



## **THIRD QUARTER RESULTS**

Unaudited Interim Consolidated Financial Statements

Three months ended March 31, 2011

May 13, 2011



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**Dear Shareholders:**

In the third quarter, Vecima was in a transition phase where legacy revenue declined and new product revenue had not yet ramped-up. As we announced in April, we have cut expenses and reduced our staff by 18% to facilitate the Company's return to operational profitability. This was the first time in Vecima's 23 year history that the Company was forced to lay-off a significant proportion of its staff. Since June 30, 2010, our headcount has been reduced by 28%. A number of one-time items occurred in the third quarter that adversely affected net income, including a severance charge of \$1.5 million and an inventory write down of \$1.6 million.

We have invested heavily in the research and development of four new products and have clearly been affected by the launch delays. Orders for three of these new products will ship in the fourth quarter. Despite Q3 falling short of our expectations, we continue to expect fiscal 2011 revenue to be in the low end of the \$85 – \$95 million range.

Our strategy to recover sales in the presence of declining revenue from legacy products is based on the successful introduction and launch of our new products. Our ability to make this transition has clearly been affected by the timing of those launches:

- The final approval of TerraceQAM for deployment was delayed at our major MSO customer and this impacted the start of associated revenues in the third quarter. Late in the third quarter, the first phase of TerraceQAM was successfully approved by the MSO and initial, early stage deployments and field trials are under way currently. The second phase, which adds new features intended to enhance positioning in the hospitality HD market for the MSO's service offering is currently under approval testing by the MSO. Evaluation by our new OEM customer for TerraceQAM is progressing well and the channel partner is now engaged with other MSOs who are expressing interest in deployment. Vecima continues to receive indication from both customers that the demand for TerraceQAM remains strong.
- The response to Concierge has been positive. As announced last quarter, we completed development and began demonstrations of a second variant of the product that addresses a larger segment of the satellite network hospitality market. During the third quarter, we continued demonstrations of both variants of our Concierge product with prospective customers. We continue to believe and have received feedback that we are well positioned to complete technical evaluations which will yield future revenue as these customers deploy. The timing of these deployments is hard to predict but is expected to begin at a small scale within fiscal 2011.
- In our Q1 highlights, we announced that Vecima had shipped deployment volumes of digital video and internet over cable modules to one of our two OEM partners for these products and were in the final stages of certification testing at the other OEM partner. The first customer has continued to purchase run-rate volumes of these modules and forecasts show continued demand with slight increases in upcoming quarters. In the second quarter, we successfully completed certification testing by the second OEM customer. As indicated in our previous quarterly reports, the market for our OEM partner's end product which utilizes this module is served by numerous Edge QAM competitors. We are shipping small quantities of these modules in the fourth quarter and subsequent increases will be contingent on the ability of Vecima and our OEM to successfully capture customers in the highly competitive target markets.

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Revenue was also affected by reductions in legacy product orders:

- Broadband wireless sales declined by 76% in Q3 of fiscal 2011 as compared to the same period last year. This was caused by a slowdown in government procurement contracts for our software defined radio product line, which had an unusually strong third quarter last year. We expect wireless sales in ISP markets to gain momentum going forward.

We made progress on the following new opportunities:

- Numerous milestones related to the software and hardware development of Vecima's new custom wireless modem for vehicle fleet management were completed during the third quarter. Some issues were uncovered during cellular certification testing which Vecima has now resolved. The retesting for certification is now underway and our lead customer has adjusted its launch schedule accordingly. The forecast continues to remain positive as the product addresses a substantial new market for vehicle tracking, fleet performance management and logistics optimization, yielding fuel savings and reduced operating costs for all manner of vehicular fleets. Feedback from the customer indicates that the product and associated service are key elements of its strategic plan for upcoming periods. This new customized modem works on multiple cellular and WiFi networks and is a logical extension of our wireless strategy moving from fixed and nomadic solutions and into mobile solutions with GPS information.
- Sales for the Terrace product declined in Q3. Our lead MSO customer continued to deploy at the same pace as Q2 while other customers delayed capital expenditures to future periods due to budget considerations. Derivative products and orders from other customers are expected to generate additional revenue going forward. We are seeing some renewed interest by large MSOs who are now moving towards a network wide all-digital transition, similar to the program conducted by our lead MSO customer.

#### Managing Expenses

We will continue to pursue exciting new product opportunities while also monitoring and containing expenses. Vecima's current headcount is 647, representing a decrease of 28% from June 30, 2010. While quarterly revenue can be lumpy, we plan to continue to match our expenses to our revenue moving forward.

#### Outlook

Our growth strategy is to remain focused on the introduction of new products as well as accessing new markets and new customers for our existing products. Vecima expects revenue for fiscal 2011 to be in the low end of the \$85 - \$95 million range. Management has initiated cost reductions that it believes will lead to a return to profitability from operations.

Sincerely,

Dr. Surinder Kumar  
President and CEO

**VECIMA NETWORKS INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**May 13, 2011**

Management's discussion and analysis ("MD&A") provides a review of significant developments that have affected Vecima's performance during the nine months ended March 31, 2011. Factors that could affect future operations are also discussed. These factors may be affected by known and unknown risks and uncertainties that may cause the actual future results to be materially different from those expressed or implied in this discussion.

Management's discussion and analysis supplements, but does not form part of, the unaudited interim consolidated financial statements of Vecima and related notes for the period ended March 31, 2011. Consequently, the following discussion and analysis of the financial condition and results of operations for the Company should be read in conjunction with the unaudited consolidated financial statements and accompanying notes for the three and nine months ended March 31, 2011 and March 31, 2010, which have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) consistently applied.

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

### **Financial Governance**

Vecima's management is responsible for the preparation and presentation of the third quarter unaudited consolidated financial statements and notes thereto, MD&A and other information contained in this third quarter 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 third quarter unaudited 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. The external auditors have not performed a review of the third quarter unaudited consolidated financial statements.

### **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:

- Vecima expects revenue for fiscal 2011 to be between \$85 million and \$95 million; and,
- In the long run, we believe margins will be within a range of 30% to 40% gross margin.
- We expect to ship small quantities of these modules in the fourth quarter and subsequent increases will be contingent on the ability of Vecima and our OEM to successfully capture customers in the highly competitive target markets.

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 March 31, 2011.

#### **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 March 31, 2011 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 March 31, 2011.

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 return; 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. 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 quarter ended March 31, 2011 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. 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, 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 MSOs), and other service providers. YourLink's services are sold to residential and business subscribers in a number of communities in Western Canada.

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

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 OEMs 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 MSOs. 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.

The final approval of TerraceQAM for deployment was delayed at our major MSO customer and this impacted the start of associated revenues in the third quarter. Late in the third quarter, the first phase of TerraceQAM was successfully approved by the MSO and initial, early stage deployments and field trials are currently under way. The second phase, which adds new features intended to enhance positioning in the hospitality HD market for the MSO's service offering, is currently under approval testing by the MSO. Evaluation by our new OEM customer for TerraceQAM is progressing well and the channel partner is now engaged with other MSOs who are expressing interest in deployment. Vecima continues to receive indication from both customers that the demand for TerraceQAM remains strong.

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 at least one more year.

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 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. The customer has continued to purchase run-rate volumes of these modules and forecasts show continued demand with slight increases in upcoming quarters. In July 2010, Vecima announced that it had signed an agreement to supply QAM output modules to another leading US-based OEM. As indicated in our previous quarterly reports, the market for our OEM partner's end product which utilizes this module is served by numerous Edge QAM competitors. We expect to ship small quantities of these modules in the

fourth quarter and subsequent increases will be contingent on the ability of Vecima and our OEM to successfully capture customers in the highly competitive target markets.

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, one of our largest OEM customers.

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.

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 16% of total Vecima revenue in the nine months ended March 31, 2011.

## **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 finance 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 periods ended March 31, 2011 and 2010 has been derived from our fiscal 2011 unaudited consolidated financial statements for the three months and nine months ended March 31, 2011, a copy of which is included in this report. You should read the following information in conjunction with those financial statements and the related notes and with the balance of "Management's Discussion and Analysis" included in this quarterly report.

Note 7 to the unaudited interim consolidated financial statements included in the Quarterly Report outlines prior period errors discovered in our calculation of royalties payable. Although immaterial to the periods to which they relate, correcting the errors in the current quarter would have materially distorted net income during this period and as a result the company has corrected them by revising the impacted balances in the relevant periods, with the opening adjustments recorded to opening retained earnings in the first period affected.

Consolidated Statement of Income Data: (in thousands of dollars except percentages, employees and per- share amounts)	Three months ended March 31,				Nine months ended March 31,			
	2011		2010 <sup>(4)</sup>		2011		2010 <sup>(4)</sup>	
	(unaudited)		(unaudited)		(unaudited)		(unaudited)	
Sales	\$17,004	100%	\$30,006	100%	\$63,403	100%	\$86,402	100%
Cost of sales	14,733	87%	19,736	66%	45,103	71%	55,537	64%
<b>Gross profit</b>	<b>2,271</b>	<b>13%</b>	10,270	34%	<b>18,300</b>	<b>29%</b>	30,865	36%
Research and development <sup>(1)</sup>	3,322	20%	3,386	11%	9,721	15%	8,291	10%
Sales and marketing	1,955	11%	1,835	6%	5,058	8%	4,858	6%
General and administrative	6,651	39%	5,214	17%	16,328	26%	14,325	17%
Stock-based compensation	34	0%	14	0%	97	0%	104	0%
Foreign exchange loss (gain)	120	1%	(178)	(1%)	20	0%	617	1%
Other (income)	(1,130)	(7%)	(1,164)	(4%)	(16,925)	(27%)	(4,272)	(5%)
	10,952	64%	9,107	30%	14,299	23%	23,923	28%
<b>Operating income</b>	<b>(8,681)</b>	<b>-51%</b>	1,163	4%	<b>4,001</b>	<b>6%</b>	6,942	8%
Interest expense	72	0%	205	1%	345	1%	326	0%
<b>Income before income taxes</b>	<b>(8,753)</b>	<b>-51%</b>	958	3%	<b>3,656</b>	<b>6%</b>	6,616	8%
Income taxes	(2,500)	-15%	241	1%	1,081	2%	1,936	2%
<b>Net income</b>	<b>(\$6,253)</b>	<b>-37%</b>	\$717	2%	<b>\$2,575</b>	<b>4%</b>	\$4,680	5%
Net income per share <sup>(2)</sup>								
Basic and diluted	(\$0.29)		\$0.03		\$0.12		\$0.22	
Other Data (unaudited)								
Research and development expenditure	\$4,738		\$7,049		\$14,651		\$15,638	
Percentage of sales	28%		23%		23%		18%	
Standardized EBITDA <sup>(3)</sup>	(\$5,071)		\$4,313		\$14,303		\$15,654	
Standardized EBITDA margin (%)	(30%)		15%		23%		19%	
Number of employees	794		930		794		930	

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

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

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

<sup>(4)</sup> Revised see note 7 of the financial statements

**Consolidated Balance Sheet Data:**

(in thousands of dollars except number of Common Shares)

**As at March 31, 2011****As at June 30, 2010 <sup>(2)</sup>**

Cash	<b>\$6,611</b>	-
Working capital	<b>48,956</b>	47,708
Total assets	<b>150,633</b>	154,824
Total long-term debt	<b>3,771</b>	3,958
Shareholders' equity	<b>\$129,245</b>	\$126,573
Number of Common Shares outstanding <sup>(1)</sup>	<b>22,316,767</b>	22,799,978

<sup>(1)</sup> Based on weighted average number of Common Shares outstanding<sup>(2)</sup> Revised see note 7 of the financial statements

The following table reconciles net income for the period to Standardized EBITDA. The term "EBITDA" refers to net income or net loss before discontinued operations as reported in the GAAP financial statements, including that net income or net loss related to any non-controlling interest, excluding any amounts included in net income or net loss for income taxes, interest expense, and amortization and impairment charges for capital assets. We believe that EBITDA is useful supplemental information as it provides an indication of the revenue generated by our main business activities before the costs of consuming capital assets, financing and taxes. 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. 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.

<b>Calculation of Standardized EBITDA</b> (in thousands of dollars except percentages)	<b>Three months ended</b> <b>March 31,</b>		<b>Nine months ended</b> <b>March 31,</b>	
	<b>2011</b>	<b>2010 <sup>(1)</sup></b>	<b>2011</b>	<b>2010 <sup>(1)</sup></b>
Net income	<b>\$ (6,253)</b>	\$ 717	<b>2,575</b>	\$ 4,680
Income taxes	<b>(2,500)</b>	241	<b>1,081</b>	1,936
Interest expense	<b>72</b>	205	<b>345</b>	326
Amortization of capital assets	<b>1,441</b>	1,588	<b>4,275</b>	4,438
Amortization of deferred development costs	<b>2,131</b>	1,554	<b>5,916</b>	4,249
Amortization of other assets	<b>38</b>	8	<b>111</b>	25
<b>Standardized EBITDA</b>	<b>\$ (5,071)</b>	\$ 4,313	<b>14,303</b>	\$ 15,654
EBITDA margin (%)	<b>(30%)</b>	14%	<b>23%</b>	18%

<sup>(1)</sup> Revised see note 7 of the financial statements

The following table reconciles research and development expense reported in accordance with GAAP as shown on the income statement for the period ended March 31, 2011 and 2010 to our actual research and development expenses.

<b>Calculation of Total R&amp;D expense</b> (in thousands of dollars except percentages)	<b>Three months ended</b> <b>March 31,</b>		<b>Nine months ended March</b> <b>31,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
(Unaudited)				
Research and development expense as shown on income statement	\$ 3,322	\$ 3,386	\$ 9,721	\$ 8,291
Deferred development	3,117	5,119	9,528	10,344
Investment tax credits	430	98	1,318	256
Technology Partners Canada contribution	-	-	-	996
Amortization of deferred development costs	(2,131)	(1,554)	(5,916)	(4,249)
<b>Total research and development expense</b>	<b>\$ 4,738</b>	<b>\$ 7,049</b>	<b>\$ 14,651</b>	<b>\$ 15,638</b>
<b>Percentage of sales</b>	<b>28%</b>	<b>23%</b>	<b>23%</b>	<b>18%</b>

## Selected Quarterly Consolidated Financial Information and Other Data

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

The following selected financial information for the periods ended March 31, 2011 and 2010 has been derived from our fiscal 2011 third quarter unaudited 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.

(Unaudited)	Fiscal Year 2011				Fiscal Year 2010 <sup>(1)</sup>			2009 <sup>(1)</sup>
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales	\$17,004	\$ 20,066	\$ 26,333	\$ 26,804	\$ 30,006	\$ 28,017	\$ 28,379	\$ 20,491
Cost of sales	14,733	14,135	16,235	19,297	19,736	17,408	18,393	13,601
Gross Margin	2,271	5,931	10,098	7,507	10,270	10,760	10,118	7,043
Operating expenses								
Research and development	3,322	3,567	2,832	5,627	\$ 3,386	\$ 2,752	\$ 2,153	\$ 1,444
Sales and marketing	1,955	1,657	1,446	2,547	1,835	1,622	1,401	1,568
General and administrative	6,651	4,962	4,715	4,040	5,214	4,781	4,330	4,205
Stock-based compensation	34	18	45	12	14	45	45	10
Foreign exchange (gain) loss	120	74	(174)	(768)	(178)	216	579	(4,216)
Other (income)	(1,130)	(14,303)	(1,492)	(5)	(1,164)	(2,920)	(188)	(405)
	10,952	(4,025)	7,372	11,453	9,107	6,496	8,320	2,606
Operating income	(8,681)	9,956	2,726	(3,946)	1,163	4,264	1,798	4,437
Interest expense	72	163	110	77	205	48	73	162
Income before income taxes	(8,753)	9,793	2,616	(4,023)	958	4,216	1,725	4,275
Income taxes	(2,500)	2,828	753	348	241	1,226	468	1,049
Net income	\$ (6,253)	\$ 6,965	\$ 1,863	\$ (4,371)	\$ 717	\$ 2,990	\$ 1,218	\$ 3,182
Net income per share								
Basic and diluted – before extraordinary gain	\$ (0.29)	\$ 0.31	\$ 0.09	\$ (0.19)	\$ 0.03	\$ 0.13	\$ 0.05	\$ 0.14

<sup>(1)</sup> Revised as described in note 7 of the financial statements

## Third 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 March 31, 2011, these systems provide video services and or broadband Internet access to approximately 19,392 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 variability from quarter to quarter 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 March 31,					
	2011		2010			
		% of Sales		% of Sales		
(Unaudited)						
Converged Wired Solutions	\$	12,025	71%	\$	19,681	66%
Broadband Wireless		1,845	11%		7,534	25%
YourLink		3,134	18%		2,791	9%
Total Revenue	\$	17,004	100%	\$	30,006	100%

Our total sales decreased 43% to \$17.0 million for the three months ended March 31, 2011 compared with \$30.0 million for the three months ended March 31, 2010.

Sales in Converged Wired Solutions decreased 39% to \$12.0 million for the three months ended March 31, 2011. The timing of the release of new products is not directly aligned with the decline in the demand for legacy products. Therefore, sales of wired products will continue to show quarterly volatility until the demand for new products surpasses the decline in the demand for legacy products.

Broadband Wireless sales decreased 76% to \$1.8 million for the three months ended March 31, 2011 compared with \$7.5 million for the three months ended March 31, 2010. The significant year over year change is primarily related to the Company's software defined radio products which were down \$4.9 million from the prior period. Sales were weak in the current quarter while they were exceptionally strong in the same quarter in the prior year.

YourLink revenue was \$3.1 million for the three months ended March 31, 2011, compared to \$2.8 million in the three months ended March 31, 2010.

## Gross margin

Vecima's gross margin decreased to 13% for the quarter, providing a gross profit of \$2.3 million, compared with a gross margin of 34% for the three months ending March 31, 2010 that provided a gross profit of \$10.3 million. Gross margin was negatively impacted by 9% due to a \$1.6 million write-down of inventory and by 7% due to excess production capacity. The Company has taken steps to significantly reduce its production workforce. Management expects that cost reductions and increased sales in the following quarters will return the company to a gross margin of 30%-40% margin (provided that the Canadian dollar does not strengthen beyond 1.05 US).

## **Operating expenses**

*Research and development expenses* for the three months ended March 31, 2011 decreased \$0.1 million to \$3.3 million, or 19% of revenue, compared with \$3.4 million, or 11% of revenue, for the same period in the prior fiscal year. Vecima continues to invest in research and development to support the launch of new products. The company's focus remains on new M-DTA spinoff products along with DOCSIS® 3.0 products for major MSOs 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 March 31, 2011 were \$4.7 million, or 28% of sales, a decrease from \$7.0 million, or 23% of sales, for the three months ended March 31, 2010. The decrease is a return to the company's traditional level of research and development expenditures.

*Sales and marketing expense* increased to \$2.0 million, or 11% of sales, for the three months ended March 31, 2011, comparable to \$1.8 million, or 6% of sales for the three months ended March 31, 2010. The increase is a result of the timing of sales travel.

*General and administrative expenses* for the three months ended March 31, 2011 increased \$1.5 million to \$6.7 million, compared with \$5.2 million in the three months ending March 31, 2010. The increase is a result of a \$1.5 million provision for onetime costs associated with a reduction of staffing levels executed in early Q4.

*Stock-based compensation expenses* for the three months ended March 31, 2011 were \$0.03 million, compared to \$0.01 million for the three months ended March 31, 2010. The expense reflects the ongoing amortization of the stock options issued in prior periods.

*Foreign currency fluctuations* resulted in a loss of \$0.1 million for the three months ended March 31, 2011 compared with a gain of \$0.2 million in the three months ended March 31, 2010. The loss is a result of the increased value of the Canadian dollar devaluing the Company's US dollar receivables and cash.

*Other income* for the three months ended March 31, 2011 was \$1.1 million, compared with \$1.2 million in the three months ending March 31, 2010. The Company sold a building for \$1.9 million resulting in a capital gain of \$0.5 million during Q3 2011. During the prior period the Company sold land for \$1.2 million resulting in a gain of \$0.4 million.

*Operating loss* was \$8.7 million for the three months ended March 31, 2011, compared to an operating profit of \$1.2 million, in the third quarter of fiscal 2010.

*Income taxes* losses carried forward for the three months ended March 31, 2011 were \$2.5 million, compared with an income tax expense of \$0.2 million for the three months ended March 31, 2010. This is in line with our average tax rate of approximately 29%.

*Net loss* for the third fiscal quarter of 2011 was \$6.3 million, compared with a net income of \$0.7 million in the three months ended March 31, 2010. Net loss was negative 37% for the three months ended March 31, 2011, compared with net margin of 2% for the third quarter last fiscal year.

## **Cash from Operating Activities**

For the three-month period ended March 31, 2011, cash used in operating activities was \$0.4 million compared to cash generation of \$1.2 million in the three-month period ended March 31, 2010. The utilization of cash was a direct result of a significant reduction in sales for the quarter.

### **Investing Activities**

Our investing activities in the three months ended March 31, 2011 consisted primarily of product development and the purchase and sale of assets. Investing activities consumed \$1.1 million in cash in the three months ended March 31, 2011. The Company purchased property, plant and equipment for \$0.7 million and sold a building for \$1.9 million. The Company invested \$2.3 million in cash for development costs net of investment tax credits. In the three months ended March 31, 2010, the Company spent \$1.5 million on property, plant and equipment, \$2.9 million on development costs net of investment tax credits and had proceeds of \$1.2 million from the sale of land.

### **Financing Activities**

In the three-month period ended March 31, 2011, the Company 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 March 31, 2010.

As at March 31, 2011, our credit facility amounted to \$23.5 million, of which none was drawn as an operating line of credit and \$4.0 million was drawn as mortgages on real property. As at March 31, 2010, \$5.9 million was drawn as an operating line of credit and \$4.2 million was drawn as mortgages on real property. We believe that our current cash and short-term investments and anticipated cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future.

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

#### **Revenue**

The Company's total sales decreased 27% to \$63.4 million for the nine months ended March 31, 2011 compared with \$86.4 million for the nine months ended March 31, 2010.

<b>Revenue by Core Market:</b> (in thousands of dollars except percentages)	<b>Nine months ended March 31,</b>			
	<b>2011</b>		<b>2010</b>	
	<b>\$</b>	<b>% of Sales</b>	<b>\$</b>	<b>% of Sales</b>
(Unaudited)				
Converged Wired Solutions	\$ 45,960	72%	\$ 62,558	72%
Broadband Wireless	7,235	11%	14,751	17%
YourLink	10,208	16%	9,093	11%
<b>Total Revenue</b>	<b>\$ 63,403</b>	<b>100%</b>	<b>\$ 86,402</b>	<b>100%</b>

The Company's sales in the Converged Wired Solutions decreased 27% to \$46.0 million for the nine months ended March 31, 2011, compared with \$62.6 million in the nine months ended March 31, 2010. The decrease is due to the timing of the release of our new products, MSOs delaying orders due to the global economic recession and the strengthening of the Canadian dollar in relation to the US dollar.

Broadband Wireless sales decreased 51% to \$7.2 million for the nine months ended March 31, 2011 compared with \$14.8 million for the nine months ended March 31, 2010. The decline in wireless sales was primarily a result of less demand for the Company's software defined radios.

YourLink revenue increased 12% to \$10.2 million for the nine months ended March 31, 2011, compared to \$9.1 million in the nine months ended March 31, 2010. The increase in revenue resulted from new residential installations as well as tower installations for a new data service network in the oil industry. Actual subscribers in the Saskatchewan Wireless operations of YourLink increased 3% to 12,307 at March 31, 2011, compared to 11,906 at June 30, 2010. BC Cable subscribers increased 5% to 7,130 at March 31, 2011, compared to 6,822 at June 30, 2010.

### **Gross margin**

Vecima's gross margin fell to 29%, providing a gross profit of \$18.3 million in the first nine months of fiscal 2011, compared with a gross margin of 36% for the nine months ending March 31, 2010 that provided a gross profit of \$30.9 million. Gross margin was impacted by 3% due to a \$1.6 million write-down of inventory and excess capacity also had a 2% impact. The Company has taken steps to significantly reduce its production workforce. Management expects that cost reductions and increased sales in the following quarters will return the company to a gross margin of 30%-40% margin. However if the Canadian dollar continues to strengthen beyond \$1.05 US it will result in downward pressure on margins.

### **Operating expenses**

*Research and development expenses* for the nine months ended March 31, 2011 increased 17% to \$9.7 million, or 15% of revenue, compared with \$8.3 million, or 10% of revenue, for the nine months ended March 31, 2010. The majority of the Company's 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 third quarter of the 2011 fiscal year, we continued to work on multiple converged wired products derived from the technology gained in the development of the Company's M-DTA product. Total research and development costs before deferrals, amortization of deferred development costs and income tax credits for the nine months ended March 31, 2011 were \$14.7 million, or 23% of sales, down from \$15.6 million, or 18% of sales, for the nine months ended March 31, 2010.

*Sales and marketing expense* was \$5.1 million (8% of sales) for the nine months ended March 31, 2011; an increase of \$0.2 million compared to the \$4.9 million (6% of sales) for the nine months ended March 31, 2010.

*General and administrative expenses* for the nine months ended March 31, 2011 increased \$2.0 million to \$16.3 million, compared to \$14.3 million in the nine months ending March 31, 2010. The increase is a result of a one time cost associated with a reduction of staffing levels which resulted in a cost of \$1.5 million as well as the growth in YourLink.

*Stock-based compensation expenses* for the nine months ended March 31, 2011 were \$0.1 million, compared to the same for the nine months ended March 31, 2010. The expense reflects the continued amortization of the stock options issued in prior periods.

*Foreign currency fluctuations* resulted in a loss of \$0.02 million for the nine months ended March 31, 2011 compared with a loss of \$0.6 million in the nine months ended March 31, 2010. The loss is a result of gains in foreign exchange contracts offsetting the losses in monetary assets from the strengthening Canadian dollar.

*Other income* increased to \$16.9 million as a result of realizing a gain on the sale of intangible assets. The company sold radio spectrum for \$14.0 million with a cost base of \$nil.

*Operating income* decreased 42% to \$4.0 million, in the nine months ended March 31, 2011, compared with \$6.9 million, in the same period last year. This is the result of reduced sales and increased expenses as a result of restructuring costs.

*Income taxes* for the nine months ended March 31, 2011 were \$1.1 million, compared with \$1.9 million for the nine months ended March 31, 2010. This is in line with the Company's average tax rate of 29%.

*Net income* for the first three quarters of fiscal 2011 decreased 60% to \$2.6 million, compared with \$4.7 million in the nine months ended March 31, 2010. Net margin was 4% for the nine months ended March 31, 2011, compared with 5% for the first three quarters of last fiscal year.

## **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 \$49.0 million at March 31, 2011, up from \$47.1 million at June 30, 2010. 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 decreased 43% to \$15.8 million in the period ended March 31, 2011 compared to \$28.0 million at June 30, 2010. The decrease is due to lower shipments in the quarter.

*Inventory* remained at \$36.7 million at March 31, 2011. Finished goods inventories were \$14.2 million at March 31, 2011, compared to \$13.8 million at June 30, 2010. The finished goods inventory turn rate of 4.2 times per year at March 31, 2011 compared to 5.4 times at June 30, 2010. Raw material inventory increased to \$16.4 million at March 31, 2011, compared to \$16.1 million at June 30, 2010. In the third quarter of fiscal 2011, work in process inventories decreased 12% to \$6.1 million, compared to \$6.8 million at June 30, 2010. 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* increased by \$4.3 million to \$29.1 million at March 31, 2011 compared to \$24.8 million at June 30, 2010. 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* decreased 12% to \$12.7 million at March 31, 2011, representing 76 days for payables to be outstanding, from \$14.5 million at June 30, 2010, representing an average of 67 days for payables to be outstanding.

*Long-term debt*, including current portion, was \$4.0 million at March 31, 2011, compared to \$4.2 million at June 30, 2010.

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

For the nine months ended March 31, 2011, cash provided by operations was \$6.4 million, compared to \$2.5 million generated in the nine months ended March 31, 2010. The conversion of working capital

generated \$9.4 million in the nine months ended March 31, 2011 compared to the same period in the prior year where it consumed \$7.2 million.

### ***Investing Activities***

The Company's investing activities in the nine months ended March 31, 2011 consisted primarily of the purchase and sale of capital assets and investment in product development. Investing activities generated \$6.4 million in cash in the nine months ended March 31, 2011. During that period, the company purchased capital assets for \$3.3 million, used \$6.9 million in cash on development costs net of investment tax credits, sold intangible assets for proceeds of \$14.0 million and received \$2.6 million as proceeds from the sale of two buildings. In the nine months ended March 31, 2010, the company spent \$4.0 million to purchase equipment and undertake capital renovations and \$8.1 million on development costs net of investment tax credits.

### ***Financing Activities***

In the nine months ended March 31, 2011, the Company had a net financing cash outflow of \$0.2 million to repay long-term debt. This compares to \$0.2 million cash used to repay long-term debt in the nine months ended March 31, 2010.

As at March 31, 2011, the Company's revolving loan facility amounted to \$23.5 million, of which none was drawn as an operating line of credit and \$4.1 million was drawn as mortgages on real property. As at March 31, 2010, \$5.5 million was drawn as an operating line of credit and \$4.3 million was drawn as mortgages on real property. We believe that the Company's current cash and short-term investments and anticipated cash flow from operations will be sufficient to meet the Company's working capital and capital expenditure requirements for the foreseeable future.

### **Normal Course Issuer Bid**

Vecima announced a normal course issuer bid on December 21, 2010. Under the bid, Vecima may acquire up to 490,000 common shares, representing 2.2% of current issued and outstanding shares as at December 21, 2010. The bid commenced December 23, 2010 and will end on December 22, 2011. No shares were purchased during the third quarter of fiscal 2011.

### **Outstanding Share Data**

As at March 31, 2011, 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 926,071 shares, of which 699,774 were vested and exercisable.

### **Contractual Obligations**

The company has lease commitments for production equipment and facilities of \$0.9 million in 2011 and \$1.5 million in 2012 and \$1.5 million thereafter.

### **Foreign Exchange**

Approximately 80% 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 new standard is not expected to have a material impact on the Company.

#### ***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 new standard is not expected to have a material impact on the Company.

#### ***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 – complete***

During this phase we:

- 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 completed the design, planning and solution development phase and are progressing on the implementation and review phase. We have completed the calculations required to create the draft opening balance sheet but have not completed the review of these calculations. Note disclosures to the financial statements have been drafted and are in the review stage. We continue to gather information required to create the Company's IFRS comparative statements and notes. Management has now completed the majority of phase three, including training and the process changes will continue to be implemented through the balance of 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 Q3 of 2010.

#### **Information Technology**

The required changes to IT systems to track additional disclosure requirements 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 have been prepared as part of Phase 3 and approval by senior management and board is expected in the next quarter.

#### **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 delivered as part of Phase 3. Additional training opportunities and requirements will continue to be monitored.

#### **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.

Our analysis to date indicates that we are unlikely to record significant impairment charges on transition to IFRS.

*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. Our analysis to date indicates that there will be a material adjustment to increase our provisions, including ARO's, impacting capital assets, provisions and retained earnings on our opening IFRS balance sheet.

*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. We do not anticipate these differences to impact our consolidation.

*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 component's 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. Our analysis to date indicates that we will likely record a reclassification between retained earning and share capital in our opening balance sheet.

### **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**

Our growth strategy is to remain focused on the introduction of new products as well as accessing new markets and new customers for our existing products. Vecima expects revenue for fiscal 2011 to be in the low end of the \$85 - \$95 million range. Management has initiated cost reductions that it believes will lead to a return to profitability from operations.

#### **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 67% 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 72% of our sales for the nine months ended March 31, 2011. 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

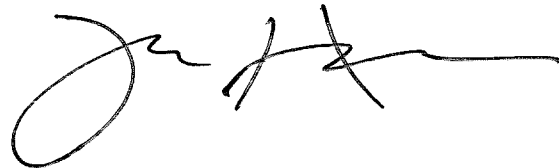
May 13, 2011

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.



Dr. Surinder Kumar  
Chief Executive Officer



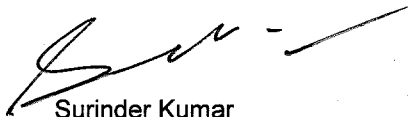
John Hanna  
Chief Financial Officer

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

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

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

May 13, 2011



Surinder Kumar  
President and Chief Executive Officer



John Hanna  
Chief Financial Officer

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

<i>Notes</i>	As at March 31, 2011	As at June 30, <sup>(1)</sup> 2010
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 6,611	\$ -
Marketable securities	957	795
Accounts receivable	15,837	27,999
Income Tax Receivable	2,602	2,754
Inventories	3 36,709	36,702
Current portion of leases receivable	199	281
Prepaid expenses	1,284	864
Other current assets	41	12
Current future tax assets	1,350	1,316
	<b>65,590</b>	<b>70,723</b>
Leases receivable	101	214
Property, plant and equipment	32,915	35,631
Deferred development costs	10,646	9,661
Intangible assets	2,430	2,519
Investment tax credit asset	29,069	24,829
Future tax assets	9,882	11,247
	<b>\$ 150,633</b>	<b>\$ 154,824</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness	\$ -	\$ 5,934
Accounts payable and accrued liabilities	12,713	14,509
Warranty accrual	530	500
Deferred revenue	3,141	2,452
Current portion of long-term debt	250	250
	<b>16,634</b>	<b>23,645</b>
Other long-term liabilities	983	648
Long-term debt	3,771	3,958
	<b>21,388</b>	<b>28,251</b>
<b>Shareholders' equity</b>		
	4	
Share capital	\$ 34,482	\$ 34,482
Contributed surplus	2,489	2,392
Retained earnings	92,274	89,699
	<b>129,245</b>	<b>126,573</b>
	<b>\$ 150,633</b>	<b>\$ 154,824</b>

<sup>(1)</sup> Revised as described in Note 7.

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>	Three months ended March 31		Nine months ended March 31	
		2011 (unaudited)	2010 <sup>(1)</sup> (unaudited)	2011 (unaudited)	2010 <sup>(1)</sup> (unaudited)
<b>Sales</b>	<b>\$</b>	<b>17,004</b>	\$ 30,006	<b>\$ 63,403</b>	\$ 86,402
<b>Cost of sales</b>		<b>14,733</b>	19,736	<b>45,103</b>	55,537
<b>Gross margin</b>		<b>2,271</b>	10,270	<b>18,300</b>	30,865
Research and development		<b>3,322</b>	3,386	<b>9,721</b>	8,291
Sales and marketing		<b>1,955</b>	1,835	<b>5,058</b>	4,858
General and administrative		<b>6,651</b>	5,214	<b>16,328</b>	14,325
Stock-based compensation		<b>34</b>	14	<b>97</b>	104
Foreign exchange (gain) loss		<b>120</b>	(178)	<b>20</b>	617
Other (income)		<b>(1,130)</b>	(1,164)	<b>(16,925)</b>	(4,272)
		<b>10,952</b>	<b>9,107</b>	<b>14,299</b>	<b>23,923</b>
Operating income		<b>(8,681)</b>	<b>1,163</b>	<b>4,001</b>	<b>6,942</b>
Interest expense		<b>72</b>	205	<b>345</b>	326
<b>Income before income taxes</b>		<b>(8,753)</b>	<b>958</b>	<b>3,656</b>	6,616
Income taxes		<b>(2,500)</b>	241	<b>1,081</b>	1,936
<b>Net income and Comprehensive income</b>		<b>(6,253)</b>	<b>717</b>	<b>2,575</b>	4,680
<b>Retained earnings, beginning of period</b>		<b>98,527</b>	95,277	<b>89,699</b>	90,911
<b>Retained earnings, end of period</b>		<b>92,274</b>	95,994	<b>\$ 92,274</b>	<b>\$ 95,591</b>
<b>Net income per share</b>	<b>4</b>				
Basic and diluted		<b>\$ (0.28)</b>	\$ 0.03	<b>\$ 0.12</b>	\$ 0.22
Weighted average number of Common Shares outstanding - basic and diluted		<b>22,316,767</b>	22,983,367	<b>22,316,767</b>	22,983,367

<sup>(1)</sup> Revised as described in Note 7.

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

	Notes	Three months ended March 31,		Nine months ended March 31,	
		2011	2010 <sup>(1)</sup>	2011	2010 <sup>(1)</sup>
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Cash flows from (used in) operating activities</b>					
Net income		\$ (6,253)	\$ 717	\$ 2,575	\$ 4,680
Add (deduct) items not requiring cash					
Gain on the sale of property, plant and equipment		(543)		(2,062)	(413)
Gain on the sale of intangible assets		-	(1,156)	(14,000)	(3,342)
Amortization of property, plant and equipment		1,441	1,588	4,275	4,438
Amortization of deferred development costs		2,131	1,554	5,916	4,249
Amortization of other assets		38	8	111	25
Stock-based compensation		34	14	97	104
Net change in non-cash working capital relating to operations		2,727	(1,518)	9,440	(7,210)
		(425)	1,207	6,352	2,531
<b>Cash flows from (used in) investing activities</b>					
Purchase of property, plant and equipment		(692)	(1,507)	(3,340)	(4,048)
Proceeds from the sale of property, plant and equipment	6	1,893	-	2,643	1,152
Proceeds from the sale of intangible assets	6	-	1,177	14,000	3,477
Proceeds from the sale of marketable securities		-	-	-	56
Deferred development costs, net of investment tax credits		(2,307)	(2,884)	(6,901)	(8,109)
Purchase of other assets		(18)	(2)	(22)	(24)
		(1,124)	(3,216)	6,380	(7,496)
<b>Cash flows from (used in) financing activities</b>					
Repayment of long-term debt		(62)	(62)	(187)	(187)
		(62)	(62)	(187)	(187)
(Decrease) increase in cash during the period		(1,611)	(2,071)	12,545	(5,152)
Cash (bank indebtedness) beginning of period,		8,222	(3,416)	(5,934)	(335)
<b>Cash (Bank indebtedness), end of period</b>		<b>\$ 6,611</b>	<b>\$ (5,487)</b>	<b>\$ 6,611</b>	<b>\$ (5,487)</b>

<sup>(1)</sup> Revised as described in Note 7.

See accompanying notes

**Supplemental information**

Cash interest paid	\$	72	\$	141	\$	245	\$	192
Cash taxes paid	\$	-	\$	-	\$	-	\$	-

**VECIMA NETWORKS INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**Nine months ended March 31, 2011**  
**(in thousands of Canadian dollars)**

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**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.

***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 new standard is not expected to have a material impact on the Company.

**3. INVENTORIES**

	March 31, 2011	June 30, 2010
Raw materials	\$ 16,432	\$ 16,101
Work in progress	6,098	6,771
Finished goods	14,179	13,830
<b>Total inventories</b>	<b>\$ 36,709</b>	<b>\$ 36,702</b>

During the three months ended March 31, 2011 inventories of \$9,378 (2010 - \$14,360) were expensed through cost of goods sold. Write-downs of inventory of \$1,645 (2010 - \$707) were included in cost of goods sold. During the nine months ended March 31, 2011 inventories of \$33,861 (2010 - \$46,025) were expensed through cost of goods sold. Write-downs of inventory included in cost of goods sold for the nine months ended March 31, 2011 were \$2,303 (2010 - \$2,369). No reversals of write-downs were recorded during the three and nine months ended March 31, 2011. The carrying amount of inventory recorded at net realizable value was \$nil at March 31, 2011 (March 31, 2010 - \$nil) with the remaining inventory recorded at cost.

**VECIMA NETWORKS INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**Nine months ended March 31, 2011**  
**(in thousands of Canadian dollars)**

**4. 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 nine months ended March 31, 2011 (2010 – nil) the Company did not purchase any common shares for cancellation under a normal course issuer bid.

	Number of Shares	Carrying Value
Balance as of June 30, 2010	22,316,767	\$ 34,482
Shares repurchased and cancelled	-	-
Balance as of March 31, 2011	22,316,767	\$ 34,482

**4. 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 (or a delegated committee) at the time options are granted, but will not be more favourable than those permitted under applicable securities legislation. The Company's stock option plan will be subject to the rules and policies of any stock exchange on which the common shares are listed. The total number of common shares of the Company that will be issued pursuant to the Company's stock option plan will not exceed 10% of the issued and outstanding shares of the Company at any given time. Options granted under the Company's stock option plan are not assignable.

The changes in options and options outstanding for the period ended March 31, 2011 are as follows:

	Nine months ended March 31, 2011		
	Number of options		Weighted average exercise price
Balance, beginning of period	924,973	\$	8.21
Granted	82,539		4.22
Forfeited	(81,441)		9.79
Balance, end of period	926,071	\$	7.71
Vested and exercisable	699,774	\$	8.49

No options were exercised in the nine months ending March 31, 2011 (2010 - nil).

**VECIMA NETWORKS INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**Nine months ended March 31, 2011**  
**(in thousands of Canadian dollars)**

Options to purchase 926,071 common shares were outstanding at March 31, 2011 (March 31, 2010 – 957,241). Of these options outstanding, 699,774 (March 31, 2010 – 645,574) 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.

At March 31, 2011, the exercise prices range from \$4.21 to \$30.93 with the weighted average exercise price being \$7.71. The options outstanding at March 31, 2011 have a weighted average remaining contractual life of 2.31 years. The stock based compensation expense was \$34 for the three months ended March 31, 2011.

**5. 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.

	Three months ended March 31, 2011			
	Product	Services	Inter Segment	Total
Sales	\$ 14,052	\$ 3,134	\$ (182)	\$ 17,004
Cost of sales	14,012	876	(155)	14,733
<b>Gross margin</b>	<b>40</b>	<b>2,258</b>	<b>(27)</b>	<b>2,271</b>
<b>Net operating expenses</b>	<b>8,097</b>	<b>2,119</b>	<b>736</b>	<b>10,952</b>
Interest expense	78	(6)	-	72
<b>Income (loss) before income taxes</b>	<b>\$ (8,135)</b>	<b>\$ 145</b>	<b>\$ (763)</b>	<b>\$ (8,753)</b>
Income taxes	(2,543)	43	-	(2,500)
<b>Net income (loss)</b>	<b>\$ (5,592)</b>	<b>\$ 102</b>	<b>\$ (763)</b>	<b>\$ (6,253)</b>
<b>Total assets</b>	<b>\$ 138,281</b>	<b>\$ 21,238</b>	<b>\$ (8,886)</b>	<b>\$ 150,633</b>

	Three months ended March 31, 2010 <sup>(1)</sup>			
	Product	Services	Inter Segment Eliminations	Total
Sales	\$ 27,308	\$ 2,792	\$ (94)	\$ 30,006
Cost of sales	19,079	763	(106)	19,736
Gross margin	8,229	2,029	12	10,270
Net operating expenses	8,372	735	-	9,107
Interest Expense	205	-	-	205
Income (loss) before income taxes	(348)	1,294	12	958
Income taxes	(153)	394	-	241
Net income	\$ (195)	\$ 900	\$ 12	\$ 717
<b>Total assets</b>	<b>\$ 159,550</b>	<b>\$ 11,106</b>	<b>\$ (11,192)</b>	<b>\$ 159,464</b>

<sup>(1)</sup> Revised as described in Note 7.

**VECIMA NETWORKS INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**Nine months ended March 31, 2011**  
**(in thousands of Canadian dollars)**

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

	Nine months ended March 31, 2011			
	Product	Services	Inter Segment	Total
Sales	\$ 53,621	\$ 10,208	\$ (426)	\$ 63,403
Cost of sales	42,252	3,246	(395)	45,103
<b>Gross margin</b>	<b>11,369</b>	<b>6,962</b>	<b>(31)</b>	<b>18,300</b>
<b>Operating expenses</b>	<b>20,875</b>	<b>(6,576)</b>	<b>-</b>	<b>14,299</b>
Interest Expense	341	4	-	345
<b>Income (loss) before income taxes</b>	<b>(9,847)</b>	<b>13,534</b>	<b>(31)</b>	<b>3,656</b>
Income taxes	(2,893)	3,974	-	1,081
<b>Net income</b>	<b>\$ (6,954)</b>	<b>\$ 9,560</b>	<b>\$ (31)</b>	<b>\$ 2,575</b>
			-	
<b>Total assets</b>	<b>\$ 138,281</b>	<b>\$ 21,238</b>	<b>\$ (8,886)</b>	<b>\$ 150,633</b>

	Nine months ended March 31, 2010 <sup>(1)</sup>			
	Product	Services	Inter Segment Eliminations	Total
Sales	\$ 78,344	\$ 9,093	\$ (1,035)	\$ 86,402
Cost of sales	53,648	2,776	(887)	55,537
Gross margin	24,696	6,317	(148)	30,865
Net operating expenses	21,793	2,130	-	23,923
Interest Expense	326	-	-	326
Income (loss) before income taxes	2,577	4,187	(148)	6,616
Income taxes	680	1,256	-	1,936
<b>Net income</b>	<b>\$ 1,897</b>	<b>\$ 2,931</b>	<b>\$ (148)</b>	<b>\$ 4,680</b>
<b>Total assets</b>	<b>\$ 159,550</b>	<b>\$ 11,106</b>	<b>\$ (11,192)</b>	<b>\$ 159,464</b>

<sup>(1)</sup> Revised as described in Note 7.

**VECIMA NETWORKS INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**Nine months ended March 31, 2011**  
**(in thousands of Canadian dollars)**

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

Geographical:

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
<b>Sales</b>				
Canada	\$ 3,566	\$ 4,144	\$ 14,149	\$ 12,510
United States	10,269	20,369	34,662	53,380
Thailand	2,877	2,484	13,518	15,756
Israel	4	391	15	849
Other	288	2,618	1,059	3,907
	<b>\$ 17,004</b>	<b>\$ 30,006</b>	<b>\$ 63,403</b>	<b>\$ 86,402</b>

Revenues from the Company's three major customers in our product segment are approximately \$14,719, \$13,518 and \$10,852 for the nine months ended March 31, 2011.

**6. GAIN ON THE SALE OF ASSETS**

Proceeds from the sale of property plant and equipment, included in other income, for the nine months ended March 31, 2011 were a result of the sale of two buildings. A building was sold for \$1,950 resulting in a gain of \$1,519. The company received \$750 cash and the remaining \$1,200 will be paid by April 2012. Another building was sold for \$1,893 resulting in a gain of \$543.

Proceeds from the sale of intangible assets, included in other income, for the nine months ended March 31, 2011 were a result of the sale of radio spectrum for \$14,000. The cost of the spectrum was \$nil therefore the entire amount of the proceeds was a gain on the sale of intangible assets.

**7. COMPARATIVE FIGURES**

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

During the quarter an error was identified pertaining to prior periods in respect of accounting for royalties payable. These are not material to the periods to which they relate. However, as correcting the errors in the current quarter would have materially distorted net income for the quarter, the company has corrected them by revising the impacted balances in the relevant periods, with the opening balance recorded to opening retained earnings in the first period presented. The impact on the comparative figures presented in the company's consolidated statements was as follows:

- consolidated balance sheets at June 30, 2010: increase liability for royalties obligations by \$855, increase future tax asset by \$248, reduce retained earnings by \$607
- consolidated statements of income and comprehensive income and retained earnings for the three months ended March 31, 2010: increase cost of goods sold by \$217, reduce income tax expense by \$63, reduce opening retained earnings by \$154; there was no impact on basic earnings per share
- consolidated statements of cash flows for the three months ended March 31, 2010: reduce net income by \$154, increase in net change in non-cash working capital relating to operations through increase in future tax assets of \$63 and increase in other long-term liabilities of \$217; there was no net impact on cash flow for the period

**VECIMA NETWORKS INC.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**Nine months ended March 31, 2011**  
**(in thousands of Canadian dollars)**

**7. COMPARATIVE FIGURES (continued)**

- consolidated statements of income and comprehensive income and retained earnings for the nine months ended March 31, 2010: increase cost of goods sold by \$500, reduce income tax expense by \$145, reduce opening retained earnings by \$355; there was no impact on basic earnings per share
- consolidated statements of cash flows for the nine months ended March 31, 2010: reduce net income by \$355, increase in net change in non-cash working capital relating to operations through increase in future tax assets of \$145 and increase in other long-term liabilities of \$500; there was no net impact on cash flow for the period

The impact on the annual financial statements is as follows.

	2010			2009		
	Previous	Adjustment	As Corrected	Previous	Adjustment	As Corrected
<b>Consolidated Balance Sheets</b>						
As at June 30th:						
Accounts payable and accrued liabilities	13,654	855	14,509	11,374	153	11,527
Future tax assets	10,996	251	11,247	4,445	44	4,489
Retained earnings	90,303	(604)	89,699	91,266	(109)	91,157
<b>Consolidated Statements of Income and Comprehensive Income and Retained Earnings</b>						
For the Year Ended June 30th:						
Cost of goods sold	74,133	702	74,835	61,592	153	61,745
Income taxes	2,487	(204)	2,283	5,432	(44)	5,388
Net Income and Comprehensive income	807	(498)	309	13,245	(109)	13,136
Net income per share - Basic and diluted	0.04	(0.02)	0.02	0.58	-	0.58
<b>Consolidated Statements of Cash Flows</b>						
For the Year Ended June 30th:						
Net Income	807	(498)	309	13,245	(109)	13,136
Future tax asset	(6,551)	(204)	(6,755)	4,902	(44)	4,858
Net change in non-cash working capital relating to operations	(1,077)	702	(375)	(9,814)	153	(9,661)
Cash flows from (used in) operating activities	10,010	-	10,010	12,545	-	12,545



## 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](http://www.sedar.com). Consequently, readers should not place undue reliance on such forward-looking statements. In addition, these forward-looking statements relate to the date on which they are made. Vecima disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

## Investor relations

John Hanna  
Chief Financial Officer  
Phone (250) 881-1982  
Facsimile (250) 881-1974  
e-mail [invest@vecima.com](mailto:invest@vecima.com)

Alan Brick  
Investor Relations Officer  
Phone (250) 881-1982  
Facsimile (250) 881-1974  
e-mail [invest@vecima.com](mailto:invest@vecima.com)

## 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