ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 2017

September 29, 2017

Dear Fellow Shareholders,

Fiscal 2017 was a year of major development for Vecima as we continue to move forward in fulfilling our strategic objectives. Throughout the year we implemented significant changes to our business to build upon our present successes and pave the way for our future.

Financially, we ended FY2017 with $89.2 million in cash, a more than 20% increase over 2016, achieved in part by our divestiture of our YourLink business in both B.C. and Saskatchewan, which we sold for collective proceeds of $30.2 million. This marks the completion of our strategy to monetize non-core assets that included past sales of excess real estate and radio spectrum licenses. Subsequent to year end, a further $8.73 million in cash was received as we completed the second closing of the YourLink sale.

Over the year, we made significant progress on the development of Entra, our award-winning DOCSIS 3.1 Distributed Access Architecture (DAA) Platform solution, and two related products which add DOCSIS Remote PHY and 10 GbE Ethernet Access Switching to our product lines. As you may recall, early in the first quarter, Broadband Technology Report awarded Entra a ranking of 4.5 out of 5 Diamonds in its Diamond Technology Review. Shortly thereafter, we successfully demonstrated Entra's multi-gigabit broadband speeds at the SCTE Cable-Tec Expo, while at the CableLabs Winter Conference we demonstrated our MAC-PHY Access Node and Ethernet Access Switch. Since then, we have shipped our first Entra Distributed Access Node for customer lab testing and initiation with a Tier 1 MSO. Most recently, we were shortlisted for a DAA RFP at another major Tier 1 MSO with interoperability testing underway.

In our Telematics business, we continued to benefit from last year's acquisition of Contigo Systems, growing the segment into a contributor of strong recurring revenue and earnings. We continue to look for good opportunities to develop the scale of the Telematics business.

At Vecima, innovation is at the core of our business and I'm delighted to see our efforts in R&D paying off. Our next-generation product family, Entra, is attracting industry attention and gaining the momentum that will reach broadly into different segments of the vast global market. Recent additions to our leadership team in the areas of marketing and operations and our continued investment in developing cutting-edge technologies have been critical to our strategy of setting up a strong foundation that will secure our position as a leading vendor for the transformation taking place across the cable and broadband industry. With a solid balance sheet, a robust product portfolio, and a highly promising R&D direction, we are meeting the needs of Tier One cable MSO customers across multiple product lines and platforms.

The DOCSIS 3.1 Cable Network Transformation

2017 marked the start of a technical evolution for the North American cable industry as a whole. The major shift to DOCSIS 3.1 is being described as a "once-in-a-lifetime" network transformation event and Vecima is well positioned to capitalize on it.

DOCSIS 3.1 represents the next major technology transition in cable and broadband. This new standard is designed to support consumer demand for gigabit Internet speeds and IP video across multiple screens. Importantly, it will do this by unlocking gigabit broadband speeds over existing coaxial cables without the added infrastructure cost of a wholesale network rebuild to take fiber to the home. DAA solutions are essential for the continued competitiveness of cable MSOs, but they require a fundamental shift in network architecture.

One of the distinguishing features of a distributed access approach is that instead of centralizing processing intelligence at the hub of the network, the new architecture pushes intelligence out to the nodes, close to home and businesses. That is crucial to alleviating the space and power constraints that MSOs are currently experiencing in the central network. The Entra eco-system we have been developing accommodates this shift with three products that broadly address the market.

The first product is our Entra Access Switch, which debuted at ANGA COM 2017. With its rugged, weatherproof design capable of supporting Ethernet services in any environment, it extends the capacity of networks with insufficient fibers while minimizing the use of expensive long-haul digital optics.

Our second product is the Entra Remote-PHY Access Node, which distributes a layer of processing to the node. This moves the cable network architecture away from costly analog optics to commodity Ethernet optics, while also reducing hub space and providing scalable multi-gigabit broadband access.

Our third product is the Entra MAC-PHY Access Node, which provides benefits beyond Remote-PHY. It does this by moving more processing to the edge to deliver a more cost-effective and space-efficient solution while also eliminating the CCAP chassis in the space-constrained hub. This approach to the control and management of the system allows network hardware functions to be accessed and operated “virtually” through an off-site data centre.

Entra’s distributed architecture, full support for Legacy Digital and IP video and high capacity Ethernet centric approach are generating significant attention and momentum within the cable industry.

Looking Ahead to 2018

With cable MSOs pushing forward with their remaining digital network conversions and preparing for DOCSIS 3.1, we anticipate a year of ongoing transition for Vecima in fiscal 2018.

We expect demand for some of our legacy products will continue to taper off as domestic operators near completion of their all-digital conversions and shift their focus to next generation products and technologies. In the near term, orders of our TC600E are expected to pick up following completion of a major industry merger that temporarily reduced demand for this product last year. In addition, we see opportunities to supply new network video platforms in support of key customers’ transition to IP centric platforms, and the recent introduction of the Terrace DVB provides new opportunities for our TerraceQAM product family in international markets.

At the same time, we will be readying our Entra family of products for field trials. Based on customer feedback, we expect these to get underway in calendar 2018, however, exact timing remains difficult to predict as the major MSOs are still refining their own plans and priorities.

Fiscal 2018 looks to be a year of continued investment and development as we position Vecima for industry leadership in gigabit-class IP-driven networks. Through Entra, we are unlocking greater broadband capacity and supporting advances in IP technologies that our customers need to remain competitive in a rapidly changing digital environment. We are also continuing to seek out attractive acquisition opportunities that give us access to assets and technologies that help drive our growth and success, while also offering significant accretion. We are excited about Vecima’s future and look forward to telling you more about our progress in 2018 as we celebrate our 30th year in business.

On behalf of the Board of Directors, I want to thank our employees and our shareholders for their continued support and commitment to Vecima.

Sincerely,

"Sumit Kumar"

Sumit Kumar

President and CEO

VECIMA NETWORKS INC.
Management's Discussion and Analysis
September 25, 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 year ended June 30, 2017.

Our management's discussion and analysis supplements, but does not form part of, our audited consolidated financial statements and related notes for the year ended June 30, 2017. Consequently, the following discussion and analysis of the financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and accompanying notes for the years ended June 30, 2017 and June 30, 2016 which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Our management's discussion and analysis also includes certain non-IFRS financial measures which we use as supplemental indicators of our operating performance and financial position, as well as for internal planning purposes.

The content of this MD&A contains forward-looking statements, which are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements. Forward-looking statements include, but are not limited to our expectations related to general economic conditions and market trends and their anticipated effects on our business segments. For additional information related to forward-looking statements and material risks associated with them, please see the "Forward-Looking Information" section of this MD&A.

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

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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.

Fiscal 2017 Highlights

- Achieved revenue of $71.5 million and a gross margin of 52%, in line with our fiscal Q3 guidance of revenue of $70.0 to $72.0 million and gross margin of 51% to 54%.
- Achieved net income of $18.0 million (Earnings per Share $0.81).
- Adjusted EBITDA of $20.3 million was in line with our guidance of $19.5 million to $21.5 million.
- Made significant progress on Entra, our DOCSIS 3.1 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.
- Launched the Entra 10GB Access Switch at ANGA COM 2017 in Cologne, Germany.
- Made rapid progress on our new DOCSIS Remote PHY Distributed Access Node with interoperability testing now underway.
- Completed lab trials with a lead customer for an upgrade to Terrace QAM that adds additional audio transcode functionality.
- Commenced lab trials with a large European MSO for the Terrace DVB Commercial Video Gateway, a global version of Terrace QAM.
- 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 government customers, including a map-based winter operations module with intuitive snow removal control systems for proper road maintenance.
- Divested YourLink assets for proceeds of $30.2 million.
- Ended the fiscal year in a strong financial position, including $89.2 million in cash.

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 "EBITDA and Adjusted EBITDA".

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 calendar 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.

Outlook

We anticipate a year of transition for Vecima in fiscal 2018 as the North American cable industry prepares for the new DOCSIS 3.1 standard. Based on current customer feedback, we expect field trials of various components of our new Entra family of products to commence in calendar year 2018. However, we note that the plans and priorities of the major MSOs continue to evolve, making it difficult to project timelines with certainty.

While we expect demand for some of our legacy products will continue to taper off as market saturation is reached and customers focus on next generation products and technologies, we continue to see areas of strength. Orders for our Terrace 600E products are picking up following completion of a major industry merger that temporarily reduced demand for this product last year. The update to our DVAP platform to support DAA has progressed and the OEM customer has taken delivery of their first set of upgrade licenses. In addition, we see opportunities to supply new network video platforms in support of key customers' transition to IP centric platforms, and the recent introduction of the Terrace DVB provides new opportunities for us in international markets.

Overall, we expect fiscal 2018 to be a year of continued investment and development as we position Vecima for industry leadership in both our existing markets and the emerging DOCSIS 3.1 space. With our strong financial position, including a cash balance of $89.2 million, we are well positioned to pursue our product strategies, while also continuing to assess attractive acquisitions that provide significant accretion and give us rapid access to technologies that will help drive our growth and success.

Assets Held For Sale and Discontinued Operations

On January 9, 2017, we entered into an agreement to sell the telecommunication assets of our YourLink business in Saskatchewan for total consideration of $28.73 million. The sale consisted of two separate transactions. The sale of operating assets closed on January 12, 2017 for consideration of $20 million. The second transaction for consideration of $8.73 million closed subsequent to June 30, 2017 on July 13, 2017. Assets connected with the second sale transaction are classified as held for sale ($0.6 million).

On September 30, 2016 we 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 YourLink business 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 with the balance of this MD&A.

Consolidated Statements of Comprehensive Income Data	**Years ended June 30,**					
	2017		2016		2015	
Sales	**$ 71,460**	**100 %**	$ 98,347	100 %	$ 80,275	100 %
Cost of sales	**34,439**	**48 %**	44,125	45 %	39,025	49 %
Gross profit	**37,021**	**52 %**	54,222	55 %	41,250	51 %
Operating expenses						
Research and development(1)	**11,749**	**17 %**	10,856	11 %	9,337	12 %
Sales and marketing	**5,285**	**7 %**	5,622	6 %	5,829	7 %
General and administrative	**9,875**	**14 %**	8,743	9 %	7,967	11 %
Impairment of intangible assets	**174**	**- %**	-	- %	1,192	1 %
Impairment of property, plant and equipment	**-**	**- %**	337	- %	-	- %
Restructuring costs	**986**	**1 %**	-	- %	-	- %
Stock-based compensation	**321**	**1 %**	502	1 %	502	1 %
Other (income) expense	**(276)**	**- %**	6	- %	3	- %
	28,114	**40 %**	26,066	27 %	24,830	31 %
Operating income	**8,907**	**12 %**	28,156	28 %	16,420	20 %
Finance income	**1,134**	**2 %**	894	1 %	627	1 %
Foreign exchange gain	**795**	**1 %**	46	- %	1,782	2 %
Income before income taxes	**10,836**	**15 %**	29,096	29 %	18,829	23 %
Income tax expense	**3,045**	**4 %**	7,862	8 %	5,167	6 %
Net income and comprehensive income from continuing operations	**7,791**	**11 %**	21,234	21 %	13,662	17 %
Net income and comprehensive income from discontinued operations	**10,257**	**14 %**	735	1 %	1,475	2 %
Net income and total comprehensive income	**$ 18,048**	**25 %**	$ 21,969	22 %	$ 15,137	19 %
Net income and total comprehensive income per share(2)						
Basic	**$ 0.81**		$ 0.98		$ 0.68	
Basic from continuing operations	**$ 0.35**		$ 0.95		$ 0.61	
Diluted	**$ 0.80**		$ 0.98		$ 0.68	
Diluted from continuing operations	**$ 0.35**		$ 0.95		$ 0.61	
Dividends/distributions	**$ 4,924**		4,935		4,023	
Other Data						
Total research and development expenditures(3)	**$ 21,066**	**29 %**	$ 18,104	18 %	$ 15,677	20 %
Adjusted EBITDA(4)	**$ 20,296**	**28 %**	$ 37,810	38 %	$ 29,025	36 %
Adjusted earnings per share(5)	**$ 0.40**		$ 0.99		$ 0.73	
Number of employees(6)	**352**		509		489	

(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 fiscal year end

Consolidated Statements of Financial Position Data		**As at June 30,**				
(unaudited - in thousands of dollars except number of common shares)		**2017**		2016		2015
Cash and cash equivalents	**$**	**3,517**	$	22,222	$	12,777
Short-term investments	**$**	**85,675**	$	51,872	$	46,894
Working capital	**$**	**110,457**	$	93,222	$	84,786
Total assets	**$**	**193,995**	$	186,245	$	168,072
Long-term debt	**$**	**2,208**	$	2,458	$	2,708
Shareholder's equity	**$**	**182,242**	$	169,043	$	151,324
Number of common shares outstanding[1]		**22,385,574**		22,384,877		22,348,093

[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 ("PPE"), 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 Telematics 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		**Years ended June 30,**				
(unaudited - in thousands of dollars except per share amounts)		**2017**		2016		2015
Net income	**$**	**18,048**	$	21,969	$	15,137
Loss (gain) on sale of spectrum licenses, net of taxes		**62**		-		(247)
(Gain) loss on sale of non-core PPE, net of taxes		**(9,311)**		42		144
Impairment of intangible assets, net of taxes		**130**		-		883
Impairment of PPE, net of taxes		**-**		250		339
Adjusted net income	**$**	**8,929**	$	22,261	$	16,256
Earnings per share	**$**	**0.81**	$	0.98	$	0.68
Gain on sale of spectrum licenses, net of taxes		**-**		-		(0.01)
(Gain) loss on sale of non-core PPE, net of taxes		**(0.42)**		0.01		0.01
Impairment of intangible assets, net of taxes		**0.01**		-		0.04
Impairment of PPE, net of taxes		**-**		-		0.01
Adjusted earnings per share	**$**	**0.40**	$	0.99	$	0.73

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	**Years ended June 30,**		
	2017	2016	2015
Net income and total comprehensive income	**$ 18,048**	$ 21,969	$ 15,137
Income tax expense	**4,263**	8,115	5,652
Interest expense	**110**	106	103
Depreciation of property, plant and equipment	**2,202**	2,822	3,060
Amortization of deferred development costs	**3,686**	3,502	2,932
Amortization of finite-life intangible assets	**1,044**	409	109
EBITDA	**29,353**	36,923	26,993
Loss on disposal of intangibles	**71**	-	209
Gain on sale of assets held for sale	**(346)**	-	(493)
Loss (gain) on sale of property, plant and equipment	**(10,263)**	48	165
Impairment loss of property, plant and equipment	**-**	337	457
Impairment of intangible assets	**174**	-	1,192
Restructuring costs	**986**	-	-
Stock-based compensation	**321**	502	502
Adjusted EBITDA	**$ 20,296**	$ 37,810	$ 29,025

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 year ended June 30, 2017 and 2016 to our actual cash research and development expenditures.

Calculation of Research and Development Expenditures	**Years ended June 30,**		
	2017	2016	2015
Research and development per statement of income	**$ 11,749**	$ 10,856	$ 9,337
Deferred development costs	**12,950**	11,163	8,807
Investment tax credits	**342**	(10)	465
Amortization of deferred development costs	**(3,686)**	(3,502)	(2,932)
Government grant	**(289)**	(403)	-
Total research and development expenditure	**$ 21,066**	$ 18,104	$ 15,677
Percentage of sales	**29 %**	18 %	17 %

Summary of Quarterly Results of Operations

The following information has been derived from our consolidated financial statements for fiscal 2017 and fiscal 2016 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			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Sales	**14,629**	**15,718**	**20,227**	**20,886**	21,868	28,637	24,561	23,281
Cost of sales	**7,170**	**7,499**	**9,745**	**10,025**	9,918	12,292	11,262	10,653
Gross profit	**7,459**	**8,219**	**10,482**	**10,861**	11,950	16,345	13,299	12,628
Operating expenses								
Research and development	**3,074**	**2,969**	**2,857**	**2,849**	2,939	3,136	2,383	2,398
Sales and marketing	**1,423**	**1,404**	**1,161**	**1,297**	1,429	1,807	1,146	1,240
General and administrative	**2,514**	**2,453**	**2,449**	**2,459**	2,116	2,567	1,974	2,086
Impairment of intangible assets	**174**	**-**	**-**	**-**	-	-	-	-
Impairment of PPE	**-**	**-**	**-**	**-**	337	-	-	-
Restructuring costs	**986**	**-**	**-**	**-**	-	-	-	-
Stock-based compensation	**120**	**67**	**66**	**68**	138	114	115	135
Other (income) expense	**(157)**	**(163)**	**38**	**6**	6	3	2	(5)
	8,134	**6,730**	**6,571**	**6,679**	6,965	7,627	5,620	5,854
Operating (loss) income	**(675)**	**1,489**	**3,911**	**4,182**	4,985	8,718	7,679	6,774
Finance income	**771**	**48**	**63**	**252**	370	157	177	190
Foreign exchange (loss) gain	**(331)**	**150**	**493**	**483**	134	(1,183)	499	596
(Loss) income before income taxes	**(235)**	**1,687**	**4,467**	**4,917**	5,489	7,692	8,355	7,560
Income tax expense	**202**	**426**	**1,151**	**1,266**	1,917	1,919	2,076	1,950
Net and comprehensive (loss) income from continuing operations	**(437)**	**1,261**	**3,316**	**3,651**	3,572	5,773	6,279	5,610
Net and comprehensive income (loss) from discontinued operations	**294**	**9,114**	**457**	**392**	(150)	216	236	433
Net and total comprehensive (loss) income	**$ (143)**	**$ 10,375**	**$ 3,773**	**$ 4,043**	$ 3,422	$ 5,989	$ 6,515	$ 6,043
Net and total comprehensive (loss) income per share								
Basic	**$ (0.01)**	**$ 0.46**	**$ 0.17**	**$ 0.18**	$ 0.15	$ 0.27	$ 0.29	$ 0.27
Diluted	**(0.01)**	**0.46**	**0.17**	**0.18**	0.15	0.27	0.29	0.27
Adjusted EBITDA as reported	**$ 2,415**	**$ 3,430**	**$ 7,360**	**$ 7,091**	$ 7,745	$ 10,323	$ 10,106	$ 9,636

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

		Three months ended June 30,				Years ended June 30,		
Segment		**2017**		2016		**2017**		2016
Video and Broadband Solutions	**$**	**13,473**	$	20,478	**$**	**66,053**	$	95,999
Telematics		**1,156**		1,390		**5,407**		2,348
Total sales	**$**	**14,629**	$	21,868	**$**	**71,460**	$	98,347

Three-Month Sales

For the three months ended June 30, 2017, we generated total sales of $14.6 million in the fourth quarter of fiscal 2017. This compares to total sales of $21.9 million in the same period last year, and $15.7 million in Q3 fiscal 2017, representing a 33% and 7% decline respectively.

Video and Broadband Solutions sales were $13.5 million in the fourth quarter of fiscal 2017, compared to $20.5 million in Q4 2016 and $14.3 million in Q3 fiscal 2017.

- Fourth quarter sales of the Terrace family of products decreased 37% to $6.4 million, from $10.0 million in Q4 fiscal 2016. The year-over-year change reflects the temporary slowdown in ordering activity following the merger of two Tier 1 operators in the third quarter, as well as a reduction in demand for the TC600E as some customers near the end of their digital network conversions. On a sequential quarterly basis, fourth quarter sales of Terrace family products increased 31% from $4.9 million in Q3 fiscal 2017 as the merger of the two Tier 1 operators was completed and demand levels began to regain momentum.

- Fourth quarter fiscal 2017 sales of TerraceQAM were $5.7 million, compared to $1.9 million in the fourth quarter of 2016, a 194% increase. On a sequential quarterly basis, sales of TerraceQAM decreased 24% from $7.5 million in Q3 fiscal 2017. As expected, sales of new platforms to the lead MSO customer were strongest in the first half of fiscal 2017 and have decreased in the second half as the customer works through inventory. The impact of this decrease was partially offset by the rollout out of a platform upgrade in the fourth quarter. The enhancement, which frees up network capacity by supporting a new digital audio format, is expected to result in higher upgrade related sales in the future.

- As anticipated, we had no Digital Video Access Platform (DVAP) sales in the fourth 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 subsequent to the year-end, received customer approval testing and initial orders. Along with increased demand from our OEM customer, we expect this upgrade will increase the pace of DVAP deployment among MSOs as they prepare for distributed access architecture which cannot be supported by legacy devices.

Telematics sales decreased 17% to $1.2 million in the fourth quarter of fiscal 2017, from $1.4 million in Q4 fiscal 2016. On a sequential quarterly basis, Telematics sales decreased 20% from $1.4 million in Q3 fiscal 2017. The reduction in sales reflects a change in accounting estimate that led to an increase in deferred revenue during the period. Had the accounting change not been made, sales would have been comparable quarter-over-quarter.

Twelve-Months Sales

For the twelve months ended 2017, we generated total sales of $71.5 million, a 27% decrease from the $98.3 million generated in fiscal 2016.

Video and Broadband Solutions sales were $66.1 million in fiscal 2017, a 31% decline from sales of $96.0 million last year.

- Sales of Terrace family of products decreased 35% to $29.0 million in fiscal 2017, from $44.9 million in the fiscal 2016. This year-over-year change reflects lower TC600 and TC600E sales in fiscal 2017.
- Sales of TerraceQAM decreased slightly to $27.1 million, from $28.2 million in fiscal 2016.
- We had no Digital Video Access Platform (DVAP) sales in fiscal 2017. This compares to sales of $14.6 million in fiscal 2016.

Telematics sales increased significantly to $5.4 million in fiscal 2017, from $2.3 million in fiscal 2016. This increase reflects the impact of the Contigo Systems acquisition, with the new operations contributing 12 months of revenue in fiscal 2017, compared to four months of revenue in fiscal 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 June 30,		Years ended June 30,	
Segment	**2017**	2016	**2017**	2016
Video and Broadband Solutions	**$ 6,460**	$ 11,003	**$ 33,292**	$ 53,468
Telematics	**999**	947	**3,729**	754
Total gross profit	**$ 7,459**	$ 11,950	**$ 37,021**	$ 54,222
Video and Broadband Solutions	**48.0 %**	54.0 %	**50.0 %**	56.0 %
Telematics	**86.0 %**	68.0 %	**69.0 %**	32.0 %
Total gross margin	**51.0 %**	55.0 %	**52.0 %**	55.0 %

Three-Month Results

For the three months ended June 30, 2017, our operations achieved a gross margin of 51%, providing a total gross profit of $7.5 million. This compares to a gross margin of 55% and a total gross profit of $12.0 million in the fourth quarter of fiscal 2016. Gross margin in the Q4 2017 period was negatively impacted by lower sales and a weaker average U.S dollar compared to the Canadian dollar year-over-year. On a sequential quarterly basis, fourth quarter gross margin of 51% was lower than the 52% achieved in Q3 2017, reflecting the lower sales in the current period.

Gross margin from the Video and Broadband Solutions segment was 48%, providing a gross profit of $6.5 million in the fourth quarter of fiscal 2017. This compares to a gross margin of 54% and a gross profit of $11.0 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 Q4 2017 period, product mix, and the negative impact of a weaker average U.S dollar compared to the Canadian dollar year-over-year. On a quarter-to-quarter basis, Q4 fiscal 2017 gross margin was down from the 52% gross margin achieved in Q3 fiscal 2017 for the same reasons noted above.

The Telematics segment achieved a gross margin of 86% in the fourth quarter of fiscal 2017, providing a gross profit of $1.0 million. This compares to a gross margin of 69%, providing a gross profit of $1.0 million in Q4 fiscal 2016. This increase is a result of an adjustment due to a change in estimate for capitalized equipment amortization. Gross margin in the future is expected to return to prior quarter's gross margin. Telematics gross margin increased from 60% in Q3 fiscal 2017 and gross profit was $0.1 million higher as a result of lower equipment amortization in Q4 fiscal 2017 compared to Q3 fiscal 2017.

Twelve-Month Results

For fiscal 2017, our operations realized a gross margin of 52%, providing a total gross profit of $37.0 million. This compares to a gross margin of 55% and a total gross profit of $54.2 million in fiscal 2016. Gross margin in the current year 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 50%, providing a gross profit of $33.3 million in fiscal 2017. This compares to a gross margin of 56% and a gross profit of $53.5 million in the same period of fiscal 2016. The year-over-year change in gross margin reflects lower sales, product mix, and the negative impact of a weakening in the U.S dollar compared to the Canadian dollar.

Telematics achieved a gross margin of 69% in fiscal 2017, providing a gross profit of $3.7 million. This compares to a gross margin of 32.0% in fiscal 2016, providing a gross profit of $0.8 million. Gross profit results for fiscal 2017 include a full 12 months of Contigo operations, compared to just four months in fiscal 2016. The higher gross margin in fiscal 2017 also reflects the absence of inventory allowances that negatively impacted 2016 fiscal results.

Operating Expenses

	Three months ended June 30,		Years ended June 30,	
Segment	**2017**	2016	**2017**	2016
Video and Broadband Solutions	**$ 6,942**	$ 6,288	**$ 24,468**	$ 24,243
Telematics	**1,192**	678	**3,646**	1,823
Total operating expense	**$ 8,134**	$ 6,966	**$ 28,114**	$ 26,066

Three-Month Results

For the three months ended June 30, 2017, total operating expenses increased to $8.1 million, from $7.0 million in Q4 fiscal 2016 and $6.7 million in Q3 2017.

Video and Broadband Solutions operating expenses increased to $6.9 million in the fourth quarter of fiscal 2017, from $6.3 million in Q4 fiscal 2016. The year-over-year increase primarily reflects the $0.9 million in restructuring costs. On a sequential quarterly basis, fourth quarter Video and Broadband Solutions operating expenses increased by $0.9 million from $6.0 million in Q3 fiscal 2017. This mainly represents the $0.9 million in restructuring costs.

Telematics operating expenses increased to $1.2 million in Q4 fiscal 2017, from $0.7 million in Q4 fiscal 2016. This increase is a due to an adjustment that had the effect of reducing the amount of deferred development from the Contigo operations and the one-time $0.2 million impairment of prior deferred development costs. Sequentially, Telematics operating expenses were higher than the $0.8 million recorded in Q3 2017 for the same reasons noted above.

Twelve-Month Results

For the twelve months ended June 30, 2017, total operating expenses increased to $28.1 million, from $26.1 million in fiscal 2016.

Video and Broadband Solutions operating expenses increased to $24.5 million in fiscal 2017 from $24.2 million in fiscal 2016. The year-over-year change primarily reflects the $0.9 million in restructuring costs offset by $0.4 million in higher finished goods inventory allowances in fiscal 2016 and $0.3 million impairment of property, plant and equipment in fiscal 2016.

Telematics operating expenses increased to $3.6 million in fiscal 2017, from $1.8 million in fiscal 2016. This increase primarily reflects the inclusion of 12 months of operating expenses from the Contigo operations, compared to four months in fiscal 2016.

Research and development expenses for the three months ended June 30, 2017 increased to $3.1 million, or 21% of sales, from $3.0 million, or 13% of sales in the same period of fiscal 2016. For the year ended June 30, 2017, research and development expenses increased to $11.7 million or 17% of sales, from $10.9 million, or 11% 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 June 30, 2017 increased to $5.7 million, or 39% of sales, from $5.1 million, or 23% of sales in Q4 fiscal 2016. This increase reflects increased subcontracting, staffing costs, and prototype costs in the current period. Research and development costs were up from the $5.3 million in Q3 2017 which was a result of increased prototype costs. For the year ended June 30, 2017, total research and development costs before deferrals, amortization of deferred development costs and income tax credits increased to $21.1 million, or 29% of sales, from $18.1 million, or 18% of sales in fiscal 2016. This increase reflects additional subcontracting, staffing costs, and prototyping costs in the fiscal 2017 period, offset by IP software costs incurred in fiscal 2016 which were not repeated in fiscal 2017.

Sales and marketing expenses remained flat at $1.4 million, or 10% of sales in Q4 fiscal 2017, compared to $1.4 million, or 7% of sales last year. On a sequential quarterly basis, Q4 fiscal 2017 expenses were also flat with the $1.4 million recorded in Q3 2017. For the year ended June 30, 2017, sales and marketing expenses decreased to $5.3 million, or 7% of sales, from $5.6 million, or 6% of sales in fiscal 2016. This decrease reflects higher inventory allowances for slow moving finished goods inventory in the prior year, partially offset by additional expenses related to a full year of Contigo operations in the current year.

General and administrative expenses increased to $2.5 million in Q4 fiscal 2017, compared to $2.1 million in Q4 fiscal 2016. This increase reflects lower overheads applied to cost of sales and inventory due to lower production levels in the current period. Sequentially, fourth quarter general and administrative expenses were flat with Q3 2017 levels. For the year ended June 30, 2017, general and administrative expenses increased to $9.9 million, from $8.7 million in fiscal 2016. This increase reflects 12 months of Contigo operations in fiscal 2017, compared to four months in fiscal 2016.

Restructuring costs were $0.9 million and represent severance costs related to management's reorganization of the manufacturing operations.

Stock-based compensation expense was flat year over year at $0.1 million. For the year ended June 30, 2017 stock-based compensation was $0.3 million, down from $0.5 million in fiscal 2016.

Other income was $0.2 million for the three months ended June 30, 2017, up from $nil for the three months ended June 30, 2016. Other income was $0.3 million for fiscal 2017, up from $nil in fiscal 2016. These increases represent additional lease income from real estate in the current fiscal year.

Operating Income

	Three months ended June 30,		Years ended June 30,	
	2017	2016	**2017**	2016
Video and Broadband Solutions	**$ (482)**	$ 4,715	**$ 8,824**	$ 29,225
Telematics	**(193)**	269	**83**	(1,069)
Total operating (loss) income	**$ (675)**	$ 4,984	**$ 8,907**	$ 28,156

For the three months ended June 30, 2017, we reported an operating loss of $0.7 million, compared to operating income of $5.0 million in the same period in fiscal 2016. The decrease in operating income was driven by lower sales and gross profit in the current period, together with an increase in total operating costs. On a sequential quarterly basis, operating income decreased by $2.2 million from $1.5 million in Q3 2017. This mainly reflects lower sales and gross profit quarter-over-quarter, together with higher operating expenses. For the 12 months ended June 30, 2017, operating income was $8.9 million, down from $28.2 million in fiscal 2016. The decrease in operating income was driven by lower sales and gross profit in the current period, together with an increase in total operating costs.

The Video and Broadband Solutions segment reported an operating loss of $0.5 million in Q4 2017, compared to operating income of $4.7 million in Q4 fiscal 2016. The year-over-year decrease reflects the $7.0 million reduction in sales, the related $4.5 million decrease in gross profit and the $1.2 million increase in operating expenses. Sequentially, operating income was $1.8 million lower than the $1.3 million generated in Q3 fiscal 2017, reflecting lower sales and gross profit quarter-over-quarter, together with higher operating expenses. For the year ended June 30, 2017, Video and Broadband Solutions operating income of $8.8 million was down 70% from $29.2 million in fiscal 2016. This change was driven by lower sales and gross margin, and an increase in total operating costs.

Telematics reported an operating loss of $0.2 million in Q4 fiscal 2017, a $0.5 million decrease from operating income of $0.3 million in Q4 fiscal 2016. Higher research and development expenses related to less deferred development and the $0.2 million impairment of deferred development costs in the current quarter were the main factors in this change. Sequentially, operating income from the Telematics segment was down $0.3 million compared to Q3 2017, reflecting higher research and development costs and the impairment of deferred development costs as previously described. For the year ended June 30, 2017 operating income was $0.1 million, up significantly from a loss of $1.1 million in the same period of fiscal 2016. The addition of the Contigo operations in the current year and higher inventory write-downs in fiscal 2016 were the main contributors to this improvement.

Finance income was $0.8 million in Q4 fiscal 2017, up from $0.4 million in the same period in fiscal 2016. This increase is a result of a $0.4 million gain on sale of investments in the quarter (we had recognized $0.3 million in losses prior to this quarter). For the year ended June 30, 2017, finance income of $1.1 million was up from $0.9 million in the prior year. Interest income was up $0.1 million due to higher cash balances year-over-year offset by lower interest yield and a gain on sale of investments of $0.1 million in fiscal 2017.

Foreign exchange (loss) gain was a loss of $0.3 million in Q4 fiscal 2017, compared to a gain of $0.1 million in Q4 fiscal 2016. The main reason for the loss was the weakening of the Canadian dollar to the U.S. dollar at the end of Q4 fiscal 2017 compared to Q3 fiscal 2017. For the year ended June 30, 2017, foreign exchange gain increased to $0.8 million from $nil million in fiscal 2016.

Income tax expense was $0.2 million in Q4 fiscal 2017 compared to $1.9 million in Q4 fiscal 2016. For the year ended June 30, 2017, income tax expense decreased to $3.0 million, from $7.9 million in fiscal 2016.

Net income from discontinued operations was $0.3 in Q4 fiscal 2017, compared to a loss of $0.4 million in Q4 fiscal 2016. For the year ended June 30, 2017, net income from discontinued operations increased to $10.3 million, from $0.7 million in fiscal 2016. 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 (loss) income for Q4 fiscal 2017 was $(0.1) million or $(0.01) per share, compared to net income of $3.4 million or $0.15 per share in Q4 fiscal 2016. For the year ended June 30, 2017, net income was $18.0 million, or $0.81 per share, compared to $22.0 million or $0.98 per share in fiscal 2016.

Cash from Operating Activities

For the three months ended June 30, 2017, cash flow from operating activities provided cash of $1.9 compared to $10.8 million for the three months ended June 30, 2016. The $8.9 million decrease reflects the $5.7 million decrease from operating cash flow.

For the year ended June 30, 2017, cash flow from operating activities provided cash of $14.0 million, compared to $48.2 million in fiscal 2016. The $34.2 million decrease reflects a $10.6 million reduction in cash flow from non-cash working capital and a $23.6 million decrease from operating cash flow.

Investing Activities

Cash flow used by investing activities decreased to $3.4 million in Q4 fiscal 2017 from $5.7 million in Q4 fiscal 2016. The cash used by investing activities represents deferred development expenditures of $3.3 million (Q4 fiscal 2016 - $3.4 million), net sale of short-term investments of $0.3 million (Q4 fiscal 2016 - $0.2 million), and purchase of property, plant and equipment of $0.2 million (Q4 fiscal 2016 – $0.9 million).

For the year ended June 30, 2017, cash flow used by investing activities decreased to $28.9 million, from $34.9 million in fiscal 2016. The cash used by investing activities in fiscal 2017 represents deferred development expenditures of $13.0 million (fiscal 2016 $11.2 million), net purchase of short-term investments of $33.8 million (fiscal 2016 $5.0 million), purchase of property, plant and equipment of $1.6 million (fiscal 2016 – $2.9 million) and proceeds on the sale of assets of YourLink of $21.3 million. The acquisition of the assets of Contigo Systems occurred in the third quarter of fiscal 2016 for a purchase price of $13.5 million.

Financing Activities

For the three months ended June 30, 2017 we paid dividends of $1.2 million (Q4 fiscal 2016 - $1.2 million) and repaid $0.1 million of our long-term debt (Q4 fiscal 2016 - $0.1 million repaid). We received proceeds from government grants of $0.1 million in Q4 fiscal 2017 (Q4 fiscal 2016 - $0.1 million).

For the year ended June 30, 2017 we paid dividends of $4.9 million (fiscal 2016 - $4.9 million) and repaid $0.3 million of our long-term debt (fiscal 2016 - $0.3 million repaid). We received proceeds from government grants of $0.4 million in 2017 (fiscal 2016 - $0.4 million). We repurchased commons shares for $0.3 million (fiscal 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.

As at June 30, 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 June 30, 2017 (June 30, 2016 - $2.7 million). We believe that our current cash and short term investments of $89.2 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 Q4 fiscal 2017 were $0.2 million compared to $0.9 million in Q4 fiscal 2016. For the year ended June 30, 2017 capital expenditures were $1.6 million compared to $2.9 million in fiscal 2016. Capital expenditures for fiscal 2018 are expected to be approximately $2.0 million.

Working Capital

Working capital represents our current assets less current liabilities. Our working capital remained strong in the fiscal 2017, increasing to $110.6 million at June 30, 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 from 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 June 30, 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 June 30, 2017. This decrease represents collection of cash refundable provincial investment tax credits in Q1 fiscal 2017 offset by income tax paid in respect of a January 2017 CRA re-assessment (see Commitments below for details).

Inventory decreased by $8.3 million to $13.9 million at June 30, 2017 from $22.2 million as at June 30, 2016. Finished goods inventories were $8.1 million at June 30, 2017, compared to $11.9 million at June 30, 2016. Raw material inventory decreased to $4.5 million at June 30, 2017, compared to $7.0 million at June 30, 2016. Work in process inventories decreased to $1.3 million as at June 30, 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 $20.1 million at June 30, 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 27% to $6.4 million at June 30, 2017 representing 60 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. The year-over-year decrease in accounts payable and accrued liabilities reflects the timing of purchases.

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
May 8, 2017	$0.055	May 26, 2017	June 20, 2017

Contractual Obligations

We have lease commitments for production equipment, service vehicles and facilities amounting to $1.3 million within one year and $3.4 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 $4.2 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. To avoid further penalties, 50% of the re-assessment was paid.

In March 2017, we received a re-assessment from the CRA regarding the eligibility of certain Scientific Research and Experimental Development ("SR&ED") claims on our 2015 tax return. The CRA re-assessment would result in a reduction of SR&ED expenditures claimed of $1.3 million ($0.4 million tax affected). We and our advisors have reviewed the applicable tax law and believe our original treatment of these SR&ED claims was appropriate. We filed a Notice of Objection in regards to this matter in June 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.

Foreign Exchange

Approximately 96% 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 fiscal 2017, the exchange rate on the Canadian dollar weakened slightly to Canadian $1.296 against the U.S. dollar as of June 30, 2017, from Canadian $1.292 against the U.S. dollar as of June 30, 2016. This exchange difference of $0.004 had a negligible impact on the value of our $12.2 million U.S. dollar net assets.

Effective March 3, 2017, we entered into a range bonus accumulator with a Canadian chartered bank. As at June 30, 2017, we received fifteen of seventeen weekly bonus payments for a total of $0.04 million.

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 June 30, 2017, we did not have any forward contracts (2016 - $nil).

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 the financial performance or financial conditions of Vecima.

Transactions Between Related Parties

We lease a building in Saskatoon under a ten-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 $0.3 million for the year ended June 30, 2017 (June 30, 2016 - $0.3 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 the our annual audited 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 audited consolidated financial statements for the year ended June 30, 2017.

Accounting Pronouncements

Amendments to IAS 7 – Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The standard is effective for periods beginning on or after January 1, 2017 with earlier application permitted. The Company has completed a preliminary review of the standard to determine the potential impact on our consolidated financial statements, and does not expect any material impacts.

Amendments to IAS 12 – Income Taxes

In January 2016, the IASB issued amendments to IAS 12 *Income Taxes*. The amendments were issued to clarify the requirements on recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value, The standard is effective for periods beginning on or after January 1, 2017 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.

Amendments to IFRS 2 – Share-Based Payment

In June 2016, the IASB issued amendments to IFRS 2 *Share-Based Payment*. The amendments were issued to provide clarification on the classification and measurement of share-based transactions. The standard is effective for periods beginning on or after January 1, 2018 with earlier application permitted. The Company is currently reviewing the standard to determine the potential impact on its consolidated financial statements.

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 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. 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 apply the standard retrospectively with cumulative effect applied on adoption date, subject to permitted and elected practical expedients.

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.

Disclosure Controls and Procedures

Our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have designed, or caused to be designed, disclosure controls and procedures to provide reasonable assurance that material information relating to Vecima is made known by us to others, particularly during the period in which annual filings are being prepared, and information required to be disclosed by us in our annual filings, interim filings or other reports filed or submitted by us under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Our CEO and CFO have evaluated the effectiveness of our disclosure controls and procedures as defined under rules adopted by the Canadian securities regulatory authorities. Based on that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as at June 30, 2017.

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 June 30, 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 June 30, 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 our most recently completed fiscal year, which are incorporated by reference herein. These risks and uncertainties are not the only ones that we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business. If any of such risks actually occur, our financial performance, share price, business prospects and financial condition could be materially adversely affected.

Outstanding Share Data

As at September 25, 2017, we had 22,379,651 common shares outstanding as well as options outstanding that are exercisable for an additional 451,701 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 September 25, 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 we believe that our current cash and short term investments of $89.2 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 calendar 2017, 2018 and 2019. 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. 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. Fourth 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 TerraceQAM which frees up network capacity by supporting a new digital audio format, is expected to result in higher upgrade related sales in the future. We have now completed a software upgrade on our DVAP product that prepares this platform to support distributed access architecture and subsequent to the year-end, received customer approval testing and initial orders. Along with increased demand from our OEM customer, we expect this upgrade will increase the pace of DVAP deployment among MSOs as they prepare for distributed access architecture which cannot be supported by legacy devices. Gross margin in the future is expected to return to prior quarter's gross margin. Capital expenditures for fiscal 2018 are expected to be approximately $2.0 million. 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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

September 28, 2017

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

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

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

"Sumit Kumar"	"John Hanna"
Sumit Kumar Chief Executive Officer	John Hanna Chief Financial Officer

Deloitte LLP
122 1st Ave. S.
Suite 400, PCS Tower
Saskatoon SK S7K 7E5
Canada

Tel: 306-343-4400
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Independent Auditor's Report

To the Shareholders of
Vecima Networks Inc.:

We have audited the accompanying consolidated financial statements of Vecima Networks Inc., which comprise the consolidated statements of financial position as at June 30, 2017 and June 30, 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Vecima Networks Inc. as at June 30, 2017 and June 30, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants,
Licensed Professional Accountants

September 25, 2017
Saskatoon, Saskatchewan

VECIMA NETWORKS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)

	Notes	June 30, 2017	June 30, 2016
Assets			
Current assets			
Cash and cash equivalents	6	$ 3,517	$ 22,222
Short-term investments	7, 32	85,675	51,872
Accounts receivable	8	12,972	4,674
Income tax receivable		2,011	3,009
Inventories	9	13,928	22,172
Assets held for sale	4	641	1,486
Prepaid expenses		1,258	1,359
		120,002	106,794
Non-current assets			
Property, plant and equipment	11	11,109	20,214
Goodwill	13	6,111	6,210
Intangible assets	14	32,566	26,724
Investment tax credit	26	20,141	20,031
Deferred tax asset	25	4,066	6,272
		$ 193,995	$ 186,245
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	16	$ 6,377	$ 8,746
Provisions	17	692	927
Deferred revenue		2,226	2,942
Liabilities associated with assets held for sale		-	707
Current portion of long-term debt	19	250	250
		9,545	13,572
Non-current liabilities			
Other long-term liabilities		-	5
Provisions	17	-	1,167
Long-term debt	19	2,208	2,458
		11,753	17,202
Shareholders' equity			
Share capital	20	803	739
Reserves		3,965	3,662
Retained earnings		177,474	164,642
		182,242	169,043
		$ 193,995	$ 186,245

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

The financial statements were approved by the Board of Directors and authorized for issue on September 25, 2017 and were signed on its behalf by:

(signed) Kent Elliott — *Director*

(signed) Scott Edmonds — *Director*

VECIMA NETWORKS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

	Notes	Years ended June 30, 2017		2016	
Sales	29	$	71,460	$	98,347
Cost of sales			34,439		44,125
Gross profit			37,021		54,222
Operating expenses					
Research and development			11,749		10,856
Sales and marketing			5,285		5,622
General and administrative			9,875		8,743
Impairment of intangible assets	14		174		-
Impairment of property, plant and equipment	12		-		337
Restructuring costs	21		986		-
Stock-based compensation	20		321		502
Other (income) expense	22		(276)		6
			28,114		26,066
Operating income			8,907		28,156
Finance income	23		1,134		894
Foreign exchange gain			795		46
Income before income taxes			10,836		29,096
Income tax expense	25		3,045		7,862
Net income and comprehensive income from continuing operations			7,791		21,234
Net income and comprehensive income from discontinued operations	4		10,257		735
Net income and comprehensive income		$	18,048	$	21,969
Net income per share					
Continuing operations			0.35		0.95
Discontinued operations			0.46		0.03
Total basic net income per share	20	$	0.81	$	0.98
Continuing operations			0.35		0.95
Discontinued operations			0.46		0.03
Total diluted net income per share	20	$	0.80	$	0.98
Weighted average number of common shares					
Shares outstanding - basic	20		22,385,574		22,384,877
Shares outstanding - diluted	20		22,434,282		22,448,127

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

VECIMA NETWORKS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(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 total comprehensive income	-	-	21,969	21,969
Dividends	-	-	(4,935)	(4,935)
Shares issued by exercising options	251	(68)	-	183
Share-based payment expense	-	502	-	502
Balance as at June 30, 2016	739	3,662	164,642	169,043
Net income and total comprehensive income	-	-	18,048	18,048
Dividends	-	-	(4,924)	(4,924)
Shares repurchased and cancelled	(1)	-	(292)	(293)
Shares issued by exercising options	65	(18)	-	47
Share-based payment expense	-	321	-	321
Balance as at June 30, 2017	**$ 803**	**$ 3,965**	**$ 177,474**	**$ 182,242**

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

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

	Notes	Years ended June 30, 2017	2016
Cash flows from operating activities			
Net income and comprehensive income from continuing operations		**$ 7,791**	$ 21,234
Adjustments to reconcile net income to cash from operating activities	**27**	**8,966**	13,159
Decrease in provisions		**(235)**	(491)
Decrease in investment tax credit		**57**	2,891
Net change in non-cash working capital relating to operations	**28**	**(2,888)**	7,756
Interest paid		**(85)**	(95)
Interest received		**1,109**	815
Income tax received		**11**	11
Income tax paid		**(26)**	(13)
Net cash provided by continuing operations		**14,700**	45,267
Net cash (used) provided by discontinued operations		**(714)**	2,968
Net cash provided by operations		**13,986**	48,235
Cash flows used in investing activities			
Purchase of property, plant and equipment	**11**	**(1,607)**	(2,894)
Proceeds from the sale of property, plant and equipment		**71**	5
Purchase of short-term investments		**(39,115)**	(31,778)
Proceeds on sale of short-term investments		**5,312**	26,800
Deferred development costs	**14**	**(12,950)**	(11,163)
Purchase of indefinite and finite-life intangible assets	**14**	**(232)**	(33)
Business acquisition	**5**	**-**	(13,479)
Net cash used by continuing operations		**(48,521)**	(32,542)
Net cash provided (used) by discontinued operations		**19,586**	(2,391)
Net cash used in investing		**(28,935)**	(34,933)
Cash flows used in financing activities			
Proceeds from shares issued through exercised options	**20**	**47**	183
Proceeds from government grants	**15**	**367**	353
Repurchase and cancellation of shares		**(293)**	-
Dividends paid		**(4,924)**	(4,935)
Repayment of long-term debt		**(250)**	(250)
Net cash used by continuing operations		**(5,053)**	(4,649)
Net cash provided by discontinued operations		**1,297**	792
Net cash used in financing		**(3,756)**	(3,857)
(Decrease) increase in cash and cash equivalents during the year		**(18,705)**	9,445
Cash and cash equivalents, beginning of year		**22,222**	12,777
Cash and cash equivalents, end of year	**6**	**$ 3,517**	$ 22,222

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

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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.

These audited consolidated financial statements were prepared under the historical cost convention, except for certain items not carried at historical costs as discussed in the applicable accounting policies.

These audited consolidated financial statements are based on IFRS issued and outstanding as of June 30, 2017. The Company's Board of Directors authorized the statements for issue and approved the policies the Company adopted in its consolidated financial statements for the year ending June 30, 2017 on September 25, 2017.

The consolidated financial statements have been prepared in accordance with IFRS and include the following measurement bases and significant accounting policies:

Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, Vecima Networks (USA) Inc., Vecima Telecom India Private Ltd., and 6105971 Canada Inc.

(b) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term deposits that have an original maturity of less than three months.

(c) Revenue Recognition

The Company earns revenue from the sale of goods and the rendering of services. Revenue is measured at the fair value of the consideration received or receivable for these goods supplied and services rendered net of taxes, freight, rebate, estimated returns or trade discounts. When a sale consists of multiple components where delivery is over different periods of time, the Company separates the arrangement into its component accounting units. The consideration of the arrangement is allocated to the separate identifiable components based on the relative fair value of each component. The appropriate revenue recognition policy, outlined below, is applied to each component.

2. BASIS OF PRESENTATION continued

(c) Revenue Recognition continued

Revenue from product sales

Revenue from the sale of goods is recognized when the following criteria are met:

- the significant risk and rewards of ownership have been transferred;
- the Company has no ongoing involvement or control over the goods;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the cost incurred or to be incurred can be measured reliably.

This typically occurs upon shipment of the goods provided that all contractual obligations have been met.

Revenue from rendering of service

Services are comprised of cable, telematics, telephony and internet services, after-sales support, consulting, construction contracts and rental income. Service revenue is recognized as revenue when the following criteria have been met:

- the amount of revenue can be measured reliably;
- it is probable that economic benefits associated with the transaction will flow to the Company;
- the stage of completion can be measured reliably; and
- the related costs can be measured reliably.

Service revenues from cable, telematics, telephony, and internet are recognized in the period the customer receives the service. Subscriber connection fees received from the customers are deferred and amortized on a straight-line basis over the estimated average customer contract life. The cost of connecting a customer is capitalized and amortized over the same period. After sales support is deferred and recognized over the period during which the the service is performed on a straight-line basis. Revenue received in advance of the product being delivered or service being provided is recognized as deferred revenue.

Rental income

Rental income from operating leases on properties is accounted for on a straight-line basis over the lease terms.

(d) Inventories

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

Manufactured products include direct materials, direct labour and a reasonable allocation of overhead costs. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated cost necessary to make the sale.

2. BASIS OF PRESENTATION continued

(e) Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated depreciation, accumulated impairment losses and related government assistance received. Costs include expenditures that are directly attributable to the acquisition of the asset, including any financing expense for capital investment projects under construction. When significant components of property, plant and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives. Depreciation is provided generally on a declining-balance basis over the estimated useful lives assuming that no residual value exists. Residual value is the estimated amount that the Company would currently obtain from the disposal of the asset after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Both the residual value and the useful lives of property, plant and equipment are reviewed annually. Repairs and maintenance expenditures are charged to operating expenses as incurred.

(f) Goodwill

Goodwill is an indefinite life asset that is acquired as part of business acquisitions and recorded as the excess of the consideration transferred over the fair value of the net identifiable assets acquired. Goodwill is carried at this value less any accumulated impairment losses.

(g) Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Subsequent to initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Intangible assets are assessed as either indefinite-life or finite-life assets.

(i) Indefinite-life Intangible Assets

Indefinite-life intangible assets consist of spectrum licenses and other licenses.

Spectrum licenses and other licenses are recorded at cost, which represents the fair value at the date of acquisition.

Spectrum licenses and other licenses are granted for a period of ten years by the relevant government agency. There is the option of renewal for little to no cost to the Company. It is expected that the demand and use for these licenses will continue to grow in the foreseeable future. As a result, these assets are assessed as having indefinite lives and as such, are not subject to amortization.

(ii) Finite-life Intangible Assets

Customer contracts acquired in business acquisitions are amortized on a straight-line basis over their estimated useful lives of ten years. Patents and intellectual property are amortized on a straight-line basis over their estimated useful lives of five years.

2. BASIS OF PRESENTATION continued

(h) Research and Development

Research costs are expensed in the year in which they are incurred. Development costs are capitalized and deferred as finite-life intangible assets when the Company can demonstrate:

- technical feasibility of completing the development so that it will be available for use or sale;
- its intention to complete and its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the asset;
- the ability to reliably measure the expenditure during development; and
- its ability to use or sell the intangible asset.

Deferred development costs are amortized on a straight-line basis for up to four years, representing the Company's assessment of the estimated average life cycle of the associated products.

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

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

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

(i) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date. A lease is an arrangement that conveys a right to use an asset for an agreed period of time in return for a payment or a series of payments. A finance lease transfers substantially all the risks and benefits of ownership from the lessor to the lessee. All other leases are operating leases.

Leases that transfer all the risks and rewards of ownership to the Company are recorded as finance leases. The leased asset is recognized at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments, plus any initial direct costs of the lessee, if any. A corresponding amount is recognized as a finance lease liability. The capitalized value of the leased asset is amortized on a declining basis over its estimated useful life. The finance lease liability is reduced by rental payments net of imputed interest, which is charged against income.

Operating lease payments are recognized as an expense over the lease term.

(j) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2. BASIS OF PRESENTATION continued

(j) Borrowing Costs continued

To the extent the funds are borrowed specifically for the purpose of obtaining qualifying assets, the Company capitalizes the actual borrowing costs incurred on that borrowing during the period. To the extent the funds are from general borrowings, the Company determines borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset.

All other borrowing costs are recognized in net income in the period in which they are incurred.

(k) Impairment

The Company reviews, at each reporting date, whether there are any indications that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount, which is the higher of the fair value less cost to sell and its value in use. Value in use is the estimated future cash flows discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment is recognized when the carrying amount of an asset or cash-generating unit (CGU) is greater than the recoverable amount. Impairment losses are recognized in the period in which it occurs in the expense categories consistent with the function of the impaired asset.

Indefinite-life intangible assets are assessed for impairment in the fourth quarter of every year and when events or changes in circumstances indicate that an asset might be impaired.

Finite-life intangible assets are assessed for impairment indicators at each reporting date. In addition, intangible assets with a finite-life which are not yet available for use, such as deferred development costs for products still under development, are tested for impairment at least annually.

Goodwill representing the excess of purchase price over fair value of the net identifiable assets of acquired businesses is tested for impairment annually or more frequently when an event or circumstance occurs that indicates that goodwill might be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

For assets other than goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indications exist, the Company estimates the asset's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversals are recognized in the period in which it occurs in the expense categories consistent with the function of the asset.

When the Company determines that an asset meets the assets held for sale criteria, the assets are reported at the lower of the carrying amount or fair value less the cost to sell.

2. BASIS OF PRESENTATION continued

(l) Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Deferred income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses and investment tax credits available to be carried forward to future years for tax purposes that are more likely than not to be realized. The amounts recognized in respect of deferred income tax assets and liabilities are based upon the expected timing of the reversal of temporary differences or usage of tax losses and application of the substantively enacted tax rates at the time of reversal or usage.

The Company accounts for changes in substantively enacted tax rates affecting deferred income tax assets and liabilities in full in the period in which the changes were substantively enacted. The Company accounts for the changes in the estimates of prior year(s) tax balances as estimate revisions in the period in which the change in estimate arose. The Company has selected these methods as the presentation on the statement of financial position is more consistent with the liability method of accounting for income taxes.

The Company incurs research and development expenditures that are eligible for investment tax credits. The recorded investment tax credits are based on management's estimates of amounts expected to be recovered and are subject to audit by taxation authorities. The investment tax credits for research and development are reflected as a reduction in the cost of the assets or expenses to which it relates.

(m) Foreign Currency Transactions

The Company’s consolidated financial statements are presented in Canadian dollars, which is also the parent entity’s functional currency. Each entity of the Company determines its own functional currency and items included in the financial statements of each entity are measured using the functional currency of the parent.

Transactions in foreign currencies are initially recorded at the rate in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency closing exchange rate at the reporting date. Non-monetary assets and liabilities measured at cost are translated using the historical exchange rate. Non-monetary items measured at fair value are translated using the exchange rates at the date when the fair value was determined. Revenues and expenses are translated using average rates for the period, except for amortization, which is translated on the same basis as the related asset. Exchange gains and losses are reflected in net income.

(n) Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive the cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

The Company’s financial assets include cash and cash equivalents, accounts receivable and short-term investments. Cash and cash equivalents and accounts receivable are measured at amortized cost. The carrying amount in the consolidated statement of financial position is at historical cost which approximates the fair value due to the short maturity of these instruments. Short-term investments are recorded at fair value with gains and losses being recognized in profit or loss and the carrying value in the consolidated statement of financial position is at fair value.

2. BASIS OF PRESENTATION continued

(n) Financial Instruments continued

The Company uses derivative financial instruments to manage risks from fluctuations in exchange rates. The most frequently used derivative products are foreign currency forward purchase contracts. The Company’s policy is not to utilize financial instruments for trading or speculative purposes. Derivative financial instruments are held for trading and are recognized on the consolidated statement of financial position at their fair value, with changes in fair value recognized in net income in foreign exchange gain (loss).

The Company's financial liabilities are comprised of accounts payable, accrued liabilities, other payables and long-term debt. These financial liabilities are carried at amortized cost.

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

Financial assets carried at amortized cost are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset is impaired. Individually significant receivables are considered impaired when they are past due and there is objective evidence that the counterparty may default. The receivables that are not individually significant are reviewed for impairment in groups, based on historical rates. The impaired amount is recorded through the allowance for doubtful accounts into sales and marketing expense.

(o) Fair Value of Financial Instruments

The fair value of financial instruments is generally determined as follows:

The fair value of long-term debt with fixed rates of interest is estimated using discounted cash flows based on current rates of interest for similar lending arrangements. The fair values of derivatives are based on values quoted by the counterparties to the agreements. The fair value of short-term financial assets and liabilities approximate their respective carrying values due to the short term nature of these financial instruments.

(p) Provisions

Provisions are recorded when the Company has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset when the reimbursement is virtually certain.

(i) Warranty Provision

The warranty provision consists of estimated parts and labour costs expected to be incurred for future product repairs provided under the Company's two-year warranty obligations. The provisions are recorded when the product is sold and are based on contract terms, current sales levels and current information about prior claims and returns for all products sold. Because new products incorporating complex technologies are continuously introduced, changes in these estimates could result in additional allowances or changes to recorded allowances in future periods.

2. BASIS OF PRESENTATION continued

(p) Provisions continued

(ii) Asset Retirement Obligations

Asset retirement obligations are legal and constructive obligations that arise from the construction of telecommunication and broadcasting networks on leased property. The retirement obligation costs are provided at the present value of the expected costs to settle the obligation using estimated cash flows and are recognized as part of the cost of that particular asset.

The cash flows are discounted at a risk-free rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The unwinding of the present value discount is expensed as incurred and recognized in the income statement as a finance cost. The estimated future costs of retirement are reviewed at the end of each reporting period and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset and liability.

(q) Stock-Based Compensation

The Company has a stock option plan for directors, officers, and employees of the Company. The options to purchase shares must be issued at not less than the fair value at the date of grant. Any consideration paid on the exercise of stock options, together with any share capital reserves recorded at the date the options vested, is credited to share capital. The Company calculates the fair value of stock-based compensation awarded to offerees using the Black-Scholes and binomial option-pricing models. The cost of the options granted is recognized and expensed over the vesting period in which service conditions are fulfilled. When an offeree leaves the company, their vested options expire in 90 days. Forfeitures are estimated throughout the vesting period based on past experience and future expectations, and adjusted upon actual option vesting. No expense is recognized for options that do not ultimately vest.

(r) Treasury Shares

Equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in income on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration paid is recognized within shareholders' equity. Treasury shares are immediately cancelled upon acquisition.

(s) Discontinued Operations and Assets Held for Sale

A discontinued operation is a component of the Company's business, the operations and cash flows of which can be clearly distinguished from the Company and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs on disposal by sale, closure or abandonment or when the operation meets the criteria to be held-for-sale, if earlier.

With the classification of YourLink as a discontinued operation, the comparative statement of comprehensive income has been reclassified as if the operation had been discontinued from the start of the comparative year.

Assets held for sale are measured at the lower of the carrying amount and fair value less cost to sell.

2. BASIS OF PRESENTATION continued

Accounting Standards Issued But Not Yet Applied:

Amendments to IAS 7 – Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 *Statement of Cash Flows*. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The standard is effective for periods beginning on or after January 1, 2017 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.

Amendments to IAS 12 – Income Taxes

In January 2016, the IASB issued amendments to IAS 12 *Income Taxes*. The amendments were issued to clarify the requirements on recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value, The standard is effective for periods beginning on or after January 1, 2017 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.

Amendments to IFRS 2 – Share-Based Payment

In June 2016, the IASB issued amendments to IFRS 2 *Share-Based Payment*. The amendments were issued to provide clarification on the classification and measurement of share-based transactions. The standard is effective for periods beginning on or after January 1, 2018 with earlier application permitted. The Company is currently reviewing the standard to determine the potential impact on its consolidated financial statements.

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.

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 apply the standard retrospectively with cumulative effect applied on adoption date, subject to permitted and elected practical expedients.

2. BASIS OF PRESENTATION continued

Accounting Standards Issued But Not Yet Applied: continued

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 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 in future periods to the carrying amount of the affected asset or liability.

(a) Use of Judgment

Functional Currency

The Company assessed the primary economic environment in which it operates (Vecima Networks Inc., Vecima Networks (USA) Inc., and Vecima Telecom India Private Ltd.) by considering factors such as the currency for which sales of goods and services are denominated and settled, the country whose competitive forces and regulations mainly determine the sales prices of its goods and services and the currency that mainly influences labour, material and other costs of providing goods and services. Sales are primarily transacted in U.S. dollars. The cost of material is denominated in both Canadian and U.S. dollars ("USD"). The labour cost is denominated fully in Canadian dollars. Management pays close attention to gross margin, and the setting of prices in USD is influenced by costs which are primarily influenced by the Canadian dollar. Because of the mix of indicators for its primary economic environment, the Company assessed the secondary indicators of finance activities and receipts from operations. Equity and debt financing activities are both denominated in Canadian dollars and receipts from operations are retained primarily in Canadian dollars. Based on all the factors, the Company determined that the functional currency for the entities listed above should be Canadian dollars.

Property, Plant and Equipment

In the prior year, the Company owned property that was being held for future development as property that is held for dual use. Dual use properties were used for operations with the unused sections rented out under operating type leases. Management reviewed the classification of these properties between property, plant and equipment and investment properties. Based on management's intended use of these properties, all properties were classified as property, plant and equipment.

3. USE OF JUDGMENT AND ESTIMATES continued

(b) Use of Estimates

Impairment of Non-Financial Assets

Impairment exists when the carrying value of a tangible asset, intangible asset or cash-generating unit, including goodwill, exceeds its recoverable amount, which is the higher of its fair value less cost to sell and its value in use. The value in use calculation is based on a discounted cash flow model, where the cash flow is derived from the budget extrapolated over the next three to five years, exclusive of restructuring activities or significant future investments to enhance the asset's performance. The recoverable amount is most sensitive to the discount rate used as well as the expected future cash inflows and growth rate used to extrapolate beyond the three to five years.

Stock-Based Compensation

The Company measures the cost of stock-based compensation transactions with by reference to the fair value of the options issued at the date they were granted. Estimated fair value for stock-based compensation transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option and the volatility. The assumptions and models used for estimating fair value for stock based compensation are disclosed in Note 20.

Taxes

Deferred tax assets are recognized for all unused tax losses and investment tax credits ("ITCs") to the extent that it is probable that taxable profit will be available against which the losses and ITCs and can be utilized. Significant management estimates are required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with tax planning strategies.

Deferred Development Costs

Development costs are capitalized in accordance with the accounting policy in Note 2. Capitalization of costs is initiated based on management's judgement that technological and economical feasibility is confirmed, usually when the research project is approved to begin development. In assessming whether these costs are impaired,, management makes assumptions regarding the expected future cash flows from the project, discount rates to be applied and the expected period of benefits.

Deferred Revenue

Deferred revenue consists of service contracts and upfront customer activation and connection fees where billings are recorded and received prior to rendering of the associated service. Billings for services are recognized as revenue in the period in which the services are provided. Upfront customer activation and connection fees are recognized over the expected term of the customer relationship.

Asset Retirement Obligation

Asset retirement obligations are based on retirement occurring in twenty to thirty years from when the assets were put in service which is management's best estimate of when the retirement will occur. This provision may be influenced by changes in estimates of future retirement costs and changes in the risk-free discount rate.

3. USE OF JUDGMENT AND ESTIMATES continued

Allocation of Purchase Consideration to Acquired Assets and Assumed Liabilities

The Company determined and allocated the purchase price on acquisition to the tangible and intangible assets acquired and liabilities assumed as of the business combination date in accordance with IFRS 3 Business Combinations. The purchase price allocation process requires the Company to use significant estimates and assumptions, including fair value estimates, as of the acquisition date.

Other Areas

Other key areas of estimation where management is required to make difficult, complex or subjective estimates, often as a result of matters that are inherently uncertain, are the allowance for doubtful accounts, allowance for inventory obsolescence, the capitalization of overhead, useful lives of property, plant and equipment, useful lives of intangible assets, valuation of goodwill, revenue recognition, provisions, investment tax credits, contingent liabilities and the fair value of financial assets.

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 $28,730. The sale consisted of two separate transactions. The sale of operating assets closed on January 12, 2017 for consideration of $20,000. The second transaction for consideration of $8,730 closed in July 2017. Assets connected with the second sale transaction of $641 have been 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.

Financial results attributable to the YourLink business 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.

(in thousands of Canadian dollars except as otherwise noted)

4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS continued

The results of the discontinued operations for the years ended June 30 are as follows:

		2017		2016
Operating revenues	**$**	**5,875**	$	12,705
Operating expenses		**(5,575)**		(11,748)
Other income (expense) and finance income (costs)		**(24)**		31
Income from discontinued operations before income taxes and gain on sale of assets		**276**		988
Income tax expense		**(70)**		(253)
Income from discontinued operations before gain on sale of assets		**206**		735
Gain on sale of assets		**11,199**		-
Income tax expense on gain on sale of assets		**(1,148)**		-
Net income and comprehensive income from discontinued operations	**$**	**10,257**	$	735

5. BUSINESS COMBINATION

On February 29, 2016, the Company completed an acquisition of substantially all of the net assets of Contigo Systems Inc. ("Contigo"). Contigo is a leading provider of turn-key GPS solutions for fleet management, asset tracking and personal safety for small to medium sized fleets. The transaction, valued at $13,479 was financed through cash on hand. This acquisition complements the Company's own telematics business and added greater presence in the service fleet industry.

The acquisition was accounted for using the purchase method. As part of the Company's process for determining the fair value of the net assets acquired, third-party valuation specialists were engaged. The allocation of the purchase price of Contigo was as follows:

Consideration paid		
Purchase price	$	13,479
		13,479
Net assets acquired		
Accounts receivable		298
Inventories		62
Prepaid expenses		105
Property, plant and equipment		783
Intangible assets		6,742
Goodwill		6,111
Deferred tax liability		(335)
Current liabilities		(287)
	$	**13,479**

The goodwill recognized was attributable to intangible assets that do not qualify for separate recognition and includes, amongst other things: expected synergies arising from the combination of Contigo and the Company’s existing telematics business; expected growth in the underlying markets in which Contigo serves; and the strength of the assembled workforce. The goodwill arising from the acquisition is deductible for tax purposes.

(in thousands of Canadian dollars except as otherwise noted)

6. CASH AND CASH EQUIVALENTS

		June 30, 2017		June 30, 2016
Cash	**$**	**1,464**	$	1,717
Cash equivalents		**2,053**		20,505
	$	**3,517**	$	22,222

The Company maintains an authorized line of credit of $14,000 (June 30, 2016 - $14,000) of which $nil was drawn on June 30, 2017 (June 30, 2016 - $nil). The line of credit is secured by a general security agreement and is limited to a maximum amount available of 70% of accounts receivable and 40% of inventory (to a maximum of $7,000). Interest on the outstanding line of credit is calculated at prime plus 0.5%. The prime rate at June 30, 2017 was 2.70% (June 30, 2016 - 2.70%).

7. 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 value for the year ended June 30, 2017. Short-term investments consist of guaranteed investment certificates and marketable equity securities.

8. ACCOUNTS RECEIVABLE

		June 30, 2017		June 30, 2016
Trade receivables	**$**	**12,681**	$	4,169
Less allowance for doubtful accounts		**(35)**		(47)
		12,646		4,122
Goods and services tax		**116**		104
Government grants receivable		**40**		434
Other receivables		**170**		14
	$	**12,972**	$	4,674

All amounts are short-term. The net carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the receivables.

Included in trade receivables is the allowance for doubtful accounts used to record the impairment of accounts receivables prior to being written off.

Allowance for Doubtful Accounts		
Opening allowance for doubtful accounts, July 1, 2015	$	107
Charge		100
Write-offs		(156)
Reverse allowance		(4)
Balance, June 30, 2016		47
Charge		**111**
Write-offs		**(102)**
Reverse allowance		**(21)**
Balance, June 30, 2017	**$**	**35**

(in thousands of Canadian dollars except as otherwise noted)

9. INVENTORIES

		June 30, 2017		June 30, 2016
Raw materials	**$**	**4,515**	$	7,035
Work in progress		**1,324**		3,239
Finished goods		**8,089**		11,898
	$	**13,928**	$	22,172

During the year ended June 30, 2017, inventories of $34,042 (year ended June 30, 2016 - $40,150) were expensed through cost of sales. Write-downs of inventory for the year ended June 30, 2017 were $544 (year ended June 30, 2016 - $1,246) and were included in cost of sales. Reversals of write-downs were $nil during the year ended June 30, 2017 ($nil for the year ended June 30, 2016). The carrying amount of inventory recorded at net realizable value was $822 at June 30, 2017 (June 30, 2016 - $677) with the remaining inventory recorded at cost.

10. DERIVATIVE FINANCIAL INSTRUMENTS TO MANAGE FOREIGN EXCHANGE RISK

Effective March 3, 2017, the Company entered into a range bonus accumulator with a Canadian chartered bank. As at June 30, 2017, the Company has received fifteen of seventeen weekly payments for a total of $38.

Changes in fair value of these instruments are included in foreign exchange gain in the current year. As at June 30, 2017, the Company has an unrealized net gain of $16 (June 30, 2016 - $nil) 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.

(in thousands of Canadian dollars except as otherwise noted)

11. PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements & building	Lab, operating & production equipment	Other equipment[(1)]	Total
Cost					
At July 1, 2015	$ 1,121	$ 9,859	$ 37,311	$ 14,011	$ 62,302
Additions	1	157	4,498	644	5,300
Additions through business acquisition (Note 5)	-	6	735	42	783
Government grant (Note 15)	-	-	(1,167)	-	(1,167)
Disposals	-	(18)	(992)	(184)	(1,194)
Impairment losses recognized in net income (Note 12)	(337)	-	-	-	(337)
Assets held for sale (Note 4)	-	(1,089)	(7,818)	(1,071)	(9,978)
At June 30, 2016	785	8,915	32,567	13,442	55,709
Additions	6	153	2,974	170	3,303
Government grant (Note 15)	-	-	(922)	-	(922)
Disposals	(170)	(522)	(16,146)	(3,254)	(20,092)
Assets held for sale (Note 4)	-	-	(443)	-	(443)
At June 30, 2017	**$ 621**	**$ 8,546**	**$ 18,030**	**$ 10,358**	**$ 37,555**
Accumulated depreciation and impairment					
At July 1, 2015	$ -	$ 3,140	$ 27,450	$ 11,701	$ 42,291
Depreciation charge for the year	-	296	2,013	513	2,822
Disposals	-	(12)	(935)	(179)	(1,126)
Assets held for sale (Note 4)	-	(846)	(6,981)	(665)	(8,492)
At June 30, 2016	-	2,578	21,547	11,370	35,495
Depreciation charge for the year	-	284	1,537	381	2,202
Disposals	-	(137)	(8,864)	(2,146)	(11,147)
Assets held for sale (Note 4)	-	-	(104)	-	(104)
At June 30, 2017	$ -	**$ 2,725**	**$ 14,116**	**$ 9,605**	**$ 26,446**
Carrying amount					
At June 30, 2016	$ 785	$ 6,337	$ 11,020	$ 2,072	$ 20,214
At June 30, 2017	**$ 621**	**$ 5,821**	**$ 3,914**	**$ 753**	**$ 11,109**

(in thousands of Canadian dollars except as otherwise noted)

11. PROPERTY, PLANT AND EQUIPMENT continued

The following estimated useful lives have been applied to property, plant and equipment assets at June 30, 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, automotive equipment and long-term asset retirement obligations.

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

	Years ended June 30,	
	2017	2016
Cost of sales	**$ 519**	$ 490
Research and development	**322**	263
General and administrative	**816**	663
Depreciation from continuing operations	**1,657**	1,416
Depreciation from discontinued operations	**545**	1,406
	$ 2,202	$ 2,822

There were impairment losses of $nil during the year ended June 30, 2017 (2016 - $337). See Note 12 for further details.

Other equipment includes a long-term asset retirement obligation, net of amortization, of $nil as at June 30, 2017 (June 30, 2016 - $884).

At June 30, 2017, the Company had other equipment under construction totaling $nil (June 30, 2016 - $1,154). These assets were not being depreciated because they were under construction and not yet in use.

At June 30, 2017, the carrying value of assets held under finance leases for equipment, which includes automobiles, was $nil (June 30, 2016 - $109).

Leased assets are pledged as security for the related finance lease.

12. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

During the year ended June 30, 2016, the Company identified impairment indicators in connection to two land properties in British Columbia. These properties were not included in assets held for sale and have had a change in use. Based on future cash flow forecasts, these properties would likely not generate sufficient cash flow going forward to support their carrying amounts.

The recoverable amount of the real estate property was estimated based on assessed current fair market value. It was determined that the carrying amounts of two properties exceeded the estimates of their recoverable amounts and that there had been impairment in the property, plant and equipment.

(in thousands of Canadian dollars except as otherwise noted)

12. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT continued

As a result, the Company recorded $337 in impairment charges relating to this property, plant and equipment. These assets are included in the Video and Broadband Solutions operating segment.

13. GOODWILL

At July 1, 2015	$	99
Additions through business acquisition (Note 5)		6,111
At June 30, 2016		6,210
Disposals		(99)
At June 30, 2017	**$**	**6,111**

Impairment Testing of Goodwill

At the end of the reporting period for the purposes of impairment testing indefinite-life intangible assets and goodwill are allocated to cash generating units (CGU's) which represent the lowest level at which indefinite-life intangible assets are monitored for internal management purposes. The Company's recorded goodwill relates to the Telematics segment. The recoverable amount of the segment and the associated CGU's are based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering the next fiscal year, extrapolated based on projected growth and achieving key operating objectives for a period of less than five years. There is a material degree of uncertainty with respect to the estimates of the recoverable amount of the cash generating units' assets given the necessity of making key economic assumptions about the future.

The value in use calculation uses discounted cash flow projections which employ the following key assumptions: future cash flows and growth projections, including economic risk assumptions and estimates of achieving key operating metrics and drivers; and the weighted average cost of capital. The projected cash flows have been prepared based on management's past experience and expected demand and cost for the products. The pre-tax discount rate applied to cash flow projections reflect the current market assessment of risk and was based on an estimate of weighted average cost of capital taking into account assessments by third party experts. Cash flows beyond the five-year period are extrapolated using a 3% growth rate. As a result of this analysis, management has not identified any impairment for the Company's CGU's.

(in thousands of Canadian dollars except as otherwise noted)

14. 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, 2015	$ 431	$ 142	$ 310	$ 1,342	$ 26,396	$28,621
Additions	-	-	33	-	11,163	11,196
Additions through business acquisition (Note 5)	-	4,929	28	1,785	-	6,742
Government grant (Note 15)	-	-	-	-	(403)	(403)
Investment tax credits	-	-	-	-	(2,908)	(2,908)
Writedown, fully amortized	-	-	-	-	(9,221)	(9,221)
At June 30, 2016	431	5,071	371	3,127	25,027	34,027
Additions	2	-	67	163	12,950	13,182
Government grant (Note 14)	-	-	-	-	(289)	(289)
Investment tax credits	-	-	-	-	(1,774)	(1,774)
Writedown, fully amortized	-	-	-	-	(510)	(510)
Disposals	(71)	(162)	-	-	-	(233)
Assets held for sale	(302)	-	-	-	-	(302)
Impairment losses recognized in profit or loss	-	-	-	-	(178)	(178)
At June 30, 2017	**$ 60**	**$ 4,909**	**$ 438**	**$ 3,290**	**$ 35,226**	**$43,923**
Amortization and impairment						
At July 1, 2015	$ -	$ 142	$ 238	$ 67	$ 12,166	$12,613
Amortization recognized	-	82	39	288	3,502	3,911
Writedown, fully amortized	-	-	-	-	(9,221)	(9,221)
At June 30, 2016	-	224	277	355	6,447	7,303
Amortization recognized	-	575	62	407	3,686	4,730
Writedown, fully amortized	-	-	-	-	(510)	(510)
Disposals	-	(162)	-	-	-	(162)
Impairment losses recognized in profit or loss	-	-	-	-	(4)	(4)
At June 30, 2017	**$ -**	**$ 637**	**$ 339**	**$ 762**	**$ 9,619**	**$11,357**
Net book value						
At June 30, 2016	$ 431	$ 4,847	$ 94	$ 2,772	$ 18,580	$26,724
At June 30, 2017	**$ 60**	**$ 4,272**	**$ 99**	**$ 2,528**	**$ 25,607**	**$32,566**

Amortization of customer contracts and patents is recognized in general and administrative expenses. Amortization of deferred development costs and intellectual property is recognized in research and development expenses.

(in thousands of Canadian dollars except as otherwise noted)

14. INTANGIBLE ASSETS continued

The aggregate amount of research and development expenditure during the year ending June 30, 2017 was $21,066 (2016 - $18,402).

During the current and prior year, no impairments were noted for any indefinite life intangible assets.

There were impairment losses of $174 (2016 - $nil) on deferred development costs recorded during the year ended June 30, 2017.

15. 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 year ending June 30, 2017, the Company recognized $407 (June 30, 2016 - $403) in non-repayable government assistance relating to IRAP. $289 (June 30, 2016 - $403) was recorded as a reduction to intangible assets and $118 (June 30, 2016 - $nil) was recorded as a reduction to research and development expenses. At June 30, 2017, the Company had accounts receivable relating to IRAP of $40 (June 30, 2016 - $50).

The Company also recognized government assistance from Industry Canada's Connecting Canadians Program ("DC150"). During the year ending June 30, 2017, the Company recognized $922 (June 30, 2016 - $1,167) in non-repayable government assistance relating to this grant. $922 (June 30, 2016 - $1,167) was recognized as a reduction to property, plant and equipment. At June 30, 2017, the Company had no accounts receivable relating to DC150 (June 30, 2016 - $375). The future rights, obligations and benefits of the grant have transferred as part of the sale agreement of the YourLink business in Saskatchewan.

16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		June 30, 2017		June 30, 2016
Accounts payable	**$**	**1,977**	$	2,877
Accrued liabilities		**4,400**		5,810
Short-term finance lease liabilities		**-**		59
	$	**6,377**	$	8,746

The carrying value of accounts payable, accrued liabilities and short-term finance lease liabilities are considered to be a reasonable approximation of fair value due to their short-term nature.

(in thousands of Canadian dollars except as otherwise noted)

17. PROVISIONS

	Warranty	Asset Retirement Obligation	Restructuring Costs	Other	Total
At July 1, 2015	$ 538	$ 1,561	$ -	$ 178	$ 2,277
Additions during the year	541	325	-	346	1,212
Amounts utilized	(539)	(3)	-	(104)	(646)
Liabilities held for sale	-	(707)	-	-	(707)
Unused amounts reversed	(33)	-	-	-	(33)
Unwinding of discount and imputed interest	-	(9)	-	-	(9)
At June 30, 2016	$ 507	$ 1,167	$ -	$ 420	$ 2,094
Additions during the year	428	(131)	155	108	560
Amounts utilized	(540)	-	-	(373)	(913)
Disposals	-	(1,054)	-	-	(1,054)
Unused amounts reversed	-	-	-	(13)	(13)
Unwinding of discount and imputed interest	-	18	-	-	18
At June 30, 2017	**$ 395**	**$ -**	**$ 155**	**$ 142**	**$ 692**

Warranty provision is based on the Company's prior years' experience which may not occur on a go forward basis.

18. 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 fiscal 2017. The Company 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 of SR&ED expenditures claimed of $1,289. 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 filed a Notice of Objection in Q4 fiscal 2017 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.

19. LONG-TERM DEBT

	June 30, 2017	June 30, 2016
Term credit facility	**$ 2,458**	$ 2,708
Less current portion	**(250)**	(250)
	$ 2,208	$ 2,458

19. LONG-TERM DEBT continued

The term credit facility is from a Canadian chartered bank, repayable in monthly installments of $21 principal and interest at prime, (2.70% at June 30, 2017), expires in October 2017 and is collateralized by a general security agreement. The Company has an authorized loan amount of $3,792.

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:

2018	$	250
2019		250
2020		250
2021		250
2022		250
Remaining		1,208
	$	2,458

20. 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 table below provides details of common shares outstanding and their carrying value:

	Number of Shares	Carrying Value	
Balance at July 1, 2015	22,377,065	$	488
Shares issued by exercising options	25,644		251
Balance at June 30, 2016	22,402,709		739
Shares issued by exercising options	11,442		65
Shares repurchased and cancelled	(34,500)		(1)
Balance at June 30, 2017	**22,379,651**	**$**	**803**

The Company issued 11,442 shares through the exercise of options during the year ended June 30, 2017 (June 30, 2016 - 25,644).

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.

(in thousands of Canadian dollars except as otherwise noted)

20. SHARE CAPITAL continued

(a) Share capital continued

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).

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

	Years ended June 30, 2017	2016
Net income: basic and diluted	**$ 18,048**	$ 21,969
Weighted average number of shares outstanding:		
Basic	**22,385,574**	22,384,877
Dilutive stock options	**48,708**	63,250
Diluted	**22,434,282**	22,448,127
Net income per share: basic	**$ 0.81**	$ 0.98
Net income per share: diluted	**$ 0.80**	$ 0.98

Stock options could potentially dilute basic net income per share in the future. Options to purchase 420,887 common shares were vested and outstanding at June 30, 2017 (June 30, 2016 - 322,748). Dilutive stock options are calculated using the treasury stock method.

(b) Reserves

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

(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.

(in thousands of Canadian dollars except as otherwise noted)

20. SHARE CAPITAL continued

(c) Stock option plan continued

The changes in options and the number of options outstanding for the years ended June 30, 2017 and 2016 are as follows:

	Number of options	Weighted average exercise price
Outstanding, July 1, 2015	459,498	$ 8.23
Granted	45,000	10.78
Exercised	(25,644)	10.22
Expired and forfeited	(21,962)	6.52
Outstanding, June 30, 2016	456,892	8.49
Granted	23,000	10.46
Canceled	(9,697)	10.57
Exercised	(11,442)	4.09
Expired and forfeited	(7,052)	4.21
Outstanding, June 30, 2017	**451,701**	**$ 8.78**
Vested and exercisable	**420,887**	**$ 8.67**

At June 30, 2017, the exercise prices range from $2.72 to $10.91 with the weighted average exercise price being $8.78. The options outstanding at June 30, 2017 have a weighted average contractual life of 3.62 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	0.45	$ 2.72	4,020	$ 2.72
$3.01 to $5.00	8,181	1.82	4.49	8,181	4.49
$5.01 to $10.00	371,500	3.48	8.62	371,500	8.62
$10.01 to $10.91	68,000	4.77	10.53	37,186	10.68
	451,701	3.62	$ 8.78	420,887	$ 8.67

(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 $321 for the year ended June 30, 2017 (June 30, 2016 - $502).

(in thousands of Canadian dollars except as otherwise noted)

20. SHARE CAPITAL continued

The weighted average estimated fair value for the common share options granted in the year was $67 (2016 - $4). Management used the following assumptions within the Black-Scholes and binomial option-pricing model:

Weighted average share price	$ 10.46
Expected option life	6.01 years
Risk-free rate of return	1.55 %
Volatility factor	35.10 %
Expected dividends	2.10 %

21. RESTRUCTURING COSTS

During the year ended June 30, 2017, the Company incurred incremental, non-recurring restructuring costs. These costs related to charges to undertake substantial changes to the company's production approach and capabilities and included personnel-related and adminstrative expenses.

22. OTHER (INCOME) EXPENSE

	Years ended June 30,	
	2017	2016
Loss on sale of property, plant and equipment	**$ 63**	$ 19
Lease revenue	**(232)**	(1)
Other	**(107)**	(12)
	$ (276)	$ 6

23. FINANCE INCOME (EXPENSE)

	Years ended June 30,	
	2017	2016
Interest income	**$ 1,109**	$ 978
Operating line fees	**(15)**	(15)
Term credit interest	**(70)**	(76)
Finance lease interest	**-**	(1)
Unwinding of discount and imputed interest	**-**	17
Other	**110**	(9)
	$ 1,134	$ 894

(in thousands of Canadian dollars except as otherwise noted)

24. ADDITIONAL EXPENSE INFORMATION

Depreciation and amortization included in cost of sales and operating expenses

	Years ended June 30, 2017	2016
Depreciation of property, plant and equipment	**$ 1,657**	$ 1,416
Amortization of finite-life intangible assets	**1,044**	409
Amortization of deferred development costs	**3,686**	3,502
	$ 6,387	$ 5,327

Employee benefit expenses included in cost of sales and operating expenses

	Years ended June 30, 2017	2016
Wages and salaries	**$ 28,626**	$ 27,306
Employee deferred profit sharing plan	**1,036**	994
Health care benefits	**1,203**	1,148
	$ 30,865	$ 29,448

(in thousands of Canadian dollars except as otherwise noted)

25. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary and non-current carry-forward differences between the carrying amounts of assets and liabilities for financial reporting purposes and the associated amounts used for income tax purposes. Significant components of the Company's tax assets and liabilities are as follows:

		June 30, 2017		June 30, 2016
Tax assets				
Provision for warranties	$	138	$	230
Unrealized foreign exchange losses		-		256
Property, plant and equipment		1,417		3,996
Research and development expenditures		8,804		6,030
Asset retirement obligation		-		504
Other		1		3
		10,360		11,019
Tax liabilities				
Unrealized foreign exchange gains		115		-
Intangible assets		6,179		4,747
		6,294		4,747
Net total	$	4,066	$	6,272

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

	Years ended June 30, 2017						Years ended June 30, 2016					
		Continuing		Discontinued		Total		Continuing		Discontinued		Total
Current income taxes	$	430	$	1,627	$	2,057	$	3,978	$	253	$	4,231
Deferred income taxes		2,615		(409)		2,206		3,884		-		3,884
	$	3,045	$	1,218	$	4,263	$	7,862	$	253	$	8,115

There were no incomes taxes booked to equity in the year (2016 - $nil).

(in thousands of Canadian dollars except as otherwise noted)

25. INCOME TAXES continued

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

	Years ended June 30, **2017**	2016
Income before income taxes	**$ 10,836**	$ 29,096
Substantively enacted tax rates	**25.5 %**	25.5 %
Tax computed at substantively enacted rates	**2,761**	7,405
Differences in substantively enacted future rates	**62**	72
Expenses not deductible for tax purposes[1]	**181**	305
Other	**41**	80
Income tax provision	**$ 3,045**	$ 7,862

[1]Expenses not deductible for tax purposes consists primarily of stock-based compensation expense, foreign expenses and meals & entertainment.

26. INVESTMENT TAX CREDIT

During the year ended June 30, 2017, the Company recorded investment tax credits of $2,116 (2016 - $3,034), with a $1,774 (2016 - $2,909) reduction of deferred development costs and $342 (2016 - $(10)) reduction of research and development expenses.

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

	Notes	Years ended June 30, **2017**	2016
Loss on sale of property, plant and equipment	**22**	**$ 63**	$ 19
Impairment of intangible assets	**14**	**174**	-
Impairment of property, plant and equipment	**11, 12**	**-**	337
Depreciation of property, plant and equipment	**11**	**1,657**	1,416
Amortization of deferred development costs	**14**	**3,686**	3,502
Amortization of finite-life intangible assets	**14**	**1,044**	409
Stock-based compensation	**20**	**321**	502
Current income taxes	**25**	**430**	3,978
Deferred income taxes	**25**	**2,615**	3,884
Interest expense		**85**	90
Interest income	**23**	**(1,109)**	(978)
		$ 8,966	$ 13,159

(in thousands of Canadian dollars except as otherwise noted)

28. 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:

	Years ended June 30, 2017	2016
(Increase) decrease in current assets		
Accounts receivable	**$ (9,171)**	$ 9,622
Inventories	**6,503**	1,006
Prepaid expenses	**(168)**	77
Income tax receivable	**972**	(2,768)
	(1,864)	7,937
(Decrease) increase in current liabilities		
Accounts payable and accrued liabilities	**(724)**	(800)
Deferred revenue	**(300)**	619
	(1,024)	(181)
	$ (2,888)	$ 7,756

(in thousands of Canadian dollars except as otherwise noted)

29. 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 Telematics segment designs, develops and distributes fleet management products. The Discontinued Operations segment represents the YourLink business which provided cable television and internet services in British Columbia and Saskatchewan. YourLink was sold in the year (Note 4). 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.

	Year ended June 30, 2017				
	Video and Broadband Solutions	Telematics	Discontinued Operations	Inter Segment Eliminations	Total
Sales	$ 66,053	$ 5,407	$ -	$ -	$ 71,460
Cost of sales	32,760	1,679	-	-	34,439
Gross profit	**33,293**	**3,728**	**-**	**-**	**37,021**
Operating expenses	19,352	2,632	-	-	21,984
Depreciation and amortization	5,117	1,013	-	-	6,130
Operating income	**8,824**	**83**	**-**	**-**	**8,907**
Finance income	1,134	-	-	-	1,134
Foreign exchange gain (loss)	799	(4)	-	-	795
Income before income taxes	**10,757**	**79**	**-**	**-**	**10,836**
Income tax expense	3,025	20	-	-	3,045
Net income and comprehensive income from continuing operations	**7,732**	**59**	**-**	**-**	**7,791**
Net income and comprehensive income from discontinued operations	**-**	**-**	**10,257**	**-**	**10,257**
Net income and comprehensive income	**$ 7,732**	**$ 59**	**$ 10,257**	**$ -**	**$ 18,048**
Total assets	**$ 178,998**	**$ 14,267**	**$ 917**	**$ (187)**	**$ 193,995**
Total liabilities	**$ 10,977**	**$ 635**	**$ 141**	**$ -**	**$ 11,753**

(in thousands of Canadian dollars except as otherwise noted)

29. SEGMENTED FINANCIAL INFORMATION continued

	Year ended June 30, 2016				
	Video and Broadband Solutions	**Telematics**	**Discontinued Operations**	**Inter Segment Eliminations**	**Total**
Sales	$ 95,999	$ 2,348	$ -	$ -	$ 98,347
Cost of sales	42,531	1,594	-	-	44,125
Gross profit	**53,468**	**754**	**-**	**-**	**54,222**
Operating expenses	19,083	1,656	-	-	20,739
Depreciation and amortization	4,925	402	-	-	5,327
Operating income (loss)	**29,460**	**(1,304)**	**-**	**-**	**28,156**
Finance income	894	-	-	-	894
Foreign exchange gain	56	(10)	-	-	46
Income (loss) before income taxes	**30,410**	**(1,314)**	**-**	**-**	**29,096**
Income tax expense (recovery)	8,137	(275)	-	-	7,862
Net income (loss) and comprehensive income (loss) from continuing operations	**22,273**	**(1,039)**	**-**	**-**	**21,234**
Net income and comprehensive income from discontinued operations	**-**	**-**	**735**	**-**	**735**
Net income (loss) and comprehensive income (loss)	**$ 22,273**	**$ (1,039)**	**$ 735**	**$ -**	**21,969**
Total assets	**$ 157,613**	**$ 14,200**	**$ 14,610**	**$ (178)**	**$ 186,245**
Total liabilities	**$ 12,523**	**$ 598**	**$ 4,081**	**$ -**	**$ 17,202**

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

Geographical:

	Years ended June 30,	
	2017	2016
Sales to external customers		
United States	**$ 64,464**	$ 80,990
Canada	**5,872**	8,227
Other	**1,124**	9,130
	$ 71,460	$ 98,347

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

(in thousands of Canadian dollars except as otherwise noted)

29. SEGMENTED FINANCIAL INFORMATION continued

	Years ended June 30, 2017		2016	
Sales to major customers accounting for more than 10% of sales				
Customer A	**$**	**34,483**	$	34,835
Customer B		**11,578**		-
Customer C		**-**		19,833
Customer D		**-**		14,571
	$	**46,061**	$	69,239

The sales to these major customers are within the Video and Broadband Solutions segment. Customer B was below 10% of sales in the year ended June 30, 2016 and the amount is not shown. Customers C and D were below 10% of sales in the year ended June 30, 2017 and the amounts are not shown.

30. 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:

	June 30, 2017		June 30, 2016	
Within one year	**$**	**1,293**	$	1,577
After one year but not more than five years		**3,386**		2,284
	$	**4,679**	$	3,861

Lease and sublease payments recognized as an expense for the year ending June 30, 2017 include $nil in general and administrative expenses (June 30, 2016 - $nil).

31. 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:

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

(in thousands of Canadian dollars except as otherwise noted)

31. RELATED PARTY TRANSACTIONS continued

Compensation of key management personnel of the company:

	Years ended June 30,	
	2017	2016
Salaries and short-term employee benefits	**$ 897**	$ 1,187
Post-employment pension	**36**	40
Stock-based compensation	**142**	218
	$ 1,075	$ 1,445

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel. Key management personnel consist of the Board of Directors and certain executives.

The total fair value, at date of grant calculated using the Black-Scholes option-pricing model, for stock options awarded to key management personnel was $15 for the year ended June 30, 2017 (2016 - $nil). 5,000 stock options were awarded to key management personnel in the year ended June 30, 2017 (2016 - nil). As these stock options awarded are granted for six years with vesting based on service and are equity settled, the expense will be recognized ratably over a period of years and thus only a portion of the awards are included in the table above.

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 relating to this transaction was $282 for the year ended June 30, 2017 (year ended June 30, 2016 - $282).

32. 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:

June 30, 2017

	Total	Level 1	Level 2	Level 3
Short-term investments	**$ 85,675**	**$ 85,675**	**$ -**	**$ -**
Derivative financial instruments	**16**	**16**	**-**	**-**

(in thousands of Canadian dollars except as otherwise noted)

32. FAIR VALUE HIERARCHY continued

June 30, 2016

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

During the years ending June 30, 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.

33. 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 and Saskatchewan 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 cash 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 June 30, 2017 of $35 (June 30, 2016 - $46). At June 30, 2017, the Company had three major customers (June 30, 2016 - three) who accounted for approximately 82% (June 30, 2016 - 54%) of the year-end accounts receivable balance.

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

	June 30, 2017	June 30, 2016
Current	**$ 12,126**	$ 3,284
31 to 60 days	**473**	699
61 to 90 days	**23**	74
Over 90 days	**24**	65
	$ 12,646	$ 4,122

(in thousands of Canadian dollars except as otherwise noted)

33. 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 June 30, 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:

	Carrying Amount of Liability	Payments due within: 1 year	1-3 years	Thereafter
Accounts payable and accrued liabilities	$ 6,377	$ 6,377	$ -	$ -
Long-term debt obligations	2,458	250	750	1,458
	$ 8,835	$ 6,627	$ 750	$ 1,458

Currency Risk

Approximately 96% (June 30, 2016 - 89%) of the Company's sales are denominated in USD. The Company periodically 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.

Effective March 3, 2017, the Company entered into a range bonus accumulator with a Canadian chartered bank. As at June 30, 2017, the Company has received fifteen of seventeen weekly payments for a total of $38. Changes in fair value of these instruments are included in foreign exchange gain in the current year. As at June 30, 2017, the Company has an unrealized net gain of $16 (June 30, 2016 - $nil net gain) on outstanding forward purchase contracts.

For the year ended June 30, 2017, if the Canadian dollar had weakened or strengthened by 1% against the U.S. dollar with all other variables held constant, net income before income taxes would have been $432 (June 30, 2016 - $668) higher or lower.

Interest Rate Risk

The Company is exposed to floating interest rate risk, as the required cash flows to service its 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 will fluctuate as a result of changes in market rates. A 1% movement in the interest rate would have resulted in a $662 change to net income before income taxes for the year ended June 30, 2017 (June 30, 2016 - $467).

34. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to maintain financial flexibility while managing its cost of optimizing access to capital. The Company defines its capital as current and long-term debt and shareholders' equity. The Company's capital as at June 30, 2017 was $184,700 (June 30, 2016 - $171,751). The Company monitors its capital structure and based on changes in economic conditions, may adjust the structure through the repurchase of shares, the issuance of shares or the use of debt facilities. The Company manages its capital structure in order to ensure sufficient resources are available to fund the development and growth of next generation products and, to fund the expansion of its manufacturing facilities, providing an opportunity to reinforce its market position.

Under its borrowing agreements, the Company must satisfy certain restrictive covenants including a minimum financial ratio for the working capital and maximum financial ratio for the debt/equity ratio and the purchase of property, plant and equipment. During the year, the Company complied with all these capital requirements. The Company did not pledge cash or cash equivalents under these borrowing agreements.

35. SUBSEQUENT EVENTS

On September 25, 2017, the Board of Directors declared a dividend of $0.055 per common share, payable on November 3, 2017 to shareholders of record as at October 13, 2017 consistent with its previously announced dividend policy.

In July 2017, the Company received $8,730 to complete the sale of its YourLink business in Saskatchewan.