



*Interim Condensed Consolidated Financial Statements of*

**VECIMA NETWORKS INC.**

*For the three months ended September 30, 2023 and 2022*

*(unaudited)*

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

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

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

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

As at	Note	September 30, 2023	June 30, 2023
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 2,292	\$ 2,278
Accounts receivable	3	50,136	57,662
Income tax receivable		532	530
Inventories	4	137,004	101,601
Prepaid expenses and other current assets	5	5,977	13,695
Contract assets		1,805	2,707
<b>Total current assets</b>		<b>197,746</b>	<b>178,473</b>
<b>Non-current assets</b>			
Property, plant and equipment	6	15,683	15,683
Right-of-use assets		2,044	2,364
Goodwill		15,188	15,049
Intangible assets	7	85,872	82,991
Investment tax credits		24,151	24,252
Deferred tax assets		15,004	11,576
Other long-term assets		2,119	1,298
<b>Total assets</b>		<b>\$ 357,807</b>	<b>\$ 331,686</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Revolving line of credit	8	\$ 19,677	\$ 20,513
Accounts payable and accrued liabilities		73,942	47,162
Provisions		772	1,978
Income tax payable		8,858	7,808
Deferred revenue		11,875	15,086
Current portion of financial liability		515	-
Current portion of long-term debt	9	1,796	2,260
Dividend payable		1,336	-
<b>Total current liabilities</b>		<b>118,771</b>	<b>94,807</b>
<b>Non-current liabilities</b>			
Provisions		373	387
Deferred revenue		4,238	4,716
Long-term portion of financial liability		1,100	-
Long-term debt	9	13,950	14,123
<b>Total liabilities</b>		<b>138,432</b>	<b>114,033</b>
<b>Shareholders' equity</b>			
Share capital		23,997	23,997
Reserves		3,367	3,111
Retained earnings		191,419	190,926
Accumulated other comprehensive loss		592	(381)
<b>Total shareholders' equity</b>		<b>219,375</b>	<b>217,653</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 357,807</b>	<b>\$ 331,686</b>

*Contractual obligation - Note 18; Subsequent events - Note 21*

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

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

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

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

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

	Note	Share capital	Reserves	Retained earnings	Accumulated other comprehensive income (loss)	Total
<b>Balance as at June 30, 2022</b>		<b>\$ 7,935</b>	<b>\$ 3,141</b>	<b>\$ 168,923</b>	<b>\$ (267)</b>	<b>\$ 179,732</b>
Net income		-	-	9,512	-	9,512
Other comprehensive income		-	-	-	2,369	2,369
Dividends		-	-	(1,271)	-	(1,271)
Shares issued by exercising options		61	(12)	-	-	49
PSUs settled in common shares		49	(49)	-	-	-
Withholding taxes on PSUs		(44)	-	-	-	(44)
Share-based payment expense	11	-	98	-	-	98
<b>Balance as at September 30, 2022</b>		<b>\$ 8,001</b>	<b>\$ 3,178</b>	<b>\$ 177,164</b>	<b>\$ 2,102</b>	<b>\$ 190,445</b>
<b>Balance as at June 30, 2023</b>		<b>\$ 23,997</b>	<b>\$ 3,111</b>	<b>\$ 190,926</b>	<b>\$ (381)</b>	<b>\$ 217,653</b>
Net income		-	-	1,745	-	1,745
Other comprehensive income		-	-	-	973	973
Dividends		-	-	(1,252)	-	(1,252)
Share-based payment expense	11	-	256	-	-	256
<b>Balance as at September 30, 2023</b>		<b>\$ 23,997</b>	<b>\$ 3,367</b>	<b>\$ 191,419</b>	<b>\$ 592</b>	<b>\$ 219,375</b>

*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)*

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

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

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

Three months ended September 30, 2023 and 2022

*(in thousands of Canadian dollars except as otherwise noted)*

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**VECIMA NETWORKS INC.****Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2023 and 2022***(in thousands of Canadian dollars except as otherwise noted)*

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

***(b) Basis of presentation***

These interim condensed consolidated financial statements have been prepared using the same basis of presentation, accounting policies and methods of computation as outlined in Note 2, Summary of Significant Accounting Policies in our consolidated financial statements for the year ended June 30, 2023, except as noted below.

The interim condensed consolidated financial statements of the Company were approved by the Board of Directors and authorized for issue on November 7, 2023.

***(c) Adoption of amendments to accounting standards***

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

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

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

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

On May 7, 2021, the IASB issued amendments to IAS 12 which includes a so-called 'comprehensive balance sheet method' of accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test. The adoption of this amendment did not have a material impact on the Company's financial statements.

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**VECIMA NETWORKS INC.****Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2023 and 2022***(in thousands of Canadian dollars except as otherwise noted)*

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**(d) Accounting standard amendment issued but not yet applied**

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

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

On January 23, 2020, the IASB issued amendments to IAS 1 in respect of the classification of liabilities as current or non-current. The amendments aim to promote consistency in applying the requirements by helping entities determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments become effective for annual reporting periods beginning on or after January 1, 2024.

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

**3. ACCOUNTS RECEIVABLE**

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

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**

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

**5. PREPAID EXPENSES AND OTHER CURRENT ASSETS**

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

**VECIMA NETWORKS INC.**
**Notes to the Interim Condensed Consolidated Financial Statements**
**Three months ended September 30, 2023 and 2022**
*(in thousands of Canadian dollars except as otherwise noted)*
**6. PROPERTY, PLANT AND EQUIPMENT**

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

**7. INTANGIBLE ASSETS**

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

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**VECIMA NETWORKS INC.****Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2023 and 2022***(in thousands of Canadian dollars except as otherwise noted)*

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**8. REVOLVING LINE OF CREDIT**

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

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

**9. LONG-TERM DEBT**

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

Term credit facility

The term credit facility is with a Canadian chartered bank. As at September 30, 2023, the facility is repayable in monthly installments of \$21 principal and interest at Prime of 7.2% (June 30, 2023 - \$21, and 6.7%, respectively), expires in October 2024 and is collateralized by a general security agreement. The Company has an authorized loan amount of \$3,792 and annually renews this facility with the bank.

Term loan facility

The Company obtained a term loan facility with a Canadian chartered bank in the third quarter of fiscal 2023. The term facility requires accrued interest payments only and has no set principal repayments. It carries an interest rate at Prime of 7.2% (June 30, 2023 - 6.7%), expires in October 2024 and is collateralized by a general security agreement. The Company has an authorized loan amount of \$12,200 and annually renews this facility with the bank.

Insurance financing loan

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

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

**VECIMA NETWORKS INC.****Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2023 and 2022***(in thousands of Canadian dollars except as otherwise noted)*

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

2023	\$	211
2024		13,154
	<b>\$</b>	<b>13,365</b>

Lease liabilities

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

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

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

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

**10. REVENUE FROM CONTRACTS WITH CUSTOMERS**Disaggregated revenue

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

	Video and Broadband Solutions	Content Delivery and Storage	Telematics	Total
<b>For the three months ended September 30, 2023</b>				
Product sales	\$ 40,760	\$ 9,942	\$ 263	\$ 50,965
Provision of services	3,383	5,747	1,383	10,513
<b>Total sales</b>	<b>\$ 44,143</b>	<b>\$ 15,689</b>	<b>\$ 1,646</b>	<b>\$ 61,478</b>
<b>For the three months ended September 30, 2022</b>				
Product sales	\$ 57,425	\$ 6,375	\$ 162	\$ 63,962
Provision of services	3,580	4,622	1,283	9,485
<b>Total sales</b>	<b>\$ 61,005</b>	<b>\$ 10,997</b>	<b>\$ 1,445</b>	<b>\$ 73,447</b>

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

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

Three months ended September 30, 2023 and 2022

*(in thousands of Canadian dollars except as otherwise noted)***11. SHARE-BASED COMPENSATION**

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

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

Stock options

For all stock options granted, the Company determined compensation expense based on the estimated fair values at the grant date of the stock options using the Black-Scholes option-pricing model. The estimated fair value of the stock options is amortized to share-based compensation over the vesting period of the options.

Changes in the stock option plan for the three months ending September 30, 2023 are as follows:

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

Performance share units ("PSUs")

The Company's PSU plan sets the maximum number of PSUs that can be issued at 6% of the outstanding common shares of the Company. No further approval by the shareholders of the Company is required for any unallocated PSUs.

During the three months ended September 30, 2023, the Company issued 35,750 PSUs (September 30, 2022 - 295,100 PSUs) to eligible persons under the PSU plan. These PSUs have five-year terms, and vest in three tranches upon the achievement of certain closing market trading prices of the Company's common shares for a period of twenty consecutive business days. During the three months ended September 30, 2023, 7,955 PSUs vested (September 30, 2022 - 7,955 PSUs); which had a fair value of \$nil (September 30, 2022 - \$49). Each vested PSU is settled for one common share of the Company. During the three months ended September 30, 2023, the Company withheld nil common shares (September 30, 2022 - 2,404 common shares) at an aggregate market value of \$nil (September 30, 2022 - \$44) to settle withholding tax obligations on the issuance of the common share awards. This was accounted for as a reduction to equity.

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

	Number of PSUs
PSUs outstanding as at July 1, 2023	242,235
Granted	35,750
<b>PSUs outstanding as at September 30, 2023</b>	<b>277,985</b>

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**VECIMA NETWORKS INC.****Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2023 and 2022***(in thousands of Canadian dollars except as otherwise noted)*

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

**12. OTHER EXPENSE**

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	Three months ended September 30,	
	2023	2022
Loss on sale of property, plant and equipment	\$ 1	\$ 9
Contract cancellation fee	210	-
Other (income) expense	(41)	12
<b>Total other expense</b>	<b>\$ 170</b>	<b>\$ 21</b>

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**13. NET INCOME PER SHARE**

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

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	Three months ended September 30,	
	2023	2022
Net income: basic and diluted	\$ 1,745	\$ 9,512
<b>Weighted average number of shares outstanding:</b>		
Basic	24,301,594	23,104,507
Dilution adjustment for stock options	22,730	27,894
<b>Diluted</b>	<b>24,324,324</b>	<b>23,132,401</b>
Net income per share: basic	\$ 0.07	\$ 0.41
Net income per share: diluted	\$ 0.07	\$ 0.41

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

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

Three months ended September 30, 2023 and 2022

*(in thousands of Canadian dollars except as otherwise noted)***14. SEGMENTED FINANCIAL INFORMATION**

The Company's operations are organized into business units based on how the business is managed and has three reportable segments. The Video and Broadband Solutions segment designs, develops and distributes electronic communications products to cable and telecommunications markets. The Content Delivery and Storage segment develops advanced applications focused on storing, protecting, and transforming and delivering visual media. The Telematics segment designs, develops and distributes fleet management products. Inter-segment transactions take place at terms that approximate fair value. The majority of the Company's operations, employees and assets reside in Canada and the United States. The following tables highlight key financial information by segment and geographical region:

**Segments**

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

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

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

Three months ended September 30, 2023 and 2022

*(in thousands of Canadian dollars except as otherwise noted)***Geographical region**

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

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

**Sales to major customers**

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

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

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

**15. FAIR VALUE HIERARCHY**

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

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

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

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

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

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**VECIMA NETWORKS INC.****Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2023 and 2022***(in thousands of Canadian dollars except as otherwise noted)*

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**16. FINANCIAL INSTRUMENTS**Accounts receivable

As at September 30, 2023, the weighted average age of customer accounts receivable was 34 days (June 30, 2023 - 34 days), and the weighted average age of past-due accounts receivable approximated 56 days (June 30, 2023 - 57 days). Accounts are considered to be past due when customers have failed to make the required payments by their contractually agreed upon due date. The aging of trade receivables that are not considered to be impaired are as follows:

	<b>September 30, 2023</b>	June 30, 2023
Current	\$ 46,362	\$ 44,835
31 to 60 days	1,277	9,363
61 to 90 days	107	714
Over 90 days	1,038	1,117
<b>Total accounts receivable</b>	<b>\$ 48,784</b>	<b>\$ 56,029</b>

The Company maintains allowances for lifetime expected credit losses related to the allowance for doubtful accounts. Current economic conditions, forward-looking information, historical information, and reasons for the accounts being past due are all considered when determining whether to make allowances for past due accounts. The same factors are considered when determining whether to write-off amounts charged to the allowance for doubtful accounts against the customer accounts receivable. The Company has an allowance for doubtful accounts at September 30, 2023 of \$20 (June 30, 2023 - \$10).

Currency exposure

The Company periodically enters into forward foreign exchange contracts to manage foreign currency exchange risk related to exposures to the exchange rates for the Canadian dollar. Forward contracts are entered into based on projected requirements for converting U.S. to Canadian dollars. The Company does not recognize these contracts in the consolidated financial statements when they are entered into, nor accounts for them as hedges. Instead, the contracts are marked to fair value at each balance sheet date. Changes in fair value are recorded in the consolidated statements of comprehensive income in foreign exchange gain (loss). The fair value of these contracts is included in accounts receivable when in an asset position or accounts payable when in a liability position. As at September 30, 2023, the Company had forwards contracts outstanding with a fair value of \$62 included in accounts receivable (June 30, 2023 - \$581 - asset position).

Customer based warrants

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

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**VECIMA NETWORKS INC.****Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2023 and 2022***(in thousands of Canadian dollars except as otherwise noted)*

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**17. SUPPLEMENTAL INFORMATION**

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

Depreciation and amortization - operating activities

	Three months ended September 30,	
	2023	2022
Depreciation of property, plant and equipment	\$ 832	\$ 794
Depreciation of right-of-use assets	325	333
Amortization of deferred development costs	3,150	2,819
Amortization of finite-life intangible assets	816	804
<b>Total depreciation and amortization</b>	<b>\$ 5,123</b>	<b>\$ 4,750</b>

Net change in working capital - operating activities

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

Capital expenditures, net - investing activities

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

**18. CONTRACTUAL OBLIGATION**

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

**19. RELATED PARTY TRANSACTIONS**

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

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**VECIMA NETWORKS INC.****Notes to the Interim Condensed Consolidated Financial Statements****Three months ended September 30, 2023 and 2022***(in thousands of Canadian dollars except as otherwise noted)*

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**20. COMPARATIVE FIGURES**

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

**21. SUBSEQUENT EVENTS**

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