPTV projects that are subject to customer timing adjustments. Demand for CDS solutions is also prone to seasonal demand fluctuations with the first quarter typically carrying slower customer activity.

## 8. Segmented Information

**Sales**

| | | Three months ended December 31, | | | | Six months ended December 31, | | |
|---|---|---|---|---|---|---|---|---|
| **Segment** | | **2020** | | 2019 | | **2020** | | 2019 |
| Video and Broadband Solutions | **$** | **16,531** | $ | 8,370 | **$** | **30,063** | $ | 15,832 |
| Content Delivery and Storage | | **12,469** | | 15,392 | | **25,454** | | 26,679 |
| Telematics | | **1,372** | | 1,361 | | **2,699** | | 2,724 |
| **Total Sales** | **$** | **30,372** | $ | 25,123 | **$** | **58,216** | $ | 45,235 |

*Three-Month Sales*

Total sales grew to $30.4 million in the second quarter of fiscal 2021, up 21% from $25.1 million in Q2 fiscal 2020 and 9% higher than the $27.8 million generated in Q1 fiscal 2021. The year-over-year sales growth reflects an increase in Video and Broadband product sales, partially offset by lower sales in our Content Delivery and Storage segment.

The Video and Broadband Solutions segment grew sales to $16.5 million up 98% from $8.4 million in Q2 fiscal 2020 and an increase of 22% from $13.5 million in Q1 fiscal 2021.

- Initial deployments of our next generation Entra products contributed second quarter revenue of $8.0 million up significantly from $1.1 million in Q2 fiscal 2020 and up 54% from $5.2 million in Q1 fiscal 2021.
- Second quarter Terrace family sales grew to $5.9 million from $3.9 million in Q2 fiscal 2020 and $3.5 million in Q1 fiscal 2021, an increase of 51% and 67%, respectively. The significant increase in Terrace Family sales primarily reflects higher sales of our legacy TC600E products.
- We generated TerraceQAM sales of $2.5 million, as compared to $3.1 million in the second quarter of fiscal 2020 and $4.2 million in Q1 fiscal 2021. We anticipate healthy demand for the TerraceQAM platform through the balance of fiscal 2021 as operators continue their commercial rollout for the current generation, while preparing for the next-generation TerraceIQ platform.

Our Content Delivery and Storage segment continued to consolidate the record new business wins of fiscal 2020, generating quarterly sales of $12.5 million, as compared to $15.4 million in the second quarter of fiscal 2020, and $13.0 million Q1 fiscal 2021. Quarterly sales variances are typical for the CDS segment and reflect the timing of large orders. Segment sales for the Q2 fiscal 2021 period included $7.5 million of product sales and $5.0 million of services revenue.

Second quarter Telematics sales of $1.4 million were consistent with the $1.4 million achieved in Q2 fiscal 2020 and slightly higher than the $1.3 million in Q1 fiscal 2021. Results for the quarter were in line with our expectations.

*Six-Month Sales*

For the six months ended December 31, 2020 total sales increased 29% to $58.2 million from $45.2 million in the same period of fiscal 2020. The sales increase primarily reflects a strong contribution from our Video and Broadband Solutions segment, partially offset by lower sales in the Content Delivery and Storage segment.

Video and Broadband Solutions sales increased to $30.1 million in the first six months of fiscal 2021, up 90% from $15.8 million in the same period in fiscal 2020.

- Initial deployments of our next generation Entra products contributed revenue of $13.3 million in the first half of fiscal 2021, up significantly from $1.4 million in the first half of fiscal 2020.
- First half sales of the Terrace family of products increased by 3% to $9.4 million, from $9.1 million in the first half of fiscal 2020. The sales results reflect increased purchasing activity for legacy TC600E products.
- Sales of TerraceQAM increased to $6.7 million in the first half of fiscal 2021, from $5.0 million in the same period in fiscal 2020. We anticipate healthy demand for TerraceQAM through the balance of fiscal 2021 as operators continue their commercial rollout for the current generation, while preparing for the next-generation TerraceIQ platform.

Sales from our Content Delivery and Storage segment decreased 5% to $25.5 million in the first half of fiscal 2021, from $26.7 million in the first half of fiscal 2020. Sales in the current period included $15.7 million of product sales and $9.8 million of services revenue.

Telematics sales were stable at $2.7 million in the first half of fiscal 2021, as compared to $2.7 million in the first half of fiscal 2020. These results were in line with our expectations.

### Cost of Sales

Cost of sales consists primarily of product manufacturing and assembly expenses, with component parts, employee and third party supplier costs representing a significant portion of these costs. Costs associated with Video and Broadband Solutions sales include related overhead, compensation, final assembly, quality assurance, inventory management costs, and sales commissions, as well as support costs and payments to contract manufacturers that perform printed circuit board assembly functions. Costs associated with Content Delivery and Storage sales include the cost of the computer systems sold, including amortization of software development costs, depreciation, labour, material, overhead and third-party product costs, as well as the salaries, benefits and other costs of the maintenance, service and help desk personnel associated with product installation, support activities and sales commissions. Costs associated with Telematics sales consist of hardware amortization, inventory management costs, order fulfillment, wireless fees, server hosting services, mapping licenses and sales commissions.

### Gross Profit and Gross Margin

| | Three months ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| **Segment** | **2020** | 2019 | **2020** | 2019 |
| Video and Broadband Solutions | **$ 7,142** | $ 4,849 | **$ 13,030** | $ 8,375 |
| Content Delivery and Storage | **7,083** | 10,299 | **13,337** | 16,269 |
| Telematics | **954** | 860 | **1,821** | 1,838 |
| **Total gross profit** | **$ 15,179** | $ 16,008 | **$ 28,188** | $ 26,482 |
| Video and Broadband Solutions | **43.2%** | 57.9% | **43.3%** | 52.9% |
| Content Delivery and Storage | **56.8%** | 66.9% | **52.4%** | 61.0% |
| Telematics | **69.5%** | 63.2% | **67.5%** | 67.5% |
| **Total gross margin** | **50.0%** | 63.7% | **48.4%** | 58.5% |

*Three-Month Results*

For the three months ended December 31, 2020, we achieved a gross margin of 50%, providing a total gross profit of $15.2 million. This compares to a gross margin of 64% (total gross profit of $16.0 million) in the same period last year, and 47% (total gross profit of $13.0 million) in Q1 fiscal 2021.

Gross margin from the Video and Broadband Solutions segment was 43% (gross profit of $7.1 million) in the second quarter of fiscal 2021, as compared to 58% (gross profit of $4.8 million) in Q2 fiscal 2020 and 44% (gross profit of $5.9 million) in Q1 fiscal 2021. The change in gross margin reflects a change in product mix, including a lower percentage of high-margin software sales in the current period.

In the Content Delivery and Storage segment second quarter gross margin was 57% (gross profit of $7.1 million), as compared to 67% (gross profit of $10.3 million) in Q2 fiscal 2020 and 48% (gross profit of $6.3 million) in Q1 fiscal 2021. The year-over-year decrease in gross margin reflects a lower percentage of high-margin software sales in the current period.

Gross margin from the Telematics segment increased to 70% (gross profit of $1.0 million) in the second quarter of fiscal 2021, from 63% (gross profit of $0.9 million) in Q2 fiscal 2020 and 65% (gross profit of $0.9 million) in Q1 fiscal 2021. The year-over-year improvement is mainly the result of lower product costs in the current quarter.

*Six-Month Results*

For the six months ended December 31, 2020, we generated a gross margin of 48%, as compared to 59% in the same period last year. The year-over-year change primarily reflects different product mixes in the two periods. Total gross profit increased 6% to $28.2 million in the first half of fiscal 2021 from $26.5 million in the same period last year, reflecting higher sales, slightly offset by a decrease in higher-margin software and service sales in the current period.

First half gross margin from the Video and Broadband Solutions segment was 43% (gross profit of $13.0 million), as compared to 53% (gross profit of $8.4 million) during the same period in fiscal 2020. The higher gross profit dollars reflect increased sales, while the lower gross margin reflects the decrease in software sales year-over-year and increased sales of next generation products at a lower margin.

The Content Delivery and Storage segment generated a gross margin of 52% (gross profit of $13.3 million) in the first half of fiscal 2021, as compared to 61% (gross profit of $16.3 million) last year. The decrease in gross margin primarily reflects a shift in customer and product mix.

The Telematics segment generated gross margin of 67% (gross profit of $1.8 million) in the six months ended December 31, 2020, similar to the 67% (gross profit of $1.8 million) achieved during the same period in fiscal 2020. Results from the segment were in line with our expectations.

**Operating Expenses**

| Segment | Three months ended December 31, 2020 | Three months ended December 31, 2019 | Six months ended December 31, 2020 | Six months ended December 31, 2019 |
|---|---|---|---|---|
| Video and Broadband Solutions | **$ 9,505** | $ 4,636 | **$ 16,953** | $ 10,274 |
| Content Delivery and Storage | **6,453** | 6,479 | **12,936** | 12,932 |
| Telematics | **686** | 860 | **1,335** | 1,571 |
| **Total operating expense** | **$ 16,644** | $ 11,975 | **$ 31,224** | $ 24,777 |

*Three-Month Results*

For the three months ended December 31, 2020, total operating expenses increased to $16.6 million, from $12.0 million in the same period last year. The increase primarily reflects higher operating expenses in the Video and Broadband Solutions segment.

Video and Broadband Solutions operating expenses increased to $9.5 million, from $4.6 million in Q2 fiscal 2020. The $4.9 million increase primarily reflects the addition of operating expenses related to the newly acquired Nokia DOCSIS DAA and EPON/DPoE cable access technology portfolio, lower deferred development costs as a percentage of total expenditures and the higher share-based compensation expense as a result of the first tranche of performance share units vesting in the period.

Content Delivery and Storage operating expenses were steady at $6.5 million in Q2 fiscal 2021, as compared to $6.5 million in both Q2 fiscal 2020 and Q1 fiscal 2021

Telematics operating expenses of $0.7 million were lower than the $0.9 million recorded in Q2 fiscal 2020 as a result of higher deferred development costs in the current quarter. On a sequential quarterly basis, Telematics operating expenses were $0.1 million higher than the $0.6 million recorded in Q1 fiscal 2021 reflecting higher sales and marketing expenses.

*Research and development expenses* for Q2 fiscal 2021, increased to $7.2 million, or 24% of sales, from $4.5 million, or 18% of sales in the same period of fiscal 2020. This increase primarily reflects the addition of product lines acquired from Nokia and lower deferred development expense as a percentage of total expenditure. Our investment in research and development supports the launch of new products. Until these products are in commercial production, the development costs are deferred to future periods. Total research and development costs before deferrals, amortization of deferred development costs and income tax credits for Q2 fiscal 2021 increased to $9.1 million, or 30% of sales, from $6.2 million, or 25% of sales in Q2 fiscal 2020. The increase reflects higher staffing costs related to the acquisition, as well as increased subcontracting costs and software licensing costs in the current year quarter as our next generation product families move closer to commercial deployment.

*Sales and marketing expenses* were $3.6 million, or 12% of sales in Q2 fiscal 2021, as compared to $3.4 million, or 14% of sales in the same period last year. The increase in sales and marketing expense primarily reflects higher staffing costs related to the addition of the product portfolio acquired from Nokia, partially offset by lower travel, entertainment and trade show expenses year-over-year as a result of COVID-19 travel and business restrictions.

*General and administrative expenses* increased to $4.6 million from $4.1 million in Q2 fiscal 2020. The year-over-year increase primarily reflects additional costs associated with the newly acquired operations.

*Stock-based compensation expense* increased to $1.2 million in Q2 fiscal 2021, from $0.02 million in Q2 fiscal 2020. This increase is a result of the first tranche of performance-based units vesting in the current quarter.

*Other (income) expense* was $0.003 million in Q2 fiscal 2021, a decrease from other income of $0.1 million in Q2 fiscal 2020 due to a lower year-over-year gain on sales of property, plant and equipment.

*Six-Month Results*

For the six months ended December 31, 2020, total operating expenses increased to $31.2 million, from $24.8 million in fiscal 2020. This increase primarily reflects higher operating expenses in the Video and Broadband Solutions segment, partially offset by lower operating expenses in the Telematics segment.

Video and Broadband Solutions operating expenses for the six months ended December 31, 2020 increased to $17.0 million, from $10.3 million in the same period of fiscal 2020. The $6.7 million increase primarily reflects the addition of operating expenses related to the newly acquired Nokia DOCSIS DAA and EPON/DPoE cable access technology portfolios and the increase in share-based compensation resulting from the vesting of the first tranche of the performance-based units.

Content Delivery and Storage operating expenses of $12.9 million for the six months ended December 31, 2020 were in line with the $12.9 million recorded in the first half of fiscal 2020.

Telematics operating expenses decreased to $1.3 million in the first half of fiscal 2021, from $1.6 million last year. This $0.3 million decrease primarily reflects lower research and development expenses due to increased deferrals year-over-year.

*Research and development expenses* for the six months ended December 31, 2020 increased to $13.5 million, or 23% of sales, from $9.6 million, or 22% of sales in the first half of fiscal 2020. This mainly reflects the increased costs of research and development in our newly acquired Nokia portfolio acquisition. Our investment in research and development supports the launch of new products. Until these products are in commercial production, the development costs are deferred to future periods. Total research and development costs before deferrals, amortization of deferred development costs and income tax credits for the six months ended December 31, 2020 increased to $17.2 million, or 30% of sales, from $12.2 million, or 27% of sales for the same period in the prior year. This increase reflects higher staffing costs due to the acquisition, subcontracting costs and software licensing costs as our next generation product families move closer to commercial deployment.

*Sales and marketing expenses* decreased to $6.9 million, or 12% of sales in the first half of fiscal 2021, from $7.2 million, or 16% of sales last year. The decrease in sales and marketing expense primarily reflects lower travel, entertainment and trade show expenses year-over-year, partially offset by higher staffing costs from the Nokia portfolio acquisition.

*General and administrative expenses* increased to $9.4 million in the first six months of fiscal 2021, from $8.1 million in the same period of fiscal 2020. The year-over-year increase primarily reflects the one-time acquisition costs from the Nokia portfolio acquisition and additional costs associated with the newly acquired operations.

*Stock-based compensation expense* was $1.4 million in the first six months of fiscal 2021 compared to $0.03 million for the same period in fiscal 2020.

*Other (income) expense* decreased to $nil for the six months ended December 31, 2020, from $0.2 million in the prior-year period. The sale of intellectual property in the prior year period was the main driver for this decrease.

## Operating (Loss) Income

| | Three months ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| **Segment Operating (Loss) Income** | **2020** | 2019 | **2020** | 2019 |
| Video and Broadband Solutions | **$ (2,363)** | $ 213 | **$ (3,923)** | $ (1,899) |
| Content Delivery and Storage | **630** | 3,820 | **401** | 3,337 |
| Telematics | **268** | - | **486** | 267 |
| **Total operating (loss) income** | **$ (1,465)** | $ 4,033 | **$ (3,036)** | $ 1,705 |

*Three-Month Results*

We recorded an operating loss of $1.5 million in Q2 fiscal 2021, as compared to operating income of $4.0 million in Q2 fiscal 2020. The $5.5 million decrease in operating income was mainly driven by the $2.6 million decrease in contribution from the Video and Broadband Solutions segment and $3.2 million decrease in contribution from the Content Delivery and Storage segment partially offset by a $0.3 million increase in contribution from the Telematics segment year-over-year.

The Video and Broadband Solutions segment reported a second quarter operating loss of $2.4 million, as compared to operating income of $0.2 million in Q2 fiscal 2020. This reflects the $4.9 million increase in operating expenses partially offset by the $2.3 million increase in gross profit.

Content Delivery and Storage operating income was $0.6 million in the second quarter of fiscal 2021 as compared to operating income of $3.8 million in the same period of fiscal 2020. The year-over-year decrease primarily reflects the $3.2 million decrease in gross profit.

Telematics operating income increased to $0.3 million in Q2 fiscal 2021, from $nil in Q2 fiscal 2020. This reflects a $0.1 million increase in gross profits and a $0.2 million increase in operating expenses year-over-year.

*Finance income* decreased to $nil in Q2 fiscal 2021, from $0.55 million in the same period last year representing decreased income from short-term investments.

*Foreign exchange loss* for the second quarter was a loss of $1.2 million, as compared to a loss of $0.5 million in the prior-year period.

*Income tax expense* was $0.4 million in Q2 fiscal 2021 as compared to $0.5 million in Q2 fiscal 2020.

*Net (loss) income* for Q2 fiscal 2021 decreased to a $3.1 million net loss or $(0.14) per share, from net income of $3.6 million or $0.16 per share in Q2 fiscal 2020.

*Other comprehensive loss* was $1.5 million in Q2 fiscal 2021 as compared to other comprehensive loss of $0.4 million in the same period in fiscal 2020. The year-over-year change reflects foreign exchange differences on the translation of the foreign operations of our Content Delivery and Storage segment to Canadian dollars.

*Comprehensive (loss) income* for Q2 fiscal 2021 decreased to a comprehensive loss of $4.7 million, from comprehensive income of $3.1 million in Q2 fiscal 2020. The decrease year-over-year is a result of the changes described above.

*Six-Month Results*

For the six months ended December 31, 2020, we generated an operating loss of $3.0 million, as compared to operating income of $1.7 million in the same period in fiscal 2020. The year-over-year change mainly reflects decreased contribution from the Content Delivery and Storage segment and the Video and Broadband Solutions segment, partially offset by increased operating income from the Telematics segment.

Video and Broadband Solutions reported a first half operating loss of $3.9 million in the current year, as compared to an operating loss of $1.9 million in fiscal 2020. The year-over-year change reflects the $6.7 million increase in operating expenses, partially offset by the $4.7 million increase in gross profit.

Content Delivery and Storage reported a first half operating income of $0.4 million in the current year, as compared to operating income of $3.3 million in the first half of fiscal 2020. The segment was impacted by the $2.9 million year-over-year decrease in gross profit.

Telematics operating income increased to $0.5 million in the six months ended December 31, 2020, from $0.3 million in the prior-year period. The $0.2 million year-over-year improvement reflects a $0.2 million decrease in operating expenses.

*Finance income* decreased to $0.2 million in the first half of fiscal 2021, from $0.8 million in the previous year reflecting a decrease in short-term investment income year-over-year.

*Foreign exchange loss* for the six months ended December 31, 2020 was a loss of $1.4 million, compared to a loss of $0.2 million in fiscal 2020.

*Income tax (recovery) expense* was a $0.4 million income tax recovery for the six months ended December 31, 2020 compared to $0.1 million income tax expense in the same period of fiscal 2020.

*Net (loss) income* for the six months ended December 31, 2020 decreased to a $4.0 million net loss or $(0.18) per share from net income of $2.2 million or $0.10 per share in the prior-year period.

*Other comprehensive loss* was $2.2 million in the six months ended December 31, 2020, as compared to other comprehensive loss of $0.2 million in fiscal 2020. The year-over-year change reflects foreign exchange differences on the translation of the foreign operations of our Content Delivery and Storage segment to Canadian dollars.

*Comprehensive (loss) income* for the six months ended December 31, 2020 decreased to a comprehensive loss of $6.1 million, from comprehensive income of $2.0 million in the same period of fiscal 2020.

### Operating Activities

For the three months ended December 31, 2020, cash flow used in operating activities decreased to $0.5 million, from cash provided of $4.3 million for the three months ended December 31, 2019. The $4.8 million decrease reflects a $0.4 million increase in cash flow from non-cash working capital, and a $5.2 million decrease in operating cash flow.

For the six months ended December 31, 2020, cash flow from operating activities decreased to $2.9 million, from $4.7 million for the six months ended December 31, 2019. The decrease primarily reflects the $2.9 million increase in cash flow from non-cash working capital and the $4.7 million decrease in operating cash flow.

### Investing Activities

For the three months ended December 31, 2020, cash flow provided by investing activities decreased to $2.4 million from $2.9 million in the same period last year. This decrease reflects the net sale of short-term investments of $7.0 million (Q2 fiscal 2020 - $6.1 million), deferred development expenditures of $3.8 million (Q2 fiscal 2020 - $2.8 million), and the purchase of property, plant and equipment of $0.8 million (Q2 fiscal 2020 - $0.7 million).

For the six months ended December 31, 2020, cash flow used in investing activities decreased to $7.7 million from cash provided of $1.0 million in fiscal 2020. The cash used in investing activities represents the purchase of the DOCSIS DAA and EPON/DPoE cable access technology portfolios from Nokia Corporation for $6.4 million, the net sale of short-term investments of $7.3 million (fiscal 2020 - $7.3 million), deferred development expenditures of $7.3 million (fiscal 2020 - $5.4 million), proceeds from the sale of intangibles of $nil (fiscal 2020 - $nil), and the purchase of property, plant and equipment of $1.2 million (fiscal 2020 - $1.1 million).

### Financing Activities

In the three months ended December 31, 2020, we repaid $0.06 million of our long-term debt (Q2 fiscal 2020 - $0.06 million repaid). We received proceeds from exercised options of $1.9 million (Q2 fiscal 2020 - $0.6 million) and proceeds from government grants of $nil (Q2 fiscal 2020 - $0.06 million) and we repaid lease liabilities of $0.5 million (Q2 fiscal 2020 - $0.3 million).

In the six months ended December 31, 2020, we repaid $0.1 million of our long-term debt (fiscal 2020 - $0.1 million repaid). We received proceeds from exercised options of $2.2 million (fiscal 2020 - $0.6 million) and proceeds from government grants of $nil (fiscal 2020 - $0.1 million) and we repaid lease liabilities of $0.9 million (Q2 fiscal 2020 - $0.6 million).

## 9. Liquidity and Capital Resources

We manage our liquidity and capital resources to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. We believe that our current cash and short-term investments of $20.8 million together with anticipated cash flow from operations will be sufficient to meet our working capital requirements and capital expenditure requirements for the foreseeable future.

As at December 31, 2020, we had access to our full revolving loan facility of $14.0 million ($14.0 million at June 30, 2020), of which $nil was drawn as an operating line of credit (June 30, 2020 - $nil was drawn). We had term credit of $1.6 million as at December 31, 2020 (June 30, 2020 - $1.7 million).

Capital expenditures for Q2 fiscal 2021 were $0.8 million, compared to $0.7 million in Q2 fiscal 2020.

### Working Capital

Working capital represents current assets less current liabilities. Our working capital decreased to $46.2 million at December 31, 2020, from $55.3 million at June 30, 2020. We note that working capital balances can also be subject to significant swings from quarter to quarter. Our product shipments are "lumpy", reflecting the requirements of our major customers. It is not unusual to ship $5 to $6 million of product in a one-week period. If this level of sales occurs in the first week of a succeeding quarter, we would expect to experience an increase in inventory levels and a drop in receivables in the prior quarter. Other timing issues, like contracts with greater than 30 day payment terms, also affect working capital, particularly if shipments are backend weighted for a quarter.

*Accounts receivable* balance increased to $27.1 million at December 31, 2020, from $24.9 million at June 30, 2020. This increase reflects the higher sales in Q2 fiscal 2021 compared to Q1 fiscal 2021 and the timing of sales in Q2 fiscal 2021 as compared to Q1 fiscal 2021.

*Income tax receivable* balance was flat at $0.4 million at December 31, 2020 ($0.3 million as at June 30, 2020). This represents income tax receivable in the Content Delivery and Storage segment.

*Inventories* increased by $2.8 million to $20.0 million at December 31, 2020, from $17.2 million as at June 30, 2020. The increase represents the ramp up of inventory related to our new product inventory. Finished goods inventories were $11.9 million at December 31, 2020, compared to $6.4 million at June 30, 2020. Raw material inventory decreased to $5.5 million at December 31, 2020 from $7.0 million at June 30, 2020. Work-in-process inventories decreased to $2.6 million as at December 31, 2020, from $3.8 million at June 30, 2020. We manufacture and assemble products, with the result that inventory levels will be substantially higher than for other companies in the industry that outsource manufacturing and assembly.

*Investment tax credits* were $25.4 million at December 31, 2020 up slightly from $24.4 million at June 30, 2020. For every dollar we spend on eligible research and development in Canada, we generate approximately 15 cents in income tax credits. These credits are used to offset our income tax payable.

*Accounts payable and accrued liabilities* decreased to $16.8 million at December 31, 2020 from $17.1 million at June 30, 2020.

*Long-term debt*, including the current portion, was $5.7 million at December 31, 2020 as compared to $6.3 million at June 30, 2020. The decrease represents principal payments made year-to-date.

**Dividends**

| Declaration Date | Dividend Amount (per share) | Record Date | Payable Date |
|---|---|---|---|
| May 12, 2020 | $0.055 | May 22, 2020 | June 15, 2020 |
| September 20, 2020 | $0.055 | October 9, 2020 | November 2, 2020 |
| November 10, 2020 | $0.055 | November 27, 2020 | December 21, 2020 |
| February 9, 2021 | $0.055 | February 26, 2021 | March 29, 2021 |

**Contractual Obligations**

Lease liabilities recorded on our consolidated statements of financial position, as at December 31, 2020 were $4.1 million. Our lease liabilities do not include short-term leases and low-value asset leases, as permitted under IFRS 16, and are of nominal value.

As at December 31, 2020, our undiscounted future cash payments in respect of our lease liabilities are as follows: due within one year is $1.7 million; due between two to five years is $3.1 million; and thereafter is $nil.

The acquisition of the Nokia portfolio includes the assumption of the financial liability with a third party supplier contract. As at December 31, 2020, the total contractual obligation is estimated to be $6.4 million.

**Contingencies**

In March 2017, we received a re-assessment from the CRA regarding the eligibility of certain Scientific Research and Experimental Development ("SR&ED") claims on our 2015 tax return. The CRA re-assessment would result in a reduction of SR&ED expenditures claimed of $1.3 million. We and our advisors have reviewed the applicable tax law and believe our original treatment of these SR&ED claims was appropriate. We filed a Notice of Objection in regards to this matter in June 2017. We received a Notice of Confirmation in February 2020 that our Notice of Objection was denied. We have recorded the adjustment in our fiscal Q3 and Q4 2020 financial statements. The impact of this adjustment was a $1.3 million increase in deferred development amortization expense. We have filed a Notice of Appeal in April 2020 to defend our original tax treatment of these SR&ED claims.

**Foreign Exchange**

Approximately 96% of our revenues are denominated in U.S. dollars. We translate U.S. dollar sales to Canadian dollars on the date of delivery and subsequently when the accounts receivable is collected. If the U.S. dollar appreciates relative to the Canadian dollar after we collect the accounts receivable in U.S. dollars, we will receive more Canadian dollars when the U.S. dollars are converted to Canadian dollars in subsequent months. We also enjoy a natural hedge since the majority of our materials and components purchased are in U.S. dollars.

As at December 31, 2020, the exchange rate on the Canadian dollar relative to the U.S. dollar strengthened to $1.275 from $1.366 as at June 30, 2020. This $0.091 exchange difference decreased the value of our $48.0 million U.S. dollar net assets by approximately $4.4 million Canadian.

### Financial Instruments

We periodically enter into forward contracts to partially manage our exposure to currency fluctuations between Canadian and U.S. dollars. Forward contracts are entered into based on our projected requirements for converting U.S. to Canadian dollars. We do not recognize these contracts in the consolidated financial statements when they are entered into, nor do we account for them as hedges. Instead, the contracts are marked to fair value at each balance sheet date. Changes to fair value are recorded in income. The fair value of these contracts is included in accounts receivable when in an asset position or accounts payable when in a liability position.

As at December 31, 2020, we did not have any forward contracts (June 30, 2020 - $0.1 million).

## 10. Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial performance or financial condition.

## 11. Transactions Between Related Parties

We did not have any transactions between related parties for the quarter ended December 31, 2020.

## 12. Proposed Transactions

There are no proposed asset or business acquisitions or dispositions that our Board of Directors have decided to proceed with or for which our senior management believes confirmation by the Board of Directors is probable.

## 13. Critical Accounting Estimates

The preparation of our interim condensed consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 14. Accounting Pronouncements and Standards

### Adoption of New Accounting Standards in 2021

The Company adopted the following accounting standards and amendments that were effective for the interim and annual consolidated financial statements commencing July 1, 2020.

### IAS 1 - Presentation of Financial Statements; and IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors

On October 31, 2018, IAS 1 and IAS 8 were amended to clarify the definition of “material” and how it should be applied. The amendments also improve the explanation of the definition and ensure consistency across all IFRS standards. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

### IFRS 3 - Business Combinations

In October 2018, the IASB issued an amendment to IFRS 3. The amendment clarifies the definition of a business and assists entities to determine whether an acquisition is a business combination or an acquisition of a group of assets. The amendment emphasizes that the output of a business is to provide goods and services to customers and also to provide supplementary guidance. The amendment to IFRS 3 may effect whether acquisitions are accounted for as a business combination or asset acquisition, along with the resulting allocation of the purchase price between the identifiable assets acquired and goodwill.

### Amendment to IFRS 16 - Leases

On May 28, 2020, the IASB published *Covid-19-Related Rent Concessions (Amendments to IFRS 16)*, amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

**IFRS 9 - Financial Instruments; IAS 39 - Financial Instruments: Recognition and Measurement; and IFRS 7 - Financial Instruments: Disclosures**

Amendments to these accounting standards provides temporary, but mandatory, relief from specific hedge accounting requirements to address potential effects of the uncertainty in the lead up to interbank offer rates reform (IBOR reform).

***Standards and Amendments to Standards Issued but not yet Effective***

**IAS 37 – Provisions**

On May 14, 2020 the IASB issued *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*, amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. These amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early application permitted. We are currently reviewing the standard to determine the potential impact on our consolidated financial statements.

## 15. Disclosure Controls and Procedures

Disclosure controls and procedures were designed to provide reasonable assurance that material information relating to Vecima is made known by us to others, particularly during the period in which annual filings are being prepared, and information required to be disclosed by us in our annual filings, interim filings or other reports filed or submitted by us under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have evaluated the effectiveness of our disclosure controls and procedures as defined under rules adopted by the Canadian securities regulatory authorities. Based on that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as at December 31, 2019.

## 16. Internal Control over Financial Reporting

Internal controls over financial reporting ("ICFR") were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with IFRS. There are inherent limitations to the effectiveness of any system of internal controls, including the possibility of human error and the circumvention or overriding of internal controls. Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Accordingly, even if internal controls are effective, they can only provide reasonable assurance of achieving their controls.

Our CEO and CFO have evaluated the effectiveness of the internal control over financial reporting as at December 31, 2020 in accordance with Internal Control - Integrated Framework (2013), published by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, our CEO and CFO have determined that the internal control over financial reporting is effective as at December 31, 2020. There has been no change in the internal controls over financial reporting that occurred during the period beginning on July 1, 2020 and ended on December 31, 2020 that has materially affected, or is reasonably likely to materially affect our internal controls on financial reporting

Our CEO and CFO have limited the scope of their design of disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of the business we acquired from Nokia, which we acquired on August 7, 2020. We have accordingly availed ourselves of provision 3.3(1)(b) of National Instrument 52-109, which permits exclusion of this acquisition in the design and operating effectiveness assessment of our ICFR for a maximum period of 365 days from the end of the financial period in which the acquisition occurred.

The following summary of financial information pertains to the cable access technology portfolios we acquired from Nokia Corporation that was included in our unaudited interim condensed consolidated financial statements for the period ended December 31, 2020:

| | |
|---|---|
| Sales | $ 4,442 |
| Net loss | $ (2,243) |
| Current assets | $ 7,243 |
| Non-current assets | $ 5,857 |
| Current liabilities | $ 4,829 |
| Non-current liabilities | $ 417 |

## 17. Business Combination

On August 7, 2020, we completed the purchase of the DOCSIS DAA and EPON/DPoE cable access technology portfolios from Nokia Corporation for USD $4.8 million. The purchase price included inventory, property, plant and equipment, intangible assets and goodwill.

We determined and allocated the purchase price on acquisition to the tangible and intangible assets acquired and liabilities assumed as of the business combination date in accordance with IFRS-3 Business Combinations. The purchase price allocation process requires that we use significant estimates and assumptions, including fair value estimates, as of the acquisition date.

Goodwill recorded in connection with the acquisition is primarily attributable to: the expected future earnings potential as a result of expected synergies arising from the consolidation of these assets and our existing business; expected growth in the underlying markets which the new business serves; and the strength of the assembled workforce.

## 18. Legal Proceedings

From time to time, we may be involved in certain claims and litigation arising out of the ordinary course and conduct of business. Management assesses such claims and, if considered likely to result in a loss and, when the amount of the loss is quantifiable, a provision for the loss is made, based on management's assessment of the most likely outcome. We do not provide for claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable.

If it becomes probable that we will be held liable for claims against our Company, we will recognize a provision during the period in which the change in probability occurs, which could be material to our consolidated statements of comprehensive income or consolidated statements of financial position.

## 19. Risks and Uncertainties and COVID-19

Our financial performance, share price, business prospects and financial condition are subject to numerous risks and uncertainties, and are affected by various factors outside the control of management. Prior to making any investment decision regarding Vecima, investors should carefully consider, among other things, the risks described herein (including the factors outlined under the heading “Forward-Looking Information” below) and the risk factors set forth in our Annual Information Form for our most recently completed fiscal year, which are incorporated by reference herein. These risks and uncertainties are not the only ones that we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business. If any of these risks occurs, our financial performance, share price, business prospects and financial condition could be materially adversely affected.

Vecima was founded by Dr. Surinder Kumar in 1988. Voting control of Vecima is held by Dr. Kumar through either direct or indirect ownership of the Company's common shares. As at December 31, 2020, Dr. Kumar collectively owned approximately 60.2% of our common shares outstanding. Each common share carries the right to one vote. We have no other classes of voting securities.

**COVID-19**

We have been closely monitoring the impact of COVID-19. At this time, our industry is recognized as an essential service in the areas where we operate. We have taken steps to allow most of our workforce to work remotely. We have also implemented all of the social distancing and increased facility sanitization guidelines and suspended all travel. In addition, we have increased production where possible to get ahead of any staffing challenges we might encounter.

It is too soon to gauge the impacts of the current outbreak, given the many unknowns related to COVID-19. These include the duration and severity of the outbreak. COVID-19 is altering business and consumer activity in affected areas and beyond. The global response to the COVID-19 outbreak has resulted in, among other things, border closures, severe travel restrictions, the temporary shut-down of non-essential services and extreme fluctuations in financial and commodity markets. Additional measures may be implemented by one or more governments in jurisdictions where we operate. Labour shortages due to illness, Company or government imposed isolation programs, or restrictions on the movement of personnel or possible supply chain disruptions could result in a reduction or cessation of all or a portion of our operations. The extent to which COVID-19 and any other pandemic or public health crisis impacts our business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of the COVID-19 virus and the actions required to contain the COVID-19 virus or remedy its impact, among others.

The actual and threatened spread of COVID-19 globally could also have a material adverse effect on the economies in which we operate and could continue to negatively impact stock markets, including the trading price of our shares. Potential impacts include, but are not limited to, an impairment of long-lived assets, an impairment of short-term investments and a change in the estimated credit loss on accounts receivable.

Any of these developments, and others, could have a material adverse effect on our business, financial condition, operations and results of operations. In addition, because of the severity and global nature of the COVID-19 pandemic, it is possible that estimates in our financial statements will change in the near term and the effect of any such changes could be material, which could result in, among other things, an impairment of long-lived assets, impairments of short-term investments and a change in the estimated credit losses on accounts receivable.

Our financial priorities remain unchanged. Importantly we continue to have a very strong balance sheet. We are continuing with the payment of our quarterly dividend.

## 20. Outstanding Share Data

As at February 7, 2021, we had 22,864,367 common shares outstanding as well as stock options outstanding that are exercisable for an additional 132,875 common shares, and performance share units outstanding that are exercisable for an additional 377,328 common shares.

On January 2, 2020, we filed a Notice of Intention with the Toronto Stock Exchange to acquire for cancellation, by way of normal course issuer bid, up to 600,000 common shares of the Company. We acquired nil common shares of Vecima for cancellation in fiscal 2021 and 13,380 common shares in fiscal 2020. The normal course issuer bid commenced on January 6, 2020 and expired on January 5, 2021.

On October 20, 2020, 136,575 of the performance share units (PSUs) vested. The estimated value of the vested PSUs was $1.7 million.

## 21. Additional Information

### Financial Governance

Our management is responsible for the preparation and presentation of the consolidated financial statements and notes thereto and the MD&A. Additionally, it is management's responsibility to ensure that we comply with the laws and regulations applicable to our activities.

Our management is accountable to the Board, each member of which is elected annually by the shareholders of the Company. The Board is responsible for reviewing and approving the consolidated financial statements and the MD&A, after receiving the recommendation of the Audit Committee, which is composed of three directors, all of whom are independent.

External auditors are appointed annually by the shareholders to conduct an audit of the annual consolidated financial statements in accordance with generally accepted auditing standards. The external auditors have complete access to the Audit Committee to discuss audit, financial reporting and related matters resulting from the annual audit, as well as to assist the members of the Audit Committee in discharging their responsibilities.

### Forward-Looking Information

This MD&A contains "forward-looking information" within the meaning of applicable securities laws. Forward-looking information is generally identifiable by use of the words "believes", "may", "plans", "will", "anticipates", "intends", "could", "estimates", "expects", "forecasts", "projects" and similar expressions, and the negative of such expressions.

Forward-looking information in this MD&A includes but is not limited to statements that: we anticipate healthy continued demand for the ordering activity for TerraceQAM platform through the through the balance of fiscal 2021 as operators continue their commercial rollout for the current generation, while preparing for the next-generation TerraceIQ platform; and we believe that our current cash and short-term investments of $20.8 million together with anticipated cash flow from operations will be sufficient to meet our working capital requirements and capital expenditure requirements for the foreseeable future. Forward-looking information also includes our Strategy, our Industry Developments and our COVID-19 Business Update and Outlook in this MD&A.

In connection with the forward-looking information contained in this MD&A, we have made numerous assumptions, regarding, among other things: the strength of our balance sheet; the present or potential value of our core technologies, business operations and asset holdings; our ability to continue our relationships with a few key customers; our ability to deliver products associated with key contracts; our ability to manage our business and growth successfully; our ability to meet customers' requirements for manufacturing capacity; our ability to develop new products and enhance our existing products; our ability to expand current distribution channels and can develop new distribution channels; our ability to recruit and retain management and other qualified personnel crucial to our business; we are not required to change our pricing models to compete successfully; our third party suppliers and contract manufacturers upon which we rely continue to meet our needs; our intellectual property is not infringed upon; we are not subject to warranty or product liability claims that harm our business; our ability to successfully implement acquisitions; our ability to manage risks associated with our international operations; currency fluctuations do not adversely affect us; growth in our key markets continues; our ability to adapt to technological change, new products and standards; we are not subject to increased competition that has an adverse effect on our business; we are not subject to competition from new or existing technologies that adversely affect our business; we are not subject to any material new government regulation of our products; and, no third parties allege that we infringe on their intellectual property. While we consider these assumptions to be reasonable, these assumptions are inherently subject to significant uncertainties and contingencies.

There are known and unknown risk factors which could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information contained in this MD&A. Known risk factors include, among others: our statement of financial position, as well as the value of our core technologies, business operations and asset holdings may be significantly weaker than we currently estimate; our operating results are expected to fluctuate; we derive a substantial part of our revenue from a few key customers; we may be unable to deliver products associated with key contracts; failure to manage our business or growth successfully may adversely affect our operating results; if we cannot meet our customers' requirements for manufacturing capacity, sales may suffer; our success depends on our ability to develop new products and enhance our existing products; we are dependent on the expansion of our current distribution channels and the development of new distribution channels; the budgeting cycles of larger cable operators can also result in quarter-to-quarter variability in customer orders generally large in volume, while availability of parts and production capacity can influence the timing of product deliveries; our ability to recruit and retain management and other qualified personnel is crucial to our business; if we are required to change our pricing models to compete successfully, our margins and operating results may be adversely affected; our reliance on third party suppliers and contract manufacturers reduces our control over our performance; if our intellectual property is not adequately protected, we may lose our competitive advantage; successful warranty or product liability claims could harm our business; acquisitions could divert management's attention and financial resources, may negatively affect our operating results and could cause significant dilution to shareholders; risks associated with our international operations; currency fluctuations may adversely affect us; growth in our key markets may not continue; our inability to adapt to technological change, new products and standards could harm our business; increased competition could have an adverse effect on our business; competition from new or existing technologies may adversely affect our business; government regulation of our products and new government regulation could harm our business; third parties may allege that we infringe on their intellectual property; and epidemics, pandemics or other public health crises, including the current outbreak of COVID-19. A more complete discussion of the risks and uncertainties facing us is disclosed under the heading "Risks and Uncertainties and COVID-19" above and under the heading "Risk Factors" in our Annual Information Form for our most recently completed fiscal year, as well as in our continuous disclosure filings with Canadian securities regulatory authorities available at www.sedar.com. All forward-looking information in this MD&A is qualified in its entirety by this cautionary statement and we disclaim any obligation to revise or update such forward-looking information to reflect future results, events or developments, except as required by law.

# NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim condensed consolidated financial statements of Vecima Networks Inc. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of the interim condensed consolidated financial statements by an entity's auditor.

## VECIMA NETWORKS INC.
## Interim Condensed Consolidated Statements of Financial Position
***(unaudited – in thousands of Canadian dollars)***

| As at | Note | **December 31, 2020** | June 30, 2020 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **$ 10,869** | $ 17,350 |
| Short-term investments | 16 | **9,885** | 17,165 |
| Accounts receivable | 4 | **27,148** | 24,908 |
| Income tax receivable | | **364** | 333 |
| Inventories | 5 | **20,014** | 17,212 |
| Prepaid expenses | | **2,090** | 2,051 |
| Contract assets | | **730** | 646 |
| **Total current assets** | | **71,100** | 79,665 |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | **14,402** | 11,801 |
| Right-of-use assets | | **3,613** | 4,010 |
| Goodwill | | **15,158** | 15,487 |
| Intangible assets | 7 | **69,855** | 69,200 |
| Other long-term assets | | **1,551** | 1,301 |
| Investment tax credits | | **25,385** | 24,374 |
| Deferred tax assets | | **4,881** | 4,460 |
| **Total assets** | | **$ 205,945** | $ 210,298 |
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | **$ 16,756** | $ 17,105 |
| Provisions | 8 | **1,295** | 492 |
| Income tax payable | | **574** | 130 |
| Deferred revenue | | **4,598** | 4,960 |
| Current portion of long-term debt | 9 | **1,629** | 1,698 |
| **Total current liabilities** | | **24,852** | 24,385 |
| **Non-current liabilities** | | | |
| Provisions | 8 | **414** | 400 |
| Deferred revenue | | **2,485** | 602 |
| Deferred tax liability | | **7** | 536 |
| Long-term debt | 9 | **4,099** | 4,613 |
| **Total liabilities** | | **31,857** | 30,536 |
| **Shareholders' equity** | | | |
| Share capital | 10 | **7,925** | 3,161 |
| Reserves | | **2,006** | 3,838 |
| Retained earnings | | **164,209** | 170,665 |
| Accumulated other comprehensive (loss) income | | **(52)** | 2,098 |
| **Total shareholders' equity** | | **174,088** | 179,762 |
| **Total liabilities and shareholders' equity** | | **$ 205,945** | $ 210,298 |

*Contractual obligation - Note 19; Subsequent event - Note 20*

*The accompanying notes are an integral part of these consolidated financial statements.*

**VECIMA NETWORKS INC.**
## Interim Condensed Consolidated Statements of Comprehensive (Loss) Income
***(unaudited – in thousands of Canadian dollars, except per share amounts)***

| | | Three months | | Six months | |
|---|---|---|---|---|---|
| Periods ended December 31, | Note | **2020** | 2019 | **2020** | 2019 |
| **Sales** | 11, 15 | **$ 30,372** | $ 25,123 | **$ 58,216** | $ 45,235 |
| **Cost of Sales** | | **15,193** | 9,115 | **30,028** | 18,753 |
| **Gross Profit** | | **15,179** | 16,008 | **28,188** | 26,482 |
| **Operating expenses** | | | | | |
| Research and development | | **7,158** | 4,534 | **13,502** | 9,602 |
| Sales and marketing | | **3,646** | 3,427 | **6,855** | 7,173 |
| General and administrative | | **4,627** | 4,142 | **9,418** | 8,123 |
| Share-based compensation | 12 | **1,210** | 17 | **1,449** | 34 |
| Other expense (income) | 13 | **3** | (145) | **-** | (155) |
| **Total operating expenses** | | **16,644** | 11,975 | **31,224** | 24,777 |
| **Operating (loss) income** | | **(1,465)** | 4,033 | **(3,036)** | 1,705 |
| Finance income | | **1** | 554 | **162** | 762 |
| Foreign exchange loss | | **(1,222)** | (477) | **(1,447)** | (179) |
| **(Loss) income before income taxes** | | **(2,686)** | 4,110 | **(4,321)** | 2,288 |
| Income tax expense (recovery) | | **432** | 549 | **(365)** | 111 |
| **Net (loss) income** | | **$ (3,118)** | $ 3,561 | **$ (3,956)** | $ 2,177 |
| **Other comprehensive loss** | | | | | |
| **Item that may be subsequently reclassed to net income** | | | | | |
| Exchange differences on translating foreign operations | | **(1,538)** | (426) | **(2,150)** | (203) |
| **Comprehensive (loss) income** | | **$ (4,656)** | $ 3,135 | **$ (6,106)** | $ 1,974 |
| **Net (loss) income per share** | | | | | |
| Basic | 14 | **$ (0.14)** | $ 0.16 | **$ (0.18)** | $ 0.10 |
| Diluted | 14 | **$ (0.14)** | $ 0.16 | **$ (0.18)** | $ 0.10 |
| **Weighted average number of common shares** | | | | | |
| Shares outstanding - basic | 14 | **22,733,716** | 22,404,999 | **22,607,863** | **22,420,018** |
| Shares outstanding - diluted | 14 | **22,733,716** | 22,444,540 | **22,607,863** | **22,442,995** |

*The accompanying notes are an integral part of these consolidated financial statements.*

## VECIMA NETWORKS INC.
## Interim Condensed Consolidated Statements of Change in Equity
***(unaudited – in thousands of Canadian dollars)***

| | Note | Share capital | Reserves | Retained earnings | Accumulated other comprehensive (loss) income | Total |
|---|---|---|---|---|---|---|
| Balance as at June 30, 2019 | | $ 1,916 | $ 4,104 | $ 173,898 | $ 1,010 | $ 180,928 |
| Net income | | - | - | 2,177 | - | 2,177 |
| Other comprehensive loss | | - | - | - | (203) | (203) |
| Dividends | | - | - | (2,464) | - | (2,464) |
| Shares issued by exercising options | | 758 | (199) | - | - | 559 |
| Share-based payment expense | 12 | - | 34 | - | - | 34 |
| Balance as at December 31, 2019 | | $ 2,674 | $ 3,939 | $ 173,611 | $ 807 | $ 181,031 |
| | | | | | | |
| **Balance as at June 30, 2020** | | **$ 3,161** | **$ 3,838** | **$ 170,665** | **$ 2,098** | **$ 179,762** |
| Net loss | | - | - | (3,956) | - | (3,956) |
| Other comprehensive loss | | - | - | - | (2,150) | (2,150) |
| Dividends | | - | - | (2,500) | - | (2,500) |
| Shares issued by exercising options | | 3,016 | (783) | - | - | 2,233 |
| PSUs settled in common shares | | 1,748 | (2,498) | - | - | (750) |
| Share-based payment expense | 12 | - | 1,449 | - | - | 1,449 |
| **Balance as at December 31, 2020** | | **$ 7,925** | **$ 2,006** | **$ 164,209** | **$ (52)** | **$ 174,088** |

*The accompanying notes are an integral part of these consolidated financial statements.*

## VECIMA NETWORKS INC.
### Interim Condensed Consolidated Statements of Cash Flows
***(unaudited – in thousands of Canadian dollars)***

| | | Three months | | Six months | |
|---|---|---|---|---|---|
| Periods ended December 31, | Note | **2020** | 2019 | **2020** | 2019 |
| **OPERATING ACTIVITIES** | | | | | |
| Net (loss) income | | **$ (3,118)** | $ 3,561 | **$ (3,956)** | $ 2,177 |
| Adjustments for non-cash items: | | | | | |
| Loss (gain) on sale of property, plant and equipment | | **7** | (135) | **9** | (121) |
| Depreciation and amortization | 18 | **3,889** | 2,972 | **7,431** | 6,469 |
| Share-based compensation | | **1,210** | 17 | **1,449** | 34 |
| Income tax expense (recovery) | | **233** | 82 | **(344)** | (26) |
| Deferred income tax expense (recovery) | | **199** | 467 | **(21)** | 137 |
| Interest expense | | **57** | 78 | **116** | 158 |
| Interest income | | **(59)** | (237) | **(147)** | (460) |
| Net change in working capital | 18 | **(2,424)** | (2,845) | **(1,076)** | (4,038) |
| (Increase) decrease in other long-term assets | | **(337)** | 154 | **(294)** | 160 |
| Increase (decrease) in provisions | | **32** | (78) | **43** | (78) |
| Increase in investment tax credits | | **(29)** | (51) | **(70)** | (89) |
| Income tax received | | **174** | 173 | **174** | 173 |
| Income tax paid | | **(370)** | (46) | **(495)** | (68) |
| Interest received | | **60** | 237 | **148** | 460 |
| Interest paid | | **(12)** | (78) | **(22)** | (158) |
| Cash (used in) provided by operating activities | | **(488)** | 4,271 | **2,945** | 4,730 |
| **INVESTING ACTIVITIES** | | | | | |
| Capital expenditures, net | 18 | **(833)** | (481) | **(1,282)** | (925) |
| Purchase of short-term investments | | **(57)** | (578) | **(141)** | (778) |
| Proceeds from sale of short-term investments | | **7,082** | 6,700 | **7,421** | 8,100 |
| Deferred development costs | 7 | **(3,832)** | (2,776) | **(7,280)** | (5,426) |
| Business acquisition | 3 | **-** | - | **(6,401)** | - |
| Cash provided by (used in) investing activities | | **2,360** | 2,865 | **(7,683)** | 971 |
| **FINANCING ACTIVITIES** | | | | | |
| Proceeds from government grants | | **-** | 63 | **-** | 94 |
| Principal repayments of lease liabilities | 9 | **(491)** | (316) | **(866)** | (648) |
| Repayment of long-term debt | 9 | **(62)** | (63) | **(125)** | (146) |
| Dividends paid | | **(2,500)** | (2,464) | **(2,500)** | (2,464) |
| Issuance of shares through exercised options | | **1,940** | 559 | **2,233** | 559 |
| Cash used in financing activities | | **(1,113)** | (2,221) | **(1,258)** | (2,605) |
| Net increase (decrease) in cash and cash equivalents | | **759** | 4,915 | **(5,996)** | 3,096 |
| Effect of change in exchange rates on cash | | **(322)** | 82 | **(485)** | 30 |
| Cash and cash equivalents, beginning of period | | **10,432** | 17,963 | **17,350** | 19,834 |
| **Cash and cash equivalents, end of period** | | **$ 10,869** | $ 22,960 | **$ 10,869** | $ 22,960 |

*The accompanying notes are an integral part of these consolidated financial statements.*

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## 1. NATURE OF THE BUSINESS

Vecima Networks Inc. ("Vecima" or the "Company") is a company continued under the Canadian Business Corporations Act ("CBCA") and commenced operations in 1988. The Company's registered office is located at 771 Vanalman Avenue, Victoria, B.C., V8Z 3B8. The Company's common shares are traded on the Toronto Stock Exchange under the trading symbol "VCM".

The Company's Video and Broadband Solutions business designs, manufactures and sells products for the cable industry that allow service providers a cost-effective "last mile" solution for both video and broadband access, especially in the business services market segment. The Company's Content Delivery and Storage business includes solutions and software for industries and customers that focus on storing, protecting, transforming, and delivering high-value media assets. The Company's Telematics business provides fleet managers key information and analytics they require to optimally manage their business.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *(a) Statement of compliance*

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") under International Accounting Standard 34 – *Interim Financial Reporting* (IAS 34). These interim condensed consolidated financial statements do not include all the information required for a complete set of annual financial statements and should be read in conjunction with the consolidated financials statements of the Company for the year ended June 30, 2020.

### *(b) Basis of presentation*

These interim condensed consolidated financial statements have been prepared using the same basis of presentation, accounting policies and methods of computation as outlined in Note 2, Summary of Significant Accounting Policies in our consolidated financial statements for the year ended June 30, 2020, except as noted below.

The interim condensed consolidated financial statements of the Company were approved by the Board of Directors and authorized for issue on February 9, 2021.

### *(c) Estimation uncertainty*

On March 11, 2020, the World Health Organization recognized the outbreak of COVID-19 as a pandemic and the Company has been closely monitoring related developments and the impact on our business. We continue to serve customers through our available platforms. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impact on the Company's future earnings and cash flows cannot be estimated at this time. Due to the uncertainty surrounding the duration and potential outcomes of the COVID-19 pandemic, and the unpredictable and continuously changing impacts and related government responses, there is more uncertainty associated with our assumptions, expectations, and estimates. The most significantly affected estimates relate to the Company's determination of impairment of non-financial assets, the assessment of the carrying values of allowances for doubtful accounts and inventory obsolescence, and provisions.

### *(d) Adoption of new accounting standards and amendments to accounting standards*

The Company adopted the following accounting standards and amendments that were effective for the interim and annual consolidated financial statements commencing July 1, 2020. These changes did not have a material impact on the Company's consolidated financial statements and are not expected to have a material impact in the future.

IAS 1 – Presentation of financial statements (IAS1); and IAS 8 – Accounting policies, changes in accounting estimates and errors (IAS 8)

On October 31, 2018, IAS 1 and IAS 8 were amended to clarify the definition of "material" and how it should be applied. The amendments also improve the explanation of the definition and ensure consistency across all IFRS standards. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

IFRS 3 – Business combinations (IFRS 3)

In October 2018, the IASB issued an amendment to IFRS 3. The amendment clarifies the definition of a business and assists entities to determine whether an acquisition is a business combination or an acquisition of a group of assets. The amendment emphasizes that the output of a business is to provide goods and services to customers and also to provide supplementary guidance. The amendment to IFRS 3 may effect whether acquisitions are accounted for as a business combination or asset acquisition, along with the resulting allocation of the purchase price between the identifiable assets acquired and goodwill.

Amendment to IFRS 16 – Leases (IFRS 16)

On May 28, 2020, the IASB published *Covid-19-Related Rent Concessions (Amendments to IFRS 16)*, amending the standard to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.

IFRS 9 – Financial instruments (IAS 9), IAS 39 – Financial instruments: recognition and measurement (IAS 39); and IFRS 7 – Financial instruments: disclosures (IFRS 7)

Amendments to these accounting standards provides temporary, but mandatory, relief from specific hedge accounting requirements to address potential effects of the uncertainty in the lead up to interbank offer rates reform (IBOR reform).

### *(e) Accounting standards issued but not yet applied*

Amendments to IAS 37 – Provisions (IAS 37)

On May 14, 2020 the IASB issued *Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)*, amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. These amendments are effective for annual reporting periods beginning on or after January 1, 2022, with early application permitted. We are assessing the impacts, if any, the amendments will have on our consolidated financial statements.

## 3. BUSINESS COMBINATION

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value at the date of acquisition. As part of the Company's process for determining the fair value of the acquisition, third-party valuation specialists are engaged. Acquisition related transaction costs are expensed as incurred, and, depending on the nature of the expense, is recorded in either general and administration expense or sales and marketing expense in the consolidated statements of comprehensive (loss) income.

Identifiable assets and liabilities, including intangible assets, of acquired businesses are recorded at their fair values at the date of acquisition. The excess of the purchase consideration over the fair value of identifiable assets acquired is recorded as goodwill in the consolidated statements of financial position. If the fair value of identifiable net assets acquired exceeds the purchase consideration, the difference is recognized in other expense in the consolidated statements of comprehensive (loss) income as a bargain purchase gain.

On August 7, 2020, the Company completed the purchase of the DOCSIS Distributed Access Architecture and EPON/DPoE cable access technology portfolios (the "Nokia portfolio acquisition" or "portfolio") from Nokia Corporation. The purchase included inventory, property, plant and equipment, and intangible assets.

***(in thousands of Canadian dollars except as otherwise noted)***

The portfolio includes a centrally controlled DAA solution for unified support for Flexible MAC DAA nodes for Hybrid Fiber Coaxial (FHC) networks and DOCSIS Provisioning of EPON (DPoE) nodes for fiber-to-the-home and business. The portfolio also includes a DAA video engine and a chassis based EPON/DPoE solution for non-HFC network implementations. The Nokia employees that supported these products have transitioned to the Company, but remain located in Raleigh, North Carolina; Sunnyvale, California; Qingdao, China; and Shanghai, China.

The acquisition, valued at $6,401 (US$4,805), including any post-closing net working capital adjustments, was financed through the Company's cash and short-term investment reserves.

The following table summarizes the fair value allocations of assets acquired and liabilities assumed as part of the Nokia portfolio acquisition:

| | | **Amount** |
|---|---|---|
| **Consideration paid:** | | |
| Purchase price | $ | 6,401 |
| **Net assets acquired:** | | |
| Inventory | $ | 3,462 |
| Property, plant and equipment | | 2,980 |
| Intangible assets | | 799 |
| Goodwill | | 278 |
| Accounts payable and accrued liabilities | | (246) |
| Deferred revenue | | (78) |
| Provisions | | (794) |
| | $ | 6,401 |

Uncollectible amounts of acquired accounts receivable is estimated to be immaterial.

The goodwill recognized is attributable to intangible assets that do not qualify for separate recognition and includes, amongst other things: expected synergies arising from the combination of the Nokia portfolio acquisition and the Company's existing business; expected growth in the underlying markets in which the portfolio serves; and the strength of the assembled workforce. The goodwill arising from the acquisition is not deductible for tax purposes.

Transaction costs related to the Nokia portfolio acquisition was $420, and are included in operating costs in the consolidated statements of comprehensive (loss) income.

Sales and net loss attributable to the Nokia portfolio acquisition for the three and six months ended December 31, 2020 are $3,409 and $(1,456), respectively and $4,442 and $(2,243), respectively.

## 4. ACCOUNTS RECEIVABLE

| As at | | **December 31, 2020** | | June 30, 2020 |
|---|---|---|---|---|
| Trade receivables | **$** | **26,391** | $ | 23,840 |
| Less: allowance for doubtful accounts | | **(43)** | | (97) |
| | | **26,348** | | 23,743 |
| Goods and services tax | | **504** | | 351 |
| Government grants receivable | | **270** | | 691 |
| Foreign exchange contracts | | **-** | | 101 |
| Other receivables | | **26** | | 22 |
| | **$** | **27,148** | $ | 24,908 |

***(in thousands of Canadian dollars except as otherwise noted)***

## 5. INVENTORIES

| As at | **December 31, 2020** | June 30, 2020 |
|---|---|---|
| Raw materials | **$ 5,476** | $ 7,047 |
| Work-in-progress | **2,660** | 3,802 |
| Finished goods | **11,878** | 6,363 |
| | **$ 20,014** | $ 17,212 |

The Nokia portfolio acquisition (see Note 3) on August 7, 2020 resulted in $567 and $2,895 added to raw materials and finished goods, respectively.

## 6. PROPERTY, PLANT AND EQUIPMENT

| | Note | Land | Land improvements & building | Lab, operating & production equipment | Other equipment[1] | Total |
|---|---|---|---|---|---|---|
| **At cost** | | | | | | |
| At July 1, 2020 | | $ 336 | $ 9,108 | $ 19,340 | $ 12,201 | $ 40,985 |
| Additions | | - | 31 | 879 | 265 | 1,175 |
| Disposals | | - | (6) | (180) | (8) | (194) |
| Business acquisition | 3 | - | - | 2,980 | - | 2,980 |
| Effect of foreign exchange | | - | (48) | (257) | (118) | (423) |
| **At December 31, 2020** | | **$ 336** | **$ 9,085** | **$ 22,762** | **$ 12,340** | **$ 44,523** |
| **Accumulated depreciation and amortization** | | | | | | |
| At July 1, 2020 | | $ - | $ 3,329 | $ 15,262 | $ 10,593 | $ 29,184 |
| Depreciation | | - | 153 | 793 | 253 | 1,199 |
| Disposals | | - | (6) | (105) | (5) | (116) |
| Effect of foreign exchange | | - | (14) | (97) | (35) | (146) |
| **At December 31, 2020** | | **$ -** | **$ 3,462** | **$ 15,853** | **$ 10,806** | **$ 30,121** |
| **Net Book Value** | | | | | | |
| At June 30, 2020 | | $ 336 | $ 5,779 | $ 4,078 | $ 1,608 | $ 11,801 |
| **At December 31, 2020** | | **$ 336** | **$ 5,623** | **$ 6,909** | **$ 1,534** | **$ 14,402** |

[1] *Other equipment includes furniture, computer hardware, and automotive equipment.*

***(in thousands of Canadian dollars except as otherwise noted)***

## 7. INTANGIBLE ASSETS

| | Note | Indefinite-life intangible assets: Spectrum and other licenses | Finite-life intangible assets: Customer contracts | Patents | Intellectual property | Deferred development costs | Total |
|---|---|---|---|---|---|---|---|
| **At cost** | | | | | | | |
| At July 1, 2020 | | $ 107 | $ 21,529 | $ 736 | $ 10,600 | $ 61,125 | $ 94,097 |
| Additions | | - | - | 60 | 47 | 7,280 | 7,387 |
| Investment tax credits | | - | - | - | - | (704) | (704) |
| Business acquisition | 3 | - | - | - | 799 | - | 799 |
| Effect of foreign exchange | | (3) | (1,058) | (23) | (489) | (582) | (2,155) |
| **At December 31, 2020** | | **$ 104** | **$ 20,471** | **$ 773** | **$ 10,957** | **$ 67,119** | **$ 99,424** |
| **Accumulated amortization** | | | | | | | |
| At July 1, 2020 | | $ - | $ 6,939 | $ 448 | $ 4,479 | $ 13,031 | $ 24,897 |
| Amortization | | - | 1,193 | 40 | 625 | 3,627 | 5,485 |
| Effect of foreign exchange | | - | (343) | (9) | (181) | (280) | (813) |
| **At December 31, 2020** | | **$ -** | **$ 7,789** | **$ 479** | **$ 4,923** | **$ 16,378** | **$ 29,569** |
| **Net book value** | | | | | | | |
| At June 30, 2020 | | $ 107 | $ 14,590 | $ 288 | $ 6,121 | $ 48,094 | $ 69,200 |
| **At December 31, 2020** | | **$ 104** | **$ 12,682** | **$ 294** | **$ 6,034** | **$ 50,741** | **$ 69,855** |

## 8. PROVISIONS

| | Note | Warranty | Restructuring Costs | Other | Obsolete Inventory Obligation | Total |
|---|---|---|---|---|---|---|
| At July 1, 2020 | | $ 312 | $ 37 | $ 543 | $ - | $ 892 |
| Additions during the year | | 233 | - | 253 | - | 486 |
| Amounts utilized | | (236) | (30) | (143) | - | (409) |
| Business acquisition | 3 | 103 | - | - | 691 | 794 |
| Effect of foreign exchange | | (14) | - | (10) | (30) | (54) |
| **At December 31, 2020** | | **$ 398** | **$ 7** | **$ 643** | **$ 661** | **$ 1,709** |
| **Less: current portion** | | **$ 398** | **$ 7** | **$ 229** | **$ 661** | **$ 1,295** |
| **Long-term portion** | | **$ -** | **$ -** | **$ 414** | **$ -** | **$ 414** |

## 9. LONG-TERM DEBT

| As at | **December 31, 2020** | June 30, 2020 |
|---|---|---|
| Term credit facility | **$ 1,583** | $ 1,708 |
| Lease liabilities | **4,145** | 4,603 |
| | **$ 5,728** | $ 6,311 |
| Comprised of: | | |
| Current portion of term credit facility and lease liabilities | **$ 1,629** | $ 1,698 |
| Long-term portion of term credit facility and lease liabilities | **4,099** | 4,613 |
| | **$ 5,728** | $ 6,311 |

***(in thousands of Canadian dollars except as otherwise noted)***

Term credit facility

The term credit facility is with a Canadian chartered bank. As at December 31, 2020, the facility is repayable in monthly instalments of $21 principal and interest at prime of 2.45% (June 30, 2020 - $21, and 2.45%, respectively), expires in October 2021 and is collateralized by a general security agreement. The Company has an authorized loan amount of $3,792 and annually renews this facility with the bank.

Long-term debt is recorded at amortized cost. The Company's long-term debt is at an interest rate that floats based on prime and the carrying value of the principal is considered to be fair value.

Assuming that the existing payment terms are the same at the renewal date, the following are the future principal repayments for the term credit facility as at December 31, 2020:

| | | |
|---|---|---|
| 2021 | $ | 125 |
| 2022 | | 250 |
| 2023 | | 250 |
| 2024 | | 250 |
| 2025 | | 250 |
| Thereafter | | 458 |
| | $ | 1,583 |

Lease liabilities

The following is a reconciliation of the Company's lease liabilities as at December 31, 2020:

| | | |
|---|---|---|
| Lease liabilities, beginning of period | $ | 4,603 |
| Net additions during the period | | 458 |
| Interest on lease liabilities | | 94 |
| Principal repayments of lease liabilities | | (866) |
| Effect of foreign exchange | | (144) |
| Lease liabilities, end of period | **$** | **4,145** |
| Current portion | | 1,379 |
| | **$** | **2,766** |

The contractual lease payments related to the lease liabilities are as follows:

| | | **December 31, 2020** | | June 30, 2020 |
|---|---|---|---|---|
| Within one year | **$** | **1,664** | $ | 1,713 |
| After one year but not more than five years | | **3,139** | | 3,304 |
| More than five years | | **11** | | - |
| Total contractual lease payments | **$** | **4,814** | $ | 5,017 |

## 10. SHARE CAPITAL

Changes in the number of shares and carrying value of the Company's share capital, for the six months ended December 31, 2020, are as follows:

| | Note | **Number of shares** | | **Carrying value** |
|---|---|---|---|---|
| Balance, July 1, 2020 | | 22,462,082 | $ | 3,161 |
| Shares issued by exercising options | | 258,125 | | 3,016 |
| Performance Share Units settled in common shares | 12 | 136,575 | | 1,748 |
| **Balance, December 31, 2020** | | **22,856,782** | **$** | **7,925** |

***(in thousands of Canadian dollars except as otherwise noted)***

## 11. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregated revenue

In the following table, gross revenue from contracts with customers is disaggregated by reporting segment and type. Refer to Note 15 for additional segmented financial information.

| | **Three months ended December 31, 2020** | | | |
|---|---|---|---|---|
| | **Video and Broadband Solutions** | **Content Delivery and Storage** | **Telematics** | **Total** |
| Product sales | $ 14,980 | $ 7,523 | $ 140 | $ 22,643 |
| Provision of services | 1,551 | 4,946 | 1,232 | 7,729 |
| | **$ 16,531** | **$ 12,469** | **$ 1,372** | **$ 30,372** |

| | Three months ended December 31, 2019 | | | |
|---|---|---|---|---|
| | Video and Broadband Solutions | Content Delivery and Storage | Telematics | Total |
| Product sales | $ 6,056 | $ 10,979 | $ 164 | $ 17,199 |
| Provision of services | 2,314 | 4,413 | 1,197 | 7,924 |
| | $ 8,370 | $ 15,392 | $ 1,361 | $ 25,123 |

| | **Six months ended December 31, 2020** | | | |
|---|---|---|---|---|
| | **Video and Broadband Solutions** | **Content Delivery and Storage** | **Telematics** | **Total** |
| Product sales | $ 26,740 | $ 15,677 | $ 264 | $ 42,681 |
| Provision of services | 3,323 | 9,777 | 2,435 | 15,535 |
| | **$ 30,063** | **$ 25,454** | **$ 2,699** | **$ 58,216** |

| | Six months ended December 31, 2019 | | | |
|---|---|---|---|---|
| | Video and Broadband Solutions | Content Delivery and Storage | Telematics | Total |
| Product sales | $ 11,749 | $ 18,257 | $ 334 | $ 30,340 |
| Provision of services | 4,083 | 8,422 | 2,390 | 14,895 |
| | $ 15,832 | $ 26,679 | $ 2,724 | $ 45,235 |

## 12. SHARE-BASED COMPENSATION

The following table summarizes the share-based compensation expense included in the consolidated statements of comprehensive (loss) income:

| | **Three months** | | **Six months** | |
|---|---|---|---|---|
| Periods ended December 31, | **2020** | 2019 | **2020** | 2019 |
| Stock options | **$ (2)** | $ 17 | **$ 9** | $ 34 |
| Performance share units | **1,212** | - | **1,440** | - |
| | **$ 1,210** | $ 17 | **$ 1,449** | $ 34 |

***(in thousands of Canadian dollars except as otherwise noted)***

Stock options

For all stock options granted, the Company determined compensation expense based on the estimated fair values at the grant date of the stock options using the Black-Scholes and binomial option-pricing models. The estimated fair value of the stock options is amortized to share-based compensation over the vesting period of the options.

Changes in the stock option plan for the six months ended December 31, 2020 is as follows:

| (in number of units, except prices) | **Number of options** | | **Weighted average exercise price** |
|---|---|---|---|
| Outstanding, July 1, 2020 | 393,125 | $ | 9.01 |
| Granted | 4,000 | | 12.30 |
| Cancelled | (6,937) | | 9.80 |
| Exercised | (258,125) | | 8.65 |
| **Outstanding, December 31, 2020** | **132,063** | **$** | **9.76** |
| **Vested and exercisable, December 31, 2020** | **96,754** | **$** | **9.89** |

Performance share units (“PSUs”)

The Company’s Performance Share Unit Plan (“PSU Plan”) set the maximum number of PSUs at 4% of the outstanding common shares. At the time of the PSU Plan’s resolution approval by the shareholders on July 28, 2020, the maximum number of shares issuable under the PSU Plan was set at 897,275. The approval of the PSU Plan resolution does not require further approval by the shareholders for any unallocated PSUs.

For the six months ended December 31, 2020, there were 377,328 PSUs granted and outstanding to eligible persons. On October 20, 2020, 136,575 PSUs vested with a total fair value of $1,748. The PSUs were settled in common shares of the Company on November 18, 2020. There were also 85,527 PSUs forfeited and cancelled as at December 31, 2020.

The unrecognized share-based compensation expense related to the granted and outstanding PSUs was $1,235 as at December 31, 2020 and will be recognized in net income over the next three years.

## 13. OTHER EXPENSE (INCOME)

| | Three months | | Six months | |
|---|---|---|---|---|
| Periods ended December 31, | **2020** | 2019 | **2020** | 2019 |
| Loss (gain) on sale of property, plant and equipment | **$ 7** | $ (135) | **$ 9** | $ (121) |
| Lease revenue | **(7)** | (17) | **(13)** | (36) |
| Other | **3** | 7 | **4** | 2 |
| | **$ 3** | $ (145) | **$ -** | $ (155) |

## 14. NET (LOSS) INCOME PER SHARE

The following table sets forth the calculation of basic and diluted net (loss) income per share:

| | Three months | | Six months | |
|---|---|---|---|---|
| Periods ended December 31, | **2020** | 2019 | **2020** | 2019 |
| Net (loss) income: basic and diluted (in thousands of dollars) | **$ (3,118)** | $ 3,561 | **$ (3,956)** | $ 2,177 |
| **Weighted average number of shares outstanding:** | | | | |
| Basic | **22,733,716** | 22,404,999 | **22,607,863** | 22,420,018 |
| Dilution adjustment for stock options | **-** | 39,541 | **-** | 22,977 |
| Diluted | **22,733,716** | 22,444,540 | **22,607,863** | 22,442,995 |
| Net (loss) income per share: basic | **$ (0.14)** | $ 0.16 | **$ (0.18)** | $ 0.10 |
| Net (loss) income per share: diluted | **$ (0.14)** | $ 0.16 | **$ (0.18)** | $ 0.10 |

Stock options could potentially dilute basic net (loss) income per share in the future. Options to purchase 96,754 common shares were vested and outstanding as at December 31, 2020 (December 31, 2019 – 365,927). Dilutive stock options are calculated using the treasury stock method. For the six months ended December 31, 2020, any conversion effect of stock options were anti-dilutive and have been excluded from the calculation of diluted net loss per share.

***(in thousands of Canadian dollars except as otherwise noted)***

## 15. SEGMENTED FINANCIAL INFORMATION

The Company's operations are organized into business units based on how the business is managed and has three reportable segments. The Video and Broadband Solutions segment designs, develops and distributes electronic communications products to cable and telecommunications markets. The Content Delivery and Storage segment develops advanced applications focused on storing, protecting, and transforming and delivering visual media. The Telematics segment designs, develops and distributes fleet management products. The majority of the Company's operations, employees and assets reside in Canada and the United States. The following tables highlight key financial information by segment and geographical region:

Segments

| | **Three months ended December 31, 2020** | | | |
|---|---|---|---|---|
| | **Video and Broadband Solutions** | **Content Delivery and Storage** | **Telematics** | **Total** |
| **Sales** | $ 16,531 | $ 12,469 | $ 1,372 | **$ 30,372** |
| **Cost of sales** | 9,389 | 5,386 | 418 | **15,193** |
| **Gross profit** | 7,142 | 7,083 | 954 | **15,179** |
| Operating expenses | 7,607 | 4,720 | 484 | **12,811** |
| Depreciation and amortization | 1,898 | 1,733 | 202 | **3,833** |
| **Operating (loss) income** | (2,363) | 630 | 268 | **(1,465)** |
| Finance income | 30 | (29) | - | **1** |
| Foreign exchange (loss) gain | (1,368) | 164 | (18) | **(1,222)** |
| **(Loss) income before taxes** | (3,701) | 765 | 250 | **(2,686)** |
| Income tax expense | 17 | 352 | 63 | **432** |
| **Net (loss) income** | **$ (3,718)** | **$ 413** | **$ 187** | **$ (3,118)** |

| | Three months ended December 31, 2019 | | | |
|---|---|---|---|---|
| | Video and Broadband Solutions | Content Delivery and Storage | Telematics | Total |
| Sales | $ 8,370 | $ 15,392 | $ 1,361 | $ 25,123 |
| Cost of sales | 3,521 | 5,093 | 501 | 9,115 |
| Gross profit | 4,849 | 10,299 | 860 | 16,008 |
| Operating expenses | 3,565 | 4,857 | 651 | 9,073 |
| Depreciation and amortization | 1,071 | 1,622 | 209 | 2,902 |
| Operating income | 213 | 3,820 | - | 4,033 |
| Finance income | 583 | (29) | - | 554 |
| Foreign exchange (loss) gain | (492) | 21 | (6) | (477) |
| Income (loss) before taxes | 304 | 3,812 | (6) | 4,110 |
| Income tax expense (recovery) | 94 | 457 | (2) | 549 |
| Net income (loss) | $ 210 | $ 3,355 | $ (4) | $ 3,561 |

***(in thousands of Canadian dollars except as otherwise noted)***

| | Six months ended December 31, 2020 | | | |
|---|---|---|---|---|
| | **Video and Broadband Solutions** | **Content Delivery and Storage** | **Telematics** | **Total** |
| **Sales** | $ 30,063 | $ 25,454 | $ 2,699 | **$ 58,216** |
| **Cost of sales** | 17,033 | 12,117 | 878 | **30,028** |
| **Gross profit** | 13,030 | 13,337 | 1,821 | **28,188** |
| Operating expenses | 13,529 | 9,435 | 941 | **23,905** |
| Depreciation and amortization | 3,424 | 3,501 | 394 | **7,319** |
| **Operating (loss) income** | (3,923) | 401 | 486 | **(3,036)** |
| Finance income | 222 | (60) | - | **162** |
| Foreign exchange (loss) gain | (1,665) | 247 | (29) | **(1,447)** |
| **(Loss) income before taxes** | (5,366) | 588 | 457 | **(4,321)** |
| Income tax (recovery) expense | (419) | (62) | 116 | **(365)** |
| **Net (loss) income** | **$ (4,947)** | **$ 650** | **$ 341** | **$ (3,956)** |

| | Six months ended December 31, 2019 | | | |
|---|---|---|---|---|
| | Video and Broadband Solutions | Content Delivery and Storage | Telematics | Total |
| Sales | $ 15,832 | $ 26,679 | $ 2,724 | $ 45,235 |
| Cost of sales | 7,457 | 10,410 | 886 | 18,753 |
| Gross profit | 8,375 | 16,269 | 1,838 | 26,482 |
| Operating expenses | 7,505 | 9,755 | 1,151 | 18,411 |
| Depreciation and amortization | 2,769 | 3,177 | 420 | 6,366 |
| Operating (loss) income | (1,899) | 3,337 | 267 | 1,705 |
| Finance income | 819 | (57) | - | 762 |
| Foreign exchange loss | (167) | (12) | - | (179) |
| (Loss) income before taxes | (1,247) | 3,268 | 267 | 2,288 |
| Income tax (recovery) expense | (291) | 334 | 68 | 111 |
| Net (loss) income | $ (956) | $ 2,934 | $ 199 | $ 2,177 |

Geographical region

| | Three months | | Six months | |
|---|---|---|---|---|
| Periods ended December 31, | **2020** | 2019 | **2020** | 2019 |
| **Sales to external customers:** | | | | |
| United States | **$ 21,576** | $ 19,755 | **$ 44,097** | $ 33,750 |
| Canada | **3,329** | 2,169 | **6,555** | 3,897 |
| Europe | **1,175** | 783 | **1,842** | 3,113 |
| Japan | **3,013** | 864 | **4,096** | 1,663 |
| Other | **1,279** | 1,552 | **1,626** | 2,812 |
| | **$ 30,372** | $ 25,123 | **$ 58,216** | $ 45,235 |

***(in thousands of Canadian dollars except as otherwise noted)***

Sales to major customers

Sales to major customers accounting for more than 10% of total sales are as follows:

| | | Three months | | | | Six months |
|---|---|---|---|---|---|---|
| Periods ended December 31, | | **2020** | 2019 | | **2020** | 2019 |
| Customer A | **$** | **4,568** | $ 9,741 | **$** | **8,648** | $ 12,092 |
| Customer B | | **4,385** | 3,336 | | **10,058** | 6,704 |
| Customer C | | **4,416** | 3,655 | | **7,876** | 6,134 |
| | **$** | **13,369** | $ 16,732 | **$** | **26,582** | $ 24,930 |

Sales to these customers are from the Video and Broadband Solutions and Content Delivery and Storage segments.

## 16. FAIR VALUE HIERARCHY

Assets and liabilities measured at fair value in the condensed consolidated statements of financial position, or where fair value disclosures are required, are classified based on a three-level hierarchy as follows:

Level 1: determined by reference to quoted prices in active markets for identical assets and liabilities;

Level 2: determined by using inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: determined using inputs that are not based on observable market data.

The following table classifies assets and liabilities measured at fair value according to the three-level hierarchy:

| | **December 31, 2020** | | | June 30, 2020 | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | Level 1 | Level 2 | Level 3 |
| Short-term investments | **$ 9,885** | **$ -** | **$ -** | $ 17,165 | $ - | $ - |

During the six months ended December 31, 2020, there were no transfers between the hierarchy levels.

## 17. FINANCIAL INSTRUMENTS

Currency exposures

Approximately 96% (June 30, 2020 - 97%) of the Company's sales are denominated in U.S. dollars (“USD”). The Company periodically enters into forward foreign exchange contracts to manage foreign currency exchange risk related to exposures to the exchange rates for the Canadian dollar. These contracts are recognized in the consolidated statements of financial position at their fair value, with changes in fair value recorded in the consolidated statements of comprehensive (loss) income in foreign exchange loss. The Company entered into three US$1,000 forward foreign exchange contracts for the year ended June 30, 2020. The forward foreign exchange contracts matured on July 31, 2020, August 31, 2020, and September 30, 2020, respectively, upon which the Company settled the contracts in USD. As at December 31, 2020, the Company realized a net exchange gain of $214 (June 30, 2020 – unrealized gain of $101) on the settled forward purchase contracts.

***(in thousands of Canadian dollars except as otherwise noted)***

## 18. SUPPLEMENTAL INFORMATION

The following tables provide details of the Company's supplemental cash flow information:

Depreciation and amortization – operating activities

| | Three months | | Six months | |
|---|---|---|---|---|
| Periods ended December 31, | **2020** | 2019 | **2020** | 2019 |
| Depreciation of property, plant and equipment | **$ 632** | $ 540 | **$ 1,199** | $ 1,049 |
| Depreciation of right-of-use assets | **383** | 341 | **747** | 683 |
| Amortization of deferred development costs | **1,953** | 1,118 | **3,627** | 2,787 |
| Amortization of finite-life intangible assets | **921** | 973 | **1,858** | 1,950 |
| **Total depreciation - operating activities** | **$ 3,889** | $ 2,972 | **$ 7,431** | $ 6,469 |

Net change in working capital – operating activities

| | Three months | | Six months | |
|---|---|---|---|---|
| Periods ended December 31, | **2020** | 2019 | **2020** | 2019 |
| Accounts receivable | **$ (4,508)** | $ (1,058) | **$ (3,082)** | $ (2,424) |
| Inventories | **1,063** | (1,349) | **363** | (1,611) |
| Prepaid expenses | **(463)** | 69 | **72** | 1,474 |
| Contract assets | **(96)** | 19 | **(127)** | 26 |
| Current tax assets | **-** | 3 | **(3)** | 1 |
| Accounts payable and accrued liabilities | **(195)** | (677) | **18** | (1,548) |
| Deferred revenue | **1,775** | 148 | **1,683** | 44 |
| **Total change in net working capital** | **$ (2,424)** | $ (2,845) | **$ (1,076)** | $ (4,038) |

Capital expenditures, net – investing activities

| | Three months | | Six months | |
|---|---|---|---|---|
| Periods ended December 31, | **2020** | 2019 | **2020** | 2019 |
| Capital expenditures before proceeds of disposition: | | | | |
| Property, plant and equipment | **$ (806)** | $ (731) | **$ (1,175)** | $ (1,134) |
| Intangible assets | **(27)** | (6) | **(107)** | (48) |
| Proceeds of disposition: | | | | |
| Property, plant and equipment | **-** | 256 | **-** | 257 |
| **Total capital expenditures, net** | **$ (833)** | $ (481) | **$ (1,282)** | $ (925) |

## 19. CONTRACTUAL OBLIGATION

The Nokia portfolio acquisition includes the assumption of the financial liability with a third-party supplier contract. As at December 31, 2020, the total contractual obligation is estimated to be $6,429.

## 20. SUBSEQUENT EVENT

On February 9, 2021, the Board of Directors declared a dividend of $0.055 per common share, payable on March 29, 2021 to shareholders of record as at February 26, 2021 consistent with its previously announced dividend policy.