SECOND QUARTER RESULTS

Management's Discussion and Analysis and

Interim Condensed Consolidated Financial Statements of

VECIMA NETWORKS INC.

For the three and six months ended December 31, 2023 and 2022

(unaudited)

Vecima Networks Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS
February 12, 2024

This Management's Discussion and Analysis ("MD&A") provides a review of significant developments that have affected the performance of Vecima Networks Inc. ("Vecima" or the "Company") during the three and six months ended December 31, 2023.

Our MD&A supplements, but does not form part of, our interim condensed consolidated financial statements and related notes for the three and six months ended December 31, 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 and six months ended December 31, 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 and 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 Ad 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. Second Quarter Fiscal 2024 Highlights

Financial and Corporate Highlights

- Second quarter revenue of $62.0 million, compared to $76.2 million in Q2 fiscal 2023 and $61.5 million in Q1 fiscal 2024.
- Gross profit of $29.6 million, compared to $36.0 million in Q2 fiscal 2023 and $28.8 million in Q1 fiscal 2024.
- Gross margin increased to 47.8% from 47.3% in Q2 fiscal 2023 and 46.9% in Q1 fiscal 2024.
- Adjusted EBITDA of $12.5 million, compared to $15.8 million in Q2 fiscal 2023 and $8.1 million in Q1 fiscal 2024.
- EPS and Adjusted EPS of $0.15, as compared to $0.35 and $0.35 respectively in Q2 fiscal 2023, and $0.07 and $0.09 respectively in Q1 fiscal 2024.
- Ended the second quarter in a solid financial position with working capital of $80.4 million at December 31, 2023, compared to $83.7 million at June 30, 2023.

Video and Broadband Solutions (VBS)

- The Video and Broadband Solutions segment generated second quarter sales of $49.1 million (Q2 fiscal 2023: $62.3 million; Q1 fiscal 2024: $44.1 million).

DAA (Entra Family)

- Achieved next-generation Entra product sales of $43.8 million, in line with expectations (Q2 fiscal 2023: $55.7 million; Q1 fiscal 2024: $38.8 million).
  - Notable second quarter DAA achievements:
    - Increased total customer engagements to 110 MSOs worldwide, from 101 a year earlier. Fifty-five of these customers are ordering Entra products, with order sizes increasing as broader DAA deployment continues.
      - Customers engaged for cable access now number 63
      - Customers engaged for fiber access or both access technologies now number 47
    - Won a new MACPHY deployment with a broadband provider serving 75,000 customers across 22 states.
    - Initiated deliveries of the new Entra ERM3 Remote PHY device to Charter Communications. The award-winning ERM3 RPD helps operators upgrade legacy HFC nodes to DAA quickly and cost-effectively, while dramatically increasing broadband capacity. Volume deliveries began in December 2023.
    - Announced availability of Vecima's series of 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. Subsequent to the quarter end, achieved certification of the EN9000 GAP (Generic Access Platform) node with a leading Tier 1 customer.
    - 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 (the highest rating) in the 2023 BTR Diamond Technology Reviews Awards.

Commercial Video (Terrace Family)

- Generated Commercial Video product sales of $5.3 million (Q2 fiscal 2023: $6.5 million; Q1 fiscal 2024: $5.3 million). The year-over-year change in sales was anticipated and 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)

- The Content Delivery and Storage segment generated sales of $11.3 million (Q2 fiscal 2023: $12.4 million; Q1 fiscal 2024: $15.7 million).
  - Achieved a strong CDS gross margin of 54.5% (Q2 fiscal 2023: 50.5%; Q1 fiscal 2024: 58.5%).
  - Increased service revenue by 18% year-over-year as the base of deployed MediaScale platforms continues to grow.
  - Announced an engagement with Blue Ridge Communications to support its video expansion and subsequently expanded subscriber deployments with this customer.
  - Released new versions of Media Scale Origin and Dynamic Content products with additional Dynamic Ad Insertion features, including advances in asset insertion workflows, scaling of ingest throughput for dynamic versus static ad assets, and enhanced stitching capability for frame accurate ad insertion in highly variable ad window duration scenarios.
  - Continued IPTV expansion at multiple customers, growing network footprints to give a larger subscriber base access to state-of-the-art live, on-demand, and cloud DVR streaming services on the IPTV fabric, including:
    - a Tier 2 US operator that increased MediaScale Cache capacity for on-demand streaming;
    - expansion of Mediascale cloud DVR storage at an operator in the southeast US;
    - a new phase of network capacity expansion with a fiber service provider in the southeastern U.S. encompassing a multi-tiered MediaScale Cache architecture over enterprise and micro caches; and
    - capacity growth of a large Tier 2 operator's deployment of the full portfolio of MediaScale IPTV solutions.

Telematics

- Telematics segment sales grew approximately 7% to $1.6 million (Q2 fiscal 2023: $1.5 million; Q1 fiscal 2024: $1.6 million).
- Generated additional deployments in high-value verticals, including municipal government and moveable asset customers in restoration and emergency medical services.
- Added 10 new customers to the NERO asset tracking platform and significantly increased the number of moveable assets being monitored to over 59,000 units.
- Achieved strong gross margin percentage of 65.8%.

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 now poised to move to even wider adoption of DAA, we expect demand for our solutions will begin to accelerate again in the second half of fiscal 2024, following the transitional period that materialized in the first half as customers refined their rollout logistics and drew down existing inventories that we had helped them build during the supply chain challenges of fiscal 2023.

Customers are continuing to expand field deployments and work down inventory while new programs and deployments are getting underway concurrently. In parallel, our Video and Broadband Solutions segment has begun to launch major DAA rollouts with key customers and moving into the second half, we anticipate a significant increase in DAA sales velocity as multiple pathways for growth begin to converge. The rollout of our next-generation ERM3 Remote PHY devices with Charter Communications, significant new fiber access opportunities that are becoming available as a result of the US$42.5 billion BEAD program which represents the largest injection of federal funding into broadband network deployment in U.S. history, and additional opportunities related to the launch of our new Generic Access Platform (GAP) node and its recent certification with the lead Tier 1 customer are just some of the major growth opportunities ahead for Entra and our VBS segment. While the exact timing of these various rollouts is customer dependent, we expect Entra sales momentum as a whole will build through the balance of fiscal 2024 and 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 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 remains strong, however shifts in project timing have adjusted some of our customers' near-term rollout plans. We now expect the CDS segment to achieve fiscal 2024 sales results similar to the strong performance achieved in fiscal 2023. We continue to see excellent long-term opportunities for this segment as IPTV gains further momentum and our newer open caching and dynamic ad insertion solutions become an important driver of CDS performance.

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

On a consolidated basis, we expect fiscal 2024 revenues to be in line with the all-time record results we achieved in fiscal 2023. 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 continue to target 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 December 31,**				**Six months ended December 31,**			
	2023		2022		**2023**		2022	
Sales	$ 61,954	100%	$ 76,212	100%	$ 123,432	100%	$ 149,659	100%
Cost of sales	32,354	52%	40,167	53%	65,019	53%	79,873	53%
Gross profit	**29,600**	**48%**	**36,045**	**47%**	**58,413**	**47%**	**69,786**	**47%**
Operating expenses								
Research and development[1]	11,551	19%	10,341	13%	21,847	18%	21,046	14%
Sales and marketing	6,605	11%	6,619	9%	14,034	11%	12,923	9%
General and administrative	6,431	10%	7,522	10%	14,404	12%	13,116	9%
Share-based compensation	257	–%	815	1%	513	–%	913	1%
Other expense	97	–%	22	–%	267	–%	43	–%
	24,941	**40%**	**25,319**	**33%**	**51,065**	**41%**	**48,041**	**33%**
Operating income	**4,659**	**8%**	**10,726**	**14%**	**7,348**	**6%**	**21,745**	**14%**
Finance expense	(1,660)	(3)%	(554)	(1)%	(2,360)	(2)%	(755)	–%
Foreign exchange (loss) gain	1,837	3%	(138)	–%	1,253	1%	1,164	1%
Income before taxes	**4,836**	**8%**	**10,034**	**13%**	**6,241**	**5%**	**22,154**	**15%**
Income tax expense	1,247	2%	1,895	2%	907	1%	4,503	3%
Net income	**3,589**	**6%**	**8,139**	**11%**	**5,334**	**4%**	**17,651**	**12%**
Other comprehensive (loss) income	(1,157)	(2)%	(482)	(1)%	(184)	–%	1,887	1%
Comprehensive income	**$ 2,432**	**4%**	**$ 7,657**	**10%**	**$ 5,150**	**4%**	**$ 19,538**	**13%**
Net income per share[2]								
Basic – total	$ 0.15		$ 0.35		$ 0.22		$ 0.76	
Diluted – total	$ 0.15		$ 0.35		$ 0.22		$ 0.76	
Other Data:								
Research and Development Expenditures[3]	$ 15,179		$ 13,199		$ 28,589		$ 26,706	
Adjusted EBITDA[4]	$ 12,470		$ 15,840		$ 20,593		$ 33,029	
Adjusted earnings per share[5]	$ 0.15		$ 0.35		$ 0.24		$ 0.76	
Number of employees[6]	585		627		585		627	

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

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

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

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

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

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

Consolidated Statements of Financial Position *(in thousands of dollars except common share data)*		**December 31, 2023**		June 30, 2023
Cash and cash equivalents	$	2,586	$	2,278
Working capital	$	80,415	$	83,666
Total assets	$	376,624	$	331,686
Long-term debt(1)	$	13,161	$	14,123
Shareholders' equity	$	220,730	$	217,653
Number of common shares outstanding(2)		24,303,312		23,712,384

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

(2) *Based on the weighted average number of common shares outstanding during the first six months of fiscal 2024.*

Adjusted Net Income and Adjusted Earnings per Share

The following table reconciles net income for the period to adjusted net income as well as earnings per share to adjusted earnings per share. The term "adjusted net income" refers to net income or net loss as reported in the IFRS financial statements, excluding any amounts included in net income or net loss for gains and losses on the sale of non-core property, plant and equipment ("PP&E"), intangible assets, and assets held for sale, impairments of intangible assets, restructuring costs, and the tax effect of these adjusted items. We believe that adjusted net income and adjusted earnings per share provides supplemental information for management and our investors because they provide for the analysis of our results exclusive of certain items which do not directly correlate to our business of selling broadband access products, content delivery and storage products and services or supplying telematics 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 Earnings per Share *(in thousands of dollars except per share amounts)*		**Three months ended December 31,**				**Six months ended December 31,**		
		2023		2022		**2023**		2022
Net income	$	3,589	$	8,139	$	5,334	$	17,651
Loss on sale of non-core PP&E, net of tax		–		12		–		21
Warrants expense, net of tax		175		–		684		–
Adjusted net income	**$**	**3,764**	**$**	**8,151**	**$**	**6,018**	**$**	**17,672**
Net income per share	$	0.15	$	0.35	$	0.22	$	0.76
Warrants expense net of tax		–		–		0.02		–
Adjusted earnings per share(1)(2)	**$**	**0.15**	**$**	**0.35**	**$**	**0.24**	**$**	**0.76**

(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 December 31, 2023, and $0.8 million or $0.03 per share for the three months ended December 31, 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 gain of $1.8 million or $0.08 per share for the three months ended December 31, 2023, and a loss of $(0.1) million or $(0.01) per share for the three months ended December 31, 2022.*

Adjusted Gross Margin

The following table reconciles Gross Margin for the period to Adjusted Gross Margin. The term “Gross Margin” refers to sales less cost of sales as reported in the IFRS financial statements. The term “Adjusted Gross Margin” refers to gross margin adjusted for warrants expense. We believe that Adjusted Gross Margin 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 telematics services. Adjusted Gross Margin is not a recognized measure under IFRS and, accordingly, investors are cautioned that adjusted margin should not be construed as alternatives to 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 Margin	**Three months ended December 31,**		**Six months ended December 31,**	
(in thousands of dollars)	**2023**	2022	**2023**	2022
Sales	$ 61,954	$ 76,212	$ 123,432	$ 149,659
Cost of Sales	32,354	40,167	65,019	79,873
Gross Margin	**29,600**	**36,045**	**58,413**	**69,786**
Warrants expense[(1)]	217	–	855	–
Adjusted Gross Margin	**$ 29,817**	**$ 36,045**	**$ 59,268**	**$ 69,786**
Adjusted Gross Margin %	**48.1 %**	**47.3 %**	**48.0 %**	**46.6 %**

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

EBITDA and Adjusted EBITDA

The following table reconciles net income for the period to EBITDA and Adjusted EBITDA. The term “EBITDA” refers to net income or net loss as reported in the IFRS financial statements, excluding any amounts included in net income or net loss for income taxes, interest expense, and depreciation and amortization for PP&E, right-of-use assets, deferred development and intangible assets. The term “Adjusted EBITDA” refers to EBITDA adjusted for: gains and losses on sale of PP&E, intangible assets, and assets held for sale; impairment of PP&E; impairment of deferred development costs and other intangible assets; restructuring costs; and share-based compensation expense. We believe that Adjusted EBITDA is useful supplemental information for management and for our investors because it provides for the analysis of our results exclusive of certain non-cash items and other items which do not directly correlate to our business of selling broadband access products, content delivery and storage products and services or supplying telematic services. EBITDA and Adjusted EBITDA are not recognized measures under IFRS and, accordingly, investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as alternatives to net income, determined in accordance with IFRS, or as indicators of our financial performance or as measures of our liquidity and cash flows.

Calculation of Adjusted EBITDA	**Three months ended December 31,**		**Six months ended December 31,**	
(in thousands of dollars)	**2023**	2022	**2023**	2022
Net income	$ 3,589	$ 8,139	$ 5,334	$ 17,651
Income tax expense	1,247	1,895	907	4,503
Interest expense	1,662	557	2,362	769
Depreciation of property, plant and equipment	844	864	1,676	1,658
Depreciation of right-of-use assets	334	327	659	660
Amortization of deferred development costs	3,486	2,401	6,636	5,220
Amortization of intangible assets	816	824	1,632	1,628
EBITDA	**11,978**	**15,007**	**19,206**	**32,089**
Loss on sale of property, plant and equipment	18	18	19	27
Share-based compensation	257	815	513	913
Warrants expense	217	–	855	–
Adjusted EBITDA	**$ 12,470**	**$ 15,840**	**$ 20,593**	**$ 33,029**
Percentage of sales	**20%**	**21%**	**17%**	**22%**

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 *(in thousands of dollars)*		**Three months ended December 31, 2023**		**2022**		**Six months ended December 31, 2023**		**2022**
R&D expense per statement of comprehensive income	$	11,551	$	10,341	$	21,847	$	21,046
Deferred development costs		7,079		5,226		13,310		10,807
Investment tax credits		35		33		68		73
Amortization of deferred development costs		(3,486)		(2,401)		(6,636)		(5,220)
Total research and development expenditures	**$**	**15,179**	**$**	**13,199**	**$**	**28,589**	**$**	**26,706**
Percentage of sales		**25%**		**17%**		**23%**		**18%**

6. Summary of Quarterly Results of Operations

The following information has been derived from our consolidated financial statements for the three months ended December 31, 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 Q2**		**Q1**		**Fiscal 2023 Q4**		**Q3**		**Q2**		**Q1**		**Fiscal 2022 Q4**		**Q3**
Sales	$	61,954	$	61,478	$	75,522	$	78,256	$	76,212	$	73,447	$	59,960	$	50,872
Cost of Sales		32,354		32,665		37,410		44,183		40,167		39,706		31,478		26,914
Gross profit		**29,600**		**28,813**		**38,112**		**34,073**		**36,045**		**33,741**		**28,482**		**23,958**
Operating expenses																
Research and development		11,551		10,296		12,851		12,053		10,341		10,705		11,396		8,796
Sales and marketing		6,605		7,429		7,842		6,929		6,619		6,304		5,993		4,682
General and administrative		6,431		7,973		7,923		8,389		7,522		5,594		6,494		6,083
Restructuring costs		–		–		1,236		–		–		–		–		–
Share-based compensation		257		256		1,300		289		815		98		64		64
Other expense		97		170		1,553		275		22		21		767		215
		24,941		**26,124**		**32,705**		**27,935**		**25,319**		**22,722**		**24,714**		**19,840**
Operating income		**4,659**		**2,689**		**5,407**		**6,138**		**10,726**		**11,019**		**3,768**		**4,118**
Finance expense		(1,660)		(700)		(877)		(738)		(554)		(201)		(102)		(82)
Foreign exchange gain (loss)		1,837		(584)		1,319		198		(138)		1,302		1,427		(541)
Income before income taxes		**4,836**		**1,405**		**5,849**		**5,598**		**10,034**		**12,120**		**5,093**		**3,495**
Income tax expense (recovery)		1,247		(340)		739		1,147		1,895		2,608		1,609		505
Net income		**3,589**		**1,745**		**5,110**		**4,451**		**8,139**		**9,512**		**3,484**		**2,990**
Other comprehensive income (loss)		(1,157)		973		(1,896)		(105)		(482)		2,369		775		(750)
Comprehensive income	**$**	**2,432**	**$**	**2,718**	**$**	**3,214**	**$**	**4,346**	**$**	**7,657**	**$**	**11,881**	**$**	**4,259**	**$**	**2,240**
Net income per share																
Basic – total	$	0.15	$	0.07	$	0.21	$	0.18	$	0.35	$	0.41	$	0.16	$	0.13
Diluted – total		0.15		0.07		0.21		0.18		0.35		0.41		0.16		0.13
Adjusted EBITDA as reported	$	12,470	$	8,123	$	15,088	$	11,700	$	15,840	$	17,189	$	11,121	$	8,125

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	Three months ended December 31, 2023	Three months ended December 31, 2022	Six months ended December 31, 2023	Six months ended December 31, 2022
Video and Broadband Solutions	$ 49,054	$ 62,263	$ 93,197	$ 123,268
Content Delivery and Storage	11,269	12,419	26,958	23,416
Telematics	1,631	1,530	3,277	2,975
Total sales	**$ 61,954**	**$ 76,212**	**$ 123,432**	**$ 149,659**

Three-Month Results

We achieved total sales of $62.0 million in the second quarter of fiscal 2024, a decrease of 19% from $76.2 million in Q2 fiscal 2023 and 1% higher than the $61.5 million generated in Q1 fiscal 2024. The year-over-year change primarily reflects the anticipated temporary slowdown in Video and Broadband product orders together with lower sales in the Content Delivery and Storage segment, partially offset by stronger year-over-year performance from the Telematics segment.

The Video and Broadband Solutions segment contributed revenue in the second quarter of $49.1 million, a decrease of 21% from $62.3 million in Q2 fiscal 2023 but 11% higher than the $44.1 million generated in Q1 fiscal 2024.

- Next-generation Entra products sales of $43.8 million were 21% lower than the $55.7 million generated in Q2 fiscal 2023 and 13% higher than the $38.8 million in Q1 fiscal 2024. The year-over-year change in Q2 sales pace was anticipated and reflects challenges experienced by our customers from a labour and permitting perspective which have caused a temporary delay in large scale network build-outs.
- Commercial Video products contributed sales of $5.3 million as compared to $6.5 million in Q2 fiscal 2023 and consistent with Q1 fiscal 2024 results. 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, second quarter sales of $11.3 million compared to $12.4 million in Q2 fiscal 2023, a decrease of 9%. On a sequential quarterly basis, Q2 fiscal 2024 sales were 28% lower than the $15.7 million achieved in Q1. The year-over-year decrease in CDS sales reflects the timing of sales. As always, we note that quarterly sales variances are typical for the CDS segment. Segment sales for the Q2 fiscal 2024 period included $5.2 million of product sales (Q2 fiscal 2023 - $7.3 million) and $6.0 million of services revenue (Q2 fiscal 2023 - $5.1 million).

Second quarter Telematics sales of $1.6 million were approximately 7% higher than the $1.5 million achieved in Q2 fiscal 2023 and consistent with Q1 fiscal 2024. Results for the quarter were consistent with our expectations.

Six-Month Results

For the six months ended December 31, 2023, total sales of $123.4 million compared to $149.7 million in the same period of fiscal 2023, a decrease of 18%. The year-over-year change primarily reflects the anticipated temporary slowdown in Video and Broadband product orders, partially offset by stronger first-half performance from the CDS and Telematics segments.

Six-month Video and Broadband Solutions sales were $93.2 million, as compared to $123.3 million in the same period in fiscal 2023, a decrease of 24%.

- Next-generation Entra products sales were $82.6 million, as compared to $108.7 million in the first half of fiscal 2023, a decrease of 24%. The slower sales pace in the current period 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 $10.6 million in the first half of fiscal 2024 compared to $13.8 million in the same period last year. 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, six-month sales grew 15% to $27.0 million, from $23.4 million in the same period last year. This increase reflects a broader customer base following the past year's new business wins, as well as expansions with existing customers. Segment sales for the first six months of fiscal 2024 included $15.2 million of product sales (Fiscal 2023 - $13.7 million) and $11.8 million of services revenue (Fiscal 2023 - $9.8 million).

First half Telematics sales of $3.3 million were 10% higher than the $3.0 million achieved in the same period of fiscal 2023. Results for the quarter were consistent with our expectations and reflect the increase in assets and tags monitored in our Telematics segment.

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.

	Three months ended December 31,		Six months ended December 31,	
Segment	**2023**	2022	**2023**	2022
Video and Broadband Solutions	$ 26,666	$ 33,527	$ 52,241	$ 67,741
Content Delivery and Storage	5,131	6,145	11,643	11,147
Telematics	557	495	1,135	985
Total cost of sales	**$ 32,354**	**$ 40,167**	**$ 65,019**	**$ 79,873**

Three-Month Results

For the three months ended December 31, 2023, total cost of sales decreased 19% to $32.4 million, from $40.2 million in Q2 fiscal 2023 and decreased 1% from $32.7 million in Q1 fiscal 2024. The year-over-year reduction primarily reflects lower VBS segment sales combined with reduced expedite costs.

Second quarter cost of sales in the Video and Broadband Solutions segment decreased 20% to $26.7 million, from $33.5 million in Q2 fiscal 2023 and increased 4% from $25.6 million in Q1 fiscal 2024. The year-over-year decrease reflects lower sales and a different product mix combined with decreased expedite costs.

In the Content Delivery and Storage segment, second quarter cost of sales decreased by 17% to $5.1 million, from $6.1 million in Q2 fiscal 2023 and were 21% lower than the $6.5 million cost of sales recorded in Q1 fiscal 2024. Lower CDS sales and a different product mix were the primary drivers of these decreases.

Second quarter cost of sales from the Telematics segment were $0.6 million, slightly higher than the $0.5 million recorded in the same period of fiscal 2023 and consistent with Q1 fiscal 2024 results.

Six-Month Results

For the six months ended December 31, 2023, total cost of sales decreased by 19% to $65.0 million, from $79.9 million in the same period in fiscal 2023. The year-over-year decrease primarily reflects lower sales, together with the easing of supply chain constraints and associated expedite costs.

Cost of sales in the Video and Broadband Solutions segment decreased 23% to $52.2 million in the first six months of fiscal 2024, from $67.7 million in same period in fiscal 2023. The year-over-year decrease reflects lower sales, a different product mix, and the easing of supply chain constraints which reduced expedite costs in the current period.

Cost of sales in the Content Delivery and Storage segment increased by 4% to $11.6 million in the first six months of fiscal 2024, from $11.1 million in the same period in fiscal 2023. Higher first half CDS sales were the primary driver of the period-over-period increase in CDS cost of sales.

Cost of sales in the Telematics segment increased slightly to $1.1 million in the first six months of fiscal 2024, from $1.0 million in the first half of fiscal 2023. Higher telematics sales accounted for most of this increase.

Gross Profit and Gross Margin

Segment	Three months ended December 31, 2023	Three months ended December 31, 2022	Six months ended December 31, 2023	Six months ended December 31, 2022
Video and Broadband Solutions	$ 22,388	$ 28,736	$ 40,956	$ 55,527
Content Delivery and Storage	6,138	6,274	15,315	12,269
Telematics	1,074	1,035	2,142	1,990
Total gross profit	**$ 29,600**	**$ 36,045**	**$ 58,413**	**$ 69,786**
Video and Broadband Solutions	45.6 %	46.2 %	43.9 %	45.0 %
Content Delivery and Storage	54.5 %	50.5 %	56.8 %	52.4 %
Telematics	65.8 %	67.6 %	65.4 %	66.9 %
Total gross margin	**47.8 %**	**47.3 %**	**47.3 %**	**46.6 %**

Three-Month Results

For the three months ended December 31, 2023, we generated total gross profit of $29.6 million, a decrease of 18% from $36.0 million in Q2 fiscal 2023 but an increase of 3% from $28.8 million in Q1 fiscal 2024. The year-over-year change in gross profit reflects lower VBS segment sales, partially offset by a higher gross margin percentage. Second quarter gross margin was 47.8% compared to 47.3% in Q2 fiscal 2023 and 46.9% in Q1 fiscal 2024. Our slightly higher Q2 gross margin reflects tight management of our supply chain, particularly a lowering of expedite costs as supply chain constraints have eased, partially offset by a lower gross margin in the VBS segment primarily due to product mix.

We generated second quarter gross profit from the Video and Broadband Solutions segment of $22.4 million (gross profit margin of 45.6%), 22% lower than the $28.7 million (gross profit margin of 46.2%) achieved in Q2 fiscal 2023. The year-over-year decrease in gross profit reflects lower segment sales. On a sequential quarterly basis, VBS gross profit was 21% higher than the $18.6 million achieved in Q1 fiscal 2024 (gross profit margin of 42.1%) reflecting higher sales.

In the Content Delivery and Storage segment, second quarter gross profit was $6.1 million as compared to $6.3 in the same period last year. The year-over-year change reflects lower CDS sales, partially offset by a stronger gross margin percentage. CDS gross margin for the second quarter was a strong 54.5%, as compared to 50.5% in the same period last year. On a sequential quarterly basis, Q2 CDS gross profit and gross margin were lower than the $9.2 million and 58.5% achieved, respectively, in Q1 fiscal 2024, during a period of higher sales.

Second quarter gross profit from the Telematics segment increased slightly to $1.1 million (gross profit margin of 65.8%), from $1.0 million (gross margin of 67.6%) in Q2 fiscal 2023, reflecting increased customer acquisition and higher sales. On a sequential quarterly basis, Telematics gross profit was consistent with the $1.1 million (gross margin of 64.9%) achieved in Q1 fiscal 2024.

Six-Month Results

For the six months ended December 31, 2023 we generated gross profit of $58.4 million, as compared to $69.8 million in the same period of fiscal 2023, a decrease of 16%. Our gross profit result reflects lower consolidated sales, partially offset by a higher gross margin percentage. Gross margin in the first six months of fiscal 2024 increased to 47.3%, from 46.6% in the same period of fiscal 2023, primarily reflecting tight management of our supply chain expenses and a reduction in expedite costs as supply chain constraints have eased combined with an increased proportion of CDS segment sales which carry higher margins, partially offset by lower realized gross margins in the VBS segment due to product mix. We target a gross margin percentage of 45% to 49%.

The Video and Broadband Solutions segment generated gross profit of $41.0 million (gross profit margin of 43.9%) in the first six months of fiscal 2024, as compared to $55.5 million (gross profit margin of 45.0%) in the first half of fiscal 2023, a decrease of 26%. The year-over-year change in gross profit reflects lower segment sales together with the impact of customer warrant-based incentives.

Content Delivery and Storage segment gross profit grew 25% to $15.3 million (gross profit margin of 56.8%) in the first six months of fiscal 2024, from $12.3 million (gross profit margin of 52.4%) in the same period of fiscal 2023. The year-over-year improvement in CDS gross profit reflects higher sales, together with a stronger gross margin percentage.

Telematics segment gross profit for the first half was $2.1 million (gross profit margin of 65.4%), slightly higher than the $2.0 million (gross margin of 66.9%) generated in the same period of fiscal 2023. The year-over-year increase in gross profit was primarily driven by increased customer acquisitions and sales.

Operating Expenses

	Three months ended December 31,		Six months ended December 31,	
Segment	**2023**	2022	**2023**	2022
Video and Broadband Solutions	$ 16,566	$ 17,067	$ 34,837	$ 32,383
Content Delivery and Storage	7,401	7,495	14,412	14,078
Telematics	974	757	1,816	1,580
Total operating expense	**$ 24,941**	**$ 25,319**	**$ 51,065**	**$ 48,041**

Three-Month Results

For the three months ended December 31, 2023, total operating expenses were $24.9 million, as compared to $25.3 million in Q2 fiscal 2023 and $26.1 million in Q1 fiscal 2024. As a percentage of sales, Q2 operating expenses were 40% as compared to 33% in Q2 fiscal 2023, reflecting the temporary slowdown in VBS segment sales.

Video and Broadband Solutions operating expenses decreased to $16.6 million, from $17.1 million in Q2 fiscal 2023 and $18.3 million in Q1 fiscal 2024. The $0.5 million year-over-year decrease reflects lower general and administrative expenses, partially offset by an increase in research and development expenses.

Content Delivery and Storage operating expenses were lower at $7.4 million in Q2 fiscal 2024, as compared to $7.5 million in Q2 fiscal 2023 and higher than the $7.0 million recorded in Q1 fiscal 2024. The $0.1 million decrease year-over-year reflects lower expenditures on research and development, partially offset by higher general and administrative costs to support future sales growth.

Telematics operating expenses were $1.0 million in Q2 fiscal 2024, as compared to $0.8 million in both Q2 fiscal 2023 and Q1 fiscal 2024. The year-over-year and quarter-over-quarter increase reflects higher research and development expense and other expenses.

Research and development expenses for Q2 fiscal 2024 increased to $11.6 million, or 19% of sales, from $10.3 million, or 13% of sales in the same period of fiscal 2023. This primarily reflects higher deferred development cost amortization combined with increased prototyping and software and licensing costs, partially offset by an increase in capitalized development costs. Our investment in research and development supports the launch of new products. Until these products are in commercial production, the development costs are deferred to future periods. Total research and development costs before deferrals, amortization of deferred development costs and income tax credits for Q2 fiscal 2024 increased to $15.2 million, or 25% of sales, from $13.2 million, or 17% of sales in Q2 fiscal 2023. The increase reflects increased prototyping and software and licensing costs in the current-year quarter as we continue to invest in next-generation products.

Sales and marketing expenses were $6.6 million, or 11% of sales in Q2 fiscal 2024, as compared to $6.6 million, or 9% of sales in the same period last year.

General and administrative expenses decreased to $6.4 million, or 10% of sales, from $7.5 million or 10% of sales in Q2 fiscal 2023. The year-over-year decrease reflects lower software and licensing costs related to ERP implementation, together with lower staffing costs.

Stock-based compensation expense was $0.3 million in Q2 fiscal 2024, compared to $0.8 million in Q2 fiscal 2023. The decrease is a result of vesting of our performance share units in Q2 fiscal 2023 compared to the current period.

Other expense was $0.1 million in Q2 fiscal 2024 compared to less than $0.1 million in Q2 fiscal 2023.

Six-Month Results

For the six months ended December 31, 2023, total operating expenses were higher at $51.1 million, as compared to $48.0 million in the same period in fiscal 2023. The year-over-year increase primarily reflects additional operating expenses related to Video and Broadband Solutions and Content Delivery and Storage segments to support future growth. As a percentage of sales, first half operating expenses 41% as compared to 33% in the same period in fiscal 2023, reflecting the temporary slowdown in VBS segment sales in the first half of fiscal 2024.

Video and Broadband Solutions operating expenses increased to $34.8 million in the first six months of fiscal 2024, compared to $32.4 million in the same period of fiscal 2023. The $2.5 million increase primarily reflects additional expenses in support of sales growth, including increased investment in research and development, sales and marketing and general and administrative support costs, partially offset by cost reduction initiatives implemented in the fourth quarter of fiscal 2023 in response to the temporary slowdown in sales as customers accelerate programs and conclude inventory work down.

Content Delivery and Storage operating expenses increased slightly to $14.4 million in the first six months of 2024, from $14.1 million in the same period of 2023. The $0.3 million increase reflects higher general and administrative costs, partially offset by lower research and development expenditures.

Telematics operating expenses increased to $1.8 million in the first six months of 2024, compared to $1.6 million in the same period of 2023.

Research and development expenses for the first six months of fiscal 2024 increased to $21.8 million, or 18% of sales, from $21.0 million, or 14% of sales in the same period of fiscal 2023. This primarily reflects higher deferred development cost amortization combined with increased software and licensing and prototyping costs, partially offset by an increase in capitalized development costs. Our investment in research and development supports the launch of new products. Until these products are in commercial production, the development costs are deferred to future periods. Total research and development costs before deferrals, amortization of deferred development costs and income tax credits for the first six months of fiscal 2024 increased to $28.6 million, or 23% of sales, from $26.7 million, or 18% of sales in the same period of fiscal 2023. The increase reflects increased prototyping and software and licensing costs in the current-year quarter as our next-generation products move closer to commercial deployment.

Sales and marketing expenses were $14.0 million, or 11% of sales in the first six months of fiscal 2024, as compared to $12.9 million, or 9% of sales in the same period of fiscal 2023. The increase in sales and marketing expense primarily reflects increased travel and entertainment costs combined with higher trade show and promotion expenses, partially offset by lower product demo costs as compared to the same period in fiscal 2023.

General and administrative expenses increased to $14.4 million, or 12% of sales in the first six months of fiscal 2024, as compared to $13.1 million, or 9% of sales in the first six months of fiscal 2023. The year-over-year increase primarily reflects lower department allocations and increased facilities costs, partially offset by lower software and licensing costs related to ERP implementation.

Stock-based compensation expense was $0.5 million in the first six months of fiscal 2024, compared to $0.9 million in the first half of fiscal 2023.

Other expense was less than $0.3 million in Q2 fiscal 2024 compared to less than $0.1 million in Q2 fiscal 2023.

Operating Income (Loss)

Segment	Three months ended December 31, 2023	Three months ended December 31, 2022	Six months ended December 31, 2023	Six months ended December 31, 2022
Video and Broadband Solutions	$ 5,822	$ 11,669	$ 6,119	$ 23,144
Content Delivery and Storage	(1,263)	(1,221)	903	(1,809)
Telematics	100	278	326	410
Total operating income	**$ 4,659**	**$ 10,726**	**$ 7,348**	**$ 21,745**

Three-Month Results

Operating income decreased to $4.7 million in Q2 fiscal 2024, from $10.7 million in Q2 fiscal 2023. The decrease was primarily due to lower VBS segment sales, partially offset by lower expedite costs resulting from the easing of supply chain constraints.

The Video and Broadband Solutions segment generated second quarter operating income of $5.8 million, as compared to $11.7 million in Q2 fiscal 2023. The year-over-year decrease is primarily attributed to the anticipated slowdown in Entra product orders related to temporary delays in large scale network build outs.

Content Delivery and Storage recorded an operating loss of $1.3 million in the second quarter, as compared to an operating loss of $1.2 million in the same period of fiscal 2023. The year-over-year decrease primarily reflects decreased sales, partially offset by lower R&D expenses.

Telematics operating income was $0.1 million in Q2 fiscal 2024 compared to $0.3 million in the same period of fiscal 2023.

Finance expense increased to $1.7 million in Q2 fiscal 2024, from $0.6 million in Q2 fiscal 2023, reflecting increased interest costs associated with the revolving line of credit.

Foreign exchange gain for the second quarter was $1.8 million compared to a foreign exchange loss of $0.1 million in the same period of fiscal 2023. Foreign exchange gains from a weakening Canadian dollar positively impacted monetary liabilities.

Income tax expense was $1.2 million in Q2 fiscal 2024, compared to $1.9 million in Q2 fiscal 2023 reflecting lower net income before taxes.

Net income for Q2 fiscal 2024 decreased to $3.6 million or $0.15 per share, from $8.1 million or $0.35 per share in Q2 fiscal 2023.

Other comprehensive loss increased to $1.2 million in Q2 fiscal 2024, from other comprehensive loss of $0.5 million in the same period in fiscal 2023.

Comprehensive income for Q2 fiscal 2024 decreased to $2.4 million, from $7.7 million in Q2 fiscal 2023. The decline year-over-year is a result of the changes described above.

Six-Month Results

Operating income decreased to $7.3 million in the first six months of fiscal 2024, from an operating income of $21.7 million in the same period of fiscal 2023. The significant decrease was primarily due to lower VBS segment sales, partially offset by lower expedite costs resulting from the easing of supply chain constraints and a higher sales and gross margin percentage in the CDS segment.

The Video and Broadband Solutions segment generated operating income of $6.1 million in the first six months of fiscal 2024, lower than the $23.1 million generated in the same period of 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 recorded operating income of $0.9 million in the first six months of fiscal 2024, as compared to an operating loss of $1.8 million in the same period of fiscal 2023. The year-over-year improvement primarily reflects increased sales and margins.

Telematics operating income decreased to $0.3 million in the first six months of fiscal 2024, consistent with the same period of fiscal 2023. This reflects increased operating expenses.

Finance expense increased to $2.4 million in the first half of fiscal 2024, from $0.8 million in the same period of fiscal 2023, reflecting increased interest costs associated with the revolving line of credit.

Foreign exchange gain was $1.3 million in the first six months of fiscal 2024 compared to a gain of $1.2 million in the same period of fiscal 2023. Foreign exchange gains from a weakening Canadian dollar positively impacted monetary liabilities.

Income tax expense was $0.9 million in the first six months of fiscal 2024, compared to a $4.5 million income tax expense in the same period of fiscal 2023.

Net income for the first half of fiscal 2024 decreased to $5.2 million or $0.22 per share, from $17.7 million or $0.76 per share in the first six months of fiscal 2023.

Other comprehensive loss increased to $0.2 million in the first six months of fiscal 2024, from other comprehensive income of $1.9 million in the prior-year period. The year-over-year decrease reflects the negative impact of a weakening Canadian dollar on the translation of the foreign operations of our VBS and CDS segments to Canadian dollars.

Comprehensive income for the first half of fiscal 2024 declined to $5.2 million, from $19.5 million in the same period of fiscal 2023. The decline year-over-year is a result of the changes described above.

Cash Flow Provided by (Used in) Operating, Investing and Financing Activities

Operating Activities

For the three months ended December 31, 2023, cash flow used in operating activities was $13.2 million compared to cash flow used in operations of $12.2 million in the three months ended December 31, 2022. The $1.0 million increase in cash used in operations reflects a $13.0 million decrease in operating cash flow, partially offset by a $12.0 million increase in cash flow from non-cash working capital.

For the six months ended December 31, 2023, cash flow used in operating activities was $4.8 million compared to $19.4 million for the six months ended December 31, 2022. The $14.6 million decrease in cash used in operations reflects a $40.6 million increase in cash flow from non-cash working capital, partially offset by a $26.0 million decrease in operating cash flow.

Investing Activities

For the three months ended December 31, 2023, cash flow used in investing activities increased to $7.7 million from $5.6 million in the same period last year. This increase reflects deferred development expenditures of $7.1 million (Q2 fiscal 2023 - $5.6 million) and the purchase of property, plant and equipment of $0.6 million (Q2 fiscal 2022 - $0.4 million).

For the six months ended December 31, 2023, cash flow used in investing activities increased to $14.7 million from $12.1 million in the same period last year. This increase reflects deferred development expenditures of $13.3 million (fiscal 2023 - $10.8 million) and the purchase of property, plant and equipment of $1.4 million (fiscal 2023 - $1.3 million).

Financing Activities

For the three months ended December 31, 2023, we had no share offerings (Q2 fiscal 2023 - $15.9 million), we repaid $0.3 million of our long-term debt (Q2 fiscal 2023 - $0.1 million repaid), paid withholding taxes on PSUs of $nil (Q2 fiscal 2023 - $1.4 million), repaid lease liabilities of $0.5 million (Q2 fiscal 2023 - $0.4 million), paid dividends of $2.7 million (Q2 fiscal 2023 - $2.5 million), received proceeds of $0.1 million from the exercise of stock options (Q2 fiscal 2023 - $nil) and had draws from our revolving line of credit of $24.4 million (Q2 fiscal 2023 - $4.6 million drawn)

For the six months ended December 31, 2023, we had no share offerings (fiscal 2023 - $15.9 million), we repaid $0.6 million of our long-term debt (fiscal 2022 - $0.2 million repaid), received proceeds from exercised options of $0.1 million (fiscal 2023 - $0.05 million), paid withholding taxes on PSUs of $nil (fiscal 2023 - $1.5 million), repaid lease liabilities of $0.9 million (fiscal 2023 - $0.8 million), paid dividends of $2.7 million (fiscal 2023 - $2.5 million) and had draws from our revolving line of credit of $23.6 million (fiscal 2023 - $11.4 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.

During the three months ended December 31, 2023, we increased our authorized line of credit from $55 million to $85 million (June 30, 2023 - $55 million) of which $44.1 million (June 30, 2023 - $20.5 million) was drawn on as of December 31, 2023. 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 $42.5 million). As at December 31, 2023, we also had a term loan of $12.2 million (June 30, 2023 - $12.2 million), an insurance financing loan of $nil (June 30, 2023 - $0.4 million), and an outstanding credit line of $0.9 million (June 30, 2023 - $1.1 million).

Capital expenditures in the first six months of fiscal 2024 were $1.4 million, compared to $1.3 million in the same period last year.

Working Capital

Working capital represents current assets less current liabilities. Our working capital decreased to $80.4 million at December 31, 2023, from $83.7 million at June 30, 2023. We note that our working capital balances can be subject to significant swings from quarter to quarter. Our product shipments are "lumpy", reflecting the requirements of our major customers. It is not unusual to ship $5 to $6 million of product in a one-week period. If this level of sales occurs in the first week of a succeeding quarter, we would expect to experience an increase in inventory levels and a drop in receivables in the prior quarter. Other timing issues, like contracts with greater than 30-day payment terms, also affect working capital, particularly if shipments are backend weighted for a quarter.

Accounts receivable balance increased to $62.7 million at December 31, 2023, from $57.7 million at June 30, 2023. The increase reflects the timing of customer payments.

Inventories increased by $43.6 million to $145.2 million at December 31, 2023, from $101.6 million as at June 30, 2023. The increase represents the buildup of inventory related to the ramp up of sales and demand for new product inventory in the second half of fiscal 2024. Finished goods inventories were $46.6 million at December 31, 2023, compared to $55.3 million at June 30, 2023. Raw material inventory increased to $92.4 million at December 31, 2023, from $41.2 million at June 30, 2023. Work-in-progress inventories increased to $6.2 million as at December 31, 2023, from $5.1 million at 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 $3.3 million at December 31, 2023 (June 30, 2023 - $13.7 million). This primarily reflects the return of payments made to contract manufacturing suppliers for raw material inventories purchased and received related to forecast commitments.

Investment tax credits were $23.7 million at December 31, 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 $77.1 million at December 31, 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 December 31, 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, was $15.2 million at December 31, 2023, s compared to $16.4 million at June 30, 2023.

Dividends

Declaration Date	Dividend Amount (per share)	Record Date	Payable Date
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
February 12, 2024	$0.055	February 23, 2024	March 18, 2024

Contractual Obligations

Lease liabilities reported in our consolidated statements of financial position, as at December 31, 2023 were $2.1 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 December 31, 2023, our undiscounted future cash payments in respect of our lease liabilities are as follows: due within one year is $1.1 million; due between two-to-five years is $0.9 million; and thereafter is $0.2 million.

The Nokia portfolio acquisition includes the assumption of a contract with a third-party supplier. As at December 31, 2023, the contractual obligation, based on forecasted commitments, is estimated to be $nil (June 30, 2023 - $6.9 million).

Foreign Exchange

Approximately 97% 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 December 31, 2023, the exchange rate on the Canadian dollar relative to the U.S. dollar weakened to $1.324 from $1.326 as at June 30, 2023. This $0.002 exchange difference decreased the value of our $62.7 million U.S. dollar net assets by approximately $0.02 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 December 31, 2023, we had forward FX contracts with a fair value of $0.2 million included in accounts receivable (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

The Company entered into a building lease on August 1st, 2022 with one of the principal shareholders. The lease terms are at fair market value. Total lease payments, including interest, in the second quarter of fiscal 2024 were $0.05 million. There were no other related party transactions in Q2 fiscal 2024.

11. Proposed Transactions

Vecima has accepted an offer for the sale of its office building located at 771 Vanalman Avenue, Victoria, BC for $3.95 million. The offer is subject to standard closing conditions and a condition that the parties are able to negotiate a lease agreement permitting Vecima to lease one floor of the building upon sale closing. If the closing conditions are satisfied, the sale is expected to close in June 2024.

There are no other 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 second 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 our 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 our financial statements.

Accounting standard amendments issued but not yet applied

The following amended standard and interpretation issued by the IASB is effective after our December 31, 2023 quarter-end date and have not yet been adopted by us:

<u>Amendments to IAS 1 – Presentation of financial statements (IAS1)</u>

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 December 31, 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 December 31, 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 December 31, 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 December 31, 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.

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

18. Outstanding Share Data

As at February 12, 2024, we had 24,311,594 common shares outstanding as well as stock options outstanding that are exercisable for an additional 31,000 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: 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		**December 31, 2023**		June 30, 2023
Assets					
Current assets					
Cash and cash equivalents		$	2,586	$	2,278
Accounts receivable	3		62,690		57,662
Income tax receivable			1,854		530
Inventories	4		145,209		101,601
Prepaid expenses and other current assets	5		3,290		13,695
Contract assets			1,452		2,707
Assets held for sale	6		1,405		–
Total current assets			**218,486**		**178,473**
Non-current assets					
Property, plant and equipment	7		13,816		15,683
Right-of-use assets			1,896		2,364
Goodwill			15,039		15,049
Intangible assets	8		87,333		82,991
Investment tax credits			23,692		24,252
Deferred tax assets			14,677		11,576
Other long-term assets			1,685		1,298
Total assets		**$**	**376,624**	**$**	**331,686**
Liabilities and shareholders' equity					
Current liabilities					
Revolving line of credit	9	$	44,066	$	20,513
Accounts payable and accrued liabilities			77,142		47,162
Provisions			722		1,978
Income tax payable			555		7,808
Deferred revenue			13,028		15,086
Current portion of financial liability			496		–
Current portion of long-term debt	10		2,062		2,260
Total current liabilities			**138,071**		**94,807**
Non-current liabilities					
Provisions			390		387
Deferred revenue			3,212		4,716
Long-term portion of financial liability			1,060		–
Long-term debt	10		13,161		14,123
Total liabilities			**155,894**		**114,033**
Shareholders' equity					
Share capital	11		24,107		23,997
Reserves			3,601		3,111
Retained earnings			193,587		190,926
Accumulated other comprehensive loss			(565)		(381)
Total shareholders' equity			**220,730**		**217,653**
Total liabilities and shareholders' equity		**$**	**376,624**	**$**	**331,686**

Contractual obligation – Note 20; Subsequent events – Note 22
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)

		Three months		Six months	
Periods ended December 31,	Note	**2023**	2022	**2023**	2022
Sales	12,16	$ 61,954	$ 76,212	$ 123,432	$ 149,659
Cost of sales		32,354	40,167	65,019	79,873
Gross profit		**29,600**	**36,045**	**58,413**	**69,786**
Operating expenses					
Research and development		11,551	10,341	21,847	21,046
Sales and marketing		6,605	6,619	14,034	12,923
General and administrative		6,431	7,522	14,404	13,116
Share-based compensation	13	257	815	513	913
Other expense	14	97	22	267	43
Total operating expenses		**24,941**	**25,319**	**51,065**	**48,041**
Operating income		**4,659**	**10,726**	**7,348**	**21,745**
Finance expense		(1,660)	(554)	(2,360)	(755)
Foreign exchange gain (loss)		1,837	(138)	1,253	1,164
Income before income taxes		**4,836**	**10,034**	**6,241**	**22,154**
Income tax expense		1,247	1,895	907	4,503
Net income		**$ 3,589**	**$ 8,139**	**$ 5,334**	**$ 17,651**
Other comprehensive income:					
Item that may be subsequently reclassified to net income					
Exchange differences on translation of foreign operations		$ (1,157)	$ (482)	$ (184)	$ 1,887
Comprehensive income		**$ 2,432**	**$ 7,657**	**$ 5,150**	**$ 19,538**
Net income per share					
Basic	15	$ 0.15	$ 0.35	$ 0.22	$ 0.76
Diluted	15	$ 0.15	$ 0.35	$ 0.22	$ 0.76
Weighted average number of common shares					
Shares outstanding – basic	15	24,310,794	23,312,997	24,303,312	23,208,753
Shares outstanding – diluted	15	24,318,211	23,341,563	24,311,772	23,237,020

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		–	–	17,651	–	**17,651**
Other comprehensive income		–	–	–	1,887	**1,887**
Dividends		–	–	(2,542)	–	**(2,542)**
Common share issuance	11	15,926	–	–	–	**15,926**
Shares issued by exercising options		60	(12)	–	–	**48**
PSUs settled in common shares	13	1,014	(1,014)	–	–	–
Withholding taxes on PSUs	13	(1,453)	–	–	–	**(1,453)**
Share-based payment expense	13	–	913	–	–	**913**
Balance as at December 31, 2022		**$ 23,482**	**$ 3,028**	**$ 184,032**	**$ 1,620**	**$ 212,162**
Balance as at June 30, 2023		**$ 23,997**	**$ 3,111**	**$ 190,926**	**$ (381)**	**$ 217,653**
Net income		–	–	5,334	–	**5,334**
Other comprehensive loss		–	–	–	(184)	**(184)**
Dividends		–	–	(2,673)	–	**(2,673)**
Shares issued by exercising options	11	110	(23)	–	–	**87**
Share-based payment expense	13	–	513	–	–	**513**
Balance as at December 31, 2023		**$ 24,107**	**$ 3,601**	**$ 193,587**	**$ (565)**	**$ 220,730**

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

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

		Three months		Six months	
Periods ended December 31,	Note	**2023**	2022	**2023**	2022
OPERATING ACTIVITIES					
Net income		$ 3,589	$ 8,139	$ 5,334	$ 17,651
Adjustments for non-cash items:					
Loss on sale of property, plant and equipment	14	18	18	19	27
Depreciation and amortization	19	5,480	4,416	10,603	9,166
Share-based compensation	13	257	815	513	913
Warrant expense	18	217	–	855	–
Income tax expense		1,270	700	3,981	2,648
Deferred income tax expense (recovery)		(23)	1,195	(3,074)	1,855
Interest expense		1,662	557	2,362	769
Interest income		(2)	(2)	(4)	(12)
Net change in working capital	19	(14,603)	(26,635)	(10,369)	(51,001)
Increase in other long-term assets		299	4	311	146
Decrease in provisions		(47)	(76)	(1,265)	(60)
Increase in investment tax credits		(35)	(32)	(68)	(72)
Income tax paid		(9,647)	(806)	(11,597)	(776)
Interest received		2	5	4	15
Interest paid		(1,633)	(524)	(2,360)	(699)
Cash used in operating activities		**(13,196)**	**(12,226)**	**(4,755)**	**(19,430)**
INVESTING ACTIVITIES					
Capital expenditures, net	19	(631)	(364)	(1,394)	(1,251)
Deferred development costs	8	(7,079)	(5,226)	(13,310)	(10,807)
Cash used in investing activities		**(7,710)**	**(5,590)**	**(14,704)**	**(12,058)**
FINANCING ACTIVITIES					
Net draws of the revolving line of credit		24,389	4,559	23,553	11,391
Principal repayments of lease liabilities	10	(503)	(443)	(908)	(822)
Principal repayments of long-term debt	10	(320)	(100)	(600)	(167)
Dividends paid		(2,673)	(2,542)	(2,673)	(2,542)
Proceeds from common share issuance	11	–	15,926	–	15,926
Issuance of shares through exercised options		87	–	87	49
Withholding taxes on PSUs	13	–	(1,409)	–	(1,453)
Cash provided by financing activities		**20,980**	**15,991**	**19,459**	**22,382**
Net increase (decrease) in cash and cash equivalents		**74**	**(1,825)**	**–**	**(9,106)**
Effect of change in exchange rates on cash		220	748	308	(529)
Cash and cash equivalents, beginning of period		2,292	4,344	2,278	12,902
Cash and cash equivalents, end of period		**$ 2,586**	**$ 3,267**	**$ 2,586**	**$ 3,267**

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

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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 February 12, 2024.

(c) Adoption of amendments to accounting standards

The following amended standards and interpretations issued by the IASB were adopted in the second 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 dollars except 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 December 31, 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

		December 31 2023		June 30, 2023
Trade receivables	$	61,492	$	56,039
Less: allowance for doubtful accounts		(16)		(10)
Total trade receivables		**61,476**		**56,029**
Goods and services tax		448		298
Foreign exchange contracts		209		581
Government grants receivable		396		647
Other receivables		161		107
Total accounts receivable	**$**	**62,690**	**$**	**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

		December 31 2023		June 30, 2023
Raw materials	$	92,438	$	41,235
Work-in-progress		6,193		5,086
Finished goods		46,578		55,280
Total inventory	**$**	**145,209**	**$**	**101,601**

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

		December 31 2023		June 30, 2023
Payments for contract manufacturer inventory purchases and expedite fees	$	70	$	9,057
Software licenses		1,494		1,574
Other		1,726		3,064
Total prepaid expenses and other current assets	**$**	**3,290**	**$**	**13,695**

(in thousands of dollars except otherwise noted)

6. ASSETS HELD FOR SALE

The Company classified property, plant and equipment with a carrying value of $1,405 attributed to its office building located at 771 Vanalman Avenue, Victoria, BC as assets held for sale as at December 31, 2023. In January 2024, the Company accepted an offer to sell the office building for gross proceeds of $3,950. The offer is subject to standard closing conditions and a condition that the parties are able to negotiate a lease agreement permitting Vecima to lease one floor of the building upon sale closing. If the closing conditions are satisfied, the sale is expected to close in June 2024 and result in an estimated pre-tax gain on disposal of $2,400.

7. 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	–	26	1,208	102	**1,336**
Disposals	–	–	(293)	(8)	**(301)**
Effect of foreign exchange	–	3	44	4	**51**
Reclassification to assets held for sale (Note 6)	–	(2,156)	–	–	**(2,156)**
At December 31, 2023	**$ 321**	**$ 8,130**	**$ 27,425**	**$ 14,260**	**$ 50,136**
Accumulated depreciation and amortization					
At July 1, 2023	$ –	$ 3,832	$ 19,433	$ 12,258	**$ 35,523**
Depreciation	–	180	1,101	395	**1,676**
Disposals	–	–	(142)	(8)	**(150)**
Effect of foreign exchange	–	–	22	–	**22**
Reclassification to assets held for sale (Note 6)	–	(751)	–	–	**(751)**
At December 31, 2023	**$ –**	**$ 3,261**	**$ 20,414**	**$ 12,645**	**$ 36,320**
Net book value					
June 30, 2023	$ 321	$ 6,425	$ 7,033	$ 1,904	**$ 15,683**
At December 31, 2023	**$ 321**	**$ 4,869**	**$ 7,011**	**$ 1,615**	**$ 13,816**

(in thousands of dollars except otherwise noted)

8. 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	–	–	58	–	13,310	**13,368**
Investment tax credits	–	–	–	–	(657)	**(657)**
Writedown, fully amortized	–	–	–	–	(6,727)	**(6,727)**
Effect of foreign exchange	–	(14)	(1)	(10)	(107)	**(132)**
At December 31, 2023	**$ 106**	**$ 20,572**	**$ 1,127**	**$ 11,096**	**$ 103,340**	**$ 136,241**
Accumulated amortization						
At July 1, 2023	$ –	$ 12,721	$ 660	$ 7,877	$ 26,140	**$ 47,398**
Amortization	–	985	63	584	6,636	**8,268**
Writedown, fully amortized	–	–	–	–	(6,727)	**(6,727)**
Effect of foreign exchange	–	(23)	–	(18)	10	**(31)**
At December 31, 2023	**$ –**	**$ 13,683**	**$ 723**	**$ 8,443**	**$ 26,059**	**$ 48,908**
Net book value						
June 30, 2023	$ 106	$ 7,865	$ 410	$ 3,229	$ 71,381	**$ 82,991**
At December 31, 2023	**$ 106**	**$ 6,889**	**$ 404**	**$ 2,653**	**$ 77,281**	**$ 87,333**

9. REVOLVING LINE OF CREDIT

The Company maintains an authorized line of credit of $85,000 (June 30, 2023 - $55,000) of which $44,066 was drawn on as of December 31, 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 $42,500). Interest on the outstanding line of credit is calculated at prime plus 0.5%. The prime rate at December 31, 2023 was 7.20% (June 30, 2023 - 6.95%). As at December 31, 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 December 31, 2023, the Company was in compliance with all covenants related to the line of credit.

(in thousands of dollars except otherwise noted)

10. LONG-TERM DEBT

		December 31, 2023		June 30, 2023
Term credit facility	$	938	$	1,071
Term loan facility		12,200		12,200
Insurance financing		–		364
Lease liabilities		2,085		2,748
	$	**15,223**	**$**	**16,383**
Comprised of:				
Current portion of term facilities and lease liabilities	$	2,062	$	2,260
Long-term portion of term facilities and lease liabilities		13,161		14,123
	$	**15,223**	**$**	**16,383**

Term credit facility

The term credit facility is with a Canadian chartered bank. The facility is repayable in monthly installments of $21 principal plus interest at Prime of 7.20% (June 30, 2023 - $21, and 6.95%, 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.

Term loan facility

The term loan facility is with a Canadian chartered bank. The facility is repayable in monthly installments of $51 principal plus interest at Prime of 7.20% (June 30, 2023 – 6.95%), 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.

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

Assuming that the existing payment terms are the same at the renewal date, the following are the future principal repayments for the term credit and loan facilities as at December 31, 2023:

2024	$	995
2025		862
2026		862
2027		792
2028		610
Thereafter		9,017
	$	**13,138**

(in thousands of dollars except otherwise noted)

Lease liabilities:

The following is a reconciliation of the Company's lease liabilities as at December 31, 2023:

At July 1, 2023	$	2,748
Net additions during the period		185
Interest on lease liabilities		53
Principal repayments of lease liabilities		(908)
Effect of foreign exchange		7
At December 31, 2023		**2,085**
Less: current portion		1,067
Long-term portion	**$**	**1,018**

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

		December 31, 2023		June 30, 2023
Within one year	$	1,144	$	1,577
After one year but not more than five years		864		1,092
More than five years		227		272
Total contractual lease payments	**$**	**2,235**	**$**	**2,941**

11. SHARE CAPITAL

Changes in the number of shares and carrying value of the Company's share capital for the six months ended December 31, 2023 are as follows:

	Note	Number of Shares		Carrying Value
Balance July 1, 2022		23,101,002	$	7,935
Common shares issued		957,880		15,926
Shares issued by exercising options		41,375		502
Performance Share Units settled in common shares		333,398		2,426
Shares withheld for taxes to settle performance share units		(132,061)		(2,792)
Balance, June 30, 2023		24,301,594		23,997
Shares issued by exercising options	13	9,200		110
Balance, December 31, 2023		**24,310,794**	**$**	**24,107**

On December 14, 2022, the Company 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 $17,002. Share issuance costs in connection with this share offering amounted to $1,076 resulting in net proceeds of $15,926.

(in thousands of dollars except otherwise noted)

12. 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 16 for additional segmented financial information.

		Video and Broadband Solutions		Content Delivery and Storage		Telematics		Total
For the three months ended December 31, 2023								
Product sales	$	45,200	$	5,241	$	241	**$**	**50,682**
Provision of services		3,854		6,028		1,390		**11,272**
Total sales	**$**	**49,054**	**$**	**11,269**	**$**	**1,631**	**$**	**61,954**
For the three months ended December 31, 2022								
Product sales	$	58,476	$	7,288	$	284	**$**	**66,048**
Provision of services		3,787		5,131		1,246		**10,164**
Total sales	**$**	**62,263**	**$**	**12,419**	**$**	**1,530**	**$**	**76,212**

		Video and Broadband Solutions		Content Delivery and Storage		Telematics		Total
For the six months ended December 31, 2023								
Product sales	$	85,960	$	15,183	$	504	**$**	**101,647**
Provision of services		7,237		11,775		2,773		**21,785**
Total sales	**$**	**93,197**	**$**	**26,958**	**$**	**3,277**	**$**	**123,432**
For the six months ended December 31, 2022								
Product sales	$	115,901	$	13,663	$	446	**$**	**130,010**
Provision of services		7,367		9,753		2,529		**19,649**
Total sales	**$**	**123,268**	**$**	**23,416**	**$**	**2,975**	**$**	**149,659**

13. SHARE-BASED COMPENSATION

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

		Three Months				Six Months		
Periods ended December 31,		**2023**		**2022**		**2023**		**2022**
Stock options	$	10	$	3	$	25	$	6
Performance share units		247		812		488		907
Total share-based compensation	**$**	**257**	**$**	**815**	**$**	**513**	**$**	**913**

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.

(in thousands of dollars except otherwise noted)

Changes in the stock option plan for the six months ending 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
Exercised	(9,200)		9.50
Outstanding, December 31, 2023	**32,112**	**$**	**13.83**
Vested and exercisable, December 31, 2023	**25,312**	**$**	**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 and six months ended December 31, 2023, the Company issued nil and 35,750 PSUs, respectively, to eligible persons under the PSU plan (December 31, 2022 - nil and 295,100 PSUs, respectively). 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 and six months ended December 31, 2023, there no PSUs which vested (December 31, 2022 - 185,269 and 193,224 PSUs, respectively), which had a fair value of $nil (December 31, 2022 - $965 and $1,014, respectively). Each vested PSU is settled for one common share of the Company. During the three and six months ended December 31, 2023, the Company withheld nil common shares (December 31, 2022 – 71,037 and 73,441 common shares, respectively), at an aggregate market value of $nil (December 31, 2022 - $1,409 and $1,453, respectively), to settle withholding tax obligations on the issuance of the common share awards. This was accounted for as a reduction to equity. These PSUs have five year terms, and vest in three tranches upon the achievement of certain closing market trading prices of the Company's common shares for a period of twenty consecutive business days.

A summary of PSU activity during the six months ended December 31, 2023 is as follows:

	Number of PSUs
PSUs outstanding as at July 1, 2023	242,235
Granted	35,750
PSUs outstanding as at December 31, 2023	**277,985**

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.

(in thousands of dollars except otherwise noted)

14. OTHER EXPENSE

	Three months		Six months	
Periods ended December 31,	**2023**	2022	**2023**	2022
Loss on sale of property, plant and equipment	$ 18	$ 18	$ 19	$ 27
Contract cancellation fees	57	–	267	–
Other	22	4	(19)	16
Total other expense	**$ 97**	**$ 22**	**$ 267**	**$ 43**

15. NET INCOME PER SHARE

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

	Three months		Six months	
Periods ended December 31,	**2023**	2022	**2023**	2022
Net income: basic and diluted	$ 3,589	$ 8,139	$ 5,334	$ 17,651
Weighed average number of shares outstanding:				
Basic	24,310,794	23,312,997	24,303,312	23,208,753
Dilution adjustment for stock options	7,417	28,566	8,460	27,894
Diluted	**24,318,211**	**23,341,563**	**24,311,772**	**23,237,020**
Net income per share: basic	$ 0.15	$ 0.35	$ 0.22	$ 0.76
Net income per share: diluted	$ 0.15	$ 0.35	$ 0.22	$ 0.76

Stock options could potentially dilute basic net income per share in the future. Dilutive stock options are calculated using the treasury stock method. For the three months ended December 31, 2023, there were 16,112 dilutive stock options (December 31, 2022 - 64,062) which resulted in a dilution of adjustment of 7,417 (December 2022 - 28,566); with the remaining 16,000 outstanding options (December 31, 2022 - 7,000) being anti-dilutive. For the six months ended December 31, 2023, there were 16,112 dilutive stock options (December 31, 2022 - 64,062) which resulted in a dilution of adjustment of 8,460 (December 31, 2022 - 28,267); with the remaining 16,000 outstanding options (December 31, 2022 - 7,000) being anti-dilutive.

(in thousands of dollars except otherwise noted)

16. 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 December 31, 2023	**Video and Broadband Solutions**	**Content Delivery and Storage**	**Telematics**	**Total**
Sales	$ 49,054	$ 11,269	$ 1,631	**$ 61,954**
Cost of sales	26,666	5,131	557	**32,354**
Gross profit	**22,388**	**6,138**	**1,074**	**29,600**
Operating expenses	12,981	5,877	603	**19,461**
Depreciation and amortization	3,585	1,524	371	**5,480**
Operating income (loss)	**5,822**	**(1,263)**	**100**	**4,659**
Finance expense				**(1,660)**
Foreign exchange gain				**1,837**
Income tax expense				**(1,247)**
Net income				**$ 3,589**
Total assets	$ 322,531	$ 41,258	$ 12,835	**$ 376,624**
Total liabilities	$ 136,254	$ 18,320	$ 1,320	**$ 155,894**

For the three months ended December 31, 2022	**Video and Broadband Solutions**	**Content Delivery and Storage**	**Telematics**	**Total**
Sales	$ 62,263	$ 12,419	$ 1,530	**$ 76,212**
Cost of sales	33,527	6,145	495	**40,167**
Gross profit	**28,736**	**6,274**	**1,035**	**36,045**
Operating expenses	14,561	5,912	510	**20,983**
Depreciation and amortization	2,506	1,583	247	**4,336**
Operating income (loss)	**11,669**	**(1,221)**	**278**	**10,726**
Finance expense				**(554)**
Foreign exchange loss				**(138)**
Income tax expense				**(1,895)**
Net income				**$ 8,139**
Total assets	$ 258,750	$ 47,490	$ 12,610	**$ 318,850**
Total liabilities	$ 89,237	$ 16,925	$ 526	**$ 106,688**

(in thousands of dollars except otherwise noted)

For the six months ended December 31, 2023	**Video and Broadband Solutions**	**Content Delivery and Storage**	**Telematics**	**Total**
Sales	$ 93,197	$ 26,958	$ 3,277	**$ 123,432**
Cost of sales	52,241	11,643	1,135	**65,019**
Gross profit	**40,956**	**15,315**	**2,142**	**58,413**
Operating expenses	27,751	11,543	1,168	**40,462**
Depreciation and amortization	7,086	2,869	648	**10,603**
Operating income	**6,119**	**903**	**326**	**7,348**
Finance expense				**(2,360)**
Foreign exchange gain				**1,253**
Income tax expense				**(907)**
Net income				**$ 5,334**
Total assets	$ 322,531	$ 41,258	$ 12,835	**$ 376,624**
Total liabilities	$ 136,254	$ 18,320	$ 1,320	**$ 155,894**

For the six months ended December 31, 2022	**Video and Broadband Solutions**	**Content Delivery and Storage**	**Telematics**	**Total**
Sales	$ 123,268	$ 23,416	$ 2,975	**$ 149,659**
Cost of sales	67,741	11,147	985	**79,873**
Gross profit	**55,527**	**12,269**	**1,990**	**69,786**
Operating expenses	26,946	10,999	1,062	**39,007**
Depreciation and amortization	5,437	3,079	518	**9,034**
Operating income (loss)	**23,144**	**(1,809)**	**410**	**21,745**
Finance expense				**(755)**
Foreign exchange gain				**1,164**
Income tax expense				**(4,503)**
Net income				**$ 17,651**
Total assets	$ 258,750	$ 47,490	$ 12,610	**$ 318,850**
Total liabilities	$ 89,237	$ 16,925	$ 526	**$ 106,688**

Geographical region

	Three months		**Six months**	
Periods ended December 31,	**2023**	2022	**2023**	2022
Sales to external customers:				
United States	$ 56,764	$ 66,038	$ 110,619	$ 125,998
Canada	2,826	2,405	7,452	9,060
Japan	1,184	4,435	2,382	8,122
Europe	516	2,221	1,973	3,572
Other	664	1,113	1,006	2,907
Total sales	**$ 61,954**	**$ 76,212**	**$ 123,432**	**$ 149,659**

(in thousands of dollars except otherwise noted)

		December 31, 2023		June 30, 2023
Non-current assets:				
United States	$	52,262	$	46,938
Canada		103,834		102,954
Japan		721		697
Europe		–		21
Mexico		–		1,154
China		1,321		1,449
Total non-current assets	**$**	**158,138**	**$**	**153,213**

Sales to major customers

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

		Three months				Six months		
Periods ended December 31,		**2023**		2022		**2023**		2022
Customer A	$	37,133	$	42,795	$	55,550	$	71,428
Customer B		2,975		5,902		25,080		20,886
Total sales	**$**	**40,108**	**$**	**48,697**	**$**	**80,630**	**$**	**92,314**

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

17. 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 six months ended December 31, 2023, there were no transfers between Level 1 and Level 2 fair value classifications. As at December 31, 2023, the Company held one forward foreign exchange contract and had customer based warrants outstanding which were both classified as Level 2. Refer to Note 18 Financial Instruments for further information.

(in thousands of dollars except otherwise noted)

18. FINANCIAL INSTRUMENTS

Accounts receivable

As at December 31, 2023, the weighted average age of customer accounts receivable was 32 days (June 30, 2023 - 34 days), and the weighted average age of past-due accounts receivable approximated 53 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:

	December 31, 2023	June 30, 2023
Current	$ 60,707	$ 44,835
31 to 60 days	338	9,363
61 to 90 days	79	714
Over 90 days	352	1,117
Total accounts receivable	**$ 61,476**	**$ 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 December 31, 2023 of $16 (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 (loss) in foreign exchange gain (loss). The fair value of these contracts is included in accounts receivable when in an asset position or accounts payable when in a liability position. As at December 31, 2023, the Company had forwards contracts outstanding with a fair value of $209 included in accounts receivable (June 30, 2023 - $581 - asset position). A 1% movement in the interest rate would have resulted in a $41 change to net income before income taxes and a $30 change to net income after income taxes for the year ended June 30, 2023 (June 30, 2023 - $369 and $295, respectively).

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 during the three and six months ended December 31, 2023 of $217 and $855, respectively, reflected as a sales incentive and reduction of revenue in the Company's consolidated statements of comprehensive income. The remaining contract asset balance was $701 as at December 31, 2023.

(in thousands of dollars except otherwise noted)

19. SUPPLEMENTAL INFORMATION

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

Depreciation and amortization – operating activities

	Three months		Six months	
Periods ended December 31,	**2023**	2022	**2023**	2022
Depreciation of property, plant and equipment	$ 844	$ 864	$ 1,676	$ 1,658
Depreciation of right-of-use assets	334	327	659	660
Amortization of deferred development costs	3,486	2,401	6,636	5,220
Amortization of finite-life intangible assets	816	824	1,632	1,628
Total depreciation and amortization	**$ 5,480**	**$ 4,416**	**$ 10,603**	**$ 9,166**

Net change in working capital – operating activities

	Three months		Six months	
Periods ended December 31,	**2023**	2022	**2023**	2022
Accounts receivable	$ (12,685)	$ 1,254	$ (4,932)	$ (11,778)
Inventories	(8,539)	(26,253)	(43,413)	(41,913)
Prepaid expenses	2,777	(1,790)	10,669	(8,327)
Income tax receivable	–	2	–	(35)
Contract assets	340	(14)	1,276	(46)
Accounts payable and accrued liabilities	3,175	(929)	29,602	11,828
Deferred revenue	329	1,095	(3,571)	(730)
Total change in net working capital	**$ (14,603)**	**$ (26,635)**	**$ (10,369)**	**$ (51,001)**

Capital expenditures, net – investing activities

	Three months		Six months	
Periods ended December 31,	**2023**	2022	**2023**	2022
Capital expenditures:				
Property, plant and equipment	$ 573	$ 364	$ 1,336	$ 1,239
Intangible assets	58	–	58	12
Total capital expenditures	**$ 631**	**$ 364**	**$ 1,394**	**$ 1,251**

20. CONTRACTUAL OBLIGATION

The Nokia portfolio acquisition includes the assumption of a contract with a third-party supplier. At December 31, 2023, the contractual obligation was $nil (June 30, 2023 - $6,860). The contract was cancelled in the fourth quarter of fiscal 2023.

21. RELATED PARTY TRANSACTIONS

The Company entered into a building lease on August 1st, 2022 with one of the principal shareholders. The lease terms are at fair market value. During the three and six months ended December 31, 2023, total lease payments, including interest, were $47 and $94, respectively (December 31, 2022 - $32 and $52, respectively). There were no other related party transactions in the first six months of fiscal 2023.

22. SUBSEQUENT EVENTS

On February 12, 2024, the Board of Directors declared a dividend of $0.055 per common share, payable on March 18, 2024 to shareholders of record as at February 23, 2024 consistent with its previously announced dividend policy.

Vecima has accepted an offer to sell its office building located at 771 Vanalman Avenue, Victoria, BC for $3,950. The offer is subject to standard closing conditions and a condition that the parties are able to negotiate a lease agreement permitting Vecima to lease one floor of the building upon sale closing. If the closing conditions are satisfied, the sale is expected to close in June 2024 and result in an estimated pre-tax gain on disposal of $2,400.