ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

Year ended June 30, 2016

September 26, 2016

Dear Fellow Shareholders,

Fiscal 2016 was an extraordinary year for Vecima as we achieved the best financial results in our three decade history and made significant strides on our key strategic priorities.

On the financial front, we set records for revenue, gross margin and adjusted EBITDA as we met the needs of tier one cable MSO customers across numerous product lines and platforms. In particular our Terrace Family, Terrace QAM and digital video access platform (DVAP) products helped us achieve significant penetration into many leading cable MSOs and contributed to our very strong results.

We also ended fiscal 2016 with a record cash balance of $74.1 million, a $14.4 increase over 2015. This remarkable cash position was achieved while also financing our strategic acquisition of Contigo Systems Inc. ("Contigo") from cash, accelerating intense development of our next-generation technologies, including our new DOCSIS 3.1 DAA Platform solution, and investing in the expansion of our YourLink network.

I am very proud of the outstanding Vecima teams that generated these outstanding results, and of our proven track record of innovation and support that is driving our position as a solutions provider of choice in our markets. Vecima's people have built a brand of integrity that resonates with our cable MSO customers.

A Year of Momentum for Video and Broadband Solutions

During 2016, cable operators continued, and in some cases, finalized their evolution to all-digital networks. Our *Terrace family products* supported our customers' ability to make this essential network upgrade. The Terrace solution was further enhanced by deployment of our new *TC600E*, which offers MPEG-4 and high-definition video input capabilities. Together, the now four generations of Terrace family platforms have been deployed widely as the industry's preeminent commercial video platform for all digital networks. Further, Vecima's history of successful network-wide deployments of the Terrace family for all-digital conversion has firmly established the company as an industry leader in the business services vertical, a segment which offers exciting new growth opportunities which I will discuss below.

TerraceQAM, which allows cable operators to provide a market-leading HD video service in the hospitality sector, achieved very strong sales throughout fiscal 2016, driven both by sustained higher deployment activity at the lead customer along with upgrades to support MPEG-4 using the new transcoding version of the product. The new version offers not only MPEG-4 HD input capabilities, but also MPEG-4 to MPEG-2 transcoding, which allows operators to take advantage of MPEG-4 capabilities without having to replace the existing, widely deployed base of MPEG-2 only televisions in hospitality environments. TerraceQAM remains the platform of choice for MSO delivered HD video to hotels.

Also in our cable business, sales of our *Digital Video Access Platform (DVAP)* were a strong contributor to fiscal 2016 results marking the culmination of a successful large scale program with the OEM customer. DVAP provides critical two-way communications to a deployed base of several million digital video set-top boxes that will remain in service for a number of years until MSO networks are fully migrated to IP-based services.

Transitioning to DOCSIS 3.1

The cable industry is on the precipice of a major transition of the network. On-demand IP video offerings, over the top streaming video, and other high bandwidth services are rapidly reshaping end-user expectations and adding major new load onto existing cable network infrastructures. Cable MSOs have led all service providers in “broadband” before the word even came to be commonly known. It is well known that the MSOs are racing towards gigabit class broadband speeds to address these consumer shifts. Today, the combined forces of consumer expectations and competition are driving the broadband foot race. For cable MSOs, DOCSIS 3.1 is the answer.

The technology makes lightning fast data transmission speeds possible, in the range of 10 Gigabits per second (Gbps) for downloads and greater than 1.5 Gbps for uploads. This makes broadband speeds over existing coax comparable to the speeds provided by fiber to the home standards such as those used by Telcos. In every respect, DOCSIS 3.1 is the infrastructure solution cable MSOs will use to remain competitive and cost efficient in an ever-faster technology environment.

Because of its highly lucrative service revenues and margins, the business services segment in particular has become a hotbed of early activity as operators charge towards gigabit broadband speeds.

We have been positioning Vecima for this upcoming major shift in cable networks. This past year, Vecima engaged in intense development on our next-generation DOCSIS 3.1 solution and went on to introduce our first gigabit speed broadband access platform, Entra, at the INTX conference earlier this year. Not only is Entra a DOCSIS 3.1 platform, but it also uses Distributed Access Architecture (DAA) which offers significant benefits to operators. It distributes architecture closer to the home, saving power and space at the already crowded hubs and offering an ideal migration architecture by positioning native Ethernet networking technology into the distributed node. We are confident our feature sets and product strategy are well aligned with customers’ needs.

Recently, Entra was awarded 4.5 out of 5 Diamonds by the 2016 Broadband Technology Report Diamond Technology Reviews, a renowned industry program that was developed to recognize some of the top products and solutions available to the cable industry as determined by a panel of cable MSO engineering experts. Vecima has invested careful thought into Entra's design and we are very pleased to see our product receive such positive recognition by industry experts.

Looking Ahead

Moving into fiscal 2017, we will continue to leverage our current generation cable product lines, including Terrace Family products and TerraceQAM, to support our operations, though we recognize our future growth is firmly aligned with the industry shift towards DOCSIS 3.1, Entra and with the new opportunities in IP video.

With the launch of Entra, we have placed Vecima at the forefront of the development of DOCSIS 3.1 DAA architecture and are ideally positioned to become a leading solutions provider in this space. We are committed to release Entra to the market in 2017.

The industry recognizes that video services need to transition to an IP model which is the foundation of video technology innovation today from the content through to the devices. Vecima is positioned to address this in three ways:

1. We will unlock the broadband capacity needed for IP video through Entra
2. We are introducing core elements of the IP video ecosystem such as our Bravura line of IPTV solutions
3. We are focused on opportunistic acquisitions of assets and/or technology in the video space

I want shareholders to recognize that Vecima is continuing its transformation; we will focus on video and broadband solutions and telematics segments and look for acquisition opportunities to support those areas. We will also deemphasize non-core businesses as we look to exit them.

Overall, we believe we are well positioned to succeed. We have strong, established relationships with the industry's tier-one operators and a robust R&D program that is closely aligned with our customers' needs and with the significant opportunities arising in broadband access and IP video. In addition we see opportunities to continue growing our telematics business.

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

Sincerely,

Sumit Kumar
President and CEO

VECIMA NETWORKS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 26, 2016

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, 2016.

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, 2016. 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, 2016 and June 30, 2015 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 statement include, but are not limited to, our 2017 outlook and 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 "Cautionary Note Concerning Factors That May Affect Future Results" section of this MD&A.

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

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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. Vecima also has 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 three segments: (1) Video and Broadband Solutions; (2) YourLink; and (3) Telematics:

1. Video and Broadband Solutions include families of 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 dwelling) and Hospitality.
2. YourLink operates a large wireless service provider in rural Saskatchewan that provides fixed broadband wireless data and telephone access to both residential and business subscribers.
3. 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 is tied into the development of next generation platforms such as Entra, as well as strategic acquisitions.

Fiscal 2016 Highlights

- Achieved the top end of our upwardly adjusted outlook for FY2016 in revenue, gross margin & adjusted EBITDA
- Grew cash balances by $14.4 million to $74.1 million while at the same time had a $13.5 million all cash acquisition and increased investment in R&D
- Achieved the first network-wide deployment of TC600E commercial video platform by a Tier 1 MSO. The TC600E enhances the ability of cable operators to support commercial premises as they transition to all digital networks by supporting MPEG-4 and HD input
- Introduced Entra, our new DOCSIS 3.1 Distributed Access Architecture (DAA) platform. Entra, which is currently in development, will enable operators to offer multi-gigabit data rates over cable to subscribers without the excessive costs of running fiber to the home.
- Acquired Contigo Systems for $13.5 million in cash, enhancing our position in Telematics

Recent Industry Developments

The cable industry is currently undergoing a major shift under the new DOCSIS 3.1 standard. Released by CableLabs in 2014, DOCSIS 3.1 unlocks gigabit broadband speeds over existing coaxial cable. Data transmission of 10 Gigabits per second (Gbps) for download speed and 1 Gbps upload speed, make DOCSIS 3.1 comparable to the speed provided by fiber optic connections but without the added infrastructure cost. Global cable operators have started to embrace DOCSIS 3.1 as an evolution of DOCSIS technology. It provides a flexible migration for cable operators, with the ability for DOCSIS 3.1 modems to 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.

We have been focused on addressing this industry transition through the development of our next generation platform, Entra, which uses distributed access architectures. Technologies we are developing as part of the Entra platform include:

- Full spectrum DOCSIS 3.1 to 1.2 GHz allowing cable operators to utilize maximum throughput capability of up to 10 Gbps downstream and up to 3.2 Gbps aggregate upstream.
- A virtual controller for unified management of Access Nodes which allows rapid dynamic provisioning of services and facilitates transition towards network function virtualization (NFV) and software defined networking (SDN)
- A 10 Gigabit Ethernet switch which allows for provisioning of direct Ethernet and PON services at the node.

Outlook

Vecima met or exceeded the upwardly adjsuted Company's Guidance in fiscal 2016. We achieved revenue of $108.4 million, exceeding our guidance of $100.0 million to $108.0 million. Gross margin of 57.0% was at the high end of the target of 52% to 57%. Adjusted EBITDA of $37.8 million exceeded the Company's guidance of $32.0 to $37.0 million.

With the industry in transition, we expect demand for our legacy products to slow in fiscal 2017. As sales for our next generation products are currently forecasted to begin towards the end of fiscal 2017, we expect overall 2017 revenue and adjusted EBITDA to be lower than in fiscal 2016.

Vecima's outlook for fiscal 2017, which is based on our current visibility into customer demand both domestically and internationally, is:

- sales to be in the range of $85.0 million to $95.0 million;
- gross margin in the range of 54% to 58%; and
- Adjusted EBITDA in the range of $23 million and $28 million.

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

Discontinued Operations

As at June 30, 2016, the Company had undertaken plans to sell certain cable distribution and telecommunications operating assets and liabilities located in British Columbia. The assets have been reclassified as assets held for sale and the liabilities have been reclassified as liabilities associated with assets held for sale. Financial results for the current year, and comparative periods attributable to the disposal group, have been presented as discontinued operations. The noncurrent assets that were held for sale were 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. As a result of presenting discontinued operations, prior quarters and years have been restated to conform to the current year presentation.

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,**					
	2016		2015		2014	
Sales	**$108,421**	**100 %**	$ 90,940	100 %	$ 87,633	100 %
Cost of sales	**46,610**	**43 %**	41,102	45 %	43,908	50 %
Gross profit	**61,811**	**57 %**	49,838	55 %	43,725	50 %
Operating expenses						
Research and development[(1)]	**10,856**	**10 %**	9,344	10 %	8,186	9 %
Sales and marketing	**5,980**	**6 %**	6,084	7 %	5,793	7 %
General and administrative	**14,175**	**13 %**	13,361	15 %	13,580	16 %
Impairment of intangible assets	**-**	**- %**	1,192	1 %	295	- %
Impairment of property, plant and equipment	**337**	**- %**	-	- %	-	- %
Stock-based compensation	**502**	**- %**	502	1 %	23	- %
Other (income) expense	**37**	**- %**	(129)	- %	(14,699)	(17)%
	31,887	**29 %**	30,354	34 %	13,178	15 %
Operating income	**29,924**	**28 %**	19,484	21 %	30,547	35 %
Finance income	**878**	**1 %**	761	1 %	459	1 %
Foreign exchange gain	**80**	**- %**	1,791	2 %	269	- %
Income before income taxes	**30,882**	**29 %**	22,036	25 %	31,275	36 %
Income tax expense	**8,320**	**8 %**	5,972	7 %	6,182	7 %
Net income and comprehensive income from continuing operations	**22,562**	**21 %**	16,064	18 %	25,093	29 %
Net loss and comprehensive loss from discontinued operations	**(593)**	**(1)%**	(927)	(1)%	(491)	(1)%
Net income and total comprehensive income	**$ 21,969**	**20 %**	$ 15,137	17 %	$ 24,602	28 %
Net income and total comprehensive income per share[(2)]						
Basic	**$ 0.98**		$ 0.68		$ 1.10	
Basic from continuing operations	**$ 1.01**		$ 0.72		$ 1.12	
Diluted	**$ 0.98**		$ 0.68		$ 1.10	
Diluted from continuing operations	**$ 1.01**		$ 0.72		$ 1.12	
Dividends/distributions	**$ 4,935**		4,023		22,325	
Other Data						
Total research and development expenditures[(3)]	**$ 18,104**	**17 %**	$ 15,684	17 %	$ 13,227	15 %
Adjusted EBITDA[(4)]	**$ 37,810**	**35 %**	$ 29,025	32 %	$ 23,107	26 %
Adjusted earnings per share[(5)]	**$ 0.99**		$ 0.73		$ 0.56	
Number of employees[(6)]	**509**		489		507	

(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 "EBITDA and 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)	**2016**	2015	2014
Cash and cash equivalents	**$ 22,222**	$ 12,777	$ 15,282
Short-term investments	**$ 51,872**	$ 46,894	$ 33,197
Working capital	**$ 93,222**	$ 84,786	$ 72,692
Total assets	**$ 186,246**	$ 168,070	$ 157,275
Long-term debt	**$ 2,458**	$ 2,708	$ 2,958
Shareholder's equity	**$ 169,043**	$ 151,324	$ 139,473
Number of common shares outstanding[1]	**22,384,877**	22,348,093	22,325,125

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

Adjusted Earnings Per Share

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

Calculation of Adjusted Earnings Per Share	**Years ended June 30,**		
(unaudited - in thousands of dollars except per share amounts)	**2016**	2015	2014
Net income	**$ 21,969**	$ 15,137	$ 24,602
Gain on sale of spectrum licenses, net of taxes	**-**	(247)	(3,252)
(Loss) gain on sale of non-core property, plant and equipment, net of taxes	**42**	144	(8,960)
Impairment of intangible assets, net of taxes	**-**	883	219
Impairment of property, plant and equipment, net of taxes	**250**	339	-
Adjusted net income	**$ 22,261**	$ 16,256	$ 12,609
Earnings per share	**$ 0.98**	$ 0.68	$ 1.10
Gain on sale of spectrum licenses, net of taxes	**-**	(0.01)	(0.15)
(Loss) gain on sale of non-core property, plant and equipment, net of taxes	**-**	0.01	(0.40)
Impairment of intangible assets, net of taxes	**-**	0.04	0.01
Impairment of property, plant and equipment, net of taxes	**0.01**	0.01	-
Adjusted earnings per share	**$ 0.99**	$ 0.73	$ 0.56

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, providing rural cable/internet services, 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,		
	2016	2015	2014
Net income and total comprehensive income	**$ 21,969**	$ 15,137	$ 24,602
Income tax expense	**8,116**	5,652	6,013
Interest expense	**106**	103	214
Depreciation of property, plant and equipment	**2,821**	3,060	3,317
Amortization of deferred development costs	**3,502**	2,932	2,565
Amortization of finite-life intangible assets	**409**	109	107
EBITDA	**36,923**	26,993	36,818
Loss on disposal of intangibles	**-**	209	-
Gain on sale of assets held for sale	**-**	(493)	(14,027)
Loss (gain) on sale of property, plant and equipment	**48**	165	(2)
Impairment loss of property, plant and equipment	**337**	457	-
Impairment of intangible assets	**-**	1,192	295
Stock-based compensation	**502**	502	23
Adjusted EBITDA	**$ 37,810**	$ 29,025	$ 23,107
Adjusted EBITDA margin (%)	**35 %**	32 %	25 %

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, 2016 and 2015 to our actual cash research and development expenditures.

Calculation of Research and Development Expenditures	Years ended June 30,		
	2016	2015	2014
Research and development per statement of income	**$ 10,856**	$ 9,344	$ 8,186
Deferred development costs	**11,163**	8,807	6,929
Investment tax credits	**(10)**	465	677
Amortization of deferred development costs	**(3,502)**	(2,932)	(2,565)
Government grant	**(403)**	-	-
Total research and development expenditure	**$ 18,104**	$ 15,684	$ 13,227
Percentage of sales	**17 %**	17 %	15 %

Summary of Quarterly Results of Operations

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

	Fiscal Year 2016				Fiscal Year 2015			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Sales	**24,372**	**31,198**	**27,036**	**25,815**	23,244	22,420	22,929	22,347
Cost of sales	**10,612**	**12,928**	**11,922**	**11,148**	9,474	9,614	10,936	11,078
Gross profit	**13,760**	**18,270**	**15,114**	**14,667**	13,770	12,806	11,993	11,269
Operating expenses								
Research and development	**2,939**	**3,135**	**2,383**	**2,399**	2,428	2,431	2,383	2,102
Sales and marketing	**1,580**	**1,885**	**1,225**	**1,290**	1,510	1,536	1,774	1,264
General and administrative	**3,789**	**3,838**	**3,174**	**3,374**	3,211	3,374	3,394	3,382
Impairment of intangible assets	**-**	**-**	**-**	**-**	157	1,035	-	-
Impairment of property, plant and equipment	**337**	**-**	**-**	**-**	-	-	-	-
Stock-based compensation	**138**	**114**	**115**	**135**	99	129	271	3
Other income	**28**	**21**	**(6)**	**(6)**	206	36	(407)	36
	8,811	**8,993**	**6,891**	**7,192**	7,611	8,541	7,415	6,787
Operating income	**4,949**	**9,277**	**8,223**	**7,475**	6,159	4,265	4,578	4,482
Finance income	**365**	**160**	**169**	**184**	326	170	162	103
Foreign exchange (loss) gain	**152**	**(1,169)**	**499**	**598**	60	437	286	1,008
Income before income taxes	**5,466**	**8,268**	**8,891**	**8,257**	6,545	4,872	5,026	5,593
Income tax expense	**1,914**	**2,066**	**2,214**	**2,126**	1,978	1,252	1,250	1,492
Net income and comprehensive income from continuing operations	**3,552**	**6,202**	**6,677**	**6,131**	4,567	3,620	3,776	4,101
Net loss and comprehensive loss from discontinued operations	**(136)**	**(214)**	**(163)**	**(80)**	(687)	(67)	(85)	(88)
Net income and total comprehensive income	**$ 3,416**	**$ 5,988**	**$ 6,514**	**$ 6,051**	$ 3,880	$ 3,553	$ 3,691	$ 4,013
Net income and total comprehensive income per share								
Basic	**$ 0.15**	**$ 0.27**	**$ 0.29**	**$ 0.27**	$ 0.17	$ 0.16	$ 0.17	$ 0.18
Diluted	**0.15**	**0.27**	**0.29**	**0.27**	0.17	0.16	0.16	0.18
Adjusted EBITDA as reported	**$ 7,745**	**$ 10,323**	**$ 10,106**	**$ 9,634**	$ 8,317	$ 7,460	$ 6,260	$ 6,989

Quarter-to-Quarter Sales Variances

There are many factors that contribute to the overall variances of our sales. One of the main factors is our product development cycle, where we continually develop new products to replace products that are reaching the end of their lifecycle. Since our new products are at the leading edge of technology, the timing of development can vary as can the timing of regulatory certification and customer acceptance of new products.

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, while availability of parts and production capacity can influence the timing of product deliveries.

Segmented Information

Sales

Segment		Three months ended June 30, **2016**		2015		Years ended June 30, **2016**		2015
Video and Broadband Solutions	**$**	**20,478**	$	20,464	**$**	**95,999**	$	79,682
YourLink		**2,504**		2,580		**10,074**		10,665
Telematics		**1,390**		200		**2,348**		593
Total sales	**$**	**24,372**	$	23,244	**$**	**108,421**	$	90,940

For the fiscal year ended June 30, 2016, total sales increased to $108.4 million, a 19% increase from the $90.9 million generated in fiscal 2015. For the three months ended June 30, 2016, total sales were $24.4 million, up from the $23.2 million generated during the same period in fiscal 2015.

Video and Broadband Solutions sales increased 20% to $96.0 million in fiscal 2016, from $79.7 million in 2015. We generated $20.5 million for Video and Broadband Solutions sales in the fourth quarter of fiscal 2016, on par with the $20.5 million in Q4 2015.

- The Terrace Family of products achieved strong year-over-year growth with sales climbing 62% to $44.9 million in fiscal 2016, from $27.8 million in fiscal 2015. This improvement was driven primarily due to new network wide Tier 1 customer deployments for the TC600E which, because of its extensive feature set, has been widely and rapidly deployed by these operators. Fourth quarter sales of Terrace Family products increased 49.6% to $10.0 million, from $6.7 million during the same period in fiscal 2015. On a sequential quarterly basis, fourth quarter Terrace family sales declined 16.3% from $12.0 million in Q3 2016. The fluctuations in quarterly sales reflect the different stages of network conversion activity by various MSO customers. Of the two Tier 1 MSOs deploying TC600E across their networks, we expect the first to transition to a modest network fill in phase during the first part of fiscal 2017 and the second to continue its roll out throughout the year. Meanwhile, we expect a lead MSO customer to continue to deploy in the network fill in phase.

- Fiscal 2016 sales of TerraceQAM decreased 17% year-over-year to $28.2 million, from $33.8 million. The TerraceQAM product line has been enhanced to include a new version of the platform that provides integrated transcoding. Transcoding within the platform enables the MSOs' hospitality customers to take advantage of MPEG-4 capabilities without having to replace their existing, widely deployed base of MPEG-2 only televisions. This allows cable operators to upgrade their HD services to MPEG-4 video which saves significant bandwidth on the network which can be redeployed for higher broadband internet speeds. As anticipated, fourth quarter sales of TerraceQAM decreased to $1.9 million, from $9.7 million in the same period in fiscal 2015 due to anticipated timing adjustments related to the lead customer's inventory. On a sequential quarterly basis, sales of TerraceQAM were also down significantly from the very strong $9.2 million sales level achieved in Q3 2016. After nearly two years of elevated purchase volume the lead MSO customer for TerraceQAM is forecasting a pause to consume accumulated inventory leading to temporarily decreased sales in the second half of fiscal 2017. In mid-September 2016, we delivered another platform enhancement to the lead customer that frees up still more network capacity by supporting a new digital audio format. This latest enhancement taken together with the transcoding version is expected to lead to higher upgrade related sales in the second half of fiscal 2017.

- Sales of our Digital Video Access Platform (DVAP) increased 170% to $14.6 million in fiscal 2016, from $5.4 million in fiscal 2015. This one time surge in sales reflects completion of the USD $19.0 million contract with the lead customer during the 2016 year. The resulting inventory at the customer will fulfill the majority of deployment demands well into calendar 2017. The customer has engaged Vecima to develop software that prepares the platform to support distributed access architecture and this will lead to potential for software upgrade revenue near the end of fiscal 2017.

YourLink sales for fiscal 2016 decreased 6% to $10.1 million, from $10.7 million in 2015. Internet sales declined by $0.4 million, installation sales were down $0.1 million and commercial sales decreased by $0.1 million year-over-year. In the fourth quarter of fiscal 2016, YourLink sales declined modestly to $2.5 million, from $2.6 million in the same quarter of 2015.

Telematics sales increased 296% to $2.3 million in fiscal 2016, from $0.6 million in 2015. Telematics sales increased to $1.4 million in Q4 of fiscal 2016, up significantly from $0.2 million in the same quarter of 2015. This significant year-over-year and quarter-over-quarter improvement is a direct result of the February 2016 acquisition of Contigo, which contributed revenues of $1.6 million over the four months it was a part of our operations 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 YourLink sales consist of back-haul costs for connection to the internet, ethernet costs and the costs of operating the wireless infrastructure. 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	**2016**	2015	**2016**	2015
Video and Broadband Solutions	**$ 10,997**	$ 11,627	**$ 53,468**	$ 41,325
YourLink	**1,816**	2,179	**7,589**	8,588
Telematics	**947**	(36)	**754**	(75)
Total gross profit	**$ 13,760**	$ 13,770	**$ 61,811**	$ 49,838
Video and Broadband Solutions	**53.7 %**	56.8 %	**55.7 %**	51.9 %
YourLink	**72.5 %**	84.5 %	**75.3 %**	80.5 %
Telematics	**68.1 %**	(18.0)%	**32.1 %**	(12.6)%
Total gross margin	**56.5 %**	59.2 %	**57.0 %**	54.8 %

For the twelve months ended June 30, 2016, gross margin increased to 57.0%, providing a total gross profit of $61.8 million. This compares to a gross margin of 54.8% and a total gross profit of $49.8 million in fiscal 2015. Gross margin for the 2016 year was positively impacted by a stronger U.S. dollar relative to the Canadian dollar, increased sales, and manufacturing efficiencies. For the three months ended June 30, 2016, our operations achieved a gross margin of 56.5%, providing a total gross profit of $13.8 million. This compares to a gross margin of 59.2% and a total gross profit of $13.8 million in the fourth quarter of fiscal 2015. Gross margin in the Q4 2016 period was negatively impacted by increased material costs due to foreign exchange fluctuations as well as by excess labour costs due to severance. Management reduced its manufacturing workforce by approximately 34 people subsequent to year end.

Gross margin from the Video and Broadband Solutions segment increased to 55.7%, providing a gross profit of $53.5 million in fiscal 2016. This compares to a gross margin of 51.9% and a gross profit of $41.3 million in 2015. The improvement in gross margin reflects increased 2016 sales, the favourable foreign exchange influence of a lower Canadian dollar relative to the U.S. dollar, and manufacturing efficiencies.

Video and Broadband Solutions gross margin decreased to 53.7% in the fourth quarter of 2016, providing a gross profit of $11.0 million. This compares to a gross margin of 56.8% in the fourth quarter of fiscal 2015, which had a gross profit of $11.6 million. Gross margin in the 2016 period was negatively impacted by increased material costs due to foreign exchange fluctuations as well as by excess labour costs resulting in operating inefficiencies.

YourLink achieved a fiscal 2016 gross margin of 75.3%, providing a gross profit of $7.6 million. This compares to a gross margin of 80.5% and gross profit of $8.6 million in fiscal 2015. Lower revenues contributed $0.5 million of the year-over-year reduction in gross profit. Backhaul expenses were up $0.2 million as YourLink increased future capacity in preparation for the major network upgrade in conjunction with the DC150 project.

YourLink's fourth quarter 2016 gross margin was 72.5% providing a gross profit of $1.8 million. This compares to a gross margin of 84.5% and gross profit of $2.2 million in Q4 2015. The year-over-year decline reflects a $0.2 million increase in backhaul expenses and slight increases in other expenses.

Telematics achieved a gross margin of 32.1% in fiscal 2016, providing a gross profit of $0.8 million. This compares to a negative gross margin of (12.6)% and gross loss of $(0.1) million in fiscal 2015. The Contigo acquisition contributed $1.2 million to the 2016 gross profit. This increase was partially offset by a gross loss of $0.4 million from the FleetLynx business, due to the write-off of $ 0.5 million of inventory made obsolete following the Contigo acquisition.

On a quarter to quarter basis, Telematics achieved a gross margin of 68.1%, providing a gross profit of $1.0 million in Q4 2016. This compares to a negative gross margin of (18.0%) and gross profit of $nil in Q4 2015. The significant improvement in Q4 2016 Telematics results reflects Contigo's contribution of $0.9 million in gross profit and FleetLynx's improvement in gross profit.

Operating Expenses

	Three months ended June 30,		Years ended June 30,	
Segment	**2016**	2015	**2016**	2015
Video and Broadband Solutions	**$ 6,226**	$ 5,875	**$ 23,900**	$ 23,388
YourLink	**1,910**	1,344	**6,162**	5,537
Telematics	**675**	392	**1,825**	1,429
Total operating expense	**$ 8,811**	$ 7,611	**$ 31,887**	$ 30,354

For the 12 months ended June 30, 2016, total operating expense increased 5.1% to $31.9 million, from $30.4 million in fiscal 2015. For the three months ended June 30, 2016, total operating expenses increased to $8.8 million from $7.6 million in Q4 2015.

Video and Broadband Solutions operating expenses increased slightly to $23.9 million in fiscal 2016, from $23.4 million in fiscal 2015. The year-over-year increase reflects a $1.2 million increase in research and development costs, a $0.8 million increase in general and administrative costs offset by an impairment of intangible assets of $1.2 million in 2015 and other expenses of $0.3 million higher in fiscal 2015.

Quarter to quarter, Video and Broadband Solutions operating expenses increased to $6.2 million in the fourth quarter, from $5.9 million in Q4 2015. Research and development costs were up $0.5 million and general and administrative expenses were up $0.3 million in the current period, while the Q4 2015 period included an impairment of intangible assets of $0.2 million.

YourLink operating expenses increased to $6.2 million in fiscal 2016, from $5.5 million in fiscal 2015. Operating expenses in the prior year were favourably impacted by the gain on sale of spectrum licenses which is recorded as other income and the impairment of property, plant and equipment of $0.3 million in fiscal 2016 (fiscal 2015 - $nil).

Quarter to quarter, YourLink operating expenses increased to $1.9 million in Q4 2016, from $1.3 million in Q4 2015. Impairment of property, plant and equipment for Q4 2016 was $0.3 million, sales and marketing expenses were up $0.1 million and amortization expense was up $0.2 million.

Telematics operating expenses increased to $1.8 million in fiscal 2016, from $1.4 million in fiscal 2015. The year-over-year increase reflects the addition of $0.6 million in operating expenses from the Contigo operations, partially offset by the following decrease in FleetLynx sales and marketing expenses.

Fourth quarter Telematics operating expenses increased to $0.7 million from $0.4 million in Q4 2015, reflecting the addition of $0.4 million in Contigo operating expenses, partially offset by a $0.1 million reduction in FleetLynx operating expenses.

Research and development expenses for the year ended June 30, 2016 were $10.9 million, or 10% of revenue, compared to $9.3 million, or 10% of revenue in fiscal 2015. 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 year ended June 30, 2016 increased to $18.1 million, or 17% of sales, from $15.7 million, or 17% of sales in fiscal 2015. The increase primarily reflects the purchase of intellectual property of $1.4 million, the addition of R&D personnel and increased prototyping costs.

For the three months ended June 30, 2016, research and development expenses increased to $2.9 million, or 12% of revenue, from $2.4 million, or 10% of revenue in the fourth quarter of 2015. Total research and development costs before deferrals, amortization of deferred development costs and income tax credits in the Q4 2016 period increased to $5.1 million, or 21% of sales, from $4.1 million, or 17% of sales in Q4 2015. This increase primarily reflects the addition of R&D personnel, higher employee compensation and an increase in prototyping activity as we stepped up development of new products.

Sales and marketing expenses for the fiscal 2016 year decreased to $6.0 million, or 6% of sales in fiscal 2016, from $6.1 million, or 7% of sales in fiscal 2015. For the three months ended June 30, 2016, sales and marketing expenses increased to $1.6 million, or 7% of sales in Q4 2016, from $1.5 million, or 6% of sales during the same period last year.

General and administrative expenses increased to $14.2 million in fiscal 2016, from $13.4 million in fiscal 2015. The $0.8 million increase reflects $0.3 million related to the Contigo operations, together with M&A expenses related to the Contigo acquisition, and higher amortization expenses. General and administrative expenses for the fourth quarter 2016 increased to $3.8 million, from $3.2 million in the fourth quarter of 2015. The $0.6 million increase primarily reflects general and administrative expenses of $0.2 million related to the Contigo operations, as well as higher amortization expenses.

Stock-based compensation expense was flat in fiscal 2016 at $0.5 million, compared to $0.5 million in fiscal 2015. Fourth quarter 2016 and 2015 stock-based compensation expense was also flat at $0.1 million.

Impairment of intangible assets for the year was $nil compared to $1.2 million in 2015. The prior-year impairments represent deferred development projects impaired due to the restructuring of software defined radio sales operations and deferred development projects that we have no intention of continuing into the future. Impairment of intangible assets for the fourth quarter of 2016 was $nil compared to $0.2 million in the same period last year.

Impairment of property, plant and equipment for the year was $0.3 million compared to $nil million in 2015. The impairment represents the impairment of two land properties of YourLink in B.C.

Other income decreased to $nil in fiscal 2016, from $0.1 million in fiscal 2015. Other income for the fourth quarter of 2016 was $nil, compared to an expense of $0.2 million in Q4 2015.

Operating Income

		Three months ended June 30,		Years ended June 30,	
		2016	2015	**2016**	2015
Video and Broadband Solutions	**$**	**4,771**	$ 5,752	**$ 29,568**	$ 17,937
YourLink		**(94)**	835	**1,427**	3,051
Telematics		**272**	(428)	**(1,071)**	(1,504)
Total operating income	**$**	**4,949**	$ 6,159	**$ 29,924**	$ 19,484

Operating income increased 53.6% to $29.9 million in fiscal 2016, from an operating income of $19.5 in fiscal 2015. The year-over-year improvement was driven by increased sales and a higher gross margin, partially offset by an increase in total operating costs. For the three months ended June 30, 2016, operating income decreased to $4.9 million from $6.2 million. The quarter-over-quarter decrease is a result of lower gross margin and higher operating expenses.

Video and Broadband Solutions operating income increased 64.8% to $29.6 million from $17.9 million in fiscal 2015. Higher sales and improved gross margin were the main drivers of this increase partially offset by the $0.5 million increase in operating expenses.

Fourth quarter Video and Broadband Solutions operating income declined to $4.8 million from $5.8 million in Q4 2015. The year-over-year change primarily reflects the lower gross margin, as well as the increase in operating expenses quarter over quarter.

YourLink operating income of $1.4 million for fiscal 2016 was down $1.7 million from $3.1 million in fiscal 2015. Lower sales and gross margin, higher amortization and a $0.3 million impairment of property, plant and equipment related to B.C. real estate were the main contributors to this reduction.

On a quarter to quarter basis, YourLink operating loss of $(0.1) million in Q4 2016 was down from operating income of $0.8 million in Q4 2015. The impairment of property, plant and equipment, lower gross margin, and an increase in amortization expense quarter-over-quarter as a result of the additional capital spending for our network expansion project were the main reasons for this decrease.

Telematics recorded an operating loss of $(1.1) million for fiscal 2016 a $0.4 million improvement compared to an operating loss of $(1.5) million in fiscal 2015. Higher sales and improved gross margin related to the addition of the Contigo acquisition was the main driver of this increase.

On a quarter to quarter basis, Telematics operating income improved slightly to $0.3 million in Q4 2016 from an operating loss of $0.4 million in Q4 2015. The improved gross margin related to the Contigo acquisition was the key factor in this improvement.

Finance income increased to $0.9 million in fiscal 2016 from $0.8 million in 2015. For Q4 2016, finance income was $0.2 million compared to $0.4 million in Q4 2015.

Foreign exchange gain decreased to $0.1 million in fiscal 2016 from $1.8 million in 2015. For the three months ended June 30, 2016, foreign exchange gain increased to $0.4 million compared to $0.1 million in the same period last year.

Income tax expense increased to $8.3 million in fiscal 2016 from $6.0 million in 2015. For the quarter, income tax expense was $1.9 million compared to $2.0 million in the fourth quarter of 2015.

Net loss from discontinued operations was $0.6 million in fiscal 2016 compared to a net loss of $1.0 million in 2015. Fiscal 2015 included an impairment of property, plant and equipment of $0.5 million. Discontinued operations represents the YourLink operations in British Columbia that are being held for sale. For the quarter, the net loss from discontinued operations improved to $0.1 million compared to $0.7 million in Q4 2015. Q4 2015 included an impairment of property, plant and equipment of $0.5 million.

Net income for fiscal 2016 increased to $22.0 million or $0.98 per share, from a net income of $15.1 million or $0.68 per share for the fiscal 2015. Net income for the fourth quarter of fiscal 2016 was $3.4 million or $0.15 per share compared to $3.9 million or $0.17 for the fourth quarter of 2015.

Cash from Operating Activities

For the fiscal year ended June 30, 2016, cash flow from operating activities provided cash of $48.2 million compared to $27.1 million in 2015. The $21.1 million increase reflects the $7.8 million increase in cash flow from non-cash working capital, the $3.9 million increase in investment tax credits and $9.4 million from operating cash flow.

For the fourth quarter of 2016, cash flow from operating activities provided cash of $10.9 million compared to $6.7 million for the same period in 2015. The $4.2 million increase primarily reflects a $3.2 million increase in cash flow from non-cash working capital and $1.0 million increase from operating cash flow.

Investing Activities

Cash flow used by investing activities increased to $34.9 million in 2016 from $25.6 million in 2015. The largest use of cash was the acquisition of Contigo for $13.5 million. Other investing activity represents deferred development expenditures of $11.2 million (2015 - $8.8 million), net purchase of short-term investments of $5.0 million (2015 - $13.7 million), and purchase of property, plant and equipment of $5.2 million (2015 – $2.1 million).

Cash flow used by investing activities decreased to $5.7 million in Q4 2016 from $5.8 million in Q4 2015. The largest use of cash was deferred development expenditures of $3.4 million (Q4 2015 - $2.4 million). Other investing activity represents net purchase of short-term investments of $0.2 million (Q4 2015 - $13.7 million) and the purchase of property, plant and equipment of $1.8 million (Q4 2015 – $0.2 million).

Financing Activities

For the year ended June 30, 2016 we paid dividends of $4.9 million (2015 - $4.0 million) and repaid $0.3 million of our long-term debt (2015 - $0.3 million repaid). We received proceeds from government grants of $1.1 million in fiscal 2016 (2015 - $nil).

In the fourth quarter of 2016, we paid dividends of $1.2 million (Q4 2015 - $1.0 million) and repaid $0.1 million of its long-term debt (Q4 2015 - $0.1 million repaid). We received proceeds from government grants of $0.1 million in Q4 2016 (Q4 - 2015 - $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, 2016, we had access to our full revolving loan facility of $14.0 million ($15.0 million at June 30, 2015), of which no amount was drawn as an operating line of credit (June 30, 2015– $nil million was drawn). We had term credit of $3.0 million as at June 30, 2016 (June 30, 2015 - $3.0 million). We believe that our current cash and short-term investments of $74.1 million and anticipated cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future.

Capital expenditures for fiscal 2016 were $5.2 million compared to $2.1 million in fiscal 2015. This large increase is related to YourLink capital expenditures for our extensive network expansion project.

Working Capital

Working capital represents our current assets less current liabilities. Our working capital remained strong at $93.2 million at June 30, 2016, up from $84.8 million at June 30, 2015. 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.

Accounts receivable balance decreased 64% to $4.7 million at June 30, 2016 compared to $13.1 million at June 30, 2015. This decrease reflects the timing of sales in the current quarter where a large portion of sales in the quarter were shipped and collected within the quarter.

Income tax receivable balance increased to $3.0 million for the year ended June 30, 2016. This increase represents cash refundable provincial investment tax credits from prior years that the CRA initially denied and we recently won our appeal.

Inventory decreased by $0.7 million to $22.2 million at June 30, 2016 compared to $22.9 million as at June 30, 2015. Finished goods inventories were $11.9 million at June 30, 2016, compared to $8.8 million at June 30, 2015. The finished goods inventory turnover rate was 3.9 times per year at June 30, 2016 compared to 4.5 times at June 30, 2015. Raw material inventory decreased to $7.0 million at June 30, 2016, compared to $9.7 million at June 30, 2015. Work in process inventories decreased to $3.2 million as at June 30, 2016 compared to $4.4 million at June 30, 2015. 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 decreased by $4.3 million to $20.0 million at June 30, 2016 from $24.3 million at June 30, 2015. This decrease reflects the offsetting of current income taxes payable in the current fiscal year and the $3.1 million collection of prior year's provincial cash refundable investment tax credits initially denied by the CRA but reassessed as eligible at the end of the current fiscal year. 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 5% to $8.7 million at June 30, 2016 representing 70 days for payables to be outstanding. This compares to $9.2 million at June 30, 2015, representing an average of 80 days for payables to be outstanding. This dollar decrease is a result of timing of purchases in the fourth quarter of 2016 compared to the fourth quarter of fiscal 2015.

Long-term debt, including current portion, decreased to $2.7 million at June 30, 2016 from $3.0 million at June 30, 2015.

Dividends

Declaration Date	Dividend Amount (per share)	Record Date	Payable Date
September 24, 2015	$0.055	October 9, 2015	October 30, 2015
November 12, 2015	$0.055	November 27, 2015	December 21, 2015
February 10, 2016	$0.055	February 25, 2016	March 21, 2015
May 10, 2016	$0.055	May 26, 2016	June 20, 2016

Contractual Obligations

We have lease commitments for production equipment, service vehicles and facilities amounting to $1.6 million within one year and $2.3 million after one year but not more than five years and $nil thereafter.

Commitments

We received a query from the Canada Revenue Agency ("CRA") regarding our tax treatment of gains on the sale of spectrum licenses in 2012 to 2014. The CRA has expressed the view that the gains on the sale of these spectrum licenses should be treated as active business income, which would result in additional income taxes and interest payable of approximately $3,600. We and our advisors have reviewed the applicable tax law and believe our original treatment of these gains was appropriate. During the period, we provided further documentation to the CRA. 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 89% of our revenues are denominated in US dollars. We translate US dollar sales to Canadian dollars on the date of delivery and subsequently when the account receivable is collected. If the US dollar appreciates relative to the Canadian dollar after we collect the accounts receivable in US dollars, we will receive more Canadian dollars when the US dollars are converted to Canadian dollars in subsequent months. We also enjoy a natural hedge since the majority of our materials and components purchases are in US dollars.

During the year, the exchange rate on the Canadian dollar weakened to Canadian $1.292 against the U.S. dollar as of June 30, 2016 from Canadian $1.249 against the U.S. dollar as of June 30, 2015. This exchange difference of $0.043 increased the value of our $14.3 million U.S. dollar net assets by approximately $0.6 million Canadian over the year.

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, 2016, we did not have any forward contracts (2015 - $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, 2015 (June 30, 2014 - $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, 2016.

Accounting Pronouncements

IFRS 9 Financial Instruments

In November 2009, the IASB issued guidance relating to the classification and measurement for financial assets followed by requirements for financial liabilities and derecognition which were added in 2010. IFRS 9 was amended in 2013 to add new general hedge accounting requirements. The standard must be applied retrospectively and is effective for annual periods beginning after January 1, 2018, with earlier application permitted. We are currently reviewing the standard to determine the potential impact on our consolidated financial statements.

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 after January 1, 2018, with earlier application permitted. We are currently reviewing the standard to determine the potential impact on our consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements

In May 2014, the IASB issued amendments to IAS 1 Presentation of Financial Statements. The amendments were issued to improve the effectiveness of presentation and disclosure in financial reports, with the objective of reducing immaterial note disclosures. The amendments are to be applied prospectively and are effective for annual periods beginning after January 1, 2016 with earlier application permitted. We are currently reviewing the amendments to determine the potential impact on our consolidated financial statements.

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

In May 2014, the IASB issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. The amendments clarify the factors to be considered in assessing the technical or commercial obsolescence and the resulting depreciation period of an asset and state that a depreciation method based on revenue is not appropriate. The amendments are to be applied prospectively and are effective for annual periods beginning after January 1, 2016 with earlier application permitted. We are currently reviewing the amendments to determine the potential impact on our consolidated financial statements.

Amendments to IFRS 11 Joint Arrangements

In May 2014, the IASB issued amendments to IFRS 11 Joint Arrangements. The amendments clarify the accounting for the acquisition of interests in joint operations and require the acquirer to apply the principles of business combinations accounting in IFRS 3 Business Combinations. The amendments are to be applied prospectively and are effective for annual periods beginning after January 1, 2016 with earlier application permitted. We are currently reviewing the amendments to determine the potential impact on our consolidated financial statements.

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, 2016.

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, 2016 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, 2016.

In the previous quarter, the CEO and CFO had determined that the internal control over financial reporting was not effective as at March 31, 2016 due to the following material weakness: certain areas within the Company's information systems were subject to general control deficiencies including a lack of effective control over spreadsheets, access and documentation. The impact of this material weakness was that there was a reasonable possibility that the Company's internal controls over financial reporting would fail to prevent or detect a material misstatement of a financial statement amount or disclosure. To mitigate this material weakness, all material transactions and related accounting records were overseen by the CEO, CFO and the Vice President Finance of the Company. This mitigation may reduce the impact of the material weakness, but did not eliminate the existence of the material weakness.

In an effort to remediate this material weakness, management worked with qualified consultants to develop processes and procedures to enhance Vecima's controls. This work has been completed and the internal control over financial reporting is effective as at June 30, 2016.

Legal Proceedings

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

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

Risk and Uncertainties

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

Outstanding Share Data

As at September 26, 2016, we had 22,403,488 common shares outstanding as well as options outstanding that are exercisable for an additional 446,416 common shares.

Additional Information

Financial Governance

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

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

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

Forward-Looking Information

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

Forward looking information in this MD&A includes, but is not limited to statements that in fiscal 2017 we believe that our current cash and short-term investments of $74.1 million and anticipated cash flow from operations will be sufficient to meet our working capital requirements and capital expenditure requirements for the foreseeable future. We believe our growth may be tied to the: development of next generation platforms such as Entra (currently in development); from strategic acquisitions; and from platform enhancements for a major customer (this latest enhancement taken together with the transcoding version is expected to lead to higher upgrade related sales in the second half of fiscal 2017). We believe that there could be decreased demand for our legacy products compared to fiscal 2016; demand for TerraceQAM could be reduced; and that overall revenue and adjusted EBITDA could be somewhat lower than in fiscal 2016. 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 26, 2016

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
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, 2016 and June 30, 2015, 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, 2016 and June 30, 2015, 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, Chartered Accountants
Licensed Professional Accountants

September 26, 2016
Saskatoon, Saskatchewan

VECIMA NETWORKS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of Canadian dollars)

	Notes	June 30, 2016	June 30, 2015
Assets			
Current assets			
Cash and cash equivalents	6	$ 22,222	$ 12,777
Short-term investments	7, 30	51,872	46,894
Accounts receivable	8	4,674	13,114
Income tax receivable		3,009	172
Inventories	9	22,172	22,948
Assets held for sale	4	1,486	-
Prepaid expenses		1,359	1,297
		106,794	97,202
Non-current assets			
Property, plant and equipment	10	20,214	20,011
Goodwill	12	6,210	99
Intangible assets	13	26,724	16,008
Investment tax credit	24	20,031	24,261
Deferred tax asset	23	6,272	10,491
		$ 186,245	$ 168,072
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	15	$ 8,746	$ 9,186
Provisions	17	927	716
Deferred revenue		2,942	2,264
Liabilities associated with assets held for sale	4	707	-
Current portion of long-term debt	18	250	250
		13,572	12,416
Non-current liabilities			
Other long-term liabilities	16	5	63
Provisions	17	1,167	1,561
Long-term debt	18	2,458	2,708
		17,202	16,748
Shareholders' equity			
Share capital	19	739	488
Reserves		3,662	3,228
Retained earnings		164,642	147,608
		169,043	151,324
		$ 186,245	$ 168,072

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 23, 2016 and were signed on its behalf by:

(signed) Vincent Gallant — *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, 2016		2015
Sales	27	$	108,421	$	90,940
Cost of sales			46,610		41,102
Gross profit			61,811		49,838
Operating expenses					
Research and development			10,856		9,344
Sales and marketing			5,980		6,084
General and administrative			14,175		13,361
Impairment of intangible assets	13		-		1,192
Impairment of property, plant and equipment	11		337		-
Stock-based compensation	19		502		502
Other expense (income)	20		37		(129)
			31,887		30,354
Operating income			29,924		19,484
Finance income	21		878		761
Foreign exchange gain			80		1,791
Income before income taxes			30,882		22,036
Income tax expense	23		8,320		5,972
Net income and comprehensive income from continuing operations			22,562		16,064
Net loss and comprehensive loss from discontinued operations	4		(593)		(927)
Net income and comprehensive income		$	21,969	$	15,137
Net income per share					
Continuing operations			1.01		0.72
Discontinued operations			(0.03)		(0.04)
Total basic net income per share	19	$	0.98	$	0.68
Continuing operations			1.01		0.72
Discontinued operations			(0.03)		(0.04)
Total diluted net income per share	19	$	0.98	$	0.68
Weighted average number of common shares					
Shares outstanding - basic			22,384,877		22,348,093
Shares outstanding - diluted			22,448,127		22,404,153

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, 2014	$ 171	$ 2,808	$ 136,494	$ 139,473
Net income and total comprehensive income	-	-	15,137	15,137
Dividends	-	-	(4,023)	(4,023)
Shares issued by exercising options	317	(82)	-	235
Share-based payment expense	-	502	-	502
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**

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, 2016	2015
Cash flows from operating activities			
Net income and total comprehensive income		**$ 22,562**	$ 16,064
Adjustments to reconcile net income to cash from operating activities	**25**	**14,766**	12,226
Decrease in other long-term liabilities		**(58)**	(80)
Decrease in provisions		**(183)**	(183)
Decrease (increase) in investment tax credit		**2,891**	(942)
Net change in non-cash working capital relating to operations	**26**	**8,059**	303
Interest paid		**(108)**	(132)
Interest received		**823**	735
Income tax received		**11**	-
Income tax paid		**(13)**	(844)
Net cash provided by continuing operations		**48,750**	27,147
Net cash used by discontinued operations		**(514)**	(9)
Net cash provided by operations		**48,236**	27,138
Cash flows used in investing activities			
Purchase of property, plant and equipment	**10**	**(5,154)**	(2,057)
Proceeds from the sale of property, plant and equipment		**20**	19
Proceeds from the sale of assets held for resale		**-**	500
Purchase of short-term investments		**(31,778)**	(27,362)
Proceeds on sale of short-term investments		**26,800**	13,665
Deferred development costs	**13**	**(11,163)**	(8,807)
Purchase of indefinite and finite-life intangible assets	**13**	**(33)**	(1,366)
Business acquisition	**5**	**(13,479)**	-
Net cash used by continuing operations		**(34,787)**	(25,408)
Net cash used by discontinued operations		**(147)**	(197)
Net cash used in investing		**(34,934)**	(25,605)
Cash flows used in financing activities			
Proceeds from shares issued through exercised options	**19**	**183**	235
Proceeds from government grants	**14**	**1,145**	-
Dividends paid		**(4,935)**	(4,023)
Repayment of long-term debt		**(250)**	(250)
Net cash used in financing		**(3,857)**	(4,038)
Increase (decrease) in cash and cash equivalents during the year		**9,445**	(2,505)
Cash and cash equivalents, beginning of year		**12,777**	15,282
Cash and cash equivalents, end of year	**6**	**$ 22,222**	$ 12,777

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 operated under the Canadian Business Corporations Act ("CBCA") and commenced operations in 1988. The Company's registered office is located at 700 West George Street, 25th Floor, Vancouver, B.C., V7Y 1B3. 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 last mile", by overcoming the bottleneck resulting from insufficient carrying capacity in legacy last-mile infrastructures.

2. BASIS OF PRESENTATION

These audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board 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, 2016. 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, 2016 on September 23, 2016.

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

Significant Accounting Policies3

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, Spectrum Signal Processing (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.

2. BASIS OF PRESENTATION continued

(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.

(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.

2. BASIS OF PRESENTATION continued

(g) Intangible Assets continued

(ii) Finite-life Intangible Assets

Subscriber acquisition costs, 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.

(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 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.

2. BASIS OF PRESENTATION continued

(i) Leases continued

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.

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 at the lowest CGU level 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.

2. BASIS OF PRESENTATION continued

(k) Impairment continued

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.

(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.

2. BASIS OF PRESENTATION continued

(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.

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 the operating expenses category "other income".

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.

2. BASIS OF PRESENTATION continued

(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.

(ii) Asset Retirement Obligations

The 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 option-pricing model. 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.

2. BASIS OF PRESENTATION continued

Accounting Standards Issued But Not Yet Applied:

IFRS 9 - Financial Instruments

In November 2009, the IASB issued guidance relating to the classification and measurement for financial assets followed by requirements for financial liabilities and derecognition which were added in 2010. IFRS 9 was amended in 2013 to add new general hedge accounting requirements. The standard must be applied retrospectively and is effective for annual periods beginning after January 1, 2018, with earlier application permitted. The Company is currently reviewing the standard to determine the potential impact on its consolidated financial statements.

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 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.

Amendments to IAS 1 - Presentation of Financial Statements

In May 2014, the IASB issued amendments to *IAS 1 Presentation of Financial Statements*. The amendments were issued to improve the effectiveness of presentation and disclosure in financial reports, with the objective of reducing immaterial note disclosures. The amendments are to be applied prospectively and are effective for annual periods beginning after January 1, 2016 with earlier application permitted. The Company is currently reviewing the amendments to determine the potential impact on its consolidated financial statements.

Amendments to IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets

In May 2014, the IASB issued amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The amendments clarify the factors to be considered in assessing the technical or commercial obsolescence and the resulting depreciation period of an asset and state that a depreciation method based on revenue is not appropriate. The amendments are to be applied prospectively and are effective for annual periods beginning after January 1, 2016 with earlier application permitted. The Company is currently reviewing the amendments to determine the potential impact on its consolidated financial statements.

Amendments to IFRS 11 - Joint Arrangements

In May 2014, the IASB issued amendments to IFRS 11 *Joint Arrangements*. The amendments clarify the accounting for the acquisition of interests in joint operations and require the acquirer to apply the principles of business combinations accounting in IFRS 3 *Business Combinations*. The amendments are to be applied prospectively and are effective for annual periods beginning after January 1, 2016 with earlier application permitted. The Company is currently reviewing the amendments to determine the potential impact on its consolidated financial statements.

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., Spectrum Signal Processing (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. The labour cost is denominated fully in Canadian dollars. Management pays close attention to gross margin, and the setting of prices in U.S. dollars 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

The Company owns property that is being held for future development as property that is held for dual use. Dual use properties are used for operations with the unused sections rented out under operating type leases. Management has 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 have been 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 employees and directors 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 19.

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. Initial capitalization of costs is based on management's judgment that technological and economical feasibility is confirmed, usually when the research project is approved to begin development by the Company's department of research and development. In determining the amount to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discounted 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 the recent 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. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

At June 30, 2016, the Company had cable and telecommunication assets in British Columbia that were available for sale. Management has commenced a process to sell the disposal group and the sale is expected to be completed within the next 12 months. As a result, assets of $1,486 and liabilities of $707 were classified as held for sale. As of June 30, 2015 these assets and liabilities were part of the YourLink segment total assets and total liabilities.

Financial results attributable to the disposal group have been presented as discontinued operations. The non-current assets that were 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.

During the year ended June 30, 2015, the Company identified impairment indicators in connection to four of its cash-generating units (CGU's) all of which are related to the discontinued operations in British Columbia. These CGU's were determined based on geographic locations. Based on cash flow projections for the next fiscal year and forecasts over four additional years, it was determined that, under current circumstances, these CGU's would likely not be generating positive cash flow going forward. Current forecasting of potential growth as well as cost savings initiatives will not be sufficient to have these CGU's cash flow support the carrying amounts of the CGU's. The recoverable amount of the CGU's was estimated based on a value in use calculation using these cash flow projections from financial budgets approved by senior management covering the next fiscal year. It was determined that the carrying amounts of these CGU's exceeded the estimates of their recoverable amounts and that there had been impairment in the property, plant and equipment in respect of these CGU's. As a result, the Company recorded $457 in impairment charges relating to this property, plant and equipment (see Note 10). These assets were included in the YourLink operating segment.

(in thousands of Canadian dollars except as otherwise noted)

4. DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE continued

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

	2016	2015
Operating revenues	$ **2,631**	$ 3,108
Operating expenses	**3,442**	3,769
Other (benefits) expenses and finance costs	**(13)**	129
Loss from discontinued operations before income tax expense and impairment loss	**(798)**	(790)
Income tax recovery	**(205)**	(203)
Loss from discontinued operations before impairment loss	**(593)**	(587)
Impairment of property, plant and equipment	**-**	457
Income tax recovery related to impairment loss	**-**	(117)
Loss from discontinued operations, net of tax	$ **(593)**	$ (927)

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, subject to a post-closing net working capital adjustment, was financed through cash on hand. This acquisition complements the Company's own telematics business and adds 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, we have engaged third-party valuation specialists. The preliminary allocation of the purchase price of Contigo is 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 is 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 expected to be deductible for tax purposes.

(in thousands of Canadian dollars except as otherwise noted)

5. BUSINESS COMBINATION continued

Sales and net income for the year ended June 30, 2016 include sales of $1,639 and net income of $572 attributable to the additional operations generated by the acquisition of Contigo.

Had the business combination been effective at July 1, 2015, the consolidated revenue of the Company would have been $111,682 and the net income would have been $22,592 for the year ended June 30, 2016. Management considers these "pro-forma" numbers to represent an approximate measure of the performance of the combined group and to provide a reference point for comparison in future periods. In determining these amounts, management has assumed that the fair value adjustments, determined on a preliminary basis, that arose on the acquisition date would have been the same, in all material respects, if the acquisition had occurred on July 1, 2015.

6. CASH AND CASH EQUIVALENTS

		June 30, 2016		June 30, 2015
Cash	**$**	**1,717**	$	8,193
Cash equivalents		**20,505**		4,584
	$	**22,222**	$	12,777

The Company maintains an authorized line of credit of $14,000 (June 30, 2015 - $15,000) of which $nil was drawn on June 30, 2016 (June 30, 2015 - $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, 2016 was 2.70% (June 30, 2015 - 2.85%).

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, 2016. Short-term investments are guaranteed investment certificates.

8. ACCOUNTS RECEIVABLE

		June 30, 2016		June 30, 2015
Trade receivables	**$**	**4,169**	$	13,063
Less allowance for doubtful accounts		**(47)**		(107)
		4,122		12,956
Goods and services tax		**104**		144
Government grants receivable		**434**		-
Other receivables		**14**		14
	$	**4,674**	$	13,114

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.

(in thousands of Canadian dollars except as otherwise noted)

8. ACCOUNTS RECEIVABLE continued

Allowance for doubtful accounts

Opening allowance for doubtful accounts, July 1, 2014	$	165
Charge		270
Write-offs		(326)
Reverse allowance		(2)
Balance, June 30, 2015		107
Charge		**100**
Write-offs		**(156)**
Reverse allowance		**(4)**
Balance, June 30, 2016	**$**	**47**

9. INVENTORIES

		June 30, 2016		June 30, 2015
Raw materials	**$**	**7,035**	$	9,706
Work in progress		**3,239**		4,423
Finished goods		**11,898**		8,819
	$	**22,172**	$	22,948

During the year ended June 30, 2016, inventories of $40,585 (year ended June 30, 2015 - $36,285) were expensed through cost of sales. Write-downs of inventory for the year ended June 30, 2016 were $1,246 (year ended June 30, 2015 - $1,740) and were included in cost of sales. Reversals of write-downs were $nil during the year ended June 30, 2016 ($nil for the year ended June 30, 2015). The carrying amount of inventory recorded at net realizable value was $677 at June 30, 2016 (June 30, 2015 - $1,357) with the remaining inventory recorded at cost.

(in thousands of Canadian dollars except as otherwise noted)

10. PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements & building	Lab, operating & production equipment	Other equipment[(1)]	Total
Cost					
At July 1, 2014	$ 1,121	$ 9,614	$ 37,320	$ 13,696	$ 61,751
Additions	-	250	1,427	577	2,254
Disposals	-	(5)	(1,436)	(262)	(1,703)
At June 30, 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 14)	-	-	(1,167)	-	(1,167)
Disposals	-	(18)	(992)	(184)	(1,194)
Impairment losses recognized in net income (Note 11)	(337)	-	-	-	(337)
Assets held for resale (Note 4)	-	(1,089)	(7,818)	(1,071)	(9,978)
At June 30, 2016	**$ 785**	**$ 8,915**	**$ 32,567**	**$ 13,442**	**$ 55,709**
Accumulated depreciation and impairment					
At July 1, 2014		$ 2,859	$ 26,099	$ 11,334	$ 40,292
Depreciation charge for the year		282	2,169	609	3,060
Disposals		(1)	(1,275)	(242)	(1,518)
Impairment losses recognized in net income (Note 4)		-	457	-	457
At June 30, 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 resale (Note 4)		(846)	(6,981)	(665)	(8,492)
At June 30, 2016		**$ 2,578**	**$ 21,547**	**$ 11,370**	**$ 35,495**
Carrying amount					
At June 30, 2015	$ 1,121	$ 6,719	$ 9,861	$ 2,310	$ 20,011
At June 30, 2016	**$ 785**	**$ 6,337**	**$ 11,020**	**$ 2,072**	**$ 20,214**

The following estimated useful lives have been applied to property, plant and equipment assets at June 30, 2016 and June 30, 2015:

	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 an asset retirement obligation.

(in thousands of Canadian dollars except as otherwise noted)

10. PROPERTY, PLANT AND EQUIPMENT continued

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

	Years ended June 30,	
	2016	2015
Cost of sales	**$ 490**	$ 477
Research and development	**263**	204
General and administrative	**2,069**	2,379
	$ 2,822	$ 3,060

There were impairment losses of $337 during the year ended June 30, 2016 (2015 - $457). See Note 11 for further details.

Other equipment includes a long-term asset retirement obligation, net of amortization, of $884 as at June 30, 2016 (June 30, 2015 - $972).

At June 30, 2016, the Company had other equipment under construction totaling $1,154 (June 30, 2015 - $183). These assets are not yet being depreciated because they are under construction and not yet in use.

At June 30, 2016, the carrying value of assets held under finance leases for equipment, which includes automobiles, was $109 (June 30, 2015 - $175).

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

11. 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 are expected to have a change in use. Based on future cash flow forecast, 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.

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

12. GOODWILL

The carrying amount of goodwill and the related movement during the year ended June 30, 2016 was as follows:

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

During the current and prior year, no impairments were noted for goodwill.

(in thousands of Canadian dollars except as otherwise noted)

13. 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, 2014	$ 640	$ 142	$ 286	$ -	$ 22,106	$23,174
Additions	-	-	24	1,342	8,807	10,173
Investment tax credits	-	-	-	-	(3,001)	(3,001)
Writedown, fully amortized	-	-	-	-	(1,516)	(1,516)
Disposals	(209)	-	-	-	-	(209)
At June 30, 2015	431	142	310	1,342	26,396	28,621
Additions	-	-	33	-	11,163	11,196
Additions through business acquisition	-	4,929	28	1,785	-	6,742
Government grant (Note 14)	-	-	-	-	(403)	(403)
Investment tax credits	-	-	-	-	(2,908)	(2,908)
Writedown, fully amortized	-	-	-	-	(9,221)	(9,221)
At June 30, 2016	**$ 431**	**$ 5,071**	**$ 371**	**$ 3,127**	**$ 25,027**	**$34,027**
Amortization and impairment						
At July 1, 2014	$ -	$ 133	$ 205	$ -	$ 9,558	$ 9,896
Amortization recognized	-	9	33	67	2,932	3,041
Writedown, fully amortized	-	-	-	-	(1,516)	(1,516)
Impairment losses recognized in profit or loss	-	-	-	-	1,192	1,192
At June 30, 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**
Net book value						
At June 30, 2015	$ 431	$ -	$ 72	$ 1,275	$ 14,230	$16,008
At June 30, 2016	**$ 431**	**$ 4,847**	**$ 94**	**$ 2,772**	**$ 18,580**	**$26,724**

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. Impairment of deferred development costs is included in impairment of intangible assets.

The aggregate amount of research and development expenditure during the year ending June 30, 2016 was $18,402 (2015 - $15,677).

(in thousands of Canadian dollars except as otherwise noted)

13. INTANGIBLE ASSETS continued

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

The Company recorded impairment losses of $nil during the year ended June 30, 2016 (2015 - $1,192) for deferred development costs that relate to products or projects that are no longer being pursued by the Company.

14. 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 and April 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 $479 to finance research and development project. During the year ending June 30, 2016, the Company recognized $403 in non-repayable government assistance relating to IRAP as a reduction to intangible assets. At June 30, 2016, the Company had accounts receivable relating to IRAP of $50.

During the period, the Company also recognized government assistance from Industry Canada's Connecting Canadians Program ("DC150"). The joint funding agreement totaling $4,601 is non-repayable and will be used to expand YourLink's network infrastructure in rural Saskatchewan over the next two years. YourLink is required to offer and maintain specific internet connectivity speed at a capped price until November 27, 2022. During the year ending June 30, 2016, the Company recognized $1,167 in non-repayable government assistance relating to this grant as a reduction to property, plant and equipment. At June 30, 2016, the Company had accounts receivable relating to DC150 of $375.

15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		June 30, 2016		June 30, 2015
Accounts payable	**$**	**2,877**	$	4,144
Accrued liabilities		**5,810**		4,961
Short-term finance lease liabilities		**59**		81
	$	**8,746**	$	9,186

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)

16. OTHER LONG-TERM LIABILITIES

	June 30, 2016	June 30, 2015
Finance lease liabilities	**$ 64**	$ 144
Current portion	**(59)**	(81)
	$ 5	$ 63

Finance Leases

Vecima has numerous individual finance leases for automobiles and production equipment. Typically, equipment leased under finance lease has bargain purchase options or a transfer of ownership at the end of the lease.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payment are as follows:

	June 30, 2016		June 30, 2015	
	Minimum lease payments	**Present value of lease payments**	**Minimum lease payments**	**Present value of lease payments**
Within one year	**$ 64**	**$ 59**	$ 89	$ 81
After one year but not more than five years	**5**	**5**	68	63
More than five years	**-**	**-**	-	-
Total minimum lease payments	**69**	**64**	157	144
Less amounts representing finance charges	**5**	**-**	13	-
Present value of minimum lease payments	**$ 64**	**$ 64**	$ 144	$ 144

(in thousands of Canadian dollars except as otherwise noted)

17. PROVISIONS

	Warranty	Asset Retirement Obligation	Other	Total
At July 1, 2014	$ 667	$ 1,380	$ 413	$ 2,460
Additions during the year	571	218	144	933
Amounts utilized	(700)	(7)	(379)	(1,086)
Unwinding of discount and imputed interest	-	(30)	-	(30)
At June 30, 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**
Less current provision	**507**	**-**	**420**	**927**
Long-term provision	**$ -**	**$ 1,167**	**$ -**	**$ 1,167**

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

18. LONG-TERM DEBT

	June 30, 2016	June 30, 2015
Term credit from a Canadian chartered bank, repayable in monthly installments of $21 principal and interest at prime, (2.70% at June 30, 2016), expiring in October 2017, collateralized by a general security agreement. The Company has an authorized loan amount of $3,792.	**$ 2,708**	$ 2,958
Less current portion	**(250)**	(250)
	$ 2,458	$ 2,708

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

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

2017	$ 250
2018	250
2019	250
2020	250
2021	250
Remaining	1,458
	$ 2,708

19. SHARE CAPITAL

(in thousands of Canadian dollars except common share data)

(a) Share capital

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

	Number of Shares	Carrying Value
Balance, July 1, 2014	22,328,348	$ 171
Shares issued by exercising options	48,717	317
Balance, June 30, 2015	22,377,065	488
Shares issued by exercising options	25,644	251
Balance, June 30, 2016	**22,402,709**	**$ 739**

The Company issued 25,644 shares through the exercise of options during the year ended June 30, 2016 (June 30, 2015 - 48,717).

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

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

(in thousands of Canadian dollars except as otherwise noted)

19. SHARE CAPITAL continued

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

	Years ended June 30,	
	2016	2015
Net income: basic and diluted	**$ 21,969**	$ 15,137
Weighted average number of shares outstanding:		
Basic	**22,384,877**	22,348,093
Dilutive stock options	**63,250**	56,060
Diluted	**22,448,127**	22,404,153
Net income per share: basic	**$ 0.98**	$ 0.68
Net income per share: diluted	**$ 0.98**	$ 0.68

Stock options could potentially dilute basic net income per share in the future. Options to purchase 322,748 common shares were vested and outstanding at June 30, 2016 (June 30, 2015 - 164,556). 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)

19. SHARE CAPITAL continued

(c) Stock option plan continued

The changes in options and the number of options outstanding for the years ended June 30, 2016 and June 30, 2015 are as follows:

	Number of options	Weighted average exercise price
Outstanding, July 1, 2014	174,911	$ 6.54
Granted	388,500	8.62
Exercised	(48,717)	4.84
Expired and forfeited	(55,196)	6.53
Outstanding, June 30, 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**
Vested and exercisable	**322,748**	**$ 8.34**

At June 30, 2016, the exercise prices range from $2.72 to $19.34 with the weighted average exercise price being $8.49. The options outstanding at June 30, 2016 have a weighted average contractual life of 4.27 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	1.38	$ 2.72	4,020	$ 2.72
$3.01 to $5.00	27,352	1.37	4.24	24,352	4.20
$5.01 to $10.00	371,500	4.41	8.62	275,625	8.62
$10.01 to $19.34	54,020	5.18	10.57	18,751	10.76
	456,892	4.27	$ 8.49	322,748	$ 8.34

(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 $502 for the year ended June 30, 2016 (June 30, 2015 - $502).

(in thousands of Canadian dollars except as otherwise noted)

19. SHARE CAPITAL continued

The weighted average estimated fair value for the common share options granted in the year was $4 (2015 - $1,118). Management used the following assumptions within the Black-Scholes and binomial option-pricing model:

Weighted average share price	**$ 10.78**
Expected option life	**6.01 years**
Risk-free rate of return	**1.43 %**
Volatility factor	**41.17 %**
Expected dividends	**1.66 %**

20. OTHER EXPENSE (INCOME)

	Years ended June 30, 2016	2015
Gain on sale of assets held for sale	**$ -**	$ (493)
Loss on sale of property, plant and equipment	**48**	160
Loss on disposal of indefinite-life intangible assets	**-**	209
Other	**(11)**	(5)
	$ 37	$ (129)

21. FINANCE INCOME (EXPENSE)

	Years ended June 30, 2016	2015
Interest income	**$ 984**	$ 735
Operating line fees	**(15)**	(16)
Term credit interest	**(76)**	(93)
Finance lease interest	**(11)**	(16)
Unwinding of discount and imputed interest	**(6)**	157
Other	**2**	(6)
	$ 878	$ 761

22. ADDITIONAL EXPENSE INFORMATION

Depreciation and amortization included in cost of sales and operating expenses

	Years ended June 30, 2016	2015
Depreciation of property, plant and equipment	**$ 2,526**	$ 2,403
Amortization of finite-life intangible assets	**409**	109
Amortization of deferred development costs	**3,502**	2,932
	$ 6,437	$ 5,444

(in thousands of Canadian dollars except as otherwise noted)

22. ADDITIONAL EXPENSE INFORMATION continued

Employee benefit expenses included in cost of sales and operating expenses

	Years ended June 30, 2016	2015
Wages and salaries	**$ 30,957**	$ 29,124
Employee deferred profit sharing plan	**1,111**	970
Health care benefits	**1,414**	1,801
	$ 33,482	$ 31,895

23. 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, 2016	June 30, 2015
Tax assets		
Provision for warranties	**$ 230**	$ 169
Unrealized foreign exchange losses	**256**	-
Non-capital losses	**-**	1,525
Property, plant and equipment	**4,331**	4,328
Research and development expenditures	**1,284**	4,829
Asset retirement obligation	**504**	418
Other	**2**	9
	6,607	11,278
Tax liabilities		
Unrealized foreign exchange gains	**-**	125
Intangibles	**-**	403
Other	**335**	259
	335	787
Net total	**$ 6,272**	$ 10,491

(in thousands of Canadian dollars except as otherwise noted)

23. INCOME TAXES continued

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

	Years ended June 30, 2016	2015
Current income taxes	$ 4,436	$ 6,820
Deferred income taxes	3,884	(848)
	$ 8,320	$ 5,972

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, 2016	2015
Income before income taxes	$ 30,882	$ 22,036
Substantively enacted tax rates	25.5 %	25.8 %
Tax computed at substantively enacted rates	7,861	5,674
Differences in substantively enacted future rates	72	-
Non-deductible stock compensation expense	128	129
Non-taxable portion of capital gains	-	(60)
Non-deductible expenses	177	95
Other	82	134
Income tax provision	$ 8,320	$ 5,972

The tax assets include $nil (2015 - $6,059) of Canadian non-capital losses.

24. INVESTMENT TAX CREDIT

During the year ended June 30, 2016, the Company recorded investment tax credits of $3,034 (2015 - $3,510), with a $nil (2015 - $7) reduction of property, plant and equipment, $2,909 (2015 - $3,001) reduction of deferred development costs and $(10) (2015 - $465) reduction of research and development expenses.

(in thousands of Canadian dollars except as otherwise noted)

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

	Notes	Years ended June 30, 2016	2015
Loss on sale of property, plant and equipment	20	$ 48	$ 160
Gain on assets held for resale	20	-	(493)
Loss on disposal of indefinite-life intangible assets	20	-	209
Impairment of intangible assets	13	-	1,192
Impairment of property, plant and equipment	10	337	-
Depreciation of property, plant and equipment	10	2,526	2,403
Amortization of deferred development costs	13	3,502	2,932
Amortization of finite-life intangible assets	13	409	109
Stock-based compensation	19	502	502
Current income taxes	23	4,436	6,821
Deferred income taxes (recovery)	23	3,884	(848)
Interest expense		106	(26)
Interest income	21	(984)	(735)
		$ 14,766	$ 12,226

26. 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, 2016	2015
(Increase) decrease in current assets		
Accounts receivable	$ 9,342	$ (1,629)
Inventories	799	2,054
Prepaid expenses	71	(459)
Income tax receivable	(2,820)	508
	7,392	474
(Decrease) increase in current liabilities		
Accounts payable and accrued liabilities	154	(459)
Deferred revenue	513	288
	667	(171)
	$ 8,059	$ 303

(in thousands of Canadian dollars except as otherwise noted)

27. SEGMENTED FINANCIAL INFORMATION

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

	Year ended June 30, 2016				
	Video and Broadband Solutions	YourLink	Telematics	Inter Segment Eliminations	Total
Sales - external customers	$ 96,016	$ 10,057	$ 2,348	$ -	$ 108,421
Sales - inter-segment	15	17	-	(32)	-
Cost of sales	42,563	2,485	1,594	(32)	46,610
Gross profit	**53,468**	**7,589**	**754**	**-**	**61,811**
Operating expenses	18,757	5,043	1,651	-	25,451
Depreciation and amortization	5,041	1,119	276	-	6,436
Operating income (loss)	**29,670**	**1,427**	**(1,173)**	**-**	**29,924**
Finance income	894	(16)	-	-	878
Foreign exchange gain (loss)	56	34	(10)	-	80
Income (loss) before income taxes	**30,620**	**1,445**	**(1,183)**	**-**	**30,882**
Income tax expense (recovery)	8,190	405	(275)	-	8,320
Net income (loss) and comprehensive income (loss) from continuing operations	**22,430**	**1,040**	**(908)**	**-**	**22,562**
Net loss and comprehensive loss from discontinued operations	**-**	**(593)**	**-**	**-**	**(593)**
Net income (loss) and comprehensive income (loss)	**$ 22,430**	**$ 447**	**$ (908)**	**$ -**	**$ 21,969**
Total assets	**$ 157,613**	**$ 14,389**	**$ 14,421**	**$ (178)**	**$ 186,245**
Total liabilities	**$ 12,523**	**$ 4,081**	**$ 598**	**$ -**	**$ 17,202**

(in thousands of Canadian dollars except as otherwise noted)

27. SEGMENTED FINANCIAL INFORMATION continued

	Year ended June 30, 2015				
	Video and Broadband Solutions	YourLink	Telematics	Inter Segment Eliminations	Total
Sales - external customers	$ 79,755	$ 10,592	$ 593	$ -	$ 90,940
Sales - inter-segment	75	73	-	(148)	-
Cost of sales	38,505	2,077	668	(148)	41,102
Gross profit	**41,325**	**8,588**	(75)	**-**	**49,838**
Operating expenses	19,048	4,481	1,381	-	24,910
Depreciation and amortization	4,340	1,056	48	-	5,444
Operating income (loss)	**17,937**	**3,051**	**(1,504)**	**-**	**19,484**
Finance income	627	134	**-**	-	761
Foreign exchange gain	1,791	-	**-**	-	1,791
Income (loss) before income taxes	**20,355**	**3,185**	**(1,504)**	**-**	**22,036**
Income tax expense (recovery)	5,551	804	(383)	-	5,972
Net income (loss) and comprehensive income (loss) from continuing operations	**14,804**	**2,381**	**(1,121)**	**-**	**16,064**
Net loss and comprehensive loss from discontinued operations	**-**	**(927)**	**-**	**-**	**(927)**
Net income (loss) and comprehensive income (loss)	**$ 14,804**	**$ 1,454**	**$ (1,121)**	**$ -**	**15,137**
Total assets	**$ 161,712**	**$ 16,133**	**$ -**	**$ (9,773)**	**$ 168,072**
Total liabilities	**$ 13,753**	**$ 2,995**	**$ -**	**$ -**	**$ 16,748**

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

Geographical:

	Years ended June 30,	
	2016	2015
Sales to external customers		
United States	**$ 80,990**	$ 72,639
Canada	**18,301**	16,905
Other	**9,130**	1,396
	$ 108,421	$ 90,940

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)

27. SEGMENTED FINANCIAL INFORMATION continued

		Years ended June 30,		
		2016		2015
Sales to major customers accounting for more than 10% of sales				
Customer A	**$**	**34,835**	$	43,247
Customer B		**19,833**		-
Customer C		**14,571**		-
	$	**69,239**	$	43,247

The sales to these major customers are within the Video and Broadband Solutions segment. Customers B and C were below 10% of sales in the year ended June 30, 2015 and the amounts are not shown.

28. 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 fifteen 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, 2016		June 30, 2015
Within one year	**$**	**1,577**	$	1,503
After one year but not more than five years		**2,284**		3,477
More than five years		**-**		2
	$	**3,861**	$	4,982

Lease and sublease payments recognized as an expense for the year ending June 30, 2016 include $nil in general and administrative expenses (June 30, 2015 - $1,625).

29. 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.

(in thousands of Canadian dollars except as otherwise noted)

29. RELATED PARTY TRANSACTIONS continued

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

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

Compensation of key management personnel of the company:

	Years ended June 30,	
	2016	2015
Salaries and short-term employee benefits	**$ 1,187**	$ 1,055
Post-employment pension	**40**	34
Stock-based compensation	**218**	247
	$ 1,445	$ 1,336

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 $nil for the year ended June 30, 2016 (2015 - $565). Key management personnel were not awarded any stock options in the year ended June 30, 2016 (2015 - 185,000). 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, 2016 (year ended June 30, 2015 - $282).

30. 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).

(in thousands of Canadian dollars except as otherwise noted)

30. FAIR VALUE HIERARCHY continued

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

June 30, 2016

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

June 30, 2015

	Total	Level 1	Level 2	Level 3
Short-term investments	$ 46,894	$ 46,894	$ -	$ -

During the years ending June 30, 2016 and June 30, 2015, 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.

Derivative financial instruments are included in accounts receivable (June 30, 2015 - accounts receivable) in the consolidated statement of financial position.

31. FINANCIAL INSTRUMENTS RISK MANAGEMENT

Financial Risks

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

Credit Risk

Cash and cash equivalents are placed with major Canadian financial institutions rated in the two highest grades by nationally recognized ratings agencies. Concentration of credit risk exists with respect to the Company's cash and cash equivalents, as all amounts are held at major Canadian financial institutions. Credit risk is also managed by maintaining short-term investments (short-term deposits in cashable Guaranteed Investment Certificates) with Canadian financial institutions rated in the two highest grades by nationally recognized ratings agencies and British Columbia credit unions. Deposits with British Columbia 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, 2016 of $46 (June 30, 2015 - $165). At June 30, 2016, the Company had three major customers (June 30, 2015 - three) who accounted for approximately 54% (June 30, 2015 - 70%) of the year-end accounts receivable balance.

(in thousands of Canadian dollars except as otherwise noted)

31. FINANCIAL INSTRUMENTS RISK MANAGEMENT continued

Credit Risk continued

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

	June 30, 2016	June 30, 2015
Current	**$ 3,284**	$ 12,170
31 to 60 days	**699**	495
61 to 90 days	**74**	203
Over 90 days	**65**	88
	$ 4,122	$ 12,956

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, 2016, the remaining amount available to be drawn under this credit facility is $14,000.

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

		Payments due within		
	Carrying Amount of Liability	**1 year**	**1-3 years**	**Thereafter**
Accounts payable and accrued liabilities	**$ 8,746**	**$ 8,746**	**$ -**	**$ -**
Long-term debt obligations	**2,708**	**250**	**750**	**1,708**
Other long-term liabilities	**5**	**-**	**5**	**-**
	$ 11,459	**$ 8,996**	**$ 755**	**$ 1,708**

Currency Risk

Approximately 89% (June 30, 2015 - 85%) of the Company's sales are denominated in USD and the Company enters into forward foreign exchange contracts to manage foreign currency exchange risk related to exposures of the exchange rates for the Canadian dollar. These contracts are considered "held for trading" instruments. Changes in the value of these contracts are recorded as an element of finance income or finance costs.

As of June 30, 2016 and 2015, the total gross notional amount of the Company's forward foreign exchange contracts was $nil USD. Changes in the fair value of these instruments are included in other income in the current year.

For the year ended June 30, 2016, 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 $668 (June 30, 2015 - $551) higher or lower.

31. FINANCIAL INSTRUMENTS RISK MANAGEMENT continued

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 $467 change to net income for the year ended June 30, 2016 (June 30, 2015 - $370).

32. 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, 2016 was $171,751 (June 30, 2015 - $154,282). 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 product and, to fund the expansion of its manufacturing facilities, providing an opportunity to reinforce its market position.

Under its various 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.

33. SUBSEQUENT EVENTS

On September 23, 2016, the Board of Directors declared a dividend of $0.055 per common share, payable on November 2, 2016 to shareholders of record as at October 12, 2016 consistent with its previously announced dividend policy.