# THIRD QUARTER RESULTS

*Management's Discussion and Analysis and*

*Interim Condensed Consolidated Financial Statements of*

## VECIMA NETWORKS INC.

*For the three and nine months ended March 31, 2021 and 2020*

*(unaudited)*

# Vecima Networks Inc.
# MANAGEMENT'S DISCUSSION AND ANALYSIS
# May 11, 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 nine months ended March 31, 2021.

Our MD&A supplements, but does not form part of, our unaudited interim condensed consolidated financial statements and related notes for the three and nine months ended March 31, 2021 and 2020. 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 nine months ended March 31, 2021 and 2020 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, San Jose, 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™ brand, 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. Third Quarter Fiscal 2021 Highlights

### Financial and Corporate Highlights

- Third quarter revenue grew to $31.9 million, up 29% year-over-year and 7% quarter-over-quarter
- Grew gross profit to $14.3 million, from $12.8 million in Q3 fiscal 2020, but was slightly lower than the $14.7 million achieved in Q2 fiscal 2021
- Gross profit margin of 45% decreased as a result of a pronounced lumpiness in the third quarter for the CDS segment as typically large customer orders and associated IPTV projects were subject to timing adjustments, exacerbated by project rollout delays due to the COVID-19 pandemic. In addition, foreign exchange headwinds from a stronger Canadian dollar negatively impacted gross profit margin in the third quarter
- Generated adjusted EBITDA of $2.0 million, as compared to $5.6 million in Q3 fiscal 2020 and $2.5 million in Q2 fiscal 2021
- Adjusted earnings of $0.02 per share, as compared to earnings per share of $0.03 in Q3 fiscal 2020 and adjusted loss per share of $0.14 in Q2 FY2021
- Ended the quarter in strong financial position with $23.0 million in cash and working capital of $46.0 million at March 31, 2021 compared to $20.8 million and $46.2 million, respectively, at December 31, 2020

- Declared a dividend of $0.055 per share payable on June 14, 2021 to shareholders of record on May 21, 2021. This represents a cumulative $33.7 million returned to shareholders through regular dividends since we initiated our dividends in October 2014

**Video and Broadband Solutions (VBS)**

- The VBS segment delivered exciting revenue growth of 128% year-over-year and 32% quarter-over-quarter, generating $21.8 million in sales as customers continued to transition to next generation networks using Vecima's platforms
- DAA (Entra family)
  - Deployments of next generation Entra DAA products continued to accelerate rapidly to $12.7 million, an increase of six times from $1.8 million in Q3 2020, and up 58% sequentially from $8.0 million in Q2 fiscal 2021. Entra results for the quarter included $6.0 million of sales from the cable access portfolio acquired from Nokia in Q1 fiscal 2021, a 76% increase from $3.4 million in Q2 fiscal 2021
  - Carried out multiple additional Tier 1 customer deployments for Entra Remote PHY, Remote MAC-PHY nodes and 10G EPON solutions during the quarter, as well as expanded engagements with a number of customers
  - Thirty-three customers on six continents have now ordered Entra solutions, a sizable jump from 24 customers in the previous quarter, and total customer engagements for Entra have grown to include 61 MSOs worldwide, including several Tier 1 operators. Fifty of these operators are in lab trial, field trial, or live deployment phases
  - Initiated deployments of Vecima's Entra EN8124, the industry's first fully segmentable double-density Remote PHY node, with our lead Tier 1 MSO customer
  - Received significant order for our EN2112 compact Remote PHY node from a CALA-based Tier 1 MSO and initiated deliveries in the third quarter
  - Released numerous software enhancements to our Remote PHY family of products, including customer-desired features such as additional video injection, interoperability, and spectrum capture modes
  - Delivered major new software release for Entra Remote MAC-PHY and 10G EPON FTTH platforms, which provides significant operational and performance enhancements, and a cloud native deployment roadmap with support for virtual machine environments
  - Expanded 10G EPON fiber-to-the-home ecosystem by incorporating interoperability with multiple additional third-party vendors of Optical Network Units (ONUs), which serve as in-home modems in a FTTH deployment
  - Acquired and progressed development of unique access node housing technology from ATX Networks, continuing our DAA industry stewardship with a forward-looking, standardized, and modular DAA node platform for future generations of DAA
  - Furthered development of a new, next generation of Cable Access modules and nodes, which we expect will further cement our unique leadership position in DAA deployments for years to come
- Commercial Video (Terrace family)
  - Generated a solid $3.5 million of Terrace family revenue in the third quarter, following particularly strong second quarter sales of $5.2 million
  - Significantly increased TerraceQAM sales to $5.2 million, up 49% from $3.5 million in the same period last year, and up 61% from $3.2 million in Q2 fiscal 2021 with the lead Tier 1 customer continuing its scale hospitality program with the platform
  - Following recent Tier 1 customer win for our next generation TerraceIQ commercial video gateway solution, further expanded this platform's software feature set in preparation for broader customer adoption, including features that enhance the platform's leading capabilities for management, monitoring, network resiliency and deployment velocity in the hospitality vertical

**Content Delivery and Storage (CDS)**

- CDS sales were $8.8 million, with segment services revenue growing by 6% year-over-year
- Sold ContentAgent workflow management business on March 31, 2021 to Telestream for US$2.1 million, resulting in a pre-tax gain of approximately US$1.6 million
- Expanded subscriber uptake at existing IP video customers, demonstrating the inherent scalability of our content delivery technology and products
- Developed additional audio/video profile capability for our MediaScaleX//Origin platform, offering a market-unique ability to utilize unified content libraries distributed to both OTT media player devices and legacy set-top boxes
- Expanded broad partner integrations to add another leading middleware provider integration with MediaScaleX//Origin and Storage products for cloud DVR and digital rights management

- Added enhanced Dynamic Ad Insertion features to the MediaScaleX portfolio software

**Telematics**

- Continued deployments with municipal government customers, with expansions adding 330 new subscribers
- Further penetration in the moveable assets market, adding five new customers representing an additional 1,000 moveable asset tags. Total number of moveable assets being monitored has now increased to over 10,000 units

## 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 fourth quarter of fiscal 2021 and into fiscal 2022. A lead Tier 1 DAA customer is continuing its scale deployment, while multiple Tier 1, 2, and 3 operators are now in, or moving towards, scale deployment. At the same time, a broader set of MSOs is moving from lab trials to initial field deployments. 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 continued meaningful sales growth for our Entra portfolio through the balance of 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.

**In our Content Delivery and Storage segment,** demand for our IPTV and open caching solutions remains strong and we will continue to work to integrate the record new customer wins of fiscal 2020, while safely navigating COVID-19 restrictions. The CDS segment is on track for a return to more typical quarterly sales performance in the fourth quarter, and we expect full-year CDS sales will be similar to what we achieved in fiscal 2020.

**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 strong finish to fiscal 2021 as our multi-year investment, development, and strategic acquisition strategy continues to bear fruit. While we could continue to experience foreign exchange headwinds related to a stronger Canadian dollar going forward, we expect gross margins will strengthen as our product mix shifts to include a larger proportion of higher-margin product and license sales.

## 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. Discontinued Operations

On March 31, 2021, we completed the sale of our ContentAgent operations in an all-cash transaction for proceeds of US$2.1 million. The transaction is subject to customary closing conditions. As a result, we reclassified amounts related to the announced sale for the previous periods to discontinued operations in our consolidated statements of comprehensive income (loss) and consolidated statements of cash flows to make them consistent with the presentation for the current period.

As at March 31, 2021, we recorded a gain on the sale, net of income taxes, of $1.8 million. The capital gain related to the sale is partially offset by the recognition of previously unrecognized capital loss carry forwards.

## 7. 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 March 31, 2021 | | 2020 | | Nine months ended March 31, 2021 | | 2020 | |
|---|---|---|---|---|---|---|---|---|
| **Sales** | **$ 31,861** | **100 %** | $ 24,728 | 100 % | **$ 88,857** | **100 %** | $ 69,168 | 100 % |
| **Cost of sales** | **17,535** | **55 %** | 11,953 | 48 % | **47,187** | **53 %** | 30,401 | 44 % |
| **Gross profit** | **14,326** | **45 %** | 12,775 | 52 % | **41,670** | **47 %** | 38,767 | 56 % |
| **Operating expenses** | | | | | | | | |
| Research and development[1] | **7,520** | **24 %** | 5,578 | 23 % | **20,829** | **24 %** | 14,863 | 21 % |
| Sales and marketing | **3,644** | **11 %** | 3,505 | 14 % | **10,095** | **11 %** | 10,329 | 15 % |
| General and administrative | **4,357** | **14 %** | 3,983 | 16 % | **13,610** | **15 %** | 11,929 | 17 % |
| Share-based compensation | **267** | **- %** | 14 | - % | **1,716** | **2 %** | 47 | - % |
| Other (income) expense | **(50)** | **- %** | 25 | - % | **(50)** | **- %** | (130) | - % |
| | **15,738** | **49 %** | 13,105 | 53 % | **46,200** | **52 %** | 37,038 | 54 % |
| **Operating (loss) income** | **(1,412)** | **(4)%** | (330) | (1)% | **(4,530)** | **(5)%** | 1,729 | 2 % |
| Finance (expense) income | **(45)** | **- %** | (236) | (1)% | **120** | **- %** | 526 | 1 % |
| Foreign exchange (loss) gain | **(830)** | **(3)%** | 1,953 | 8 % | **(2,269)** | **(2)%** | 1,781 | 3 % |
| **(Loss) income before taxes** | **(2,287)** | **(7)%** | 1,387 | 5 % | **(6,679)** | **(8)%** | 4,036 | 6 % |
| Income tax (recovery) expense | **(2,692)** | **(8)%** | 555 | 2 % | **(3,059)** | **(3)%** | 666 | 1 % |
| **Net income (loss) from:** | | | | | | | | |
| **Continuing operations** | **405** | **1 %** | 832 | 3 % | **(3,620)** | **(4)%** | 3,370 | 5 % |
| **Discontinued operations** | **1,784** | **6 %** | (166) | (1)% | **1,854** | **2 %** | (527) | (1)% |
| **Net income (loss)** | **2,189** | **7 %** | 666 | 2 % | **(1,766)** | **(2)%** | 2,843 | 4 % |
| **Other comprehensive (loss) income** | **(650)** | **(2)%** | 2,416 | 10 % | **(2,800)** | **(3)%** | 2,213 | 3 % |
| **Comprehensive income (loss)** | **$ 1,539** | **5 %** | $ 3,082 | 12 % | **$ (4,566)** | **(5)%** | $ 5,056 | 7 % |
| **Net income (loss) per share[2]** | | | | | | | | |
| Basic – total | **$ 0.10** | | $ 0.03 | | **$ (0.08)** | | $ 0.13 | |
| Basic – continuing operations | **$ 0.02** | | $ 0.04 | | **$ (0.16)** | | $ 0.15 | |
| Diluted – total | **$ 0.10** | | $ 0.03 | | **$ (0.08)** | | $ 0.13 | |
| Diluted – continuing operations | **$ 0.02** | | $ 0.04 | | **$ (0.16)** | | $ 0.15 | |
| **Other Data** | | | | | | | | |
| Total research and development expenditures[3] | **$ 9,237** | | $ 6,551 | | **$ 26,103** | | $ 18,373 | |
| Adjusted EBITDA[4] | **$ 1,963** | | $ 5,617 | | **$ 6,647** | | $ 14,446 | |
| Adjusted earnings per share[5] | **$ 0.02** | | $ 0.03 | | **$ (0.16)** | | $ 0.12 | |
| Number of employees[6] | **469** | | 375 | | **469** | | 375 | |

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

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

(3) *Amounts are from continuing operations. 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**<br>*(unaudited – in thousands of dollars except common share data)* | | **March 31, 2021** | | June 30, 2020 |
|---|---|---|---|---|
| Cash and cash equivalents | **$** | **22,984** | $ | 17,350 |
| Short-term investments | **$** | **-** | $ | 17,165 |
| Working capital | **$** | **45,973** | $ | 55,280 |
| Total assets | **$** | **214,699** | $ | 210,298 |
| Long-term debt(1) | **$** | **4,120** | $ | 4,613 |
| Shareholders' equity | **$** | **175,373** | $ | 179,762 |
| Number of common shares outstanding(2) | | **22,806,145** | | 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 March 31,** | | | | **Nine months ended March 31,** | | | |
|---|---|---|---|---|---|---|---|---|
| *(unaudited – in thousands of dollars except per share amounts)* | | **2021** | | 2020 | | **2021** | | 2020 |
| Net income (loss) | **$** | **2,189** | $ | 666 | **$** | **(1,766)** | $ | 2,843 |
| Gain on sale of non-core PP&E, net of tax | | **(1,836)** | | - | | **(1,836)** | | (106) |
| **Adjusted net income (loss)** | **$** | **353** | $ | 666 | **$** | **(3,602)** | $ | 2,737 |
| Net income (loss) per share | **$** | **0.10** | $ | 0.03 | **$** | **(0.08)** | $ | 0.13 |
| Gain on sale of non-core PP&E, net of tax | | **(0.08)** | | - | | **(0.08)** | | (0.01) |
| **Adjusted earnings per share(1)(2)** | **$** | **0.02** | $ | 0.03 | **$** | **(0.16)** | $ | 0.12 |

(1) *Adjusted earnings per share includes non-cash share-based compensation of $0.3 million or $0.01 per share for the three months ended March 31, 2021, and $1.7 million or $0.08 per share for the nine months ended March 31, 2021. 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 $0.8 million or $0.04 per share for the three months ended March 31, 2021 and $2.3 million or $0.10 per share for the nine months ended March 31, 2021.*

### EBITDA and Adjusted EBITDA

The following table reconciles net income (loss) 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 March 31,** | | **Nine months ended March 31,** | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Net income (loss) from continuing operations | **$ 405** | $ 832 | **$ (3,620)** | $ 3,370 |
| Income tax (recovery) expense | **(2,692)** | 555 | **(3,059)** | 666 |
| Interest expense | **56** | 72 | **169** | 231 |
| Depreciation of PP&E | **561** | 538 | **1,754** | 1,581 |
| Depreciation of right-of-use assets | **410** | 343 | **1,115** | 1,027 |
| Amortization of deferred development costs | **2,157** | 2,409 | **5,741** | 5,196 |
| Amortization of intangible assets | **763** | 955 | **2,564** | 2,851 |
| EBITDA from discontinued operations | **2,128** | (117) | **2,351** | (418) |
| **EBITDA** | **3,788** | 5,587 | **7,015** | 14,504 |
| (Gain) loss on sale of property, plant and equipment | **(40)** | 16 | **(32)** | (105) |
| Gain on disposal of discontinued operations | **(2,052)** | - | **(2,052)** | - |
| Share-based compensation | **267** | 14 | **1,716** | 47 |
| **Adjusted EBITDA** | **$ 1,963** | $ 5,617 | **$ 6,647** | $ 14,446 |
| Percentage of sales | **6%** | 23% | **7%** | 21% |

### 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 from Continuing Operations** | **Three months ended March 31,** | | **Nine months ended March 31,** | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| Research and development per statement of income | **$ 7,520** | $ 5,578 | **$ 20,829** | $ 14,863 |
| Deferred development costs | **3,845** | 3,344 | **10,916** | 8,677 |
| Investment tax credits | **29** | 38 | **99** | 127 |
| Amortization of deferred development costs | **(2,157)** | (2,409) | **(5,741)** | (5,196) |
| Government grants | **-** | - | **-** | (98) |
| Total research and development expenditures | **$ 9,237** | $ 6,551 | **$ 26,103** | $ 18,373 |
| Percentage of sales | **29%** | 26% | **29%** | 27% |

## 8. Summary of Quarterly Results of Operations

The following information has been derived from our consolidated financial statements for the nine months ended March 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 | | | | FY 2019 |
|---|---|---|---|---|---|---|---|---|
| | **Q3** | **Q2** | **Q1** | Q4 | Q3 | Q2 | Q1 | Q4 |
| **Sales** | **$ 31,861** | **$ 29,673** | **$ 27,323** | $ 25,714 | $ 24,728 | $ 24,759 | $ 19,681 | $ 20,578 |
| **Cost of Sales** | **17,535** | **14,964** | **14,688** | 13,204 | 11,953 | 8,950 | 9,498 | 10,515 |
| **Gross profit** | **14,326** | **14,709** | **12,635** | 12,510 | 12,775 | 15,809 | 10,183 | 10,063 |
| **Operating expenses** | | | | | | | | |
| Research and development | **7,520** | **7,044** | **6,265** | 6,731 | 5,578 | 4,410 | 4,875 | 4,224 |
| Sales and marketing | **3,644** | **3,474** | **2,977** | 2,976 | 3,505 | 3,266 | 3,558 | 3,586 |
| General and administrative | **4,357** | **4,560** | **4,693** | 3,940 | 3,983 | 4,063 | 3,883 | 5,019 |
| Restructuring costs | **-** | **-** | **-** | - | - | - | - | 1,419 |
| Share-based compensation | **267** | **1,210** | **239** | 12 | 14 | 16 | 17 | 10 |
| Other (income) expense | **(50)** | **3** | **(3)** | (348) | 25 | (145) | (10) | 16 |
| | **15,738** | **16,291** | **14,171** | 13,311 | 13,105 | 11,610 | 12,323 | 14,274 |
| **Operating (loss) income** | **(1,412)** | **(1,582)** | **(1,536)** | (801) | (330) | 4,199 | (2,140) | (4,211) |
| Finance (expense) income | **(45)** | **2** | **163** | 110 | (236) | 553 | 208 | 330 |
| Foreign exchange (loss) gain | **(830)** | **(1,218)** | **(221)** | (453) | 1,953 | (461) | 289 | (517) |
| **(Loss) income before income taxes** | **(2,287)** | **(2,798)** | **(1,594)** | (1,144) | 1,387 | 4,291 | (1,643) | (4,398) |
| Income tax (recovery) expense | **(2,692)** | **432** | **(799)** | (275) | 555 | 549 | (438) | (1,504) |
| **Net income (loss) from:** | | | | | | | | |
| **Continuing operations** | **405** | **(3,230)** | **(795)** | (869) | 832 | 3,742 | (1,205) | (2,894) |
| **Discontinued operations** | **1,784** | **112** | **(42)** | (168) | (166) | (182) | (179) | (59) |
| **Net income (loss)** | **2,189** | **(3,118)** | **(837)** | (1,037) | 666 | 3,560 | (1,384) | (2,953) |
| **Other comprehensive (loss) income** | **(650)** | **(1,538)** | **(612)** | (1,125) | 2,416 | (426) | 223 | (460) |
| **Comprehensive income (loss)** | **$ 1,539** | **$ (4,656)** | **$ (1,449)** | $ (2,162) | $ 3,082 | $ 3,134 | $ (1,161) | $ (3,413) |
| **Net income (loss) per share** | | | | | | | | |
| Basic – total | **$ 0.10** | **$ (0.14)** | **$ (0.04)** | $ (0.05) | $ 0.03 | $ 0.16 | $ (0.06) | $ (0.13) |
| Diluted - total | **$ 0.10** | **$ (0.14)** | **$ (0.04)** | $ (0.05) | $ 0.03 | $ 0.16 | $ (0.06) | $ (0.13) |
| **Adjusted EBITDA as reported** | **$ 1,963** | **$ 2,477** | **$ 2,207** | $ 3,827 | $ 5,617 | $ 7,042 | $ 1,785 | $ 281 |

### 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.

# 9. Segmented Information

**Sales**

| Segment | | Three months ended March 31, 2021 | | 2020 | | Nine months ended March 31, 2021 | | 2020 |
|---|---|---|---|---|---|---|---|---|
| Video and Broadband Solutions | **$** | **21,752** | $ | 9,561 | **$** | **51,815** | $ | 25,393 |
| Content Delivery and Storage | | **8,757** | | 13,854 | | **32,991** | | 39,739 |
| Telematics | | **1,352** | | 1,313 | | **4,051** | | 4,036 |
| **Total Sales** | **$** | **31,861** | $ | 24,728 | **$** | **88,857** | $ | 69,168 |

*Three-Month Sales*

Total sales grew to $31.9 million in the third quarter of fiscal 2021, up 29% from $24.7 million in Q3 fiscal 2020 and 7% higher than the $29.7 million generated in Q2 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 $21.8 million, up 128% from $9.6 million in Q3 fiscal 2020 and an increase of 32% from $16.5 million in Q2 fiscal 2021.

- Initial deployments of our next generation Entra products contributed third quarter revenue of $12.7 million, an increase of six times from $1.8 million in Q3 fiscal 2020 and up 58% from $8.0 million in Q2 fiscal 2021.
- Third quarter Terrace family sales were $3.5 million, as compared to $4.1 million in Q3 fiscal 2020 and $5.2 million in Q2 fiscal 2021, a decrease of 16% and 33%, respectively. The quarter-over-quarter change in Terrace Family sales reflects a return to a more typical sales level following particularly strong ordering activity in Q2 2021, as well as reduced overall demand for our legacy TC600E and TC600 products.
- TerraceQAM sales climbed to $5.2 million, up 49% from $3.5 million in the third quarter of fiscal 2020, and an increase of 61% from $3.2 million in Q2 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 generated third quarter sales of $8.8 million, as compared to $13.9 million in Q3 fiscal 2020, and $11.8 million in Q2 fiscal 2021. Quarterly sales variances are typical for the CDS segment and reflect the timing of large orders. Additionally, third quarter CDS sales were impacted by COVID-19 restrictions at some customer operations, which slowed installation timelines as we worked to consolidate the record new business wins of fiscal 2020. Segment sales for the Q3 fiscal 2021 period included $4.6 million of product sales and $4.2 million of services revenue.

Third quarter Telematics sales of $1.4 million were similar to the $1.3 million achieved in Q3 fiscal 2020 and the $1.4 million in Q2 fiscal 2021. Results for the quarter were in line with our expectations.

*Nine-Month Sales*

For the nine months ended March 31, 2021 total sales increased 28% to $88.9 million from $69.2 million in the same period of fiscal 2020. The sales growth primarily reflects a strong contribution from our Video and Broadband Solutions segment, partially offset by lower sales in the Content Delivery and Storage segment.

Nine month Video and Broadband Solutions sales increased to $51.8 million, up 104% from $25.4 million in the same period in fiscal 2020.

- Initial deployments of our next generation Entra products contributed year-to-date revenue of $26.0 million, up significantly from $3.3 million for the first nine months of fiscal 2020.
- Nine-month Terrace family sales decreased slightly to $11.9 million, a 4% decrease from $12.4 million in the same period of fiscal 2020. The sales results reflect slightly lower purchasing activity for legacy TC600E and TC600 products.
- Sales of TerraceQAM increased by 39% to $12.8 million in the first nine months of fiscal 2021, from $9.2 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 17% to $33.0 million in the first nine months of fiscal 2021, from $39.7 million in the first nine months of fiscal 2020. This change primarily reflects the sales variances in Q3, as well as COVID-19 operational delays at some customer premises, which slowed our efforts to consolidate the record new business wins of fiscal 2020. Sales in the current period included $19.6 million of product sales and $13.4 million of services revenue.

Telematics sales were stable at $4.1 million in the first nine months of fiscal 2021, as compared to $4.0 million in the same period 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**

| Segment | Three months ended March 31, 2021 | Three months ended March 31, 2020 | Nine months ended March 31, 2021 | Nine months ended March 31, 2020 |
|---|---|---|---|---|
| Video and Broadband Solutions | **$ 9,305** | $ 4,479 | **$ 22,336** | $ 12,854 |
| Content Delivery and Storage | **4,132** | 7,375 | **16,624** | 23,155 |
| Telematics | **889** | 921 | **2,710** | 2,758 |
| **Total gross profit** | **$ 14,326** | $ 12,775 | **$ 41,670** | $ 38,767 |
| Video and Broadband Solutions | **42.8%** | 46.8% | **43.1%** | 50.6% |
| Content Delivery and Storage | **47.2%** | 53.2% | **50.4%** | 58.3% |
| Telematics | **65.7%** | 70.1% | **66.9%** | 68.3% |
| **Total gross margin** | **45.0%** | 51.7% | **46.9%** | 56.0% |

*Three-Month Results*

For the three months ended March 31, 2021, total gross profit grew to $14.3 million, a 12% increase from $12.8 million in the same period last year and 3% below the $14.7 million achieved in Q2 fiscal 2021. Gross margin for the period was 45%, as compared to 52% in Q3 fiscal 2020 and 50% in Q2 fiscal 2021. Gross margin was impacted by a lumpy quarter in our Content Delivery and Storage segment, continued foreign exchange headwinds related to a strengthening Canadian dollar, and product mix constraints during the quarter.

Third quarter gross profit from the Video and Broadband Solutions segment grew 108% to $9.3 million (gross profit margin of 43%), from $4.5 million (gross profit margin of 47%) in Q3 fiscal 2020 and up 30% from $7.1 million (gross profit margin of 43%) in Q2 fiscal 2021. The year-over-year increase in gross profit reflects higher sales, partially offset by a lower gross margin. The lower-than-normal gross margin reflects the composition of our product mix for the period, as well as the negative foreign exchange impact of the strengthening Canadian dollar.

In the Content Delivery and Storage segment, third quarter gross profit was $4.1 million (gross profit margin of 47%), as compared to $7.4 million (gross profit margin of 53%) in Q3 fiscal 2020 and $6.6 million (gross profit margin of 56%) in Q2 fiscal 2021. The year-over-year changes in gross profit and gross margin reflect the decrease in sales and a lower percentage of high-margin software sales in the product mix.

Third quarter gross profit from the Telematics segment was $0.9 million (gross profit margin of 66%), similar to the $0.9 million (gross margin of 70%) generated in Q3 fiscal 2020 and $1.0 million (gross margin of 70%) in Q2 fiscal 2021. The year-over-year decrease in gross margin is mainly the result of higher product costs in the current quarter.

*Nine-Month Results*

For the nine months ended March 31, 2021, total gross profit increased 7% to $41.7 million, from $38.8 million in the same period last year. This improvement reflects the higher sales, partially offset by a decrease in higher-margin software and service sales in the current period. Gross margin for the first nine months of fiscal 2021 was 47%, as compared to 56% in the same period last year, primarily reflecting different product mixes in the two periods.

Nine month gross profit from the Video and Broadband Solutions segment increased 74% to $22.3 million (gross margin of 43%), from $12.9 million (gross margin of 51%) 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 overall lower margins.

The Content Delivery and Storage segment generated a gross profit of $16.6 million (gross margin of 50%) in the first nine months of fiscal 2021, as compared to $23.2 million (gross margin of 58%) last year. The decrease in gross profit and gross margin primarily reflects lower sales and a shift in customer and product mix.

The Telematics segment generated gross profit of $2.7 million (gross margin of 67%) in the nine months ended March 31, 2021, similar to the $2.8 million (gross margin of 68% ) achieved during the same period in fiscal 2020. Results from the segment were in line with our expectations.

## Operating Expenses

| Segment | Three months ended March 31, 2021 | Three months ended March 31, 2020 | Nine months ended March 31, 2021 | Nine months ended March 31, 2020 |
|---|---|---|---|---|
| Video and Broadband Solutions | **$ 9,573** | $ 6,338 | **$ 26,526** | $ 16,612 |
| Content Delivery and Storage | **5,523** | 5,975 | **17,697** | 18,063 |
| Telematics | **642** | 792 | **1,977** | 2,363 |
| **Total operating expense** | **$ 15,738** | $ 13,105 | **$ 46,200** | $ 37,038 |

*Three-Month Results*

For the three months ended March 31, 2021, total operating expenses increased to $15.7 million, from $13.1 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 $9.6 million, from $6.3 million in Q3 fiscal 2020. The $3.3 million increase primarily reflects the addition of operating expenses related to the newly acquired Nokia DOCSIS DAA and EPON/DPoE cable access technology portfolio and the higher share-based compensation expense as a result of the issuance of performance share units in the current fiscal year.

Content Delivery and Storage operating expenses were lower at $5.5 million in Q3 fiscal 2021, as compared to $6.0 million in Q3 fiscal 2020 and $6.1 million in Q2 fiscal 2021. The decrease year-over-year reflects lower research and development expense, sales and marketing expense and general and administrative costs.

Telematics operating expenses of $0.6 million were lower than the $0.8 million recorded in Q3 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 lower than the $0.7 million recorded in Q2 fiscal 2021, reflecting lower sales and marketing expenses.

*Research and development expenses* for Q3 fiscal 2021, increased to $7.5 million, or 24% of sales, from $5.6 million, or 23% of sales in the same period of fiscal 2020. This increase primarily reflects the addition of product lines acquired from Nokia slightly offset by higher deferred development expense. 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 from continuing operations before deferrals, amortization of deferred development costs and income tax credits for Q3 fiscal 2021 increased to $9.2 million, or 29% of sales, from $6.6 million, or 26% of sales in Q3 fiscal 2020. The increase reflects higher staffing costs related to the acquisition, as well as increased 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 11% of sales in Q3 fiscal 2021, as compared to $3.5 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 $4.4 million from $4.0 million in Q3 fiscal 2020. The year-over-year increase primarily reflects additional costs associated with the newly acquired operations.

*Stock-based compensation expense* increased to $0.3 million in Q3 fiscal 2021, from $0.01 million in Q3 fiscal 2020. This increase is a result of the issuance of performance-based units in the current fiscal year.

*Other (income) expense* was $0.1 million of income in Q3 fiscal 2021, an increase from other expense of $0.02 million in Q3 fiscal 2020 due to the gain on sale of property, plant and equipment in the current period.

*Nine-Month Results*

For the nine months ended March 31, 2021, total operating expenses increased to $46.2 million, from $37.0 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 Content Delivery and Storage and Telematics segments.

Video and Broadband Solutions operating expenses for the nine months ended March 31, 2021 increased to $26.5 million, from $16.6 million in the same period of fiscal 2020. The $9.9 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 $17.7 million for the nine months ended March 31, 2021 were lower than the $18.1 million recorded in the first nine months of fiscal 2020. Reduced expenses for trade shows, travel and entertainment, partially offset by lower deferred development costs, were the main contributors to this decrease.

Telematics operating expenses decreased to $2.0 million in the first nine months of fiscal 2021, from $2.4 million last year. This $0.4 million decrease primarily reflects lower research and development expenses due to increased deferrals year-over-year.

*Research and development expenses* for the nine months ended March 31, 2021 increased to $20.8 million, or 23% of sales, from $14.9 million, or 21% of sales in the first nine months 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 from continuing operations before deferrals, amortization of deferred development costs and income tax credits for the nine months ended March 31, 2021 increased to $26.1 million, or 29% of sales, from $18.4 million, or 27% of sales for the same period in the prior year. This increase reflects higher staffing costs due to the acquisition, software licensing costs and subcontracting costs as our next-generation product families move closer to commercial deployment.

*Sales and marketing expenses* decreased to $10.1 million, or 11% of sales in the first nine months of fiscal 2021, from $10.3 million, or 15% 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 $13.6 million in the first nine months of fiscal 2021, from $11.9 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 $1.7 million in the first nine months of fiscal 2021, compared to $0.05 million for the same period in fiscal 2020. This increase is a result of the issuance of performance-based units in the current fiscal year.

*Other (income) expense* was $0.1 million of income for the nine months ended March 31, 2021, comparable to other income of $0.1 million in the prior-year period.

### Operating (Loss) Income

| Segment Operating (Loss) Income | Three months ended March 31, | | | | Nine months ended March 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2021** | | 2020 | | **2021** | | 2020 |
| Video and Broadband Solutions | **$** | **(268)** | $ | (1,859) | **$** | **(4,190)** | $ | (3,758) |
| Content Delivery and Storage | | **(1,391)** | | 1,400 | | **(1,073)** | | 5,092 |
| Telematics | | **247** | | 129 | | **733** | | 395 |
| **Total operating (loss) income** | **$** | **(1,412)** | $ | (330) | **$** | **(4,530)** | $ | 1,729 |

*Three-Month Results*

We recorded an operating loss of $1.4 million in Q3 fiscal 2021, as compared to an operating loss of $0.3 million in Q3 fiscal 2020. The $1.1 million increase in operating loss was mainly driven by the $2.8 million decrease in contribution from the Content Delivery and Storage segment, partially offset by a $1.6 million increase from the Video and Broadband Solutions segment and a $0.1 million increase from the Telematics segment year-over-year.

The Video and Broadband Solutions segment reported a third quarter operating loss of $0.3 million, as compared to an operating loss of $1.9 million in Q3 fiscal 2020. This reflects the $4.8 million increase in gross profit partially offset by the $3.2 million increase in operating expenses.

Content Delivery and Storage generated an operating loss of $1.4 million in the third quarter of fiscal 2021 as compared to operating income of $1.4 million in the same period of fiscal 2020. The year-over-year decrease primarily reflects the $3.2 million decrease in gross profit partially offset by the $0.4 million decrease in operating expenses.

Telematics operating income increased to $0.2 million in Q3 fiscal 2021, from $0.1 million in Q3 fiscal 2020. This reflects a $0.2 million decrease in operating expenses partially offset by the $0.1 million decrease in gross profits year-over-year.

*Finance expense* was $0.05 million in Q3 fiscal 2021, down from $0.24 million in the same period last year representing decreased income from short-term investments, partially offset by decreased interest paid related to lease liabilities and mortgages.

*Foreign exchange (loss) gain* for the third quarter was a loss of $0.8 million, as compared to a gain of $2.0 million in the prior-year period.

*Income tax (recovery) expense* was a $2.7 million recovery in Q3 fiscal 2021 as compared to $0.6 million expense in Q3 fiscal 2020.

*Net income from continuing operations* for Q3 fiscal 2021 decreased to $0.4 million or $0.02 per share, from net income of $0.8 million or $0.04 per share in Q3 fiscal 2020.

*Net income (loss) from discontinued operations* for Q3 2021 was $1.8 million net income or $0.08 per share, compared to a net loss of $0.2 million or $(0.01) per share in Q3 2020.

*Other comprehensive (loss) income* was a $0.7 million loss in Q3 fiscal 2021, as compared to other comprehensive income of $2.4 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 income* for Q3 fiscal 2021 was $1.5 million, down from $3.1 million in Q3 fiscal 2020. The decrease year-over-year is a result of the changes described above.

*Nine-Month Results*

For the nine months ended March 31, 2021, we generated an operating loss of $4.5 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 contributions 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 an operating loss of $4.2 million for the first nine months during the current year, as compared to an operating loss of $3.8 million in fiscal 2020. The year-over-year change reflects the $9.9 million increase in operating expenses, partially offset by the $9.5 million increase in gross profit.

Content Delivery and Storage reported an operating loss of $1.1 million for the first nine months during the current year, as compared to operating income of $5.1 million in the first nine months of fiscal 2020. The segment was impacted by the $6.5 million year-over-year decrease in gross profit and $0.3 million increase in operating expenses.

Telematics operating income increased to $0.7 million in the nine months ended March 31, 2021, from $0.4 million in the prior-year period. The $0.3 million year-over-year improvement reflects a $0.4 million decrease in operating expenses, partially offset by a $0.1 million decrease in gross profit.

*Finance income* decreased to $0.1 million during the first nine months of fiscal 2021, from $0.5 million in the previous year reflecting a decrease in short-term investment income year-over-year.

*Foreign exchange (loss) gain* for the nine months ended March 31, 2021 was a loss of $2.3 million, compared to a gain of $1.8 million in fiscal 2020.

*Income tax (recovery) expense* was a $3.1 million recovery for the nine months ended March 31, 2021, as compared to a $0.7 million income tax expense in the same period of fiscal 2020.

*Net (loss) income from continuing operations* for the nine months ended March 31, 2021 was a net loss of $3.6 million or $(0.16) per share, as compared to net income of $3.4 million or $0.15 per share in the prior-year period.

*Net income (loss) from discontinued operations* for the nine months ended March 31, 2021 increased to net income of $1.9 million or $0.08 per share, from a net loss of $0.5 million or $(0.02) per share in Q3 2020.

*Other comprehensive (loss) income* was a $2.8 million loss in the nine months ended March 31, 2021, as compared to other comprehensive income of $2.2 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 nine months ended March 31, 2021 decreased to a comprehensive loss of $4.6 million, from comprehensive income of $5.1 million in the same period of fiscal 2020.

**Operating Activities**

For the three months ended March 31, 2021, cash flow from operating activities increased to $4.2 million, from cash provided of $2.4 million for the three months ended March 31, 2020. The $1.8 million increase reflects a $5.2 million increase in cash flow from non-cash working capital, and a $3.4 million decrease in operating cash flow.

For the nine months ended March 31, 2021, cash flow from operating activities of $7.1 million decreased slightly from $7.2 million for the nine months ended March 31, 2020. The $0.1 million decrease primarily reflects the $7.1 million increase in cash flow from non-cash working capital and the $7.2 million decrease in operating cash flow.

**Investing Activities**

For the three months ended March 31, 2021, cash flow provided by investing activities increased to $8.1 million from cash used of $3.8 million in the same period last year. This increase reflects the net sale of short-term investments of $10.0 million (Q3 fiscal 2020 - $0.2 million), proceeds from the sale of ContentAgent operations of $2.6 million, deferred development expenditures of $4.0 million (Q3 fiscal 2020 - $3.4 million), proceeds from working capital adjustments for the purchase of DOCSIS DAA and EPON/DPoE cable access technology portfolios from Nokia Corporation for $0.5 million, the purchase of property, plant and equipment of $0.5 million (Q3 fiscal 2020 - $0.6 million), and the purchase of intangibles of $0.5 million (Q3 fiscal 2020 - $0.01 million).

For the nine months ended March 31, 2021, cash flow provided by investing activities increased to $0.4 million from cash used of $2.8 million in fiscal 2020. The cash provided by investing activities represents the purchase of the DOCSIS DAA and EPON/DPoE cable access technology portfolios from Nokia Corporation for $5.9 million, proceeds from sale of ContentAgent operations of $2.6 million, the net sale of short-term investments of $17.2 million (fiscal 2020 – $7.6 million), deferred development expenditures of $11.2 million (fiscal 2020 - $8.9 million), the purchase of property, plant and equipment of $1.7 million (fiscal 2020 - $1.7 million), and the purchase of intangibles of $0.6 million (fiscal 2020 - $0.1 million).

**Financing Activities**

In the three months ended March 31, 2021, we repaid $0.06 million of our long-term debt (Q3 fiscal 2020 - $0.06 million repaid). We received proceeds from exercised options of $0.04 million (Q3 fiscal 2020 - $nil), proceeds from issuing shares of $0.7 million (Q3 fiscal 2020 - $nil) and we repaid lease liabilities of $0.4 million (Q3 fiscal 2020 - $0.4 million).

In the nine months ended March 31, 2021, we repaid $0.2 million of our long-term debt (fiscal 2020 - $0.2 million repaid). We received proceeds from exercised options of $2.3 million (fiscal 2020 - $0.6 million), proceeds from issuing shares of $0.7 million (fiscal 2020 - $nil), proceeds from government grants of $nil (fiscal 2020 - $0.1 million) and we repaid lease liabilities of $1.2 million (fiscal 2020 - $1.0 million).

## 10. 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 $23.0 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 March 31, 2021, 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 $1.5 million as at March 31, 2021 (June 30, 2020 - $1.7 million).

Capital expenditures for Q3 fiscal 2021 were $0.5 million, compared to $0.6 million in Q3 fiscal 2020.

**Working Capital**

Working capital represents current assets less current liabilities. Our working capital decreased to $46.0 million at March 31, 2021, from $55.3 million at June 30, 2020. We note that working capital balances can 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 $34.2 million at March 31, 2021, from $24.9 million at June 30, 2020. This increase reflects the higher sales in Q3 fiscal 2021 as compared to Q2 fiscal 2021, and the timing of sales in Q3 fiscal 2021 as compared to Q2 fiscal 2021.

*Income tax receivable* balance was flat at $0.3 million at March 31, 2021 ($0.3 million as at June 30, 2020). This balance represents income tax receivable in the Content Delivery and Storage segment.

*Inventories* decreased by $0.3 million to $16.9 million at March 31, 2021, from $17.2 million as at June 30, 2020. The decrease represents the utilization of inventory related to the ramp up of new product inventory in previous quarters. Finished goods inventories were $8.9 million at March 31, 2021, compared to $6.4 million at June 30, 2020. Raw material inventory decreased to $6.2 million at March 31, 2021, from $7.0 million at June 30, 2020. Work-in-process inventories decreased to $1.8 million as at March 31, 2021, from $3.8 million at June 30, 2020. We manufacture and assemble products, with the result that inventory levels will be substantially higher than other companies in the industry that outsource manufacturing and assembly.

*Investment tax credits* were $25.8 million at March 31, 2021, up $1.4 million 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* increased to $19.6 million at March 31, 2021, from $17.1 million at June 30, 2020.

*Long-term debt*, including the current portion, was reduced to $5.9 million at March 31, 2021, from $6.3 million at June 30, 2020. This decrease represents principal payments made year-to-date.

**Dividends**

| Declaration Date | Dividend Amount (per share) | Record Date | Payable Date |
|---|---|---|---|
| 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 |
| May 11, 2021 | $0.055 | May 21, 2021 | June 14, 2021 |

### Contractual Obligations

Lease liabilities recorded on our consolidated statements of financial position, as at March 31, 2021 were $4.3 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 March 31, 2021, our undiscounted future cash payments in respect of our lease liabilities are as follows: due within one year is $1.8 million; due between two to five years is $3.5 million; and thereafter is $nil.

The acquisition of the Nokia portfolio includes the assumption of a financial liability with a third party supplier contract. As at March 31, 2021, the total contractual obligation is estimated to be $3.0 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 regard 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 95% 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 March 31, 2021, the exchange rate on the Canadian dollar relative to the U.S. dollar strengthened to $1.258 from $1.366 as at June 30, 2020. This $0.108 exchange difference decreased the value of our $57.9 million U.S. dollar net assets by approximately $6.3 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 March 31, 2021, we did not have any forward contracts (June 30, 2020 - $0.1 million).

## 11. 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.

## 12. Transactions Between Related Parties

On March 31, 2021, Mr. Derek Elder, a member of the Board of Directors purchased 50,000 common shares of the Company at a subscription price of $14.25 per common share (the TSX closing price as at March 16, 2021), for a total aggregate subscription price of $0.7 million.

## 13. 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.

# 14. 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.

# 15. 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 affect 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.

# 16. 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 March 31, 2021.

## 17. 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 March 31, 2021 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 March 31, 2021. 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 March 31, 2021 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 March 31, 2021:

| | |
|---|---|
| Sales | $ 10,537 |
| Net loss | $ (153) |
| Current assets | $ 14,440 |
| Non-current assets | $ 8,130 |
| Current liabilities | $ 6,728 |
| Non-current liabilities | $ 676 |

## 18. 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 $5.9 million (US$4.4 million), net of working capital adjustments of $0.5 million (US$0.4 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.

## 19. 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 the 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.

## 20. 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 March 31, 2021, Dr. Kumar collectively owned approximately 60% of our common shares outstanding. Each common share carries the right to one vote. We have no other classes of voting securities.

**Third-party Component Supply**

We maintain a global sourcing strategy and depend on third-party suppliers for certain components, subcomponents and raw materials used in our products. As an example, several of our products require specific components including silicon chips, for which reliable, high-volume supply is often available only from limited sources and for which we do not have guarantees of supply. A combination of significant technology trends and COVID-19 related challenges has resulted in the supply of some of these components becoming constrained on a global basis. While we have not experienced significant supply disruptions to date, the potential for such components to be in short supply or delayed in reaching us, could potentially result in product shipping delays and increased costs, which in turn, could adversely impact our gross margin and results of operations.

**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.

## 21. Outstanding Share Data

As at May 13, 2021, we had 22,914,367 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 390,015 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.

On January 15, 2021, 3,397 of the PSUs vested. The estimated value of the vested PSUs was $0.05 million.

## 22. 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 balance of fiscal 2021 as operators continue their commercial rollout for the current generation, while preparing for the next-generation TerraceIQ platform; we believe that our current cash and short-term investments of $23.0 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; and while we have not experienced significant supply disruptions to date, the potential for such components to be in short supply or delayed in reaching us, could potentially result in product shipping delays and increased costs, which in turn, could adversely impact our gross margin and results of operations. 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 | | **March 31, 2021** | | June 30, 2020 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | | **$** | **22,984** | $ | 17,350 |
| Short-term investments | 18 | | **-** | | 17,165 |
| Accounts receivable | 5 | | **34,235** | | 24,908 |
| Income tax receivable | | | **331** | | 333 |
| Inventories | 6 | | **16,913** | | 17,212 |
| Prepaid expenses | | | **3,336** | | 2,051 |
| Contract assets | | | **425** | | 646 |
| **Total current assets** | | | **78,224** | | 79,665 |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 7 | | **14,131** | | 11,801 |
| Right-of-use assets | | | **3,711** | | 4,010 |
| Goodwill | | | **14,650** | | 15,487 |
| Intangible assets | 8 | | **69,453** | | 69,200 |
| Other long-term assets | | | **1,255** | | 1,301 |
| Investment tax credits | | | **25,822** | | 24,374 |
| Deferred tax assets | | | **7,453** | | 4,460 |
| **Total assets** | | **$** | **214,699** | $ | 210,298 |
| **Liabilities and shareholders' equity** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable and accrued liabilities | | **$** | **19,642** | $ | 17,105 |
| Provisions | 9 | | **1,418** | | 492 |
| Income tax payable | | | **493** | | 130 |
| Deferred revenue | | | **8,947** | | 4,960 |
| Current portion of long-term debt | 10 | | **1,751** | | 1,698 |
| **Total current liabilities** | | | **32,251** | | 24,385 |
| **Non-current liabilities** | | | | | |
| Provisions | 9 | | **392** | | 400 |
| Deferred revenue | | | **2,557** | | 602 |
| Deferred tax liability | | | **6** | | 536 |
| Long-term debt | 10 | | **4,120** | | 4,613 |
| **Total liabilities** | | | **39,326** | | 30,536 |
| **Shareholders' equity** | | | | | |
| Share capital | 11 | | **8,737** | | 3,161 |
| Reserves | | | **2,197** | | 3,838 |
| Retained earnings | | | **165,141** | | 170,665 |
| Accumulated other comprehensive (loss) income | | | **(702)** | | 2,098 |
| **Total shareholders' equity** | | | **175,373** | | 179,762 |
| **Total liabilities and shareholders' equity** | | **$** | **214,699** | $ | 210,298 |

*Contractual obligation – Note 21; Subsequent event – Note 22*
*The accompanying notes are an integral part of these consolidated financial statements.*

**VECIMA NETWORKS INC.**

## Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

***(unaudited – in thousands of Canadian dollars, except per share amounts)***

| | | Three months | | Nine months | |
|---|---|---|---|---|---|
| Periods ended March 31, | Note | **2021** | 2020 | **2021** | 2020 |
| **Sales** | 12, 16 | **$ 31,861** | $ 24,728 | **$ 88,857** | $ 69,168 |
| **Cost of Sales** | | **17,535** | 11,953 | **47,187** | 30,401 |
| **Gross Profit** | | **14,326** | 12,775 | **41,670** | 38,767 |
| **Operating expenses** | | | | | |
| Research and development | | **7,520** | 5,578 | **20,829** | 14,863 |
| Sales and marketing | | **3,644** | 3,505 | **10,095** | 10,329 |
| General and administrative | | **4,357** | 3,983 | **13,610** | 11,929 |
| Share-based compensation | 13 | **267** | 14 | **1,716** | 47 |
| Other (income) expense | 14 | **(50)** | 25 | **(50)** | (130) |
| **Total operating expenses** | | **15,738** | 13,105 | **46,200** | 37,038 |
| **Operating (loss) income** | | **(1,412)** | (330) | **(4,530)** | 1,729 |
| Finance (expense) income | | **(45)** | (236) | **120** | 526 |
| Foreign exchange (loss) gain | | **(830)** | 1,953 | **(2,269)** | 1,781 |
| **(Loss) income before income taxes** | | **(2,287)** | 1,387 | **(6,679)** | 4,036 |
| Income tax (recovery) expense | | **(2,692)** | 555 | **(3,059)** | 666 |
| **Net income (loss) from continuing operations** | | **405** | 832 | **(3,620)** | 3,370 |
| **Net income (loss) from discontinued operations** | 3 | **1,784** | (166) | **1,854** | (527) |
| **Net income (loss)** | | **$ 2,189** | $ 666 | **$ (1,766)** | $ 2,843 |
| **Other comprehensive (loss) income** | | | | | |
| **Item that may be subsequently reclassed to net income** | | | | | |
| Exchange differences on translating foreign operations | | **(650)** | 2,416 | **(2,800)** | 2,213 |
| **Comprehensive income (loss)** | | **$ 1,539** | $ 3,082 | **$ (4,566)** | $ 5,056 |
| **Net income (loss) per share** | | | | | |
| Continuing operations - basic | | **$ 0.02** | $ 0.04 | **$ (0.16)** | $ 0.15 |
| Discontinued operations - basic | | **0.08** | (0.01) | **0.08** | (0.02) |
| **Total basic net income (loss) per share** | 15 | **$ 0.10** | $ 0.03 | **$ (0.08)** | $ 0.13 |
| Continuing operations – diluted | | **$ 0.02** | $ 0.04 | **$ (0.16)** | $ 0.15 |
| Discontinued operations – diluted | | **0.08** | (0.01) | **0.08** | (0.02) |
| **Total diluted net income (loss) per share** | 15 | **$ 0.10** | $ 0.03 | **$ (0.08)** | $ 0.13 |
| **Weighted average number of common shares** | | | | | |
| Shares outstanding – basic | 15 | **22,867,226** | 22,435,234 | **22,806,145** | 22,403,397 |
| Shares outstanding - diluted | 15 | **22,905,761** | 22,474,692 | **22,806,145** | 22,432,319 |

*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 | $ 173,944 | $ 1,010 | $ 180,974 |
| Net income | | - | - | 2,843 | - | 2,843 |
| Other comprehensive income | | - | - | - | 2,213 | 2,213 |
| Dividends | | - | - | (3,698) | - | (3,698) |
| Shares issued by exercising options | | 761 | (199) | - | - | 562 |
| Share-based payment expense | 13 | - | 47 | - | - | 47 |
| Balance as at March 31, 2020 | | $ 2,677 | $ 3,952 | $ 173,089 | $ 3,223 | $ 182,941 |
| **Balance as at June 30, 2020** | | **$ 3,161** | **$ 3,838** | **$ 170,665** | **$ 2,098** | **$ 179,762** |
| Net loss | | - | - | (1,766) | - | (1,766) |
| Other comprehensive loss | | - | - | - | (2,800) | (2,800) |
| Dividends | | - | - | (3,758) | - | (3,758) |
| Shares issued by exercising options | | 3,066 | (793) | - | - | 2,273 |
| Subscription for common shares | 17 | 713 | - | - | - | 713 |
| PSUs settled in common shares | | 1,797 | (2,564) | - | - | (767) |
| Share-based payment expense | 13 | - | 1,716 | - | - | 1,716 |
| **Balance as at March 31, 2021** | | **$ 8,737** | **$ 2,197** | **$ 165,141** | **$ (702)** | **$ 175,373** |

*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)***

| Periods ended March 31, | Note | Three months **2021** | 2020 | Nine months **2021** | 2020 |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| Net income (loss) from continuing operations | | **$ 405** | $ 832 | **$ (3,620)** | $ 3,370 |
| Adjustments for non-cash items: | | | | | |
| (Gain) loss on sale of property, plant and equipment | | **(40)** | 16 | **(32)** | (105) |
| Depreciation and amortization | 20 | **3,891** | 4,245 | **11,174** | 10,655 |
| Share-based compensation | | **267** | 14 | **1,716** | 47 |
| Income tax (recovery) expense | | **(125)** | 230 | **(471)** | 204 |
| Deferred income tax (recovery) expense | | **(2,567)** | 325 | **(2,588)** | 462 |
| Interest expense | | **56** | 72 | **169** | 231 |
| Interest income | | **(10)** | (162) | **(157)** | (622) |
| Net change in working capital | 20 | **2,111** | (2,043) | **1,084** | (6,256) |
| Decrease (increase) in other long-term assets | | **175** | (490) | **(119)** | (330) |
| Decrease in provisions | | **(147)** | (290) | **(104)** | (368) |
| Increase in investment tax credits | | **(42)** | (34) | **(112)** | (123) |
| Income tax received | | **-** | - | **174** | 173 |
| Income tax paid | | **(252)** | (457) | **(746)** | (525) |
| Interest received | | **9** | 162 | **157** | 622 |
| Interest paid | | **(3)** | (72) | **(22)** | (230) |
| Cash provided by (used in) discontinued operations | 3 | **482** | 95 | **651** | (28) |
| Cash provided by operating activities | | **4,210** | 2,443 | **7,154** | 7,177 |
| **INVESTING ACTIVITIES** | | | | | |
| Capital expenditures, net | 20 | **(979)** | (567) | **(2,261)** | (1,492) |
| Purchase of short-term investments | | **(154)** | (5,149) | **(295)** | (5,927) |
| Proceeds from sale of short-term investments | | **10,039** | 5,387 | **17,460** | 13,487 |
| Deferred development costs | | **(3,845)** | (3,344) | **(10,916)** | (8,677) |
| Business acquisition | 4 | **530** | - | **(5,871)** | - |
| Cash provided by (used in) discontinued operations | 3 | **2,533** | (109) | **2,323** | (193) |
| Cash provided by (used in) investing activities | | **8,124** | (3,782) | **440** | (2,802) |
| **FINANCING ACTIVITIES** | | | | | |
| Proceeds from government grants | | **-** | 4 | **-** | 98 |
| Principal repayments of lease liabilities | 10 | **(352)** | (345) | **(1,177)** | (993) |
| Repayment of long-term debt | 10 | **(63)** | (63) | **(188)** | (209) |
| Dividends paid | | **(1,258)** | (1,234) | **(3,758)** | (3,698) |
| Proceeds from issuing shares | 17 | **713** | - | **713** | - |
| Issuance of shares through exercised options | | **40** | 3 | **2,273** | 562 |
| Cash used in discontinued operations | 3 | **(22)** | (28) | **(64)** | (28) |
| Cash used in financing activities | | **(942)** | (1,663) | **(2,201)** | (4,268) |
| Net increase (decrease) in cash and cash equivalents | | **11,392** | (3,002) | **5,393** | 107 |
| Effect of change in exchange rates on cash | | **723** | (791) | **241** | (774) |
| Cash and cash equivalents, beginning of period | | **10,869** | 22,960 | **17,350** | 19,834 |
| **Cash and cash equivalents, end of period** | | **$ 22,984** | $ 19,167 | **$ 22,984** | $ 19,167 |

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

## Table of Contents

## 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 May 11, 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 affect 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. DISCONTINUED OPERATIONS

On March 31, 2021, the Company completed the sale of its ContentAgent operations in an all-cash transaction for proceeds of $2,586 (US$2,100). The transaction is subject to customary closing conditions. As a result, the Company reclassified amounts related to the sale for the previous periods to discontinued operations in our consolidated statements of comprehensive income (loss) and consolidated statements of cash flows to make them consistent with the presentation for the current period.

As at March 31, 2021, the Company recorded a gain on the sale, net of income taxes, of $1,836. The capital gain related to the sale is partially offset by the recognition of previously unrecognized loss carry forwards.

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

The following table summarizes the carrying value of the assets and liabilities sold:

| | | March 31, 2021 |
|---|---|---|
| Accounts receivable | $ | 272 |
| Prepaid expenses and other current assets | | 49 |
| Property, plant and equipment | | 29 |
| Right-of-use assets | | 114 |
| Goodwill | | 235 |
| Intangible assets | | 947 |
| Other non-current assets | | 82 |
| **Total assets sold** | **$** | **1,728** |
| Accounts payable and accrued liabilities | $ | 267 |
| Deferred revenue | | 830 |
| Long-term debt | | 98 |
| **Total liabilities sold** | **$** | **1,195** |
| **Net assets sold** | **$** | **533** |

The following tables summarizes the statements of comprehensive income (loss) and statements of cash flows of our discontinued operations up to the point of sale:

| | | | | **Three months** | | | | **Nine Months** |
|---|---|---|---|---|---|---|---|---|
| Periods ended March 31, | | **2021** | | 2020 | | **2021** | | 2020 |
| **Sales** | **$** | **610** | $ | 365 | **$** | **1,831** | $ | 1,160 |
| **Cost of sales** | | **198** | | 116 | | **575** | | 422 |
| **Gross profit** | | **412** | | 249 | | **1,256** | | 738 |
| **Operating expenses** | | | | | | | | |
| Research and development | | **153** | | 136 | | **346** | | 452 |
| Sales and marketing | | **234** | | 193 | | **639** | | 543 |
| General and administrative | | **67** | | 104 | | **231** | | 281 |
| **Total operating expenses** | | **454** | | 433 | | **1,216** | | 1,276 |
| **Operating (loss) income** | | **(42)** | | (184) | | **40** | | (538) |
| Finance income | | **(1)** | | (1) | | **(4)** | | (1) |
| Foreign exchange (loss) gain | | **(5)** | | 19 | | **(12)** | | 12 |
| **(Loss) income before income taxes** | | **(48)** | | (166) | | **24** | | (527) |
| Income tax expense | | **4** | | - | | **6** | | - |
| **Net (loss) income before gain on sale** | | **(52)** | | (166) | | **18** | | (527) |
| **Gain on sale (net of taxes of $217)** | | **1,836** | | - | | **1,836** | | - |
| **Net income (loss)** | **$** | **1,784** | $ | (166) | **$** | **1,854** | $ | (527) |

| | | | | **Three months** | | | | **Nine months** |
|---|---|---|---|---|---|---|---|---|
| Periods ended March 31, | | **2021** | | 2020 | | **2021** | | 2020 |
| Cash flows from operating activities | **$** | **482** | $ | 95 | **$** | **651** | $ | (28) |
| Cash flows from investing activities | | **2,533** | | (109) | | **2,323** | | (193) |
| Cash flows from financing activities | | **(22)** | | (28) | | **(64)** | | (28) |
| **Net increase (decrease) in cash** | **$** | **2,993** | $ | (42) | **$** | **2,910** | $ | (249) |

## 4. 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 income (loss).

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

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 income (loss) 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.

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 $5,871 (US$4,390), including a post-closing net working capital adjustment, 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:

| | Note | | Amount |
|---|---|---|---|
| **Consideration paid:** | | | |
| Purchase price | | $ | 6,401 |
| Working capital adjustments | | | (530) |
| | | $ | 5,871 |
| **Net assets acquired:** | | | |
| Accounts receivable | 5 | $ | 232 |
| Inventory | 6 | | 3,462 |
| Property, plant and equipment | 7 | | 2,980 |
| Intangible assets | 8 | | 505 |
| Goodwill | | | 130 |
| Accounts payable and accrued liabilities | | | (246) |
| Deferred revenue | | | (78) |
| Provisions | 9 | | (1,114) |
| | | $ | 5,871 |

Accounts receivable includes goods and services tax that are fully recoverable.

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 income (loss).

Sales and net income (loss) attributable to the Nokia portfolio acquisition for the three and nine months ended March 31, 2021 are $6,030 and $2,089, respectively and $10,537 and $(153), respectively.

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

## 5. ACCOUNTS RECEIVABLE

| As at | | March 31, 2021 | | June 30, 2020 |
|---|---|---|---|---|
| Trade receivables | **$** | **32,579** | $ | 23,840 |
| Less: allowance for doubtful accounts | | **(37)** | | (97) |
| | | **32,542** | | 23,743 |
| Goods and services tax | | **926** | | 351 |
| Government grants receivable | | **741** | | 691 |
| Foreign exchange contracts | | **-** | | 101 |
| Other receivables | | **26** | | 22 |
| | **$** | **34,235** | $ | 24,908 |

Included in the goods and services tax receivable is $232 from the Nokia portfolio acquisition on August 7, 2020 (see Note 4).

## 6. INVENTORIES

| As at | | March 31, 2021 | | June 30, 2020 |
|---|---|---|---|---|
| Raw materials | **$** | **6,189** | $ | 7,047 |
| Work-in-progress | | **1,810** | | 3,802 |
| Finished goods | | **8,914** | | 6,363 |
| | **$** | **16,913** | $ | 17,212 |

The Nokia portfolio acquisition (see Note 4) on August 7, 2020 resulted in $567 and $2,895 added to raw materials and finished goods, respectively.

## 7. 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 | | | 1 | | 32 | | 1,228 | | 463 | | 1,724 |
| Disposals | | | - | | (6) | | (284) | | (50) | | (340) |
| Business acquisition | 4 | | - | | - | | 2,980 | | - | | 2,980 |
| Effect of foreign exchange | | | - | | (66) | | (494) | | (141) | | (701) |
| **At March 31, 2021** | | **$** | **337** | **$** | **9,068** | **$** | **22,770** | **$** | **12,473** | **$** | **44,648** |
| **Accumulated depreciation and amortization** | | | | | | | | | | | |
| At July 1, 2020 | | $ | - | $ | 3,329 | $ | 15,262 | $ | 10,593 | $ | 29,184 |
| Depreciation | | | - | | 230 | | 1,146 | | 388 | | 1,764 |
| Disposals | | | - | | (6) | | (175) | | (28) | | (209) |
| Effect of foreign exchange | | | - | | (22) | | (152) | | (48) | | (222) |
| **At March 31, 2021** | | **$** | **-** | **$** | **3,531** | **$** | **16,081** | **$** | **10,905** | **$** | **30,517** |
| **Net book value** | | | | | | | | | | | |
| At June 30, 2020 | | $ | 336 | $ | 5,779 | $ | 4,078 | $ | 1,608 | $ | 11,801 |
| **At March 31, 2021** | | **$** | **337** | **$** | **5,537** | **$** | **6,689** | **$** | **1,568** | **$** | **14,131** |

*(1) Other equipment includes furniture, computer hardware, and automotive equipment.*

Included in the depreciation of property, plant and equipment is $10 from discontinued operations.

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

## 8. INTANGIBLE ASSETS

| | Note | Indefinite-life intangible assets | Finite-life intangible assets | | | | |
|---|---|---|---|---|---|---|---|
| | | **Spectrum and other licenses** | **Customer Contracts** | **Patents** | **Intellectual property** | **Deferred development costs** | **Total** |
| **At cost** | | | | | | | |
| July 1, 2020 | | $ 107 | $ 21,529 | $ 736 | $ 10,600 | $ 61,125 | $ 94,097 |
| Additions | | - | - | 108 | 493 | 11,249 | 11,850 |
| Disposals | | - | (368) | - | (307) | (614) | (1,289) |
| Investment tax credits | | - | - | - | - | (1,029) | (1,029) |
| Business acquisition | 4 | - | - | - | 505 | - | 505 |
| Writedown, fully amortized | | - | (20) | - | - | (2,451) | (2,471) |
| Effect of foreign exchange | | (4) | (1,287) | (104) | (579) | (726) | (2,700) |
| **At March 31, 2021** | | **$ 103** | **$ 19,854** | **$ 740** | **$ 10,712** | **$ 67,554** | **$ 98,963** |
| | | | | | | | |
| **Accumulated amortization** | | | | | | | |
| At July 1, 2020 | | $ - | $ 6,939 | $ 448 | $ 4,479 | $ 13,031 | $ 24,897 |
| Amortization | | - | 1,679 | 59 | 912 | 5,853 | 8,503 |
| Writedown, fully amortized | | - | (20) | - | - | (2,451) | (2,471) |
| Effect of foreign exchange | | - | (521) | (88) | (331) | (479) | (1,419) |
| **At March 31, 2021** | | **$ -** | **$ 8,077** | **$ 419** | **$ 5,060** | **$ 15,954** | **$ 29,510** |
| | | | | | | | |
| **Net book value** | | | | | | | |
| At June 30, 2020 | | $ 107 | $ 14,590 | $ 288 | $ 6,121 | $ 48,094 | $ 69,200 |
| **At March 31, 2021** | | **$ 103** | **$ 11,777** | **$ 321** | **$ 5,652** | **$ 51,600** | **$ 69,453** |

Included in the deferred development costs additions is $333 from discontinued operations.

Included in the amortization of finite-life intangible assets and deferred development costs is $86 and $112, respectively, from discontinued operations.

## 9. PROVISIONS

| | Note | **Warranty** | **Restructuring Costs** | **Other** | **Obsolete Inventory Obligation** | **Total** |
|---|---|---|---|---|---|---|
| At July 1, 2020 | | $ 312 | $ 37 | $ 543 | $ - | $ 892 |
| Additions during the year | | 250 | - | 135 | - | 385 |
| Amounts utilized | | (296) | (37) | (143) | - | (476) |
| Business acquisition | 4 | 103 | - | | 1,011 | 1,114 |
| Effect of foreign exchange | | (17) | - | (44) | (44) | (105) |
| **At March 31, 2021** | | **$ 352** | **$ -** | **$ 491** | **$ 967** | **$ 1,810** |
| **Less: current portion** | | **$ 352** | **$ -** | **$ 99** | **$ 967** | **$ 1,418** |
| **Long-term portion** | | **$ -** | **$ -** | **$ 392** | **$ -** | **$ 392** |

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

## 10. LONG-TERM DEBT

| As at | | **March 31, 2021** | | June 30, 2020 |
|---|---|---|---|---|
| Term credit facility | **$** | **1,521** | $ | 1,708 |
| Lease liabilities | | **4,350** | | 4,603 |
| | **$** | **5,871** | $ | 6,311 |
| Comprised of: | | | | |
| Current portion of term credit facility and lease liabilities | **$** | **1,751** | $ | 1,698 |
| Long-term portion of term credit facility and lease liabilities | | **4,120** | | 4,613 |
| | **$** | **5,871** | $ | 6,311 |

Term credit facility

The term credit facility is with a Canadian chartered bank. As at March 31, 2021, 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 March 31, 2021:

| | | |
|---|---|---|
| 2021 | $ | 63 |
| 2022 | | 250 |
| 2023 | | 250 |
| 2024 | | 250 |
| 2025 | | 250 |
| Thereafter | | 458 |
| | $ | 1,521 |

Lease liabilities

The following is a reconciliation of the Company's lease liabilities as at March 31, 2021:

| | | |
|---|---|---|
| Lease liabilities, beginning of period | $ | 4,603 |
| Net additions during the period | | 1,172 |
| Interest on lease liabilities | | 141 |
| Principal repayments of lease liabilities | | (1,241) |
| Disposals | | (97) |
| Effect of foreign exchange | | (228) |
| **Lease liabilities, end of period** | **$** | **4,350** |
| **Less: current portion** | | **1,501** |
| **Long-term portion** | **$** | **2,849** |

Included in the principal repayments of lease liabilities was $64 from discontinued operations.

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

| | | **March 31, 2021** | | June 30, 2020 |
|---|---|---|---|---|
| Within one year | **$** | **1,787** | $ | 1,713 |
| After one year but not more than five years | | **3,461** | | 3,304 |
| More than five years | | **15** | | - |
| Total contractual lease payments | **$** | **5,263** | $ | 5,017 |

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

## 11. SHARE CAPITAL

Changes in the number of shares and carrying value of the Company's share capital, for the nine months ended March 31, 2021, are as follows:

| | Note | Number of shares | | Carrying value |
|---|---|---|---|---|
| Balance, July 1, 2020 | | 22,462,082 | $ | 3,161 |
| Shares issued by exercising options | | 262,313 | | 3,066 |
| Subscription for common shares | 17 | 50,000 | | 713 |
| Performance Share Units settled in common shares | 13 | 139,972 | | 1,797 |
| **Balance, March 31, 2021** | | **22,914,367** | **$** | **8,737** |

## 12. 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 16 for additional segmented financial information.

| | **Three months ended March 31, 2021** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Video and Broadband Solutions** | | **Content Delivery and Storage** | | **Telematics** | | **Total** |
| Product sales | $ | 19,469 | $ | 4,543 | $ | 114 | $ | 24,126 |
| Provision of services | | 2,283 | | 4,214 | | 1,238 | | 7,735 |
| | **$** | **21,752** | **$** | **8,757** | **$** | **1,352** | **$** | **31,861** |
| | Three months ended March 31, 2020 | | | | | | | |
| | | Video and Broadband Solutions | | Content Delivery and Storage | | Telematics | | Total |
| Product sales | $ | 7,911 | $ | 9,381 | $ | 145 | $ | 17,437 |
| Provision of services | | 1,650 | | 4,473 | | 1,168 | | 7,291 |
| | $ | 9,561 | $ | 13,854 | $ | 1,313 | $ | 24,728 |

| | **Nine months ended March 31, 2021** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Video and Broadband Solutions** | | **Content Delivery and Storage** | | **Telematics** | | **Total** |
| Product sales | $ | 46,210 | $ | 19,586 | $ | 378 | $ | 66,174 |
| Provision of services | | 5,605 | | 13,405 | | 3,673 | | 22,683 |
| | **$** | **51,815** | **$** | **32,991** | **$** | **4,051** | **$** | **88,857** |
| | Nine months ended March 31, 2020 | | | | | | | |
| | | Video and Broadband Solutions | | Content Delivery and Storage | | Telematics | | Total |
| Product sales | $ | 19,660 | $ | 27,111 | $ | 478 | $ | 47,249 |
| Provision of services | | 5,733 | | 12,628 | | 3,558 | | 21,919 |
| | $ | 25,393 | $ | 39,739 | $ | 4,036 | $ | 69,168 |

## 13. SHARE-BASED COMPENSATION

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

| | | **Three months** | | | | **Nine months** | | |
|---|---|---|---|---|---|---|---|---|
| Periods ended March 31, | | **2021** | | 2020 | | **2021** | | 2020 |
| Stock options | **$** | **6** | $ | 14 | **$** | **15** | $ | 47 |
| Performance share units | | **261** | | - | | **1,701** | | - |
| | **$** | **267** | $ | 14 | **$** | **1,716** | $ | 47 |

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 nine months ended March 31, 2021 are as follows:

| (in number of units, except prices) | Number of options | | Weighted average exercise price |
|---|---|---|---|
| Outstanding, July 1, 2020 | 393,125 | $ | 9.01 |
| Granted | 9,000 | | 13.18 |
| Cancelled | (6,937) | | 9.80 |
| Exercised | (262,313) | | 8.67 |
| **Outstanding, March 31, 2021** | **132,875** | **$** | **9.93** |
| **Vested and exercisable, March 31, 2021** | **98,440** | **$** | **9.87** |

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 nine months ended March 31, 2021, there were 390,015 PSUs granted and outstanding to eligible persons. As at March 31, 2021, 139,972 PSUs vested with a total fair value of $1,797. The PSUs were settled in common shares of the Company. There were 86,750 PSUs forfeited and cancelled as at March 31, 2021.

The unrecognized share-based compensation expense related to the granted and outstanding PSUs was $1,016 as at March 31, 2021 and will be recognized in net income over the next three years.

## 14. OTHER (INCOME) EXPENSE

| | | **Three months** | | | | **Nine months** | | |
|---|---|---|---|---|---|---|---|---|
| Periods ended March 31, | | **2021** | | 2020 | | **2021** | | 2020 |
| (Gain) loss on sale of property, plant and equipment | **$** | **(40)** | $ | 16 | **$** | **(32)** | $ | (105) |
| Lease revenue | | **(6)** | | (8) | | **(19)** | | (44) |
| Other | | **(4)** | | 17 | | **1** | | 19 |
| | **$** | **(50)** | $ | 25 | **$** | **(50)** | $ | (130) |

## 15. NET INCOME (LOSS) PER SHARE

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

| | | **Three months** | | | | **Nine months** | | |
|---|---|---|---|---|---|---|---|---|
| Periods ended March 31, | | **2021** | | 2020 | | **2021** | | 2020 |
| Net income (loss): basic and diluted (in thousands of dollars) | **$** | **2,189** | $ | 666 | **$** | **(1,766)** | $ | 2,843 |
| **Weighed average number of shares outstanding:** | | | | | | | | |
| Basic | | **22,867,226** | | 22,435,234 | | **22,806,145** | | 22,403,397 |
| Dilution adjustment for stock options | | **38,535** | | 39,458 | | **-** | | 28,922 |
| Diluted | | **22,905,761** | | 22,474,692 | | **22,806,145** | | 22,432,319 |
| Net income (loss) per share: basic | **$** | **0.10** | $ | 0.03 | **$** | (0.08) | $ | 0.13 |
| Net income (loss) per share: diluted | **$** | **0.10** | $ | 0.03 | **$** | (0.08) | $ | 0.13 |

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

Stock options could potentially dilute basic net income (loss) per share in the future. Options to purchase 98,440 common shares were vested and outstanding as at March 31, 2021 (March 31, 2020 – 372,641). Dilutive stock options are calculated using the treasury stock method. For the nine months ended March 31, 2021, any conversion effect of stock options was anti-dilutive and have been excluded from the calculation of diluted net loss per share.

## 16. 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 March 31, 2021** | | | |
|---|---|---|---|---|
| | **Video and Broadband Solutions** | **Content Delivery and Storage** | **Telematics** | **Total** |
| **Sales** | $ 21,752 | $ 8,757 | $ 1,352 | **$ 31,861** |
| **Cost of sales** | 12,447 | 4,625 | 463 | **17,535** |
| **Gross profit** | 9,305 | 4,132 | 889 | **14,326** |
| Operating expenses | 7,389 | 4,073 | 440 | **11,902** |
| Depreciation and amortization | 2,184 | 1,450 | 202 | **3,836** |
| **Operating (loss) income** | (268) | (1,391) | 247 | **(1,412)** |
| Finance expense | (20) | (25) | - | **(45)** |
| Foreign exchange loss | (479) | (345) | (6) | **(830)** |
| **(Loss) income before taxes** | (767) | (1,761) | 241 | **(2,287)** |
| Income tax (recovery) expense | (1,383) | (1,370) | 61 | **(2,692)** |
| **Net income (loss) from continuing operations** | **616** | **(391)** | **180** | **405** |
| **Net income from discontinued operations** | **-** | **1,784** | **-** | **1,784** |
| **Net income** | **$ 616** | **$ 1,393** | **$ 180** | **$ 2,189** |

| | Three months ended March 31, 2020 | | | |
|---|---|---|---|---|
| | Video and Broadband Solutions | Content Delivery and Storage | Telematics | Total |
| Sales | $ 9,561 | $ 13,854 | $ 1,313 | $ 24,728 |
| Cost of sales | 5,082 | 6,479 | 392 | 11,953 |
| Gross profit | 4,479 | 7,375 | 921 | 12,775 |
| Operating expenses | 4,085 | 4,237 | 583 | 8,905 |
| Depreciation and amortization | 2,253 | 1,738 | 209 | 4,200 |
| Operating (loss) income | (1,859) | 1,400 | 129 | (330) |
| Finance expense | (215) | (21) | - | (236) |
| Foreign exchange gain (loss) | 1,973 | (55) | 35 | 1,953 |
| (Loss) income before taxes | (101) | 1,324 | 164 | 1,387 |
| Income tax (recovery) expense | (16) | 530 | 41 | 555 |
| Net (loss) income from continuing operations | (85) | 794 | 123 | 832 |
| Net loss from discontinued operations | - | (166) | - | (166) |
| Net (loss) income | $ (85) | $ 628 | $ 123 | $ 666 |

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

| | Nine months ended March 31, 2021 | | | |
|---|---|---|---|---|
| | **Video and Broadband Solutions** | **Content Delivery and Storage** | **Telematics** | **Total** |
| **Sales** | $ 51,815 | $ 32,991 | $ 4,051 | **$ 88,857** |
| **Cost of sales** | 29,479 | 16,367 | 1,341 | **47,187** |
| **Gross profit** | 22,336 | 16,624 | 2,710 | **41,670** |
| Operating expenses | 20,918 | 12,894 | 1,381 | **35,193** |
| Depreciation and amortization | 5,608 | 4,803 | 596 | **11,007** |
| **Operating (loss) income** | (4,190) | (1,073) | 733 | **(4,530)** |
| Finance income (expense) | 202 | (81) | (1) | **120** |
| Foreign exchange loss | (2,144) | (90) | (35) | **(2,269)** |
| **(Loss) income before taxes** | (6,132) | (1,244) | 697 | **(6,679)** |
| Income tax (recovery) expense | (1,802) | (1,434) | 177 | **(3,059)** |
| **Net (loss) income from continuing operations** | **(4,330)** | **190** | **520** | **(3,620)** |
| **Net income from discontinued operations** | **-** | **1,854** | **-** | **1,854** |
| **Net (loss) income** | **$ (4,330)** | **$ 2,044** | **$ 520** | **$ (1,766)** |

| | Nine months ended March 31, 2020 | | | |
|---|---|---|---|---|
| | Video and Broadband Solutions | Content Delivery and Storage | Telematics | Total |
| Sales | $ 25,393 | $ 39,739 | $ 4,036 | $ 69,168 |
| Cost of sales | 12,539 | 16,584 | 1,278 | 30,401 |
| Gross profit | 12,854 | 23,155 | 2,758 | 38,767 |
| Operating expenses | 11,590 | 13,209 | 1,734 | 26,533 |
| Depreciation and amortization | 5,022 | 4,854 | 629 | 10,505 |
| Operating (loss) income | (3,758) | 5,092 | 395 | 1,729 |
| Finance income (expense) | 603 | (77) | - | 526 |
| Foreign exchange gain (loss) | 1,806 | (60) | 35 | 1,781 |
| (Loss) income before taxes | (1,349) | 4,955 | 430 | 4,036 |
| Income tax (recovery) expense | (308) | 865 | 109 | 666 |
| Net (loss) income from continuing operations | (1,041) | 4,090 | 321 | 3,370 |
| Net loss from discontinued operations | - | (527) | - | (527) |
| Net (loss) income | $ (1,041) | $ 3,563 | $ 321 | $ 2,843 |

Geographical region

| | Three months | | Nine months | |
|---|---|---|---|---|
| Periods ended March 31, | **2021** | 2020 | **2021** | 2020 |
| **Sales to external customers:** | | | | |
| United States | **$ 23,935** | $ 19,543 | **$ 67,423** | $ 52,942 |
| Canada | **3,486** | 2,184 | **10,040** | 6,240 |
| Europe | **1,351** | 1,459 | **2,747** | 4,037 |
| Japan | **1,126** | 971 | **5,213** | 2,619 |
| Other | **1,963** | 571 | **3,434** | 3,330 |
| | **$ 31,861** | $ 24,728 | **$ 88,857** | $ 69,168 |

Sales to major customers

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

| | Three months | | Nine months | |
|---|---|---|---|---|
| Periods ended March 31, | **2021** | 2020 | **2021** | 2020 |
| Customer A | **$ 3,045** | $ 759 | **$ 11,693** | $ 12,851 |
| Customer B | **5,199** | 3,344 | **15,257** | 10,048 |
| Customer C | **6,348** | 2,620 | **14,224** | 8,754 |
| | **$ 14,592** | $ 6,723 | **$ 41,174** | $ 31,653 |

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

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

## 17. RELATED PARTY TRANSACTION

On March 31, 2021, Mr. Derek Elder, a member of the Board of Directors purchased 50,000 common shares of the Company at a subscription price of $14.25 per common share (the TSX closing price as at March 16, 2021), for a total aggregate subscription price of $713.

## 18. 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:

| | **March 31, 2021** | | | June 30, 2020 | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | Level 1 | Level 2 | Level 3 |
| Short-term investments | **$ -** | **$ -** | **$ -** | $ 17,165 | $ - | $ - |

During the nine months ended March 31, 2021, there were no transfers between the hierarchy levels.

## 19. FINANCIAL INSTRUMENTS

<u>Currency exposures</u>

Approximately 95% (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 income (loss) in foreign exchange (loss) gain. 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 March 31, 2021, the Company realized a net exchange gain of $214 (June 30, 2020 – unrealized gain of $101) on the settled forward purchase contracts.

## 20. SUPPLEMENTAL INFORMATION

The following tables provide details of the Company’s supplemental cash flow information for continuing operations:

<u>Depreciation and amortization – operating activities</u>

| | **Three months** | | **Nine months** | |
|---|---|---|---|---|
| Periods ended March 31, | **2021** | 2020 | **2021** | 2020 |
| Depreciation of property, plant and equipment | **$ 561** | $ 538 | **$ 1,754** | $ 1,581 |
| Depreciation of right-of-use assets | **410** | 343 | **1,115** | 1,027 |
| Amortization of deferred development costs | **2,157** | 2,409 | **5,741** | 5,196 |
| Amortization of finite-life intangible assets | **763** | 955 | **2,564** | 2,851 |
| **Total depreciation and amortization – operating activities** | **$ 3,891** | $ 4,245 | **$ 11,174** | $ 10,655 |

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

Net change in working capital – operating activities

| | Three months | | Nine months | |
|---|---|---|---|---|
| Periods ended March 31, | **2021** | 2020 | **2021** | 2020 |
| Accounts receivable | **$ (7,567)** | $ (8,187) | **$ (10,324)** | $ (10,413) |
| Inventories | **2,787** | 197 | **3,165** | (1,414) |
| Prepaid expenses | **(1,882)** | (144) | **(1,814)** | 1,171 |
| Contract assets | **303** | (212) | **176** | (186) |
| Current tax assets | **(10)** | 4 | **(13)** | 5 |
| Accounts payable and accrued liabilities | **3,214** | 5,120 | **3,128** | 3,588 |
| Deferred revenue | **5,266** | 1,179 | **6,766** | 993 |
| **Total change in net working capital** | **$ 2,111** | $ (2,043) | **$ 1,084** | $ (6,256) |

Capital expenditures, net – investing activities

| | Three months | | Nine months | |
|---|---|---|---|---|
| Periods ended March 31, | **2021** | 2020 | **2021** | 2020 |
| Capital expenditures before proceeds of disposition: | | | | |
| Property, plant and equipment | **$ (549)** | $ (562) | **$ (1,724)** | $ (1,696) |
| Intangible assets | **(494)** | (6) | **(601)** | (54) |
| Proceeds of disposition: | | | | |
| Property, plant and equipment | **64** | 1 | **64** | 258 |
| **Total capital expenditures, net** | **$ (979)** | $ (567) | **$ (2,261)** | $ (1,492) |

## 21. CONTRACTUAL OBLIGATION

The Nokia portfolio acquisition includes the assumption of a financial liability with a third-party supplier contract. As at March 31, 2021, the total contractual obligation is estimated to be $3,048.

## 22. SUBSEQUENT EVENT

On May 11, 2021, the Board of Directors declared a dividend of $0.055 per common share, payable on June 14, 2021 to shareholders of record as at May 21, 2021 consistent with its previously announced dividend policy.