



ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 2010

September 28, 2010

Dear Shareholders

During fiscal 2010, we navigated the storm of the global economic recession while positioning the company to take advantage of the opportunities that will result from the eventual economic recovery. The impact of the recession was not without its challenges; Vecima's sales and net income for the year reflect the impact on our core business where we experienced a marked transition away from historical products that previously contributed significantly to revenue. We replaced that revenue with new products that were launched in the last 12 months. Revenue for the 2010 fiscal year was essentially flat at \$113.2 million, compared to \$114.2 million in fiscal 2009. This was achieved despite an 8% appreciation in the value of the Canadian dollar in 2010. Without this effect, revenue would have increased to \$122.4 million.

We see continued activity by cable and wireless system operators to upgrade their networks in view of capacity planning for current and future applications such as HDTV, customized channel line-ups for the hospitality industry, and higher tiers of high speed data services. Demand for bandwidth continues to increase. Operators are deploying Vecima products both to enable their transition to all-digital networks and to use freed up capacity on their networks for HDTV and high speed data bandwidth. We are excited that the hard work in R&D during the 2010 fiscal year will deliver increasing new product revenue in 2011.

The following highlights elaborate on the products and opportunities that are the foundation of our strategy in fiscal 2011 and beyond:

- Today, a hotel guest will typically find a state of the art flat panel high definition TV in their room and yet the channels on the TV are low resolution, poor quality analog video. Numerous premium HD channels are available on the cable TV operator's network today, however they are encrypted for residential service where a set top box is required to view the content. The TerraceQAM receives HD programming from the cable network and then processes it and outputs 60 HDTV channels in a format directly viewable on the flat panel televisions hotels are rapidly deploying today (without the requirement for set top boxes). The result is a cleaner and more reliable installation offering a broader range of video services and a simplified user experience at significant cost savings over deploying multiple HD set-tops. TerraceQAM provides cable operators a significant new source of service revenue by delivering HD video services to the hospitality market. Vecima's TerraceQAM is in the final stages of customer testing and will start to be deployed in Q4 of the 2010 calendar year. Vecima's channel to market for TerraceQAM includes both a direct supply agreement with a leading US cable operator as well as an OEM agreement with a major networking company who will sell to all other cable operators worldwide. Vecima estimates the market for hospitality HD platforms to be greater than \$450 million over the next 3 years in the US alone.
- In June 2010, Vecima introduced its Concierge gateway product. The Concierge is a platform also targeted at the upcoming HDTV opportunity in the hospitality market and is suitable for both cable and direct broadcast satellite operators. The Concierge outputs up to 48 HD channels within a property which can be viewed directly on HD television sets, eliminating the need for a set-top-box in every guest room. Its application is complementary to TerraceQAM in that the two products each address different network designs. Vecima estimates the market for hospitality HD platforms to be greater than \$450 million over the next 3 years in the US alone.
- In July 2010, Vecima signed an agreement to supply next generation digital video and internet over cable modules to a leading US-based OEM. With the recent move by cable operators to all-digital networks, capacity for hundreds of HD channels and a 4 to 5 times increase in high speed internet bandwidth was freed up in their network. Vecima's modules enable cable operators to

use their freed up bandwidth to provide services such as digital video, high definition television, high speed data, and video on demand. Using industry research, Vecima estimates the cumulative worldwide market for Edge QAMs will be over \$1.6 billion over the next four years. This represents a 4 year cumulative market of about \$500 million for transmitter modules in a market served by numerous Edge QAM competitors.

- New opportunities are expected to mature in Vecima's Broadband Wireless market segment in the utilities and resource sectors for applications including smart metering and smart grid technologies, advanced logistics, WiFi backhaul, voice over IP, and enterprise connectivity. Vecima's broadband wireless technologies are well suited to serve the needs of these market segments, where the principals often have distributed and remote connectivity requirements. Additionally, a substantial new market is emerging for vehicle tracking, fleet performance management and logistics optimization, yielding fuel savings and reduced operating costs for all manners of vehicular fleets. A new wireless product is under development which will be launched in fiscal 2011. This new customized modem works on multiple cellular and WiFi networks. It is a logical extension of our wireless strategy moving from fixed and nomadic solutions and into mobile solutions with GPS information. Vecima estimates the cumulative market for this new wireless fleet management product to exceed \$1 billion over the next 5 years. Vecima has is close to securing a major lead customer, who will control a significant share of this market.
- Vecima shipped production volumes of our Terrace solution throughout fiscal 2010. Our Terrace multiunit digital transport adaptor (M-DTA) is currently under deployment by multiple North American cable systems. Our customers' prelaunch market forecasts proved to be overly optimistic and sales volumes did not meet our expectations. In addition, other potential customers for our Terrace product have taken far longer than expected in making their launch decisions at least in part due to global economic conditions. We do expect meaningful revenues from Terrace as other customers deploy.
- Vecima sold a portion of our 3.5 GHz spectrum which represents 6% of total spectrum holdings for \$2.3 million. We sold one of the two buildings we own in Victoria resulting in a capital gain of approximately \$1.5 million. Vecima will continue to pursue opportunities to sell its non-core commercial wireless spectrum holdings and real estate assets and derive value for shareholders from these valuable assets as market conditions warrant.

These initiatives and others have positioned Vecima well to recover from the challenging conditions we experienced during the 2010 fiscal year as a result of the recession and material transition away from our legacy product revenue base. Going forward, our growth strategy is focused on the introduction of new products as well as accessing new markets and new customers for our products. We will continue to execute our plan to improve financial performance through improvements in gross margin as well as monitoring and containment of expenses. We anticipate that we are on a path to return to healthy revenue growth and profitability. The net loss in our fiscal 2010 fourth quarter was the first unprofitable quarter in Vecima's 22 year history. The end of our first quarter of fiscal 2011 is near and we expect to return to profitability this quarter. Revenue from new products will ramp up in the second half of the fiscal year. Vecima expects to deliver single digit growth in fiscal 2011. Vecima has invested heavily in R&D to get these new products to where they are now almost complete. The combined market size for these new products is about \$2 billion over the next 3 years.

We wish to thank our shareholders for their patience and commitment in these difficult times.

Sincerely,

Dr. Surinder Kumar
President and CEO

VECIMA NETWORKS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 28, 2010

Management's discussion and analysis ("MD&A") provides a review of significant developments that have affected Vecima's performance during fiscal 2010. 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 audited annual consolidated financial statements of Vecima and related notes for the year ended June 30, 2010. Consequently, the following discussion and analysis of the financial condition and results of operations for the Company should be read in conjunction with the audited consolidated financial statements and accompanying notes for the years ended June 30, 2010 and June 30, 2009, 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.

Financial Governance

Vecima's management is responsible for the preparation and presentation of the annual audited consolidated financial statements and notes thereto, MD&A and other information contained in this annual 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 annual audited 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.

About forward-looking information

Our MD&A includes statements and information about our expectations for the future. When we discuss our strategy, plans and expectations for future financial and operating performance, or other things that have not yet taken place, we are making statements considered to be forward-looking information under Canadian securities laws.

Key things to understand about the forward-looking information in this MD&A:

- it typically includes words and phrases indicating the future, such as: anticipate, expect, plan, intend, predict, goal, target, project, potential, strategy and outlook;
- it represents our current views, and can change significantly;
- although it is based on what management believes to be reasonable assumptions, including those listed below under the heading "Risk Factors", those assumptions may prove to be incorrect;

- actual results and events may be significantly different from what we currently expect, due to the risks associated with our business. The risks we regard as material are set out in this MD&A under the heading “Risk Factors”.
- forward-looking information is designed to help you understand management’s current views of our near and longer term prospects, and it may not be appropriate for other purposes. We will not necessarily update this information except as required by securities laws.

Forward-looking information included in this MD&A includes statements with respect to among other things:

- our expectation that we will achieve revenue growth in each of our end-markets from sales of existing and new products;
- expansion of market segments which we expect will drive demand for wireless products in the future; and,
- our expectation that our gross margin will stay within traditional levels of 35%-40%.

The achievement of our expectations in those areas and others is subject to a number of risks, including those relating to the potential for deterioration in general economic conditions, unexpected increases in expenses, the risk of loss of a key customer, failure to meet customer expectations or successfully to develop new products, slower than anticipated growth in our key markets, and other factors noted below under “Risk Factors”.

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed or caused to be designed under the supervision of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and the Executive Vice-President and CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure.

The CEO and the CFO have evaluated the effectiveness of the Company’s disclosure controls as defined under rules adopted by the Canadian securities regulatory authorities. Based on that evaluation, the CEO and CFO have concluded that the Company’s disclosure controls and procedures were effective as at June 30, 2010.

Internal Control over Financial Reporting

Our internal control over financial reporting are designed or caused to be designed under the supervision of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis.

The CEO and CFO have assessed the effectiveness of the Company’s internal control over financial reporting as at June 30, 2010 in accordance with Internal Control – Integrated Framework, published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the CEO and CFO have determined that the Company’s internal control over financial reporting is effective, with the exceptions noted below, as at June 30, 2010.

During the design and operating effectiveness assessment, certain material weaknesses in internal controls over financial reporting were identified, as follows:

The Company does not have full-time in-house personnel to address all complex financial and non-routine tax issues that may arise. It is not deemed as economically feasible at this time to have such

personnel. The Company relies on external experts for review and advice on complicated financial issues and for tax planning, tax provision and compilation of corporate tax returns: and

Certain areas within the Company's information systems are subject to general control deficiencies including a lack of effective controls over spreadsheets, access and documentation. The Company expects that some deficiencies will continue into the future.

Management is of the opinion that none of these control deficiencies has resulted in a material misstatement to the financial statements. However, these deficiencies are considered a material weakness resulting in a more than remote likelihood that a material misstatement of the Company's annual or interim consolidated financial statements would not be prevented or detected. As the Company grows, management plans to further expand the number of individuals involved in the accounting function. At the present time, the CEO, CFO, and the Assistant Vice President of Finance oversee all material transactions and related accounting records. In addition, the Audit Committee reviews the financial statements and key risks of the Company and queries management about significant transactions on a quarterly basis.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting during the year ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Company Overview

Vecima Networks Inc. is a Canadian company, originally founded in Saskatoon, Saskatchewan in 1988. In the 22 years since the Company's inception, it has grown to 903 employees as of June 30, 2010. The Company completed the initial public offering of its Common Shares and their concurrent listing on the Toronto Stock Exchange in November 2005. Vecima has expanded across the country and in the US with offices in Toronto, Saskatoon, Calgary, Burnaby, Victoria and Columbia, Maryland (near Washington, D.C.). Vecima has also expanded internationally 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, cable operators (also known as Multiple Service Operators or MSO's), 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 insufficient capacity carrying in legacy last-mile infrastructures.

Virtually insatiable consumer demand for bandwidth and digital video streaming, brought about in part by the emergence of High Definition digital video, IPTV, social networking, file sharing and increasingly personalized television offerings, has generated a necessity for advanced infrastructure products for digital television and data-over-cable services. Cable operators and the OEM's that supply them are under increased pressure to meet growing demand for bandwidth across their 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 return path demodulator (for processing communications between subscribers and the digital cable infrastructure) from our OEM customers and

strong sales of edge devices to MSO's. Hurried and insatiable growth in demand for bandwidth along with the race to roll out High Definition video has led to a mass exodus to all-digital networks by the largest US MSOs. Our Terrace MDU Gateway is a mainstay of the all-digital transition, providing a breakthrough technology which allows MSOs to deliver premium, tailored content as well as preserve traditional analog services to high ARPU MDU and hospitality accounts while realizing a 10-fold increase in bandwidth capacity gained from transitioning the network to all-digital. Meanwhile, in the wake of the global economic recession MSOs are actively seeking incremental sources of revenue through products that address new markets. Vecima's new Concierge and TerraceQAM Pro:Idiom™ enabled products provide MSOs with opportunities to address the hospitality services market, a segment previously dominated by direct broadcast satellite providers.

In January 2010, Vecima announced the signing a multi-year worldwide supply agreement with a major networking company to private-label and exclusively sell a platform providing encrypted High Definition (HD) video to newer flat panel HDTVs. The contract calls for a minimum of \$10 to \$15 million annual revenue and allows Vecima the rights to sell the platform directly to a single leading US-based MSO. Driven by the upcoming large-scale transition to HD in hotels, the market is expected to grow to a cumulative \$600 million worldwide over the next ten years and creates opportunities for operators to deploy all-digital services to new market segments. Vecima is carrying on an extensive field trial for the platform in parallel with certification testing at both the MSO and the large OEM customer for worldwide sales.

Vecima has made high-speed internet-over-cable data transmitters for more than 12 years. These devices are made to the standards of the Data over Cable Service Interface Specification (DOCSIS®), 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 among many manufacturers. Since 2001, Vecima has been the sole supplier of DOCSIS® 2.0 transmitter modules to a major OEM that has dominated the world market with a 50% to 65% market share for cable modem termination systems (CMTSs). Vecima is proud of the fact that more than 50% of the data-over-cable traffic in the world is transmitted by devices manufactured in Saskatoon.

The DOCSIS® 2.0 standard provides about 38 Mbps of data transmission to subscribers with 30 Mbps upstream from subscribers in its maximum bandwidth 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 is not bandwidth-intensive. With the rapidly increasing demand for bandwidth and digital video streaming, MSOs have increased the number of channels available and now provision a 38 Mbps channel for as few as 50 subscribers. DOCSIS® 2.0 systems have been installed around the world and operators are continuously adding transmitters to provide additional bandwidth. We expect this activity to continue for two to four more years.

In its 2008 fiscal year, Vecima introduced its first DOCSIS®3.0 devices. The new standard provides for the bonding together of several 38 Mbps channels providing 150 Mbps of bandwidth to subscribers. There is also increased symmetry with higher upstream bandwidth provided for file sharing and video streaming. These services can compete directly with fibre provided by telcos. Important markets are enterprise customers and subscribers with requirements for file sharing and online 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 DOCSIS®3.0 performance 49 months ago allowed MSOs to insist that new products meet the DOCSIS®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. In May of 2009, Vecima announced that we had signed an agreement to supply DOCSIS 3.0 modules to a leading US OEM for both a high-density Modular CMTS EdgeQAM platform and a low-density integrated CMTS platform. In July 2010, Vecima announced that it had signed an agreement to supply QAM output modules to a leading US-based OEM. The Edge QAM platform will be marketed through the OEM's leading worldwide sales and distribution channels with volume deliveries expected to begin in the first quarter of the 2011 calendar year.

Vecima has developed strong competencies in modern electronic manufacturing. We continually invest in automated test jigs, manufacturing technologies and computer-controlled process to reduce our manufacturing costs. This facility has successfully completed the extremely stringent qualification requirements to allow us to directly manufacture product for Cisco Systems, our largest OEM customer.

One 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 rapidly develop new products to meet the needs defined by our customers. We then employ our sophisticated computer-managed 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 can be reverse engineered, although it has become more tedious and time-consuming with multi-level printed circuit boards. However, replication of our production process is more difficult since the manufacturing processes are not part of the embedded software in devices; the intelligence stays in the factory, it is not shipped with the product. 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 an extremely 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 IP in manufacturing process is also a source of our competitive differentiation in the marketplace. Meeting technology performance to specification in complex, multi-subsystem designs while producing in high volume requires sophisticated calibration and compensation techniques to manage natural variability in components and to support the operational temperature range. This sophisticated process and its proven success in the marketplace has led in part to our competitive edge.

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 from subscribers to voice, video and data services.

Historically, almost all of our sales were derived directly or indirectly from sales of our products to the Data over Cable, Broadband Wireless and Digital Video markets. Since 2003, we have acquired, through our YourLink subsidiary, companies that operate cable and wireless service provision businesses in Western Canada. These businesses provide us with locations to deploy and test new equipment designed by us and stable, recurring revenue streams. YourLink revenue represented 11% of total Vecima revenue in the year ended June 30, 2010.

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 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 other 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 years ended June 30, 2010 and 2009 has been derived from our 2010 audited annual consolidated financial statements, 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 annual report.

Consolidated Statement of Income Data:

Years ended June 30,

(in thousands of dollars except percentages, employees and per-share amounts)

	2010		2009		2008	
Sales	\$113,206	100%	\$114,231	100%	\$120,557	100%
Cost of sales	74,133	65%	61,592	54%	69,807	58%
Gross profit	39,073	35%	52,639	46%	50,750	42%
Research and development ⁽¹⁾	13,918	12%	8,846	8%	8,922	7%
Sales and marketing	7,405	7%	6,445	6%	6,883	6%
General and administrative	18,365	16%	17,698	16%	16,196	13%
Stock-based compensation	116	0%	415	0%	437	0%
Foreign exchange loss (gain)	(151)	(0%)	1,947	2%	(805)	(1%)
Other income	(4,277)	(4%)	(1,855)	(2%)	(844)	(1%)
	35,376	31%	33,496	29%	30,789	26%
Operating income	3,697	3%	19,143	17%	19,961	17%
Interest expense	403	0%	466	0%	608	1%
Income before income taxes	3,294	3%	18,677	16%	19,353	16%
Income taxes	2,487	2%	5,432	5%	7,488	6%
Net income	\$807	1%	\$13,245	12%	\$11,865	10%
Net income per share ⁽²⁾						
Basic and diluted	\$0.04		\$0.58		\$0.51	
Other Data (unaudited)						
Total research and development expenditures	\$23,016		\$21,054		\$ 16,053	
Percentage of sales	22%		18%		13%	
Standardized EBITDA ⁽³⁾	\$19,691		\$28,771		\$ 27,652	
Standardized EBITDA margin (%)	17%		25%		23%	
Number of employees	903		921		915	

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

⁽²⁾ Based on weighted average number of Common Shares outstanding

⁽³⁾ Earnings before interest, income taxes, depreciation and amortization

Consolidated Balance Sheet Data: (in thousands of dollars except number of Common Shares)	June 30, 2010	June 30, 2009	June 30, 2008
Cash	-	-	\$2,010
Working capital	47,933	51,804	44,866
Total assets	154,573	147,781	143,658
Total long-term debt	3,958	4,208	4,458
Shareholders' equity	\$127,177	\$128,859	\$115,963
Number of Common Shares outstanding ⁽¹⁾	22,799,978	22,921,768	23,151,103

⁽¹⁾ Based on weighted average number of Common Shares outstanding

The following table reconciles net income for the period to EBITDA and 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. EBITDA and Standardized EBITDA are not recognized measures under GAAP and, accordingly, investors are cautioned that EBITDA and Standardized EBITDA should not be construed as alternatives to net income, determined in accordance with GAAP, as indicators of our financial performance or as measures of our liquidity and cash flows.

Calculation of Standardized EBITDA (in thousands of dollars except percentages)	Years ended June 30,		
	2010	2009	2008
Net income	\$ 807	\$ 13,245	\$ 11,865
Income taxes	2,487	5,432	7,488
Interest expense	403	466	608
Amortization of capital assets	5,477	6,113	5,376
Amortization of deferred development costs	10,355	3,369	2,105
Amortization of other assets	162	146	210
Standardized EBITDA	\$ 19,691	\$ 28,771	\$ 27,652
EBITDA margin (%)	17%	25%	23%

The following table reconciles research and development expense reported in accordance with GAAP as shown on the income statement for the fiscal years ended June 30, 2010, 2009 and 2008 to our actual research and development expenses.

(in thousands of dollars except percentages)	2010	2009	2008
(Unaudited)			
Research and development expense as shown on income statement	\$ 13,918	\$ 8,846	\$ 8,922
Deferred development	17,167	13,588	4,330
Investment tax credits	1,770	570	3,191
Technology Partners Canada contribution	516	1,419	1,715
Amortization of deferred development costs	(10,355)	(3,369)	(2,105)
Total research and development expense	\$ 23,016	\$ 21,054	\$ 16,053
Percentage of sales	22%	18%	13%

Selected Quarterly Consolidated Financial Information and Other Data

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

(Unaudited)	Fiscal Year 2010				Fiscal Year 2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	\$ 26,804	\$ 30,006	\$ 28,017	\$ 28,379	\$ 20,491	\$ 20,093	\$ 36,874	\$ 36,773
Cost of sales	19,096	19,519	17,257	18,261	13,448	10,479	19,574	18,091
Gross Margin	7,708	10,487	10,760	10,118	7,043	9,614	17,300	18,682
Operating expenses								
Research and development	5,627	\$ 3,386	\$ 2,752	\$ 2,153	\$ 1,444	\$ 2,187	\$ 2,765	\$ 2,450
Sales and marketing	2,547	1,835	1,622	1,401	1,568	1,665	1,722	1,490
General and administrative	4,040	5,214	4,781	4,330	4,205	4,195	5,344	3,954
Stock-based compensation	12	14	45	45	10	135	135	135
Foreign exchange loss (gain)	(768)	(178)	216	579	(4,216)	861	5,698	(396)
Other income	(5)	(1,164)	(2,920)	(188)	(405)	(1,290)	(12)	(148)
	11,453	9,107	6,496	8,320	2,606	7,753	15,652	7,485
Operating income	(3,745)	1,380	4,264	1,798	4,437	1,861	1,648	11,197
Interest expense	77	205	48	73	162	83	207	14
Income before income taxes	(3,822)	1,175	4,216	1,725	4,275	1,778	1,441	11,183
Income taxes	406	304	1,270	507	1,093	534	430	3,375
Net income	\$ (4,228)	\$ 871	\$ 2,946	\$ 1,218	\$ 3,182	\$ 1,244	\$ 1,011	\$ 7,808
Net income per share								
Basic and diluted – before extraordinary gain	\$ (0.19)	\$ 0.04	\$ 0.13	\$ 0.05	\$ 0.14	\$ 0.05	\$ 0.04	\$ 0.34

Fourth Quarter Financial Highlights

Revenue

Vecima reports revenues broken down into three overall market segments: Converged Wired Solutions, Broadband Wireless and YourLink (service provision).

Converged Wired Solutions

Cable operators have introduced and are expanding into digital video, voice and data services in addition to offering traditional analog video services. As a broadband access alternative, *converged wired solutions* have the following advantages for cable service providers:

- *Creates Additional Revenue Streams.* High-speed Internet service can be delivered to an existing base of customers already served with video and pay-per-view entertainment programming. Existing billing systems and technical resources can be used to deliver this service to existing subscribers.
- *Reduces Churn.* By offering bundled packages of broadband services, cable service providers are seeking to gain a competitive advantage over telcos and DBS providers while retaining their traditional video subscribers.
- *Provides Low-Cost Market Entry.* High-speed Internet service can be delivered economically to the consumer with the installation of an inexpensive cable modem, now available for less than \$45 per unit.

Broadband Wireless

Broadband wireless technology has evolved to provide cost-effective broadband communication for business and residential subscribers. Standards-based wireless technology is expected to accelerate and extend worldwide wireless broadband communications. Along with offering the same high-speed access as other broadband access solutions, broadband wireless offers the following additional advantages for network service providers:

- *Enables Rapid Deployment.* Service can be initiated quickly because there is no need to install copper wire, cable or optical fibre past every home before service can commence.
- *Provides Low-Cost Market Entry.* Service can be delivered economically with one base station and a small number of initial subscribers.
- *Offers Scalability.* Subscribers can be added rapidly and cost-effectively, since each installed base station can support thousands of subscribers and the subscriber equipment are supplied only to customers who subscribe for service.

YourLink

YourLink operates seven small cable television service providers in British Columbia and several broadband video and Internet service providers in Saskatchewan. As at June 30, 2010, these systems provide video services and or broadband Internet access to approximately 18,728 subscribers. Through these service providers, which can deliver content to a large number of subscribers at a relatively low cost, we are able to demonstrate how our products can be deployed to augment and extend the delivery of voice, video and data services to subscribers. YourLink also gives Vecima the opportunity to test and improve new products in a variety of operating environments prior to their general introduction to the market, while providing stable, recurring revenue. We account for YourLink as a variable interest entity and consolidate YourLink's financial results with ours.

Variability of Revenue

There are many factors that contribute to the overall variances of Vecima's revenue. One of the main factors is our product development cycle. Vecima is continually researching and developing new products to replace products that are reaching the end of their lifecycle. Since our products are at the leading edge of technology the timing of development can vary as well as the timing of certification and the customer acceptance of the product. Vecima expects new products to drive future sales growth.

Vecima is also affected by the budgeting cycles of larger cable operators which generally results in stronger second and third quarters for Vecima. Other factors that can affect the timing of revenue include availability of parts and production capacity.

Revenue by Core Market: (in thousands of dollars except percentages)	Three months ended June 30,			
	2010		2009	
	Sales	% of Sales	Sales	% of Sales
(Unaudited)				
Converged Wired Solutions	\$ 20,456	76%	\$ 13,084	64%
Broadband Wireless	3,375	13%	4,575	22%
YourLink	2,973	11%	2,832	14%
Total Revenue	\$ 26,804	100%	\$ 20,491	100%

Our total sales increased 31% to \$26.8 million for the three months ended June 30, 2010 compared with \$20.5 million for the three months ended June 30, 2009.

Our sales in the Converged Wired Solutions increased 56% to \$20.5 million for the three months ended June 30, 2010, compared with \$13.1 million in the three months ended June 30, 2009. Increased demand for new products have more than offset the softening demand for legacy products and as a result sales have increased compared to the same period in the prior year.

Broadband Wireless sales decreased 26% to \$3.4 million for the three months ended June 30, 2010 compared with \$4.6 million for the three months ended June 30, 2009. The decline in wireless sales is a result of entering a transitional period where we are harvesting mature products and are in the early stages of expanding into new market verticals which we expect will drive demand for wireless products in the future.

YourLink revenue increased 5% to \$3.0 million for the three months ended June 30, 2010, compared to \$2.8 million in the three months ended June 30, 2009. YourLink revenue increase resulted from increases in both enterprise and residential installations.

Gross margin

Vecima's gross margin decreased to 29% for the quarter, providing a gross profit of \$7.7 million, compared with a gross margin of 34% for the three months ending June 30, 2009 that provided a gross profit of \$7.0 million. This decline was driven by the strong Canadian dollar and lower initial margins from new products. Management expects that our gross margin will return to our traditional levels of 35%-40% as we are starting to gain efficiencies on new products.

Operating expenses

Research and development expenses for the three months ended June 30, 2010 increased \$4.2 million to \$5.6 million, or 21% of revenue, compared with \$1.4 million, or 7% of revenue, for the same period in the

prior fiscal year. A one time write down of \$4.2 million resulted in a \$2.7 million increase to research and development net of ITC's. The one time write down was a result of a software defined radio project being terminated due to significant delays in the development of the product. The majority of our research and development costs continue to be deferred as GAAP rules require that we defer development costs for products that are not yet in commercial production. During the fourth quarter of the 2010 fiscal year, we continued to work on new M-DTA spinoff products along with DOCSIS[®] 3.0 products for major MSO's in the United States. Since the products are not yet in commercial production, the development costs are deferred to future periods. Total research and development costs before deferrals, amortization of deferred development costs and income tax credits for the three months ended June 30, 2010 were \$7.4 million, or 27% of sales, an increase from \$5.2 million, or 25% of sales, for the three months ended June 30, 2009.

Sales and marketing expense was \$2.5 million for the three months ended June 30, 2010; an increase of \$0.9 million compared to the \$1.6 million for the three months ended June 30, 2009. Sales and marketing expenses were 10% of sales for the fourth quarter of fiscal 2009, compared to 8% in the fourth quarter last fiscal year. The increase is due to an increase in tradeshow and customer travel to promote new products.

General and administrative expenses for the three months ended June 30, 2010 decreased \$0.2 million to \$4.0 million, compared with \$4.2 million in the three months ending June 30, 2009. Through strong cost controls, Vecima decreased general and administrative expenses to compensate for lower sales.

Stock-based compensation expenses for the three months ended June 30, 2010 were \$0.01 million, compared to \$0.01 million for the three months ended June 30, 2009. The expense reflects the continual amortization of the stock options issued in prior periods.

Foreign currency fluctuations resulted in a gain of \$0.8 million for the three months ended June 30, 2010 compared with a gain of \$4.2 million in the three months ended June 30, 2009. The gain is a result of gains from foreign exchange contracts. Foreign currency gains and losses are dependant on the movement of the US dollar and the volume of Vecima's foreign exchange contracts

Operating loss of \$3.8 million is the result of decreased margins and a one time impairment of a software defined radio product in the fourth quarter of fiscal 2010, compared to an operating profit of \$4.4 million, which was largely due to a gain of \$4.2 million in foreign exchange in the fourth quarter of fiscal 2009.

Income taxes expense for the three months ended June 30, 2010 were \$0.4 million, compared with an income tax expense of \$1.1 million for the three months ended June 30, 2009. This is in line with our average tax rate of 29% to 30%.

Net loss for the fourth fiscal quarter of 2010 was \$4.3 million, compared with a net income of \$3.2 million in the three months ended June 30, 2009. Net margin was -19% for the three months ended June 30, 2010, compared with 16% for the fourth quarter last fiscal year.

Cash from Operating Activities

For the three-month period ended June 30, 2010, cash flow from operating activities generated \$7.5 million in cash compared to \$2 million in the three-month period ended June 30, 2009. Cash generated from operations was \$5.0 million. Changes in working capital contributed an additional \$3.6 million. This was achieved by a reduction of inventory due to stronger inventory management controls, an increase in accounts payable as a result of negotiating longer terms with vendors and a decrease in accounts receivables.

Investing Activities

Our investing activities in the three months ended June 30, 2010 consisted primarily of product development costs and the purchase and sale of capital assets. Investing activities consumed \$5.3 million in cash in the three months ended June 30, 2010. The company purchased capital assets for \$1.0 million. The company consumed \$4.4 million in cash for development costs net of investment tax credits. In the three months ended June 30, 2009, the company spent \$0.8 million on property and equipment and \$1.8 million on development costs net of investment tax credits.

Financing Activities

In the three-month period ended June 30, 2010, the company had a net financing cash outflow of \$2.7 million. The company repurchased and cancelled \$2.6 million of its shares. The company also repaid \$0.1 million of its long term debt. This compares to \$0.1 million cash used for the repayment of long-term debt in the three months ended June 30, 2009.

As at June 30, 2010, our credit facility amounted to \$23.5 million, of which \$5.9 million was drawn as an operating line of credit and \$4.2 million was drawn as mortgages on real property. As at June 30, 2009, \$0.4 was drawn as an operating line of credit and \$4.5 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.

Fiscal Year Financial Highlights

Revenue

Our total sales decreased less than 1% to \$113.2 million for the year ended June 30, 2010 from \$114.2 million for the year ended June 30, 2009. Revenue from four customers represented approximately 68% of our revenue for the year ended June 30, 2010, compared to approximately 67% of our revenue for the year ended June 30, 2009. No one customer exceeded 26% of sales. Although the majority of Vecima's sales are to four major customers, management does not believe that the company is dependant on one customer as over the past year Vecima continued to diversify and add new significant customers.

The geographic breakdown of our sales for the year ended June 30, 2010, with the values for last year shown in brackets, was Canada 15% (15%), United States 64% (49%), Thailand 16% (28%), Israel 1% (2%) and other regions 4% (6%).

Revenue by Core Market: (in thousands of dollars except percentages)	Year ended June 30					
	2010		2009			
		% of Sales		% of Sales		
(Unaudited)						
Converged Wired Solutions	\$	83,561	74%	\$	81,808	72%
Broadband Wireless		17,579	15%		21,561	19%
YourLink		12,066	11%		10,862	9%
Total Revenue	\$	113,206	100%	\$	114,231	100%

Our sales in the Converged Wired Solutions increased 2% to \$83.6 million for the year ended June 30, 2010, compared to \$81.8 million in the year ended June 30, 2009. Although Converged Wired sales only

increased 2% the mix of products continues to change as sales on legacy products continue to decline and are being replaced by sales of new products.

Broadband Wireless sales decreased 18% to \$17.6 million for the year ended June 30, 2010 compared to \$21.6 million for the year ended June 30, 2009. The decrease is attributed to the softening of demand for software defined radios while Vecima's BWIN and WiMAX families of broadband wireless products are in the initial stages of growth driven by opportunities in new verticals. The decline in wireless sales is a result of entering a transitional period where we are both harvesting mature products and developing new products to target new market verticals which we expect will drive demand for wireless products in the future.

YourLink revenue increased 11% to \$12.1 million for the year ended June 30, 2010, compared to \$10.9 million in the year ended June 30, 2009. Much of the YourLink revenue growth resulted from increases in both the number of enterprise customers and residential customers. YourLink subscribers increased 11% to 6,822 in the BC cable operations at June 30, 2010 compared to 6,145 subscribers at June 30, 2009. Saskatchewan wireless subscribers grew 6% to 11,906 at June 30, 2010, compared to 11,238 subscribers at June 30, 2009.

Gross margin

Gross margin decreased to 35%, providing a gross profit of \$39.1 million during the year ended June 30, 2010, compared with a gross margin of 46% for the year ending June 30, 2009 that provided a gross profit of \$52.6 million. The two most significant factors that contributed to lower margins was a strong Canadian dollar which adversely affected our gross margin by 4%, and lower margins on new product also decreased margin by 3%. The remaining 4% decrease was a result of non recurring engineering fees in the prior year that did not occur in the current year. Management expects that the gross margin will stay within our traditional levels of 35%-40% as we gain production efficiencies on new products.

Operating expenses

Research and development expenses for the year ended June 30, 2010 increased 57% to \$13.9 million, or 12% of revenue, compared with \$8.8 million, or 8% of revenue, for the same period in the prior fiscal year. During the 2010 fiscal year, a one time write down of \$4.2 million resulted in a \$2.7 million increase to research and development net of ITC's as a result of a software defined radio project being terminated due to significant delays in the development of the product. The majority of our research and development costs continue to be deferred as GAAP rules require that we defer development costs for products that are not yet in commercial production. During the 2010 fiscal year, we continued to work on new Terrace products along with DOCSIS[®] 3.0 products for major cable operators in the United States. Since the products are not yet in commercial production, the development costs are deferred to future periods.

Sales and marketing expense was \$7.4 million, or 7% of sales, for the year ended June 30, 2010, compared to 6.4 million, or 6% of sales, for the year ended June 30, 2009, an increase of 15%. The increase was a result of an increase in tradeshow presence and increased travel to promote our new upcoming products.

General and administrative expenses for the year ended June 30, 2010 increased 4% to \$18.4 million, or 16% of sales, compared to \$17.7 million, or 15% of sales, in the year ended June 30, 2009. The increase is due to increased facility costs as well as an increase in YourLink administration as their network continues to expand. The company continues to carefully manage administrative expenses.

Stock-based compensation expenses for the year ended June 30, 2010 were \$0.1 million, compared to \$0.4 million for the year ended June 30, 2009. The expense reflects the continued amortization of the stock options issued in prior periods.

Foreign currency fluctuations resulted in a gain of \$0.2 million for the year ended June 30, 2010 compared with a loss of \$1.9 million in the year ended June 30, 2009. Approximately 85% of revenue was denominated in US dollars for the year ended June 30, 2010, which is consistent with previous periods. The gain is a result of gains from foreign exchange contracts. Foreign currency gains and losses are dependant on the movement of the US dollar and the volume of Vecima's foreign exchange contracts. In the year ending June 30, 2010 the company never had more than \$10 million dollars of foreign exchange contracts compared to a peak of \$50 million in the same period for the prior year.

Other income was \$4.3 million in the year ended June 30, 2010 compared to \$1.9 million in the year ended June 30, 2009. In the current year the Company sold 6% of their spectrum signal along with two pieces of land. This resulted in a gain of \$3.3 million in the current fiscal year. The sale of non-core assets is part of management's strategy to focus more on core business operations.

Operating income decreased 87% to \$3.7 million, or 16¢ per share, for the year ended June 30, 2010, compared with \$19.1 million, or 84¢ per share, for the year ended June 30, 2009. This decrease resulted from the significant decrease in gross margin and a significant increase in research and development expenses.

Income taxes for the year ended June 30, 2010 were \$2.5 million, compared with \$5.4 million for the year ended June 30, 2009. This resulted in an average tax rate of 76% compared to 30% last year. The increase is a result of our strategy for utilization of the income tax credits ("ITCs") and other deductible tax pools being reviewed and set by management on an annual basis. The strategy is based on our objectives, estimates of future profitability, and currently enacted federal and provincial tax legislation. The current strategy utilizes refundable and non-refundable ITCs, saving our other deductible tax pools for future utilization. This strategy generated a current tax expense of \$0.8 million, which is offset by non-refundable tax credits and will result in the company receiving \$2.7 million of refundable tax credits during fiscal 2011.

It is anticipated that certain deductible tax pools will not be utilized until fiscal 2013 or later, resulting in the full value of these deductible tax pools being partially offset by a decline in the enacted tax rates from 27% to 25% when the deductible pools will be used. The impact of this is that current year net future tax recovery is \$7.0 million resulting in a high effective tax rate for accounting purposes. The company expects its nominal tax rate to return to below 30% in the upcoming year.

Net income for the fiscal year decreased 94% to \$0.8 million, compared with \$13.2 million for the year ended June 30, 2009. Net margin was 1% for the year ended June 30, 2010, compared with 12% for the last fiscal year. As noted above the decrease in net income is a result of the strong Canadian dollar, decreased gross margin and an increase in research and development due to a one time write off of a software defined radio project that was cancelled.

Liquidity and Capital Resources

The Company manages its liquidity and capital resources to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The Company believes it has the flexibility to obtain from internal sources, the funds needed to fulfill its cash requirements during the following financial year. The liquidity requirements of the Company's business are met primarily by funds generated from operations and the sale of non-core assets. Cash provided from these sources is used primarily for operating expenses.

Working Capital

Working capital represents the Company's current assets less current liabilities. Vecima's working capital remained strong at \$47.9 million at June 30, 2010, down from \$51.8 million at June 30, 2009. 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 of product in a one week period. If this level of sales occurs in the first week of a succeeding quarter, we would expect to experience a run-up of inventory and a drop in receivables in the prior quarter. Other timing issues, like contractual terms of greater than 30 day payment terms, also affect working capital, particularly if shipments are back-end weighted for a quarter.

Accounts receivable balance increased 89% to \$28 million in the period ended June 30, 2010 compared to \$14.7 million at June 30, 2009. The increase is due to strong shipments in the month of June in 2010 compared to June 2009 where shipments were significantly lower.

Inventory decreased by \$12.4 million year-over-year to \$36.7 million. Finished goods inventories were \$13.8 million at June 30, 2010, compared to \$17.2 million at June 30, 2009. The finished goods inventory turn rate of 5.4 times per year at June 30, 2010 compared to 3.6 times at June 30, 2009. Raw material inventory decreased to \$16.1 million at June 30, 2010, compared to \$23.8 million at June 30, 2009. In fiscal 2010, work in process inventories decreased 15% to \$6.8 million, compared to \$8.0 million at June 30, 2009. 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 tax credits decreased by \$4.2 million to \$24.8 million at June 30, 2010 compared to \$29.0 million at June 30, 2009. For every dollar the Company spends on research and development in Canada, it generates approximately thirty two cents in income tax credits. These credits were used to offset the Company's income tax payable to Canadian tax authorities.

Accounts payable and accrued liabilities increased 19% to \$13.7 million at June 30, 2010, representing 67 days for payables to be outstanding, from \$11.4 million at June 30, 2009, representing an average of 67 days for payables to be outstanding.

Deferred revenue increased 67% to \$2.5 million at June 30, 2010, compared to \$1.5 million at June 30, 2009. The increase is a result of a new service contract in YourLink to provide internet services to certain communities in Saskatchewan for a minimum of five years.

Long-term debt, including current portion, was \$4.2 million at June 30, 2010, compared to \$4.5 million at June 30, 2009.

Cash from Operating Activities

For the year ended June 30, 2010, cash flows from operating activities generated \$10.0 million in cash compared to \$12.6 million in the year ended June 30, 2009. Net changes to working capital consumed cash by \$1.1 million compared to cash consumption of \$9.8 million in the previous year. The \$9.5 million change is highlighted by a decrease in inventories of \$12.4 million and an increase in receivables of \$13.3 million along with an increase in payables as a result of negotiating longer payable terms to match our longer credit terms given to our customers.

Investing Activities

Our investing activities in the year ended June 30, 2010 consisted primarily of product development costs and the purchase of capital assets. Investing activities consumed \$12.8 million in cash in the year ended June 30, 2010. We used \$5.0 million to purchase equipment and undertake capital renovations and we used \$12.5 million in cash to fund deferred research and development net of investment tax credits. In 2010 we also sold 6% of the company's spectrum licenses along with two pieces of land that was no longer in use.

Financing Activities

In the year ended June 30, 2010, the company had a net financing cash outflow of \$2.9 million, with \$2.6 million used to buy back shares under our Normal Course Issuer Bid and \$0.3 million used to repay long-

term debt. This compares to \$1.0 million cash used for the same purpose in the year ended June 30, 2009.

As at June 30, 2010, our credit facility amounted to \$23.5 million, of which \$5.9 million was drawn as an operating line of credit and \$4.2 million was drawn as mortgages on real property. As at June 30, 2009, \$0.4 was drawn as an operating line of credit and \$4.5 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.

Outstanding Share Data

As at June 30, 2010, the Company had outstanding a total of 22,316,767 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 924,973 shares, of which 670,553 were vested and exercisable.

There was no change to outstanding shares up to the release date September 28, 2010.

Contractual Obligations

The company has lease commitments for production equipment and facilities of \$0.4 million in 2011 and \$0.1 million in 2012 and \$.01 million thereafter (see Note 21).

Foreign Exchange

Approximately 85% of our revenues are denominated in US dollars. An appreciation of the Canadian dollar results in increased expenses for foreign currency transactions. We convert US dollar sales to Canadian dollars on the date of delivery. If the US 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 US dollars that become relatively more valuable in Canadian dollars. 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 US dollar at that time.

Significant Accounting Estimates

The preparation of the Company's consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual consolidated results could differ from those estimates. Key areas of estimation where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, are the allowances for doubtful accounts, allowances for inventory obsolescence, the capitalization of overhead, useful lives of capital assets, the valuation of goodwill, revenue recognition, stock-based compensation, the recoverability of tangible and intangible assets, the recoverability of deferred costs, asset retirement obligations, the ability to realize future income tax assets, and contingent liabilities.

Recent Accounting Pronouncements

Business Combinations

In January 2009, the Accounting Standards Board (AcSB) issued revised accounting standards in regards to business combinations with the intent of harmonizing those standards with International Financial Reporting Standards IFRS. The revised standards require the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establish the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. These standards apply prospectively to business combinations for which the acquisition date is after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Company is currently reviewing the standards to determine the impact, if any, on its consolidated financial statements.

Non-controlling Interests in Consolidated Financial Statements

In January 2009, the AcSB issued accounting standards to require all entities to report non-controlling (minority) interests as equity in consolidated financial statements. The standards eliminate the disparate treatment that currently exists in accounting for transactions between an entity and non-controlling interests by requiring they be treated as equity transactions. These standards apply retrospectively effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently reviewing the standards to determine the impact, if any, on its consolidated financial statements.

Financial Instrument Disclosure

In June 2009, the AcSB amended certain requirements related to financial instrument disclosure in response to amendments issued by the International Accounting Standards Board (IASB). The AcSB's amendments are consistent with its strategy to adopt IFRS and to ensure the existing disclosure requirements for financial instruments are converged to IFRS to the extent possible. The new disclosure standards require disclosure of fair values based on a fair value hierarchy as well as enhanced discussion and quantitative disclosure related to liquidity risk. The amended disclosure requirements are effective for annual financial statements relating to fiscal years ending after September 30, 2009 and as such the Company has included the required disclosure in its annual financial statements for the year ending June 30, 2010.

International Financial Reporting Standards (“IFRS”)

The Accounting Standards Board requires Canadian publicly accountable enterprises to adopt IFRS effective January 1, 2011. Although IFRS has a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement and disclosure.

The company has established a project team that is led by finance management to plan for and achieve a smooth transition to IFRS. The Audit Committee of the Board of Directors regularly receives progress reporting on the status of the IFRS implementation project.

The implementation project consists of three primary phases, which are sometimes occurring concurrently:

Phase 1: Preliminary study and diagnostic – complete

During this phase we:

- Completed a high-level impact assessment
- Prioritized areas to evaluate in Phase 2

Phase 2: Design, planning and solution development – In progress

During this phase we will:

- Assessed the impact of the adoption of IFRS on our results of operations, financial position and financial statement disclosures
- Developed a detailed gap analysis of accounting and disclosure differences between Canadian GAAP and IFRS for our overall conversion strategy
- Specified all changes that are required to our current processes.

Phase 3: Implementation and review – in progress

During this phase we will:

- Collect financial information we need to create the Company's 2010 and 2011 financial statements under IFRS
- Receive audit committee's approval of our accounting policy changes
- Carry out the changes to our processes
- Complete the training process
- Communicate the impact of the IFRS transition to external stakeholders
- Receive the board's approval of the new statements

Progress update

We are nearing the completion of the design, planning and solution development stages of Phase 2. We expect this phase to be completed by the end of our first quarter in fiscal 2011. This involved the completion of our gap analysis and determining the changes required to our processes. Management's plan is to have phase three completed by the end of our second quarter in fiscal 2011.

Senior management and the audit committee are reviewing our IFRS accounting policies; however IFRS standards are evolving and may be different at the time of transition. For example, we expect that the standards for consolidation, liabilities, discontinued operations, financial instruments, employee benefits and joint ventures could change before we adopt IFRS, and that IFRS for income taxes may change at a later date. It is also possible that new guidance regarding accounting for borrowing costs may be issued and could impact our current accounting treatment on transition. We have been monitoring and evaluating

these changes, and our analysis incorporates the standards we expect to be in effect at the time of transition.

Accounting Policies, choices, and implementation approach (prospective vs. retrospective)

The accounting policy choices identified in the design and planning phase have been analyzed as part of the solution development phase. Certain major accounting policy decisions were preliminarily approved by senior management and the Audit Committee in Q4 of 2010.

Information Technology

The required changes to IT systems to track additional disclosure requirements and track reconciling transactions during the year of transition are currently being reviewed as part of Phase 2. These changes will be implemented during Phase 3.

Disclosure controls and procedures, including investor relations and external communications

Financial statement disclosure requirements have been reviewed as part of Phase 2. Draft financial statements and notes will be prepared as part of Phase 3 for senior management and board approval.

Internal control over financial reporting

During the second phase, additional controls have been identified which will be implemented during the implementation phase. These controls will be assessed as part of the ongoing controls assessment and testing.

Financial reporting expertise, including training requirements

Key personnel in the transition to IFRS have completed external topic specific training. Training requirements for finance staff has been determined and will be completed by the completion of Phase 3.

Business activities, such as foreign currency and hedging activities, debt covenants, capital requirements, compensation arrangements

The impact of IFRS on business activities including foreign currency, debt covenants, capital requirements and compensation agreements are ongoing.

Impact on Financial Reporting

Many of the differences identified between IFRS and Canadian GAAP are not expected to have a material impact on the Company's reported results and financial position. However, there may be significant changes as a result of IFRS' accounting principles and provisions for first time adoption. The Company has not yet determined the full accounting effects of adopting IFRS. However, we do not expect the adoption of IFRS to impact materially the underlying cash flows, profitability trends of the Company's operating performance, debt covenants or compensation arrangements.

IFRS Policy choices

Property, Plant and Equipment and investment property - IFRS allows either a historical cost model or a revaluation model to value property plant and equipment after initial recognition.

Inventory - IFRS allows either first-in, first-out or weighted average to be used to value inventory.

Statement of Cash Flows - IFRS allows either the direct or indirect method in presenting the statement of cash flows. Dividends paid, interest paid, interest received and dividends received can be presented as either operating or financing activities.

Statement of Comprehensive Income - IFRS allows the statement to be presented grouping items by nature or function.

Accounting policy may differ

Expected Areas of Significance

The key areas where we expect accounting policies may differ, either due to policy choice or differences between GAAP and IFRS, which may impact the Company's consolidated financial statements, are discussed below.

Impairment - Canadian GAAP uses a two-step approach for impairment testing which does not require discounting cash flows in the first step. IFRS uses a one-step approach which requires the future cash flows used to determine the value of the assets to be discounted. Under IFRS, impairments are more likely to occur, however write-downs may be reversed under IFRS, which is prohibited under Canadian GAAP.

Under Canadian GAAP impairment testing is performed on a group of assets that generate both independent cash inflows and outflows. IFRS conducts impairment testing on assets that are independent cash generating units.

Provisions - IFRS requires a provision to be recognized when it is "probable" meaning more likely than not. Canadian GAAP requires a provision to be recognized when it is "likely", which is a higher threshold than "probably". Therefore it is possible that there may be some contingent liabilities not recognized under Canadian GAAP that would be reported under IFRS.

There are also differences in measurement, when there is a range of possible outcomes. Canadian GAAP requires the measurement to be at the lowest value in the range while IFRS uses the best estimate and requires discounting where material. For Asset Retirement Obligations, Canadian GAAP provisions are based on the fair value of the obligation while IFRS is based on management's best estimates.

Consolidation - The IFRS approach to consolidation is a single model principles-based approach based on control. Entities are consolidated if the Company has the majority of the risks and rewards of ownership. Factors that are considered when determining control include majority share ownership, ability to control the Board, power to govern financial and operating policies and contracted arrangements conferring effective control. Canadian GAAP has a two-step model which first considers if there is a variable interest entity and then considers the control structure. Variable interest entities are consolidated if the reporting entity is the primary beneficiary of the variable interest entities earnings.

Property, Plant and Equipment - IFRS requires componentization, where an item of property, plant and equipment has a significant component with a different expected useful life from the main item, IFRS requires that component to be depreciated separately based on the components own useful life. Canadian GAAP is similar in this respect; however it has often not been applied to the same extent due to practicality and/or materiality.

Borrowing costs – Under IFRS, borrowing cost must be capitalized on major projects which take a substantial amount of time to develop or construct using a capitalization rate based on all of the company's outstanding third-party debt. Under Canadian GAAP borrowing costs may be capitalized or expensed on major projects. The Company's current policy is to expense borrowing costs.

Leases - Under IFRS there are no quantitative guidelines to determine whether leases will be recorded as operating leases or capital lease. Leases are classed as financing leases when the risks and rewards of ownership have transferred. Canadian GAAP has quantitative guidelines that are followed in determining whether a lease is a capital lease or operating lease.

Share-based payments - Under IFRS, when stock option awards vest gradually, each tranche is considered as a separate award. Under Canadian GAAP gradually vested tranches are considered as a single award.

First-time adoption of IFRS

IFRS 1 generally requires an entity to apply IFRS retrospectively at the end of its first IFRS reporting period, but there are some mandatory exceptions and some optional exemptions.

We are analyzing the options available to us, and currently expect to use the exemptions below. This is a summary of the changes we currently believe will be most significant when we transition to IFRS – it is not a complete list of changes we will be required or may elect to make. We are still working on our analysis and have not made final decisions about the accounting policies that are available.

Business combinations

We may apply IFRS 3, Business Combinations, retrospectively or elect to apply an IFRS 3 modified prospective application.

We plan to elect to apply IFRS 3 prospectively to all business combinations that occurred before the transition date, except as required under IFRS 1.

Fair value as deemed cost

We may elect to use the fair value of property, plant and equipment as deemed cost at the transition date, or to use the historical cost as determined under IFRS.

We plan to not take the election, and use the historical cost as determined under IFRS at the transition date.

Share-based payments

We may elect to not apply IFRS 2, Share-Based Payments, to all equity instruments granted on or before November 7, 2002, or to those granted after November 7, 2002 only if they had vested by the transition date.

We plan to use this election and not apply IFRS 2 to all equity instruments granted after November 7, 2002 that have vested as of June 30, 2010, and to all liabilities arising from share-based payment transactions that existed at June 30, 2010.

Decommissioning liabilities

We may elect to apply IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities, prospectively instead of retrospectively. IFRIC 1 requires us to add or deduct a change in our obligations to dismantle, remove and restore items of property, plant and equipment, from the cost of the asset to which it relates. The adjusted amount is then depreciated prospectively over the asset's remaining useful life.

We intend to elect to adopt IFRIC 1 prospectively at the transition date.

Compound financial instruments

We may elect to not apply IAS 32 – Financial Instruments: Presentation to compound financial instruments where the liability is no longer outstanding which would require the liability and equity component to be presented separately in the equity section.

We intend to take this election to not separately disclose the liability balance or compound financial instruments where the liability is no longer outstanding.

Borrowing costs

We may elect to apply IAS 23, Borrowing Costs prospectively, using a date we specify, or to capitalize borrowing costs for all qualifying assets when capitalization begins on or after June 30, 2010.

We plan to elect to apply IAS 23 prospectively; maintaining the accounting elections under Canadian GAAP for borrowing cost prior to June 30, 2010 and capitalize the borrowing costs that take effect on or after that date.

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.

Risk Factors

The following is a brief discussion of those distinctive or special characteristics of Vecima's operations and industry which may have a material impact on, or constitute risk factors in respect of, Vecima's future financial performance. The risks and uncertainties below are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business operations and cause the price of our Common Shares to decline. If any of the following actually occurs, our business may be harmed and our financial condition and results of operations may suffer significantly. In that event, the trading price of our Common Shares could decline.

Our operating results are expected to fluctuate.

We have experienced fluctuations in our operating results on a quarterly and annual basis. We expect that operating results will continue to fluctuate in the foreseeable future due to a variety of factors, including:

- changes in general economic conditions and specific market conditions in the communications and Internet industries, including fluctuations in demand for existing products, the rate of development of new products and the degree of market acceptance of new products;
- the timing, size and contractual terms of significant orders for product or the entering into of new major contracts, and the lack of certainty that existing customer contracts will be renewed upon expiry;
- competition;
- our ability to maintain existing strategic relationships and to create new ones; and
- the timing and magnitude of operating expenses, capital expenditures and expenses relating to the expansion of sales, marketing, operations and acquisitions, if any, of related or complementary businesses and assets.

Any of the foregoing factors, or other factors discussed elsewhere in this Annual Information Form, could have a material adverse effect on our business, results of operations or financial condition. Although we have generally experienced quarterly revenue growth, that growth pattern is not necessarily indicative of future operating results.

We derive a substantial part of our revenue from a few key customers.

A key element of our business strategy is to expand the market for our products by expanding our relationships with major OEMs in the Converged Wired Solutions and Broadband Wireless. In order to implement that strategy, we will have to foster our existing relationships, and to form new OEM and other corporate relationships with leading companies. There can be no assurance that we will be able to develop additional relationships; that existing relationships will continue or be successful in achieving their purposes; or that such companies will not form competing relationships.

In addition, while we have a diverse and expanding customer list, our relationships with four major customers together accounted for 68% of our sales for the fiscal year ended June 30, 2010. For the fiscal year ended June 30, 2009, our relationships with four major customers accounted for 67% of our total sales. If any one or more of our key customers discontinues its relationship with us for any reason, or reduces or postpones current or expected purchases of our products, our business, results of operations and financial condition could be materially adversely affected.

We may be unable to deliver products associated with key contracts.

We have entered into important supply contracts with a few key customers. Our right to receive revenue under these contracts depends upon our ability to manufacture and supply products that must meet defined specifications. In order to realize the benefit of these agreements, we will have to successfully manage the following risks:

- *Lack of Sufficient Resources.* If we are unable to commit the necessary resources or to deliver our products as required by the terms of those contracts, customers may cancel the contracts. In that event, any costs incurred by us may not be recovered and we may incur additional costs as penalties.
- *Delivery.* If we fail to meet a delivery deadline or a customer determines that the products we have delivered do not meet the agreed-upon specifications, we may have to reduce the price we can charge for our products or may be liable to pay damages to the customer. Our delivery may also miss the market window resulting in reduced realization of revenues. Engineering of complex technologies always carries certain uncertainties, and while we make continual and deliberate efforts to minimize these risks, there are no guarantees of success or timely delivery.
- *Production Costs.* We price all client orders on the basis of our estimates of future production costs. If we incur higher costs than anticipated, our gross margins on those contracts could decline.

Some major customers are also entitled to terminate their contracts with us by giving us written notice. If we are unable to manage those risks successfully or to meet required deadlines in connection with one or more of those key contracts, our reputation could be harmed and our margins and revenues may decrease.

Failure to manage our business or our growth successfully may adversely affect our operating results.

Our ability to manage our business will be substantially dependent upon our ability efficiently and effectively to allocate resources to conduct research and development, product introduction, sales and marketing activities, financial management and customer support services. Accordingly, our future results of operations will depend on the continuing ability of our officers and other key employees to conduct business effectively and to improve operations. We will need to continue to improve our operational, financial and management systems. Our business has also grown rapidly. Our ability to support the growth of our business will be substantially dependent on having in place highly-trained employees and sufficient internal and third-party resources. Planned expansion of our business may increase the strain upon our management resources, and there can be no assurance that we will be able to manage any future expansion successfully. Failure to manage successfully any such expansion or any business shortfalls may have a material adverse effect on our business, results of operations and financial condition.

About 11% of our revenues in the year ended June 30, 2010 were derived from our YourLink subsidiary. Accordingly, our future results of operations will depend in part on our ability to conduct the business of YourLink effectively, while not having voting control over YourLink. Furthermore, YourLink is controlled by certain of our senior officers, whose attention may be diverted from the operation of our

primary business. Some or all of these factors related to YourLink could have a material adverse effect on our business, results of operations and financial condition.

If we cannot meet customers' requirements for manufacturing capacity, sales may suffer.

The markets in which we operate generally require us to produce a high volume of products in a short period of time. As a result of our major supply agreements with key customers such as Cisco, Motorola, and Comcast and continued expected growth in the Company's business, we may need to increase our manufacturing capacity. If we cannot successfully manufacture our products in the future at volumes, yields or cost levels necessary to meet our customers' needs, we may lose customers and sales may suffer. In addition, there is no assurance that we will be able to obtain a sufficient amount of high-volume orders to absorb the capital costs incurred in increasing our manufacturing capacity.

Our success depends on our ability to develop new products and enhance our existing products.

To keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance of our products, we must enhance and improve existing products and we must also continue to introduce new products and services. If we are unable successfully to develop new products or enhance and improve our existing products or if we fail to position and/or price our products to meet market demand, our business and operating results will be adversely affected.

Accelerated product introductions and short product life-cycles require high levels of expenditures for research and development that could adversely affect our operating results. Further, any new products we develop could require long development and testing periods and may not be introduced in a timely manner or may not achieve the broad market acceptance necessary to generate significant revenue. As we develop new products, many of our older products will reach the end of their lives. As we discontinue the manufacturing and sale of these older products, we must manage the liquidation of inventory, supplier commitments and customer expectations. If we are unable to manage properly the discontinuation of these older products, it could have a material adverse effect on our business, financial condition and results of operations.

We are dependent on the expansion of our current, and development of new, distribution channels.

We sell our OEM products directly to OEM customers and to parties with whom we have strategic relationships. We expect to continue to utilize these relationships to sell to companies that will incorporate our products into their products and services. Accordingly, our success will be dependent in large part on our ability to continue existing relationships and to develop new OEM and other third-party relationships.

A material loss of any OEM customers or strategic partners, either as a result of competitive products offered by other companies or products developed internally by our OEM customers and strategic partners, or their inability to penetrate their respective market segments, could have a material adverse effect on our business, financial condition and results of operations. There can be no assurance that we can continue to attract OEM customers, dealers and strategic partners and any inability to do so could materially adversely affect our business, financial condition and results of operations. While we plan to continue expanding our distribution channels, there can be no assurance that such expansion will be successfully completed, that the cost of such expansion will not exceed the revenues generated, or that our sales and marketing organization will be able to compete successfully against the more extensive and well-funded sales and marketing operations of many of our current or potential competitors. Our inability to manage effectively our distribution expansion could have a material adverse effect on our business, financial condition and results of operations.

Our ability to recruit and retain management and other qualified personnel is crucial to our ability to develop market and support our products.

Our success is largely dependent on the abilities, dedication and experience of our executive officers and other key employees. Competition for highly-skilled management, technical, research and development and other employees is intense in the Converged Wired Solutions and Broadband Wireless markets.

There can be no assurance that we can retain our current key employees or attract and retain additional key employees as needed. The loss of certain key employees could have a material effect on our business, results of operations and financial condition.

If we are required to change our pricing models to compete successfully, our margins and operating results may be adversely affected.

We generally price our products based on our estimate of future production costs. If actual production costs are higher than anticipated, our gross margins will decrease. In addition, competitive pressures may force us to lower product prices, which may further decrease our margins if we are unable to offset that effect by cost-reduction measures. If gross margins are reduced with respect to an important product line or if sales of lower-margin products exceed sales of higher-margin products, our profitability may decrease and our business could suffer.

Our reliance on third-party suppliers and contract manufacturers reduces our control over our performance.

We rely on third-party suppliers, in some cases sole suppliers or limited groups of suppliers, to provide us with materials necessary for the manufacture of our products. As a result of worldwide demand for and shortage of components, some suppliers have from time to time limited the number of components we may purchase. These components include chips and other components necessary for the production of our products. If we are unable to obtain sufficient allocations of these components, our production and shipment of products will be delayed, we may lose customers and our profitability will be affected.

Reliance on suppliers also reduces our control over production costs, delivery schedules, reliability and quality of materials. Any inability to obtain timely deliveries of acceptable-quality materials, or any other circumstances that would require us to seek alternative suppliers, could adversely affect our ability to deliver products to our customers. In addition, we outsource some aspects of the manufacture of some of our products to contract manufacturers and a significant increase in the price of the services provided by these manufacturers, or delays in their deliveries, could have a material adverse effect on our business, results of operations and financial condition.

Our revenues are substantially concentrated in a single market category.

Sales of our products for the Converged Wired Solutions market accounted for 74% of our sales for the fiscal year ended June 30, 2010, 72% of our sales for the year ended June 30, 2009 and 74% of our sales in the year ended June 30, 2008. While we expect sales of our products for the Broadband Wireless market to increase in the future, sales from the Converged Wired Solutions product line will continue to account for a significant portion of our sales in the foreseeable future. A decline in demand for these products as a result of competition, technological change or other factors could have a material adverse effect on our business, results of operations and financial condition.

If our intellectual property is not adequately protected, we may lose our competitive advantage.

We rely on a combination of contractual provisions, copyright, trademarks, trade secrets, licences and patent protection to establish and protect our proprietary rights. Despite our best efforts to protect our intellectual property rights, unauthorized parties may attempt to copy aspects of our products or to obtain information we regard as proprietary. Policing unauthorized use of our proprietary technology, if required, may be difficult, time-consuming and costly. There can be no assurance that our means of protecting our proprietary rights will be adequate. Failure to protect our proprietary rights could have a material adverse effect on our business, results of operations and financial condition.

Successful warranty or product liability claims could harm our business.

We provide product warranties that typically run for two years, as is standard in the industry. If our products fail to perform as warranted and we are unable to resolve product quality or performance issues in a timely manner, we may lose sales or be forced to pay damages. In addition, because our products are sold and marketed in different countries, the products must function in and meet the requirements of many different communication environments and be compatible with various communication systems and products. Any failure of our products to meet these requirements could have a negative impact on sales and a material adverse effect on our business, results of operations and financial condition. Further, there is a risk that customers may uncover latent design defects in our products that were not apparent at the time the product was sold. This type of defect may be discovered before or after the warranty period has expired. Performance failure due to a design defect may cause loss of customers, damage to our reputation for delivering high-quality products, delay in or loss of market acceptance and additional warranty expense or costs associated with product recall.

We may be unable to identify and complete acquisitions. Acquisitions could divert management's attention and financial resources, may negatively affect our operating results and could cause significant dilution to shareholders.

We may expand operations by acquiring additional complementary businesses, products or technologies. There can be no assurance that we will be able to identify, acquire or profitably manage additional businesses or successfully integrate any acquired businesses, products or technologies into Vecima without substantial expenses, delays or other operational or financial problems. Furthermore, acquisitions may involve a number of special risks, including diversion of management's attention, expenses of amortizing the acquired company's intangible assets, failure to retain key personnel, unanticipated events or circumstances and legal liabilities, some or all of which could have a material adverse effect on our business, results of operations and financial condition. Acquisitions could also result in potentially dilutive issuance of equity securities. Any failure to manage our acquisition strategy successfully could have a material adverse effect on our business, results of operations and financial condition.

There are risks associated with our international operations.

We derive a significant portion of our revenues from international sales. We plan to continue to expand our international sales and marketing efforts. There are a number of risks inherent in our international business activities, including unexpected changes in Canadian, United States or other government policies concerning the import and export of goods, services and technology and other regulatory requirements, tariffs and other trade barriers, costs and risks of localizing products for foreign countries, higher credit risks, potentially adverse tax consequences, limits on repatriation of earnings and the burdens of complying with a wide variety of foreign laws. Fluctuations in currency exchange rates could materially adversely affect sales denominated in currencies other than the Canadian dollar and cause a reduction in revenues derived from sales in a particular country. Financial instability in foreign markets could also affect our international sales. There can be no assurance that such factors will not materially adversely affect the revenues from our future international sales and, consequently, our results of operations. In addition, revenues that we earn abroad may be subject to taxation by more than one jurisdiction, which could materially adversely affect our earnings. Each of these factors could have an adverse effect on our business, financial condition and results of operations.

Currency fluctuations may adversely affect us.

Our financial results are reported in Canadian dollars. For the year ended June 30, 2010, approximately 85% of our revenues and a portion of our costs were denominated in United States dollars. Any fluctuation in the value of the Canadian dollar relative to the United States dollar may result in variations in our sales and earnings expressed in Canadian dollars as a result of the geographic mix of our customers, and may have a material effect on our business, results of operations and financial condition.

Growth in our key markets may not continue.

The overall market for voice, video and data communications equipment has experienced significant growth in the past year. There can be no assurance that the market for our products will continue to grow, that firms within the industries will adopt our products to deliver their services or that we will be able independently to establish additional markets for our products. If the various markets in which our products compete fail to grow or grow more slowly than we currently anticipate, or if we were unable to establish markets for our products, our business, results of operations and financial condition could be materially adversely affected.

Our inability to adapt to technological change, new products and standards could harm our business.

The Converged Wired Solutions and Broadband Wireless markets are characterized by rapidly changing technology and evolving industry standards. Our products embody complex technology and these products may not always be compatible with current and evolving technical standards and products developed by others. Our ability to anticipate changes in technology, technical standards and product offerings will be a significant factor in our ability to compete. There can be no assurance that we will be successful in identifying, developing, manufacturing and marketing products that will respond to technological change or evolving service-provider standards or requirements. In addition, there can be no assurance that the products or technologies developed by others will not render our products or technologies non-competitive or obsolete. Failure or delays by Vecima to meet or comply with evolving industry or user standards or to anticipate changes in technology and product offerings, or failure of our products to gain market acceptance, could have a material adverse effect on our business, results of operations and financial condition.

Part of the success of the Converged Wired Solutions market is contingent on content providers, such as movie studios, permitting their content to be licensed for use in this market. Because of concerns regarding marketing or illegal duplication of the content, or both, content providers may limit the extent to which they provide content to the Converged Wired Solutions market. The limitation of content for the Converged Wired Solutions market would indirectly limit the market for our Converged Wired Solutions products.

Increased competition could have an adverse effect on our business.

The markets for our products are highly competitive. As some of these markets continue to develop, additional competitors with more established and larger marketing and technical resources than Vecima may enter the market and competition may intensify. In addition, current competitors may develop products that are comparable or superior to our products or achieve greater market acceptance due to pricing, sales channels or other factors. In addition, OEMs and system integrators could develop greater internal capabilities and manufacture these products exclusively in-house, rather than outsourcing them. Such developments would have a material adverse effect on our business, results of operations and financial condition.

Our future success depends on growth in the Converged Wired Solutions market.

Some of the markets in which we sell products have only recently begun to develop. Digital video and broadband wireless access technologies are relatively new and unproven in the marketplace. Because the market for these technologies is new, it is difficult to predict the rate at which they will grow, if at all, and the technologies may prove unsuitable for widespread commercial deployment. Further, many of our customers are system integrators who use our products as part of data systems for networks operated by third parties. System integrators may not have or devote the financial, marketing and other resources necessary to ensure that their solutions succeed in the marketplace. In such circumstances, we may not be able to generate enough sales of our Converged Wired Solutions and Broadband Wireless products to sustain our current rate of growth.

Competition from new or existing technologies may adversely affect our business.

Cable and broadband wireless access solutions compete with other high-speed solutions such as DSL, optical fibre and satellite. These alternative technologies have existing installed infrastructure and have achieved significant market acceptance and penetration. We expect cable and broadband wireless access technologies to face significant competition from both current and future alternative technologies. In light of these factors, the market for data over cable access solutions may fail to grow or, in the case of broadband wireless, may fail to develop or may develop more slowly than expected. Any of these outcomes could have a material adverse effect on our business, results of operations and financial condition.

Government regulation of our products and new government regulation could harm our business.

Our products are subject to certain mandatory regulatory approvals and are incorporated into cable and wireless communication systems that are regulated in Canada by Industry Canada, in the United States by the Federal Communications Commission (FCC) and internationally by other government agencies.

Although we have all necessary Industry Canada and FCC approvals for products we currently sell, there can be no assurance that such approvals can be obtained for future products on a timely basis, or at all.

Regulatory changes could also negatively affect our business by restricting development efforts by our customers, making our current products obsolete or increasing the potential for additional competition.

Our business, results of operations and financial condition could be adversely affected if our products fail to comply with all applicable domestic and international regulations. Further, delays inherent in the governmental approval process have in the past caused, and may in the future cause, cancellation, postponement or rescheduling of the installation of communication systems by our customers. This in turn may have a negative impact on the sale of our products to those customers, and hence have a material adverse effect on our business, results of operations and financial condition.

Third parties may allege that we infringe on their intellectual property.

The industries in which we compete have many participants, who own, or claim to own, intellectual property. Although we have conducted prudent reviews of our products to ensure that we do not knowingly use unlicensed intellectual property, third parties may allege that Vecima infringes on their intellectual property. Should such an allegation be made, the outcome of any litigation is impossible to predict and, should the outcome be unfavourable to us, we may not be able to negotiate acceptable, or indeed any, licensing terms. Such an event could materially adversely affect our business, results of operations and financial condition.

Our share price will fluctuate. The market price of our Common Shares may be volatile and could be subject to wide fluctuations due to a number of factors, including:

- actual or anticipated fluctuations in our results of operations;
- changes in estimates of our future results of operations by us or securities analysts;
- announcements of technological innovations or new products by us or our competitors; or
- other events or factors.

In addition, the financial markets have experienced significant price and value fluctuations that have particularly affected the market prices of equity securities of many technology companies and that sometimes have been unrelated to the operating performance of these companies. Broad market fluctuations, as well as economic conditions generally and in the software industry specifically, may adversely affect the market price of our Common Shares.

We may not pay significant, or any, cash dividends on our Common Shares in the future. Our current policy is to use our earnings to finance expansion and to develop, license and acquire new software products and otherwise to reinvest in the Company. We do not have a policy of paying regular dividends to shareholders. Our dividend policy will be reviewed from time to time by our Board of Directors in the context of our earnings, financial condition and other relevant factors. If the Board concludes that we have funds in excess of our requirements and the payment of either a special dividend or regular dividends would be an appropriate use of the Company's cash resources, we may choose to declare one or more dividends. Until we pay dividends, which we may never do, our shareholders will not be able to receive a return on their Common Shares unless they sell them.

Future sales of Common Shares by our existing shareholders could cause our share price to fall.

The Company's President and Chief Executive Officer and its Chief Operating Officer (the "Principal Shareholders") agreed with the underwriters for the Company's initial public offering on certain restrictions on their ability to sell Common Shares held by them in the 12 months ended November 13, 2006. Those restrictions have now expired. The Principal Shareholders have advised us that they intend to reduce their shareholdings in the Company over time through gradual sales in the market. If our Principal Shareholders sell substantial amounts of our Common Shares in the public market, the market price of our Common Shares could fall. The perception among investors that these sales will occur could also produce this effect.

A small number of our shareholders control the Company.

Our officers, directors, Principal Shareholders and their affiliates beneficially own or control, directly or indirectly, approximately 78% of our outstanding Common Shares. As a result, if some of these persons or entities act together, they will likely have the ability to control all matters submitted to our shareholders for approval, including the election and removal of directors, amendments to our articles of incorporation and bylaws and the approval of any business combination. This may delay or prevent an acquisition or cause the market price of our shares to decline. Some of these persons or entities may have interests different from yours. For example, because these shareholders purchased their shares at prices substantially below the price at which shares were sold in Vecima's initial public offering and have held their shares for a relatively longer period, they may be more interested than other investors in selling Vecima to an acquirer, or may want us to pursue strategies that are different from the wishes of other investors.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

September 23, 2010

The consolidated financial statements of Vecima Networks Inc. have been prepared by management and approved by the Board of Directors. Management of Vecima Networks Inc. is responsible for the preparation, objectivity and integrity of the information contained in these financial statements and other sections of this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, consistently applied. Management maintains the necessary systems of internal controls, policies and procedures to provide assurance that assets are safeguarded and that financial records are reliable and form a proper basis for the preparation of financial statements.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee which is composed of non-management directors. This committee, which reports to the Board of Directors, meets with the independent auditors and reviews the consolidated financial statements.

Deloitte & Touche LLP, the Company's auditors, have examined these consolidated statements and their report follows.



Dr. Surinder Kumar
Chief Executive Officer



John Hanna
Chief Financial Officer

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AUDITORS' REPORT

TO THE SHAREHOLDERS OF VECIMA NETWORKS INC.

We have audited the consolidated balance sheets of Vecima Networks Inc. (the "Company") as at June 30, 2010 and 2009 and the consolidated statements of income, comprehensive income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

Saskatoon, Canada

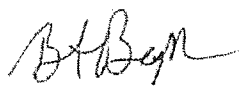
September 23, 2010

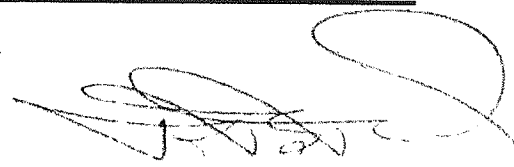
VECIMA NETWORKS INC.
CONSOLIDATED BALANCE SHEETS
(in thousands of Canadian dollars)

	<i>Notes</i>	As at June 30,	
		2010	2009
Assets			
Current assets			
Marketable securities	3	\$ 795	\$ 898
Accounts receivable	4	27,999	14,707
Income tax receivable		2,754	-
Inventories	5	36,702	49,058
Current portion of leases receivable	6	281	413
Prepaid expenses		864	516
Other current assets		12	65
Current future tax assets	16	1,316	861
		70,723	66,518
Leases receivable	6	214	246
Property, plant and equipment	7	35,631	37,592
Deferred development costs	8	9,661	7,495
Intangible assets	9	2,519	2,496
Investment tax credit asset	17	24,829	28,989
Future tax assets	16	10,996	4,445
		\$ 154,573	\$ 147,781
Liabilities			
Current liabilities			
Bank indebtedness	10	\$ 5,934	\$ 335
Accounts payable and accrued liabilities		13,654	11,374
Warranty accrual		500	500
Deferred revenue		2,452	1,471
Current portion of long-term debt	11	250	250
		22,790	13,930
Other long-term liabilities	12	648	784
Long-term debt	11	3,958	4,208
		27,396	18,922
Commitments and Contingencies			
	21		
Shareholders' equity			
Share capital	13	34,482	35,317
Contributed surplus		2,392	2,276
Retained earnings		90,303	91,266
		127,177	128,859
		\$ 154,573	\$ 147,781

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 Canadian dollars except net income per share data)

	<i>Notes</i>	Years ended June 30,	
		2010	2009
Sales		\$ 113,206	\$ 114,231
Cost of sales		74,133	61,592
Gross margin		39,073	52,639
Research and development		13,918	8,846
Sales and marketing		7,405	6,445
General and administrative		18,365	17,698
Stock-based compensation	13	116	415
Foreign exchange (gain) loss		(151)	1,947
Other income	14	(4,277)	(1,855)
		35,376	33,496
Operating income		3,697	19,143
Interest expense		403	466
Income before income taxes		3,294	18,677
Income taxes	16	2,487	5,432
Net income and Comprehensive income		807	13,245
Retained earnings, beginning of period		91,266	78,580
Reduction of common shares purchased for cancellation	13	(1,770)	(559)
Retained earnings, end of period		\$ 90,303	\$ 91,266
<i>See accompanying notes</i>			
Net income per share	13		
Basic and diluted		\$ 0.04	\$ 0.58
Weighted average number of Common Shares outstanding - basic and diluted		22,799,978	22,921,768

VECIMA NETWORKS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands of Canadian dollars)

	<i>Notes</i>	Years ended June 30,	
		2010	2009
Cash flows from (used in) operating activities			
Net income		\$ 807	\$ 13,245
Add (deduct) items not requiring cash			
Gain on the sale of property, plant and equipment		(940)	(1,083)
Gain on the sale of intangible assets		(2,363)	-
Amortization of property, plant and equipment		5,477	6,113
Amortization of deferred development costs	8	10,355	3,369
Amortization of intangible assets		162	146
Future tax asset		(6,551)	4,902
(Decrease) increase in other long-term liability		(136)	384
Decrease (increase) in investment tax credit asset		4,160	(5,132)
Stock-based compensation	13	116	415
Net change in non-cash working capital relating to operations	18	(1,077)	(9,814)
		10,010	12,545
Cash flows from (used in) investing activities			
Purchase of property, plant and equipment		(5,001)	(7,625)
Proceeds from the sale of property, plant and equipment		2,421	2,700
Proceeds from the sale of intangible assets		2,453	-
Proceeds from capital sales lease		164	177
Purchase of marketable securities		-	(898)
Deferred development costs, net of investment tax credits	8	(12,521)	(8,195)
Purchase of intangible assets		(270)	(45)
		(12,754)	(13,886)
Cash flows used in financing activities			
Purchase and cancellation of shares	13	(2,605)	(754)
Repayment of long-term debt		(250)	(250)
		(2,855)	(1,004)
Decrease in cash during the period		(5,599)	(2,345)
(Bank indebtedness) cash, beginning of period		(335)	2,010
Bank indebtedness, end of period		\$ (5,934)	\$ (335)

See accompanying notes

Supplemental information

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VECIMA NETWORKS INC.
NOTES TO THE 2010 CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

1. NATURE OF OPERATIONS

Vecima Networks Inc. ("Vecima Networks" or the "Company") designs, manufactures and sells products that enable broadband access to cable, wireless and telephony networks. Vecima Networks' hardware products incorporate embedded software developed by Vecima Networks to meet the requirements of next-generation, high-speed digital networks. Vecima Networks 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 insufficient carrying capacity in legacy last-mile infrastructures. The Company's variable interest entity ("VIE"), YourLink Inc. ("YourLink"), operates several small cable and broadband wireless service providers and owns certain licences to commercial spectrum.

2. BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include the following significant accounting policies:

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.

Cash

Cash consists of cash and short-term investments that have an original term to maturity at acquisition of less than 90 days.

Revenue Recognition

Product sales revenue is recognized upon shipment of the goods provided that all contractual obligations have been met. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price to the buyer is fixed or determinable and collection is reasonably assured. The Company offers integrated products and services. When this occurs, the multiple elements are separated out, the revenue is measured and allocated to each separate element and the appropriate revenue recognition policy is applied to each element.

Service revenue from cable and internet is recognized in the period the customer receives the service. Subscriber connection fees received from the 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 in advance of the product being delivered or service being provided is recognized as deferred revenue. Revenue from long-term completion contracts are recognized using the percentage-of-completion method of accounting.

Warranty Provision

The estimated parts and labour costs expected to be incurred for future product repairs provided under the Company's one-year and two-year warranty obligations are accrued when the product is sold and are based on contract terms and prior claims experience.

VECIMA NETWORKS INC.
NOTES TO THE 2010 CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

2. BASIS OF PRESENTATION (continued)

Inventories

Inventories consist of raw materials, work-in-progress and finished goods. Inventories of raw materials, which consist of parts and components, are recorded at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis. Work-in-progress inventory is recorded at the lower of cost and replacement cost and finished goods inventory, which consists of finished products and subscriber equipment, is recorded at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis and manufactured products include direct materials, direct labour and a reasonable allocation of overhead costs.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization and related government assistance received. Amortization is generally calculated on a declining-balance basis over the estimated useful lives, with a half year of amortization provided in the year of acquisition. Estimated useful lives of buildings and land improvements are forty years, furniture and equipment is five years, lab equipment, and production and distribution equipment is ten to thirty years, computer hardware and software is one to three years, and automotive equipment is three years. The cost of operating equipment for new subscriber equipment is capitalized and amortized on a straight-line basis over four years. Repairs and maintenance expenditures are charged to operating expenses as incurred.

The Company reviews capital assets for impairment whenever events or changes in circumstances indicate that the carrying values might not be recoverable. An impairment charge is recognized when the carrying amount of an asset is greater than the estimated future undiscounted net cash expected to be generated from the asset. The impairment is measured as the difference between the carrying value of the asset and its fair value calculated using quoted market prices or discounted cash flows.

Intangible Assets

(a) Indefinite-life Intangible Assets

Indefinite-life intangible assets consisting of spectrum and other licenses are recorded at cost, which represents the fair market value at the date of acquisition. These assets have indefinite lives and as such, are not subject to amortization.

Indefinite-life intangible assets are assessed for impairment in the fourth quarter of every year and when events or changes in circumstances indicate that an asset might be impaired. Any impairment is calculated by deducting the asset's fair value, based on estimates of discounted future cash flows or other valuation methods, from its carrying value. The impairment is deducted from income in the year in which it occurs.

(b) Finite-life Assets

Subscriber acquisition costs, acquired in business acquisitions, are amortized on a straight-line basis over their estimated useful lives of ten years. Patents are amortized on a straight-line basis over five years. Any impairment is calculated by deducting the asset's fair value, based on estimates of discounted future cash flows or other valuation methods, from its carrying value. The impairment is deducted from income in the year in which it occurs.

Employee Benefits

The Company contributes three to five percent of employees' annual salary to registered retirement savings plans on behalf of the employee. The contribution vests immediately. The current year expense is equal to the Company's contribution during the year.

VECIMA NETWORKS INC.
NOTES TO THE 2010 CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

2. BASIS OF PRESENTATION (continued)

Leases

(a) Obligations under Capital Lease

Leases that transfer substantially all the benefits to the Company are recorded as capital leases. The imputed interest is charged against income and the capitalized value is amortized on a declining-balance basis over its estimated useful life. Obligations under capital leases are reduced by rental payments net of imputed interest.

(b) Leases Receivable

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. Interest related to lease payments is recognized in the year in which it is earned.

Research and Development

Research costs are expensed in the year in which they are incurred. Development costs are expensed unless they meet certain specific 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 two years, representing the estimated average life cycle of related products.

The Company develops new electronic communications products for the cable and telecommunication markets. Development costs include direct salaries, materials and an allocation of overhead, which relates to products being developed less applicable government assistance and investment tax credits claimed.

Costs relating to projects which are not commercialized or which cease to be marketable are charged against income in the year in which this determination is made.

The Company earns investment tax credits on eligible Scientific Research and Experimental Development ("SR&ED") expenses incurred. These investment tax credits are recorded in the accounts as a reduction of the costs to which they relate and are released to amortization expense over the same period as the deferred development costs are amortized.

Asset Retirement Obligation

Liabilities are recognized for statutory, contractual or legal obligations, normally when incurred, associated with the retirement of property, plant and equipment (primarily certain items of outside plant and wireless site equipment) when those obligations result from the acquisition, construction, development and/or normal operation of the assets. The obligations are measured initially at fair value, determined using present value methodology, and the resulting costs are capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement cost is depreciated on the same basis as the related asset and the discount accretion is included in determining the results of operations.

Future Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes are determined based on the difference between the carrying value of assets or liabilities and their tax bases using the substantively enacted tax rates expected to be in effect when the asset or liability is settled. Future tax assets are recognized to the extent it is more likely than not that they will be realized.

VECIMA NETWORKS INC.
NOTES TO THE 2010 CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

2. BASIS OF PRESENTATION (continued)

Foreign Currency Translation

All of the Company's foreign subsidiaries are considered integrated and are translated into Canadian dollars using the temporal method. Under the temporal method, American, Indian and Australian monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated using average rates for the year, except for amortization, which is translated on the same basis as the related asset. Exchange gains and losses are reflected in net income.

Financial Instruments

The Company uses derivative financial instruments to manage risks from fluctuations in exchange rates. The most frequently used derivative products are foreign currency forward purchase contracts. The Company's policy is not to utilize financial instruments for trading or speculative purposes. Derivative financial instruments held for trading are recognized on the balance sheet at their fair value, with changes in fair value recognized in net income.

Government assistance

Government assistance is recorded in the financial statements when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions necessary to obtain the assistance.

The Company incurs research and development expenditures, which are eligible for investment tax credits. The recorded investment tax credits are based on management's estimates of amounts expected to be recovered and are subject to audit by taxation authorities.

Government assistance, including investment tax credits for research and development, is reflected as a reduction in the cost of the assets or expenses to which it relates.

Goodwill

Goodwill representing the excess of purchase price over fair value of the net identifiable assets of acquired businesses is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. When the carrying amount exceeds the fair value, an impairment loss is recognized in the statement of income in an amount equal to the excess.

Use of Estimates

The preparation of the Company's consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual consolidated results could differ from those estimates. Key areas of estimation where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, are the allowances for doubtful accounts, allowances for inventory obsolescence, the capitalization of overhead, useful lives of capital assets, the valuation of goodwill, revenue recognition, stock based compensation, the recoverability of tangible and intangible assets, the recoverability of deferred costs, the asset retirement obligations, the ability to realize future income tax assets and contingent liabilities.

VECIMA NETWORKS INC.
NOTES TO THE 2010 CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

2. BASIS OF PRESENTATION (continued)

Fair Value of Financial Instruments

The fair value of long-term debt with variable rates of interest is estimated using discounted cash flows based on current rates of interest for similar lending arrangements. The cost of long-term debt approximates fair market value. The fair values of derivatives and marketable securities are based on values quoted by the counterparties to the agreements.

Stock-based Compensation

The Company has a stock option plan for directors, officers, and employees of the Company. The options to purchase shares must be issued at not less than the fair value at the date of grant. Any consideration paid on the exercise of stock options, together with any contributed surplus recorded at the date the options vested, is credited to share capital. The Company calculates the fair value of stock-based compensation awarded to employees using the Black-Scholes option-pricing model.

Financial Instruments

Financial assets and financial liabilities are recognized initially at fair value, normally being the transaction price plus directly attributable transaction costs. Transaction costs related to financial assets or financial liabilities classified as held for trading are recognized immediately in income. Regular way purchases and sales of financial assets are accounted for on the trade date.

Recent Accounting Pronouncements

Business Combinations

In January 2009, the Accounting Standards Board (AcSB) issued revised accounting standards in regards to business combinations with the intent of harmonizing those standards with International Financial Reporting Standards (IFRS). The revised standards require the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establish the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; and disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. These standards apply prospectively to business combinations for which the acquisition date is after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Company is currently reviewing the standards to determine the impact, if any, on its consolidated financial statements.

Non-controlling Interests in Consolidated Financial Statements

In January 2009, the AcSB issued accounting standards to require all entities to report non-controlling (minority) interests as equity in consolidated financial statements. The standards eliminate the disparate treatment that currently exists in accounting for transactions between an entity and non-controlling interests by requiring they be treated as equity transactions. These standards apply retrospectively effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently reviewing the standards to determine the impact, if any, on its consolidated financial statements.

VECIMA NETWORKS INC.
NOTES TO THE 2010 CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

2. BASIS OF PRESENTATION (continued)

Financial Instrument Disclosure

In June 2009, the AcSB amended certain requirements related to financial instrument disclosure in response to amendments issued by the International Accounting Standards Board (IASB). The AcSB's amendments are consistent with its strategy to adopt IFRS and to ensure the existing disclosure requirements for financial instruments are converged to IFRS to the extent possible. The new disclosure standards require disclosure of fair values based on a fair value hierarchy as well as enhanced discussion and quantitative disclosure related to liquidity risk. The amended disclosure requirements are effective for annual financial statements relating to fiscal years ending after September 30, 2009 and as such the Company included the required disclosure in note 22.

3. MARKETABLE SECURITIES

The company owns 1,952,775 shares in Redline Communications Inc. The fair value of the shares as of June 30, 2010 was \$781 which results in a loss of \$45 over the original book value. The investment is considered "held for trading" and recorded at fair value. The company also holds other investments of \$14 for which fair market value approximates the original book value.

4. ACCOUNTS RECEIVABLE

Trade receivables are initially recognized at fair value and subsequently measured at cost less allowance for doubtful accounts. An allowance for doubtful accounts is established when there is a reasonable expectation that the company will not be able to collect all amounts due according to the original terms of the receivable. Changes to the allowance for doubtful accounts are recorded through net income.

	2010	2009
Trade accounts receivable	\$ 28,935	\$ 15,607
Less allowance for doubtful accounts	(1,166)	(985)
	27,769	14,622
Goods and services tax	223	78
Other non-trade accounts	7	7
Net accounts receivable	\$ 27,999	\$ 14,707

VECIMA NETWORKS INC.
NOTES TO THE 2010 CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

5. INVENTORIES

	2010	2009
Raw materials	\$ 16,101	\$ 23,831
Work in progress	6,771	7,994
Finished goods	13,830	17,233
Total inventories	\$ 36,702	\$ 49,058

During the year ended June 30, 2010 inventories of \$59,829 (2009 - \$42,193) were expensed through cost of goods sold. Write-downs of inventory and reserves for obsolete inventory were \$2,280 (2009 - \$1,128) and \$1,158 (2009 - \$1,238) respectively and were included in cost of goods sold. No reversals of write-downs were recorded during the year ended June 30, 2010. The carrying amount of inventory recorded at net realizable value was \$nil at June 30, 2010 (2009 - \$165) with the remaining inventory recorded at cost.

6. LEASES RECEIVABLE

	2010	2009
Total minimum lease payments receivable	\$ 583	\$ 781
Unearned income	(88)	(122)
	495	659
Less: Current portion	(281)	(413)
	\$ 214	\$ 246

Amounts receivable under leases are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	2010	2009
Not later than one year	\$ 332	\$ 469	\$ 327	\$ 462
Later than one year and not later than five years	251	312	200	247
Less unearned finance income	88	122		
	\$ 495	\$ 659		

Leases receivable balances are secured over the equipment leased.

The average term of the leases is 36 months. The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average interest rate contracted is approximately 11.8% (2009 – 13.8%).

The fair value of leases receivable at June 30, 2010 was \$564 (2009 – \$766) using a 3.25% discount rate based on bank prime rate plus 1%.

The maximum exposure to credit risk of finance lease receivables for the current and prior periods is the carrying amount of the receivables because there is no allowance for doubtful debts. The lease receivables in the current and prior periods are neither past due nor impaired.

VECIMA NETWORKS INC.
NOTES TO THE 2010 CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

7. PROPERTY, PLANT AND EQUIPMENT

	2010		2009	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	\$ 2,738	\$ -	\$ 3,182	\$ -
Buildings	19,760	4,195	18,995	2,834
Furniture and equipment	1,465	906	1,409	791
Lab equipment	14,787	8,282	14,215	7,752
Operating equipment	2,676	1,451	3,319	1,374
Production and distribution equipment	15,136	8,016	13,954	6,891
Land improvements	18	2	18	1
Computer hardware and software	8,650	7,234	8,300	6,644
Automotive equipment	949	462	782	295
	\$ 66,179	\$ 30,548	\$ 64,174	\$ 26,582
Net property, plant and equipment	\$ 35,631		\$ 37,592	

Included in production and distribution equipment there is a long-lived asset, net of amortization, of \$426 (2009 - \$410)

Depreciation and amortization of capital assets included in cost of goods sold, research and development and in general and administrative expenses was \$927 (2009 - \$1,097), \$1,328 (2009 - \$1,352), and \$3,222 (2009 - \$4,279) respectively.

8. DEFERRED DEVELOPMENT COSTS

	2010	2009
Deferred development costs, beginning of year	\$ 7,495	\$ 2,669
Expenditures during the year	17,068	13,588
Investment tax credits (Note 17)	(4,547)	(5,393)
Amortization	(10,355)	(3,369)
Deferred development costs, end of year	\$ 9,661	\$ 7,495

VECIMA NETWORKS INC.
NOTES TO THE 2010 CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

9. INTANGIBLE ASSETS

	2010	2009
Indefinite-life intangible assets		
Spectrum licences	\$ 1,652	\$ 1,680
Goodwill	99	99
Other licences	267	92
Total indefinite-life intangible assets	2,018	1,871
Other		
Subscribers	1,260	1,260
Patents	152	132
Less: Accumulated amortization	(911)	(767)
Net of other assets	501	625
Total intangible assets	\$ 2,519	\$ 2,496

10. OPERATING LINE OF CREDIT

The Company maintains an authorized line of credit of \$15,000 (2009 - \$15,000) of which \$5,934 was drawn at June 30, 2010 (2009 - \$335). The line of credit is covered by a general security agreement to a maximum amount available of 60% of accounts receivable value and 40% of inventory value to a maximum of \$7,000. Interest on the outstanding line of credit is calculated at prime plus 0.5% which at June 30, 2010 was 3.00% (2009 - 2.75%).

11. LONG-TERM DEBT

	2010	2009
Mortgage from CIBC, repayable in monthly installments of \$21 principal plus interest at prime (2.50% at June 30, 2010), up for renewal in March 2012, collateralized by a general security agreement. The Company has an authorized loan amount of \$4,500.	\$ 4,208	\$ 4,458
Less current portion	250	250
Net long-term debt	\$ 3,958	\$ 4,208

Future principal payments are as follows assuming current terms and conditions:

2011	\$ 250
2012	3,958

VECIMA NETWORKS INC.
NOTES TO THE 2010 CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

12. OTHER LONG-TERM LIABILITIES

	2010	2009
Asset retirement obligation	\$ 623	\$ 556
Capital leases	25	228
Total otherlong-term liabilities	\$ 648	\$ 784

13. SHARE CAPITAL

a) Share capital

The Company has the following authorized share capital: an unlimited number of common shares and an unlimited number of preferred shares authorized. During the year the Company purchased 540 (2009 - 127) common shares for cancellation under a normal course issuer bid at an average price of \$4.84 (2009 - \$5.65) per share for \$2,605 (2009 - \$754) of which \$835 (2009 - \$195) reduced the stated capital of the common shares and \$1,770 (2009 - \$559) decreased retained earnings. The table below provides details of common shares outstanding in thousands of dollars.

	2010		2009	
	Number of Shares	Carrying Value	Number of Shares	Carrying Value
Balance, beginning of year	22,857	\$ 35,317	22,984	\$ 35,512
Shares repurchased and cancelled	(540)	(835)	(127)	(195)
Balance, end of year	22,317	\$ 34,482	22,857	\$ 35,317

No options were exercised in 2010 or 2009.

The following table sets forth the calculation of basic and diluted income per share:

	2010	2009
Net income: basic and diluted	\$ 807	\$ 13,245
Weighted average number of shares outstanding: basic and diluted	22,800	22,922

Net income per share: basic and diluted \$ 0.04 \$ 0.58

Options to purchase 670,533 common shares were outstanding at June 30, 2010 (2009 - 603,162). Of these options outstanding in 2010, 670,533 (2009 - 603,162) were excluded in the calculation of diluted income per common share because the exercise price of the options was greater than the weighted average market value of the common shares in the year.

VECIMA NETWORKS INC.
NOTES TO THE 2010 CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

13. SHARE CAPITAL (continued)

(b) Stock option plan

On September 15, 2005, the Company established a stock option plan pursuant to which 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 year ended June 30, 2010 are as follows:

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	874,430	\$ 8.97	820,598	\$ 10.34
Granted	137,268	6.75	174,837	4.82
Forfeited	(86,725)	13.62	(121,005)	12.36
Balance, end of period	924,973	\$ 8.21	874,430	\$ 8.97
Vested and exercisable	670,553	\$ 8.95	603,162	\$ 10.10

The options outstanding at June 30, 2010 are as follows:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number	Weighted Average Remaining Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
\$4.82 to \$10.00	754,642	2.78 years	\$6.88	520,861	\$7.32
\$10.01 to \$15.00	126,815	2.97 years	\$10.17	106,176	\$10.17
\$15.01 to \$78.74	46,516	2.59 years	\$25.58	43,516	\$25.58

(c) Stock-based compensation

For all stock options granted, the Company determined compensation costs based on the estimated fair values at the grant date of the share options as prescribed under CICA Section 3870. The estimated fair value of the stock options is amortized to stock-based compensation expense over the options' vesting period in accordance with guidance provided in the CICA Handbook for graded vesting options. The stock-based compensation expense was \$116 for the year ended June 30, 2010 (2009 - \$415).

VECIMA NETWORKS INC.
NOTES TO THE 2010 CONSOLIDATED FINANCIAL STATEMENTS
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13. SHARE CAPITAL (continued)

(c) Stock-based compensation (continued)

The Black-Scholes option-pricing model was used to estimate the fair value of the stock options issued during the year. The weighted average estimated fair value for the common share options on the grant date was \$2.93 per option. Management used the following assumptions within the Black-Scholes option-pricing model:

Expected option life	4.26 years
Risk-free rate of return	2.81%
Volatility factor	51%
Expected dividends	nil

14. OTHER INCOME

	2010	2009
Interest income	\$ 99	\$ 222
Lease revenue	796	492
Gain on the sale of assets	3,307	1,083
Other	75	58
	\$ 4,277	\$ 1,855

15. EMPLOYEE BENEFITS

During the year ended June 30, 2010, the Company contributed \$1,704 to employee registered retirement savings plans (2009 - \$1,698). The employee benefits are proportionately distributed between cost of goods sold, research and development, sales and marketing and general and administrative expenses.

VECIMA NETWORKS INC.
NOTES TO THE 2010 CONSOLIDATED FINANCIAL STATEMENTS
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16. INCOME TAXES

Future income taxes reflect the net tax effects of the current and non-current temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. It also includes unused tax losses and income tax reductions. Significant components of the Company's tax assets and liabilities are as follows:

Current tax asset	2010	2009
Provision for warranties	\$ 176	\$ 182
Tax loss carryforwards	1,170	962
Unrealized foreign exchange	(142)	(165)
Other	112	(118)
	\$ 1,316	861
Long-term income tax asset		
Excess of tax UCC over accounting net book value	\$ 5,526	2,665
Tax loss carryforwards	1,712	1,687
SRED pool available for deduction	12,605	7,670
Deferred revenue	469	274
Other	176	265
Excess of acctg net book value over tax basis of intangibles	(992)	(694)
Research and development credits deferred for tax	(8,500)	(7,422)
	\$ 10,996	\$ 4,445

Significant components of the provision for income taxes attributable to operations are as follows:

	2010	2009
Current tax expense	\$ 9,493	\$ 607
Future income tax expense relating to origination and reversal of temporary differences	(7,006)	4,825
	\$ 2,487	\$ 5,432

VECIMA NETWORKS INC.
NOTES TO THE 2010 CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

16. INCOME TAXES (continued)

The provision for income taxes differs from the amount that would be computed by applying the Canadian federal and provincial substantively enacted income tax rates. The consolidated substantively enacted income tax rate was 30.48%. The reasons for the differences are as follows:

	2010	2009
Tax computed at substantively enacted rates	\$ 1,003	\$ 5,555
Differences in substantively enacted future rates	1,700	(237)
Non-deductible stock compensation expense	34	123
Non taxable portion of capital gains	(423)	-
Other	173	(9)
Income tax provision	\$ 2,487	\$ 5,432

The tax assets include \$10,573 of Canadian non-capital losses that expire in the following years:

2013	\$ 3,934
2014	340
2015	2,288
2026	4,011
Total	\$ 10,573

17. INVESTMENT TAX CREDIT ASSET

During the year ended June 30, 2010, the Company recorded investment tax credits of \$8,147 (2009 - \$6,855): with a \$176 (2009 - \$264) reduction of capital assets, \$6,201 (2009 - \$5,393) reduction of deferred development costs and \$1,770 (2009 - \$1,198) reduction of current research and development expenses.

VECIMA NETWORKS INC.
NOTES TO THE 2010 CONSOLIDATED FINANCIAL STATEMENTS
(in thousands of Canadian dollars)

18. NET CHANGE IN NON-CASH WORKING CAPITAL RELATING TO OPERATIONS

Details of net change in each element of non-cash working capital relating to operations are as follows:

	2010	2009
(Increase) decrease in assets		
Accounts receivable	\$ (13,292)	\$ 10,467
Marketable securities	103	-
Inventories	12,356	(10,982)
Prepaid expenses	(348)	(69)
Current future tax assets	(455)	-
Income tax receivable	(2,754)	-
Other current assets	53	12
Net change in working capital assets	(4,337)	(572)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	2,279	(8,543)
Deferred revenue	981	(699)
Net change in working capital liabilities	3,260	(9,242)
Net change in non-cash working capital	\$ (1,077)	\$ (9,814)
Supplemental Information		
Cash interest paid	\$ 403	\$ 474
Cash income taxes received	-	(1,318)

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19. SEGMENTED FINANCIAL INFORMATION

The Company's operations include two reportable segments. The product segment designs, develops and distributes electronic communications products to cable and telecommunication markets. The service segment provides cable television and Internet services in Ontario, Saskatchewan, Alberta and British Columbia. Inter-segment transactions take place at 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.

	2010			
	Product	Services	Inter Segment Eliminations	Total
Sales	\$ 102,508	\$ 12,066	\$ (1,368)	\$ 113,206
Cost of sales	71,626	3,725	(1,218)	74,133
Gross margin	30,882	8,341	(150)	39,073
Net operating expenses	30,878	4,334	164	35,376
Interest expense	386	17	-	403
Income (loss) before income taxes	\$ (382)	\$ 3,990	\$ (314)	\$ 3,294
Income taxes	1,157	1,330	-	2,487
Net income (loss)	\$ (1,539)	\$ 2,660	\$ (314)	\$ 807
Total assets	\$ 154,714	\$ 22,220	\$ (22,361)	\$ 154,573

	2009			
	Product	Services	Inter Segment Eliminations	Total
Sales	\$ 103,660	\$ 10,862	\$ (291)	\$ 114,231
Cost of sales	57,963	3,918	(289)	61,592
Gross margin	45,697	6,944	(2)	52,639
Net operating expenses	25,869	7,697	(70)	33,496
Interest Expense	464	2	-	466
Income (loss) before income taxes	19,364	(755)	68	18,677
Income taxes	5,659	(227)	-	5,432
Net income	\$ 13,705	\$ (528)	\$ 68	\$ 13,245
Total assets	\$ 150,021	\$ 22,558	\$ (24,798)	\$ 147,781

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20. SEGMENTED FINANCIAL INFORMATION (continued)

Geographical:

	2010	2009
Sales		
Canada	\$ 16,700	\$ 16,040
United States	72,664	56,824
Thailand	18,248	32,166
Israel	911	2,180
Other	4,683	7,021
	\$ 113,206	\$ 114,231

Revenues from the Company's three major customers in our product segment are approximately \$29,000, \$24,000 and \$18,000.

21. COMMITMENTS AND CONTINGENCIES

The Company has lease commitments for production equipment, facilities and vehicles as follows:

2011	\$	404
2012		120
2013		69
2014		37
Total	\$	630

The Company and its subsidiaries are party to legal proceedings in the ordinary course of their businesses. Management does not expect the outcome of any of these proceedings to have a material effect on the Company's financial position or operating results.

22. FINANCIAL INSTRUMENTS

Financial Risks

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The company is exposed in varying degrees to a variety of financial risks from its use of financial instruments: credit risk, liquidity risk and market risk. The source of risk exposure and how each is managed is outlined below.

Credit Risk

Credit risk arises from the possibility that a customer would fail to fulfill its financial obligations, therefore the Company's credit risk lies in the collectability of its accounts receivable. Trade accounts receivable are recognized at fair value and subsequently measured at amortized cost less allowance for doubtful accounts. An allowance for doubtful accounts is established when there is a reasonable expectation that the Company will not be able to collect all amounts due according to the original terms of the receivable. The Company seeks to manage the credit risk related to its trade receivables through a credit management program. Credit approval policies and procedures are in place guiding the granting of credit to new customers. Existing customer accounts are reviewed every 12-18 months. The Company has an allowance for doubtful accounts of \$1,166 (2009 - \$985). At June 30, 2010, the Company had three major customers (2009 - two) who accounted for approximately 75% (2009 - 50%) of the year-end accounts receivable balance.

VECIMA NETWORKS INC.
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22. FINANCIAL INSTRUMENTS (continued)

The Company has historically experienced minimal customer defaults and, as a result, it considers the credit quality of trade receivables at June 30, 2010 that are not past due to be high. The aging of trade receivables that were past due but not impaired was as follows:

	2010	2009
1-30 days	\$ 22,482	\$ 10,695
31-60 days	3,348	1,929
Greater than 60 days	2,169	2,083
	\$ 27,999	\$ 14,707

Liquidity Risk

Liquidity risk arises from the Company's general funding needs and in the management of its assets, liabilities and capital. The Company manages its liquidity risk to maintain sufficient liquid financial resources to fund its operations and meet its commitments and obligations in a cost-effective manner. The Company has access to a credit facility in the amount of \$23,500 with the CIBC. As of June 30, 2010, the remaining amount available to be drawn under this credit facility is approximately \$13,358 (2009 - \$18,707)

Currency Risk

Over 85% of the Company's sales are in United States dollars and the Company enters 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 June 30, 2010, the total gross notional amount of the Company's forward foreign exchange contracts was \$5,000 (2009 - \$6,200). Changes in the fair value of these instruments are included in foreign exchange gain in the current year. In the year ended June 30, 2010, the Company has a net loss of \$78 (2009 – net loss \$265) on outstanding forward purchase contracts.

As of June, 2010, the Company entered into a range bonus accumulator with CIBC where the Company commits USD \$750 per week for 21 weeks ending December 14, 2010. If the spot rate at the weeks maturity date is within the range of 1.0000 and 1.1400 then the Company receives \$11 as range bonus and no funds are converted. If at the weeks maturity date the spot price is at or above 1.0000 the Company may convert in the spot market but is not required to and does not receive a range bonus. If at the weeks maturity date the spot price is at or below 1.1200 the Company converts USD \$7,500 to CAD at a rate of 1.14 and does not receive a range bonus.

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22. FINANCIAL INSTRUMENTS (continued)

Interest Rate Risk

The Company is exposed to floating interest rate risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. This risk is limited to the line of credit and long-term debt.

Fair Value

The following table presents the Company's fair value hierarchy for those financial assets carried at fair value at June 30, 2010.

Fair Value Measurements at Reporting Date Using:

	Carrying Amount at June 30, 2010	Quoted Prices in Active Markets (Level 1)	Significant other Observable Inputs (Level 2)
Marketable securities	\$ 795	\$ -	\$ 795
Derivative instruments - forward foreign currency contract	\$ (78)	\$ (78)	\$ -

Fair Value Measurements at Reporting Date Using:

	Carrying Amount at June 30, 2009	Quoted Prices in Active Markets (Level 1)
Marketable securities	\$ 898	\$ 898
Derivative instruments -forward foreign currency contract	\$ (265)	\$ (265)

During the financial year ended June 30 2010, the fair value of the shares in Redline Communications Inc. was assessed using the active market price at the end of the period. However as of June 10, 2010 the shares were no longer trading in an active market. As a result, the fair value of the shares in Redline Communications Inc. was assessed using inactive market prices, because quoted prices in the market for the shares became no longer regularly available. Therefore, marketable securities moved from level 1 to level 2.

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23. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to maintain financial flexibility while managing its cost of and optimizing access to capital. The Company defines its capital as shareholders' equity and long-term debt. The Company monitors its capital structure and based on changes in economic conditions may adjust the structure through the repurchase of shares, the issuance of shares, the acquisition or disposal of assets, or the use of debt facilities. The Company manages its capital structure in order to:

- ensure sufficient resources are available to fund the development and growth of next generation products;
- fund the expansion of its manufacturing facilities; and
- maintain flexibility in order to preserve the Company's ability to meet financial obligations with a long-term view of maximizing shareholder value.

In order to facilitate the management of its capital requirements, the Corporation prepares annual budgets that are updated as necessary depending on various factors. The annual and updated budgets are approved by the board of directors.

Under its various borrowing agreements, the Company must satisfy certain restrictive covenants as to minimum financial ratios such as working capital ratio and debt/equity ratio, the purchase of property, plant and equipment and the payment of dividends. During the year the Company complied with all these capital requirements.

24. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year'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 28, 2010, a copy of which is available at 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, except as required by law.

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Listing

The common shares of Vecima Networks Inc. 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