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, 2023 and 2022

(unaudited)

Vecima Networks Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
November 7, 2023

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, 2023.

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, 2023 and 2022. 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, 2023 and 2022 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. 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.sedarplus.ca.

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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;
   - 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; and
   - Digital Add Insertion: Vecima's MediaScale™ Dynamic Content solution helps service providers gain control over content by supporting content rights, blackouts, and advertising. By manipulating content at the edge of the network, operators can deliver more efficient, personalized video content and more opportunities to monetize that content with targeted, higher-value ads.

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 third ("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.

The cable market began its broad shift towards DAA in 2020 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 further increased demands on network bandwidth, accelerating the push towards distributed access solutions.

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, has subsequently released the DOCSIS 4.0 specifications, which include 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.

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 2024 Highlights

Financial and Corporate Highlights

- First quarter revenue of $61.5 million, as compared to $73.4 million in Q1 fiscal 2023.
- Achieved gross profit of $28.8 million, as compared to $33.7 million in Q1 fiscal 2023.
- Gross margin and adjusted gross margin increased to 46.9% and 47.9%, respectively, from 45.9% in the prior-year period.
- Adjusted EBITDA was $8.1 million, as compared to $17.2 million in Q1 fiscal 2023.
- EPS and Adjusted EPS were $0.07 and $0.09 per share, respectively, as compared to EPS and Adjusted EPS of $0.41 per share in Q1 fiscal 2023.
- Ended the first quarter in strong financial position with working capital of $79.0 million at September 30, 2023, compared to $83.7 million at June 30, 2023.

Video and Broadband Solutions (VBS)

- The Video and Broadband Solutions segment contributed first quarter sales of $44.1 million, as compared to $61.0 million in Q1 fiscal 2023 and $57.0 million in Q4 fiscal 2023.

DAA (Entra Family)

- Next-generation Entra product sales of $38.8 million were in line with expectations and compared to $53.0 million in Q1 fiscal 2023 and $50.7 million in Q4 fiscal 2023.
  - Notable first quarter DAA achievements:
    - An increase in total customer engagements to 108 MSOs worldwide, from 95 a year earlier. Fifty-one of these customers are ordering Entra products, with order sizes increasing as broader DAA deployment continues.
      - Customers engaged for cable access now number 62.
      - Customers engaged for fiber access or both access technologies now number 46.
    - Vecima supported Orion Cable's broadband expansion with a scalable, quick-to-deploy and turnkey remote MACPHY solution that drives value through partnership with the customer and supports unique needs for flexible, open, and interoperable broadband access networks.
    - Executed warrant agreement with Charter Communications Holding Company, LLC as disclosed and further discussed in our press release dated September 11, 2023.

Achievements subsequent to the quarter-end:

- Participated in the SCTE Cable-Tec Expo 2023, a major industry show, demonstrating recent innovations in Vecima's Remote PHY, Access Nodes, PON, Open CDN, Dynamic Content and TruLive™ product lines. Vecima's technology was a key focus for industry decision-makers where interest in our expansive portfolio was prominent and unparalleled.
- Entra ERM3 Remote PHY device was honoured with five diamonds in the 2023 BTR Diamond Technology Reviews Awards. The ERM3 RPD helps operators upgrade legacy HFC nodes to DAA quickly and cost-effectively, while dramatically increasing broadband capacity.
- Announced availability of Vecima's DOCSIS 4.0-Ready and 1.8 GHz 'Forever Nodes' which provide a clear and cost-effective path to 10G by supporting DAA today while also supporting future technologies, including DOCSIS 4.0 and Remote Optical Line Terminal (OLT) applications.

Commercial Video (Terrace Family)

- Commercial Video products contributed $5.3 million to first quarter VBS sales, as compared to $7.3 million in Q1 fiscal 2023 and $6.3 million in Q4 fiscal 2023. The year-over-year change reflects the transition to next-generation platforms and the impact of some of Vecima's newer DAA-driven Commercial Video solutions being accounted for as part of Entra family sales.

Content Delivery and Storage (CDS)

- First quarter CDS segment sales grew 43% to $15.7 million, from $11.0 million in Q1 fiscal 2023. This included a 56% increase in product sales and a 24% increase in services revenue. On a sequential quarterly basis, CDS sales were 8% lower than the record $17.1 million performance achieved in Q4 fiscal 2023.
  - CDS gross margin increased to 58.5%, from 54.5% in Q1 fiscal 2023 and 53.8% in Q4 fiscal 2023.
  - Subsequent to the quarter-end, announced an engagement with Blue Ridge Communications to support this customer's video expansion. Blue Ridge has engaged Vecima's professional services team to provide assisted operations support utilizing proprietary tools to remotely monitor Blue Ridge's IP video network for issues, while maximizing system up-time and operating efficiency.

Telematics

- First quarter Telematics sales grew approximately 14% to $1.6 million, from $1.4 million in both Q1 fiscal 2023 and Q4 fiscal 2023.
- 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 subscriptions, adding 14 new customers to the NERO asset tracking platform, and significantly increasing the number of moveable assets being monitored to over 57,000 units.
- Achieved strong gross margin percentage of 64.9%.

4. Outlook

Around the globe, MSOs are upgrading their cable, fiber, and IPTV networks to expand capacity, respond to increasing competition, and meet customers' expectations for ever-faster internet speeds and enhanced services.

In the broadband market, these trends, together with significant government investment into rural broadband initiatives, are fueling a wave of demand for Vecima's world-class Entra DAA cable and fiber access solutions; demand that further amplifies the need to upgrade networks when compounded with the continuous capacity increases that must regularly occur. Over the past two years, this demand has translated into record revenue growth for Vecima, including year-over-year consolidated sales increases of 50.5% in fiscal 2022 and 62.5% in fiscal 2023. With the industry poised to move to even wider adoption of DAA, we expect demand for our solutions will grow even stronger as we move into the latter part of fiscal 2024, while continuing to note that in the near term the macro environment is in transition.

As discussed in our most recent annual report, Vecima successfully managed major constraints in the supply chain in fiscal 2023 to fulfill strong product deliveries in support of our customers' ongoing major network upgrade projects. Correspondingly, customers are now temporarily shifting from building up their product pipelines to managing their DAA rollout logistics, expanding field deployment activity, and working through existing inventories. As anticipated, this led to a temporary slowdown in Entra product deliveries in the first quarter of fiscal 2024 and we expect this dynamic to continue through the balance of the first half. We continue to forecast a second half return to growth as customers conclude their inventory work down and new programs and deployments get underway. In parallel, our Video and Broadband Solutions segment is preparing to launch major DAA rollouts with key customers in fiscal 2024, including supporting a Tier 1 customer's planned large scale cable access network upgrade to DAA with our ERM3 next-generation Remote PHY devices. While exact timing of these rollouts is customer dependent, we expect to see Entra sales momentum building significantly in the second half and continuing into fiscal 2025 and beyond. As we have stated previously, we see a long and remarkable runway of growth for Entra.

Commercial Video sales, which include TerraceQAM and Terrace Family products, are expected to remain slightly lower year-over-year as customers continue to transition to our next-generation Terrace IQ solution and as a portion of our Commercial Video solutions become DAA-driven and are accounted for as part of Entra family sales.

In our Content Delivery and Storage segment, demand for our IPTV and open caching solutions continues to grow as existing IPTV customers undertake network expansions and new customers come on board. We expect to build on the segment's strong fiscal 2023 sales performance with low double-digit growth in fiscal 2024. We also continue to see robust longer-term growth potential as IPTV gains momentum and our newer open caching and dynamic ad insertion solutions become an important driver of CDS performance.

In the Telematics segment, we anticipate incremental growth in subscriptions from the fleet tracking market, along with continued increases in demand for our asset tracking services that have been an important driver of segment differentiation and gains in recent quarters.

As we move forward, we anticipate that our market and product mix will continue to gradually shift to higher volume, lower-margin cable access products. Accordingly, we are targeting a gross margin percentage in the 45% to 49% range, and we expect this margin profile, combined with our operating expenses model, will support our targeted bottom line performance.

Overall, we expect fiscal 2024 will further demonstrate our ability to capture the major and multi-year opportunities in the compelling DAA and IPTV markets as we continue to build value for our shareholders.

5. Consolidated Results of Operations

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

Consolidated Statements of Comprehensive Income Data *(in thousands of dollars except common share data)*	Three months ended September 30, **2023**			2022		
Sales	$	61,478	100%	$	73,447	100%
Cost of sales		32,665	53%		39,706	54%
Gross profit		**28,813**	**47%**		**33,741**	**46%**
Operating expenses						
Research and development[1]		10,296	17%		10,705	15%
Sales and marketing		7,429	12%		6,304	8%
General and administrative		7,973	13%		5,594	8%
Share-based compensation		256	1%		98	-%
Other expense		170	-%		21	-%
		26,124	**43%**		**22,722**	**31%**
Operating income		**2,689**	**4%**		**11,019**	**15%**
Finance expense		(700)	(1)%		(201)	(-)%
Foreign exchange (loss) gain		(584)	(1)%		1,302	2%
Income before taxes		**1,405**	**2%**		**12,120**	**17%**
Income tax expense		(340)	(1)%		2,608	4%
Net income		**1,745**	**3%**		**9,512**	**13%**
Other comprehensive income		973	1%		2,369	3%
Comprehensive income	**$**	**2,718**	**4%**	**$**	**11,881**	**16%**
Net income per share[2]						
Basic	$	0.07		$	0.41	
Diluted	$	0.07		$	0.41	
Other Data						
Total research and development expenditures[3]	$	13,410		$	13,507	
Adjusted EBITDA[4]	$	8,123		$	17,189	
Adjusted earnings per share[5]	$	0.09		$	0.41	
Number of employees[6]		591			607	

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

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

(3) *See "Total Research and Development Expenditures".*

(4) *Adjusted EBITDA does not have any standardized meaning prescribed by IFRS and 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 *(in thousands of dollars except common share data)*		**September 30, 2023**		June 30, 2023
Cash and cash equivalents	$	2,292	$	2,278
Working capital	$	78,975	$	83,666
Total assets	$	357,807	$	331,686
Long-term debt[1]	$	13,950	$	14,123
Shareholders' equity	$	219,375	$	217,653
Number of common shares outstanding[2]		24,301,594		23,712,384

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

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

Adjusted Gross Profit and Adjusted Gross Margin

The following table reconciles Gross Profit and Gross Margin for the period to Adjusted Gross Profit and Adjusted Gross Margin. The terms "Gross Profit" refers to sales less cost of sales as reported in the IFRS financial statements while the term "Gross Margin" refers to Gross Profit as a percentage of sales. The terms "Adjusted Gross Profit and Adjusted Gross Margin" refers to gross profit and gross margin adjusted for the impact of warrants expense. We believe that Adjusted Gross Profit and Adjusted Gross Margin are 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. Adjusted Gross Profit and Adjusted Gross Margin are not a recognized measures under IFRS and, accordingly, investors are cautioned that adjusted gross profit and adjusted gross margin should not be construed as alternatives to gross profit and gross margin, determined in accordance with IFRS, or as indicators of our financial performance or as measures of our liquidity and cash flows.

Calculation of Adjusted Gross Profit and Adjusted Gross Margin	**Three months ended September 30,**			
(in thousands of dollars)		**2023**		2022
Sales	$	61,478	$	73,447
Cost of Sales		32,665		39,706
Gross Profit		**28,813**		**33,741**
Warrants expense[1]		638		-
Adjusted Gross Profit	**$**	**29,451**	**$**	**33,741**
Adjusted Gross Margin %		**47.9%**		**45.9%**

[1] Reflects non-cash expense associated with warrants issued to a customer which are recorded as sales incentives under IFRS.

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, warrants expense 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	**Three months ended September 30,**			
(in thousands of dollars except per share amounts)		**2023**		2022
Net income	$	1,745	$	9,512
Loss on sale of non-core PP&E, net of tax		-		9
Warrants expense, net of tax		509		-
Adjusted net income	**$**	**2,254**	**$**	**9,521**
Net income per share	$	0.07	$	0.41
Loss on sale of non-core PP&E, net of tax		-		-
Warrants expense, net of tax		0.02		-
Adjusted earnings per share[1][2]	**$**	**0.09**	**$**	**0.41**

[1] *Adjusted earnings per share includes non-cash share-based compensation of $0.3 million or $0.01 per share for the three months ended September 30, 2023, and $0.1 million or $nil per share for the three months ended September 30, 2022. 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 loss of $0.6 million or $0.02 per share for the three months ended September 30, 2023 and $1.3 million or $0.06 per share for the three months ended September 30, 2022.*

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; warrants expense 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	**Three months ended September 30,**	
(in thousands of dollars)	**2023**	2022
Net income	$ 1,745	$ 9,512
Income tax expense	(340)	2,608
Interest expense	700	212
Depreciation of PP&E	832	794
Depreciation of right-of-use assets	325	333
Amortization of deferred development costs	3,150	2,819
Amortization of intangible assets	816	804
EBITDA	**7,228**	**17,082**
Loss on sale of property, plant and equipment	1	9
Share-based compensation	256	98
Warrants expense	638	-
Adjusted EBITDA	**$ 8,123**	**$ 17,189**
Percentage of sales	**13%**	**23%**

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	**Three months ended September 30,**	
(in thousands of dollars)	**2023**	2022
Research and development per statement of income	$ 10,296	$ 10,705
Deferred development costs	6,231	5,581
Investment tax credits	33	40
Amortization of deferred development costs	(3,150)	(2,819)
Total research and development expenditures	**$ 13,410**	**$ 13,507**
Percentage of sales	**22%**	**18%**

6. Summary of Quarterly Results of Operations

The following information has been derived from our consolidated financial statements for the three months ended September 30, 2023 and 2022 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.

(in thousands of dollars except per share amounts)	Fiscal 2024 Q1	Fiscal 2023 Q4	Fiscal 2023 Q3	Fiscal 2023 Q2	Fiscal 2023 Q1	Fiscal 2022 Q4	Fiscal 2022 Q3	Fiscal 2022 Q2
Sales	$ 61,478	$ 75,522	$ 78,256	$ 76,212	$ 73,447	$ 59,960	$ 50,872	$ 43,587
Cost of Sales	32,665	37,410	44,183	40,167	39,706	31,478	26,914	21,767
Gross profit	28,813	38,112	34,073	36,045	33,741	28,482	23,958	21,820
Operating expenses								
Research and development	10,296	12,851	12,053	10,341	10,705	11,396	8,796	8,352
Sales and marketing	7,429	7,842	6,929	6,619	6,304	5,993	4,682	4,554
General and administrative	7,973	7,923	8,389	7,522	5,594	6,494	6,083	5,498
Restructuring costs	-	1,236	-	-	-	-	-	-
Share-based compensation	256	1,300	289	815	98	64	64	65
Other expense	170	1,553	275	22	21	767	215	13
	26,124	32,705	27,935	25,319	22,722	24,714	19,840	18,482
Operating income	2,689	5,407	6,138	10,726	11,019	3,768	4,118	3,338
Finance expense	(700)	(877)	(738)	(554)	(201)	(102)	(82)	(46)
Foreign exchange gain (loss)	(584)	1,319	198	(138)	1,302	1,427	(541)	(111)
Income before income taxes	1,405	5,849	5,598	10,034	12,120	5,093	3,495	3,181
Income tax expense	(340)	739	1,147	1,895	2,608	1,609	505	1,708
Net income	1,745	5,110	4,451	8,139	9,512	3,484	2,990	1,473
Other comprehensive income (loss)	973	(1,896)	(105)	(482)	2,369	775	(750)	(110)
Comprehensive income	$ 2,718	$ 3,214	$ 4,346	$ 7,657	$ 11,881	$ 4,259	$ 2,240	$ 1,363
Net income per share								
Basic – total	0.07	0.21	$ 0.18	$ 0.35	$ 0.41	$ 0.16	$ 0.13	$ 0.06
Diluted – total	0.07	0.21	0.18	0.35	0.41	0.16	0.13	0.06
Adjusted EBITDA as reported	$ 8,123	$ 15,088	$ 11,700	$ 15,840	$ 17,189	$ 11,121	$ 8,125	$ 7,447

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.

7. Segmented Information

Sales

Segment *(in thousands of dollars)*	**Three months ended September 30, 2023**	**2022**
Video and Broadband Solutions	$ 44,143	$ 61,005
Content Delivery and Storage	15,689	10,997
Telematics	1,646	1,445
Total sales	**$ 61,478**	**$ 73,447**

We generated total sales of $61.5 million in the first quarter of fiscal 2024, as compared to $73.4 million in Q1 fiscal 2023 and $75.5 million in Q4 fiscal 2023, a decrease of 16% and 19%, respectively. The year-over-year change primarily reflects the anticipated temporary slowdown in Video and Broadband product orders, partially offset by stronger year-over-year performance from the Content Delivery and Storage and Telematics segments.

The Video and Broadband Solutions segment contributed $44.1 million in sales in the first quarter of fiscal 2024, as compared to $61.0 million in Q1 fiscal 2023 and $57.0 million in Q4 fiscal 2023, a decrease of 28% and 23%, respectively.

- Next-generation Entra products sales of $38.8 million were 27% lower than the $53.0 million generated in Q1 fiscal 2023 and 23% lower than $50.7 million in Q4 fiscal 2023. The slower Q1 sales pace was anticipated and reflects challenges experienced by our customers' from a labour and permitting perspective which has caused a temporary delay in large scale network build outs.
- Commercial Video products sales of $5.3 million compared to $7.3 million in Q1 fiscal 2023 and $6.3 million in Q4 fiscal 2023, a decrease of 27% and 15% respectively. The year-over-year change reflects the transition to next-generation platforms and the impact of some of our newer DAA-driven Commercial Video solutions being accounted for as part of Entra family sales.

In the Content Delivery and Storage segment, first quarter sales grew 43% to $15.7 million, from $11.0 million in Q1 fiscal 2023 and were 8% lower than the $17.1 million achieved in Q4 fiscal 2023. The significant year-over-year increase in CDS sales reflects a broader customer base following the past year's new business wins, as well as expansions with existing customers. As always, we note that quarterly sales variances are typical for the CDS segment. Segment sales for the Q1 fiscal 2024 period included $9.9 million of product sales (Q1 fiscal 2023 - $6.4 million) and $5.8 million of services revenue (Q1 fiscal 2023 - $4.6 million).

First quarter Telematics sales of $1.6 million were approximately 14% higher than the $1.4 million achieved in both Q1 fiscal 2023 and Q4 fiscal 2023. 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	**Three months ended September 30,**	
(in thousands of dollars)	**2023**	2022
Video and Broadband Solutions	$ 25,575	$ 34,214
Content Delivery and Storage	6,512	5,002
Telematics	578	490
Total cost of sales	**$ 32,665**	**$ 39,706**

For the three months ended September 30, 2023, total cost of sales decreased 18% to $32.7 million, from $39.7 million in Q1 fiscal 2023 and 13% from $37.4 million in Q4 fiscal 2023. The year-over-year decrease primarily reflects the lower sales in the VBS segment combined with reduced expedite costs. A different product mix was also a factor in lower cost of sales.

First quarter cost of sales in the Video and Broadband Solutions segment decreased 25% to $25.6 million, from $34.2 million in Q1 fiscal 2023 and 12% from $29.1 million in Q4 fiscal 2023. The year-over-year decrease reflects the temporary slowdown in VBS sales, combined with reduced expedite costs and a different product mix.

In the Content Delivery and Storage segment, first quarter cost of sales increased by 30% to $6.5 million, from $5.0 million in Q1 fiscal 2023, and decreased 17% from $7.9 million in Q4 fiscal 2023. Higher 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 $0.6 million, as compared to $0.5 million in Q1 fiscal 2023 and $0.4 million in Q4 fiscal 2023, reflecting the segment's higher sales.

Gross Profit and Gross Margin

Segment *(in thousands of dollars)*	**Three months ended September 30,** **2023**	 2022
Video and Broadband Solutions	$ 18,568	$ 26,791
Content Delivery and Storage	9,177	5,995
Telematics	1,068	955
Total gross profit	**$ 28,813**	**$ 33,741**
Video and Broadband Solutions	42.1%	43.9%
Content Delivery and Storage	58.5%	54.5%
Telematics	64.9%	66.1%
Total gross margin	**46.9%**	**45.9%**

For the three months ended September 30, 2023, we generated total gross profit of $28.8 million, a decrease of 15% from $33.7 million in Q1 fiscal 2023 and 25% from $38.1 million in Q4 fiscal 2023. Our gross profit result reflects lower consolidated sales, partially offset by a higher gross margin percentage. Gross margin for the first quarter was 46.9%, as compared to 45.9% in Q1 fiscal 2023 and 50% in Q4 fiscal 2023. The year-over-year improvement in gross margin percentage primarily reflects an increased proportion of higher-margin CDS sales in our overall product mix. We target a gross margin percentage of 45% to 49%.

We generated first quarter gross profit from the Video and Broadband Solutions segment of $18.6 million (gross profit margin of 42.1%), 31% lower than the $26.8 million (gross profit margin of 43.9%) achieved in Q1 fiscal 2023. The year-over-year decrease in gross profit reflects lower segment sales combined with customer warrant-based incentives. On a sequential quarterly basis, VBS gross profit was 33% lower than the $27.9 million achieved in Q4 fiscal 2023 (gross profit margin of 48.9%) reflecting the temporary slowdown in sales as noted in our outlook.

In the Content Delivery and Storage segment, first quarter gross profit increased by 53% to $9.2 million (gross profit margin of 58.5%), from $6.0 million (gross profit margin of 54.5%) in the same period last year. The year-over-year increase in CDS gross profit reflects the higher sales, together with the stronger gross margin percentage of 58.5%. On a sequential quarterly basis, CDS gross profit was consistent with the $9.2 million (gross profit margin of 53.8%) generated in Q4 fiscal 2023, reflecting stronger gross margin performance, offset by lower quarter-over-quarter sales.

First quarter gross profit from the Telematics segment increased slightly to $1.1 million (gross profit margin of 64.9%), from the $1.0 million (gross margin of 66.1%) generated in Q1 fiscal 2023 and $1.0 million (gross margin of 72.4%) in Q4 fiscal 2023. The year-over-year increase in gross margin is mainly the result of increased customer acquisitions and higher sales in the current quarter.

Operating Expenses

Segment *(in thousands of dollars)*	**Three months ended September 30,** **2023**	 2022
Video and Broadband Solutions	$ 18,271	$ 15,316
Content Delivery and Storage	7,011	6,583
Telematics	842	823
Total operating expenses	**$ 26,124**	**$ 22,722**

For the three months ended September 30, 2023, total operating expenses increased to $26.1 million from $22.7 million in Q1 fiscal 2023 but were lower than the $32.7 million recorded in Q4 fiscal 2023. The year-over-year increase primarily reflects the ramp-up of growth-related support costs over fiscal 2022 and 2023, partially offset by strategic cost reduction initiatives implemented in the fourth quarter of fiscal 2023 to adapt to the economic environment. As a percentage of sales, Q1 operating expenses were 43% as compared to 31% in Q1 fiscal 2023. As part of the Q4 fiscal 2023 restructuring, operating expenses are expected to be lower year-over-year as a percentage of full year sales.

Video and Broadband Solutions operating expenses increased to $18.3 million, from $15.3 million in Q1 fiscal 2023 and decreased from $23.8 million in Q4 fiscal 2023. The $3.0 million year-over-year increase primarily reflects additional expenses for research and development, sales and marketing, and general and administrative activities in preparation for anticipated sales growth. These increases were partially offset by cost reduction initiatives implemented in the fourth quarter of fiscal 2023 which supported the quarter-over-quarter decrease in operating expenses.

Content Delivery and Storage operating expenses were higher at $7.0 million in Q1 fiscal 2024, as compared to $6.6 million in Q1 fiscal 2023, but lower than the $8.0 million recorded in Q4 fiscal 2023. The $0.4 million year-over-year increase reflects higher expenditures on general and administrative costs to support sales growth, partially offset by the shifting of sales and marketing expenses to be more in line with segment revenue generation. The quarter-over-quarter decrease was primarily attributable to the shift in sales and marketing costs as outlined above, combined with lower stock-based compensation.

Telematics operating expenses of $0.8 million were consistent with Q1 fiscal 2023 and slightly lower than the $0.9 million recorded in Q4 fiscal 2023.

Research and development expenses for Q1 fiscal 2024 decreased to $10.3 million, or 17% of sales, from $10.7 million, or 15% of sales in the same period of fiscal 2023. This primarily reflects an increase in capitalized development costs, partially offset by higher prototyping materials and software and licensing 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 2024 decreased to $13.4 million, or 22% of sales, from $13.5 million, or 18% of sales in Q1 fiscal 2023. The slight decrease reflects cost savings initiatives undertaken in the fourth quarter of fiscal 2023, partially offset by 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 $7.4 million, or 12% of sales in Q1 fiscal 2024, as compared to $6.3 million, or 8% of sales in the same period last year. The year-over-year increase in sales and marketing expense primarily reflects an increase in non-cash inventory allowances combined with higher staffing costs, partially offset by lower trade show expenses.

General and administrative expenses increased to $8.0 million or 13%, from $5.6 million or 8% in Q1 fiscal 2023. The year-over-year increase primarily reflects additional staffing, professional fees, software licenses, and training costs in support of realized and planned sales growth.

Stock-based compensation expense was $0.3 million in Q1 fiscal 2024, compared to $0.1 million in Q1 fiscal 2023, reflecting an increase in performance share units outstanding compared to the same period in Q1 fiscal 2023.

Other expense was less than $0.2 million in Q1 fiscal 2024 compared to $nil in Q1 fiscal 2023.

Operating Income (Loss)

Segment	**Three months ended September 30,**	
(in thousands of dollars)	**2023**	2022
Video and Broadband Solutions	$ 297	$ 11,475
Content Delivery and Storage	2,166	(588)
Telematics	226	132
Total operating income	**$ 2,689**	**$ 11,019**

Operating income was $2.7 million in Q1 fiscal 2024, as compared to $11.0 million in the same period last year. The year-over-year decrease in operating income was primarily due to lower sales in the VBS segment, partially offset by higher sales and margins in the CDS segment.

The Video and Broadband Solutions segment generated operating income of $0.3 million in the first quarter, as compared to $11.5 million in Q1 fiscal 2023. The year-over-year decrease is primarily attributed to the temporary slowdown in Entra product orders while our customers' experienced some challenges from a labour and permitting perspective which has caused a temporary delay in large scale network build outs.

Content Delivery and Storage grew operating income to $2.2 million in the first quarter, from an operating loss of $0.6 million in the same period of fiscal 2023. The year-over-year improvement primarily reflects increased sales and margins.

Telematics operating income increased to $0.2 million in Q1 fiscal 2024, from $0.1 million in the same period last year, reflecting the $0.1 million increase in gross profit.

Finance expense increased to $0.7 million in Q1 fiscal 2024, from $0.2 million in Q1 fiscal 2023, reflecting increased interest costs associated with our revolving line of credit and higher interest rates.

Foreign exchange loss was $0.6 million in Q1 fiscal 2024, compared to a foreign exchange gain of $1.3 million in the prior-year period.

Income tax expense decreased to a recovery of $0.3 million in Q1 fiscal 2024, from $2.6 million in Q1 fiscal 2023.

We generated net income of $1.7 million or $0.07 per share in Q1 fiscal 2024 as compared to $9.5 million or $0.41 per share in Q1 fiscal 2023.

Other comprehensive income was $1.0 million in Q1 fiscal 2024, as compared to $2.4 million in the same period in fiscal 2023. The year-over-year change reflects foreign exchange differences on the translation of the foreign operations of our VBS and CDS segments to Canadian dollars.

Comprehensive income for Q1 fiscal 2024 was $2.7 million, as compared to $11.9 million in Q1 fiscal 2023. The year-over-year decrease reflects the changes described above.

Cash Flow Used in Operating, Investing and Financing Activities

Operating Activities

For the three months ended September 30, 2023, cash flow from (used) in operating activities increased to $8.4 million, from cash flow used in operating activities of $7.2 million for the three months ended September 30, 2022. The $15.6 million increase in cash from operations reflects a $28.6 million increase in cash flow from non-cash working capital, partially offset by a $13.0 million decrease in cash flow from non-cash working capital.

Investing Activities

For the three months ended September 30, 2023, cash flow used in investing activities increased to $7.0 million, from $6.5 million in the same period last year. This increase reflects deferred development expenditures of $6.2 million (Q1 fiscal 2023 - $5.6 million) and the purchase of property, plant and equipment of $0.8 million (Q1 fiscal 2023 - $0.9 million).

Financing Activities

For the three months ended September 30, 2023, we repaid $0.8 million of our revolving line of credit (Q1 fiscal 2023 – $6.8 million drawn), repaid $0.3 million of our long-term debt (Q1 fiscal 2023 - $0.07 million repaid), received proceeds from exercised options of $nil (Q1 fiscal 2023 - $0.05 million), paid withholding taxes on PSUs of $nil million (Q1 fiscal 2023 - $0.04 million) and repaid lease liabilities of $0.4 million (Q1 fiscal 2023 - $0.4 million).

8. 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, 2023, we had an authorized line of credit of $55 million (June 30, 2023 - $55 million) of which $19.7 million (June 30, 2023 - $20.5 million) was drawn on as of September 30, 2023. We expect to increase our line of credit to between $75 million and $85 million to manage future growth and working capital requirements. The line of credit is secured by a general security agreement and is limited to a maximum amount available of 75% of accounts receivable and 40% of certain inventory (to a maximum of $27.5 million). As at September 30, 2023, we also had a term loan of $12.2 million (June 30, 2023 - $12.2 million), an insurance financing loan of $0.1 million (June 30, 2023 - $0.4 million), and an outstanding credit line of $1.0 million (June 30, 2023 - $1.1 million).

Capital expenditures in the first quarter of fiscal 2024 were $0.8 million, compared to $0.9 million in the same period last year.

Working Capital

Working capital represents current assets less current liabilities. Our working capital decreased to $79.0 million at September 30, 2022, from $83.7 million at June 30, 2023. 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 decreased to $50.1 million at September 30, 2023, from $57.7 million at June 30, 2023. This decrease reflects the lower sales in Q1 fiscal 2023 compared to Q4 fiscal 2023, and the timing of sales in Q1 fiscal 2024 compared to Q4 fiscal 2023.

Income tax receivable balance was consistent at $0.5 million at September 30, 2023 (June 30, 2023 - $0.5 million). This balance represents income tax receivables in the CDS and VBS segments.

Inventories increased by $35.4 million to $137.0 million at September 30, 2023, from $101.6 million as at June 30, 2023. The increase represents the buildup of inventory related to planned sales growth in the second half of fiscal 2024. Finished goods inventories were $50.2 million at September 30, 2023, compared to $55.3 million at June 30, 2023. Raw material inventory increased to $81.8 million at September 30, 2023, from $41.2 million at June 30, 2023. Work-in-progress inventories were consistent at $5.0 million as at September 30, 2023 and June 30, 2023. 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 decreased to $6.0 million at September 30, 2023 (June 30, 2023 - $13.7 million). This decrease primarily reflects the return of prior payments made to contract manufacturing suppliers for raw material inventories purchased and received related to forecast commitments.

Investment tax credits were $24.2 million at September 30, 2023, compared to $24.3 million at June 30, 2023. 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 $73.9 million at September 30, 2023, from $47.2 million at June 30, 2023. The increase is primarily due to the purchase of inventory to fulfil orders in the second half of fiscal 2024.

Financial liabilities, including the current portion, was $1.6 million at September 30, 2023, as compared to $nil as at June 30, 2023, reflecting the warrant agreement executed with a customer in the first quarter.

Long-term debt, including the current portion and lease liabilities, decreased to $15.7 million at September 30, 2023, from $16.4 million at June 30, 2023, reflecting principal repayments in the period.

Dividends

Declaration Date	Dividend Amount (per share)	Record Date	Payable Date
February 7, 2023	$0.055	February 24, 2023	March 27, 2023
May 9, 2023	$0.055	May 26, 2023	June 19, 2023
September 19, 2023	$0.055	October 13, 2023	November 6, 2023
November 7, 2023	$0.055	November 24, 2023	December 18, 2023

Contractual Obligations

Lease liabilities reported in our consolidated statements of financial position, as at September 30, 2023 were $2.3 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, 2023, our undiscounted future cash payments in respect of our lease liabilities are as follows: due within one year is $1.3 million; due between two-to-five years is $1.0 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, 2023, the contractual obligation, based on forecasted commitments, is estimated to be $0.2 million (June 30, 2023 - $6.9 million).

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, 2023, the exchange rate on the Canadian dollar relative to the U.S. dollar weakened to $1.347 from $1.326 as at June 30, 2023. This $0.021 exchange difference increased the value of our $37.6 million U.S. dollar net assets by approximately $0.6 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, 2023, we had forward FX contracts with an asset position of $0.1 million (June 30, 2023 – $0.6 million).

9. 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.

10. Transactions Between Related Parties

We entered into a building lease on August 1, 2022 with one of our principal shareholders. The lease terms are at fair market value. Total lease payments, including interest, in the first quarter of 2024 were $0.04 million.

11. 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.

12. Critical Accounting Estimates

See our 2023 annual MD&A and our 2023 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.

13. Accounting Pronouncements and Standards

Adoption of amendments to accounting standards

The following amended standards and interpretations issued by the IASB were adopted in the first quarter of fiscal 2024:

Amendments to IAS 8 – Accounting policies, changes in accounting estimates and errors (IAS 8)

On February 12 2021, the IASB issued Definition of Accounting Estimates (Amendments to IAS 8) to help entities to distinguish between accounting policies and accounting estimates. The adoption of this amendment did not have a material impact on our financial statements.

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. The adoption of this amendment did not have a material impact on our financial statements.

Accounting standard amendment issued but not yet applied

The following amended standard and interpretation issued by the IASB is effective after our September 30, 2023 quarter-end date and have not yet been adopted by us:

Amendments to IAS 1 – Presentation of financial statements (IAS1)

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, 2024.

We are assessing the impact, if any, of this amendment, which is not yet effective, will have on our condensed consolidated interim financial statements.

14. 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, 2023.

15. 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, 2023 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, 2023. There has been no change in the internal controls over financial reporting that occurred during the period beginning on July 1, 2023 and ended on September 30, 2023 that has materially affected, or is reasonably likely to materially affect our internal controls on financial reporting.

16. 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.

17. Risks and Uncertainties

Our financial performance, share price, business prospects and financial condition are subject to numerous risks and uncertainties, and are affected by various factors outside the control of management. Prior to making any investment decision regarding Vecima, investors should carefully consider, among other things, the risks described herein (including the factors outlined under the heading “Forward-Looking Information” below) and the risk factors set forth in our Annual Information Form for our most recently completed fiscal year, which are incorporated by reference herein. These risks and uncertainties are not the only ones that we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business. If any of 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. While supply chain constraints have eased from the highs of the COVID-19 pandemic, 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.

18. Outstanding Share Data

As at November 7, 2023, we had 24,304,994 common shares outstanding as well as stock options outstanding that are exercisable for an additional 37,912 common shares, and performance share units outstanding that are exercisable for an additional 277,985 common shares.

On April 25, 2023, 132,218 PSUs vested and were settled via the issuance of common shares. The estimated fair value of the vested PSUs was $1.4 million. We withheld 56,215 common shares at a market value of $1.3 million to settle withholding tax obligations on the issuance of the common share awards.

On February 7, 2023, 7,956 PSUs vested and were settled via the issuance of common shares. The estimated fair value of the vested PSUs was $0.02 million. We withheld 2,405 common shares at a market value of $0.1 million to settle withholding tax obligations on the issuance of the common share awards.

On December 19, 2022, 185,269 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 71,037 common shares at a market value of $1.4 million to settle withholding tax obligations on the issuance of the common share awards.

On December 14, 2022, we closed two common share offerings for the sale of 957,880 common shares at a price of $17.75 per share with total aggregate gross proceeds of $17.0 million. Share issuance costs in connection with the share offerings amounted to $1.1 million.

On September 9, 2022, 7,955 PSUs vested and were settled via the issuance of common shares. The estimated fair value of the vested PSUs was $0.05 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.

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, 2023, the Principal Shareholder collectively owned approximately 56% 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.

19. 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: As part of the Q4 fiscal 2023 restructuring, operating expenses are expected to be lower year-over-year as a percentage of full year sales; We expect to increase our line of credit to between $75 million and $85 million to manage future growth and working capital requirements; and we believe that our current working capital position, access to loan facilities and cash together with 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 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 growth 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. A more complete discussion of the risks and uncertainties facing us is disclosed under the heading "Risks and Uncertainties" above and under the heading "Risk Factors" in our Annual Information Form for our most recently completed fiscal year, as well as in our continuous disclosure filings with Canadian securities regulatory authorities available at www.sedarplus.ca. 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, 2023**		June 30, 2023
Assets					
Current assets					
Cash and cash equivalents		$	2,292	$	2,278
Accounts receivable	3		50,136		57,662
Income tax receivable			532		530
Inventories	4		137,004		101,601
Prepaid expenses and other current assets	5		5,977		13,695
Contract assets			1,805		2,707
Total current assets			**197,746**		**178,473**
Non-current assets					
Property, plant and equipment	6		15,683		15,683
Right-of-use assets			2,044		2,364
Goodwill			15,188		15,049
Intangible assets	7		85,872		82,991
Investment tax credits			24,151		24,252
Deferred tax assets			15,004		11,576
Other long-term assets			2,119		1,298
Total assets		**$**	**357,807**	**$**	**331,686**
Liabilities and shareholders' equity					
Current liabilities					
Revolving line of credit	8	$	19,677	$	20,513
Accounts payable and accrued liabilities			73,942		47,162
Provisions			772		1,978
Income tax payable			8,858		7,808
Deferred revenue			11,875		15,086
Current portion of financial liability			515		-
Current portion of long-term debt	9		1,796		2,260
Dividend payable			1,336		-
Total current liabilities			**118,771**		**94,807**
Non-current liabilities					
Provisions			373		387
Deferred revenue			4,238		4,716
Long-term portion of financial liability			1,100		-
Long-term debt	9		13,950		14,123
Total liabilities			**138,432**		**114,033**
Shareholders' equity					
Share capital			23,997		23,997
Reserves			3,367		3,111
Retained earnings			191,419		190,926
Accumulated other comprehensive loss			592		(381)
Total shareholders' equity			**219,375**		**217,653**
Total liabilities and shareholders' equity		**$**	**357,807**	**$**	**331,686**

Contractual obligation - Note 18; Subsequent events - Note 21

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

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

	Note	Three months ended September 30, 2023	2022
Sales	10,14	$ 61,478	$ 73,447
Cost of sales		32,665	39,706
Gross profit		**28,813**	**33,741**
Operating expenses			
Research and development		10,296	10,705
Sales and marketing		7,429	6,304
General and administrative		7,973	5,594
Share-based compensation	11	256	98
Other expense	12	170	21
Total operating expenses		**26,124**	**22,722**
Operating income		**2,689**	**11,019**
Finance expense		(700)	(201)
Foreign exchange gain (loss)		(584)	1,302
Income before income taxes		**1,405**	**12,120**
Income tax expense (recovery)		(340)	2,608
Net income		**$ 1,745**	**$ 9,512**
Other comprehensive income			
Item that may be subsequently reclassed to net income			
Exchange differences on translating foreign operations		$ 973	$ 2,369
Comprehensive income		**$ 2,718**	**$ 11,881**
Net income per share			
Basic	13	$ 0.07	$ 0.41
Diluted	13	$ 0.07	$ 0.41
Weighted average number of common shares			
Shares outstanding – basic	13	24,301,594	23,104,507
Shares outstanding - diluted	13	24,324,324	23,132,401

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 income (loss)	Total
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		61	(12)	-	-	49
PSUs settled in common shares		49	(49)	-	-	-
Withholding taxes on PSUs		(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**
Balance as at June 30, 2023		**$ 23,997**	**$ 3,111**	**$ 190,926**	**$ (381)**	**$ 217,653**
Net income		-	-	1,745	-	1,745
Other comprehensive income		-	-	-	973	973
Dividends		-	-	(1,252)	-	(1,252)
Share-based payment expense	11	-	256	-	-	256
Balance as at September 30, 2023		**$ 23,997**	**$ 3,367**	**$ 191,419**	**$ 592**	**$ 219,375**

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)

	Note	Three months ended September 30, 2023	2022
OPERATING ACTIVITIES			
Net income		$ 1,745	$ 9,512
Adjustments for non-cash items:			
Loss on sale of property, plant and equipment		1	9
Depreciation and amortization	17	5,123	4,750
Share-based compensation	11	256	98
Warrant expense	16	638	-
Income tax expense		2,711	1,948
Deferred income tax expense (recovery)		(3,051)	660
Interest expense		700	212
Interest income		(2)	(10)
Net change in working capital	17	4,234	(24,366)
Decrease in other long-term assets		12	142
Increase (decrease) in provisions		(1,218)	16
Increase in investment tax credits		(33)	(40)
Income tax received (paid)		(1,950)	30
Interest received		2	10
Interest paid		(727)	(175)
Cash provided by (used in) operating activities		**8,441**	**(7,204)**
INVESTING ACTIVITIES			
Capital expenditures, net	17	(763)	(887)
Deferred development costs	7	(6,231)	(5,581)
Cash used in investing activities		**(6,994)**	**(6,468)**
FINANCING ACTIVITIES			
Net draws (repayments) of the revolving line of credit		(836)	6,832
Principal repayments of lease liabilities	9	(405)	(379)
Repayment of long-term debt	9	(280)	(67)
Issuance of shares through exercised options		-	49
Withholding taxes on PSUs		-	(44)
Cash provided by (used in) financing activities		**(1,521)**	**6,391**
Net decrease in cash and cash equivalents		**(74)**	**(7,281)**
Effect of change in exchange rates on cash		88	(1,277)
Cash and cash equivalents, beginning of year		2,278	12,902
Cash and cash equivalents, end of period		**$ 2,292**	**$ 4,344**

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

Table of Contents

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 financials statements of the Company for the year ended June 30, 2023.

(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, 2023, 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 7, 2023.

(c) Adoption of amendments to accounting standards

The following amended standards and interpretations issued by the IASB were adopted in the first quarter of fiscal 2024:

<u>Amendments to IAS 8 – Accounting policies, changes in accounting estimates and errors (IAS 8)</u>

On February 12, 2021, the IASB issued Definition of Accounting Estimates (Amendments to IAS 8) to help entities to distinguish between accounting policies and accounting estimates. The adoption of this amendment did not have a material impact on the Company’s financial statements.

<u>Amendments to IAS 12 – Income Taxes – comprehensive balance sheet method</u>

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. The adoption of this amendment did not have a material impact on the Company’s financial statements.

(in thousands of Canadian dollars except as otherwise noted)

(d) Accounting standard amendment issued but not yet applied

The following amended standard and interpretation issued by the IASB is effective after the Company's September 30, 2023 quarter-end date and has not yet been adopted by the Company:

Amendments to IAS 1 – Presentation of financial statements (IAS1)

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, 2024.

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

3. ACCOUNTS RECEIVABLE

	September 30, 2023	June 30, 2023
Trade receivables	$ 48,804	$ 56,039
Less: allowance for doubtful accounts	(20)	(10)
Total trade receivables	**48,784**	**56,029**
Goods and services tax	559	298
Foreign exchange contracts	62	581
Government grants receivable	629	647
Other receivables	102	107
Total accounts receivable	**$ 50,136**	**$ 57,662**

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, 2023	June 30, 2023
Raw materials	$ 81,799	$ 41,235
Work-in-progress	5,026	5,086
Finished goods	50,179	55,280
Total inventory	**$ 137,004**	**$ 101,601**

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	September 30, 2023	June 30, 2023
Payments for contract manufacturer inventory purchases and expedite fees	$ 2,225	$ 9,057
Software licenses	1,536	1,574
Other	2,216	3,064
Total prepaid expenses and other current assets	**$ 5,977**	**$ 13,695**

(in thousands of Canadian dollars except as otherwise noted)

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Land improvements & building	Lab, operating & production equipment	Other equipment	Total
At cost					
At July 1, 2023	$ 321	$ 10,257	$ 26,466	$ 14,162	**$ 51,206**
Additions	-	-	755	8	**763**
Disposals	-	-	(13)	(8)	**(21)**
Effect of foreign exchange	-	14	123	25	**162**
At September 30, 2023	**$ 321**	**$ 10,271**	**$ 27,331**	**$ 14,187**	**$ 52,110**
Accumulated depreciation and amortization					
At July 1, 2023	$ -	$ 3,832	$ 19,433	$ 12,258	**$ 35,523**
Depreciation	-	90	551	191	**832**
Disposals	-	-	(12)	(7)	**(19)**
Effect of foreign exchange	-	8	67	16	**91**
At September 30, 2023	**$ -**	**$ 3,930**	**$ 20,039**	**$ 12,458**	**$ 36,427**
Net book value					
At June 30, 2023	$ 321	$ 6,425	$ 7,033	$ 1,904	**$ 15,683**
At September 30, 2023	**$ 321**	**$ 6,341**	**$ 7,292**	**$ 1,729**	**$ 15,683**

7. INTANGIBLE ASSETS

	Indefinite-life intangible assets	Finite-life intangible assets				
	Spectrum and other licenses	Customer contracts	Patents	Intellectual property	Deferred development costs	Total
At cost						
At July 1, 2023	$ 106	$ 20,586	$ 1,070	$ 11,106	$ 97,521	**$ 130,389**
Additions	-	-	-	-	6,231	**6,231**
Investment tax credits	-	-	-	-	185	**185**
Effect of foreign exchange	-	240	2	116	472	**830**
At September 30, 2023	**$ 106**	**$ 20,826**	**$ 1,072**	**$ 11,222**	**$ 104,409**	**$ 137,635**
Accumulated amortization						
At July 1, 2023	$ -	$ 12,721	$ 660	$ 7,877	$ 26,140	**$ 47,398**
Amortization	-	490	36	290	3,150	**3,966**
Effect of foreign exchange	-	141	3	90	165	**399**
At September 30, 2023	**$ -**	**$ 13,352**	**$ 699**	**$ 8,257**	**$ 29,455**	**$ 51,763**
Net book value						
At June 30, 2023	$ 106	$ 7,865	$ 410	$ 3,229	$ 71,381	**$ 82,991**
At September 30, 2023	**$ 106**	**$ 7,474**	**$ 373**	**$ 2,965**	**$ 74,954**	**$ 85,872**

(in thousands of Canadian dollars except as otherwise noted)

8. REVOLVING LINE OF CREDIT

The Company maintains an authorized line of credit of $55,000 (June 30, 2023 - $55,000) of which $19,677 was drawn on as of September 30, 2023 (June 30, 2023 - $20,513). The line of credit is secured by a general security agreement and is limited to a maximum amount available of 75% of accounts receivable and 40% of certain inventory (to a maximum of $27,500). Interest on the outstanding line of credit is calculated at prime plus 0.5%. The prime rate at September 30, 2023 was 7.2% (June 30, 2023 - 6.95%). As at September 30, 2023, the Company had no outstanding letters of credit (June 30, 2023 - $15,907) with its suppliers.

The line of credit is subject to customary borrowing covenants, such as minimum current ratio, senior debt to EBITDA ratio, and debt service coverage ratio. As at September 30, 2023, the Company was in compliance with all covenants related to the line of credit.

9. LONG-TERM DEBT

As at June 30,		**September 30, 2023**		June 30, 2023
Term credit facility	$	1,017	$	1,071
Term loan facility		12,200		12,200
Insurance financing		148		364
Lease liabilities		2,381		2,748
Total term facilities and lease liabilities	**$**	**15,746**	**$**	**16,383**
Current portion	$	1,796	$	2,260
Long-term portion	$	13,950	$	14,123

<u>Term credit facility</u>

The term credit facility is with a Canadian chartered bank. As at September 30, 2023, the facility is repayable in monthly installments of $21 principal and interest at Prime of 7.2% (June 30, 2023 - $21, and 6.7%, respectively), expires in October 2024 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.

<u>Term loan facility</u>

The Company obtained a term loan facility with a Canadian chartered bank in the third quarter of fiscal 2023. The term facility requires accrued interest payments only and has no set principal repayments. It carries an interest rate at Prime of 7.2% (June 30, 2023 - 6.7%), expires in October 2024 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.

<u>Insurance financing loan</u>

The Company obtained a short-term loan with its insurance provider to finance its insurance requirements in the third quarter of fiscal 2023. The financing carries an interest rate of 3.6% and is repayable in 11 monthly installments of $63.

The term credit, loan facilities and insurance financing 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. The insurance financing loan is short-term in nature and approximates fair value.

(in thousands of Canadian dollars except as otherwise noted)

Assuming that the existing payment terms are the same at the renewal date, the following are the future principal repayments for the term credit, loan facilities and insurance financing loan as at September 30, 2023:

2023	$	211
2024		13,154
	$	**13,365**

Lease liabilities

The following is a reconciliation of the Company's lease liabilities as at September 30, 2023:

At July 1, 2023	$	2,748
Interest on lease liabilities		28
Principal repayments of lease liabilities		(405)
Effect of foreign exchange		10
At September 30, 2023	**$**	**2,381**
Current portion	$	1,244
Long-term portion	$	1,137

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

		September 30, 2023		June 30, 2023
Within one year	$	1,325	$	1,577
After one year but not more than five years		978		1,092
More than five years		250		272
Total contractual lease payments	**$**	**2,553**	**$**	**2,941**

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.

		Video and Broadband Solutions		**Content Delivery and Storage**		**Telematics**		**Total**
For the three months ended September 30, 2023								
Product sales	$	40,760	$	9,942	$	263	**$**	**50,965**
Provision of services		3,383		5,747		1,383		**10,513**
Total sales	**$**	**44,143**	**$**	**15,689**	**$**	**1,646**	**$**	**61,478**
For the three months ended September 30, 2022								
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**

The Company executed a warrant agreement with one its customers in the first quarter of fiscal 2024. The value of the warrants is amortized against sales to reflect progress towards vesting conditions which are based on the achievement of multi-year spending targets. In the first quarter of fiscal 2024, a total of $638 was reflected as a sales incentive and reduction of revenue. See Note 16 Financial Instruments for further disclosure.

(in thousands of Canadian dollars except as otherwise noted)

11. SHARE-BASED COMPENSATION

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

	Three months ended September 30,	
	2023	2022
Stock options	$ 15	$ 87
Performance share units	241	11
Total share-based compensation	**$ 256**	**$ 98**

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, 2023 are as follows:

(in number of units, except prices)	Number of Options	Weighted average exercise price per option
Outstanding, July 1, 2023	37,312	$ 13.39
Granted	4,000	17.93
Outstanding, September 30, 2023	**41,312**	**$ 13.83**
Vested and exercisable, September 30, 2023	**25,312**	**$ 10.68**

Performance share units ("PSUs")

The Company's PSU plan sets the maximum number of PSUs that can be issued at 6% 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, 2023, the Company issued 35,750 PSUs (September 30, 2022 - 295,100 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, 2023, 7,955 PSUs vested (September 30, 2022 - 7,955 PSUs); which had a fair value of $nil (September 30, 2022 - $49). Each vested PSU is settled for one common share of the Company. During the three months ended September 30, 2023, the Company withheld nil common shares (September 30, 2022 - 2,404 common shares) at an aggregate market value of $nil (September 30, 2022 - $44) to settle withholding tax obligations on the issuance of the common share awards. This was accounted for as a reduction to equity.

A summary of PSU activity during the three months ended September 30, 2023 is as follows:

	Number of PSUs
PSUs outstanding as at July 1, 2023	242,235
Granted	35,750
PSUs outstanding as at September 30, 2023	**277,985**

(in thousands of Canadian dollars except as otherwise noted)

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,	
	2023	2022
Loss on sale of property, plant and equipment	$ 1	$ 9
Contract cancellation fee	210	-
Other (income) expense	(41)	12
Total other expense	**$ 170**	**$ 21**

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,	
	2023	2022
Net income: basic and diluted	$ 1,745	$ 9,512
Weighed average number of shares outstanding:		
Basic	24,301,594	23,104,507
Dilution adjustment for stock options	22,730	27,894
Diluted	**24,324,324**	**23,132,401**
Net income per share: basic	$ 0.07	$ 0.41
Net income per share: diluted	$ 0.07	$ 0.41

Stock options could potentially dilute basic net income per share in the future. Dilutive stock options are calculated using the treasury stock method. As at September 30, 2023, 22,730 (June 30, 2023 - 27,894) of the total 37,312 (June 30, 2023 - 359,400) outstanding stock options and 361,050 outstanding warrants (June 30, 2023 - nil) were deemed dilutive and included in the calculation of diluted net income per share.

(in thousands of Canadian dollars except as otherwise noted)

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

For the three months ended September 30, 2023	**Video and Broadband Solutions**	**Content Delivery and Storage**	**Telematics**	**Total**
Sales	$ 44,143	$ 15,689	$ 1,646	**$ 61,478**
Cost of sales	25,575	6,512	578	**32,665**
Gross profit	**18,568**	**9,177**	**1,068**	**28,813**
Operating expenses	14,770	5,666	565	**21,001**
Depreciation and amortization	3,501	1,345	277	**5,123**
Operating income	**297**	**2,166**	**226**	**2,689**
Finance expense				**(700)**
Foreign exchange loss				**(584)**
Income tax recovery				**340**
Net income				**$ 1,745**
Total assets	$ 304,568	$ 40,387	$ 12,852	**$ 357,807**
Total liabilities	$ 117,683	$ 19,332	$ 1,417	**$ 138,432**

For the three months ended September 30, 2022	**Video and Broadband Solutions**	**Content Delivery and Storage**	**Telematics**	**Total**
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**

(in thousands of Canadian dollars except as otherwise noted)

Geographical region

	Three months ended September 30, 2023	2022
Sales to external customers:		
United States	$ 53,855	$ 59,960
Canada	4,626	6,655
Japan	1,198	3,687
Europe	1,456	1,351
Other	343	1,794
Total sales	**$ 61,478**	**$ 73,447**

	September 30, 2023	June 30, 2023
Non-current assets:		
United States	$ 48,732	$ 46,938
Canada	109,305	102,954
Japan	696	697
Europe	-	21
Mexico	-	1,154
China	1,328	1,449
Total non-current assets	**$ 160,061**	**$ 153,213**

Sales to major customers

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

	Three months ended September 30, 2023	2022
Customer A	$ 22,104	$ 28,633
Customer B	18,417	14,984
Total sales	**$ 40,521**	**$ 43,617**

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

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, 2023, there were no transfers between Level 1 and Level 2 fair value. As at September 30, 2023, the Company held two forward foreign exchange contracts and customer based warrants outstanding which are classified as Level 2 assets.

(in thousands of Canadian dollars except as otherwise noted)

16. FINANCIAL INSTRUMENTS

Accounts receivable

As at September 30, 2023, the weighted average age of customer accounts receivable was 34 days (June 30, 2023 - 34 days), and the weighted average age of past-due accounts receivable approximated 56 days (June 30, 2023 - 57 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, 2023	June 30, 2023
Current	$ 46,362	$ 44,835
31 to 60 days	1,277	9,363
61 to 90 days	107	714
Over 90 days	1,038	1,117
Total accounts receivable	**$ 48,784**	**$ 56,029**

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, 2023 of $20 (June 30, 2023 - $10).

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 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, 2023, the Company had forwards contracts outstanding with a fair value of $62 included in accounts receivable (June 30, 2023 - $581 - asset position).

Customer based warrants

The Company executed a warrant agreement with one of its key customers in the first quarter of fiscal 2024 to purchase up to 361,050 common shares at an exercise price of $17.09 with vesting conditions based on the achievement of certain multi-year spending targets. The warrants will be accounted for as financial liabilities due to their conversion features and will be remeasured to their fair market value at each reporting date until the earliest of settlement, cancellation or expiry. A binomial options pricing model was used to derive the fair value of customer based warrants. The inception fair value of warrants of $1,615 was reflected as a contract asset and financial liability in the Company's consolidated balance sheet with warrant vesting expense in the quarter of $638 reflected as a sales incentive and reduction of revenue in the Company's consolidated statements of comprehensive income. The remaining contract asset balance, after first quarter vesting expense, was $977 as at September 30, 2023.

(in thousands of Canadian dollars except as otherwise noted)

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, 2023	2022
Depreciation of property, plant and equipment	$ 832	$ 794
Depreciation of right-of-use assets	325	333
Amortization of deferred development costs	3,150	2,819
Amortization of finite-life intangible assets	816	804
Total depreciation and amortization	**$ 5,123**	**$ 4,750**

Net change in working capital - operating activities

	Three months ended September 30, 2023	2022
Accounts receivable	$ 7,753	$ (13,032)
Inventories	(34,874)	(15,660)
Prepaid expenses	7,892	(6,537)
Income tax receivable	-	(37)
Contract assets	936	(32)
Accounts payable and accrued liabilities	26,427	12,757
Deferred revenue	(3,900)	(1,825)
Total change in net working capital	**$ 4,234**	**$ (24,366)**

Capital expenditures, net - investing activities

	Three months ended September 30, 2023	2022
Capital expenditures:		
Property, plant and equipment	$ (763)	$ (875)
Intangible assets	-	(12)
Total capital expenditures, net	**$ (763)**	**$ (887)**

18. CONTRACTUAL OBLIGATION

In conjunction with the Nokia portfolio acquisition in fiscal 2021, the Company acquired a contract with a third-party supplier. As at September 30, 2023, the contractual obligation, based on forecasted commitments, is estimated to be $207 (June 30, 2023 - $6,860). The contract was cancelled in the fourth quarter of fiscal 2023.

19. RELATED PARTY TRANSACTIONS

The Company entered into a building lease on August 1, 2022 with one of the principal shareholders. The lease terms are at fair market value. During the three months ended September 30, 2023, total lease payments, including interest, were $47 (September 30, 2022 - $21). There were no other related party transactions in the first three months of fiscal 2024.

20. COMPARATIVE FIGURES

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

21. SUBSEQUENT EVENTS

On November 7, 2023, the Board of Directors declared a dividend of $0.055 per common share, payable on December 18, 2023 to shareholders of record as at November 24, 2023 consistent with its previously announced dividend policy.