



## **SECOND QUARTER RESULTS**

Unaudited Interim Consolidated Financial Statements

Three months ended December 31, 2008

February 13, 2009



## Dear Shareholders

Despite deteriorating macroeconomic conditions, Vecima continued to generate solid improvements in its financial performance across many key metrics including products shipped, revenue, gross margin and operating income. The improvement was supported by both a keen focus on substantial near-term opportunities in our Converged Wired business as well as gains in both our Wireless and YourLink operations.

For the quarter we made progress on a number of fronts including:

- announcing signing of a multi-year engineering, supply and maintenance contract with a leading, US-based Cable multiple system operator (MSO) for a new product for all-digital cable networks;
- signing of a supply agreement with Cisco® for a next generation upconverter module for use in the CMTS products;
- launching of FCC certified 3.65 GHz VistaMAX WiMAX-compliant base and subscriber stations; and
- subsequent to quarter end, announcing a partnership between Spectrum Signal Processing and LiveTV LLC to supply next generation radios for LiveTV's connectivity system permitting in-flight sending and receiving of email.

While not immune to worsening macroeconomic conditions, we will focus on executing our multi-prong growth strategy and working closely with key customers in an effort to mitigate volatility in the near-term and generate continued meaningful improvements in our financial performance over the longer-term.

## Continued Demand for Bandwidth

In tough economic times, consumers tend to reduce their leisure spending, electing to stay home and watch television and use the internet for entertainment. On this basis, we expect the demand for bandwidth to support social networking, file sharing and high-quality digital video to continue to be a growth driver for Vecima. We anticipate that MSOs, and the original equipment manufacturers (OEMs) that supply them, should remain under pressure to meet growing demand for bandwidth across their legacy hybrid fibre-coaxial networks and this will in turn translate into orders for high-speed internet-over-cable data transmitter modules and our products for processing communications between subscribers and the digital cable infrastructure.

## New Products to Support Growth

Over the past several years, Vecima has developed advanced infrastructure products to support new and innovative services including digital television, pay-per-view and video on demand. MSOs are under pressure to meet growing demand from consumers for a broader range of services including high definition television channels. Our new products facilitate the Cable MSOs transition to all-digital operation across entire networks, maximizing the value of existing infrastructure, while allowing them to continue to provide an expanded range of digital services, HDTV, basic analog cable TV services and internet access to subscribers. The global market for bandwidth reclamation products is expected to reach \$1.5 billion in the next five years as the industry-wide transition to all digital networks is completed.

In early October, Vecima announced a multi-year design, supply and maintenance contract for a new network infrastructure product for deployment by one of the largest cable MSOs in the US. For many years, we have enjoyed long-term supply relationships with major equipment manufacturers like Cisco and Motorola and have sold equipment to MSOs both directly and through our US distributor, Mega Hertz. However, this is our first direct long-term supply contract with a major MSO and demonstrates our



ability to deal directly with end customers and provide them with new and innovative products. We are making good progress in product development and have shipped prototype units for field testing.

The contract calls for the provision of a multiunit digital to analog converter (M-DTA). Most existing MDUs, like apartments, hotels, condo complexes, as well as nodes serving groups of homes, have an analog distribution plant that receives programming from a cable operator and redistributes it to each unit. By essentially creating its own headend; the MDU can add services like closed-circuit security cameras, special events notices, pay TV, etc. When the MSO converts analog backbone networks to all-digital signal carriage to reclaim bandwidth and to allow large increases in programming availability, the MDU headends need to reconvert the digital programming to analog to distribute services over the existing plant.

### **Staffing to Meet Growing Demand**

To meet this growing demand for our products, as an organization we have implemented process improvements and increased production staff levels in both Saskatoon and Victoria. We believe that our employees are valuable assets, vital to our future growth and Vecima ended the second quarter of fiscal 2009 with 923 employees representing an 11% increase from the 832 personnel at the end of December last fiscal year. Our ability to grow the number of products shipped by 13% to 34,800 units in the quarter, versus 30,800 a year ago, despite a shutdown over the holidays, demonstrates both the commitment and quality of our team.

### **Solid Financial Performance**

Vecima continued to see solid sales growth with revenue up 34% for the quarter and 37% for the year-to-date period with a portion of the improvement attributable to the weakening of the Canadian dollar. Even as we continued to invest in staffing and other initiatives to support growth, gross margin increased to 47% for the quarter, up from 40% in the three months ended December 31, 2007. Product mix and manufacturing efficiencies contributed to the increased gross margin.

With gross margin increasing significantly and operating expenses at a lower proportion of sales, operating income increased 172% to \$7.1 million, or \$0.31 per share, in the second quarter of fiscal 2009, compared with \$2.6 million, or \$0.11 per share, in the three months ended December 31, 2007. For the six months ended December 31, 2008, operating profit tripled to \$17.8 million, or \$0.77 per share, compared to \$5.4 million, or \$0.23 per share, in the first half of Fiscal 2008.

Deteriorating global economic conditions in recent months have brought high levels of volatility to the currency market, which has made managing foreign exchange very challenging. We previously entered into forward foreign exchange transactions to lock-in the value of United States dollars we would be receiving on \$44.0 million of our expected revenue for the fiscal year. The dramatic weakening of the Canadian dollar in late 2008 affected Vecima by increasing the value of sales and accounts receivable. Our expected US dollar receipts were sold forward at rates available in our first fiscal quarter that were much lower than at exercise and foreign exchange losses resulted in a significant decrease in net income before taxes. The foreign exchange loss for the six months ended December 31, 2008 was \$5.3 million compared to a gain of \$0.3 million in the same period last fiscal year. Of the total loss, \$3.7 million resulted from the mark-to-market of forward hedges falling due in the third and fourth quarters of fiscal 2009. If the Canadian dollar is stronger in the next six months than at December 31, 2008, we could show net gains on foreign exchange in Q3 and Q4. However, if the Canadian dollar weakens from the calendar year-end levels, Vecima could experience further losses on foreign exchange but only from changes in calendar 2009, not from the original contract values. Depending on the direction of movement in the Canadian dollar, we could see offsetting gains when collection of receivables are at more advantageous rates than existed on date of sale. Even in the face of foreign exchange losses, our disciplined focus on expenses translated into a second quarter net income of \$1.0 million, or \$0.04 per share, down from



---

\$2.6 million, or \$0.09 per share, in the second quarter last year. For the six months ended December 31, 2008, net income was \$8.8 million, or \$0.38 per share, more than double the \$4.3 million, or \$0.18 per share, in the first half of last fiscal year.

### **Growing the Business**

At Vecima, we are taking a multi-step approach that we believe will allow us to drive balanced growth going forward. In our core markets, we continue to target both increased penetration of existing OEM and MSO clients as well as broadening our customer base. We believe there are opportunities in our converged wired business for both analog reclamation products as well as solutions that support new digital formats, such as DOCSIS 3.0 and over the last few quarters we have focused on this business accordingly.

The increase in Broadband Wireless sales in the second quarter of fiscal 2009 resulted from growth in WiMAX and other wireless product sales. Although fixed WiMAX penetration has moved at a slower pace than expected, we increasingly believe there is a place for Vecima's products and that the Company is well positioned to take advantage of emerging opportunities. In addition, we continue to look for broader commercial opportunities for the software-defined radio technology acquired in the Spectrum Signal Processing transaction. During the quarter we made our first announcement in this regard, signing a partnership with LiveTV to supply next generation radios for their connectivity system that permits in-flight sending and receiving of email from aircraft.

The final piece of growth strategy involves sharpening our focus and maximizing the value of our non-core assets. We will continue to evaluate opportunities to sell our commercial spectrum and real estate assets and derive value for shareholders from these assets.

### **Outlook**

Vecima is not immune to current macroeconomic conditions and we are seeing signs of softening in demand as our customers conserve cash by reducing capital purchases. In the three months ended December 31, 2008, units shipped were 13% higher than for the second quarter in the prior year but unit shipments declined 8% from the first quarter of this fiscal year. Macroeconomic conditions have affected visibility and shipment requirements forecasting by our major customers, which will add even more 'lumpiness' to our quarterly results than we have experienced in the past. However, based on contracted and expected sales to our major customers and the introduction of our new M-DTA product, we expect that Vecima will continue to grow revenue in fiscal 2009 at historical levels of 20% to 30% on an annual basis. Since we have marked-to-market our foreign exchange contracts maturing from January to June, 2009, bottom-line impacts of foreign exchange movements should be substantially reduced in upcoming quarters.

I would like to thank all shareholders for their continued support during these challenging market conditions and reinforce our commitment to driving sustainable and profitable growth at Vecima. I look forward to updating all stakeholders on our progress in the next quarter.

Sincerely,

A handwritten signature in black ink, appearing to read "Dr. Surinder Kumar", written over a horizontal line.

Dr. Surinder Kumar  
President and CEO

**VECIMA NETWORKS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**February 13, 2009**

Management's discussion and analysis ("MD&A") provides a review of significant developments that have affected Vecima's performance during fiscal 2009. Factors that could affect future operations are also discussed. These factors may be affected by known and unknown risks and uncertainties that may cause the actual future results to be materially different from those expressed or implied in this discussion.

Management's discussion and analysis supplements, but does not form part of, the unaudited interim consolidated financial statements of Vecima and related notes for the period ended December 31, 2008. Consequently, the following discussion and analysis of the financial condition and results of operations for the Company should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the three months ended December 31, 2008 and December 31, 2007, which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) consistently applied.

Additional information regarding the Company, including its Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Financial Governance**

Vecima's management is responsible for the preparation and presentation of the unaudited interim consolidated financial statements and notes thereto, MD&A and other information contained in this interim report. Additionally, it is management's responsibility to ensure that the Company complies with the laws and regulations applicable to its activities.

The Company's management is accountable to the Board of Directors, each member of which is elected annually by the shareholders of the Company. The Board is responsible for reviewing and approving the unaudited interim 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 of management.

The auditors are appointed annually by the shareholders to conduct an audit of the 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.

### **Disclosure Controls and Procedures**

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") will be making certifications related to the information in the Company's quarterly filings (as defined in Multilateral Instrument 52-109) with the securities regulatory authorities. The CEO and CFO are required to certify that they are responsible for establishing and maintaining disclosure controls and procedures and have designed such disclosure controls and procedures (or caused such disclosure controls and procedures to be designed under their supervision) to ensure that the material information with respect to the Company is made known to them and that they have evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by these annual filings. Disclosure controls and procedures are designed to ensure that information required to be disclosed by Vecima in reports filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. Vecima and its subsidiaries are relatively small and operate in a very integrated management environment. That is, senior management is in constant contact with many of the Company's staff, suppliers, customers, regulators and the like on an ongoing and detailed basis. This allows one or more members of senior management to be in a position where they are more likely than not to be aware of material events or

information. Nevertheless, Vecima's management, including the CEO and CFO, does not expect that disclosure controls will prevent or detect all misstatements due to error or fraud. Because of the inherent limitations in all control systems, an evaluation of control can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, have been detected. Vecima has adopted or formalized such disclosure controls and procedures as it believes are necessary and consistent with its business and internal management and supervisory practices. Under the supervision and with the participation of the CEO and CFO, Vecima's management has evaluated the effectiveness of the design and operation of its disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that, as at December 31, 2008, the Company's disclosure controls and procedures were effective.

## **Company Overview**

Vecima Networks Inc. is a Canadian company, originally founded in Saskatoon, Saskatchewan in 1988. In the 20 years since the Company's inception, it has grown to 924 people as of December 31, 2008. Vecima has operations in Toronto, Saskatoon, Calgary, Burnaby, Victoria and Columbia, Maryland (near Washington, D.C.). Vecima also has operations overseas with a sales office in Australia and a software development facility in Mangalore, India. We sell our products to original equipment manufacturers (OEMs), system integrators, multiple system operators (MSOs) and other service providers. YourLink's services are sold to residential and business subscribers in a number of communities in Western Canada.

Vecima's business is built on the design and manufacturing of products that provide solutions to customers for the transfer of data on cable and wireless networks. Its hardware products incorporate embedded software developed by Vecima to meet the complex requirements of next generation high-speed digital networks. Service providers use Vecima's solutions to deliver services to a converging worldwide broadband market, including what are commonly known as "triple play" (voice, video and data) and "quadruple play" (voice, video, data and wireless) services. Vecima's cost-effective solutions allow service providers to bridge the final network segment that connects a system directly to end-users, commonly referred to as "the last mile", by overcoming the bottleneck resulting from restricted capacity in legacy last-mile infrastructures.

Virtually insatiable consumer demand for bandwidth and digital video streaming (brought about in part by the emergence of social networking, file sharing, and increasingly personalized television offerings) has generated the necessity for advanced infrastructure products for digital television and data-over-cable services. MSOs and the OEMs that supply them are under increased pressure to meet an ever increasing demand for bandwidth across their legacy hybrid fibre-coaxial networks while competing with expanded offerings from traditional telcos wanting to leverage multibillion dollar investments in new all-fibre optic networks. This has in turn translated into very high demand for high-speed internet-over-cable data transmitter modules and our new return path demodulator (for interactive communications between subscribers and the digital cable infrastructure) from our OEM customers and strong sales of edge devices to MSOs.

Vecima has manufactured high-speed internet-over-cable data transmitters for more than ten years. These devices are made to the standards of the Data over Cable Service Interface Specification (commonly referred to as DOCSIS<sup>®</sup>, a set of standards developed by the cable industry) that allows products from various manufacturers to interoperate effectively and therefore to provide lower product prices through competition. Vecima is proud of the fact that more than 50% of the high-speed internet-over-cable data traffic in the world is transmitted across devices manufactured in Saskatoon.

DOCSIS<sup>®</sup> 2.0 provides more than 38 Mbps of downstream data transmission to subscribers with 38 Mbps upstream from subscribers in its maximum throughput configuration. In the early days of the internet, MSOs provisioned one 38 Mbps channel for up to 2,500 subscribers. The predominant usage was for e-mail, which was not bandwidth intensive. With the rapidly increasing demand for data bandwidth and digital video streaming, MSOs have increased the number of channels available and now commonly provision a 38 Mbps channel for 50 subscribers. DOCSIS<sup>®</sup> 2.0 systems have been installed around the world and operators are continuously adding transmitters to provide additional bandwidth. We see this activity continuing for 3 to 5 years.

In the past fiscal year, Vecima introduced its first DOCSIS<sup>®</sup> 3.0 based devices. This new standard provides for the bonding together of multiple 38 Mbps channels providing upwards of 150 Mbps of downstream bandwidth to subscribers. There is also increased symmetry with higher upstream bandwidth provided for applications that require high levels of interactivity and P2P traffic. These services can compete directly with fibre provided by telcos. Important markets are enterprise customers and subscribers with requirements for file sharing and video streaming. The new standard is extremely stringent and difficult to achieve. Many in the electronics industry believed that it could not be met without relaxation of some specifications. Vecima's successful demonstration of channel bonding 18 months ago helped MSOs to insist that new products meet the DOCSIS<sup>®</sup> 3.0 Standard. We believe we will maintain our traditional market leadership in high-speed internet-over-cable data transmitters with a wide range of modules and stand-alone devices.

Over the past several years, Vecima has developed advanced infrastructure products for digital television, pay-per-view and video on demand. MSOs, and the OEMs that supply them, are under increased pressure to meet growing demand for bandwidth across their legacy hybrid fibre-coaxial cable networks while competing to provide a broader range of high definition television channels to subscribers. Up to ten digital video signals can be carried in the same bandwidth required for one traditional analog video signal. By converting 10 analog TV signals to digital, up to 100 new video signals can be provided to subscribers. Therefore, cable MSOs want to transition to all-digital operation across their entire backbone networks to maximize the value of existing infrastructure. They then reconvert digital signals to analog just before transmission to subscribers. This allows continued provision of digital services, HDTV, basic analog cable TV services and internet access.

In early October, Vecima announced a multi-year design, supply and maintenance contract for a new network infrastructure product for a significant deployment by one of the largest cable MSOs in the US. For many years, we have had long-term supply relationships with major OEMs like Cisco, Motorola and BigBand. And for more than a decade, we have sold equipment to MSOs, both directly and through our US distributor, Mega Hertz. The new contract is Vecima's first direct long-term supply contract with a major MSO. We delivered prototypes of the new product in the second quarter of our 2009 fiscal year and expect to deliver early production volumes late in our third fiscal quarter.

The new contract calls for supplying a multiunit digital-to-analog converter (M-DTA). Most existing multi-dwelling units (MDUs) like apartments, hotels, condo complexes and nodes serving groups of homes, have an existing analog distribution structure that receives programming from a cable operator and redistributes it to each unit. Using Vecima's new M-DTA, the MDU can add services like closed-circuit security cameras, special events notices, video-on-demand, customized channel line-ups, etc. When the MSO converts its analog backbone network to all-digital signal carriage to reclaim bandwidth and to allow large increases in programming availability, the M-DTA reconverts the digital programming to analog to distribute services over the existing physical infrastructure. Vecima's new product facilitates the Cable MSO's transition to all-digital operation across its entire network, maximizing the value of existing infrastructure, while allowing them to continue to provide both high quality digital services and basic analog cable TV services to subscribers.

According to industry studies, the global market for bandwidth reclamation products is expected to reach \$1.5 billion in the next five years as the industry-wide transition to all digital networks is completed. Our exciting new MSO contract is part of our broader growth strategy, as we continue to exploit opportunities to develop products with innovative technologies that meet the needs of our customers and we believe we are well positioned to capture a meaningful piece of this market. Vecima's new products allow cable MSOs to reclaim analog spectrum all the way to an MDU or a network node servicing group of households, at the very outer edge of the network. This increases available bandwidth for the 100+ HDTV channel race and provides additional revenue generating opportunities for cable MSOs.

Vecima has developed strong competencies in modern electronic manufacturing. We continually invest in test automation, manufacturing technologies and computer-controlled process to reduce our manufacturing costs. During the last fiscal year we added a third surface mount technology (SMT) line to our plant in Saskatoon. This facility has successfully met the extremely stringent qualification requirements to allow us to directly manufacture products for Cisco Systems and Motorola, our largest OEM customers.

We periodically put products out to tender to determine if cost reductions would be available by using contract manufacturers. To date, we have found that outsourcing is more expensive than self-manufacture, particularly for the cost of components. Both our R&D and procurement staff is adept at searching out the lowest cost material for our devices. Contract manufacturers tend to price based on the number of components placed, while passing-through component costs to their customers. They have little incentive to minimize component costs. Additionally, one of Vecima's key operational strengths is our ability to achieve short time-to-market for sophisticated products. Having supply lines that stretch across the globe would significantly reduce our ability to rapidly design and deliver new products, or variations of current products, to rapidly address our customer's requirements.

Another of Vecima's key operational strengths is the significant number of subsystem designs we have developed over the years. These subsystems perform numerous functions for data processing, digital video transformation and RF signal manipulation. We regularly package various combinations of subsystems from this library of designs to decrease the development time for new products to meet needs defined by our customers. We then employ our sophisticated production processes to manufacture products in various form factors and with the various options desired. The internally-developed manufacturing processes provide specific sequences of testing, calibration and parameter establishment.

The manufacturing processes improve production efficiencies and protect our intellectual property. Modern electronic devices are constantly under threat of being reverse engineered, although it has become more tedious and time-consuming with increasingly complex designs. Replication of the production process is more difficult since the manufacturing processes are not part of the embedded software in devices; at Vecima, the intelligence stays in the factory. Copyists face the difficult iterative task imposed by the myriad of permutations and combinations of levels, parameters and test settings from dozens of subsystems contained in a device. Without access to the manufacturing processes, reverse engineering becomes a daunting exercise. This is also one of the issues we have with moving our production to contract manufacturers. Vecima is reluctant to put its manufacturing processes in the hands of outside agents.

Vecima's sales increased 34% to \$36.9 million for the three months ended December 31, 2008, compared with \$27.4 million for the three months ended December 30, 2007. Sales for the six months ended December 31, 2008 increased 37% to \$73.6 million from \$53.8 million in the first half of last fiscal year. Sales were assisted by foreign exchange developments as we received more Canadian dollars for our sales denominated in United States dollars. Vecima is not immune to current macroeconomic conditions and we are seeing signs of softening in demand as our customers conserve cash by reducing capital purchases. In the three months ended December 31, 2008, our units shipped were 13% higher than for the second quarter last year but unit shipments declined 8% from last quarter.

Converged Wired Solutions sales increased 33% to \$26.9 million, from \$20.3 million in the second quarter of fiscal 2008. The strong growth in Converged Wired Solutions is a result of strong demand for both OEM modules and digital video equipment. Broadband Wireless sales increased 46% to \$7.2 million in the three months ended December 31, 2008, compared to \$4.9 million in the second quarter of fiscal 2008. The increase in Broadband Wireless sales results from growth in WiMAX and other wireless product sales. YourLink sales increased 26% to \$2.8 million, compared with \$2.2 million for the three months ended December 31, 2007.

In the six months ended December 31, 2008, Converged Wired Solutions sales increased 47% to \$56.2 million, from \$38.2 million in the first six months of fiscal 2008. The strong growth in Converged Wired Solutions is a result of strong demand for both OEM modules and digital video equipment. Broadband Wireless sales increased 7% to \$12.3 million in the six months ended December 31, 2008, compared to \$11.5 million in the second quarter of fiscal 2008. The increase resulted from growth in sales of WiMAX and other wireless products. In the first six months of fiscal 2009, YourLink sales increased 25% to \$5.2 million, compared with \$4.1 million for the six months ended December 31, 2007.

We sell our products to OEM, system integrators, MSOs and other service providers. Revenue from four key customers represented approximately 70% of our revenue for the three months ended December 31, 2008, compared to approximately 72% of our revenue for the three months ended December 31, 2007. For the first

six months of fiscal 2009, revenue from four key customers represented approximately 72% of total revenue, compared to approximately 62% of our revenue for the six months ended December 31, 2007.

The geographic breakdown of our sales for the three months ended December 31, 2008, with the values for the second quarter of last fiscal year shown in brackets, was Canada 14% (13%), United States 49% (57%), Thailand 29% (28%), Israel 1% (1%) and other regions 7% (1%). The geographic breakdown of our sales for the six months ended December 31, 2008, with the values for the first half of fiscal 2008 shown in brackets, was Canada 12% (13%), United States 49% (49%), Thailand 31% (26%), Israel 2% (10%) and other regions 5% (2%).

YourLink's services are sold to residential and business subscribers in a number of communities in Western Canada. YourLink subscribers decreased 8% to 6,409 in the BC cable operations at December 31, 2008 compared with 6,966 subscribers at December 31, 2007. Saskatchewan wireless subscribers grew 27% to 10,501 at December 31, 2008, compared with 8,289 subscribers at December 31, 2007.

We normally experience significant fluctuations in quarterly revenue. Our customers do not have capital budgets that contemplate consistent spending over the course of the period. This trend is exacerbated by the discontinuous nature of broadband wireless sales, where significant expenditures on base stations are followed by recurring smaller purchases of customer premises equipment (CPEs) as customers add subscribers gradually over time. Additionally, we close our manufacturing operations for a summer vacation period and a Christmas break, which results in a 10% reduction in potential output in the first half of the fiscal year. Vecima is not immune to current macroeconomic conditions and we are seeing signs of softening in demand as our customers conserve cash by reducing capital purchases. In the three months ended December 31, 2008, our units shipped were 13% higher than for the second quarter last year but unit shipments declined 8% from last quarter.

## **Sources of Sales and Expenses**

### ***Sales***

We generate product sales principally from sales of our Converged Wired Solutions and Broadband Wireless products to OEMs, system integrators, MSOs, distributors and other service providers around the world. We generate service revenue in YourLink Inc. from subscribers to voice, video and data services.

### ***Cost of Sales***

Cost of sales consists primarily of costs of manufacturing and assembly of products. A substantial portion of these costs is composed of components and compensation costs for the manufacture and assembly of products. Cost of product revenue also includes related overhead, compensation, final assembly, quality assurance, inventory management, support costs and payments to contract manufacturers that perform printed circuit board stuffing functions. Cost of service revenue consists of the costs of purchased program content, back-haul costs for connection to the Internet and the costs of operating the cable and wireless infrastructure.

### ***Operating Expenses***

Research and development expenses consist primarily of salaries and related expenses for engineering personnel, the costs of prototypes and consumables and the costs of amortizing previously deferred development costs.

Sales and marketing expenses consist primarily of costs relating to personnel and to our sales and marketing activities, including salaries and related expenses, advertising, trade shows and other promotional activities and materials.

General and administrative expenses consist primarily of costs relating to the maintenance of our buildings, administrative and financing functions, legal and professional fees, insurance, the operating costs of YourLink systems and other corporate and overhead expenses.

## Selected Consolidated Financial Information and Other Data

The following selected financial information for the three months and six ended December 31, 2008 and 2007 has been derived from our unaudited interim consolidated financial statements for the three months and six ended December 31, 2008, a copy of which is included in this report. You should read the following information in conjunction with those financial statements and the related notes and with the balance of "Management's Discussion and Analysis" included in this quarterly report.

### Consolidated Statement of Income

Data: (in thousands of dollars except percentages, employees and per-share amounts)	Three months ended December 31,				Six months ended December 31,			
	2008		2007		2008		2007	
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
Sales	\$36,874	100%	\$27,437	100%	\$73,647	100%	\$53,804	100%
Cost of sales	19,574	53%	16,471	60%	37,665	51%	32,232	60%
Gross profit	17,300	47%	10,966	40%	35,982	49%	21,572	40%
Gross margin (%)	47%		40%		49%		40%	
Operating expenses:								
Research and development <sup>(1)</sup>	2,765	7%	2,690	10%	5,215	7%	5,478	10%
Sales and marketing	1,722	5%	1,503	5%	3,212	4%	2,971	6%
General and administrative	5,344	14%	3,911	14%	9,298	13%	7,180	13%
Stock-based compensation	135	0%	135	0%	270	0%	267	0%
Interest expense	207	1%	110	0%	221	0%	232	0%
Total operating expenses	10,173	28%	8,349	30%	18,216	25%	16,128	30%
Operating income	7,127	19%	2,617	10%	17,766	24%	5,444	10%
Foreign exchange (loss) gain	(5,698)	(15%)	(31)	(0%)	(5,302)	(7%)	267	0%
Other income	12	0%	198	1%	160	0%	436	1%
Income before income taxes	1,441	4%	2,784	10%	12,624	17%	6,147	11%
Income taxes	430	1%	749	3%	3,805	5%	1,875	3%
Net income	\$1,011	3%	\$2,035	7%	\$8,819	12%	\$4,272	8%

### Net income per share<sup>(2)</sup>

Basic and diluted	\$0.04	\$0.09	\$0.38	\$0.18
-------------------	--------	--------	--------	--------

### Other Data (unaudited)

Total research and development expenditures	\$4,970	\$3,741	\$9,326	\$7,229
Percentage of sales	13%	14%	13%	13%
Standardized EBITDA <sup>(3)</sup>	\$4,801	\$4,632	\$17,175	\$9,532
Standardized EBITDA margin (%)	13%	17%	23%	18%
Number of employees	923	832	923	832

<sup>(1)</sup> Net of investment tax credits and capitalized development costs

<sup>(2)</sup> Based on weighted average number of Common Shares outstanding

<sup>(3)</sup> Earnings before interest, income taxes, depreciation and amortization

<b>Consolidated Balance Sheet Data:</b> (in thousands of dollars except number of Common	<b>December 31, 2008</b>	<b>June 30, 2008</b>
	<b>(Unaudited)</b>	
Cash and cash equivalents	\$ 7,207	\$ 2,010
Working capital	59,743	51,713
Total assets	153,724	144,419
Total long-term debt	4,333	4,458
Shareholders' equity	\$ 124,950	\$ 115,963
Number of Common Shares outstanding <sup>(1)</sup>	22,955,983	23,151,103

<sup>(1)</sup> Based on weighted average number of Common Shares outstanding

The following table reconciles net income for the period to Standardized EBITDA. The term "EBITDA" refers to net income or net loss before discontinued operations as reported in the GAAP financial statements, including that net income or net loss related to any non-controlling interest, excluding any amounts included in net income or net loss for income taxes, interest expense, and amortization and impairment charges for capital assets. We believe that EBITDA is useful supplemental information as it provides an indication of the revenue generated by our main business activities before the costs of consuming capital assets, financing and taxes. EBITDA is a measure of income, specifically directed at our operating performance without the effects of our financing strategy or the recognition of certain costs for our tangible and intangible capital assets. The term "Standardized EBITDA" represents an indication of our continuing capacity to generate income from operations before taking into account management's financing decisions and the costs of consuming tangible and intangible capital assets, which vary according to their vintage, technological currency and management's estimate of their useful life. Accordingly, Standardized EBITDA comprises revenues less operating costs before interest expense, capital asset amortization and impairment charges and income taxes. Standardized EBITDA is not a recognized measure under GAAP and, accordingly, investors are cautioned that Standardized EBITDA should not be construed as an alternative to net income, determined in accordance with GAAP, as an indicator of our financial performance or as measures of our liquidity and cash flows.

<b>Calculation of Standardized EBITDA</b> (in thousands of dollars except percentages)	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>December 31, 2008</b>	<b>2007</b>	<b>December 31, 2008</b>	<b>2007</b>
<b>(Unaudited)</b>				
Net income	\$ 1,011	\$ 2,035	\$ 8,819	\$ 4,272
Income taxes	430	749	3,805	1,875
Interest expense	207	110	221	232
Amortization of capital assets	2,166	1,249	2,841	2,166
Amortization of deferred development costs	959	479	1,469	959
Amortization of other assets	28	10	20	28
<b>Standardized EBITDA</b>	<b>\$ 4,801</b>	<b>\$ 4,632</b>	<b>\$ 17,175</b>	<b>\$ 9,532</b>
Standardized EBITDA margin (%)	13%	17%	23%	18%

The following table reconciles research and development expense reported in accordance with GAAP as shown on the income statement for the period ended December 31, 2008 and 2007 to our actual research and development expenses.

Calculation of Total R&D expense (in thousands of dollars except percentages) (Unaudited)	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Research and development expense as shown on income statement	\$ 2,765	\$ 2,690	\$ 5,215	\$ 5,478
Deferred development	2,801	750	4,582	1,500
Investment tax credits	32	780	362	1,210
Technology Partners Canada contribution	331	-	636	-
Amortization of deferred development costs	(959)	(479)	(1,469)	(959)
Total research and development expense	\$ 4,970	\$ 3,741	\$ 9,326	\$ 7,229
Percentage of sales	13%	14%	13%	13%

### Selected Quarterly Consolidated Financial Information and Other Data

(in thousands of dollars except for net income per share data)

(Unaudited)	Fiscal Year 2009			Fiscal Year 2008		Fiscal Year 2007		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
							(restated)	
Sales	\$ 36,874	\$ 36,773	\$ 36,366	30,387	27,437	26,367	26,313	24,119
Cost of sales	19,574	18,091	20,018	17,557	16,471	15,761	16,167	14,476
Gross Margin	17,300	18,682	16,348	12,830	10,966	10,606	10,146	9,643
Operating expenses								
Research and development	2,765	2,450	971	2,473	2,690	2,788	2,901	1,847
Sales and marketing	1,722	1,490	1,974	1,938	1,503	1,468	1,513	1,113
General and administrative	5,344	3,954	4,918	4,098	3,911	3,269	3,721	2,965
Stock-based compensation	135	135	56	114	135	132	105	130
Interest expense	207	14	226	150	110	122	154	104
	10,173	8,043	8,145	8,773	8,349	7,779	8,394	6,159
Operating income	7,127	10,639	8,203	4,057	2,617	2,827	1,752	3,484
Foreign exchange (loss) gain	(5,698)	396	264	274	(31)	298	(20)	68
Other income	12	148	174	234	198	238	1,012	395
Income before income taxes	1,441	11,183	8,641	4,565	2,784	3,363	2,744	3,947
Income taxes	430	3,375	4,210	1,403	749	1,126	(414)	1,480
Net income before extraordinary items	1,011	7,808	4,431	3,162	2,035	2,237	3,158	2,467
Extraordinary gain	-	-	-	-	-	-	4,509	-
Net income	\$ 1,011	\$ 7,808	\$ 4,431	3,162	2,035	2,237	7,667	2,467
Net income per share								
Basic and diluted – before extraordinary gain	\$ 0.04	\$ 0.34	\$ 0.18	\$ 0.14	\$ 0.09	\$ 0.10	\$ 0.14	\$ 0.11
Basic and diluted – after extraordinary gain	\$ 0.04	\$ 0.34	\$ 0.18	\$ 0.14	\$ 0.09	\$ 0.10	\$ 0.33	\$ 0.11

## Second Quarter Financial Highlights

### Revenue

Vecima reports revenues broken down into three overall market segments: Converged Wired Solutions, Broadband Wireless and YourLink (service provision). Convergence has taken place in the cable industry as video and data services unify to use the same delivery technology over the MSO's hybrid fibre-coax cable network. The lines continue to blur between digital video and highspeed data in a technological sense. Vecima's products are used to provide both types of service, often within the same chassis itself. For example, Vecima's next generation universal edge QAM (the HyperQAM) could be provisioned by a single customer to use a portion of the QAM channels for switched digital video, other QAMs for DOCSIS<sup>®</sup> 3.0 data services and still others for broadcast digital video, high definition TV broadcast or video on demand. A customer could provision one or all of these services within a single HyperQAM chassis.

Our total sales increased 34% to \$36.9 million for the three months ended December 31, 2008 compared with \$27.4 million for the three months ended December 31, 2007.

Revenue by Core Market: (in thousands of dollars except percentages)	Three months ended December 31,			
	2008		2007	
		% of Sales		% of Sales
(Unaudited)				
Converged Wired Solutions	\$ 26,918	73%	\$ 20,312	74%
Broadband Wireless	7,196	20%	4,943	18%
YourLink	2,760	7%	2,182	8%
Total Revenue	\$ 36,874	100%	\$ 27,437	100%

Our sales in the Converged Wired Solutions increased 33% to \$26.9million for the three months ended December 31, 2008, compared with \$20.3 million in the three months ended December 31, 2007. The increase is due to strong sales of our CableVista edge decoder to MSOs and solid growth in data-over-cable transmitters.

Broadband Wireless sales increased 46% to \$7.2 million for the three months ended December 31, 2008 compared with \$4.9 million for the three months ended December 31, 2007. The strength in wireless sales was a result of growth in sales for both WiMAX and BWIN products.

YourLink revenue increased 26% to \$2.8 million for the three months ended December 31, 2008, compared to \$2.2 million in the three months ended December 31, 2007. YourLink's revenue increase resulted from significant increases in both enterprise and residential installations.

### Gross margin

Vecima was able to increase gross margin to 47% providing a gross profit of \$17.3 million, compared with a gross margin of 40% for the three months ending December 31, 2007 that provided a gross profit of \$11.0 million. This improvement was driven by the strengthening of the US dollar, increases in manufacturing efficiencies and mix of products manufactured. While a gross margin of 47% is not sustainable in the long run, we believe margins will continue to be at the higher end of our traditional model of 35% to 40% gross margin.

### Operating expenses

Research and development expenses for the three months ended December 31, 2008 increased 3% to \$2.8 million, or 7% of revenue, compared with \$2.7 million, or 10% of revenue, for the same period in the prior fiscal year. The increase in research and development expense was marginal due to an increase deferment

of R&D expenses. GAAP rules require that we defer development costs for products that are not yet in commercial production. During the second quarter of the 2009 fiscal year, we continued to work on the new M-DTA product for a major MSO in the US. Since the product is not yet in commercial production, the development costs are deferred to future periods. Total research and development costs net of deferrals, amortization of deferred development costs, income tax credits and Technology Partners Canada funding for the three months ended December 31, 2008 were \$5.0 million, or 13% of sales, compared to \$3.7 million, or 14% of sales for the three months ended December 31, 2007.

*Sales and marketing expense* was \$1.7 million for the three months ended December 31, 2008, an increase of \$0.2 million compared to the \$1.5 million for the three months ended December 31, 2007. Sales and marketing expenses were 5% of sales for the second quarter of fiscal 2009, the same rate as in the second quarter last fiscal year.

*General and administrative expenses* for the three months ended December 31, 2008 increased \$1.4 million to \$5.3 million, compared with \$3.9 million in the three months ending December 31, 2007. The increase was in line with the increase in sales, resulted from increased amortization, and increased operating costs in the SaskWireless Division of YourLink.

*Stock-based compensation expenses* for the three months ended December 31, 2008 were \$0.1 million, essentially the same as for the three months ended December 31, 2007. The expense reflects the continual amortization of the stock options issued in prior periods.

*Operating expenses* for the three months ended December 31, 2008 increased 22% to \$10.2 million, or 28% of sales, compared with \$8.4 million, or 30% of sales, for the three months ended December 31, 2007. In the same time period, sales increased 34%.

*Operating income* increased 172% to \$7.1 million, or \$0.31 per share, in the second quarter of fiscal 2009, compared with \$2.6 million, or \$0.11 per share, in the three months ended December 31, 2007. This increase resulted from the significant increase in gross margin coupled with operating expenses at a lower proportion of sales compared to the same period last year.

*Foreign currency fluctuations* resulted in a loss of \$5.7 million for the three months ended December 31, 2008 compared with a loss of less than \$0.1 million in the three months ended December 31, 2007. The sudden drop of the Canadian dollar in the month of October resulted in significant losses on the company's foreign exchange contracts (see Foreign Exchange discussion on Page 17).

*Income taxes* for the three months ended December 31, 2008 were \$0.4 million, compared with \$0.7 million for the three months ended December 31, 2007. This is consistent with our average tax rate of about 30% that has declined from 33% in prior years as a result of federal tax rate decreases.

*Net income* for the second fiscal quarter decreased to \$1.0 million, compared with \$2.0 million in the three months ended December 31, 2007. Net margin was 3% for the three months ended December 31, 2008, compared with 7% for the second quarter last fiscal year.

### ***Cash from Operating Activities***

For the three month period ended December 31, 2008, operations generated \$14.0 million in cash compared to a use of cash of \$3.0 million in the three month period ended December 31, 2007. The majority of the change came from the contribution of \$9.9 million in cash from non-cash working capital relating to operations, compared to a consumption of \$7.1 million in the second quarter of the prior year. The most significant items were decreases in accounts receivable and increases in accounts payable.

### ***Investing Activities***

Our investing activities in the three months ended December 31, 2008 consisted primarily of product development costs and the purchase of capital assets. Investing activities consumed \$4.2 million in cash in the three months ended December 31, 2008. We used \$2.5 million to purchase equipment and undertake

capital renovations and we used \$1.7 million in cash to fund deferred development costs net of investment tax credits. In the three months ended December 31, 2007, the company spent \$2.8 million on property and equipment and \$0.3 million on development costs net of investment tax credits.

### **Financing Activities**

In the three month period ended December 31, 2008, the company had a net financing cash outflow of \$0.1 million, used to buy back shares under our Normal Course Issuer Bid and to repay long-term debt. This compares to \$0.5 million cash used for the same purposes in the three months ended December 31, 2007.

As at December 31, 2008, our revolving loan facility amounted to \$23.8 million, of which a net of \$nil was drawn as an operating line of credit and \$4.6 million was drawn as mortgages on real property. As at December 31, 2007, \$7.5 million was drawn as an operating line of credit and \$4.8 million was drawn as mortgages on real property. We believe that our current cash and short-term investments and anticipated cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future.

### **Year to Date Financial Highlights**

#### **Revenue**

Our total sales increased 37% to \$73.6 million for the six months ended December 31, 2008 compared with \$53.8 million for the six months ended December 31, 2007.

<b>Revenue by Core Market:</b> (in thousands of dollars except percentages)	<b>Six months ended December 31,</b>					
	<b>2008</b>			<b>2007</b>		
		<b>% of</b>		<b>% of</b>		
		<b>Sales</b>	<b>Sales</b>	<b>Sales</b>	<b>Sales</b>	
(Unaudited)						
Converged Wired Solutions	\$	<b>56,196</b>	<b>76%</b>	\$	38,173	71%
Broadband Wireless		<b>12,278</b>	<b>17%</b>		11,491	21%
YourLink		<b>5,173</b>	<b>7%</b>		4,140	8%
<b>Total Revenue</b>	<b>\$</b>	<b>73,647</b>	<b>100%</b>	<b>\$</b>	<b>53,804</b>	<b>100%</b>

Our sales in the Converged Wired Solutions markets increased 47% to \$56.2 million for the six months ended December 31, 2008, compared with \$38.2 million in the six months ended December 31, 2007. The increase is due to strong sales of our CableVista edge decoder and to solid growth in data-over-cable transmitter modules.

Broadband Wireless sales increased 7% to \$12.3 million for the six months ended December 31, 2008 compared with \$11.5 million for the six months ended December 31, 2007. The growth is can be attributed to an increase in both our BWIN products and our WiMAX products.

YourLink revenue increased 25% to \$5.2 million for the six months ended December 31, 2008, compared to \$4.1 million in the six months ended December 31, 2007. YourLink's revenue increased due to growth in both residential and enterprise customers.

#### **Gross margin**

Vecima was able to increase gross margin to 49%, providing a gross profit of \$36.0 million in the first six months of fiscal 2009, compared with a gross margin of 40% for the six months ending December 31, 2007 that provided a gross profit of \$21.6 million. This improvement was driven increases in manufacturing efficiencies and the mix of products manufactured. While a gross margin of 49% is not sustainable in the long

run, we believe margins will continue to be at the higher end of our traditional model of 35% to 40% gross margin.

### **Operating expenses**

*Research and development expenses* for the six months ended December 31, 2008 decreased 5% to \$5.2 million, or 7% of revenue, compared with \$5.5 million, or 10% of revenue, for the same period in the prior fiscal year. GAAP rules require that we defer development costs for products that are not yet in commercial production. During the first half of the 2009 fiscal year, we began work on the new M-DTA product for a major MSO in the US. Since the product is not yet in commercial production, the development costs are deferred to future periods. Total research and development costs including net deferrals of development costs, income tax credits and Technology Partners Canada funding for the six months ended December 31, 2008 were \$9.3 million, or 13% of sales, up from \$7.2 million, or 13% of sales, for the six months ended December 31, 2007.

*Sales and marketing expense* was \$3.2 million for the six months ended December 31, 2008, up 8% from the six months ended December 31, 2007. Sales and marketing expenses were 4% of sales for the first two quarters of fiscal 2009, compared with 6% of sales last year.

*General and administrative expenses* for the six months ended December 31, 2008 increased 29% to \$9.3 million, compared with \$7.2 million in the six months ending December 31, 2007. The company continues to carefully manage administrative expenses which increased at a slower rate than the increase in sales.

*Stock-based compensation expenses* for the six months ended December 31, 2008 were \$0.3 million, essentially the same as for the six months ended December 31, 2007. The expense reflects the continual amortization of the stock options issued in prior periods.

*Operating expenses* for the six months ended December 31, 2008 increased 13% to \$18.2 million, or 25% of sales, compared with \$16.1 million, or 30% of sales, for the six months ended December 31, 2007. In the same time period, sales increased 37%.

*Operating income* increased 226% to \$17.8 million, or 77¢ per share, in the first two quarters of fiscal 2009, compared with \$5.4 million, or 23¢ per share, in the six months ended December 31, 2007. This increase resulted from the significant increase in gross margin coupled with operating expenses holding at a low level.

*Foreign currency fluctuations* resulted in a loss of \$5.3 million for the six months ended December 31, 2008 compared with a gain of \$0.3 million in the six months ended December 31, 2007. Approximately 90% of revenue was denominated in United States dollars for the six months ended December 31, 2008, which is consistent with previous periods (see Foreign Exchange discussion on Page 17).

*Income taxes* for the six months ended December 31, 2008 were \$3.8 million, compared with \$1.9 million for the six months ended December 31, 2007. This is consistent with our average tax rate of about 30% which has declined from 31% last year as a result of federal tax rate decreases.

*Net income* for the first half of fiscal 2009 increased 106% to \$8.8 million, compared with \$4.3 million in the six months ended December 31, 2007. Net margin was 12% for the six months ended December 31, 2008, compared with 8% for the first half of last fiscal year.

### **Liquidity and Capital Resources**

Until our initial public offering of shares in November 2005, we had historically financed our operations primarily through cash generated from operations and periodic mortgage financing on our facilities.

## ***Working Capital***

Working capital represents the Company's current assets less current liabilities. Vecima's working capital remained strong at \$59.7 million at December 31, 2008 up from \$51.7 million at June 30, 2008. Working capital balances are 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 million or \$6 million in a day or two. If this happens in the first week of the succeeding quarter, we have a run-up of inventory and a drop in receivables in the previous quarter. Other timing issues, like contractual 45-day terms to some customers, also affect receivables, particularly if shipments are back-end weighted for a quarter.

Our accounts receivable balance decreased 2% to \$24.7 million in the period ended December 31, 2008 compared to \$25.2 million at June 30, 2008. This represents an average of 61 days' sales outstanding, compared to 85 days' sales outstanding as at June 30, 2008. Finished goods inventories were \$11.2 million for the period ended December 31, 2008, compared to \$11.0 million as at June 30, 2008. The finished goods inventory turn rate of 13 times per year at December 31, 2008 compared to 8 times at June 30, 2008. Raw material inventory increased to \$20.1 million at December 31, 2008, compared to \$19.0 million at June 30, 2008. In the second quarter of fiscal 2009, work in process inventories decreased 4% to \$8.1 million, compared to \$8.4 million at June 30, 2008. Inventory levels have increased due to strong demand; however long-lead-time items continue to put upward pressure on inventory levels. In particular, we are beginning to build inventories for the new M-DTA product in development that is expected to begin shipping in significant quantities when commercial production commences late in quarter three of our 2009 fiscal year. Vecima manufactures its own products with the result that inventory levels will be substantially higher than for other companies in our industry that outsource manufacturing.

Income taxes receivable (from investment and R&D tax credits) increased 21% to \$10.5 million at December 31, 2008 from \$8.6 million at June 30, 2008.

Accounts payable and accrued liabilities increased 1% to \$20.5 million at December 31, 2008, representing 51 days for payable to be outstanding, from \$20.3 million at June 30, 2008, representing an average of 69 days for payables to be outstanding. Deferred revenue increased 20% to \$2.6 million at December 31, 2008, compared to \$2.2 million at June 30, 2008. Long-term debt, including current portion, was \$4.6 million at December 31, 2008, compared to \$4.7 million at June 30, 2008.

## ***Cash from Operating Activities***

For the six month period ended December 31, 2008, operations generated cash amounting to \$13.9 million, compared to a use of cash of \$0.5 million in the six month period ended December 31, 2007. Significantly higher net income and amortization were the largest contributors to the increase.

## ***Investing Activities***

Our investing activities in the six months ended December 31, 2008 consisted primarily of product development costs and the purchase of capital assets. Investing activities consumed \$8.6 million in cash in the six months ended December 31, 2008. We used \$5.4 million to purchase equipment and undertake capital renovations and we used \$3.2 million in cash to fund deferred development costs net of investment tax credits. In the six months ended December 31, 2007, the company spent \$5.7 million on property, renovations and equipment and \$0.8 million on development costs net of investment tax credits. In what is a somewhat novel strategy in our industry Vecima owns its primary facilities and expansion land in Saskatoon and Victoria, compared to most companies in our industry that lease facilities. We acquired a dated, 90,000 square foot building in Saskatoon and have invested several million dollars in renovation costs over the past two years to upgrade for use by our R&D Department. About 25% of Vecima Centre has been leased to third parties.

## ***Financing Activities***

In the six months ended December 31, 2008, the company had a net financing cash outflow of \$0.2 million, used to buy back shares under our Normal Course Issuer Bid and to repay long-term debt. This compares to a \$0.7 million cash used for the same purposes in the six months ended December 31, 2007.

As at December 31, 2008, our revolving loan facility amounted to \$23.8 million, of which a net of \$nil was drawn as an operating line of credit and \$4.6 million was drawn as mortgages on real property. As at December 31, 2007, \$7.5 was drawn as an operating line of credit and \$4.8 was drawn as mortgages on real property. We believe that our current cash and short-term investments and anticipated cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future.

### **Outstanding Share Data**

As at December 31, 2008, the Company had outstanding a total of 22,969,740 common shares, together with options granted to directors, officers and employees of the Company under the Company's stock option plan to purchase a further 716,302 shares, of which 528,278 were vested and exercisable.

### **Contractual Obligations**

The company has lease commitments for production equipment of \$0.8 million for the remainder of 2009 and \$1.7 million in 2010.

### **Foreign Exchange**

Approximately 90% of our revenues are denominated in United States dollars. An appreciation of the Canadian dollar results in increased expenses for foreign currency transactions. We convert United States dollar sales to Canadian dollars on the date of delivery. If the United States dollar appreciates relative to the Canadian dollar, we will receive more Canadian dollars when the receivable is collected in subsequent months. We enjoy a substantial natural hedge against part of this potential expense since a significant portion of our purchases of materials and components are in United States dollars that become relatively more valuable in Canadian dollars. We also forward sell \$5 million to \$10 million per month to protect against currency fluctuations. We intend to continue our hedging policy in the future and to manage our foreign exchange exposure having regard to the volatility in the rates of exchange between the Canadian dollar and U.S. dollar at that time.

In the spring of 2008, Vecima developed its budget for the 2009 fiscal year. We assumed that the Canadian and United States dollars would trade approximately at parity during the 2009 fiscal year. In the first quarter of fiscal 2009, we entered into forward foreign exchange transactions to lock in the value of US dollars we would be receiving for a significant portion of our expected revenue. The dramatic weakening of the Canadian dollar in October 2008 affects Vecima in two ways: Firstly, our sales will increase proportionately with the decline in the Canadian dollar. At December 31, 2008, \$25.0 million our expected US dollar receipts have been sold forward at rates available in our first two fiscal quarters ranging from 1.063 to 1.100. At December 31, 2007, we had forward hedged \$6.0 million at rates ranging from \$0.999 to \$1.019. Vecima is exposed to a risk of foreign exchange losses if the current weakness in the Canadian dollar is maintained through the remainder of the fiscal year. Therefore, our gross revenue may increase but our net income before taxes, but after foreign exchange losses, may decrease significantly.

Deteriorating global economic conditions in recent months have brought high levels of volatility to the currency market, which has made managing foreign exchange very challenging. We previously entered into forward foreign exchange transactions to lock-in the value of United States dollars we would be receiving on expected US dollar receipts at rates available in our first fiscal quarter. Those rates were much lower than at exercise and foreign exchange losses resulted in a significant decrease in net income before taxes. The foreign exchange loss for the six months ended December 31, 2008 was \$5.3 million compared to a gain of \$0.3 million in the same period last fiscal year. Of the total loss, \$3.7 million resulted from the mark-to-market of forward hedges falling due in the third and fourth quarters of fiscal 2009. Since we have marked-to-market our foreign exchange contracts maturing from January to June, 2009, bottom-line impacts of foreign exchange movements should be substantially reduced in upcoming quarters.

## **Significant Accounting Policies**

### ***Revenue Recognition***

We recognize revenue from product sales at the time of shipment to the customer, provided that all contractual obligations have been met and payment is reasonably assured. Where we offer integrated products and services, the revenue is allocated to the separate elements, and the appropriate revenue recognition policy is applied to each element. Service revenue from cable and internet customers is recognized at the time of provision of the service to the customer. Subscriber connection fees received from customers are deferred and amortized on a straight-line basis over four years. The cost of connecting a home is capitalized and amortized over the same four-year period. Revenue received for a product or service in advance of delivery or performance, as the case may be, is recognized as deferred revenue.

### **Other Assets**

#### ***Indefinite-life intangibles***

Indefinite-life intangible assets are \$1.9 million, primarily in radio frequency spectrum purchased from the Government of Canada and other licences with perpetual lives that are recorded at cost, which represents the fair market value at the date of acquisition. Because these assets have indefinite lives, they are not subject to amortization.

We assess our indefinite-life intangible assets for impairment in the fourth quarter of every year or earlier if circumstances indicate that such an asset may be impaired. Any impairment is calculated by deducting the asset's fair value from its carrying value. Impairments are deducted from earnings in the year in which they occur.

#### ***Definite-life intangibles***

Definite-life intangible assets consisting of patents and subscriber acquisition costs net of amortization amounted to \$1.5 million at December 31, 2008. Patents are amortized on a straight-line basis over five years. Subscriber acquisition costs are amortized over an estimated useful life of 10 years. YourLink subscribers are 37% video and 63% internet. Subscriber churn rates in video distribution are typically less than 0.5% per month, while internet churn can exceed 2% per month with a weighted average of about 0.7%. The churn rate at December 31, 2008 was 0.7%. With changes in the proportion of voice and internet subscribers, we will need to evaluate the reasonableness of our estimate of the useful life of subscriber acquisition costs.

#### ***Leases Receivables***

Assets leased under terms that transfer substantially all of the benefits and risks of ownership to the customer are accounted for as sales-type leases and are included in leases receivable, net of unearned finance income. We have provided lease financing to a customer that received significant funding from programs delivered by the governments of Canada and Ontario.

#### ***Research and Development***

Research costs are expensed in the period in which they are incurred. Development costs are expensed unless they meet specific accounting criteria relating to technical, market and financial feasibility, in which case they are deferred. Deferred development costs are amortized on a straight-line basis over a period of one to two years, representing the estimated average life-cycle of related products. Development costs include direct salaries, materials and an allocation of overhead that relates to products being developed, less applicable government assistance and investment tax credits claimed. Costs relating to projects that are not commercialized or that cease to be marketable are charged against income in the period in which that determination is made. We earn investment tax credits on eligible Scientific Research and Experimental Development (SR&ED) expenses incurred. Those investment tax credits are recorded as a reduction of the costs to which they relate.

### ***Stock-Based Compensation***

As a part of our initial public offering of shares, we implemented a stock option plan. We have granted options to certain directors, officers and employees amounting to 3% of the shares in Vecima on a fully diluted basis. In accordance with the standard issued by the Canadian Institute of Chartered Accountants entitled "Stock-based Compensation and Other Stock-based Payments" (Handbook Section 3870), we estimate the fair value of our stock-based compensation and expense the fair value over the vesting period of the options.

### ***Internal Controls over Financial Reporting (ICFR)***

Our disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure. Management, with the participation of the certifying officers, has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. We expect that our financial reporting policies, processes and systems will continue to evolve. No material changes to our systems of internal controls were made during the quarter. We are in the process of rationalizing our controls and developing management tests of controls to meet National Instrument 59-102 requirements by June 30, 2009.

### ***International Financial Reporting Standards (IFRS)***

In February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publically accountably enterprises, will be fully converged into IFRS, as issued by the International Accounting Standards Board (IASB). The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. As a result, the Company will be required to report under IFRS for its fiscal year 2012 interterm and annual financial statements. Vecima will convert to these new standards according to the timetable set within these new rules. We are currently assessing the future impact of these new standards on our consolidated financial statements.

### **Outlook**

We expect revenue growth in each of our end-markets from sales of existing and new products. We plan to maintain our gross margins in the historical range of 35% to 40%. Research and development will continue to be a key focus as we invest in new product development. Additional resources will be committed to sales and marketing, with particular emphasis on further developing our distribution channels and marketing programs. Market conditions have affected visibility and shipment requirements forecasting by our major customers, which will add even more 'lumpiness' to our quarterly results than we have experienced in the past. However, based on contracted and expected sales to our major customers and the introduction of our new M-DTA product, we expect that Vecima will continue to grow revenue in fiscal 2009 at historical levels of 20% to 30% on an annual basis.



**FORM 52-109F2  
CERTIFICATION OF INTERIM FILINGS  
FULL CERTIFICATE**

I, Surinder Kumar, Chief Executive Officer of Vecima Networks Inc. (the "Issuer"), certify the following:

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the "interim filings") of Vecima Networks Inc. (the "issuer") for the interim period ended December 31, 2008.

2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.

3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

4. **Responsibility:** The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.

5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer and I have, as at the end of the period covered by the interim filings

(a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

(i) material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and

(ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

5.1 **Control framework:** The control framework the issuer's other certifying officer and I used to design the issuer's ICFR is the *Internal Control — Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

5.2 **ICFR -- material weakness relating to design:** N/A.

5.3 **Limitation on scope of design:** N/A.

6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2008 and ended on December 31, 2008 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: February 13, 2009

A handwritten signature in black ink, appearing to read "Dr. Surinder Kumar".

Dr. Surinder Kumar  
Chief Executive Officer

FORM 52-109F2  
CERTIFICATION OF INTERIM FILINGS  
FULL CERTIFICATE

I, J. Michael Barry, Chief Financial Officer of Vecima Networks Inc. (the "Issuer"), certify the following:

1. **Review:** I have reviewed the interim financial statements and interim MD&A (together, the "interim filings") of Vecima Networks Inc. (the "issuer") for the interim period ended December 31, 2008.

2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.

3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.

4. **Responsibility:** The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, for the issuer.

5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer's other certifying officer and I have, as at the end of the period covered by the interim filings

(a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that

(i) material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and

(ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

(b) designed ICFR, or caused it to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

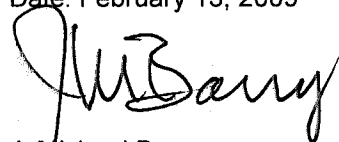
5.1 **Control framework:** The control framework the issuer's other certifying officer and I used to design the issuer's ICFR is the *Internal Control — Integrated Framework* (COSO Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

5.2 **ICFR -- material weakness relating to design:** N/A.

5.3 **Limitation on scope of design:** N/A.

6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on October 1, 2008 and ended on December 31, 2008 that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: February 13, 2009



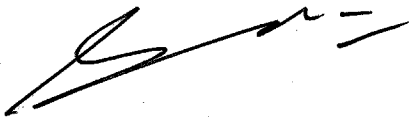
J. Michael Barry  
Chief Financial Officer

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited interim consolidated financial statements of 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 Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

February 13, 2009



Surinder Kumar  
President and Chief Executive Officer



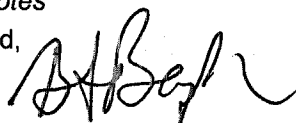
J. Michael Barry  
Chief Financial Officer

**VECIMA NETWORKS INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands of dollars )

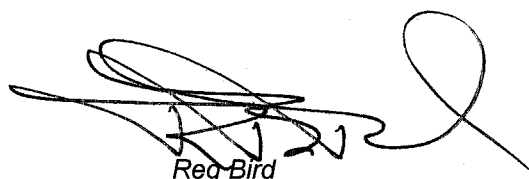
	Notes	December 31, 2008 (unaudited)	June 30, 2008
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 7,207	\$ 2,010
Accounts receivable		24,673	25,174
Income taxes receivable		10,479	8,635
Inventories	2	39,190	38,076
Current portion of leases receivable		461	531
Prepaid expenses		1,550	447
Other current assets		68	77
		<b>83,628</b>	<b>74,950</b>
Leases receivable		310	305
Capital assets		39,883	37,301
Deferred development costs		4,785	2,669
Other assets		2,937	3,003
Tax assets		22,181	26,191
		<b>\$ 153,724</b>	<b>\$ 144,419</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 20,536	\$ 20,327
Warranty accrual		500	500
Deferred revenue		2,599	2,160
Current portion of long-term debt		250	250
		<b>23,885</b>	<b>23,237</b>
Long-term debt		4,333	4,458
Future income taxes		556	761
		<b>28,774</b>	<b>28,456</b>
<b>Commitments</b>			
<b>Shareholders' equity</b>			
Share capital	4	35,496	35,512
Contributed surplus		2,081	1,871
Retained earnings		87,373	78,580
		<b>124,950</b>	<b>115,963</b>
		<b>\$ 153,724</b>	<b>\$ 144,419</b>

See accompanying notes

On behalf of the Board,



Barry A Baptie  
Director



Reg Bird  
Director

**VECIMA NETWORKS INC.**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME AND RETAINED EARNINGS**  
(in thousands of dollars except for net income per share data)

	Notes	Three months ended		Six months ended	
		December 31		December 31	
		2008	2007	2008	2007
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Sales</b>		\$ 36,874	\$ 27,437	\$ 73,647	\$ 53,804
<b>Cost of sales</b>		19,574	16,471	37,665	32,232
<b>Gross margin</b>		17,300	10,966	35,982	21,572
<b>Operating expenses</b>					
Research and development		2,765	2,690	5,215	5,478
Sales and marketing		1,722	1,503	3,212	2,971
General and administrative		5,344	3,911	9,298	7,180
Stock-based compensation		135	135	270	267
Interest expense		207	110	221	232
		10,173	8,349	18,216	16,128
<b>Operating income</b>		7,127	2,617	17,766	5,444
		-	-		
Foreign exchange gain		(5,698)	(31)	(5,302)	267
Other income		12	198	160	436
<b>Income before income taxes</b>		1,441	2,784	12,624	6,147
Income taxes		430	749	3,805	1,875
<b>Net income</b>		1,011	2,035	8,819	4,272
<b>Retained earnings, beginning of period</b>		86,383	74,656	78,580	72,549
Reduction of common shares purchased for cancellation	3	(21)	(340)	(26)	(470)
<b>Retained earnings, end of period</b>		87,373	76,351	\$ 87,373	\$ 76,351
<b>Net income per share</b>					
Basic and diluted		\$ 0.04	\$ 0.09	\$ 0.38	\$ 0.18
Weighted average number of Common Shares outstanding - basic and diluted		22,955,983	23,210,120	22,969,740	23,201,846

**VECIMA NETWORKS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three months ended		Six months ended	
	December 31,		December 31,	
	2008	2007	2008	2007
<b>Cash flows from (used in) operating activities</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>	<b>(unaudited)</b>
Net income	\$ 1,011	\$ 2,035	\$ 8,819	\$ 4,272
Add (deduct) items not requiring cash	-	-		
Future income taxes recovery	632	165	3,779	582
Amortization of capital assets	1,430	1,249	2,841	2,166
Amortization of deferred development costs	843	479	1,469	959
Amortization of other assets	10	10	20	28
Stock-based compensation	135	127	270	270
Net change in non-cash working capital relating to operations	9,949	(7,072)	(3,265)	(8,754)
	<b>14,010</b>	<b>(3,007)</b>	<b>13,933</b>	<b>(477)</b>
<b>Cash flows from (used in) investing activities</b>				
Purchase of capital assets	(2,477)	(2,780)	(5,440)	(5,711)
Deferred development costs	(2,801)	(750)	(4,582)	(1,500)
Investment tax credits	1,097	404	1,427	668
Purchase of other assets	23	(9)	26	(9)
	<b>(4,158)</b>	<b>(3,135)</b>	<b>(8,569)</b>	<b>(6,552)</b>
<b>Cash flows from (used in) financing activities</b>				
Proceeds from shares issued through exercised options	-	38	-	38
Purchase and cancellation of shares	(28)	(443)	(42)	(593)
Repayment of long-term debt	(63)	(84)	(125)	(146)
	<b>(91)</b>	<b>(489)</b>	<b>(167)</b>	<b>(701)</b>
Increase (decrease) in cash during the period	9,761	(6,631)	5,197	(7,730)
Cash (Bank indebtedness) beginning of period	(2,554)	(1,039)	2,010	54
<b>Cash (Bank indebtedness) end of period</b>	<b>\$ 7,207</b>	<b>\$ (7,676)</b>	<b>\$ 7,207</b>	<b>\$ (7,676)</b>

See accompanying notes

**Supplemental information**

Cash interest paid	\$ 182	\$ 110	\$ 210	\$ 232
Cash taxes paid	\$ -	\$ -	\$ -	\$ -

**VECIMA NETWORKS INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**Six months ended December 31, 2008**  
**(in thousands of dollars)**

---

## **1. BASIS OF PRESENTATION**

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles, except that certain disclosures required for annual financial statements have not been included.

Accordingly, the unaudited interim consolidated financial statements should be read in conjunction with the Company's most recent annual audited consolidated financial statements for the year ended June 30, 2008. The interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements.

### ***Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, WaveCom Electronics (2003) Inc., 6105971 Canada Inc., Vecima Networks Pacific Pty., Vecima Telecom (P) Ltd., Spectrum Signal Processing (USA) Inc., Spectrum Signal Processing (UK) Ltd. and YourLink Inc., an entity that is considered to be a variable interest entity, after elimination of significant inter-company accounts and transactions.

### ***Recent accounting pronouncement***

#### *Financial instruments, equity, and comprehensive income*

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855 "Financial Instruments — Recognition and Measurement"; Section 1530 "Comprehensive Income"; and Section 3251 "Equity." These pronouncements further align Canadian GAAP with US GAAP and International Financial Reporting Standards (IFRS) and require the following:

- a) Financial assets are classified as loans or receivables, held to maturity, held for trading, or available for sale. Held-to-maturity classification is restricted to fixed maturity instruments that the Company intends and is able to hold to maturity, and these instruments are accounted for at amortized cost. Held for trading instruments are recorded at fair value, with realized and unrealized gains and losses reported in net income. The remaining financial assets are classified as available for sale. These assets are recorded at fair value, with accumulated unrealized gains and losses reported in a new category of the consolidated balance sheets under shareholders' equity called "Accumulated Other Comprehensive Income" until the financial asset is disposed, at which time the realized gains and losses are recognized in net income. Changes in fair value from reporting period to reporting period are recorded in "Other Comprehensive Income."
- b) Financial liabilities are classified as either held for trading or other. Held-for-trading instruments are recorded at fair value, with realized and unrealized gains and losses reported in net income. Other instruments are accounted for at amortized cost, with related gains and losses reported in net income.
- c) Derivatives are classified as held for trading unless designated as hedging instruments. All derivatives are recorded at fair value on the consolidated balance sheets.

The adoption of this new section did not have a material effect on the Company's financial position or on the results of its operations.

**VECIMA NETWORKS INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**Six months ended December 31, 2008**  
**(in thousands of dollars)**

---

**1. BASIS OF PRESENTATION (continued)**

***Recent accounting pronouncement (continued)***

*Inventories*

In June 2007, the CICA issued Section 3031 "Inventories", which replaces Section 3030 and harmonizes the Canadian standard related to inventories with International Financial Reporting Standards. This Section provides more extensive guidance on the determination of cost, including allocation of overhead; narrows the permitted cost formulas; requires impairment testing; and expands the disclosure requirements to increase transparency. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. There was no material impact to the measurement of inventory.

*Goodwill and Intangible assets*

In February 2008, the CICA issued Section 3064 Goodwill and Intangible Assets, which replaces Section 3062 Goodwill and other Intangible Assets and 3050 Research and Development Costs. The purpose of this section is to clarify the guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. This section harmonizes the Canadian standard with International Financial Reporting Standards and applies to both annual and interim statements relating to fiscal years beginning after October 1, 2008 and is not expected to have a material impact on the Company's consolidated financial statements.

*Determining the Variability to be Considered in Applying the Variable Interest Entity Standards*

In September 2006, the Emerging Issues Committee issued Abstract No. 163, "Determining the Variability to be Considered in Applying AcG-15" ("EIC-163"). This guidance provides additional clarification on how to analyze and consolidate a variable interest entity ("VIE"). EIC-163 concludes that the "by-design" approach should be the method used to assess variability (that is created by risks the entity is designed to create and pass along to its interest holders) when applying the VIE standards. The "by-design" approach focuses on the substance of the risks created over the form of the relationship. The guidance may be applied to all entities (including newly created entities) with which an enterprise first becomes involved, and to all entities previously required to be analyzed under the VIE standards when a reconsideration event has occurred, effective January 1, 2007. The implementation of this guidance did not have a material impact on the company's consolidated financial statements.

*Capital Disclosures*

In December 2006, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1535, "Capital Disclosures." This section establishes standards for disclosing information about an entity's capital and how it is managed. This Section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, and is not expected to have a material impact on the company's consolidated financial statements.

*International Financial Reporting Standards*

In May 2007, the CICA published an updated version of its "implementation Plan for incorporating International Financial Reporting Standards ("IFRS") into Canadian GAAP." This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian generally accepted accounting principles with IFRS. The changeover date from Canadian GAAP to IFRS is for annual and interim financial statements relating to fiscal years beginning on or after January 1, 2011.

**VECIMA NETWORKS INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**Six months ended December 31, 2008**  
**(in thousands of dollars)**

**2. INVENTORY**

	<b>December 31, 2008</b>	June 30, 2008
Raw material	\$ 18,654	\$ 19,006
Work in Progress	9,130	\$ 8,372
Finished Goods	11,406	\$ 10,698
	<b>\$ 39,190</b>	<b>\$ 38,076</b>

During the three months ended December 31, 2008 inventories of \$17,045 were expensed and write-downs of inventory amounting to \$402 were included in cost of goods sold. During the six months ended December 31, 2008 inventories of \$33,766 were expensed and write-downs of inventory amounting to \$636 were included in cost of goods sold. No reversals of write-downs were recorded during the three and six months ended December 31, 2008

**3. FINANCIAL INSTRUMENTS**

The majority of the Company's sales are in United States dollars and the Company has entered into forward foreign exchange contracts to manage foreign currency exchange risk related to exposures of the exchange rates for the Canadian dollar. These contracts are considered "held for trading" instruments according to CICA Handbook Section 3855. Changes in the value of these contracts are recorded as an element of foreign exchange gains and losses.

As of December 31, 2008, the Company has foreign currency forward contracts that have the effect of fixing the conversion of \$25,000 (\$6,000 – December 31, 2007) of the Company's net United States dollar asset position at rates ranging between \$1.0629 and \$1.7770. Changes in the fair value of these instruments are included in foreign exchange gains and losses in the current year. In the period ended December 31, 2008, the Company has a net loss of \$3,725 (December 31, 2007 - \$220 net gain) on outstanding forward purchase contracts.

**VECIMA NETWORKS INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**Six months ended December 31, 2008**  
**(in thousands of dollars)**

---

**4. SHARE CAPITAL**

**(a) Authorized and issued share capital**

The Company has the following authorized Share Capital: An unlimited number of common shares and an unlimited number of preferred shares. The table below provides details of common shares outstanding and their carrying values:

	<b>Number of Shares</b>	<b>Carrying Value</b>
<b>Balance as of June 30, 2008</b>	22,972,000	\$35,512
Shares issued by the exercising of options	-	-
Shares repurchased and cancelled	(8,000)	(16)
<b>Balance as of December 31, 2008</b>	22,964,000	\$35,496

During the six months ended December 31, 2008 the Company purchased 8,000 common shares for cancellation under a normal course issuer bid at an average price of \$5.24 per share for \$42 of which \$16 reduced the stated capital of the common shares and \$26 decreased retained earnings. The weighted number of shares outstanding in the months ended December 31, 2008 was 22,969,740.

**VECIMA NETWORKS INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**Six months ended December 31, 2008**  
**(in thousands of dollars)**

**4. SHARE CAPITAL (continued)**

**(b) Stock option plan**

Under the Company's stock option plan, options to acquire common shares may be issued to officers, directors and employees of the Company. The term, vesting period, exercise price and number of common shares relating to each option will be determined by the Company's Board of Directors at the time options are granted, but will not be more favourable than those permitted under applicable securities legislation. The Company's stock option plan will be subject to the rules and policies of any stock exchange on which the common shares are listed. The total number of common shares of the Company that will be issued pursuant to the Company's stock option plan will not exceed 10% of the issued and outstanding shares of the Company at any given time. Options granted under the Company's stock option plan are not assignable.

The changes in options and options outstanding for the period ended December 31, 2008 are as follows:

**Six months ended December 31, 2008**

	<b>Number of options</b>	<b>Weighted average exercise price</b>
<b>Balance, beginning of period</b>	<b>820,598</b>	<b>\$10.34</b>
Granted	-	-
Exercised	-	-
Cancelled and expired	<b>(104,296)</b>	<b>19.89</b>
<b>Balance, end of period</b>	<b>716,302</b>	<b>\$8.95</b>
<b>Vested and exercisable</b>	<b>528,278</b>	<b>\$9.09</b>

The 716,302 options outstanding have exercise prices ranging from \$7.19 to \$64.43 with a weighted average life remaining of 3.0 years. The stock based compensation expense was \$135 for the three months ended December 31, 2008.

**VECIMA NETWORKS INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**Six months ended December 31, 2008**  
**(in thousands of dollars)**

**5. SEGMENTED FINANCIAL INFORMATION**

The Company's operations include two reportable segments. The product segment designs, develops and distributes electronic communications products to cable, wireless and telephony markets. The service segment provides cable television and Internet services in Ontario, Saskatchewan, Alberta and British Columbia. Inter-segment transactions take place on terms that approximate fair values. The majority of the Company's operations, employees and assets are located in Canada. The following highlights key financial information for the operations of these segments.

**Three months ended December 31, 2008**

	<b>Product</b>	<b>Services</b>	<b>Inter- segmented eliminations</b>	<b>Total</b>
Sales	\$ 33,877	\$ 2,783	\$ 214	\$ 36,874
Cost of sales	18,569	835	170	19,574
<b>Gross margin</b>	<b>15,308</b>	<b>1,948</b>	<b>44</b>	<b>17,300</b>
Operating expenses	8,203	2,047	(77)	10,173
<b>Operating income</b>	<b>7,105</b>	<b>(99)</b>	<b>121</b>	<b>7,127</b>
Foreign exchange (loss) gains	(5,693)	(5)	-	(5,698)
Other income	181	(169)	-	12
<b>Income (loss) before income taxes</b>	<b>1,593</b>	<b>(273)</b>	<b>121</b>	<b>1,441</b>
Income taxes	493	(81)	18	430
<b>Net income</b>	<b>\$ 1,100</b>	<b>\$ (192)</b>	<b>\$ 103</b>	<b>\$ 1,011</b>
			0	
<b>Total assets</b>	<b>\$ 142,024</b>	<b>\$ 21,850</b>	<b>\$ (10,150)</b>	<b>\$ 153,724</b>

**Three months ended December 31, 2007**

	<b>Product</b>	<b>Services</b>	<b>Inter- segmented eliminations</b>	<b>Total</b>
Sales	\$ 25,336	\$ 2,182	\$ (81)	\$ 27,437
Cost of sales	15,933	628	(90)	16,471
Gross margin	9,403	1,554	9	10,966
Operating expenses	6,663	1,685	1	8,349
Operating income	2,740	(131)	8	2,617
Foreign exchange gains	(31)	-	-	(31)
Other income	211	(13)	-	198
<b>Income (loss) before income taxes</b>	<b>2,920</b>	<b>(144)</b>	<b>8</b>	<b>2,784</b>
Income taxes	776	(30)	3	749
<b>Net income</b>	<b>\$ 2,144</b>	<b>\$ (114)</b>	<b>\$ 5</b>	<b>\$ 2,035</b>
<b>Total assets</b>	<b>\$ 139,053</b>	<b>\$ 9,884</b>	<b>\$ (10,164)</b>	<b>\$ 138,773</b>

**VECIMA NETWORKS INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**Six months ended December 31, 2008**  
**(in thousands of dollars)**

**5. SEGMENTED FINANCIAL INFORMATION (continued)**

	Six months ended December 31, 2008			
	Inter-			
	Product	Services	segmented eliminations	Total
Sales	\$ 68,433	\$ 5,173	\$ 41	\$ 73,647
Cost of sales	36,203	1,424	38	37,665
<b>Gross margin</b>	<b>32,230</b>	<b>3,749</b>	<b>3</b>	<b>35,982</b>
Operating expenses	14,445	3,829	(58)	18,216
<b>Operating income</b>	<b>17,785</b>	<b>(80)</b>	<b>61</b>	<b>17,766</b>
Foreign exchange (loss) gains	(5,302)	-	-	(5,302)
Other income	328	(168)	-	160
<b>Income (loss) before income taxes</b>	<b>12,811</b>	<b>(248)</b>	<b>61</b>	<b>12,624</b>
Income taxes	3,861	(74)	18	3,805
<b>Net income</b>	<b>\$ 8,950</b>	<b>\$ (174)</b>	<b>\$ 43</b>	<b>\$ 8,819</b>
<b>Total assets</b>	<b>\$ 142,024</b>	<b>\$ 21,850</b>	<b>\$ (10,150)</b>	<b>\$ 153,724</b>

	Six months ended December 31, 2007			
	Inter-			
	Product	Services	segmented eliminations	Total
Sales	\$ 49,901	\$ 4,140	\$ (237)	\$ 53,804
Cost of sales	31,279	1,119	(166)	32,232
Gross margin	18,622	3,021	(71)	21,572
Operating expenses	13,126	3,190	(188)	16,128
Operating income	5,496	(169)	117	5,444
Foreign exchange gains	287	(20)	-	267
Other income	396	40	-	436
<b>Income (loss) before income taxes</b>	<b>6,179</b>	<b>(149)</b>	<b>117</b>	<b>6,147</b>
Income taxes	1,877	(30)	28	1,875
<b>Net income</b>	<b>\$ 4,302</b>	<b>\$ (119)</b>	<b>\$ 89</b>	<b>\$ 4,272</b>
<b>Total assets</b>	<b>\$ 139,053</b>	<b>\$ 9,884</b>	<b>\$ (10,164)</b>	<b>\$ 138,773</b>

**VECIMA NETWORKS INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**Six months ended December 31, 2008**  
**(in thousands of dollars)**

---

**6. SEGMENTED FINANCIAL INFORMATION (continued)**

**Geographical:**

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
<b>Sales</b>				
Canada	\$ 5,086	\$ 3,696	\$ 8,881	\$ 7,145
United States	17,892	15,712	35,986	26,383
Thailand	10,754	7,577	23,189	13,944
Israel	470	187	1,724	5,395
Other	2,672	265	3,867	937
	<b>\$ 36,874</b>	<b>\$ 27,437</b>	<b>\$ 73,647</b>	<b>\$ 53,804</b>

**7. COMPARATIVE FIGURES**

Certain of the prior period's comparative figures have been reclassified to conform to the current period's presentation.



### **Forward-looking statements**

This document may contain forward-looking statements relating to our operations or to the environment in which we operate, which are based on our operations, estimates, forecasts and projections. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict, and/or are beyond our control. A number of important factors could cause actual outcomes and results to differ materially from those expressed in these forward-looking statements. These factors include those set forth under the heading "Risk Factors" in the Company's Annual Information Form dated September 26, 2008, a copy of which is available at [www.sedar.com](http://www.sedar.com). Consequently, readers should not place undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made. Vecima disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### **Investor relations**

Mike Barry  
Chief Financial Officer  
Phone: (250) 881-1982x2134  
Cell (250) 516-5604  
Facsimile: (250) 881-1974  
e-mail [mike.barry@vecima.com](mailto:mike.barry@vecima.com)

### **Listing**

The common shares of Vecima are traded on the Toronto Stock Exchange under the symbol "VCM".

### **Transfer Agent**

Computershare Investor Services Inc.

### **Auditors**

Deloitte & Touche LLP, Saskatoon

### **Solicitors**

Bull, Housser & Tupper LLP, Vancouver