



FIRST QUARTER RESULTS

*Management's Discussion and Analysis and
Interim Condensed Consolidated Financial Statements of*

VECIMA NETWORKS INC.

*For the three months ended September 30, 2022 and 2021
(unaudited)*

Vecima Networks Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
November 8, 2022

This Management's Discussion and Analysis ("MD&A") provides a review of significant developments that have affected the performance of Vecima Networks Inc. ("Vecima" or the "Company") during the three months ended September 30, 2022.

Our MD&A supplements, but does not form part of, our interim condensed consolidated financial statements and related notes for the three months ended September 30, 2022 and 2021. Consequently, the following discussion and analysis of the financial condition and results of operations should be read in conjunction with the interim condensed consolidated financial statements and accompanying notes for the three months ended September 30, 2022 and 2021 which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Our MD&A also includes certain non-IFRS financial measures which we use as supplemental indicators of our operating performance and financial position, as well as for internal planning purposes.

The content of this MD&A contains forward-looking statements, which are subject to risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements. Forward-looking statements include, but are not limited to, our expectations related to general economic conditions and market trends and their anticipated effects on our business segments, our expectations related to customer demand and the impacts of the novel coronavirus pandemic ("COVID-19"). For additional information related to forward-looking statements and material risks associated with them, please see the "Additional Information - Forward-Looking Information" section of this MD&A.

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

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1. Company Overview

Vecima Networks Inc. (“TSX: VCM”) is a Canadian company founded in 1988 in Saskatoon, Saskatchewan. Today, Vecima has a global presence with offices in Victoria, Burnaby, Duluth, Raleigh, San Jose, Qingdao, Shanghai, Tokyo, Amsterdam, and manufacturing and research and development (“R&D”) facilities in Saskatoon. Vecima's corporate head office is located in Victoria, British Columbia. Vecima is a global leader focused on developing integrated hardware and scalable software solutions for broadband access, content delivery, and telematics. We enable the world's leading innovators to advance, connect, entertain, and analyze. We build technologies that provide internet video delivery and storage (IPTV) and next-generation high-speed broadband network access.

Vecima's business is organized into three segments:

1) **Video and Broadband Solutions** (“VBS”) includes platforms that process data from the cable network and deliver high-speed internet connectivity to homes over cable and fiber as well as adapt video services to formats suitable to be consumed on televisions in commercial properties.

a. Our next-generation Entra™ family of products and platforms addresses the network migration to a Distributed Access Architecture (as described below under Industry Developments). The Entra Distributed Access Architecture platform is Vecima's realization of the next generation of hybrid fiber coaxial (“HFC”) and fiber to the home (“FTTH”) nodes as optical transport moves away from analog distribution to fully digital distribution. Our goal is to provide the market's most flexible and complete portfolio of broadband access infrastructure products driving the future of ultra-high speed networks to multi-gigabit per second symmetrical access.

The Entra Distributed Access Architecture (“DAA”) family of products is divided into five core categories:

- EntraPHY - Multiple variants of the Entra Access Node that can operate as Remote PHY, providing a modular highly interoperable platform for deployment of access technologies, leveraging billions of dollars of investment in coaxial cable;
- EntraMAC - Multiple variants of the Entra Access Node that can operate as Remote MAC-PHY, providing the full next-generation access network within the Entra digital node, leveraging billions of dollars of investment in coaxial cable;
- EntraOptical - Consists of both chassis and node based FTTH access technologies in areas of the service provider network where FTTH is practical and advantageous;
- EntraControl – a virtual cloud-based platform with centralized orchestration and control across all Entra products:
 - The Entra Remote PHY Monitor (“RPM”), which offers unified control software for management, service assurance and monitoring of access nodes;
 - The Entra Video QAM Manager (“VQM”), which allows for the integration of video in a DAA environment, leveraging existing video generation infrastructure by providing a direct pathway for video through to the Entra node; and
 - The Entra Access Controller (“EAC”) virtualizes all of the control components allowing for the distribution of the data processing to the edge and into the Entra MAC and Entra Optical nodes; and
- EntraVideo – a suite of products facilitating the migration from legacy architectures to next-generation distributed access architectures:
 - The Entra Legacy QAM Adapter (“LQA”) and DV-12, which provide a simple solution to adapt existing video QAM infrastructure for distributed access; and
 - The Entra Interactive Video Controller (“IVC”), which supports essential two-way network connectivity for legacy set-top boxes that are heavily deployed and in service today.

b. Our Terrace and TerraceQAM product families meet the unique needs of the business services vertical, including MDU (“multi-dwelling units”) and hospitality (including hotels, motels and resorts) by adapting video services to the individual business requirements and leveraging existing televisions in rooms.

- 2) **Content Delivery and Storage** (“CDS”) includes solutions and software, under the MediaScale brand, for service providers and content owners that focus on ingesting, producing, storing, delivering and streaming video for live linear, Video on Demand (“VOD”), network Digital Video Recorder (“nDVR”) and time-shifted services over the internet.

MediaScale

- **Transcode:** transforms live and OnDemand content utilizing state-of-the-art GPU technology, creating beautiful, cost-effective content for any device;
- **Origin:** packages and secures video for streaming over-the-top (“OTT”) or through a service provider managed network, regardless of network technology;
- **Storage:** captures live, OnDemand, and DVR content, holds it indefinitely, and allows for future streaming, rewind, fast-forward and pause; and
- **Cache:** highly scalable, streaming platform, providing the ability to serve content to all IP and legacy devices, including Streaming Video Alliance Open Cache technology to allow operators to cache and monetize OTT content. Strategically geographically located to minimize network latency and optimize the end user streaming experience.

- 3) **Telematics** provides fleet managers with the key information and analytics they require to optimally manage their mobile and fixed assets under the Contigo and Nero Global Tracking brands. Vecima’s Telematics solutions allow fleets and high value assets to be tracked, managed, reported on and optimized over a subscription-based cloud portal serving commercial and municipal government customers.

2. Industry Developments

Video and Broadband Solutions

Over the last several years, the cable industry has been transitioning towards DAA under the latest data over cable system interface specification (“DOCSIS”) standards. Multiple top-tier and mid-tier players have initiated a roll-out of this new platform with further large-scale deployments anticipated over the next several years. DAA is a critical evolution for the industry in that it unlocks gigabit broadband speeds over existing coaxial cable by allowing data transmission up to 10 Gigabits per second (“Gbps”) for download speed and 3 Gbps for upload speed today and growing to 6 Gbps upload in the future. The speed provided by DAA using coaxial cable is comparable to that of fiber optic connections, thereby allowing cable operators to leverage their systems without the significant added infrastructure costs of building fiber to the home. Global cable operators expect to benefit from a flexible migration given that DOCSIS 3.1 modems can coexist with older versions and build on top of their previously deployed capacity. The higher efficiency of DAA technology also enables significant cost-per-bit reductions relative to legacy DOCSIS network solutions.

Starting in calendar 2020, the cable market began a broad shift towards DAA, as more operators recognized its suitability for market needs in terms of speed, agility, user experience and cost savings. The impacts of the COVID-19 pandemic have further increased demands on network bandwidth, accelerating the push towards distributed access solutions.

In 2020, Cable Television Laboratories or CableLabs, a not-for-profit innovation and research and development lab that works in cooperation with cable companies and cable equipment manufacturers, released the DOCSIS 4.0 specifications which includes full duplex DOCSIS (“FDX”) and extended spectrum DOCSIS (“ESD”), allowing multi-system operators (“MSO”) to significantly increase their total capacity while leveraging their past coaxial infrastructure investment.

Increasingly, service providers are strategically extending their networks with an all-fiber architecture using cable specific fiber to the home (“10G EPON”) technology. Further, government funding is being made available to subsidize widescale fiber network buildouts with an emphasis on rural areas that are currently underserved. Operators have favoured architectures and products that allow them to cohesively orchestrate both coaxial and fiber access networks over a common cloud management platform.

Content Delivery and Storage

Global demand for Internet Protocol (“IP”) video content delivery and storage is growing, driven by the rapidly increasing consumption of IP video as consumers turn to streaming services, and cable operators make vast arrays of new IP video content available to subscribers. Service providers are also pursuing new DVR opportunities that shift delivery and storage away from traditional set-top storage to cloud-based models.

According to the latest industry analysis in the Cisco Visual Networking Index™, consumer Video on Demand traffic is expected to double by the end of 2022 with IP video comprising 82% of all IP traffic. Content owners and broadcasters are also leveraging IPTV technologies to deliver services directly to subscribers using OTT business models. Open cache technology, such as that being standardized by the streaming video alliance is aimed at consolidating IPTV traffic utilizing strategically placed cache capacity that reduces cost and network latency.

Telematics

Traditional vehicle telematics is widely available for commercial fleets, but operations managers increasingly demand additional value to improve productivity of personnel and investment in the entire asset base. This has created additional opportunities to leverage asset tracking technology used in the Internet of Things to cost-effectively monitor mobile or fixed assets in the field, particularly in service-based industries where asset utilization can drive a stronger profit margin. Managers in these asset-intensive industries can use key information and analytics to optimally manage their mobile and fixed assets using subscription-based cloud portals.

Our Strategy

Our growth strategy focuses on the development of our core technologies, including next-generation platforms such as our Entra DAA platform, as well as our IP video storage and distribution technologies being sold and deployed under the MediaScale brand within the Content Delivery and Storage segment. We will continue to pursue profitable growth both organically and when appropriate, through value-enhancing strategic acquisitions.

3. First Quarter Fiscal 2023 Highlights

Financial and Corporate Highlights

- Achieved a new quarterly revenue record with first quarter sales climbing 127% to \$73.4 million, from \$32.4 million in Q1 fiscal 2022
- Gross profit climbed 115% to \$33.7 million, up from \$15.7 million last year
- Adjusted EBITDA grew 296% to a record \$17.2 million, from \$4.3 million in the prior-year period
- EPS and Adjusted EPS increased 14 times to \$0.41 per share, from \$0.03 per share in Q1 fiscal 2022
- Ended the first quarter in strong financial position with working capital of \$66.8 million at September 30, 2022, compared to \$58.6 million at June 30, 2022

Video and Broadband Solutions (VBS)

- Generated exceptional segment sales growth with Q1 VBS sales climbing 151% to \$61.0 million year-over-year and 23% quarter-over-quarter from the \$49.4 million in Q4 fiscal 2022

DAA (Entra Family)

- Deployments of next-generation Entra DAA products rose 192% year-over-year to \$53.0 million and 32% to \$40.0 million quarter-over-quarter
- Notable DAA achievements in Q1 fiscal 2023 included:
 - An increase in total customer engagements to 95 MSOs worldwide, from 77 a year earlier. Forty-nine of these customers are ordering Entra products, with order sizes increasing as broader DAA deployment is continuing
 - Customers engaged for cable access now number 57
 - Customers engaged for fiber access or both access technologies now number 38
 - Significant market adoption of our next-generation fiber and cable access solutions with deployments at eight of the twelve largest cable operators in North America. The Vecima DAA solutions being deployed by these top operators include Remote PHY and Remote MACPHY cable access nodes and 10G-EPON shelf and Remote OLT (Optical Line Terminal) fiber access
 - Continued to hold the majority market share, globally, for FTTH 10G-EPON Remote OLT and DAA Remote MACPHY nodes

- Expanded our PON portfolio with the launch of the Entra EXS1610 All-PON 10G shelf solution, which broadly supports widely deployed PON standards including both XGS-PON and 10G-EPON. This new platform enables service providers to shorten the time to market for FTTP solutions and provides Vecima with access to a vast new addressable market valued at close to \$2 billion globally
- Demonstrated 10G-capable multi-gigabit symmetrical speed DOCSIS 4.0 in partnership with a leading global Tier 1 operator. This multi-vendor demonstration, which showcased an extension to 1.8 GHz cable frequencies, highlighted the massive capacity available through incremental upgrades to the cable access network with DAA nodes
- Announced next-generation Remote PHY Device (RPD), the ERM322 module, a fully interoperable Remote PHY solution available for both Vecima's leading cable access platforms and to extend the life of widely deployed, third-party cable access nodes

Commercial Video (Terrace Family)

- Grew Q1 Commercial Video sales by 19% to \$7.3 million, from \$6.1 million in Q1 fiscal 2022
- Grew Terrace family sales to \$3.0 million in Q1, from \$1.4 million in Q1 fiscal 2022
- Generated Terrace QAM sales of \$4.3 million in Q1 fiscal 2023, as compared to \$4.8 million in Q1 fiscal 2022
- Launched new Community Cache solution combining MediaScale and Terrace products to empower operators to efficiently increase bandwidth for data services, utilize the latest IPTV user interfaces, and support legacy video delivery, particularly suited to use cases such as multi-dwelling units. Using the Community Cache solution, a live linear broadcast IPTV channel only has to be delivered from the network once rather than for each individual viewer, saving considerable network bandwidth.

Content Delivery and Storage (CDS)

- Grew CDS sales to \$11.0 million in Q1 fiscal 2023, from \$6.8 million in Q1 fiscal 2022 and \$9.2 million in Q4 fiscal 2022
- Achieved an additional telco win for IPTV linear and Video on Demand (VOD)
- Began Phase 2 expansion of IPTV deployment with a Tier 2 telco provider in the U.S., broadening the network's footprint to give a larger subscriber base access to state-of-the-art live, on-demand, and cloud DVR streaming services
- Continued coverage expansion with a large Tier 1 customer in CALA, with MediaScale solutions now deployed across nine countries in the customer's network
- Announced Blue Stream Fiber will deploy Vecima community cache solution with MediaScale MicroCache to help reclaim video bandwidth to fuel broadband speeds
- Released Origin 5.1, increasing redundancy and resiliency options for deploying linear services, broadening support for Multi-DRM scenarios, and expanding support for service providers looking to increase audio profiles available with their payTV content
- Released Cache 6.0 providing support for linear dynamic ad insertion, increasing cache efficiency for Common Encryption (CENC) use cases, and expanding deployment options for public and private cloud scenarios.

Telematics

- Generated additional deployments in high-value verticals, including municipal government and moveable asset customers
- Achieved our best quarter to date for additions of new moveable asset customers, adding 12 new subscribers to the NERO asset tracking platform, and significantly increasing the number of moveable assets being monitored to over 28,000 units
- Achieved strong gross margin percentage of 66.1%

4. Outlook

Around the globe, high levels of utilization across our customers' cable, fiber, and IPTV networks, and increasing competition and investment amongst all broadband service providers, is requiring MSOs to expand capacity and increase speeds across their networks. Vecima is responding to this intensification of demand with an industry-leading portfolio of DAA, commercial video and IPTV solutions that enable our customers to expand their capacity and network offerings.

In our Video and Broadband Solutions (“VBS”) segment, heavy demand for our next-generation DAA cable and fiber access products continues to escalate. Accelerated Q1 deliveries included some shipping pull-ins from Q2 as we responded to high customer demand and took advantage of material availability. As a result of these pull-ins to Q1, we anticipate similar quarterly sales across the first half of fiscal 2023 following the exceptionally strong growth pace achieved in Q1. Overall, we continue to expect full year Entra family product sales to grow significantly in fiscal 2023, supported by the industry's strongest and most relevant portfolio of DAA Remote PHY, Remote MACPHY, access controller and 10G-EPON FTTH solutions; our expanding relationships with a large number of cable operators worldwide, and a growing backlog of customer purchase orders and binding forecasts providing excellent demand visibility. We also emphasize that we are still in the early stages of broad industry DAA adoption. We see an extraordinary and lengthy growth runway for Entra and are focused on leveraging our industry-leading product portfolio, strong customer relationships, and growing global reach to continue capturing market share in this large and rapidly growing market.

In addition to Entra growth, we expect fiscal 2023 to bring continued strong demand for our TerraceQAM commercial video solution. We anticipate an overall decrease in Terrace family sales in fiscal 2023 as customers transition to next-generation solutions.

In our Content Delivery and Storage (“CDS”) segment, demand for our IPTV and open caching solutions continues to increase and we anticipate moderate sales growth for this segment in fiscal 2023. Over the medium-to-longer term, we see significantly higher growth potential as IPTV gains momentum and our newer open caching solutions become an important driver of CDS performance.

In the Telematics segment, we anticipate incremental growth in demand from the fleet tracking market in fiscal 2023, along with continued gradual growth in demand for our asset tracking services.

We note that global supply chain challenges persist and have the potential to constrain or impact our revenue growth and put pressure on gross margins. We have significantly increased our inventories of finished goods and raw materials and boosted our investments in expediting working capital to help us respond to our growing order backlog, leveraging our strong financial position and excellent supplier relationships as we address the fast-growing demand for our next-generation solutions. As a preeminent builder of the broadband and IPTV networks of tomorrow, Vecima is fueling the needs of customers today, investments that we expect to pay dividends for years to come.

5. COVID-19 Business Update

As the COVID-19 pandemic continues to evolve, it remains difficult to predict what economic, supply chain, network development or other impacts it may have on our business going forward. We remain focused on protecting the health of our employees, partners and customers, while maintaining the continuity of our business operations. We continue to operate remotely across much of our business operations, with more than 80% of our employees able to perform their job function outside of a Vecima facility. We will continue to closely monitor the effects of the pandemic on our business in all regions that we serve and make adjustments to our business as necessary.

Supply Chain Challenges: Among the challenges arising from the pandemic is ongoing global supply chain tightness from key component suppliers. While we have responded to these challenges effectively as described in our “Outlook” above, we caution that supply chain tightness has the potential to constrain our ability to fully deliver and meet demand for our products, while also negatively impacting our gross margins.

Please see “Risks and Uncertainties and COVID-19” and “Forward Looking Information” for more information on COVID-19 as it pertains to our business.

6. Consolidated Results of Operations

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

Consolidated Statements of Comprehensive Income (Loss) Data <i>(in thousands of dollars except common share data)</i>	Three months ended September 30,					
	2022		2021			
Sales	\$	73,447	100%	\$	32,395	100%
Cost of sales		39,706	54%		16,693	52%
Gross profit		33,741	46%		15,702	48%
Operating expenses						
Research and development ⁽¹⁾		10,705	15%		8,008	25%
Sales and marketing		6,304	8%		4,101	13%
General and administrative		5,594	8%		4,686	14%
Share-based compensation		98	-%		688	2%
Other expense		21	-%		6	-%
		22,722	31%		17,489	54%
Operating income (loss)		11,019	15%		(1,787)	(6)%
Finance expense		(201)	-%		(42)	-%
Foreign exchange gain		1,302	2%		1,107	3%
Income (loss) before taxes		12,120	17%		(722)	(3)%
Income tax expense (recovery)		2,608	4%		(1,464)	(5)%
Net income		9,512	13%		742	2%
Other comprehensive income		2,369	3%		916	3%
Comprehensive income	\$	11,881	16%	\$	1,658	5%
Net income per share⁽²⁾						
Basic	\$	0.41		\$	0.03	
Diluted	\$	0.41		\$	0.03	
Other Data						
Total research and development expenditures	\$	13,507		\$	9,591	
Adjusted EBITDA	\$	17,189		\$	4,339	
Adjusted earnings per share	\$	0.41		\$	0.03	
Number of employees		607			492	

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

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

(3) Amounts are from continuing operations. See "Total Research and Development Expenditures".

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

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

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

Consolidated Statements of Financial Position <i>(in thousands of dollars except common share data)</i>	September 30,		June 30,	
	2022		2022	
Cash and cash equivalents ⁽¹⁾	\$	(2,488)	\$	12,902
Working capital	\$	66,756	\$	58,571
Total assets	\$	294,553	\$	262,608
Long-term debt ⁽²⁾	\$	15,092	\$	15,115
Shareholders' equity	\$	190,445	\$	179,732
Number of common shares outstanding ⁽³⁾		23,104,507		23,079,181

(1) Includes bank overdraft

(2) Since fiscal 2020 long-term debt now includes lease liabilities per IFRS 16.

(3) Based on weighted average number of common shares outstanding.

Adjusted Net Income and 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 the sale of non-core property, plant and equipment (“PP&E”), intangible assets, and assets held for sale, impairments of intangible assets, restructuring costs, and the tax effect of these adjusted items. We believe that adjusted net income and adjusted earnings per share provides supplemental information for management and our investors because they provide for the analysis of our results exclusive of certain items which do not directly correlate to our business of selling broadband access products, content delivery and storage products and services or supplying telematic services. Adjusted net income and adjusted earnings per share do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers.

Calculation of Adjusted Earning per Share <i>(in thousands of dollars except per share amounts)</i>	Three months ended September 30,	
	2022	2021
Net income	\$ 9,512	\$ 742
Loss on sale of non-core PP&E, net of tax	9	-
Adjusted net income	\$ 9,521	\$ 742
Net income per share	\$ 0.41	\$ 0.03
Loss on sale of non-core PP&E, net of tax	-	-
Adjusted earnings per share⁽¹⁾⁽²⁾	\$ 0.41	\$ 0.03

⁽¹⁾ Adjusted earnings per share includes non-cash share-based compensation of \$0.1 million or \$nil per share for the three months ended September 30, 2022, and \$0.7 million or \$0.03 per share for the three months ended September 30, 2021. The non-cash share-based compensation primarily reflects certain performance-based vesting thresholds achieved under the Company’s Performance Share Unit Plan.

⁽²⁾ Adjusted earnings per share includes foreign exchange gain of \$1.3 million or \$0.06 per share for the three months ended September 30, 2022 and \$1.1 million or \$0.05 per share for the three months ended September 30, 2021.

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 PP&E, right-of-use assets, deferred development and intangible assets. The term “Adjusted EBITDA” refers to EBITDA adjusted for: gains and losses on sale of PP&E, intangible assets, and assets held for sale; impairment of PP&E; impairment of deferred development costs and other intangible assets; restructuring costs; and share-based 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, content delivery and storage products and services or supplying telematic services. EBITDA and Adjusted EBITDA are not recognized measures under IFRS and, accordingly, investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as alternatives to net income, determined in accordance with IFRS, or as indicators of our financial performance or as measures of our liquidity and cash flows.

Calculation of Adjusted EBITDA <i>(in thousands of dollars)</i>	Three months ended September 30,	
	2022	2021
Net income	\$ 9,512	\$ 742
Income tax expense (recovery)	2,608	(1,464)
Interest expense	212	50
Depreciation of PP&E	794	612
Depreciation of right-of-use assets	333	412
Amortization of deferred development costs	2,819	2,517
Amortization of intangible assets	804	777
EBITDA	17,082	3,646
Loss on sale of property, plant and equipment	9	5
Share-based compensation	98	688
Adjusted EBITDA	\$ 17,189	\$ 4,339
Percentage of sales	23%	13%

Total Research and Development Expenditures

The following table reconciles research and development expenses reported in accordance with IFRS as shown on the consolidated statements of comprehensive income (research and development) to our actual cash research and development expenditures (total research and development expenditures) below:

Calculation of Research and Development Expenditures <i>(in thousands of dollars)</i>	Three months ended September 30,	
	2022	2021
Research and development per statement of income	\$ 10,705	\$ 8,008
Deferred development costs	5,581	4,074
Investment tax credits	40	26
Amortization of deferred development costs	(2,819)	(2,517)
Total research and development expenditures	\$ 13,507	\$ 9,591
Percentage of sales	18%	30%

7. Summary of Quarterly Results of Operations

The following information has been derived from our consolidated financial statements for the three months ended September 30, 2022 and 2021 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.

<i>(in thousands of dollars except per share amounts)</i>	Fiscal 2023		Fiscal 2022				Fiscal 2021			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2		
Sales	\$ 73,447	\$ 59,960	\$ 50,872	\$ 43,587	\$ 32,395	\$ 35,320	\$ 31,861	\$ 29,673		
Cost of Sales	39,706	31,478	26,914	21,767	16,693	20,348	17,535	14,964		
Gross profit	33,741	28,482	23,958	21,820	15,702	14,972	14,326	14,709		
Operating expenses										
Research and development	10,705	11,396	8,796	8,352	8,008	5,418	7,520	7,044		
Sales and marketing	6,304	5,993	4,682	4,554	4,101	3,625	3,644	3,474		
General and administrative	5,594	6,494	6,083	5,498	4,686	4,327	4,357	4,560		
Share-based compensation	98	64	64	65	688	(296)	267	1,210		
Other expense (income)	21	767	215	13	6	(1,462)	(50)	3		
	22,722	24,714	19,840	18,482	17,489	11,612	15,738	16,291		
Operating income (loss)	11,019	3,768	4,118	3,338	(1,787)	3,360	(1,412)	(1,582)		
Finance (expense) income	(201)	(102)	(82)	(46)	(42)	(51)	(45)	2		
Foreign exchange gain (loss)	1,302	1,427	(541)	(111)	1,107	(704)	(830)	(1,218)		
Income (loss) before income taxes	12,120	5,093	3,495	3,181	(722)	2,605	(2,287)	(2,798)		
Income tax expense (recovery)	2,608	1,609	505	1,708	(1,464)	1,170	(2,692)	432		
Net income (loss) from:										
Continuing operations	9,512	3,484	2,990	1,473	742	1,435	405	(3,230)		
Discontinued operations	-	-	-	-	-	-	1,784	112		
Net income (loss)	9,512	3,484	2,990	1,473	742	1,435	2,189	(3,118)		
Other comprehensive income (loss)	2,369	775	(750)	(110)	916	(396)	(650)	(1,538)		
Comprehensive income (loss)	\$ 11,881	\$ 4,259	\$ 2,240	\$ 1,363	\$ 1,658	\$ 1,039	\$ 1,539	\$ (4,656)		
Net income (loss) per share										
Basic – continuing operations	\$ 0.41	\$ 0.16	\$ 0.13	\$ 0.06	\$ 0.03	\$ 0.06	\$ 0.02	\$ (0.14)		
Basic – total	0.41	0.16	0.13	0.06	0.03	0.06	0.10	(0.14)		
Diluted – continuing operations	0.41	0.16	0.13	0.06	0.03	0.06	0.02	(0.14)		
Diluted – total	0.41	0.16	0.13	0.06	0.03	0.06	0.10	(0.14)		
Adjusted EBITDA as reported	\$ 17,189	\$ 11,121	\$ 8,125	\$ 7,447	\$ 4,339	\$ 5,677	\$ 1,963	\$ 2,476		

Quarter-to-Quarter Sales Variances

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

Within the industry, spending by cable operators is impacted by major new technology adoption such as the industry-wide migration to distributed access architecture. The budgeting cycles of larger cable operators can also result in quarter-to-quarter variability in customer orders as do their installation schedules and any adjustments thereof. We are currently experiencing a transition in demand for some of our legacy Video and Broadband Solutions products as customers complete their digital networks and migrate their focus to distributed access architecture and next-generation commercial video platforms.

Our Content Delivery and Storage segment also influences potential variations of our quarterly sales. Pronounced quarterly sales fluctuations are typical of this business due to the typically large size of customer orders and associated IPTV projects that are subject to customer timing adjustments. Demand for CDS solutions is also prone to seasonal demand fluctuations with the first and third quarters typically carrying slower customer activity.

8. Segmented Information

Sales

Segment <i>(in thousands of dollars)</i>	Three months ended September 30,	
	2022	2021
Video and Broadband Solutions	\$ 61,005	\$ 24,295
Content Delivery and Storage	10,997	6,766
Telematics	1,445	1,334
Total sales	\$ 73,447	\$ 32,395

Total sales grew to a record \$73.4 million in the first quarter of fiscal 2023, up 127% from \$32.4 million in Q1 fiscal 2022 and 22% higher than the \$60.0 million generated in Q4 fiscal 2022. The significant year-over-year sales growth reflects a sharp increase in Video and Broadband product sales, combined with stronger Content Delivery and Storage sales and the positive foreign exchange impact of a weaker Canadian dollar.

The Video and Broadband Solutions segment delivered significant revenue growth in the first quarter, with sales climbing to \$61.0 million, an increase of 151% from \$24.3 million in Q1 fiscal 2022 and 23% higher than the \$49.4 million generated in Q4 fiscal 2022. These increases reflect customers beginning their transition to next-generation networks using Vecima's solutions and our success in meeting the needs of Tier 1 customers undertaking larger-scale DAA deployments during the quarter.

- Next-generation Entra products led the VBS segment growth with sales climbing 192% year-over-year to \$53.0 million, from \$18.1 million in Q1 fiscal 2022. As compared to Q4 fiscal 2022, Entra sales were up 32% from \$40.0 million.
- Commercial Video products sales grew to \$7.3 million, an increase of 19% from \$6.1 million in Q1 fiscal 2022 and a decrease of 17% from \$8.8 million in Q4 fiscal 2022. Demand for our TerraceQAM platform, while somewhat lower year-over-year, remains healthy as operators continue their commercial rollout for the current generation. Terrace Family sales were up year-over-year, primarily due to the timing of sales compared to early fiscal 2022.

In the Content Delivery and Storage segment, first quarter sales grew 63% to \$11.0 million, from \$6.8 million in Q1 fiscal 2022 and were 19% higher than the \$9.2 million achieved in Q4 fiscal 2022. The significant year-over-year increase in CDS sales reflects the addition of a new Tier 1 customer during the quarter, expansions with existing customers, and favorable order timing as compared to last year. As always, we note that quarterly sales variances are typical for the CDS segment. Segment sales for the Q1 fiscal 2023 period included \$6.4 million of product sales (Q1 fiscal 2022 - \$2.3 million) and \$4.6 million of services revenue (Q1 fiscal 2022 - \$4.5 million).

First quarter Telematics sales of \$1.4 million were slightly higher than the \$1.3 million achieved in both Q1 fiscal 2022 and Q4 fiscal 2022. Results for the quarter were consistent with our expectations.

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, inventory management costs, and sales commissions, as well as support costs and payments to contract manufacturers that perform printed circuit board assembly functions. Costs associated with Content Delivery and Storage sales include the cost of the computer systems sold, depreciation, labour, material, overhead and third-party product costs, as well as the salaries, benefits and other costs of the maintenance, service and help desk personnel associated with product installation, support activities and sales commissions. Costs associated with Telematics sales consist of hardware amortization, inventory management costs, order fulfillment, wireless fees, server hosting services, mapping licenses and sales commissions.

Segment <i>(in thousands of dollars)</i>	Three months ended September 30,	
	2022	2021
Video and Broadband Solutions	\$ 34,214	\$ 12,839
Content Delivery and Storage	5,002	3,367
Telematics	490	487
Total cost of sales	\$ 39,706	\$ 16,693

For the three months ended September 30, 2022, total cost of sales increased 138% to \$39.7 million, from \$16.7 million in Q1 fiscal 2022 and 26% from \$31.5 million in Q4 fiscal 2022. The year-over-year increase primarily reflects the significant increase in sales. A different product mix and supply chain constraints resulting in increased expedite costs were also factors in the higher cost of sales.

First quarter cost of sales in the Video and Broadband Solutions segment increased 166% to \$34.2 million, from \$12.8 million in Q1 fiscal 2022 and 30% from \$26.4 million in Q4 fiscal 2022. The year-over-year increase was a result of the significant increase in sales combined with a different product mix and supply chain constraints which resulted in increased expedite costs.

In the Content Delivery and Storage segment, first quarter cost of sales increased by 49% to \$5.0 million, from \$3.4 million in Q1 fiscal 2022 and increased 9% from \$4.6 million in Q4 fiscal 2022. The increase in CDS sales period-over-period was the primary driver of the increase in CDS cost of sales.

First quarter cost of sales from the Telematics segment was \$0.5 million, consistent with Q1 fiscal 2022 and Q4 fiscal 2022.

Gross Profit and Gross Margin

Segment <i>(in thousands of dollars)</i>	Three months ended September 30,	
	2022	2021
Video and Broadband Solutions	\$ 26,791	\$ 11,456
Content Delivery and Storage	5,995	3,399
Telematics	955	847
Total gross profit	\$ 33,741	\$ 15,702
Video and Broadband Solutions	43.9%	47.2%
Content Delivery and Storage	54.5%	50.2%
Telematics	66.1%	63.4%
Total gross margin	45.9%	48.5%

For the three months ended September 30, 2022, total gross profit grew to a record \$33.7 million, up 115% from \$15.7 million in Q1 fiscal 2022 and 18% above the \$28.5 million achieved in Q4 fiscal 2022. Our record gross profit result reflects significantly higher sales in the Video and Broadband Solutions segment and the positive foreign exchange impact of a weaker Canadian dollar, partially offset by a lower gross margin percentage. Gross margin for the first quarter period was 46%, as compared to 49% in Q1 fiscal 2022 and 48% in Q4 fiscal 2022. This primarily reflects supply chain constraints which resulted in higher expedite costs, as well as one-time inventory allowances related to legacy product inventory. We target a gross margin percentage of 48% to 52%.

First quarter gross profit from the Video and Broadband Solutions segment grew 134% to \$26.8 million (gross profit margin of 44%), from \$11.5 million (gross profit margin of 47%) in Q1 fiscal 2022. The year-over-year increase in gross profit reflects significantly stronger sales, together with a higher-margin product mix, partially offset by higher expedite costs. On a sequential quarterly basis, VBS gross profit was 17% higher than the \$23.0 million achieved in Q4 fiscal 2022 (gross profit margin of 47%).

In the Content Delivery and Storage segment, first quarter gross profit increased by 76% to \$6.0 million (gross profit margin of 55%), from \$3.4 million (gross profit margin of 50%) in the same period last year. The year-over-year increase in CDS gross profit reflects higher sales, together with a stronger gross margin percentage of 55%. On a sequential quarterly basis, CDS gross profit was 30% higher than the \$4.6 million (gross profit margin of 50%) generated in Q4 fiscal 2022, reflecting higher sales and the stronger gross margin performance.

First quarter gross profit from the Telematics segment was \$1.0 million (gross profit margin of 66%), similar to the \$0.8 million (gross margin of 63%) generated in Q1 fiscal 2022 and \$0.9 million (gross margin of 66%) in Q4 fiscal 2022. The year-over-year increase in gross margin is mainly the result of increased customer acquisitions and sales in the current quarter.

Operating Expenses

Segment <i>(in thousands of dollars)</i>	Three months ended September 30,	
	2022	2021
Video and Broadband Solutions	\$ 15,316	\$ 10,727
Content Delivery and Storage	6,583	6,073
Telematics	823	689
Total operating expenses	\$ 22,722	\$ 17,489

For the three months ended September 30, 2022, total operating expenses were higher at \$22.7 million, as compared to \$17.5 million in Q1 fiscal 2022 and slightly lower than \$24.7 million in Q4 fiscal 2022. The year-over-year increase primarily reflects additional operating expenses related to higher sales in both the Video and Broadband Solutions and Content Delivery and Storage segments. As a percentage of sales, Q1 operating expenses remained well controlled at 31% as compared to 54% in Q1 fiscal 2022.

Video and Broadband Solutions operating expenses increased to \$15.3 million, from \$10.7 million in Q1 fiscal 2022 and \$15.8 million in Q4 fiscal 2022. The \$4.6 million year-over-year increase primarily reflects additional expenses for research and development, sales and marketing, and general and administrative activities and staffing, all related to sales growth. The increases were partially offset by lower stock-based compensation expense.

Content Delivery and Storage operating expenses were higher at \$6.6 million in Q1 fiscal 2023, as compared to \$6.1 million in Q1 fiscal 2022, but lower than the \$8.0 million recorded in Q4 fiscal 2022. The \$0.5 million increase year-over-year reflects higher expenditures on research and development, sales and marketing, and general and administrative activities and staffing related to planned sales growth. The increases were partially offset by lower stock-based compensation expense. The quarter-over-quarter decrease in operating expenses primarily reflects impairment charges of \$0.7 million taken in the fourth quarter of fiscal 2022 and a shifting of sales and marketing expenses to be more in line with segment revenue generation.

Telematics operating expenses of \$0.8 million were slightly higher than the \$0.7 million recorded in Q1 fiscal 2022 and slightly lower than the \$0.9 million in Q4 fiscal 2022, reflecting increases in research and development expense and sales and marketing expense.

Research and development expenses for Q1 fiscal 2023 increased to \$10.7 million, or 15% of sales, from \$8.0 million, or 25% of sales in the same period of fiscal 2022. This primarily reflects the hiring of additional R&D employees and higher licensing and prototyping costs, partially offset by an increase in capitalized development costs. Our investment in research and development supports the launch of 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 Q1 fiscal 2023 increased to \$13.5 million, or 18% of sales, from \$9.6 million, or 30% of sales in Q1 fiscal 2022. The increase reflects higher staffing costs, and increased costs for software licensing and prototyping in the current-year quarter as our next-generation products move closer to commercial deployment.

Sales and marketing expenses were \$6.3 million, or 8% of sales in Q1 fiscal 2023, as compared to \$4.1 million, or 13% of sales in the same period last year. The increase in sales and marketing expense primarily reflects higher staffing costs, as well as an increase in travel, entertainment, and trade show expenses as COVID-19 travel restrictions have lifted.

General and administrative expenses increased to \$5.6 million, from \$4.7 million in Q1 fiscal 2022. The year-over-year increase primarily reflects additional staffing, ERP implementation costs, software licenses, and travel and entertainment costs.

Stock-based compensation expense was \$0.1 million in Q1 fiscal 2023, compared to \$0.7 million in Q1 fiscal 2022. The decrease is a result of vesting adjustments of our performance share units reflected in Q1 fiscal 2022.

Other expense was less than \$0.1 million in Q1 fiscal 2023 consistent with Q1 fiscal 2022.

Operating Income (Loss)

Segment <i>(in thousands of dollars)</i>	Three months ended September 30,	
	2022	2021
Video and Broadband Solutions	\$ 11,475	\$ 729
Content Delivery and Storage	(588)	(2,674)
Telematics	132	158
Total operating income (loss)	\$ 11,019	\$ (1,787)

Operating income increased to \$11.0 million in Q1 fiscal 2023, from an operating loss of \$1.8 million in Q1 fiscal 2022. The significant increase was primarily due to higher VBS and CDS segment sales, partially offset by higher expedite costs resulting from supply chain constraints and lower gross margins.

The Video and Broadband Solutions segment generated first quarter operating income of \$11.5 million, significantly higher than the \$0.7 million generated in Q1 fiscal 2022. The year-over-year increase reflects higher sales of next-generation Entra DAA products in the VBS segment partially offset by higher operating expenses.

Content Delivery and Storage recorded an operating loss of \$0.6 million in the first quarter, as compared to an operating loss of \$2.7 million in the same period of fiscal 2022. The year-over-year improvement primarily reflects increased sales, partially offset by higher R&D and staffing costs aimed at supporting future growth.

Telematics operating income decreased to \$0.1 million in Q1 fiscal 2023, from \$0.2 million in Q1 fiscal 2022. This reflects the \$0.1 million increase in research and development expenses.

Finance expense increased to \$0.2 million in Q1 fiscal 2023, from less than \$0.1 million in Q1 fiscal 2022, reflecting increased interest costs associated with our term loan drawn in Q3 fiscal 2022.

Foreign exchange gain for the first quarter increased to \$1.3 million, from a gain of \$1.1 million in the prior-year period.

Income tax expense was a \$2.6 million expense in Q1 fiscal 2023, compared to a \$1.5 million income tax recovery in Q1 fiscal 2022.

Net income for Q1 fiscal 2023 increased to \$9.5 million or \$0.41 per share, from \$0.7 million or \$0.03 per share in Q1 fiscal 2022.

Other comprehensive income increased to \$2.4 million in Q1 fiscal 2023, from other comprehensive income of \$0.9 million in the same period in fiscal 2022. The year-over-year increase reflects the positive impact of a weakening Canadian dollar on the translation of the foreign operations of our VBS and CDS segments to Canadian dollars.

Comprehensive income for Q1 fiscal 2023 grew to \$11.9 million, from \$1.7 million in Q1 fiscal 2022. The improvement year-over-year is a result of the changes described above.

Cash Flow Used in Operating, Investing and Financing Activities

Operating Activities

For the three months ended September 30, 2022, cash flow used in operating activities was \$7.2 million compared to \$4.5 million for the three months ended September 30, 2022. The \$2.7 million increase in cash used in operations reflects a \$15.7 million decrease in cash flow from non-cash working capital driven primarily by the building of inventory to support growth and minimize the impact of supply chain constraints, partially offset by a \$13.0 million increase in operating cash flow.

Investing Activities

For the three months ended September 30, 2022, cash flow used in investing activities increased to \$6.5 million from \$5.0 million in the same period last year. This increase reflects deferred development expenditures of \$5.6 million (Q1 fiscal 2022 - \$4.1 million) and the purchase of property, plant and equipment of \$0.9 million (Q1 fiscal 2022 - \$0.9 million).

Financing Activities

For the three months ended September 30, 2022, we repaid \$0.07 million of our long-term debt (Q1 fiscal 2022 - \$0.04 million repaid), received proceeds from exercised options of \$0.05 million (Q1 fiscal 2022 - \$0.3 million), paid withholding taxes on PSUs of \$0.04 million and repaid lease liabilities of \$0.4 million (Q1 fiscal 2022 - \$0.4 million).

9. 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 that our current working capital position, access to loan facilities and anticipated cash flow from operations, will be sufficient to meet our working capital requirements and capital expenditure requirements for the foreseeable future.

As at September 30, 2022, we had access to our revolving loan facility of \$25.0 million (June 30, 2022 - \$25.0 million), of which \$6.8 million was drawn as an operating line of credit (June 30, 2022 - \$nil was drawn) and is shown as a bank overdraft in our consolidated balance sheet. Additionally, we had a term loan of \$12.2 million (June 30, 2022 - \$12.2 million), a server equipment loan of \$0.2 million (June 30, 2022 - \$0.2 million) and a term credit loan of \$1.1 million (June 30, 2022 - \$1.2 million) as at September 30, 2022.

Capital expenditures for first quarters of fiscal 2023 and 2022 were on par at \$0.9 million.

Working Capital

Working capital represents current assets less current liabilities. Our working capital increased to \$66.8 million at September 30, 2022, from \$58.6 million at June 30, 2022. We note that 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 to \$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 backend weighted for a quarter.

Accounts receivable balance increased to \$64.2 million at September 30, 2022, from \$49.7 million at June 30, 2022. This increase reflects the higher sales in Q1 fiscal 2023 compared to Q4 fiscal 2022, and the timing of sales in Q1 fiscal 2023 compared to Q4 fiscal 2022.

Income tax receivable balance was slightly lower at \$0.4 million at September 30, 2022 (June 30, 2022 - \$0.7 million). This balance represents income tax receivable in the Content Delivery and Storage segment.

Inventories increased by \$17.0 million to \$66.6 million at September 30, 2022, from \$49.6 million as at June 30, 2022. The increase represents the buildup of inventory related to the ramp up of sales and new product inventory as well as managing the supply chain challenges. Finished goods inventories were \$30.5 million at September 30, 2022, compared to \$25.1 million at June 30, 2022. Raw material inventory increased to \$32.3 million at September 30, 2022, from \$22.1 million at June 30, 2022. Work-in-progress inventories increased to \$3.8 million as at September 30, 2022, from \$2.4 million at June 30, 2022. We manufacture and assemble products, with the result that inventory levels will be substantially higher than other companies in the industry that outsource manufacturing and assembly.

Prepaid expenses and other current assets balance increased to \$14.4 million at September 30, 2022 (June 30, 2022 - \$7.3 million). This increase primarily reflects payments made to contract manufacturing suppliers for raw material inventories purchased and received related to forecast commitments.

Investment tax credits were \$21.4 million at September 30, 2022 compared to \$23.0 million at June 30, 2022. For every dollar we spend on eligible research and development in Canada, we generate approximately 15 cents in income tax credits. These credits are used to offset our income tax payable.

Accounts payable and accrued liabilities increased to \$62.4 million at September 30, 2022, from \$48.2 million at June 30, 2022. The increase is primarily due to the build up of inventory related to higher sales and managing supply chain challenges.

Long-term debt, including the current portion and lease liabilities, was \$17.2 million at September 30, 2022, from \$16.9 million at June 30, 2022. The increase reflects a \$0.3 in lease obligations which are presented with long-term debt on the balance sheet.

Dividends

Declaration Date	Dividend Amount (per share)	Record Date	Payable Date
February 8, 2022	\$0.055	February 25, 2022	March 28, 2022
May 10, 2022	\$0.055	May 20, 2022	June 13, 2022
September 20, 2022	\$0.055	October 7, 2022	November 7, 2022
November 8, 2022	\$0.055	November 25, 2022	December 19, 2022

Contractual Obligations

Lease liabilities reported in our consolidated statements of financial position, as at September 30, 2022 were \$3.7 million. Our lease liabilities do not include short-term leases and low-value asset leases, as permitted under IFRS 16, and are of nominal value.

As at September 30, 2022, our undiscounted future cash payments in respect of our lease liabilities are as follows: due within one year is \$1.8 million; due between two-to-five years is \$1.9 million; and thereafter is \$0.3 million.

The Nokia portfolio acquisition includes the assumption of a contract with a third-party supplier. As at September 30, 2022, the contractual obligation, based on forecasted commitments, is estimated to be \$69.9 million (June 30, 2022 - \$49.4 million); of which, \$0.003 million is deemed to be onerous (June 30, 2022 - \$0.026 million).

Contingencies

In March 2017, we received a re-assessment from the CRA regarding the eligibility of certain Scientific Research and Experimental Development ("SR&ED") claims on our 2015 tax return. The CRA re-assessment would result in a reduction of SR&ED expenditures claimed of \$1.3 million. We and our advisors have reviewed the applicable tax law and believe our original treatment of these SR&ED claims was appropriate. We filed a Notice of Objection in regard to this matter in June 2017. We received a Notice of Confirmation in February 2020 that our Notice of Objection was denied. We have recorded the adjustment in our fiscal Q3 and Q4 2020 financial statements. The impact of this adjustment was a \$1.3 million increase in deferred development amortization expense. We have filed a Notice of Appeal in April 2020 to defend our original tax treatment of these SR&ED claims.

Foreign Exchange

Approximately 98% of our revenues are denominated in U.S. dollars. We translate U.S. dollar sales to Canadian dollars on the date of delivery and subsequently when the accounts receivable is collected. If the U.S. dollar appreciates relative to the Canadian dollar after we collect the accounts receivable in U.S. dollars, we will receive more Canadian dollars when the U.S. dollars are converted to Canadian dollars in subsequent months. We also enjoy a natural hedge since the majority of our materials and components purchased are in U.S. dollars.

As at September 30, 2022, the exchange rate on the Canadian dollar relative to the U.S. dollar weakened to \$1.372 from \$1.290 as at June 30, 2022. This \$0.082 exchange difference increased the value of our \$53.3 million U.S. dollar net assets by approximately \$4.4 million Canadian.

Financial Instruments

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

As at September 30, 2022, we had forward FX contracts with a liability position of \$0.2 million (September 30, 2021 – asset position of \$0.8 million).

10. Off-Balance Sheet Arrangements

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

11. Transactions Between Related Parties

The Company entered into a building lease on August 1st, 2022 with one of the principal shareholders. The lease terms are at fair market value. Total lease payments, including interest, in the first quarter of 2023 were \$0.02 million. There were no other related party transactions in Q1 fiscal 2023.

12. 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.

13. Critical Accounting Estimates

See our 2022 annual MD&A and our 2022 annual audited consolidated financial statements and notes thereto for a discussion of the accounting policies and estimates that are critical to the understanding of our business operations and results of our operations.

14. Accounting Pronouncements and Standards

Adoption of new accounting standards and amendments to accounting standards

The following amended standards and interpretations issued by the IASB were adopted in the first quarter of fiscal 2023:

Amendments to IAS 16 – Property, plant and equipment – proceeds before intended use

On May 14, 2020, the IASB issued amendments to IAS16, which prohibits deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Amendments to IAS 37 – Provisions (IAS 37)

On May 14, 2020 the IASB issued Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37), amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Accounting standards issued but not yet applied

The following new or amended standards and interpretations issued by the IASB are effective after the Company's September 30, 2022 quarter-end date and have not yet been adopted by the Company:

Amendments to IAS 1 – Presentation of financial statements (IAS 1)

On January 23, 2020, the IASB issued amendments to IAS 1 in respect of the classification of liabilities as current or non-current. The amendments aim to promote consistency in applying the requirements by helping entities determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments become effective for annual reporting periods beginning on or after January 1, 2023.

Amendments to IAS 12 – Income Taxes – comprehensive balance sheet method

On May 7, 2021 the IASB issued amendments to IAS 12 which includes a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test. This standard becomes effective for annual reporting periods beginning on or after January 1, 2023.

We are assessing the impacts, if any, of standards or amendments, which are not yet effective, will have on our condensed consolidated interim financial statements.

15. Disclosure Controls and Procedures

Disclosure controls and procedures were designed 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 Chief Executive Officer ("CEO") and Chief Financial Officer ("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 September 30, 2022.

16. Internal Control over Financial Reporting

Internal controls over financial reporting ("ICFR") were designed 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 over 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 September 30, 2022 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 September 30, 2022. There has been no change in the internal controls over financial reporting that occurred during the period beginning on July 1, 2022 and ended on September 30, 2022 that has materially affected, or is reasonably likely to materially affect our internal controls on financial reporting.

17. 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, a provision for the loss is 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 the 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 comprehensive income or consolidated statements of financial position.

18. Risks and Uncertainties and COVID-19

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

Third-party Component Supply

We maintain a global sourcing strategy and depend on third-party suppliers for certain components, subcomponents and raw materials used in our products. As an example, several of our products require specific components including silicon chips, for which reliable, high-volume supply is often available only from limited sources and for which we do not have guarantees of supply. A combination of significant technology trends and COVID-19 related challenges has resulted in the supply of some of these components becoming constrained on a global basis. While we have not experienced significant supply disruptions to date, the potential for such components to be in short supply or delayed in reaching us, could potentially result in product shipping delays and increased costs, which in turn, could adversely impact our gross margin and results of operations.

COVID-19

We have been closely monitoring the impact of COVID-19. At this time, our industry is recognized as an essential service in the areas where we operate. We have taken steps to allow most of our workforce to work remotely.

It is too soon to gauge the overall impact of the pandemic, given the many unknowns related to COVID-19. These include the duration and severity of the outbreak. COVID-19 is altering business and consumer activity in affected areas and beyond. The global response to the COVID-19 outbreak has resulted in, among other things, border closures, travel restrictions, the temporary shut-down of non-essential services and fluctuations in financial and commodity markets. While measures have begun to ease in many jurisdictions where we operate, additional measures may be implemented by one or more governments going forward. Labour shortages due to illness, Company or government-imposed isolation programs, or restrictions on the movement of personnel or possible supply chain disruptions could result in a reduction or cessation of all or a portion of our operations. The extent to which COVID-19 and any other pandemic or public health crisis impacts our business, affairs, operations, financial condition, liquidity, availability of credit and results of operations will depend on future developments that are highly uncertain and cannot be predicted with any meaningful precision, including new information which may emerge concerning the severity of subsequent variations of the COVID-19 virus and the actions required to contain the COVID-19 virus or remedy its impact, among others.

The actual and threatened spread of COVID-19 globally could also have a material adverse effect on the economies in which we operate and could continue to negatively impact stock markets, including the trading price of our shares. Potential impacts include, but are not limited to, an impairment of long-lived assets, an impairment of short-term investments and a change in the estimated credit loss on accounts receivable.

Any of these developments, and others, could have a material adverse effect on our business, financial condition, operations and results of operations. In addition, because of the severity and global nature of the COVID-19 pandemic, it is possible that estimates in our financial statements will change in the near term and the effect of any such changes could be material, which could result in, among other things, an impairment of long-lived assets, impairments of short-term investments and a change in the estimated credit losses on accounts receivable.

Our financial priorities remain unchanged. Importantly we continue to have a very strong balance sheet. We are continuing with the payment of our quarterly dividend.

19. Outstanding Share Data

As at November 8, 2022, we had 23,111,928 common shares outstanding as well as stock options outstanding that are exercisable for an additional 74,312 common shares, and performance share units outstanding that are exercisable for an additional 497,428 common shares.

On September 9, 2022, 7955 PSUs vested and were settled via the issuance of common shares. The estimated fair value of the vested PSUs was \$0.04 million. We withheld 2,404 common shares at a market value of \$0.04 million to settle withholding tax obligations on the issuance of the common share awards.

On January 12, 2022, Vecima announced that it filed a final short form base shelf prospectus with the securities commissions or similar regulatory authorities in each of the provinces of Canada, except for Quebec. The base shelf prospectus will allow Vecima to offer up to \$150 million of common shares, warrants, subscription receipts, units, debt securities and share purchase contracts from time to time over the 25-month period after the applicable Canadian securities regulatory authorities have issued a receipt for the final short form base shelf prospectus.

On July 8, 2021, 187,487 PSUs vested and were settled via the issuance of common shares. The estimated fair value of the vested PSUs was \$1.0 million. We withheld 63,478 common shares at a market value of \$1.1 million to settle withholding tax obligations on the issuance of the common share awards.

Vecima was founded by Dr. Surinder Kumar in 1988. Voting control of Vecima is held by 684739 B.C. Ltd. (the "Principal Shareholder") which is beneficially owned by Dr. Surinder Kumar, Sumit Kumar and Saket Kumar. As at September 30, 2022, the Principal Shareholder collectively owned approximately 59% of our common shares outstanding. Each common share carries the right to one vote. We have no other classes of voting securities. Each common share carries the right to one vote. We have no other classes of voting securities.

20. Additional Information

Financial Governance

Our management is responsible for the preparation and presentation of the 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, each member of which is elected annually by the shareholders of the Company. The Board is responsible for reviewing and approving the 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.

External 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: the change in Commercial Video sales reflects the anticipated tapering of demand for legacy products including the TC600E, partially offset by continued strong demand for our TerraceQAM platform as operators continued their commercial rollout for the current generation, while preparing for the next-generation TerracelQ platform; we target a gross margin percentage of 48% to 52%; and we believe that our current working capital position, access to loan facilities and anticipated cash flow from operations, will be sufficient to meet our working capital requirements and capital expenditure requirements for the foreseeable future. Forward-looking information also includes our Strategy, our Industry Developments, our COVID-19 Business Update 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; our ability to continue our relationships with a few key customers; our ability to deliver products associated with key contracts; our ability to manage our business and grow successfully; our ability to meet customers' requirements for manufacturing capacity; our ability to develop new products and enhance our existing products; our ability to expand current distribution channels and develop new distribution channels; our ability 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; our ability to successfully implement acquisitions; our ability to manage risks associated with our international operations; currency fluctuations do not adversely affect us; growth in our key markets continues; our ability to adapt to technological change, new products and standards; we are not subject to increased competition that has an adverse effect on our business; 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 large customers; a small number of our shareholders control us; sale of common shares by our controlling shareholders could cause the share price to fall; volatility in our common share price; dilution from the exercise of stock options or settlement of performance share units; liquidity of common shares; our share price shall fluctuate; 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 continue to adapt content delivery products to add features allowing deployments to cable, IPTV, and Internet CDN providers to enable multi-screen video delivery; the failure to execute on this transition or execute quickly enough, may adversely affect our business; if content providers, such as movie studios, limit the scope of content licensed for use in the digital content delivery market, our business, financial condition and results of operations could be negatively affected because the potential market for our products would be more limited than we currently believe; 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 operations depend on information technology systems, which may be disrupted or may not operate as desired; 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; if our intellectual property is not adequately protected, we may lose our competitive advantage; we utilize open source software, which could enable our competitors to gain access to our source code and distribute it without paying us any license fees; we have software license agreements covering the use of our software as combined with software provided by specific key integrated circuit vendor(s) and the associated integrated circuits provided by those vendor(s), failure to maintain these agreements or maintain them with commercially reasonable terms could limit our ability to market certain products and affect our business; 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; there are risks associated with our international operations; impacts to trade relationships between the United States and China may adversely affect Vecima's profitability; currency fluctuations may adversely affect us; changes in interest rates on debt securities 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; competition from new or existing technologies may adversely affect our business; the cable and telecommunications industries are experiencing consolidation, which could result in delays or reductions in purchases of products and services, which could have a material adverse effect on Vecima's business; government regulation of our products and new government regulation could harm our business; third parties may allege that we infringe on their intellectual property; we may be subject to liability if private information supplied to our customers is misused; and epidemics, pandemics or other public health crises, including the current outbreak of COVID-19. A more complete discussion of the risks and uncertainties facing us is disclosed under the heading "Risks and Uncertainties and COVID-19" above and under the heading "Risk Factors" in our Annual Information Form for our most recently completed fiscal year, as well as in our continuous disclosure filings with Canadian securities regulatory authorities available at www.sedar.com. All forward-looking information in this MD&A is qualified in its entirety by this cautionary statement and we disclaim any obligation to revise or update such forward-looking information to reflect future results, events or developments, except as required by law.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying interim condensed consolidated financial statements of Vecima Networks Inc. (the “Company”) have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of the interim condensed consolidated financial statements by an entity’s auditor.

VECIMA NETWORKS INC.
Interim Condensed Consolidated Statements of Financial Position
(unaudited - in thousands of Canadian dollars)

As at	Note	September 30, 2022	June 30, 2022
Assets			
Current assets			
Cash and cash equivalents		\$ 4,344	\$ 12,902
Accounts receivable	3	64,179	49,655
Income tax receivable		426	693
Inventories	4	66,635	49,608
Prepaid expenses and other current assets	5	14,366	7,302
Contract assets		1,161	1,335
Total current assets		151,111	121,495
Non-current assets			
Property, plant and equipment	6	16,861	16,483
Right-of-use assets		3,027	2,626
Goodwill		15,363	14,813
Intangible assets	7	79,164	75,917
Other long-term assets		1,332	1,440
Investment tax credits		21,374	23,041
Deferred tax assets		6,321	6,793
Total assets		\$ 294,553	\$ 262,608
Liabilities and shareholders' equity			
Current liabilities			
Bank overdraft		\$ 6,832	\$ -
Accounts payable and accrued liabilities		62,400	48,172
Provisions		709	659
Income tax payable		-	182
Deferred revenue		10,991	12,129
Current portion of long-term debt	8	2,152	1,782
Dividend payable		1,271	-
Total current liabilities		84,355	62,924
Non-current liabilities			
Provisions		377	366
Deferred revenue		4,278	4,465
Deferred tax liability		6	6
Long-term debt	8	15,092	15,115
Total liabilities		104,108	82,876
Shareholders' equity			
Share capital	9	8,001	7,935
Reserves		3,178	3,141
Retained earnings		177,164	168,923
Accumulated other comprehensive income (loss)		2,102	(267)
Total shareholders' equity		190,445	179,732
Total liabilities and shareholders' equity		\$ 294,553	\$ 262,608

Contractual obligation – Note 18; Subsequent events – Note 20

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

VECIMA NETWORKS INC.**Interim Condensed Consolidated Statements of Comprehensive Income (Loss)***(unaudited - in thousands of Canadian dollars, except per share amounts)*

		Three months ended September 30,	
	Note	2022	2021
Sales	10,14	\$ 73,447	\$ 32,395
Cost of sales		39,706	16,693
Gross profit		33,741	15,702
Operating expenses			
Research and development		10,705	8,008
Sales and marketing		6,304	4,101
General and administrative		5,594	4,686
Share-based compensation	11	98	688
Other expense	12	21	6
Total operating expenses		22,722	17,489
Operating income (loss)		11,019	(1,787)
Finance expense		(201)	(42)
Foreign exchange gain		1,302	1,107
Income (loss) before income taxes		12,120	(722)
Income tax expense (recovery)		2,608	(1,464)
Net income		\$ 9,512	\$ 742
Other comprehensive income			
Item that may be subsequently reclassified to net income			
Exchange differences on translating foreign operations		\$ 2,369	\$ 916
Comprehensive income		\$ 11,881	\$ 1,658
Net income per share			
Basic	13	\$ 0.41	\$ 0.03
Diluted	13	\$ 0.41	\$ 0.03
Weighted average number of common shares			
Shares outstanding – basic	13	23,104,507	23,054,011
Shares outstanding – diluted	13	23,132,401	23,095,102

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

VECIMA NETWORKS INC.**Interim Condensed Consolidated Statements of Changes in Equity***(unaudited - in thousands of Canadian dollars)*

	Note	Share capital	Reserves	Retained earnings	Accumulated other comprehensive (loss) income	Total
Balance as at June 30, 2021		\$ 7,299	\$ 3,407	\$ 165,312	\$ (1,098)	\$ 174,920
Net income		-	-	742	-	742
Other comprehensive income		-	-	-	916	916
Dividends		-	-	(1,269)	-	(1,269)
Shares issued by exercising options		439	(110)	-	-	329
PSUs settled in common shares		976	(976)	-	-	-
Withholding taxes on PSUs		(1,073)	-	-	-	(1,073)
Share-based payment expense	11	-	688	-	-	688
Balance as at September 30, 2021		\$ 7,641	\$ 3,009	\$ 164,785	\$ (182)	\$ 175,253
Balance as at June 30, 2022		\$ 7,935	\$ 3,141	\$ 168,923	\$ (267)	\$ 179,732
Net income		-	-	9,512	-	9,512
Other comprehensive income		-	-	-	2,369	2,369
Dividends		-	-	(1,271)	-	(1,271)
Shares issued by exercising options	9	61	(12)	-	-	49
PSUs settled in common shares	9	49	(49)	-	-	-
Withholding taxes on PSUs	9	(44)	-	-	-	(44)
Share-based payment expense	11	-	98	-	-	98
Balance as at September 30, 2022		\$ 8,001	\$ 3,178	\$ 177,164	\$ 2,102	\$ 190,445

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

VECIMA NETWORKS INC.
Interim Condensed Consolidated Statements of Cash Flows
(unaudited - in thousands of Canadian dollars)

		Three months ended September 30,	
	Note	2022	2021
OPERATING ACTIVITIES			
Net income		\$ 9,512	\$ 742
Adjustments for non-cash items:			
Loss on sale of property, plant and equipment		9	5
Depreciation and amortization	17	4,750	4,318
Share-based compensation	11	98	688
Income tax expense		1,948	494
Deferred income tax expense (recovery)		660	(1,958)
Interest expense		212	50
Interest income		(10)	(8)
Net change in working capital	17	(24,366)	(8,625)
Increase in other long-term assets		142	40
Decrease in provisions		16	23
Increase in investment tax credits		(40)	(27)
Income tax received (paid)		30	(275)
Interest received		10	8
Interest paid		(175)	(9)
Cash used in operating activities		(7,204)	(4,534)
INVESTING ACTIVITIES			
Capital expenditures, net	17	(887)	(920)
Deferred development costs	7	(5,581)	(4,074)
Cash used in investing activities		(6,468)	(4,994)
FINANCING ACTIVITIES			
Principal repayments of lease liabilities	8	(379)	(407)
Repayment of long-term debt	8	(67)	(42)
Issuance of shares through exercised options		49	329
Withholding taxes on PSUs		(44)	(1,073)
Cash used in financing activities		(441)	(1,193)
Net decrease in cash and cash equivalents		(14,113)	(10,721)
Effect of change in exchange rates on cash		(1,277)	(271)
Cash and cash equivalents, beginning of year		12,902	28,909
Cash and cash equivalents, end of year ⁽¹⁾		\$ (2,488)	\$ 17,917

⁽¹⁾ Cash and cash equivalents includes bank overdraft

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

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements**

Three months ended September 30, 2022 and 2021

(in thousands of Canadian dollars except as otherwise noted)

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VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2022 and 2021***(in thousands of Canadian dollars except as otherwise noted)*

1. NATURE OF THE BUSINESS

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

The Company's Video and Broadband Solutions business designs, manufactures and sells products for the cable industry that allow service providers a cost-effective "last mile" solution for both video and broadband access, especially in the business services market segment. The Company's Content Delivery and Storage business includes solutions and software for industries and customers that focus on storing, protecting, transforming, and delivering high-value media assets. The Company's Telematics business provides fleet managers key information and analytics they require to optimally manage their business.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***(a) Statement of compliance***

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") under International Accounting Standard 34 – Interim Financial Reporting (IAS 34). These interim condensed consolidated financial statements do not include all the information required for a complete set of annual financial statements and should be read in conjunction with the consolidated financial statements of the Company for the year ended June 30, 2022.

(b) Basis of presentation

These interim condensed consolidated financial statements have been prepared using the same basis of presentation, accounting policies and methods of computation as outlined in Note 2, Summary of Significant Accounting Policies in our consolidated financial statements for the year ended June 30, 2022, except as noted below.

The interim condensed consolidated financial statements of the Company were approved by the Board of Directors and authorized for issue on November 8, 2022.

(c) Estimation uncertainty

The COVID-19 pandemic continues to evolve, and it is difficult to predict what economic, supply chain, network development or other impacts it may have on our business going forward. We will continue to closely monitor the effects of the pandemic on our business in all regions that we serve and make adjustments to our business as necessary. Due to the uncertainty surrounding the duration and potential outcomes of the COVID-19 pandemic, and the unpredictable and continuously changing impacts and related government responses, there is more uncertainty associated with our assumptions, expectations, and estimates. The most significantly affected estimates relate to the Company's determination of impairment of non-financial assets, the assessment of the carrying values of allowances for doubtful accounts and inventory obsolescence, and provisions.

(d) Adoption of new accounting standards and amendments to accounting standards

The following amended standards and interpretations issued by the IASB were adopted in the first quarter of fiscal 2023:

Amendments to IAS 16 – Property, plant and equipment – proceeds before intended use

On May 14, 2020, the IASB issued amendments to IAS 16, which prohibits deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

Amendments to IAS 37 – Provisions (IAS 37)

On May 14, 2020 the IASB issued Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37), amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

(e) Accounting standards issued but not yet applied

The following new or amended standards and interpretations issued by the IASB are effective after the Company's September 30, 2022 quarter-end date and have not yet been adopted by the Company:

Amendments to IAS 1 – Presentation of financial statements (IAS 1)

On January 23, 2020, the IASB issued amendments to IAS 1 in respect of the classification of liabilities as current or non-current. The amendments aim to promote consistency in applying the requirements by helping entities determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments become effective for annual reporting periods beginning on or after January 1, 2023.

Amendments to IAS 12 – Income Taxes – comprehensive balance sheet method

On May 7, 2021 the IASB issued amendments to IAS 12 which includes a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test. This standard becomes effective for annual reporting periods beginning on or after January 1, 2023.

We are assessing the impacts, if any, that the above standards or amendments, which are not yet effective, will have on our condensed consolidated interim financial statements.

VECIMA NETWORKS INC.
Notes to the Consolidated Financial Statements
Years ended June 30, 2022 and 2021
(in thousands of Canadian dollars except as otherwise noted)

3. ACCOUNTS RECEIVABLE

	September 30,		June 30,	
	2022		2022	
Trade receivables	\$	62,063	\$	48,049
Less: allowance for doubtful accounts		(29)		(4)
Total trade receivables		62,034		48,045
Goods and services tax		1,271		654
Government grants receivable		644		793
Other receivables		230		163
Total accounts receivable	\$	64,179	\$	49,655

All trade receivables 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.

4. INVENTORIES

	September 30,		June 30,	
	2022		2022	
Raw materials	\$	32,276	\$	22,145
Work-in-progress		3,813		2,402
Finished goods		30,546		25,061
Total inventory	\$	66,635	\$	49,608

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	September 30,		June 30,	
	2022		2022	
Payments for contract manufacturer inventory purchases and expedite fees	\$	10,623	\$	3,768
Software licenses		2,056		1,441
Other		1,686		2,093
Total prepaid expenses and other current assets	\$	14,365	\$	7,302

6. PROPERTY, PLANT AND EQUIPMENT

	Land		Land improvements & building		Lab, operating & production equipment		Other equipment		Total	
At cost										
At July 1, 2022	\$	321	\$	10,092	\$	25,259	\$	13,480	\$	49,152
Additions		-		23		725		127		875
Disposals		-		-		(36)		-		(36)
Effect of foreign exchange		-		49		436		98		583
At September 30, 2022	\$	321	\$	10,164	\$	26,384	\$	13,705	\$	50,574
Accumulated depreciation and amortization										
At July 1, 2022	\$	-	\$	3,463	\$	17,681	\$	11,525	\$	32,669
Depreciation		-		85		526		183		794
Disposals		-		-		(27)		-		(27)
Effect of foreign exchange		-		31		193		53		277
At September 30, 2022	\$	-	\$	3,579	\$	18,373	\$	11,761	\$	33,713
Net book value										
At June 30, 2022	\$	321	\$	6,629	\$	7,578	\$	1,955	\$	16,483
At September 30, 2022	\$	321	\$	6,585	\$	8,011	\$	1,944	\$	16,861

VECIMA NETWORKS INC.**Notes to the Interim Condensed Consolidated Financial Statements**

Three months ended September 30, 2022 and 2021

*(in thousands of Canadian dollars except as otherwise noted)***7. INTANGIBLE ASSETS**

	Indefinite-life intangible assets		Finite-life intangible assets			Total
	Spectrum and other licenses	Customer contracts	Patents	Intellectual property	Deferred development costs	
At cost						
At July 1, 2022	\$ 104	\$ 20,179	\$ 945	\$ 10,910	\$ 77,439	\$ 109,577
Additions	-	-	12	-	5,581	5,593
Investment tax credits	-	-	-	-	(133)	(133)
Effect of foreign exchange	3	958	26	452	1,167	2,606
At September 30, 2022	\$ 107	\$ 21,137	\$ 983	\$ 11,362	\$ 84,054	\$ 117,643
Accumulated amortization						
At July 1, 2022	\$ -	\$ 10,578	\$ 536	\$ 6,582	\$ 15,964	\$ 33,660
Amortization	-	480	34	290	2,819	3,623
Effect of foreign exchange	-	488	13	289	406	1,196
At September 30, 2022	\$ -	\$ 11,546	\$ 583	\$ 7,161	\$ 19,189	\$ 38,479
Net book value						
At June 30, 2022	\$ 104	\$ 9,601	\$ 409	\$ 4,328	\$ 61,475	\$ 75,917
At September 30, 2022	\$ 107	\$ 9,591	\$ 400	\$ 4,201	\$ 64,865	\$ 79,164

8. LONG-TERM DEBT

	September 30, 2022	June 30, 2022
Term credit facility	\$ 1,339	\$ 1,405
Term loan facility	12,200	12,200
Lease liabilities	3,705	3,292
	\$ 17,244	\$ 16,897
Comprised of:		
Current portion of term facilities and lease liabilities	\$ 2,152	\$ 1,782
Long-term portion of term facilities and lease liabilities	15,092	15,115
	\$ 17,244	\$ 16,897

Term credit facility

The term credit facility is with a Canadian chartered bank. As at September 30, 2022, the facility is repayable in monthly installments of \$21 principal and interest at Prime of 5.95% (June 30, 2022 - \$21, and 3.70%, respectively), expires in October 2023 and is collateralized by a general security agreement. The Company has an authorized loan amount of \$3,792 and annually renews this facility with the bank.

Term loan facility

The Company obtained a term loan facility with a Canadian chartered bank in the third quarter of fiscal 2022. The term facility requires accrued interest payments only and has no set principal repayments. It carries an interest rate at Prime of 5.95% (June 30, 2022 – 3.70%), expires in October 2023 and is collateralized by a general security agreement. The Company has an authorized loan amount of \$12,200 and annually renews this facility with the bank.

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The term credit and loan facilities are recorded at amortized cost. The Company's term credit and loan facilities are at an interest rate that floats based on Prime and the carrying value of the principal is considered to be fair value.

Assuming that the existing payment terms are the same at the renewal date, the following are the future principal repayments for the term credit and loan facilities as at September 30, 2022:

2023	\$	459
2024		250
2025		250
2026		250
2027		250
Thereafter		12,080
	\$	13,539

Lease liabilities

The following is a reconciliation of the Company's lease liabilities as at September 30, 2022:

At July 1, 2022	\$	3,292
Net additions during the period		697
Interest on lease liabilities		35
Principal repayments of lease liabilities		(379)
Effect of foreign exchange		60
At September 30, 2022		3,705
Less: current portion		1,693
Long-term portion	\$	2,012

The contractual lease payments related to the lease liabilities are as follows:

	September 30, 2022	June 30, 2022
Within one year	\$ 1,789	\$ 1,515
After one year but not more than five years	1,865	1,594
More than five years	341	469
Total contractual lease payments	\$ 3,995	\$ 3,578

9. SHARE CAPITAL

Changes in the number of shares and carrying value of the Company's share capital for the three months ended September 30, 2022 are as follows:

	Note	Number of shares	Carrying value
Balance, July 1, 2022		23,101,002	\$ 7,935
Shares issued by exercising options	11	5,375	61
Performance Share Units settled in common shares	11	7,955	49
Shares withheld for taxes to settle performance share units	11	(2,404)	(44)
Balance, September 30, 2022		23,111,928	\$ 8,001

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*(in thousands of Canadian dollars except as otherwise noted)***10. REVENUE FROM CONTRACTS WITH CUSTOMERS**Disaggregated revenue

In the following table, gross revenue from contracts with customers is disaggregated by reporting segment and type. Refer to Note 14 for additional segmented financial information.

For the three months ended September 30, 2022	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Total
Product sales	\$ 57,425	\$ 6,375	\$ 162	63,962
Provision of services	3,580	4,622	1,283	9,485
Total sales	\$ 61,005	\$ 10,997	\$ 1,445	73,447

For the three months ended September 30, 2021	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Total
Product sales	\$ 22,073	\$ 2,256	\$ 137	24,466
Provision of services	2,222	4,510	1,197	7,929
Total sales	\$ 24,295	\$ 6,766	\$ 1,334	32,395

11. SHARE-BASED COMPENSATION

The following table summarizes the share-based compensation expense included in the consolidated statements of comprehensive income (loss):

	Three months ended September 30,	
	2022	2021
Stock options	\$ 87	\$ 9
Performance share units	11	679
Total share-based compensation	\$ 98	\$ 688

Stock options

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 option-pricing model. The estimated fair value of the stock options is amortized to share-based compensation over the vesting period of the options.

Changes in the stock option plan for the three months ending September 30, 2022 are as follows:

(in number of units, except prices)	Number of options	Weighted average exercise price per option
Outstanding, July 1, 2022	71,687	\$ 10.15
Granted	8,000	16.96
Exercised	(5,375)	9.22
Outstanding, September 30, 2022	74,312	\$ 10.95
Vested and exercisable, September 30, 2022	57,314	\$ 9.78

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Performance share units (“PSUs”)

The Company’s PSU plan sets the maximum number of PSUs that can be issued at 4% of the outstanding common shares of the Company. No further approval by the shareholders of the Company is required for any unallocated PSUs.

During the three months ended September 30, 2022, the Company issued 295,100 PSUs (September 30, 2021 - nil PSUs) to eligible persons under the PSU plan. These PSUs have five-year terms, and vest in three tranches upon the achievement of certain closing market trading prices of the Company’s common shares for a period of twenty consecutive business days. During the three months ended September 30, 2022, 7,955 PSUs vested (September 30, 2021 – 187,487); which had a fair value of \$49 (September 30, 2021 - \$976). Each vested PSU is settled for one common share of the Company. During the three months ended September 30, 2022, the Company withheld 2,404 common shares (September 30, 2021 - 63,478 common shares) at an aggregate market value of \$44 (September 30, 2021 - \$1,073) to settle withholding tax obligations on the issuance of the common share awards. This was accounted for as a reduction to equity. These PSUs have five year terms, and vest in three tranches upon the achievement of certain closing market trading prices of the Company’s common shares for a period of twenty consecutive business days.

A summary of PSU activity during the three months ended September 30, 2022 is as follows:

	Number of PSUs
PSUs outstanding as at July 1, 2022	210,283
Granted	295,100
Settled	(7,955)
PSUs outstanding as at September 30, 2022	497,428

The fair value of the PSUs were determined using a Monte Carlo simulation. On grant, the Company estimated the achievement dates of each performance condition, and the cost of the PSUs is expensed on a straight-line basis over the period from the grant date to the expected market condition achievement date. The Company estimated forfeitures of PSUs at 10% on grant, and adjusts the amount recognized in expense upon vesting.

12. OTHER EXPENSE

	Three months ended September 30,	
	2022	2021
Loss on sale of property, plant and equipment	\$ 9	\$ 5
Other	12	1
Total other expense	\$ 21	\$ 6

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13. NET INCOME PER SHARE

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

	Three months ended September 30,	
	2022	2021
Net income: basic and diluted (in thousands of dollars)	\$ 9,512	\$ 742
Weighted average number of shares outstanding:		
Basic	23,104,507	23,054,011
Dilution adjustment for stock options	27,894	41,091
Diluted	23,132,401	23,095,102
Net income per share: basic	\$ 0.41	\$ 0.03
Net income per share: diluted	\$ 0.41	\$ 0.03

Stock options could potentially dilute basic net income per share in the future. Dilutive stock options are calculated using the treasury stock method. For the three months ended September 30, 2022, 27,894 of the total 74,312 stock options outstanding were dilutive and included in the calculation of net income per share. For the three months ended September 30, 2021, 41,091 of the total 99,875 stock options outstanding were dilutive and included in the calculation of net income per share.

14. 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 telecommunications markets. The Content Delivery and Storage segment develops advanced applications focused on storing, protecting, and transforming and delivering visual media. The Telematics segment designs, develops and distributes fleet management products. Inter-segment transactions take place at terms that approximate fair value. The majority of the Company's operations, employees and assets reside in Canada and the United States. The following tables highlight key financial information by segment and geographical region:

Segments

	Three months ended September 30, 2022				Total
	Video and Broadband Solutions	Content Delivery and Storage	Telematics		
Sales	\$ 61,005	\$ 10,997	\$ 1,445	\$	73,447
Cost of sales	34,214	5,002	490		39,706
Gross profit	26,791	5,995	955		33,741
Operating expenses	12,385	5,087	552		18,024
Depreciation and amortization	2,931	1,496	271		4,698
Operating income (loss)	11,475	(588)	132		11,019
Finance expense					(201)
Foreign exchange gain					1,302
Income tax expense					(2,608)
Net income				\$	9,512
Total assets	\$ 230,773	\$ 50,460	\$ 13,320	\$	294,553
Total liabilities	\$ 84,029	\$ 18,717	\$ 1,362	\$	104,108

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	Three months ended September 30, 2021			
	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Total
Sales	\$ 24,295	\$ 6,766	\$ 1,334	\$ 32,395
Cost of sales	12,839	3,367	487	16,693
Gross profit	11,456	3,399	847	15,702
Operating expenses	8,216	4,501	505	13,222
Depreciation and amortization	2,511	1,572	184	4,267
Operating income (loss)	729	(2,674)	158	(1,787)
Finance expense				(42)
Foreign exchange gain				1,107
Income tax recovery				1,464
Net income			\$	742
Total assets	\$ 157,926	\$ 48,825	\$ 12,935	\$ 219,686
Total liabilities	\$ 30,251	\$ 12,886	\$ 1,296	\$ 44,433

Geographical region

	Three months ended September 30,	
	2022	2021
Sales to external customers:		
United States	\$ 59,960	\$ 25,031
Canada	6,655	2,820
Japan	3,687	2,734
Europe	1,351	980
Other	1,794	830
Total sales	\$ 73,447	\$ 32,395

	September 30,	
	2022	June 30, 2022
Non-current assets:		
United States	\$ 40,816	\$ 38,238
Canada	99,067	99,889
Japan	1,092	1,088
Europe	19	19
Mexico	1,154	1,141
China	1,294	738
Total non-current assets	\$ 143,442	\$ 141,113

Sales to major customers

Sales to major customers accounting for more than 10% of total sales are as follows:

	Three months ended September 30,	
	2022	2021
Customer A	\$ 28,633	\$ 5,549
Customer B	14,984	4,543
Customer C	5,093	6,792
Total sales	\$ 48,710	\$ 16,884

Sales to these customers are with the Video and Broadband Solutions and Content Delivery and Storage segments.

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15. FAIR VALUE HIERARCHY

Assets and liabilities measured at fair value in the consolidated statements of financial position, or where fair value disclosures are required, are classified based on a three-level hierarchy as follows:

Level 1: determined by reference to quoted prices in active markets for identical assets and liabilities;

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

Level 3: determined using inputs that are not based on observable market data.

During the three months ended September 30, 2022, there were no assets or liabilities measured at fair value according to the three-level hierarchy.

16. FINANCIAL INSTRUMENTS

Accounts receivable

As at September 30, 2022, the weighted average age of customer accounts receivable was 33 days (June 30, 2022 - 34 days); and the weighted average age of past-due accounts receivable approximated 67 days (June 30, 2022 - 66 days). Accounts are considered to be past due when customers have failed to make the required payments by their contractually agreed upon due date. The aging of trade receivables that are not considered to be impaired are as follows:

	September 30, 2022	June 30, 2022
Current	\$ 58,509	\$ 43,555
31 to 60 days	1,529	1,822
61 to 90 days	1,122	1,174
Over 90 days	874	1,494
Total accounts receivable	\$ 62,034	\$ 48,045

The Company maintains allowances for lifetime expected credit losses related to the allowance for doubtful accounts. Current economic conditions, forward-looking information, historical information, and reasons for the accounts being past due are all considered when determining whether to make allowances for past due accounts. The same factors are considered when determining whether to write-off amounts charged to the allowance for doubtful accounts against the customer accounts receivable. The Company has an allowance for doubtful accounts at September 30, 2022 of \$29 (June 30, 2022 - \$4).

Currency exposure The Company periodically enters into forward foreign exchange contracts to manage foreign currency exchange risk related to exposures to the exchange rates for the Canadian dollar. Forward contracts are entered into based on projected requirements for converting U.S. to Canadian dollars. The Company does not recognize these contracts in the consolidated financial statements when they are entered into, nor accounts for them as hedges. Instead, the contracts are marked to fair value at each balance sheet date. Changes in fair value are recorded in the consolidated statements of comprehensive income (loss) in foreign exchange gain (loss). The fair value of these contracts is included in accounts receivable when in an asset position or accounts payable when in a liability position. As at September 30, 2022, the Company had one forward contract in a liability position of \$0.2 million (September 30, 2021 – asset position of \$0.8 million).

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17. SUPPLEMENTAL INFORMATION

The following tables provide details of the Company's supplemental cash flow information:

Depreciation and amortization – operating activities

	Three months ended September 30,	
	2022	2021
Depreciation of property, plant and equipment	\$ 794	\$ 612
Depreciation of right-of-use assets	333	412
Amortization of deferred development costs	2,819	2,517
Amortization of finite-life intangible assets	804	777
Total depreciation and amortization	\$ 4,750	\$ 4,318

Net change in working capital – operating activities

	Three months ended September 30,	
	2022	2021
Accounts receivable	\$ (13,032)	\$ (2,767)
Inventories	(15,660)	(7,582)
Prepaid expenses	(6,537)	(1,651)
Income tax receivable	(37)	-
Contract assets	(32)	(24)
Accounts payable and accrued liabilities	12,757	4,871
Deferred revenue	(1,825)	(1,472)
Total change in net working capital	\$ (24,366)	\$ (8,625)

Capital expenditures, net – investing activities

	Three months ended September 30,	
	2022	2021
Capital expenditures before proceeds of disposition:		
Property, plant and equipment	\$ (875)	\$ (916)
Intangible assets	(12)	(4)
Total capital expenditures, net	\$ (887)	\$ (920)

18. CONTRACTUAL OBLIGATION

The Nokia portfolio acquisition includes the assumption of a contract with a third-party supplier. At September 30, 2022, the contractual obligation, based on forecasted commitments, is estimated to be \$69,913 (June 30, 2022 - \$49,355), of which \$3 is deemed to be onerous (June 30, 2022 - \$26).

19. RELATED PARTY TRANSACTIONS

The Company entered into a building lease on August 1st, 2022 with one of the principal shareholders. The lease terms are at fair market value. Total lease payments, including interest, in the first quarter of fiscal 2023 were \$0.02 million. There were no other related party transactions in the first quarter of fiscal 2023.

20. SUBSEQUENT EVENTS

On November 8, 2022, the Board of Directors declared a dividend of \$0.055 per common share, payable on December 19, 2022 to shareholders of record as at November 25, 2022 consistent with its previously announced dividend policy.