THIRD QUARTER RESULTS

Unaudited Condensed Interim Consolidated Financial Statements

Three and Nine months ended March 31, 2017

May 11, 2017

VECIMA NETWORKS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
May 11, 2017

This Management's Discussion and Analysis (MD&A) provides a review of significant developments that have affected the performance of Vecima Networks Inc. ("Vecima" or the "Company") during the three and nine months ended March 31, 2017.

Our MD&A supplements, but does not form part of, our unaudited condensed interim consolidated financial statements and related notes for the three and nine months ended March 31, 2017. Consequently, the following discussion and analysis of the financial condition and results of operations should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes for the three and nine months ended March 31, 2017 and March 31, 2016 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Our MD&A also includes certain non-IFRS financial measures which we use as supplemental indicators of our operating performance and financial position, as well as for internal planning purposes.

The content of this MD&A contains forward-looking statements, which are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements. Forward-looking statements include, but are not limited to, our outlook for fiscal 2017 and our expectations related to general economic conditions and market trends and their anticipated effects on our business segments, as well as our expectations related to customer demand. For additional information related to forward-looking statements and material risks associated with them, please see the "Cautionary Note Concerning Factors That May Affect Future Results" section of this MD&A.

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

Table of Contents

Company Overview

Vecima Networks Inc. (TSX:VCM) is a Canadian company founded in 1988 with offices in Saskatoon, SK, Burnaby, BC and Victoria, BC. We also have a software development facility in Mangalore, India, operated through a majority owned subsidiary.

We are a globally recognized leader in creating breakthrough technology solutions that empower network service providers to connect people and enterprises to information and entertainment worldwide. Our products incorporate complex hardware and software developed within our research and development facilities. Our main products for the cable industry allow service providers a cost-effective Last Mile Solution® for both video and broadband access, especially in the demanding business services market segment.

Our business is organized into two segments: (1) Video and Broadband Solutions and (2) Telematics:

1. Video and Broadband Solutions include platforms and modules that process data from the cable network and deliver it in formats suitable to be consumed on televisions and internet devices. Terrace and TerraceQAM are two key product families in this segment which meet the needs of the business services vertical including MDU (multi-unit dwellings) and Hospitality (including hotels, motels and resorts).
2. Telematics provides fleet managers with the key information and analytics they require to optimally manage their mobile and fixed assets under the Contigo, Nero Global Tracking, and FleetLynx brands.

Our growth strategy focuses on the development of our core technologies, including next generation platforms such as our new DOCSIS 3.1 platform, Entra. We intend to pursue profitable growth both organically and when appropriate, through value-enhancing strategic acquisitions.

Third Quarter Highlights

- Made significant progress on Entra, our DOCSIS 3.1 MAC-PHY distributed access solution, and two related family platforms which add DOCSIS Remote PHY and direct 10 GbE Ethernet access architectures to the Entra ecosystem.
- Demonstrated our Distributed Access Node and Switch at the CableLabs Winter Conference.
- Shipped our first Entra Distributed Access Node for customer lab testing.
- Entra Access Switch progressed to align with availability for initiation of customer testing mid-calendar 2017
- Completed lab trials with a lead customer for an upgrade to Terrace QAM that adds additional audio transcode functionality.
- Completed an upgrade to our Digital Video Access Platform (DVAP) that prepares the platform to support distributed access architecture.
- Released Telematics product upgrades with new in demand functionality for municipal customers, including a map based winter operations module that visually demonstrates how recently roads have been cleared of snow.
- Divested our remaining YourLink assets for expected proceeds of $28.75 million.
- Declared a quarterly dividend of $0.055 per share.
- Ended the third quarter with a strong financial position, including $92.0 million in cash.

Recent Industry Developments

The cable industry's move to distributed access architectures (DAA) under the new DOCSIS 3.1 standard is expected to rollout with top tier players in 2017, 2018 and 2019. Released by CableLabs in 2014, DOCSIS 3.1 unlocks gigabit broadband speeds over existing coaxial cable by allowing data transmission up to 10 Gigabits per second (Gbps) for download speed and 3 Gbps upload speed, making DOCSIS 3.1 comparable to the speed provided by fiber optic connections, but without the added infrastructure cost. Global cable operators expect to benefit from a flexible migration given that DOCSIS 3.1 modems can coexist with older versions and build on top of the previously deployed capacity. The higher efficiency of DOCSIS 3.1 technology also enables significant cost per bit reductions relative to DOCSIS 3.0 network solutions. According to the latest industry analysis, 80% of cable operators have committed to DAA deployment plans.

We have been focused on addressing this industry transition through the development of our next generation platform, Entra, which uses distributed access architectures. The Entra Distributed Access Platform is Vecima's realization of the next generation of HFC nodes as optical transport moves away from analog RF distribution to all-digital Ethernet.

Entra Distributed Access Platform

The Entra Distributed Access solution comprises three components:

- An access node that provides a modular platform for deployment of access technologies. The

Access Node can operate as Remote PHY (R-PHY) or Remote MACPHY (R-MACPHY);

- A virtual controller software for unified management of access nodes; and,
- A Legacy QAM Adapter that provides a simple solution to adapt existing video QAM infrastructure for distributed access.

Entra Access Switch

The Entra family also includes the Entra Access Switch, an 8 port x 10 GbE weatherproof switch capable of supporting Carrier Ethernet services in almost any deployment environment. It is designed to extend the capacity of networks with insufficient fibers while minimizing the use of expensive digital optics.

Ongoing customer engagement continues to validate our plan for the Entra family. The response from Tier 1 operators remains highly encouraging with Entra's high Ethernet capacity, full support for legacy digital video, and distributed architecture approach generating significant customer interest.

Entra Milestones

While major MSOs continue to refine their technology specifications and timelines for trials, MSO lab trials are now underway for the Entra platform. We anticipate that field trials for certain components could commence within calendar 2017 based on current customer input. We emphasize that timing at major MSOs may shift in accordance with their evolving plans and priorities.

Outlook

Our outlook for fiscal 2017 has been updated to reflect timing uncertainty as the cable industry transitions to the new network architecture. The outlook assumes that one of our new product upgrades receives customer acceptance in fiscal Q4. For the 2017 fiscal year, the Company anticipates:

	Outlook
Sales	$70 to $72 million
Gross margin	51% to 54%
Adjusted EBITDA	$19.5 to $21.5 million

Adjusted EBITDA does not have any standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures presented by other issuers. See section titled "EBITDA and Adjusted EBITDA".

Assets Held For Sale and Discontinued Operations

On January 9, 2017, the Company announced it entered into an agreement to sell the telecommunication assets of its YourLink business in Saskatchewan for total consideration of $28.75 million. The sale consists of two separate transactions. The sale transaction of operating assets closed on January 12, 2017 for consideration of $20 million. The second transaction for consideration of $8.75 million is expected to close before June 30, 2017 and is subject to customary closing conditions including the receipt of requisite regulatory approval for the transfer of radio spectrum licences. Assets connected with the second sale transaction of $0.6 million were classified as held for sale.

On September 30, 2016 the Company completed the sale of cable and telecommunication assets of its YourLink business in British Columbia for consideration of $1.4 million.

Financial results attributable to the disposal groups have been presented as discontinued operations. The non-current assets that are held for sale are recorded at the lower of the carrying amount or the fair market value less costs to sell. No impairment loss was recorded on assets held for sale.

Consolidated Results of Operations

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

Consolidated Statements of Comprehensive Income Data	Three months ended March 31,				Nine months ended March 31,			
	2017		2016		**2017**		2016	
Sales	**$ 15,718**	**100 %**	$ 28,637	100 %	**$ 56,831**	**100 %**	$ 76,479	100 %
Cost of sales	**7,499**	**48 %**	12,292	43 %	**27,269**	**48 %**	34,207	45 %
Gross profit	**8,219**	**52 %**	16,345	57 %	**29,562**	**52 %**	42,272	55 %
Operating expenses								
Research and development[1]	**2,969**	**19 %**	3,136	11 %	**8,675**	**15 %**	7,917	10 %
Sales and marketing	**1,404**	**9 %**	1,807	6 %	**3,862**	**7 %**	4,193	5 %
General and administrative	**2,453**	**16 %**	2,567	9 %	**7,361**	**13 %**	6,626	9 %
Stock-based compensation	**67**	**- %**	114	1 %	**201**	**- %**	364	1 %
Other (income) expense	**(163)**	**(1)%**	3	- %	**(119)**	**- %**	-	- %
	6,730	**43 %**	7,627	27 %	**19,980**	**35 %**	19,100	25 %
Operating income	**1,489**	**9 %**	8,718	30 %	**9,582**	**17 %**	23,172	30 %
Finance income	**48**	**1 %**	157	1 %	**363**	**- %**	523	1 %
Foreign exchange gain (loss)	**150**	**1 %**	(1,183)	(4)%	**1,126**	**2 %**	(88)	- %
Income before income taxes	**1,687**	**11 %**	7,692	27 %	**11,071**	**19 %**	23,607	31 %
Income tax expense	**426**	**3 %**	1,919	7 %	**2,843**	**5 %**	5,945	8 %
Net income and comprehensive income from continuing operations	**1,261**	**8 %**	5,773	20 %	**8,228**	**14 %**	17,662	23 %
Net income and comprehensive income from discontinued operations	**9,114**	**58 %**	216	1 %	**9,963**	**18 %**	890	1 %
Net income and total comprehensive income	**$ 10,375**	**66 %**	$ 5,989	21 %	**$ 18,191**	**32 %**	$ 18,552	24 %
Net income and total comprehensive income per share[2]								
Basic	**$ 0.46**		$ 0.27		**$ 0.81**		$ 0.83	
Basic from continuing operations	**$ 0.06**		$ 0.27		**$ 0.37**		$ 0.79	
Diluted	**$ 0.46**		$ 0.27		**$ 0.81**		$ 0.83	
Diluted from continuing operations	**$ 0.06**		$ 0.27		**$ 0.37**		$ 0.79	
Dividends/distributions	**$ 1,231**		$ 1,231		**$ 3,694**		3,693	
Other Data								
Total research and development expenditures[3]	**$ 5,336**	**34 %**	$ 4,249	15 %	**$ 15,373**	**27 %**	$ 12,999	17 %
Adjusted EBITDA[4]	**$ 3,430**	**22 %**	$ 10,323	36 %	**$ 17,881**	**31 %**	$ 30,065	39 %
Adjusted earnings per share[5]	**$ 0.06**		$ 0.27		**$ 0.40**		$ 0.83	
Number of employees[6]	**401**		508		**401**		508	

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

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

(3) See "Total Research and Development Expenditures"

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

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

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

Consolidated Statements of Financial Position Data	As at	
	March 31,	June 30,
(unaudited - in thousands of dollars except number of common shares)	**2017**	2016
Cash and cash equivalents	**$ 6,037**	$ 22,222
Short-term investments	**$ 85,974**	$ 51,872
Working capital	**$ 114,203**	$ 93,222
Total assets	**$ 195,690**	$ 186,245
Long-term debt	**$ 2,271**	$ 2,458
Shareholder's equity	**$ 183,488**	$ 169,043
Number of common shares outstanding[1]	**22,388,222**	22,396,116

[1] *Based on weighted average number of common shares outstanding*

Adjusted Earnings per Share

The following table reconciles net income for the period to adjusted net income as well as earnings per share to adjusted earnings per share. The term "adjusted net income" refers to net income or net loss as reported in the IFRS financial statements, excluding any amounts included in net income or net loss for gains and losses on sale of property, plant and equipment, intangible assets, and assets held for resale, impairments of intangible assets, and the tax effect of these adjusted items. We believe that adjusted earnings and adjusted earnings per share provides supplemental information for management and our investors because it provides for the analysis of our results exclusive of certain items which do not directly correlate to our business of selling broadband access products or supplying Telematic services. Adjusted earnings and adjusted earnings per share do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

Calculation of Adjusted Earnings Per Share	Three months ended March 31,		Nine months ended March 31,	
(unaudited - in thousands of dollars except per share amounts)	**2017**	2016	**2017**	2016
Net income	**$ 10,375**	$ 5,989	**$ 18,191**	$ 18,552
Loss on disposal of intangibles, net of taxes	**-**	-	**53**	-
Gain on sale of assets held for sale, net of tax	**(9,068)**	-	**(9,349)**	-
Adjusted net income	**$ 1,307**	$ 5,989	**$ 8,895**	$ 18,552
Earnings per share	**$ 0.46**	$ 0.27	**$ 0.82**	$ 0.83
Gain on sale of assets held for sale, net of tax	**(0.40)**	-	**(0.42)**	-
Adjusted earnings per share	**$ 0.06**	$ 0.27	**$ 0.40**	$ 0.83

EBITDA and Adjusted EBITDA

The following table reconciles net income for the period to EBITDA and Adjusted EBITDA. The term "EBITDA" refers to net income or net loss as reported in the IFRS financial statements, excluding any amounts included in net income or net loss for income taxes, interest expense, and depreciation and amortization for property plant and equipment and intangible assets. The term "Adjusted EBITDA" refers to EBITDA adjusted for: gains and losses on sale of property, plant and equipment, intangible assets, and assets held for sale; impairment of property, plant, and equipment; impairment of deferred development costs; and stock compensation expense. We believe that Adjusted EBITDA is useful supplemental information for management and for our investors because it provides for the analysis of our results exclusive of certain non-cash items and other items which do not directly correlate to our business of selling broadband access products or supplying Telematic services. Adjusted EBITDA is not a recognized measure under IFRS and, accordingly, investors are cautioned that Adjusted EBITDA should not be construed as an alternative to net income, determined in accordance with IFRS, or as an indicator of our financial performance or as a measure of our liquidity and cash flows.

Calculation of Adjusted EBITDA	**Three months ended March 31,**		**Nine months ended March 31,**	
	2017	2016	**2017**	2016
Net income and total comprehensive income	**$ 10,375**	$ 5,989	**$ 18,191**	$ 18,552
Income tax expense	**1,648**	1,993	**4,358**	6,251
Interest expense	**21**	23	**88**	88
Depreciation of property, plant and equipment	**508**	728	**1,989**	1,955
Amortization of deferred development costs	**1,013**	1,341	**2,924**	2,575
Amortization of finite-life intangible assets	**231**	116	**796**	270
EBITDA	**13,796**	10,190	**28,346**	29,691
Loss on disposal of intangibles	**-**	-	**71**	-
Gain on sale of assets held for sale	**(10,419)**	-	**(10,748)**	-
Gain (loss) on sale of property, plant and equipment	**(14)**	19	**11**	10
Stock-based compensation	**67**	114	**201**	364
Adjusted EBITDA	**$ 3,430**	$ 10,323	**$ 17,881**	$ 30,065
Adjusted EBITDA margin (%)	**22 %**	42 %	**31 %**	39 %

Total Research and Development Expenditures

The following table reconciles research and development expense reported in accordance with IFRS as shown on the consolidated statements of comprehensive income for the three and nine months ended March 31, 2017 and 2016 to our actual cash research and development expenditures.

Calculation of Research and Development Expenditures	**Three months ended March 31,**		**Nine months ended March 31,**	
	2017	2016	**2017**	2016
Research and development per statement of income	**$ 2,969**	$ 3,136	**$ 8,675**	$ 7,917
Deferred development costs	**3,355**	2,497	**9,654**	7,813
Investment tax credits	**30**	55	**140**	98
Amortization of deferred development costs	**(1,013)**	(1,341)	**(2,924)**	(2,575)
Government grant	**(5)**	(98)	**(172)**	(254)
Total research and development expenditure	**$ 5,336**	$ 4,249	**$ 15,373**	$ 12,999
Percentage of sales	**26 %**	17 %	**27 %**	17 %

Summary of Quarterly Results of Operations

The following information has been derived from our consolidated financial statements for the nine months ended March 31, 2017, fiscal 2016, and fiscal 2015 in accordance with IFRS. This information should be read in conjunction with those financial statements and their related notes as well as with the balance of this MD&A.

	Fiscal Year 2017			Fiscal Year 2016				Fiscal Year 2015
	Q3	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4
Sales	**15,718**	20,227	20,886	21,868	28,637	24,561	23,283	20,663
Cost of sales	**7,499**	9,745	10,026	9,941	12,292	11,262	10,653	9,073
Gross profit	**8,219**	10,482	10,860	11,927	16,345	13,299	12,630	11,590
Operating expenses								
Research and development	**2,969**	2,857	2,849	2,939	3,136	2,383	2,399	2,428
Sales and marketing	**1,404**	1,161	1,296	1,429	1,807	1,146	1,239	1,471
General and administrative	**2,453**	2,449	2,459	2,460	2,567	1,974	2,081	2,007
Impairment of intangible assets	**-**	-	-	-	-	-	-	157
Impairment of property, plant and equipment	**-**	-	-	337	-	-	-	-
Stock-based compensation	**67**	66	68	138	114	115	135	99
Other (income) expense	**(163)**	38	7	30	3	2	(1)	194
	6,730	6,571	6,679	7,333	7,627	5,620	5,853	6,356
Operating income	**1,489**	3,911	4,181	4,594	8,718	7,679	6,777	5,234
Finance income	**48**	63	253	361	157	177	188	185
Foreign exchange gain (loss)	**150**	493	484	152	(1,183)	499	598	60
Income before income taxes	**1,687**	4,467	4,918	5,107	7,692	8,355	7,563	5,479
Income tax expense	**426**	1,151	1,266	1,820	1,919	**2,076**	1,949	1,705
Net income and comprehensive income from continuing operations	**1,261**	3,316	3,652	3,287	5,773	6,279	5,614	3,774
Net income and comprehensive income from discontinued operations	**9,114**	457	392	129	216	236	433	106
Net income and total comprehensive income	**$ 10,375**	$ 3,773	$ 4,044	$ 3,416	$ 5,989	$ 6,515	$ 6,047	$ 3,880
Net income and total comprehensive income per share								
Basic	**$ 0.46**	$ 0.17	$ 0.18	$ 0.15	$ 0.27	$ 0.29	$ 0.27	$ 0.17
Diluted	**0.46**	0.17	0.18	0.15	0.27	0.29	0.27	0.17
Adjusted EBITDA as reported	**$ 3,430**	$ 7,360	$ 7,091	$ 7,745	$ 10,323	$ 10,106	$ 9,636	$ 8,317

Quarter-to-Quarter Sales Variances

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

Within the industry, spending by cable operators is impacted by new technology adoption such as the planned industry migration to DOCSIS 3.1. The budgeting cycles of larger cable operators can also result in quarter to quarter variability in customer orders around their budgeting season and installation schedules.

We are experiencing a slowdown in demand for our existing products as the market reaches saturation. We expect sales to recover as our products in the DOCSIS 3.1 Entra platform are commercialized.

Segmented Information

Sales

Segment		Three months ended March 31, 2017		2016		Nine months ended March 31, 2017		2016
Video and Broadband Solutions	**$**	**14,272**	$	28,058	**$**	**52,576**	$	75,524
Telematics		**1,446**		579		**4,255**		955
Total sales	**$**	**15,718**	$	28,637	**$**	**56,831**	$	76,479

We generated total sales of $15.7 million in the third quarter of fiscal 2017. This compares to total sales of $28.6 million in the same period last year, and $20.2 million in Q2 fiscal 2017, representing a 45% and 22% decline respectively. The primary reason for this decrease were the reduced sales in the Terrace family of products and Digital Video Access Platform ("DVAP") as discussed below.

Video and Broadband Solutions sales were $14.3 million in the third quarter of fiscal 2017, compared to $28.1 million in the same period last year and $18.8 million in Q2 fiscal 2017.

- Sales of the Terrace family of products decreased 59% to $4.9 million, from $12.0 million in the third quarter of fiscal 2016. On a sequential quarterly basis, sales of Terrace family products decreased 44% from $8.7 million in Q2 fiscal 2017. These changes reflect lower TC600 and TC600E sales as some of our customers near the end of their digital network conversions. Third quarter Terrace Family sales were also affected by the merger of two large Tier 1 operators, which created a temporary slowdown in ordering activity. Going forward, we believe this customer's requirement for this product will resume.

- Third quarter fiscal 2017 sales of TerraceQAM were $7.5 million, compared to $9.2 million in the third quarter of 2016, a 19% decrease. On a sequential quarterly basis, sales of TerraceQAM increased 19% from $6.2 million in Q2 fiscal 2017. As expected, the lead MSO customer for TerraceQAM purchased significant quantities of both new platforms and upgrades through the first half of fiscal 2017. Sales of new platforms are expected to temporarily decrease in the second half of fiscal 2017 as inventory is drawn down, however the upgrade program is expected to continue to roll out. Earlier this year we delivered another platform enhancement to the lead customer, which frees up network capacity by supporting a new digital audio format. This latest enhancement, combined with our earlier transcoding upgrade, is expected to result in higher upgrade related sales in the second half, serving to partially offset the anticipated slowdown in system sales.

- Third quarter sales of our OEM Return Path Demodulator were $0.1 million, compared to $nil in Q3 2016 and $2.4 million in Q2 fiscal 2017. Sales in the current quarter were lower than expected as a customer put a specific project on hold. Overall, coverage of digital video set top boxes by the Return Path Demodulator is approaching 100% and sales going forward are expected to remain lumpy as networks become fully deployed.

- As expected, we had no Digital Video Access Platform (DVAP) sales in the third quarter of 2017, following completion of contract purchases by our lead OEM customer in Q4 fiscal 2016. We have now completed a software upgrade that prepares this platform to support distributed access architecture and have proceeded to customer approval testing. If, as expected, we receive product acceptance from the OEM customer prior to fiscal year-end, DVAP sales should increase in Q4 fiscal 2017. Along with increased demand from our OEM customer, we expect this upgrade will increase the pace of DVAP employment among MSOs as they prepare for distributed access architecture which cannot be supported by legacy devices.

Telematics sales increased significantly to $1.4 million in the third quarter of fiscal 2017, from $0.6 million in Q3 fiscal 2016. This significant improvement reflects the positive impact of the Contigo Systems acquisition, with the new operations contributing revenues of $1.3 million in Q3 fiscal 2017 versus $0.4 million for the partial quarter in Q3 fiscal 2016.

For the first nine months of fiscal 2017, we generated total sales of $56.8 million, a 26% decrease from the $76.5 million generated in the same period last year.

Nine month Video and Broadband Solutions sales were $52.6 million, a 30% decline from sales of $75.5 million last year.

- Sales of Terrace family of products were $22.7 million in the first nine months of fiscal 2017, compared to $34.9 million in the same period of fiscal 2016. The 35% decrease reflects lower TC600 and TC600E sales year-over-year.
- Sales of TerraceQAM were $21.4 million for the nine months ended March 31, 2017, compared to $26.2 million in the same period of fiscal 2016, an 18% decrease.
- As expected, we had no Digital Video Access Platform (DVAP) sales in the first nine months of fiscal 2017. This compares to sales of $7.1 million in the same period of fiscal 2016.

Telematics sales increased significantly to $4.3 million in the first three quarters of fiscal 2017, from $1.0 million during the same period in fiscal 2016. This improvement reflects the positive impact of the Contigo Systems acquisition, with the new operations contributing revenues of $3.7 million year-to-date. Contigo sales are included for the full period in 2017 but were only included for one month in the same period of 2016.

Cost of Sales

Cost of sales consists primarily of product manufacturing and assembly expenses, with component parts, employee and third-party supplier costs representing a significant portion of these costs. Costs associated with Video and Broadband Solutions sales include related overhead, compensation, final assembly, quality assurance and inventory management costs, as well as support costs and payments to contract manufacturers that perform printed circuit board assembly functions. Costs associated with Telematics sales consist of hardware amortization, inventory management costs, order fulfillment, wireless fees, server hosting services, and mapping licenses.

Gross Profit and Gross Margin

	Three months ended March 31,		Nine months ended March 31,	
Segment	**2017**	2016	**2017**	2016
Video and Broadband Solutions	**$ 7,358**	$ 16,024	**$ 26,832**	$ 42,465
Telematics	**861**	321	**2,730**	(193)
Total gross profit	**$ 8,219**	$ 16,345	**$ 29,562**	$ 42,272
Video and Broadband Solutions	**51.5 %**	57.2 %	**51.0 %**	56.2 %
Telematics	**59.8 %**	55.3 %	**64.2 %**	(20.1)%
Total gross margin	**52.3 %**	57.1 %	**52.0 %**	55.3 %

For the three months ended March 31, 2017, our operations achieved a gross margin of 52%, providing a total gross profit of $8.2 million. This compares to a gross margin of 57% and a total gross profit of $16.4 million in the third quarter of fiscal 2017. Gross margin in the Q3 2017 period was negatively impacted by lower sales and a weaker average U.S dollar compared to the Canadian dollar year-over-year. Comparing Q2 and Q3 2017, gross margin remained stable at 52%.

Gross margin from the Video and Broadband Solutions segment was 52%, providing a gross profit of $7.4 million in the third quarter of fiscal 2017. This compares to a gross margin of 57% and a gross profit of $16.4 million during the same period in fiscal 2016. The decline in gross margin from the Video and Broadband Solutions segment reflects lower sales in the Q3 2017 period, together with the negative impact of a weaker average U.S dollar compared to the Canadian dollar year over year. On a quarter-to-quarter basis, Q3 2017 gross margin was in line with the 52% gross margin achieved in Q2 fiscal 2017.

The Telematics segment achieved a gross margin of 60% in the third quarter of fiscal 2017, providing a gross profit of $0.9 million. This compares to a gross margin of 55%, providing a gross profit of $0.3 million in Q3 fiscal 2016. The year-over-year improvement in gross margin and gross profit reflects the Contigo operations contribution for a full quarter in 2017 versus only a partial quarter in 2016. Telematics gross margin decreased from 67% in Q2 fiscal 2017 and gross profit was down $0.1 million lower as a result of higher legacy hardware sales in Q2 2017 not repeated.

For the nine months ended March 31, 2017, our operations realized a gross margin of 52%, providing a total gross profit of $29.6 million. This compares to a gross margin of 56% and a total gross profit of $42.3 million in the first nine months of fiscal 2016. Gross margin in the current period was negatively impacted by lower sales and a weaker average U.S dollar compared to the Canadian dollar year over year.

Gross margin from the Video and Broadband Solutions segment was 51%, providing a gross profit of $26.8 million in the first nine months of fiscal 2017. This compares to a gross margin of 55% and a gross profit of $42.5 million in the same period of fiscal 2016. The year-over-year change in gross margin reflects lower sales together with the negative impact of a weaker average U.S dollar compared to the Canadian dollar.

Telematics achieved a gross margin of 64% in the first nine months of fiscal 2017, providing a gross profit of $2.7 million. This compares to a loss of $0.2 million in the same period of fiscal 2016 mainly a result of inventory allowances of $0.5 million during the prior year period. The Contigo operations in the prior year reflect only one month of operation.

Operating Expenses

	Three months ended March 31,		Nine months ended March 31,	
Segment	**2017**	2016	**2017**	2016
Video and Broadband Solutions	**$ 6,012**	$ 7,283	**$ 17,766**	$ 17,885
Telematics	**718**	344	**2,214**	1,215
Total operating expense	**$ 6,730**	$ 7,627	**$ 19,980**	$ 19,100

For the three months ended March 31, 2017, total operating expenses decreased to $6.7 million, from $7.6 million in Q3 fiscal 2016. Q3 2017 operating expenses were up slightly from $6.6 million in Q2 2017 as described below.

Video and Broadband Solutions operating expenses decreased to $6.0 million in the third quarter of fiscal 2017, from $7.3 million in Q3 fiscal 2016. The year-over-year decrease reflects a $0.4 million decrease in sales and marketing expenses reflecting higher inventory allowances in the prior year period, a $0.2 million decrease in research and development costs in the current period resulting from higher deferrals as we ramped up development of our next generation platforms, $0.1 million decrease in G&A expenses as a result of M&A costs in the prior year not repeating and $0.2 million increase in other income representing increased lease revenue. Q3 2017 operating expenses were $0.1 million higher than the $5.9 million recorded in Q2 fiscal 2017 representing higher finished goods inventory allowances and research and development expenses offset by additional lease revenue in the current quarter.

Telematics operating expenses increased to $0.7 million in Q3 fiscal 2017, from $0.3 million in Q3 fiscal 2016. This increase reflects the addition of operating expenses from the Contigo operations, offset by a decrease in FleetLynx research and development expenses. Sequentially, Telematics operating expenses were in line with the $0.7 million recorded in Q2 2017.

For the nine months ended March 31, 2017, total operating expenses increased to $20.0 million, from $19.1 million during the same period in fiscal 2016.

Video and Broadband Solutions operating expenses remained decreased slightly to $17.8 million in fiscal 2017 from $17.9 million in the same period of 2016. The $0.8 million increase in research and development costs in the current period was offset by higher sales and marketing expenses and acquisition-related M&A costs in the fiscal 2016 period and increased lease income in fiscal 2017.

Telematics operating expenses increased to $2.2 million in the first nine months of fiscal 2017, from $1.2 million in the same period of fiscal 2016. This increase primarily reflects the addition of operating expenses from the Contigo operations.

*Research and development expense*s for the three months ended March 31, 2017 decreased to $3.0 million, or 19% of sales, from $3.1 million, or 11% of sales in the same period of fiscal 2016. For the nine months ended March 31, 2017, research and development expenses increased to $8.7 million or 15% of sales, from $7.9 million, or 10% of sales in the prior year. We continue to invest in research and development to support the launch of our new products. Until these products are in commercial production, the development costs are deferred to future periods. Total research and development costs before deferrals, amortization of deferred development costs and income tax credits for the three months ended March 31, 2017 increased to $5.3 million, or 34% of sales, from $4.2 million, or 15% of sales in Q3 fiscal 2016. This increase reflects increased subcontracting, staffing costs, and Contigo expenses in the current period. Research and development costs were flat at $5.3 million compared to Q2 2017. For the nine months ended March 31, 2017, total research and development costs before deferrals, amortization of deferred development costs and income tax credits increased to $15.4 million, or 27% of sales, from $13.0 million, or 17% of sales in the same period of fiscal 2016. This increase reflects additional subcontracting, staffing costs, prototyping costs and Contigo expense in the fiscal 2017 period, offset by IP software costs incurred in fiscal 2016 which were not repeated in the first nine months of fiscal 2017. Research and development costs before deferrals. amortization of deferred development costs and income tax credits are expected to increase in Q4 fiscal 2017 for subcontracting and prototype costs related to our new product development.

Sales and marketing expenses decreased to $1.4 million, or 9% of sales in Q3 fiscal 2017, from $1.8 million, or 6% of sales last year. This decrease reflects higher allowances for slow moving Fleetlynx finished goods inventory in the fiscal 2016 period. On a sequential quarterly basis, Q3 fiscal 2017 expenses were slightly higher than the $1.2 million recorded in Q2 2017, reflecting higher finished goods inventory allowances quarter over quarter. For the nine months ended March 31, 2017, sales and marketing expenses decreased to $3.9 million, or 7% of sales, from $4.2 million, or 5% of sales in the same period last year. This decrease reflects higher inventory allowances for slow moving finished goods inventory in the prior year period, offset by the additional expenses of the Contigo operations in the current year.

General and administrative expenses decreased to $2.5 million in Q3 fiscal 2017, from $2.6 million in Q3 fiscal 2016. This decrease reflects higher M&A costs in the prior year quarter related to the acquisition of Contigo, offset by additional expenses related to the Contigo operation in the current year quarter. Sequentially, general and administrative expenses were flat to Q2 2017. For the nine months ended March 31, 2017, general and administrative expenses increased to $7.4 million, from $6.6 million in the same period last year. This increase reflects the addition of expenses from the Contigo operations.

*Stock-based compensation expens*e was flat year over year at $0.1 million. For the nine months ended March 31, 2017 stock-based compensation was $0.2 million, down from $0.4 million in the same period of fiscal 2016.

Other income was $0.2 million for the nine months ended March 31, 2017 from $nil for the nine months ended March 31, 2016. This increase represents additional lease income in the current fiscal year.

Operating Income

	Three months ended March 31,		Nine months ended March 31,	
	2017	2016	**2017**	2016
Video and Broadband Solutions	**$ 1,346**	$ 8,741	**$ 9,066**	$ 24,580
Telematics	**143**	(23)	**516**	(1,408)
Total operating income	**$ 1,489**	$ 8,718	**$ 9,582**	$ 23,172

Operating income was $1.5 million in Q3 fiscal 2017, an 83% decrease from operating income of $8.7 million in Q3 fiscal 2016. The year-over-year change was driven by lower sales and gross profit in the current period, offset by a decrease in total operating costs. On a sequential quarterly basis, operating income decreased by $2.4 million or 62% from $3.9 million in Q2 2017. This mainly reflects lower sales and gross profit quarter-over-quarter, together with higher operating expenses. Operating income for the nine months ended March 31, 2017 was $9.6 million, down 58% from operating income of $23.1 million in the same period of fiscal 2016.

Third quarter Video and Broadband Solutions operating income declined to $1.3 million, from $8.7 million in Q3 fiscal 2016. The year-over-year change in operating income reflects the $13.8 million reduction in sales, the related $8.7 million decrease in gross profit and the $1.3 million decrease in operating expenses. Sequentially, operating income was $2.3 million lower than the $3.6 million generated in Q2 fiscal 2017, mainly reflecting lower sales and gross profit quarter-over-quarter. For the nine months ended March 31, 2017, operating income of $9.1 million was down 64% from $24.6 million in the same period of fiscal 2016. The year-over-year change was driven by lower sales and gross margin, offset by a small decrease in total operating costs.

Telematics operating income increased to $0.1 million in Q3 fiscal 2017, a $0.1 million improvement compared to Q3 fiscal 2016. Higher sales and gross margin from the new Contigo operations were the key factors in this improvement. Sequentially, operating income from the Telematics segment was down $0.2 million compared to Q2 2017, reflecting lower gross margin on Fleetlynx product sales. For the nine months ended March 31, 2017 operating income was $0.5 million, up significantly from a loss of $1.4 million in the same period of fiscal 2016. The addition of the Contigo operations in the current year, together with higher inventory write downs and higher research and development expense in the prior year period, were the main contributors to this change.

Finance income was $nil million in Q3 fiscal 2017, down from $0.2 million in the same period in fiscal 2016. For the nine months ended March 31, 2017, finance income of $0.4 million was down from $0.5 million generated in the prior year.

Foreign exchange gain increased to $0.2 million in Q3 fiscal 2017, from a loss of $1.2 million in Q3 fiscal 2016. For the nine months ended March 31, 2017, foreign exchange gain increased to $1.1 million from a loss of $0.1 million in the first nine months of fiscal 2016.

Income tax expense decreased to $0.4 million in Q3 fiscal 2017 from $1.9 million in Q3 fiscal 2016. For the nine months ended March 31, 2017, income tax expense was $2.8 million, down from $5.9 million in fiscal 2016.

Net income from discontinued operations increased to $9.1 million in Q3 fiscal 2017 compared to $0.2 million in Q3 fiscal 2016. For the nine months ended March 31, 2017, net income from discontinued operations increased to $10.0 million, from $0.9 million in the same period of fiscal 2017. Discontinued operations represent the YourLink operations in Saskatchewan sold in Q3 fiscal 2017 and the YourLink operations in British Columbia sold in Q1 fiscal 2017.

Net income for Q3 fiscal 2017 increased to $10.4 million or $0.46 per share, from net income of $6.0 million or $0.27 per share in Q3 fiscal 2016. For the nine months ended March 31, 2017, net income was $18.2 million, or $0.81 per share, compared to $18.6 million or $0.83 per share for the same period in fiscal 2016.

Cash from Operating Activities

For the three months ended March 31, 2017, cash flow from operating activities provided cash of $nil compared to $15.5 million for the three months ended March 31, 2016. The $15.5 million decrease reflects the $7.5 million reduction in cash flow from non-cash working capital and the $8.0 million decrease from operating cash flow.

For the nine months ended March 31, 2017, cash flow from operating activities provided cash of $12.1 million, compared to $37.4 million in the first nine months of fiscal 2016. The $25.3 million decrease reflects the $10.5 million reduction in cash flow from non-cash working capital and the $14.8 million decrease from operating cash flow.

Investing Activities

Cash flow used by investing activities decreased to $1.6 million in Q3 fiscal 2017 from $7.6 million in Q3 fiscal 2016. The cash used by investing activities represents deferred development expenditures of $3.4 million (Q3 fiscal 2016 - $2.5 million), net purchase of short-term investments of $17.9 million (Q3 fiscal 2016 net sale of short-term investments - $9.6 million), and purchase of property, plant and equipment of $0.3 million (Q3 fiscal 2016 – $1.2 million). The acquisition of the assets of Contigo Systems occurred in Q3 fiscal 2016 for $13.3 million.

Cash flow used by investing activities increased to $25.5 million in the nine months ended March 31, 2017 from $29.2 million in same period of fiscal 2016. The cash used by investing activities represents deferred development expenditures of $9.7 million (YTD fiscal 2016 - $7.8 million), net purchase of short-term investments of $34.1 million (YTD fiscal 2016 - $4.8 million), purchase of property, plant and equipment of $1.4 million (YTD fiscal 2016 – $1.9 million) and proceeds on the sale of assets held for resale of $20.0 million. The acquisition of the assets of Contigo Systems occurred in Q3 fiscal 2016 for $13.3 million.

Financing Activities

For the three months ended March 31, 2017 we paid dividends of $1.2 million (Q3 fiscal 2016 - $1.2 million) and repaid $0.1 million of our long-term debt (Q3 fiscal 2016 - $0.1 million repaid). We received proceeds from government grants of $0.1 million in Q3 fiscal 2017 (Q3 fiscal 2016 - $1.0 million).

For the nine months ended March 31, 2017 we paid dividends of $3.7 million (fiscal YTD 2016 - $3.7 million) and repaid $0.2 million of our long-term debt (fiscal YTD 2016 - $0.2 million repaid). We received proceeds from government grants of $0.3 million in 2017 (fiscal YTD 2016 - $1.0 million). We repurchased commons shares for $0.3 million (fiscal YTD 2016 - $nil).

Liquidity and Capital Resources

We manage our liquidity and capital resources to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. We believe we have the flexibility to obtain from internal sources the funds needed to fulfil our cash requirements during the following financial year. Our liquidity requirements are met primarily by funds generated from operations. In this quarter, our liquidity requirements were also met as a result of the proceeds on the sale of YourLink assets in Saskatchewan.

As at March 31, 2017, we had access to our full revolving loan facility of $14.0 million ($14.0 million at June 30, 2016), of which no amount was drawn as an operating line of credit (June 30, 2016 - $nil million was drawn). We had term credit of $2.5 million as at March 31, 2017 (June 30, 2016 - $2.7 million). We believe that our current cash and short term investments of $92.0 million together with anticipated cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future.

Capital expenditures for Q3 fiscal 2017 were $0.3 million compared to $1.2 million in Q3 fiscal 2016. For the nine months ended March 31, 2017 capital expenditures were $1.4 million compared to $1.9 million in the same period of fiscal 2016.

Working Capital

Working capital represents our current assets less current liabilities. Our working capital remained strong in the third quarter of fiscal 2017, increasing to $114.2 million at March 31, 2017, from $93.2 million at June 30, 2016. Working capital balances can be subject to significant swings from quarter to quarter. Our product shipments are "lumpy", reflecting the requirements of our major customers. It is not unusual to ship $5 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 an increase in inventory levels and a drop in receivables in the prior quarter. Other timing issues, like contracts with greater than 30-day payment terms, also affect working capital, particularly if shipments are back-end weighted for a quarter. The proceeds on the sale of the YourLink assets in Saskatchewan were a major reason for the increase in working capital from June 30, 2016.

Accounts receivable balance increased to $13.0 million at March 31, 2017 from $4.7 million at June 30, 2016. This increase reflects the timing of sales, with more orders shipping late in the quarter. As a result, related accounts receivable were not collected during the quarter.

Income tax receivable balance decreased from $3.0 million at June 30, 2016 to $2.0 as at March 31, 2017. This decrease represents collection of cash refundable provincial investment tax credits in Q1 fiscal 2017 offset by income tax paid on the CRA reassessment of YourLink tax (see Commitments below for details).

Inventory decreased by $7.3 million to $14.9 million at March 31, 2017 from $22.2 million as at June 30, 2016. YourLink inventory of $1.3 million was reclassified to assets held for sale. Finished goods inventories were $7.8 million at March 31, 2017, compared to $11.9 million at June 30, 2016. Raw material inventory decreased to $5.0 million at March 31, 2017, compared to $7.0 million at June 30, 2016. Work in process inventories decreased to $2.1 million as at March 31, 2017 compared to $3.2 million at June 30, 2016. We manufacture and assemble products, with the result that inventory levels will be substantially higher than for other companies in the industry that outsource manufacturing and assembly.

Investment tax credits were $20.3 million at March 31, 2017 up slightly from $20.0 million at June 30, 2016. For every dollar we spend on eligible research and development in Canada, we generate approximately fifteen cents in income tax credits. These credits are used to offset our income tax payable.

Accounts payable and accrued liabilities decreased 15% to $7.4 million at March 31, 2017 representing 55 days for payables to be outstanding. This compares to $8.7 million at June 30, 2016, representing an average of 70 days for payables to be outstanding. This dollar decrease is a result of timing of purchases in the quarter.

Long-term debt, including current portion, decreased to $2.5 million at March 31, 2017 from $2.7 million at June 30, 2016.

Dividends

Declaration Date	Dividend Amount (per share)	Record Date	Payable Date
September 23, 2016	$0.055	October 12, 2016	November 2, 2016
November 8, 2016	$0.055	November 24, 2016	December 20,2016
February 7, 2017	$0.055	February 27, 2017	March 20, 2017

Contractual Obligations

We have lease commitments for production equipment, service vehicles and facilities amounting to $1.3 million within one year, $0.9 million after one year but not more than five years and $nil thereafter.

Commitments

In January 2017, we received a re-assessment from the Canada Revenue Agency ("CRA") regarding our tax treatment of gains on the sale of radio spectrum licenses in 2012 to 2014. The CRA has re-assessed the gains on the sale of these radio spectrum licenses as active business income, which would result in additional income taxes, penalties and interest payable of approximately $4.1 million. We and our advisors have reviewed the applicable tax law and believe our original treatment of these sales as capital gains was appropriate. We filed a Notice of Objection in March 2017. The outcome of this matter cannot be determined at this time with reasonable certainty. No provision for this matter has been recognized in the financial statements.

In March 2017, we received a re-assessment from the CRA regarding the eligibility of certain Scientific Research and Experimental Development ("SR&ED") claims on our 2015 tax return. The CRA re-assessment would result in a reduction to our investment tax credit asset on our balance sheet of approximately $0.4 million dollars. We and our advisors have reviewed the applicable tax law and believe our original treatment of these SR&ED claims was appropriate. We expect to file a Notice of Objection in regards to this matter. The outcome of this matter cannot be determined at this time with reasonable certainty. No provision for this matter has been recognized in the financial statements.

Foreign Exchange

Approximately 95% of our revenues are denominated in US dollars. We translate US dollar sales to Canadian dollars on the date of delivery and subsequently when the account receivable is collected. If the US dollar appreciates relative to the Canadian dollar after we collect the accounts receivable in US dollars, we will receive more Canadian dollars when the US dollars are converted to Canadian dollars in subsequent months. We also enjoy a natural hedge since the majority of our materials and components purchases are in US dollars.

During the quarter, the exchange rate on the Canadian dollar weakened to Canadian $1.332 against the U.S. dollar as of March 31, 2017 from Canadian $1.292 against the U.S. dollar as at June 30, 2016. This $0.040 exchange difference increased the value of our $10.5 million U.S. dollar net assets by approximately $0.4 million Canadian.

Financial Instruments

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

At March 31, 2017, we had one forward contract to sell $2.0 million in USD which resulted in a gain of $0.1 million recognized as at March 31, 2017 (March 31, 2016 - $nil).

Effective March 3, 2017, we entered into a range bonus accumulator with a Canadian chartered bank. As at March 31, 2017, we received four of four weekly bonus payments for a total of $0.01 million.

Off-Balance Sheet Arrangements

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

Transactions Between Related Parties

We lease a building in Saskatoon under a 10-year lease from Dr. Surinder Kumar, the Chairman of Vecima. The lease was entered into in 2010 at prevailing market rates at that time and expires in 2019. The rental expense from this transaction was $0.2 million for the nine months ended March 31, 2017 (March 31, 2016 - $0.2 million).

Proposed Transactions

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

Critical Accounting Estimates

The preparation of our unaudited interim condensed consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Use of judgment and estimates are disclosed in Note 3 of the unaudited condensed interim consolidated financial statements for the three and nine months ended March 31, 2017.

Accounting Pronouncements

IFRS 9 Financial Instruments

In November 2009, the IASB issued guidance relating to the classification and measurement for financial assets followed by requirements for financial liabilities and derecognition which were added in 2010. IFRS 9 was amended in 2013 to add new general hedge accounting requirements. The standard must be applied retrospectively and is effective for annual periods beginning after January 1, 2018, with earlier application permitted. We have completed a preliminary review of the standard to determine the potential impact on our consolidated financial statements, and we do not expect any material impacts.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB published a new standard, IFRS 15 Revenue from Contracts with Customers. This standard supersedes current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard may be applied retrospectively or with a modified transition approach and is effective for reporting periods beginning on or after January 1, 2018, with earlier application permitted. We have a plan to ensure compliance with IFRS 15 by the required adoption date, which includes identifying differences between existing policies and IFRS 15, ensuring the data collection process is sufficient and appropriate and communicating the changes with various stakeholders. We are currently executing on our transition plan and continue to assess the impact of this standard on the consolidated financial statements. We expect to complete our assessment by the end of calendar 2017, and fully implement any required changes by September 30, 2018.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases. IFRS 16 eliminates the current dual model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. The standard is effective for periods beginning on or after January 1, 2019 with earlier application permitted. We are currently reviewing the standard to determine the potential impact on our consolidated financial statements.

Internal Control over Financial Reporting

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

Our CEO and CFO have evaluated the effectiveness of the internal control over financial reporting as at March 31, 2017 in accordance with Internal Control - Integrated Framework (2013), published by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, our CEO and CFO have determined that the internal control over financial reporting is effective as at March 31, 2017.

Legal Proceedings

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

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

Risk and Uncertainties

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

Outstanding Share Data

As at May 11, 2017, we had 22,377,421 common shares outstanding as well as options outstanding that are exercisable for an additional 442,129 common shares.

On October 25, 2016, we filed a notice of intention with the Toronto Stock exchange to acquire for cancellation, by way of normal course issuer bid, up to 600,000 common shares of the Company. We acquired 34,500 common shares of Vecima for cancellation during the second quarter of fiscal 2017. No further common shares have been acquired to May 11, 2017.

Additional Information

Financial Governance

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

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

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

Forward-Looking Information

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

Forward looking information in this MD&A includes, but is not limited to statements that in fiscal 2017 we believe that our current cash and short term investments of $92.0 million together with anticipated cash flow from operations will be sufficient to meet our working capital requirements and capital expenditure requirements for the foreseeable future. Our growth strategy focuses on the development of our core technologies, including next generation platforms such as our new DOCSIS 3.1 platform, Entra. We intend to pursue profitable growth both organically and when appropriate, through value-enhancing strategic acquisitions. The cable industry's move to distributed access architectures (DAA) under the new DOCSIS 3.1 standard is expected to rollout with top tier players in 2017, 2018 and 2019. For the Entra platform, we anticipate that field trials for certain components could commence within calendar 2017 based on current customer input and we emphasize that timing at major MSOs may shift in accordance with their evolving plans and priorities. We are experiencing a slowdown in demand for our existing products as the market reaches saturation and we expect sales to recover as our products in the DOCSIS 3.1 Entra platform are commercialized. Third quarter Terrace Family sales were also affected by the merger of two large Tier 1 operators, which created a temporary slowdown in ordering activity but going forward, we believe this customer's requirement for this product will resume. The latest enhancement in TransQAM, combined with our earlier transcoding upgrade, is expected to result in higher upgrade related sales in the second half of calendar 2017, serving to partially offset the anticipated slowdown in system sales. Coverage of digital video set top boxes by the Return Path Demodulator is approaching 100% and sales going forward are expected to remain lumpy as networks become fully deployed. If, as expected, we receive product acceptance from the OEM customer prior to fiscal year-end, DVAP sales should increase in Q4 fiscal 2017. Along with increased demand from our OEM customer, we expect this upgrade will increase the pace of DVAP employment among MSOs as they prepare for distributed access architecture which cannot be supported by legacy devices. Research and development costs before deferrals. amortization of deferred development costs and income tax credits are expected to increase in Q4 fiscal 2017 for subcontracting and prototype costs related to our new product development. Forward looking information also includes our Recent Industry Developments and our Outlook in this MD&A.

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

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

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Vecima Networks Inc. (the “Company”) have been prepared 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 CPA Canada Handbook for a review of interim financial statements by an entity’s auditor.

VECIMA NETWORKS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(unaudited - in thousands of Canadian Dollars)

	Notes	March 31, 2017	June 30, 2016
Assets			
Current assets			
Cash and cash equivalents		$ **6,037**	$ 22,222
Short-term investments	**5**	**85,974**	51,872
Accounts receivable		**12,974**	4,674
Income tax receivable		**2,043**	3,009
Inventories	**6**	**14,899**	22,172
Assets held for sale	**4**	**641**	1,486
Prepaid expenses		**1,566**	1,359
		124,134	106,794
Non-current assets			
Property, plant and equipment	**8**	**11,177**	20,214
Goodwill		**6,111**	6,210
Intangible assets	**9**	**29,708**	26,724
Investment tax credit		**20,254**	20,031
Deferred tax asset		**4,306**	6,272
		$ **195,690**	$ 186,245
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ **7,403**	$ 8,746
Provisions		**554**	927
Deferred revenue		**1,724**	2,942
Liabilities associated with assets held for sale	**4**	**-**	707
Current portion of long-term debt	**12**	**250**	250
		9,931	13,572
Non-current liabilities			
Other long-term liabilities		**-**	5
Provisions		**-**	1,167
Long-term debt	**12**	**2,271**	2,458
		12,202	17,202
Shareholders' equity			
Share capital	**13**	**502**	739
Reserves		**3,847**	3,662
Retained earnings		**179,139**	164,642
		183,488	169,043
		$ **195,690**	$ 186,245

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

VECIMA NETWORKS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited - in thousands of Canadian dollars except net income per share data)

	Notes	Three months ended March 31, 2017	Three months ended March 31, 2016	Nine months ended March 31, 2017	Nine months ended March 31, 2016
Sales	**19**	**$ 15,718**	$ 28,637	**$ 56,831**	$ 76,479
Cost of sales		**7,499**	12,292	**27,269**	34,207
Gross profit		**8,219**	16,345	**29,562**	42,272
Operating expenses					
Research and development		**2,969**	3,136	**8,675**	7,917
Sales and marketing		**1,404**	1,807	**3,862**	4,193
General and administrative		**2,453**	2,567	**7,361**	6,626
Stock-based compensation	**13**	**67**	114	**201**	364
Other (income) expense	**14**	**(163)**	3	**(119)**	-
		6,730	7,627	**19,980**	19,100
Operating income		**1,489**	8,718	**9,582**	23,172
Finance income	**15**	**48**	157	**363**	523
Foreign exchange gain (loss)		**150**	(1,183)	**1,126**	(88)
Income before income taxes		**1,687**	7,692	**11,071**	23,607
Income tax expense	**16**	**426**	1,919	**2,843**	5,945
Net income and comprehensive income from continuing operations		**1,261**	5,773	**8,228**	17,662
Net income and comprehensive income from discontinued operations	**4**	**9,114**	216	**9,963**	890
Net income and total comprehensive income		**$ 10,375**	$ 5,989	**$ 18,191**	$ 18,552
Net income per share					
Continuing operations		**0.06**	0.26	**0.37**	0.79
Discontinued operations		**0.41**	0.01	**0.45**	0.04
Total basic net income per share	**13**	**$ 0.46**	$ 0.27	**$ 0.81**	$ 0.83
Continuing operations		**0.06**	0.26	**0.37**	0.79
Discontinued operations		**0.41**	0.01	**0.44**	0.04
Total diluted net income per share	**13**	**$ 0.46**	$ 0.27	**$ 0.81**	$ 0.83
Weighted average number of common shares					
Shares outstanding - basic		**22,376,226**	22,384,578	**22,388,222**	22,381,161
Shares outstanding - diluted		**22,437,129**	22,456,933	**22,429,623**	22,436,317

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

VECIMA NETWORKS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited - in thousands of Canadian dollars)

	Share Capital	Reserves	Retained Earnings	Total
Balance as at June 30, 2015	$ 488	$ 3,228	$ 147,608	$ 151,324
Net income and comprehensive income	-	-	18,552	18,552
Dividends	-	-	(3,693)	(3,693)
Shares issued by exercising options	93	(20)	-	73
Share-based payment expense	-	364	-	364
Balance as at March 31, 2016	$ 581	$ 3,572	$ 162,467	$ 166,620
Balance as at June 30, 2016	**$ 739**	**$ 3,662**	**$ 164,642**	**$ 169,043**
Net income and comprehensive income	-	-	18,191	18,191
Dividends	-	-	(3,694)	(3,694)
Shares repurchased and cancelled	(293)	-	-	(293)
Shares issued by exercising options	56	(16)	-	40
Share-based payment expense	-	201	-	201
Balance as at March 31, 2017	**$ 502**	**$ 3,847**	**$ 179,139**	**$ 183,488**

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

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

	Notes	Three months ended March 31, 2017	Three months ended March 31, 2016	Nine months ended March 31, 2017	Nine months ended March 31, 2016
Cash flows from operating activities					
Net income and total comprehensive income		$ **1,261**	$ 5,773	$ **8,228**	$ 17,662
Adjustments to reconcile net income to cash from operating activities	**17**	**1,950**	3,695	**7,491**	9,566
Decrease in provisions		**(170)**	(70)	**(360)**	(47)
Increase in investment tax credit		**(31)**	(45)	**(140)**	(154)
Net change in non-cash working capital relating to operations	**18**	**(2,855)**	4,641	**(3,857)**	6,691
Interest paid		**(20)**	(24)	**(63)**	(73)
Interest received		**301**	187	**792**	598
Income tax received		**-**	10	**11**	11
Income tax paid		**(2)**	-	**(15)**	(8)
Net cash provided by continuing operations		**434**	14,167	**12,087**	34,246
Net cash (used) provided by discontinued operations		**(450)**	1,328	**11**	3,194
Net cash (used) provided by operations		**(16)**	15,495	**12,098**	37,440
Cash flows used in investing activities					
Purchase of property, plant and equipment	**8**	**(335)**	(1,158)	**(1,382)**	(1,952)
Proceeds from sale of property, plant and equipment		**33**	-	**71**	-
Purchase of short-term investments		**(20,059)**	(7,188)	**(38,302)**	(21,578)
Proceeds on sale of short-term investments		**2,200**	16,800	**4,200**	16,800
Deferred development costs	**9**	**(3,404)**	(2,497)	**(9,703)**	(7,813)
Purchase of indefinite and finite-life intangible assets	**9**	**(7)**	(9)	**(42)**	(29)
Business acquisition		**-**	(13,303)	**-**	(13,303)
Net cash used by continuing operations		**(21,572)**	(7,355)	**(45,158)**	(27,875)
Net cash provided (used) by discontinued operations		**19,972**	(290)	**19,612**	(1,343)
Net cash used in investing		**(1,600)**	(7,645)	**(25,546)**	(29,218)
Cash flows used in financing activities					
Proceeds from exercised stock options	**13**	**26**	51	**40**	73
Proceeds from government grants	**10**	**83**	994	**259**	1,046
Repurchase and cancellation of shares	**13**	**-**	-	**(293)**	-
Dividends paid		**(1,231)**	(1,231)	**(3,694)**	(3,693)
Repayment of long-term debt	**12**	**(62)**	(62)	**(187)**	(187)
Net cash used by continuing operations		**(1,184)**	(248)	**(3,875)**	(2,761)
Net cash provided by discontinued operations		**352**	-	**1,138**	-
Net cash used in financing		**(832)**	(248)	**(2,737)**	(2,761)
(Decrease) increase in cash and cash equivalents during the period		**(2,448)**	7,602	**(16,185)**	5,461
Cash and cash equivalents, beginning of period		**8,485**	10,636	**22,222**	12,777
Cash and cash equivalents, end of period		$ **6,037**	$ 18,238	$ **6,037**	$ 18,238

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

Table of Contents

1. NATURE OF OPERATIONS

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

The Company designs, manufactures and sells products that enable broadband access to cable, wireless and telephony networks. Vecima hardware products incorporate embedded software developed by Vecima to meet the requirements of next-generation, high-speed digital networks. Vecima solutions allow service providers to bridge the final network segment that connects a system directly to end-users, commonly referred to as the "the last mile", by overcoming the bottleneck resulting from insufficient carrying capacity in legacy last-mile infrastructures.

2. BASIS OF PRESENTATION

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and as set out in the CPA Canada Handbook. In the opinion of management, all adjustments and disclosures considered necessary for fair presentation have been included in these unaudited condensed interim consolidated financial statements.

These unaudited condensed interim consolidated financial statements are based on IFRS issued and outstanding as of March 31, 2017 and were approved by the Company's Board of Directors on May 9, 2017.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as issued by the International Accounting Standards Board. The same accounting policies and methods of computation have been followed in these unaudited condensed interim consolidated financial statements as were followed in the annual audited financial statements for the year ended June 30, 2016. These unaudited condensed interim consolidated financial statements do not include all information required for annual statements and are therefore referred to as condensed and should be read in conjunction with Vecima's annual audited financial statements for the year ended June 30, 2016.

Accounting Standards Issued But Not Yet Applied:

IFRS 9 - Financial Instruments

In November 2009, the IASB issued guidance relating to the classification and measurement for financial assets followed by requirements for financial liabilities and derecognition which were added in 2010. IFRS 9 was amended in 2013 to add new general hedge accounting requirements. The standard must be applied retrospectively and is effective for annual periods beginning after January 1, 2018, with earlier application permitted. The Company has completed a preliminary review of the standard to determine the potential impact on its consolidated financial statements, and does not expect any material impacts.

2. BASIS OF PRESENTATION continued

Accounting Standards Issued But Not Yet Applied: continued

IFRS 15 - Revenue from Contracts with Customers

In May 2014, the IASB published a new standard, IFRS 15 *Revenue from Contracts with Customers*. This standard supersedes current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The standard may be applied retrospectively or with a modified transition approach and is effective for reporting periods beginning on or after January 1, 2018, with earlier application permitted. The Company has a plan to ensure compliance with IFRS 15 by the required adoption date, which includes identifying differences between existing policies and IFRS 15, ensuring the data collection process is sufficient and appropriate and communicating the changes with various stakeholders. The Company is currently executing on its transition plan and continues to assess the impact of this standard on the consolidated financial statements. The Company expects to complete its assessment by the end of calendar 2017, and fully implement any required changes by September 30, 2018.

IFRS 16 - Leases

In January 2016, the IASB issued IFRS 16 *Leases*. IFRS 16 eliminates the current dual model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. The standard is effective for periods beginning on or after January 1, 2019 with earlier application permitted. The Company is currently reviewing the standard to determine the potential impact on its consolidated financial statements.

3. USE OF JUDGMENT AND ESTIMATES

The preparation of the Company's unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments, 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. Uncertainty about these assumptions and estimates could result in outcomes that require material adjustments to the carrying amount of the affected asset or liability. In preparing these financial statements, the significant assumptions and judgments made by management were the same as those applied to the audited consolidated financial statements for the year ended June 30, 2016.

4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

On January 9, 2017, the Company announced it entered into an agreement to sell the telecommunication assets of its YourLink business in Saskatchewan for total consideration of $28,750. The sale consists of two separate transactions. The sale transaction of operating assets closed on January 12, 2017 for consideration of $20,000. The second transaction for consideration of $8,750, is expected to close before June 30, 2017 and is subject to customary closing conditions including the receipt of requisite regulatory approval for the transfer of radio spectrum licences. Assets connected with the second sale transaction of $641 were classified as held for sale.

On September 30, 2016 the Company completed the sale of cable and telecommunication assets of its YourLink business in British Columbia for consideration of $1,422.

(unaudited - in thousands of Canadian dollars except as otherwise noted)

4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS continued

Financial results attributable to the disposal groups have been presented as discontinued operations. The non-current assets that are held for sale are recorded at the lower of the carrying amount or the fair market value less costs to sell. No impairment loss was recorded on assets held for sale.

The results of the discontinued operations for the periods ended March 31, 2017 are as follows:

	Three months ended March 31,		Nine months ended March 31,	
	2017	2016	**2017**	2016
Operating revenues	**$ 281**	$ 3,184	**$ 5,875**	$ 9,573
Operating expenses	**(353)**	(2,886)	**(5,109)**	(8,390)
Other income (expense) and finance income (costs)	**(11)**	(8)	**(25)**	13
Income from discontinued operations before income taxes and gain on sale of assets	**(83)**	290	**741**	1,196
Income taxes	**(1,222)**	(74)	**(1,515)**	(306)
Gain on sale of assets	**10,419**	-	**10,737**	-
Income from discontinued operations, net of taxes	**$ 9,114**	$ 216	**$ 9,963**	$ 890

5. SHORT-TERM INVESTMENTS

Short-term investments are measured at fair value and changes are reported through the statement of comprehensive income. The fair value of the short-term investments were equal to their carrying costs for the period ended March 31, 2017. Short-term investments are guaranteed investment certificates and marketable equity securities.

6. INVENTORIES

	March 31, 2017	June 30, 2016
Raw materials	**$ 4,999**	$ 7,035
Work in progress	**2,058**	3,239
Finished goods	**7,842**	11,898
	$ 14,899	$ 22,172

During the three months ended March 31, 2017, inventories of $6,280 (three months ended March 31, 2016 - $11,959) were expensed through cost of sales. Write-downs of inventory for the three months ended March 31, 2017 were $83 (three months ended March 31, 2016 - $215) and were included in cost of sales. Reversals of write-downs were $nil during the three months ended March 31, 2017 ($15 for the three months ended March 31, 2016). During the nine months ended March 31, 2017, inventories of $24,233 (nine months ended March 31, 2016 - $31,902) were expensed through cost of sales. Write-downs of inventory for the nine months ended March 31, 2017 were $327 (nine months ended March 31, 2016 - $936) and were included in cost of sales. Reversals of write-downs were $nil during the nine months ended March 31, 2017 ($15 for the nine months ended March 31, 2016). The carrying amount of inventory recorded at net realizable value was $545 at March 31, 2017 (June 30, 2016 - $677) with the remaining inventory recorded as cost.

(unaudited - in thousands of Canadian dollars except as otherwise noted)

7. DERIVATIVE FINANCIAL INSTRUMENTS TO MANAGE FOREIGN EXCHANGE RISK

As at March 31, 2017, the Company had $2,000 US dollars ("USD") in foreign currency forward contracts that have the effect of fixing the conversion of USD (June 30, 2016 - $nil). Effective March 3, 2017, we entered into a range bonus accumulator with a Canadian chartered bank. As at March 31, 2017, we received four of four weekly bonus payments for a total of $10.

Changes in fair value of these instruments are included in foreign exchange gain in the current year. As at March 31, 2017, the Company has an unrealized net gain of $63 (June 30, 2016 - $nil net gain) on outstanding forward purchase contracts.

Derivative financial instruments are included in accounts receivable (June 30, 2016 - accounts receivable) in the consolidated statement of financial position.

8. PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements & building	Lab, operating & production equipment	Other equipment[1]	Total
Cost					
At July 1, 2016	$ 785	$ 8,915	$ 32,567	$ 13,442	$ 55,709
Additions	5	137	2,776	134	3,052
Government grant (Note 10)	-	-	(845)	-	(845)
Disposals	(40)	-	(657)	(6)	(703)
Assets held for sale	(129)	(522)	(15,756)	(3,250)	(19,657)
At March 31, 2017	**$ 621**	**$ 8,530**	**$ 18,085**	**$ 10,320**	**$ 37,556**
Accumulated depreciation and impairment					
At July 1, 2016		$ 2,578	$ 21,547	$ 11,370	$ 35,495
Depreciation charge for the year		209	1,483	297	1,989
Disposals		-	(548)	(1)	(549)
Assets held for sale		(132)	(8,278)	(2,146)	(10,556)
At March 31, 2017		**$ 2,655**	**$ 14,204**	**$ 9,520**	**$ 26,379**
Carrying amount					
At June 30, 2016	$ 785	$ 6,337	$ 11,020	$ 2,072	$ 20,214
At March 31, 2017	**$ 621**	**$ 5,875**	**$ 3,881**	**$ 800**	**$ 11,177**

The following estimated useful lives have been applied to property, plant and equipment assets at March 31, 2017 and June 30, 2016:

	Estimated useful life
Land improvements and building	40 years
Lab, operating and production equipment	7 to 30 years
Other equipment[1]	1 to 30 years

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

(unaudited - in thousands of Canadian dollars except as otherwise noted)

8. PROPERTY, PLANT AND EQUIPMENT continued

Depreciation of property, plant and equipment included in cost of sales, research and development, general and administrative expenses and discontinued operations is as follows:

	Three months ended March 31,		Nine months ended March 31,	
	2017	2016	**2017**	2016
Cost of sales	**$ 198**	$ 110	**$ 614**	$ 336
Research and development	**81**	46	**236**	116
General and administrative	**229**	208	**594**	485
Depreciation from continuing operations	**508**	364	**1,444**	937
Depreciation from discontinued operations	**-**	880	**545**	1,018
	$ 508	$ 1,244	**$ 1,989**	$ 1,955

There were no impairment losses or recoveries during the three and nine months ended March 31, 2017 or 2016.

9. INTANGIBLE ASSETS

	Indefinite-life intangible assets	Finite-life intangible assets				
	Spectrum and Other Licenses	Customer Contracts	Patents	Intellectual Property	Deferred Development Costs	Total
Cost						
At July 1, 2016	$ 431	$ 5,071	$ 371	$ 3,127	$ 25,027	$34,027
Additions	-	-	42	-	9,654	9,696
Government grant (Note 10)	-	-	-	-	(172)	(172)
Investment tax credits	-	-	-	-	(2,447)	(2,447)
Writedown, fully amortized	-	(162)	-	-	(327)	(489)
Disposals	(71)	-	-	-	-	(71)
Assets held for resale	(302)	-	-	-	-	(302)
At March 31, 2017	**$ 58**	**$ 4,909**	**$ 413**	**$ 3,127**	**$ 31,735**	**$40,242**
Amortization and impairment						
At July 1, 2016	$ -	$ 224	$ 277	$ 355	$ 6,447	$ 7,303
Amortization recognized	-	452	34	310	2,924	3,720
Writedown, fully amortized	-	(162)	-	-	(327)	(489)
At March 31, 2017	**$ -**	**$ 514**	**$ 311**	**$ 665**	**$ 9,044**	**$10,534**
Net book value						
At June 30, 2016	$ 431	$ 4,847	$ 94	2,772	$ 18,580	$26,724
At March 31, 2017	**$ 58**	**$ 4,395**	**$ 102**	**$ 2,462**	**$ 22,691**	**$29,708**

9. INTANGIBLE ASSETS continued

Amortization of subscriber acquisition costs and patents is recognized in general and administrative expenses. Amortization of deferred development costs is recognized in research and development expenses.

The aggregate amount of research and development expenditure during the three months ending March 31, 2017 is $5,336 (March 31, 2016 - $4,249). The aggregate amount of research and development expenditure during the nine months ending March 31, 2017 is $15,373 (March 31, 2016 - $12,999).

There were no impairment losses or recoveries recorded during the three or nine months ending March 31, 2017 or March 31, 2016.

10. GOVERNMENT GRANTS

Government grants and assistance are recognized where there is reasonable assurance that all conditions attached to the grant will be met and the grant or assistance claimed will be received. The claims are subject to review by the respective agencies before the funding can be released. When the grant or assistance relates to an expense item, it is recognized as income over the period necessary to match the grant or assistance on a systematic basis to the costs that it is intended to compensate. Where the grant or assistance relates to an asset, the grant or assistance reduces the carrying amount of the asset. The grant is then recognized as income over the useful life of a depreciable asset through a reduced depreciation charge.

In October 2015, April and December 2016, the Company entered into non-repayable contribution agreements with the National Research Council Canada as represented by its Industrial Research Assistance Program ("IRAP") for total funding of $809 to finance research and development projects. During the three months ending March 31, 2017, the Company recognized $119 (March 31, 2016 - $98) in non-repayable government assistance relating to IRAP. $45 was recorded as a reduction to intangible assets and $74 was recorded as a reduction to research and development expenses. During the nine months ending March 31, 2017, the Company recognized $287 (March 31, 2016 - $254) in non-repayable government assistance relating to IRAP. $173 was recorded as a reduction to intangible assets and $74 was recorded as a reduction to research and development expenses. At March 31, 2017, the Company had accounts receivable relating to IRAP of $78.

During the period, the Company also recognized government assistance from Industry Canada's Connecting Canadians Program ("DC150"). During the three months ending March 31, 2017, the Company recognized $82 (March 31, 2016 - $351) in non-repayable government assistance relating to this grant. $77 was recognized as a reduction to assets held for sale with the remainder being recorded to property, plant and equipment. During the nine months ending March 31, 2017, the Company recognized $922 (March 31, 2016 - $747) in non-repayable government assistance relating to this grant. $77 was recorded as as a reduction to assets held for sale and $845 and was recorded as a reduction to property, plant and equipment. At March 31, 2017, the Company had accounts receivable relating to DC150 of $82. The future rights, obligations and benefits of the grant have transferred as part of the sale agreement of the YourLink business in Saskatchewan.

(unaudited - in thousands of Canadian dollars except as otherwise noted)

11. CONTINGENT LIABILITY

In January 2017, the Company received a re-assessment from the Canada Revenue Agency ("CRA") regarding the tax treatment of gains on the sale of radio spectrum licenses in 2012 to 2014. The CRA has re-assessed the gains on the sale of these spectrum licenses as active business income, which would result in additional income taxes, interest and penalties payable of approximately $4.1 million. The Company and its advisors have reviewed the applicable tax law and believe the original treatment of these gains was appropriate. The Company was required to pay $2.0 million towards this re-assessment in Q3. The Company has filed a Notice of Objection in Q3 fiscal 2017. The outcome of this matter cannot be determined at this time with reasonable certainty. No provision for this matter has been recognized in the financial statements.

In March 2017, the Company received a re-assessment from the CRA regarding the eligibility of certain Scientific Research and Experimental Development ("SR&ED") claims on its 2015 tax return. The CRA re-assessment would result in a reduction to the investment tax credit asset on the balance sheet of approximately $0.4 million dollars. The Company and its advisors have reviewed the applicable tax law and believe its original treatment of these SR&ED claims was appropriate. The Company expects to file a Notice of Objection in regards to this matter. The outcome of this matter cannot be determined at this time with reasonable certainty. No provision for this matter has been recognized in the financial statements.

12. LONG-TERM DEBT

		March 31, 2017		**June 30, 2016**
Term credit from a Canadian chartered bank, repayable in monthly installments of $21 principal and interest at prime, (2.70% at March 31, 2017), expiring in October 2017, collateralized by a general security agreement. The Company has an authorized loan amount of $3,792.	**$**	**2,521**	$	2,708
Less current portion		**(250)**		(250)
	$	**2,271**	$	2,458

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

Future principal payments for the fiscal years ending are as follows assuming that the existing payment terms are the same as renewal.

2017	$	63
2018		250
2019		250
2020		250
2021		250
Remaining		1,458
	$	2,521

13. SHARE CAPITAL

(in thousands of Canadian dollars except common share data)

(a) Share capital

The Company has the following authorized share capital: an unlimited number of common shares with no par value and an unlimited number of preferred shares with no par value. The Company does not hold treasury shares, as all shares purchased are immediately cancelled. The table below provides details of common shares outstanding and their carrying value:

	Number of Shares	Carrying Value
Balance, July 1, 2016	22,402,709	$ 739
Shares issued by exercising options	9,212	56
Shares repurchased and cancelled	(34,500)	(293)
Balance, March 31, 2017	**22,377,421**	**$ 502**

The Company issued 5,976 shares through the exercise of options during the three months ended March 31, 2017 (three months ended March 31, 2016 - 8,207) and 9,212 shares through the exercise of options during the nine months ended March 31, 2017 (nine months ended March 31, 2016 - 12,908).

Each holder of a common share is entitled to one vote per share at shareholder meetings and to receive dividends, as and when declared by the Board of Directors. There are no pre-emptive, retraction, surrender, redemption, repurchase for cancellation or conversion rights attached to the common shares.

Preferred shares may be issued from time to time with designation, rights, privileges, restrictions and conditions, which will be determined by the Board of Directors at the time of issue (none issued).

13. SHARE CAPITAL continued

(in thousands of Canadian dollars except common share data)

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

	Three months ended March 31,		Nine months ended March 31,	
	2017	2016	**2017**	2016
Net income: basic and diluted	**$ 10,375**	$ 5,989	**$ 18,191**	$ 18,552
Weighted average number of shares outstanding:				
Basic	**22,376,226**	22,384,578	**22,388,222**	22,381,161
Dilutive stock options	**60,903**	72,355	**41,401**	55,156
Diluted	**22,437,129**	22,456,933	**22,429,623**	22,436,317
Net income per share: basic	**$ 0.46**	$ 0.27	**$ 0.81**	$ 0.83
Net income per share: diluted	**$ 0.46**	$ 0.27	**$ 0.81**	$ 0.83

Stock options could potentially dilute basic net income per share in the future. Options to purchase 311,441 common shares were vested and outstanding at March 31, 2017 (March 31, 2016 - 139,503). Dilutive stock options are calculated using the treasury stock method.

(b) Reserves

Reserves within shareholders' equity represent equity settled employee benefits reserves.

(c) Stock option plan

The Company has established a stock option plan pursuant to which options to acquire common shares may be issued to officers, directors and employees of the Company. The term, vesting period, exercise price, and number of common shares, relating to each option will be determined by the Company's Board of Directors at the time options are granted, but will not be more favourable than those permitted under applicable securities legislation and/or regulation. Typically, options are granted for six years with vesting based on either time-based service or performance and are equity settled. The Company's stock option plan is 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.

13. SHARE CAPITAL continued

(in thousands of Canadian dollars except common share data)

(c) Stock option plan continued

The changes in options and the number of options outstanding for the nine months ended March 31, 2017 are as follows:

	Number of options	Weighted average exercise price
Outstanding, July 1, 2016	456,892	$ 8.49
Granted	11,000	10.69
Canceled	(9,697)	10.57
Exercised	(9,212)	4.29
Expired and forfeited	(6,854)	4.21
Outstanding, March 31, 2017	**442,129**	**$ 8.53**
Vested and exercisable, March 31, 2017	**311,441**	**$ 8.37**

At March 31, 2017, the exercise prices range from $2.72 to $10.91 with the weighted average exercise price being $8.53. The options outstanding at March 31, 2017 have a weighted average contractual life of 3.86 years.

	Options Outstanding			Options Exercisable	
	Number	Weighted Average Remaining Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$2.72 to $3.00	4,020	0.70	$ 2.72	4,020	$ 2.72
$3.01 to $5.00	10,609	1.65	4.21	10,234	4.20
$5.01 to $10.00	371,500	3.73	8.62	275,625	8.62
$10.01 to $10.91	56,000	4.78	10.59	21,562	10.71
	442,129	3.86	$ 8.53	311,441	$ 8.37

(d) Stock-based compensation

For all stock options granted, the Company determined compensation expense based on the estimated fair values at the grant date of the stock options using the Black-Scholes and binomial option-pricing models. The estimated fair value of the stock options is amortized to stock-based compensation over the vesting period of the options. The stock-based compensation expense was $67 for the three months ended March 31, 2017 (three months ended March 31, 2016 - $114). The stock-based compensation expense was $201 for the nine months ended March 31, 2017 (nine months ended March 31, 2016 - $364).

(unaudited - in thousands of Canadian dollars except as otherwise noted)

14. OTHER (INCOME) EXPENSE

	Three months ended March 31, 2017	Three months ended March 31, 2016	Nine months ended March 31, 2017	Nine months ended March 31, 2016
(Gain) loss on sale of property, plant and equipment	**$ (14)**	$ 5	**$ 12**	$ -
Lease revenue	**(95)**	-	**(131)**	-
Other	**(54)**	(2)	**-**	-
	$ (163)	$ 3	**$ (119)**	$ -

15. FINANCE INCOME

	Three months ended March 31, 2017	Three months ended March 31, 2016	Nine months ended March 31, 2017	Nine months ended March 31, 2016
Interest income	**$ 301**	$ 187	**$ 792**	$ 594
Operating line fees	**(3)**	(11)	**(10)**	(12)
Term credit interest	**(17)**	(19)	**(53)**	(57)
Other	**(233)**	-	**(365)**	(2)
	$ 48	$ 157	**$ 364**	$ 523

16. INCOME TAXES

	Three months ended March 31, 2017	Three months ended March 31, 2016	Nine months ended March 31, 2017	Nine months ended March 31, 2016
Current income taxes (recovery)	**$ (230)**	$ 2,218	**$ 877**	$ 6,842
Deferred income taxes (recovery)	**656**	(299)	**1,966**	(897)
	$ 426	$ 1,919	**$ 2,843**	$ 5,945

(unaudited - in thousands of Canadian dollars except as otherwise noted)

17. ADJUSTMENTS TO RECONCILE NET INCOME TO CASH FROM OPERATING ACTIVITIES

	Notes	Three months ended March 31, 2017	Three months ended March 31, 2016	Nine months ended March 31, 2017	Nine months ended March 31, 2016
(Gain) loss on sale of property, plant and equipment	14	$ (14)	$ 5	$ 12	$ -
Depreciation of property, plant and equipment	8	508	364	1,444	937
Amortization of deferred development costs	9	1,013	1,341	2,924	2,575
Amortization of finite-life intangible assets	9	231	116	796	270
Stock-based compensation	13	67	114	201	364
Current income taxes (recovery)	16	(230)	2,218	877	6,842
Deferred income taxes (recovery)	16	656	(299)	1,966	(897)
Interest expense		20	23	63	69
Interest income	15	(301)	(187)	(792)	(594)
		$ 1,950	$ 3,695	$ 7,491	$ 9,566

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

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

	Three months ended March 31, 2017	Three months ended March 31, 2016	Nine months ended March 31, 2017	Nine months ended March 31, 2016
Decrease (increase) in current assets				
Accounts receivable	$ (3,405)	$ 2,686	$ (9,073)	$ 8,303
Inventories	2,314	2,853	5,532	(1,680)
Prepaid expenses	(321)	(71)	(497)	(58)
Income tax receivable	(2,042)	26	942	27
	(3,454)	5,494	(3,096)	6,592
Increase (decrease) in current liabilities				
Accounts payable and accrued liabilities	62	(2,181)	42	(1,058)
Deferred revenue	537	1,328	(803)	1,157
	599	(853)	(761)	99
	$ (2,855)	$ 4,641	$ (3,857)	$ 6,691

(unaudited - in thousands of Canadian dollars except as otherwise noted)

19. SEGMENTED FINANCIAL INFORMATION

The Company's operations are organized into business units based on how the business is managed and has three reportable segments. The Video and Broadband Solutions segment designs, develops and distributes electronic communications products to cable and telecommunication markets. The YourLink segment provided cable television and internet services in British Columbia and Saskatchewan. The Telematics segment designs, develops and distributes fleet management products. Inter-segment transactions take place at terms that approximate fair values. Almost all of the Company's operations, employees and assets are located in Canada. The following highlights key financial information for the operation of these segments.

	Three months ended March 31, 2017				
	Video and Broadband Solutions	**YourLink**	**Telematics**	**Inter Segment Eliminations**	**Total**
Sales - external customers	$ 14,279	$ -	$ 1,439	$ -	$ 15,718
Cost of sales	6,920	-	579	-	7,499
Gross profit	**7,359**	**-**	**860**	**-**	**8,219**
Operating expenses	4,621	-	511	-	5,132
Depreciation and amortization	1,405	-	193	-	1,598
Operating income	**1,333**	**-**	**156**	**-**	**1,489**
Finance income	48	-	-	-	48
Foreign exchange gain (loss)	156	-	(6)	-	150
Income before income taxes	**1,537**	**-**	**150**	**-**	**1,687**
Income tax expense	388	-	38	-	426
Net income and comprehensive income from continuing operations	**1,149**	**-**	**112**	**-**	**1,261**
Net income and comprehensive income from discontinued operations	**-**	**9,114**	**-**	**-**	**9,114**
Net income and comprehensive income	**$ 1,149**	**$ 9,114**	**$ 112**	**$ -**	**$ 10,375**
Total assets	**$ 180,881**	**$ 641**	**$ 14,364**	**$ (196)**	**$ 195,690**
Total liabilities	**$ 11,686**	**$ -**	**$ 516**	**$ -**	**$ 12,202**

(unaudited - in thousands of Canadian dollars except as otherwise noted)

19. SEGMENTED FINANCIAL INFORMATION continued

	Three months ended March 31, 2016				
	Video and Broadband Solutions	YourLink	Telematics	Inter Segment Eliminations	Total
Sales - external customers	$ 28,057	$ -	$ 580	$ -	$ 28,637
Cost of sales	12,033	-	259	-	12,292
Gross profit	**16,024**	**-**	**321**	**-**	**16,345**
Operating expenses	5,463	-	374	-	5,837
Depreciation and amortization	1,724	-	66	-	1,790
Operating income	**8,837**	**-**	**(119)**	**-**	**8,718**
Finance income	157	-	-	-	157
Foreign exchange loss	(1,168)	-	(15)	-	(1,183)
Income before income taxes	**7,826**	**-**	**(134)**	**-**	**7,692**
Income tax expense (recovery)	1,953	-	(34)	-	1,919
Net income and comprehensive income from continuing operations	**5,873**	**-**	**(100)**	**-**	**5,773**
Net income and comprehensive income from discontinued operations	**-**	**216**	**-**	**-**	**216**
Net income and comprehensive income	**$ 5,873**	**$ 216**	**$ (100)**	**$ -**	**$ 5,989**
Total assets	**$ 167,671**	**$ 13,758**	**$ 3,207**	**$ (231)**	**$ 184,405**
Total liabilities	**$ 13,745**	**$ 3,697**	**$ 343**	**$ -**	**$ 17,785**

(unaudited - in thousands of Canadian dollars except as otherwise noted)

19. SEGMENTED FINANCIAL INFORMATION continued

	Nine months ended March 31, 2017				
	Video and Broadband Solutions	YourLink	Telematics	Inter Segment Eliminations	Total
Sales - external customers	$ 52,580	$ -	$ 4,251	$ -	$ 56,831
Cost of sales	25,748	-	1,521	-	27,269
Gross profit	**26,832**	-	**2,730**	**-**	**29,562**
Operating expenses	13,589	-	1,627	-	15,216
Depreciation and amortization	4,076	-	688	-	4,764
Operating income	**9,167**	**-**	**415**	**-**	**9,582**
Finance income	363	-	-	-	363
Foreign exchange gain	1,107	-	19	**-**	1,126
Income before income taxes	**10,637**	**-**	**434**	**-**	**11,071**
Income tax expense	2,732	-	111	-	2,843
Net income and comprehensive income from continuing operations	**7,905**	**-**	**323**	**-**	**8,228**
Net income and comprehensive income from discontinued operations	**-**	**9,963**	**-**	**-**	**9,963**
Net income and comprehensive income	**$ 7,905**	**$ 9,963**	**$ 323**	**$ -**	**$ 18,191**
Total assets	**$ 180,881**	**$ 641**	**$ 14,364**	**$ (196)**	**$ 195,690**
Total liabilities	**$ 11,686**	**$ -**	**$ 516**	**$ -**	**$ 12,202**

(unaudited - in thousands of Canadian dollars except as otherwise noted)

19. SEGMENTED FINANCIAL INFORMATION continued

	Nine months ended March 31, 2016				
	Video and Broadband Solutions	YourLink	Telematics	Inter Segment Eliminations	Total
Sales - external customers	$ 75,521	$ -	$ 958	$ -	$ 76,479
Cost of sales	33,056	-	1,151	-	34,207
Gross profit	**42,465**	**-**	**(193)**	**-**	**42,272**
Operating expenses	14,169	-	1,180	-	15,349
Depreciation and amortization	3,689	-	62	-	3,751
Operating income	**24,607**	**-**	**(1,435)**	**-**	**23,172**
Finance income	523	-	-	-	523
Foreign exchange loss	(73)	-	(15)	-	(88)
Income before income taxes	**25,057**	**-**	**(1,450)**	**-**	**23,607**
Income tax expense (recovery)	6,314	-	(369)	-	5,945
Net income and comprehensive income from continuing operations	**18,743**	**-**	**(1,081)**	**-**	**17,662**
Net income and comprehensive income from discontinued operations	**-**	**890**	**-**	**-**	**890**
Net income and comprehensive income	**$ 18,743**	**$ 890**	**$ (1,081)**	**$ -**	**$ 18,552**
Total assets	**$ 167,671**	**$ 13,758**	**$ 3,207**	**$ (231)**	**$ 184,405**
Total liabilities	**$ 13,745**	**$ 3,697**	**$ 343**	**$ -**	**$ 17,785**

Inter-segment elimination of total assets represents the fair value adjustment of assets acquired in previous years' acquisitions.

Geographical:

	Three months ended March 31,		Nine months ended March 31,	
	2017	2016	**2017**	2016
Sales to external customers				
United States	**$ 13,648**	$ 28,017	**$ 51,200**	$ 68,669
Canada	**1,807**	337	**4,712**	6,376
Other	**263**	283	**919**	1,434
	$ 15,718	$ 28,637	**$ 56,831**	$ 76,479

There are no non-current assets located outside of Canada. Geographic location is based on shipping location and customer knowledge.

(unaudited - in thousands of Canadian dollars except as otherwise noted)

19. SEGMENTED FINANCIAL INFORMATION continued

	Three months ended March 31,		Nine months ended March 31,	
	2017	2016	**2017**	2016
Sales to major customers accounting for more than 10% of sales				
Customer A	**$ 7,790**	$ 13,438	**$ 26,910**	$ 32,953
Customer B	**-**	4,693	**-**	8,078
Customer C	**-**	5,653	**-**	-
Customer D	**-**	-	**6,193**	-
	$ 7,790	$ 23,784	**$ 33,103**	$ 41,031

The sales to these major customers are within the Video and Broadband Solutions segment. Customer B was below 10% of sales in the three and nine months ended March 31, 2017. Customer C was below 10% of sales in the three and nine months ended March 31, 2017 and the nine months ended March 31, 2016 and the amounts are not shown. Customer D was below 10% of sales in the three months ended March 31, 2017 and the three and nine months ended March 31, 2016 and the amounts are not shown.

20. COMMITMENTS AND GUARANTEES

The Company has entered into operating lease commitments for office equipment and for the lease of buildings. The equipment leases have an average life between two and three years with no renewal options included in the contract. The building leases have renewal terms of zero to ten years. No restrictions have been placed upon the Company by entering into these leases.

The Company has future minimum lease payment obligations under non-cancelable operating leases as follows:

	March 31, 2017	June 30, 2016
Within one year	**$ 1,308**	$ 1,577
After one year but not more than five years	**3,634**	2,284
	$ 4,942	$ 3,861

(unaudited - in thousands of Canadian dollars except as otherwise noted)

21. RELATED PARTY TRANSACTIONS

Vecima is a publicly traded company on the Toronto Stock Exchange. Dr. Surinder Kumar, Chairman of the Board, directly or indirectly controls the majority of the outstanding common shares.

The consolidated financial statements include the accounts of the Company and its subsidiaries listed in the following table:

Name	% equity interest Participating voting shares
Vecima Networks (USA) Inc.	100
Vecima Telecom India Private Ltd.	95
6105971 Canada Inc.	100

The Company leases a building in Saskatoon under a ten-year lease from Dr. Surinder Kumar at the prevailing market rate at the commencement of the lease of $10.00 per square foot. The lease expires in 2019. The rental expense under this lease was $71 for the three months ended March 31, 2017 (three months ended March 31, 2016 - $71). The rental expense under this lease was $211 for the nine months ended March 31, 2017 (nine months ended March 31, 2016 - $211).

22. FAIR VALUE HIERARCHY

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,

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

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company held the following financial instruments measured at fair value:

March 31, 2017

	Total	Level 1	Level 2	Level 3
Short-term investments	$ 85,974	$ 85,974	$ -	$ -
Derivative financial instruments	63	63	-	-

June 30, 2016

	Total	Level 1	Level 2	Level 3
Short-term investments	$ 51,872	$ 51,872	$ -	$ -

During the reporting periods ending March 31, 2017 and June 30, 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

(unaudited - in thousands of Canadian dollars except as otherwise noted)

23. FINANCIAL INSTRUMENTS RISK MANAGEMENT

Financial Risks

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

Credit Risk

Cash and cash equivalents are placed with major Canadian financial institutions rated in the two highest grades by nationally recognized ratings agencies. Concentration of credit risk exists with respect to the Company's cash and cash equivalents, as all amounts are held at major Canadian financial institutions. Credit risk is also managed by maintaining short-term investments (short-term deposits in cashable Guaranteed Investment Certificates) with Canadian financial institutions rated in the two highest grades by nationally recognized ratings agencies and British Columbia Credit Unions. Deposits with credit unions are insured through the Credit Union Deposit Insurance Corporation. This insurance exceeds the amounts otherwise covered by the Canadian Deposit Insurance Corporation for bank deposits.

Credit risk also arises from the possibility that a customer would fail to fulfil its financial obligations, therefore the Company's credit risk lies in the collectability of its accounts receivable. Trade accounts receivable are recognized initially at fair value and subsequently measured at amortized cost less allowance for doubtful accounts. An allowance for doubtful accounts is established when there is a reasonable expectation that the Company will not be able to collect all amounts due according to the original terms of the receivable. The carrying amount of the trade accounts receivable is reduced through the use of the allowance account, and the amount of any increases in the allowance is recognized in the statement of income. The Company manages its credit risk related to its trade receivables through a credit management program and all customer accounts are reviewed. Credit approval policies and procedures are in place guiding the granting of credit to new customers. The Company has an allowance for doubtful accounts at March 31, 2017 of $84 (June 30, 2016 - $46). At March 31, 2017, the Company had three major customers (June 30, 2016 - three) who accounted for approximately 65% (June 30, 2016 - 54%) of the period-end accounts receivable balance.

The aging of trade receivables that are not considered to be impaired are as follows:

	March 31, 2017	June 30, 2016
Current	**$ 12,100**	$ 3,284
31 to 60 days	**316**	699
61 to 90 days	**53**	74
Over 90 days	**28**	65
	$ 12,497	$ 4,122

(unaudited - in thousands of Canadian dollars except as otherwise noted)

23. FINANCIAL INSTRUMENTS RISK MANAGEMENT continued

Liquidity Risk

Liquidity risk arises from the Company's general funding needs and in the management of its assets, liabilities and capital. The Company manages its liquidity risk to maintain sufficient liquid financial resources to fund its operations and meet its commitments and obligations in a cost-effective manner. The Company currently holds a significant balance of cash and short-term investments which helps to mitigate this risk. The Company has access to a credit facility in the amount of $14,000 with a Canadian chartered bank. As of March 31, 2017, the remaining amount available to be drawn under this credit facility is $14,000.

The table below presents a maturity analysis of the Company's financial liabilities:

		Payments due within		
	Carrying Amount of Liability	1 year	1-3 years	Thereafter
Accounts payable and accrued liabilities	$ 7,409	$ 7,409	$ -	$ -
Long-term debt obligations	2,521	250	750	1,521
	$ 9,930	$ 7,659	$ 750	$ 1,521

Currency Risk

Approximately 96% (March 31, 2016 - 99%) of the Company's sales are denominated in USD and the Company enters into forward foreign exchange contracts to manage foreign currency exchange risk related to exposures of the exchange rates for the Canadian dollar. These contracts are considered "held for trading" instruments. Changes in the value of these contracts are recorded as an element of foreign exchange gain.

As of March 31, 2017, the total gross notional amount of the Company's forward foreign exchange contracts was $2,000 USD (June 30, 2016 - $nil). Effective March 3, 2017, we entered into a range bonus accumulator with a Canadian chartered bank. As at March 31, 2017, we received four of four weekly bonus payments for a total of $10. Changes in the fair value of these instruments are included in other expense (income) in the current year. For the three months ended March 31, 2017, the Company has an unrealized net gain of $63 (June 30, 2016 - unrealized net gain $nil) on outstanding purchase contracts.

For the three months ended March 31, 2017, if the Canadian dollar had weakened or strengthened by 1% against the US dollar with all other variables held constant, net income before income taxes would have been $98 (March 31, 2016 - $200) higher or lower.

Interest Rate Risk

The Company is exposed to floating interest rate risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates. This risk is limited to the line of credit and long-term debt. The Company is also exposed to changes in interest rates related to its short-term investments, as the income received from these investments fluctuates based on interest rates received when the investments are made. A 1% movement in the interest rate received would have resulted in a $186 change to net income before income taxes for the three months ended March 31, 2017 (March 31, 2016 - $134).

24. SUBSEQUENT EVENTS

On May 9, 2017, the Board of Directors declared a dividend of $0.055 per common share, payable on June 20, 2017 to shareholders of record as at May 26, 2017 consistent with its previously announced dividend policy.