

WiLAN

Wi-LAN Inc.
2016 Annual Report



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Dear Fellow Shareholders,

In 2016, we continued to execute on our multi-pronged strategy to maximize the value of our patent portfolio, maintain a low cost-base and invest in the future of the company. We delivered a significant number of new license agreements, which led to solid revenue of \$92.9 million, EBITDA of \$53.7 million and cash from operations of \$36.8 million. At the same time, our partner strategy with patent owners and legal firms helped to seed our portfolio for future success, while keeping costs low and margins high. In a challenging environment for patent industry firms, these results stand as a strong testament to the work of our team.

On the licensing front, we signed 32 licenses in 2016, including three renewals. Some of the highlights included licenses with GlobalFoundries and TSMC, two of the world's leading foundries. Other success with the Freescale portfolio included Elite Semiconductors as well as Integrated Silicon Solution, which both signed licenses during the year.

With our Advanced Microscopy portfolio, we signed licenses with Hitachi, Carl Zeiss and ThermoFisher. In total, we've signed nine licenses with this portfolio since acquiring it in 2015. It was also a good year for our Automation Middleware Solutions portfolio. The patents in this portfolio cover automation technology used in industrial facilities, including manufacturing plants and refineries. We signed four licenses with this portfolio in 2016.

Our Building Controls portfolio, which we purchased from HP, also generated several licenses during the year. This portfolio includes patents for technology associated with the rapidly growing home automation, or "Smart Homes", market. And finally, we signed a license with Funai, who is a major Japanese manufacturer of consumer products; they produce televisions under multiple brand names.

Patent acquisition is an important component to our growth plan, which helps to build a diversified pipeline of future license opportunities. In 2016, we made several exciting patent acquisitions bringing our total number of licensing programs to approximately 50.

Under the partnership model, we acquire a portfolio of patents for little to no money upfront, and share the proceeds (after expenses) with the previous patent owners. The model has the dual benefit of adding patents to our portfolio for future license opportunity, as well as sharing risk with our partners. Acquiring patents under this model has been one of the key factors driving growth of our cash balance, which ended the year at \$107.7 million, up more than \$13 million from the end of 2015.

In addition to signing a license with them, we also acquired a portfolio of patents from GlobalFoundries that covers process technologies used in the manufacture of semiconductor devices. These patents originated with IBM; GlobalFoundries acquired portions of IBM's Microelectronics Division along with approximately 16,000 patents, back in 2015.

We acquired an important portfolio from the Stanford Research Institute. These patents cover inventions and technology that became the popular SIRI voice activated assistance program used in Apple devices. This was our second portfolio acquired from the Stanford Research Institute.

We partnered with the Eastman Kodak Company, acquiring a portfolio that covers various elements of electro-photography and other printing technologies with broad geographic coverage across numerous countries, including the US, Germany, Japan and China. These are regions where we are becoming increasingly active.

We completed our third licensing partnership agreement with Panasonic, another blue-chip name, for a portfolio that covers motion sensing systems technologies used in a variety of consumer devices, including fitness trackers and handsets. Also with the fitness sector, we acquired a portfolio of patents from Barron Associates. The acquired patents relate to technology that allows wearable devices to track the movement of the human body during different activities. This is a key component in today's fitness tracking devices.

In the wireless space, an historically strong sector for us and an area where we continue to have a large cellular portfolio, we acquired a number of patents from MLR LLC that cover certain Wi-Fi technology used in a variety of wireless products.

And finally, earlier this year we entered partnerships with the University of Waterloo and the University of Saskatchewan. These are two of Canada's top universities and they have sought our assistance to help promote and license their technologies in an increasingly complex environment for patent enforcement. The partnerships speak to our strong reputation in the licensing world, as well as to our potential to develop new and exciting markets for our services.

To get a snapshot of our pipeline of future licenses, we look at the breadth and depth of our patent portfolio, the number of active licensing programs and the number of ongoing litigations. When considering the potential license revenue of our patents, we segment the portfolio into four categories: Wireless, Semiconductor Technologies, Televisions and Other, which includes automotive, medical and consumer. We estimate the potential value of future patent licenses for these patents to be in a range of approximately \$600 million to over \$1.0 billion, which suggests ample opportunity for the business.

Regarding litigations, today we have more than 60 ongoing, which reflects the high level of activity among our licensing teams. In all cases, our goal is to negotiate first and litigate last. We try to reach settlements early if a settlement offer makes financial sense, but we will be patient and litigate if we don't feel we are being offered fair value for our patents.

Historically, most of our litigations have taken place in the U.S., but we are increasingly using courts in other countries, such as Germany, China and Canada. In the second quarter of 2016, we commenced litigation against Deutsche Telekom in Germany on network management patents acquired from Siemens. In the third quarter, we launched additional litigations in Germany against both Amazon and Sony. Finally, in the fourth quarter, we launched our first litigation in China. The suit was filed against Sony and relates to networking patents. This lawsuit has received widespread notice in the industry as a somewhat pioneering event in the Chinese patent industry. We expect that our rate of activity outside the U.S. will increase in the coming years.

In a similar way that we share the awards with our patent partners, we also pursue partnerships with legal firms to keep costs down and to align our interests. These cost containment strategies are important to our model as variability in quarterly performance is common in our industry, which means revenues can be "lumpy".

As we discussed during 2016, this variability is expected to factor into our results going forward. As regular quarterly payments from agreements we signed in 2010 and 2011 wind down, we will have less quarterly revenue booked in advance of each period. This means that we will be more dependent on signings made during each quarter to reach our revenue objectives.

While we do expect to re-sign license agreements with many of those companies, we can't predict the timing of those agreements, nor whether they will result in lump-sum payments or regular quarterly payments. Interestingly, quarterly variability can work in our favor; dating back to the fourth quarter of 2015, three of the five quarters during that period saw results exceed estimates, including the fourth quarter of 2016 when revenue was more than \$30 million. In addition, despite the fact that our market environment remains challenging and that quarterly revenues can be lumpy, we continue to demonstrate that we can execute in this tough environment and maintain a consistent cash flow positive business.

In closing, we ended 2016 on a strong note and look to carry this momentum into 2017. With a large portfolio of more than 11,000 patents, approximately 50 licensing programs and more than 60 ongoing litigations, we continue to build our pipeline of future licenses and revenue. We also have a strong balance sheet which enables us to be patient and to hold-out for fair license values. Ultimately, we know as experts in this business that patience will yield the best long term results for the company.

Finally, we would like to thank the employees and the Board of Directors of WiLAN for their dedication and effort throughout 2016. We would also like to thank you, our fellow shareholders, for your ongoing support of the Company.

Sincerely,



Paul McCarten
Chairman of the Board



Jim Skippen
President & CEO

Management's Discussion and Analysis ("MD&A") of Financial
Condition and Results of Operations

For the Twelve Months ended December 31, 2016 and 2015

February 10, 2017

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is dated February 10, 2017. It should be read in conjunction with the audited consolidated financial statements and notes thereto for Wi-LAN Inc. for the year ended December 31, 2016 (the "Financial Statements"). References in this MD&A to "WiLAN," "Company," "our company," "we," "us" and "our" refer to Wi-LAN Inc. and its consolidated subsidiaries during the periods presented unless the context requires otherwise. The Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP" or "GAAP") and applicable United States Securities and Exchange Commission ("SEC") regulations for annual financial information.

Unless otherwise indicated, all financial information in this MD&A is reported in thousands of United States dollars ("U.S. dollars"), with the exception of share and earnings per share data which is reported in number of shares and U.S. dollars respectively. The tables and charts included in this document form an integral part of this MD&A.

We prepared this MD&A with reference to National Instrument 51-102 - Continuous Disclosure Obligations of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, we are permitted to prepare this MD&A in accordance with Canadian disclosure requirements which may differ from U.S. disclosure requirements. This MD&A provides information for the year ended December 31, 2016 and up to and including February 9, 2017. Additional information filed by us with the Canadian Securities Administrators, including quarterly reports, annual reports and our Annual Information Form ("AIF") for the year ended December 31, 2016, is available online at www.sedar.com and also on our website at www.WiLAN.com. Our Form 40-F can be found on the SEC's EDGAR website at www.sec.gov.

Our management is responsible for establishing appropriate information systems, procedures and controls to ensure that all financial information disclosed externally, including this MD&A, and used internally by us, is complete and reliable. These procedures include the review and approval of our financial statements and associated information, including this MD&A, first by our management's Disclosure Committee, then by our Board of Directors' Audit Committee (the "Audit Committee") and, finally, by our Board of Directors as a whole (the "Board").

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements and forward-looking information within the meaning of the United States Private Securities Litigation Reform Act of 1995 and other applicable United States and Canadian securities laws, including such statements relating to:

- assumptions and expectations described in our critical accounting policies and estimates;
- our expectation regarding the adoption and impact of certain accounting pronouncements;
- our expectation regarding the growth rates of licensees' businesses and the expected revenues to be collected from such licensees;
- our expectations with respect to revenues to be recorded as a consequence of license agreements with fixed periodic payment structures;
- our expectations with respect to the timing and amounts of any license agreements that may be entered into with respect to any of our litigation matters;
- our expectations with respect to our ability to sign new licenses and to sign renewal agreements with existing licensees;
- our estimates regarding our effective tax rate;
- our expectations with respect to the sufficiency of our financial resources; and
- our expectations regarding continued expansion of our patent portfolio through the acquisition of patents from third-parties and from the development of new inventions or our entry into licensing relationships with third-parties.

The words “expect”, “anticipate”, “estimate”, “may”, “will”, “should”, “would”, “intend”, “believe”, “plan”, “continue”, “anticipate”, “project” or the negative of these words or other variations on these words, comparable terms and similar expressions are intended to identify forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information are based on estimates and assumptions made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate in the circumstances.

We provide forward-looking statements and forward-looking information to assist external stakeholders in understanding our management’s expectations and plans relating to the future as of the date of this MD&A and such statements and information may not be appropriate for any other purposes. The forward-looking statements and forward-looking information in this MD&A are made as of the date of this MD&A only. We have no intention and undertake no obligation to update or revise any forward-looking statements or forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

RISKS AND UNCERTAINTIES

Many factors could cause our actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, including, without limitation, the following factors, which are discussed in greater detail under the heading “Risk Factors” in our February 10, 2017 AIF. These factors should be considered carefully, and readers should not place undue reliance on our forward-looking statements and forward-looking information.

NON-GAAP DISCLOSURE

We use the term “earnings before interest, taxes, depreciation and amortization” (“EBITDA”) to reference earnings from continuing operations before interest income, interest expense, depreciation & amortization expense, and the provision for income taxes as disclosed in the reconciliation of net earnings/loss to EBITDA included in this MD&A. We report EBITDA in the belief that it may be useful for certain investors and readers of the financial statements as a measure of our performance. EBITDA IS NOT A MEASURE OF FINANCIAL PERFORMANCE UNDER U.S. GAAP. IT DOES NOT HAVE ANY STANDARDIZED MEANING PRESCRIBED BY U.S. GAAP AND IS THEREFORE UNLIKELY TO BE COMPARABLE TO SIMILARLY TITLED MEASURES USED BY OTHER COMPANIES. EBITDA SHOULD NOT BE INTERPRETED AS AN ALTERNATIVE TO NET EARNINGS AND CASH FLOWS FROM OPERATIONS AS DETERMINED IN ACCORDANCE WITH U.S. GAAP OR AS A MEASURE OF LIQUIDITY.

DESCRIPTION OF THE BUSINESS

Generally, in exchange for disclosing specific, novel and non-obvious inventions that meet applicable legal requirements in a particular country, a granted patent will provide its holder with time-limited, legally enforceable exclusive rights in that country to practice the inventions disclosed in the patent and to exclude others from practicing those inventions. If the inventions disclosed in the claims of a granted patent meet applicable legal validity and enforceability requirements and are important enough that a third-party wishes to practice those inventions or cannot conduct its business without practicing those inventions, the patent may be of great value to that third-party. Unfortunately, many third-parties are content to practice such inventions, thereby infringing the patent in which they are disclosed, without compensating the patent owner, believing the owner will not discover the infringement, will be unable to convince the third-party to pay any compensation, will be unable to prove infringement sufficiently to convince a court to force the third-party to pay appropriate compensation or, in the worst cases, will have one or more of their patents found invalid, unenforceable and/or not infringed.

If the infringer of patented inventions is willing to properly compensate the patent owner for its unauthorized use of these inventions, however, then the owner will typically grant the infringer permission (i.e. a license) to practice those inventions for a period of time (which may be for the life of the patent), free from the threat of legal action. Compensation for such a license may be a single amount (whether paid in a lump sum or over time) or may be based on future sales of products or services that rely on the patented inventions as they are sold over the duration of the license.

During its entire corporate history, the Company has developed and patented inventions that have proven of great value to third-parties. In addition, WiLAN also has a history of acquiring patents that it believes hold great value from other inventors. WiLAN also works with patent inventors and owners to unlock the value trapped in patents that their inventors or owners have been unable to obtain by developing and licensing their patents while sharing with those inventors and assignees both any revenues generated by these patents and much of the financial risk associated with licensing these patents.

In mid-2006, WiLAN re-focused its business on technology innovation and licensing. At that time, the Company owned approximately 20 patents including certain patents it believed could be used to license to third parties. In launching this new form of business, a key strategy was to strengthen WiLAN's global patent portfolio to sustain long-term revenue opportunities and associated growth.

Over the past 11 years, the Company has grown from 1 employee in mid-2006 to 47 employees at December 31, 2016, increased its global patent portfolio from approximately 20 patents in two technology areas to close to 11,000 patents and patent applications worldwide in 60 technology areas, signed more than 355 licensees, and grown annual revenues from approximately \$1.9 million in 2006 to close to \$93 million in 2016, representing a compound annual growth rate of over 48%, although growth in all these areas has not been uniform from period to period.

Since 2006, WiLAN's principal source of revenue has been from licensing the patents in its internally developed global patent portfolio, but the Company is also generating increasing revenue from licensing patents with respect to which it has partnered with third-parties. WiLAN may also, from time to time, sell patents if revenue from an outright sale of any patent appears to be greater than its licensing potential.

The Company plans to build upon its significant base of signed license agreements and increase its licensing opportunities by growing its patent offerings with a combination of patent acquisitions, licensing partnerships with patent owners and corporate mergers and acquisitions.

Historically, WiLAN held patents relating to wireless access and digital television and display technologies.

Technology areas generally included in WiLAN's wireless access patents include 3G/4G, Wi-Fi and Bluetooth, as well as other technologies generally applicable to handheld devices or to infrastructure equipment necessary to operate wireless networks. WiLAN has generated licensing revenue from companies that sell products described as cellular handsets (such as smart phones) and infrastructure, tablets, laptop computers and Wi-Fi routers. In addition, the Company believes that it has identified a number of other potentially licensable products in markets adjacent to "pure" wireless markets.

WiLAN's digital television and display technology area originated with the acquisition of certain parental control technology patents in July 2007 and has been augmented with acquisitions from several other sources including multimedia processing, display and touch screens and graphical user interfaces, all of which are potentially used in smart phones, digital televisions, "smart" televisions, tablet computers and laptop computers.

In addition to the Company's historic patent licensing areas, WiLAN enters into relationships with third-party inventors and patent owners to enforce their patents in exchange for sharing in both the reward and the risk in such enforcement. In these relationships, instead of paying significant amounts up front for the acquisition of patents, WiLAN generally acquires patents from their inventors or owners through a dedicated subsidiary in exchange for a percentage of the recoveries derived from enforcing those patents paid to the inventors or owners. The Company strives to conduct any litigation relating to these patents by way of contingency or "hybrid contingency" arrangements with appropriate legal counsel through which a significant portion of the costs of such legal counsel are contingent upon and tied to recovery made in any litigation involving the patents. Given the sharing of recoveries among WiLAN, the original inventor or owner of the patents and external legal counsel, the Company believes that these parties' interests are aligned towards maximizing the recovery from enforcing these patents.

Current patent portfolios acquired by WiLAN through such relationships with third-party inventors and patent owners include patents relating to 3D television technologies, automotive headlight assemblies, phased loop technology, microcontrollers applicable to safety-critical aerospace, semiconductor manufacturing and packaging technologies, medical, industrial and automotive applications, computer gaming, medical stent technologies, intelligent personal

assistant technologies, CMOS image sensors, enhanced image processing, streaming video technologies, building automation, non-volatile Flash memory, other memory technologies, semiconductor clocking technologies, smart meter monitoring, LED lighting technologies and many other technologies.

The Company's patent licensing has yielded strong results since mid-2006, having generated cumulative revenues to the end of 2016 of nearly \$750 million. WiLAN continues to consistently sign licenses every year and has entered into 3 renewal and 32 entirely new licenses since the beginning of its 2016 fiscal year.

WiLAN's license agreements generally take into consideration rights to license the patents covered and releases for past infringement. Related payments may be lump-sum, fixed-price with set payments made over a specified period of time or running royalty based depending on a price per-unit and/or a percentage of product sales or service revenues enjoyed by licensees. Running royalty based licensees generally provide the Company with quarterly or semi-annual royalty reports which are typically received subsequent to the period in which the underlying sales occurred.

Consideration for license agreements is generally paid in cash, although WiLAN has accepted a combination of cash and in-kind payments in the past and may do so again in the future if any such patents fit the Company's value proposition and strategic objectives. WiLAN recognizes revenue from these arrangements as amounts become due and collection is assured.

Royalty rates and the consideration for a license may vary significantly with different licensees because there are many factors that may make different rates and other terms appropriate. These include, without limitation: the clarity of the reads of patent claims on the prospective licensee's products; the significance of the patented invention to the performance of such products; the strength of the patents generally; the profitability of the products in question; the propensity of the prospective licensee to resist taking a license or to litigate; the number of applicable patents; the volume of products that infringe; the geographies in which infringing products are manufactured and sold; the prospective licensee's future sales plans; and the prospective licensee's financial position.

Although WiLAN prefers to negotiate license agreements without litigation, the Company is prepared to take all necessary steps, including investing in litigation, to ensure it receives fair compensation for the use of its patented technologies. If litigation is initiated against a prospective licensee, WiLAN's business approach seeks resolution of the litigation through the signing of a license agreement. Licensing discussions may be ongoing with a number of prospective licensees at any time and although the Company cannot anticipate how any litigation may affect ongoing discussions, WiLAN's experience is that discussions will often continue through the litigation process and that some parties may be inclined to take licenses.

Notwithstanding WiLAN's early success in many areas, the business and legal environment for patent licensing companies has become increasingly difficult during the past several years. In this more difficult licensing environment, the Company continues to adapt and evolve to achieve success. Despite the Company's best efforts, however, it appears that the USPTO, U.S. courts and U.S. juries are becoming less willing to side with patent assertion companies in proceedings brought by or against technology manufacturers, which may lead to those manufacturers and other potential licensees delaying or resisting taking licenses to the Company's patents or taking licenses on terms less favourable to WiLAN.

The Company's employees have unique skill sets and proven abilities to conclude license agreements. This is important because the strength of asserted patents is only part of what is needed to derive substantial revenues from them; human expertise in the relevant markets, in patent portfolio development, and in patent licensing and litigation are as crucial as strong patents.

Based on the strength of WiLAN's global patent portfolio, its licensing capability, human resources and fair business dealings, the Company believes that it is well known in the applicable industries and that companies will accept that licenses will be inevitable and will budget for them. WiLAN also believes that it remains well positioned to succeed because of its strong and growing global patent portfolio, professional and systematic approach to licensing, experienced management team, track record of signing license agreements, significant base of signed agreements and solid financial position.

WiLAN expects that it will be required to litigate from time to time with parties that infringe its patents but refuse to pay what the Company considers fair consideration for a license or as compensation for past infringement. It is important that prospective licensees know that, when necessary, WiLAN has sufficient funds to conduct protracted and multiple

litigations, otherwise a party may be even more reluctant to take a license. In addition to any litigation commenced by the Company, one or more parties may file actions against WiLAN seeking declaratory judgments of non-infringement and/or invalidity against its patents and/or request re-examination or reviews of certain patents before the USPTO or other regulatory bodies.

In the Company's licensing efforts, if litigation is required to protect and enforce its rights, WiLAN strives to litigate third-party infringement of patents using legal counsel based on either a "full" or "hybrid" contingency basis through which the Company shares the financial risks of such litigation with its legal counsel. While WiLAN traditionally sought to obtain 100% of the benefits of any patent litigation, it also bore 100% of the costs relating to that litigation. Where the Company retains litigation legal counsel on a "full" contingency basis, WiLAN pays no legal fees relating to such litigation, instead compensating counsel based on a portion of any actual recovery from the infringer(s) in that litigation, although the Company may bear the expense of third-parties and disbursements incurred related to that litigation. Where the Company retains litigation legal counsel on a "hybrid" contingency basis, WiLAN may agree to pay a set regular amount to counsel throughout the conduct of a litigation, often subject to a cap, which amount will be deducted against any ultimate recovery from the infringer(s) in that litigation, a portion of which will, otherwise, be paid to counsel as their fees.

On December 31, 2016, the Company's fiscal year-end, WiLAN had approximately \$107.7 million in cash, cash equivalents and short-term investments on hand. The Company believes this amount represents sufficient financial resources to fund operations for the foreseeable future based on its current plans. WiLAN believes it will remain in a position to fund ongoing operations from license revenues generated for the foreseeable future, although this is not assured.

RESULTS AND OUTLOOK

Overall performance

The following table sets forth consolidated statements of operations data, which is expressed in thousands of U.S. dollars, except share and per share amounts, for the indicated years as well as certain balance sheet data as at December 31, 2016, 2015, and 2014.

	Year ended December 31, 2016		Year ended December 31, 2015		Year ended December 31, 2014	
	\$000's	%	\$000's	%	\$000's	%
Revenue	\$ 92,876	100	\$ 102,855	100	\$ 98,311	100
Operating expenses						
Cost of revenue	64,111	69	70,400	68	63,201	64
Research and development	-	-	2,430	2	2,416	2
Marketing, general and administrative	9,794	11	7,462	7	10,565	11
Foreign exchange loss	(103)	(0)	2,985	3	2,038	2
Impairment of assets	—	—	1,747	2	—	—
Restructuring charges	—	—	1,302	1	—	—
Total operating expenses	73,802	79	86,326	84	78,220	80
Earnings (loss) from operations	19,074	21	16,529	16	20,091	20
Interest income	548	1	428	0	533	1
Earnings (loss) before income taxes	19,622	21	16,957	16	20,624	21
Provision for (recovery of) income tax expense						
Current	5,539	6	4,013	4	4,623	5
Future	3,031	3	2,908	3	6,290	6
	8,570	9	6,921	7	10,913	11
Net earnings (loss)	\$ 11,052	12	\$ 10,036	10	\$ 9,711	10
Earnings (loss) per share						
Basic	\$ 0.09		\$ 0.08		\$ 0.08	
Diluted	0.09		0.08		0.08	
Weighted average number of common shares						
Basic	119,245,581		120,713,535		120,103,422	
Diluted	119,245,581		120,720,171		120,368,583	
		As at December 31, 2016		As at December 31, 2015		As at December 31, 2014
Cash and cash equivalents	\$	106,553	\$	93,431	\$	126,311
Short-term investments		1,154		1,120		1,336
Total assets		282,983		293,218		313,194
Long-term debt		—		—		—
Dividends declared per common share		0.05		0.17		0.18

Revenues for the twelve months ended December 31, 2016 were \$92,876 representing a decrease of \$9,979 or approximately 9.7% over the twelve months ended December 31, 2015. The decrease in revenue is attributable to the completion of payments on certain fixed payment license agreements signed in previous years partially offset by an increase in one-time payment license agreements signed during the twelve months ended December 31, 2016.

Our license agreements can generally be classified as either: (1) running royalty agreements in which licensees provide reports on their sales activities for the previous fiscal quarter, and calculate and remit the appropriate royalty; or (2) fixed fee arrangements with either a one-time lump sum payment or periodic payments that may be over a period shorter than or equal to the license term. In all cases, licenses provide for a release of past infringement and a license to some or all of our patents for a specified period of time. In certain cases, licenses may also extend to certain patents acquired by us during the term of the license. In all cases, the continued right to the license is subject to the licensee making the required payments defined in the agreement, all of which are non-refundable once received by us. We consider revenue to be earned when we have persuasive evidence of an arrangement, the obligation has been fulfilled in accordance with the terms of the license agreement, including delivery and acceptance, the amounts are fixed or determinable and collection is reasonably assured. We do not recognize revenue until all these conditions are met.

Our business is unique because, unless approached, entities who infringe our patents are content to not pay fair compensation to us for the right to use the inventions claimed in those patents. Our licensing process involves the preparation of claim charts which are detailed descriptions of the claims in our patents and how those claims relate to a particular technology standard or a particular product offering. These claim charts are presented to entities which we believe to be infringing these patents as the first step in commencing licensing discussions. The licensing process then generally includes countering arguments relating to technology and legal matters relating to these and other patents, arriving at mutually satisfactory business, financial and legal terms for license agreements and signing such license agreements. We note that with more than 11,000 patents, we generally only prepare claim charts on a small subset of the entire portfolio. Accordingly, we will commence license discussions focusing on only a small number of patents that we believe are being infringed.

If licensing discussions are not productive, we may resort to litigation as a means to motivate a potential licensee to negotiate a license. Although our preference is to reach a negotiated license agreement without commencing patent litigation, we have found that many entities will not engage in substantive discussions without litigation. If litigation is required, it will most certainly be on only a subset of the patents that we believe are infringed, for example on only two or three patents out of our entire portfolio. We may also engage in additional infringement litigation against a potential licensee to create additional pressure to enter into a negotiated license agreement.

As a result of the above, the timing of when a license is executed is uncertain and, accordingly, we may experience fluctuations in revenues year over year.

The criteria that we have traditionally used for determining when revenue will be recognized will change for our year ending December 31, 2018. In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-9, “Revenue from Contracts with Customers” and in August 2015 issued an update which defers the effective date of this new standard to fiscal years beginning after December 15, 2017, with early adoption permitted. Under this new standard, revenue is recognized when a licensee or customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which we expect to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has issued several amendments to the standard, including clarification on accounting for licenses of intellectual property and identifying performance obligations.

This new standard specifically outlines that patents, underlying highly functional items, are considered functional IP. Licenses to functional IP are considered satisfied at a point in time and any resulting revenue is recognized at that point in time. The standard further indicates that “in very rare circumstances, if at all” can licenses to functional IP be recognized over time.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the

date of initial application (the cumulative catch-up transition method). We currently anticipate adopting the standard using the full retrospective method to restate each prior reporting period presented.

We anticipate this standard will have a material impact on our consolidated financial statements. While we are continuing to assess all potential impacts of the standard, we currently believe the most significant impact relates to our accounting for fixed fee arrangement license agreements that contain periodic payments that may be over a period shorter than or equal to the license term. We expect to recognize license revenue at the time of signing a license agreement rather than over the period of periodic payments. Due to the complexity of certain of our license agreements, the actual revenue recognition treatment required under the standard will be dependent on contract-specific terms, and may vary in some instances from recognition at the time of billing. We are also further evaluating the income tax impact of these changes in revenue recognition.

Operating expenses for the twelve months ended December 31, 2016 were \$73,802 or 79% of revenues, representing a decrease of \$12,524 or 15% as compared to \$86,326 or 84% of revenues for the twelve months ended December 31, 2015. The decrease in operating expenses is primarily attributable to lower litigation costs, amortization expense, restructuring costs and asset impairment offset by an increase in patent maintenance, prosecution and evaluation costs, contingent partner payments and legal fees, and compensation and benefits, which is described in more detail below.

Litigation expense accounted for approximately \$4,824 and \$13,203 or 7% and 15% of total operating expenses in each of fiscal 2016 and 2015 respectively. As noted, we would prefer to negotiate licenses without the use of litigation but that is not always possible. Given the number of litigations we are currently involved in and the related fee arrangements, litigation expenses for 2017 are expected to increase from the 2016 levels excluding contingent litigation payments. Litigation activities, and therefore expenses, are difficult to predict as there are many factors that can influence any action that is commenced.

We recorded net earnings for the twelve months ended December 31, 2016 of \$11,052 or \$0.09 per basic and diluted share as compared to the twelve months ended December 31, 2015 of \$10,036 or \$0.08 per basic and diluted share.

We consider EBITDA, a non-GAAP measure, to be a good indicator of performance for the business as it more accurately captures financial performance in a given period related to the operations of the business.

The table below reconciles the net earnings to EBITDA.

	Three months ended		Twelve months ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Net earnings under GAAP	\$ 8,627	\$ 3,007	\$ 11,052	\$ 10,036
Adjusted for:				
Interest income	(172)	(97)	(548)	(428)
Depreciation and amortization	7,719	10,086	34,651	38,164
Income tax expense (recovery)	1,310	(129)	8,570	6,921
EBITDA	\$ 17,484	\$ 12,867	\$ 53,725	\$ 54,693
Weighted average number of common shares (1)				
Basic	118,555,989	120,817,531	119,245,581	120,713,535
Earnings per basic share under GAAP	\$ 0.07	\$ 0.02	\$ 0.09	\$ 0.08
Adjusted for:				
Interest income	(0.00)	(0.00)	(0.00)	(0.00)
Depreciation and amortization	0.07	0.08	0.29	0.32
Income tax expense (recovery)	0.01	(0.00)	0.07	0.06
EBITDA per basic share	\$ 0.15	\$ 0.11	\$ 0.45	\$ 0.45

1. Weighted average number of common shares used in the calculation of EBITDA per basic share and earnings per basic share under GAAP.

EBITDA for the twelve months ended December 31, 2016 was \$53,725 as compared to \$54,693 for the twelve months ended December 31, 2015. The decrease in EBITDA as compared to last year is primarily attributable to a decrease in revenue and a decrease in litigation expenses partially offset by an increase in compensation and benefits, an increase in contingent partner payments and legal fees, and an increase in patent maintenance, prosecution and evaluation costs.

Results of Operations for the twelve months ended December 31, 2016 as compared to the twelve months ended December 31, 2015

Revenues

Revenues for the twelve months ended December 31, 2016 were \$92,876, representing a decrease of \$9,979 as compared to the twelve months ended December 31, 2015.

	Twelve months ended	
	December 31, 2016	December 31, 2015
Revenues	\$ 92,876	\$ 102,855
Decrease from comparative period	(10%)	

Our revenues are derived from five principal sources: (i) running royalty agreements pursuant to which licensees pay us royalties based on either a percentage of the net selling price of licensed products or a fixed fee per licensed product sold; (ii) fixed fee royalties consisting of a set quarterly or annual amount for all licensed products sold by licensees; (iii) one-time lump sum fees to cover the sale of all licensed products by a particular licensee, subject to certain limitations; (iv) licensing patents on behalf of our partners; or (v) brokerage which provides the acquirer exclusive rights to the technology. License agreements are generally for a five to eight year period but can be significantly longer or covering the entire life of the underlying licensed patents. We consider revenue to be earned when we have persuasive evidence of an arrangement, all obligations that we need to perform have been fulfilled in accordance with the terms of the license

agreement, including delivery and acceptance, the revenue amount is fixed or determinable and collection is reasonably assured.

Revenues can vary significantly from quarter to quarter depending upon the type of royalty arrangement with licensees, the timing of royalty reporting by licensees, the cyclical nature of licensees' markets and fluctuations in foreign currency and other factors. Revenues can fluctuate based on individual licensees' growth and success rates in their respective markets, and other market factors on their respective businesses and other factors outside of our control. See "Risk Factors" contained in our AIF for more detailed information.

Three licensees individually accounted for 18%, 14% and 11%, respectively, of revenues for the twelve months ended December 31, 2016 as compared to three licensees which individually accounted for 16%, 12% and 10%, respectively, of revenues for the twelve months ended December 31, 2015. For the twelve months ended December 31, 2016, the top ten licensees accounted for 77% of revenues, whereas in the comparable period last year the top ten licensees accounted for 76% of revenues, respectively.

Historically, a significant portion of our revenues has been generated by license agreements having fixed periodic payments, however we expect that an increasing portion of our revenues will be generated by license agreements having one-time lump sum payments and therefore our revenue is expected to fluctuate from period to period.

Cost of Revenue

Cost of revenue is comprised of patent licensing expenses which includes royalty obligations, cost of patents sold through brokerage activities (if any), employee related costs and other costs incurred in conducting license negotiations, contingent partner payments and legal fees, litigation expense and amortization of patents expense related to acquired patents. We also consider the expenses related to the management of our patent portfolio as cost of revenue. The management of our patent portfolio involves filing patent applications, prosecuting applications to obtain issued patents, documenting infringement, assessing validity of issued patents, conducting due diligence on patents and applications to be acquired, and other general administrative tasks. Many of these costs are directly related to the size and breadth of our patent portfolio and, therefore, as we add or reduce patents, these costs would be expected to increase or decrease accordingly. We are continuously looking at ways to reduce costs including reducing our patent count if revenues will not be impacted.

Litigation, other than contingent litigation, and amortization expenses are not necessarily variable with revenues. We also include, as a cost of revenue, any costs related to sourcing new patent portfolios or developing new strategic partnerships.

The table below provides the details of cost of revenue:

	Twelve months ended	
	December 31, 2016	December 31, 2015
Compensation and benefits	\$ 8,531	\$ 6,680
Litigation	4,824	13,203
Patent maintenance, prosecution, and evaluation	9,959	7,715
Contingent partner payments and legal fees	5,722	3,617
Amortization of patents	34,244	37,723
Stock-based compensation	174	460
Other	657	1,002
	<u>\$ 64,111</u>	<u>\$ 70,400</u>
Percent of revenue	69%	68%
Decrease from comparative period	(9%)	

Cost of revenue for the twelve months ended December 31, 2016 was \$64,111 or 69% of revenues as compared to \$70,400 or 68% of revenue for the same period last year.

The decrease in expenses is primarily attributable to a decrease in litigation costs and amortization expense offset by an increase in compensation and benefits, patent maintenance, prosecution and evaluation costs, and contingent partner payments and legal fees.

Litigations are a normal part of our business which may extend over multiple years and are principally a discretionary cost, not directly related to or necessarily proportional to the revenues we generate. Our litigation expenses consist of all expenses related to the conduct of our litigation activities and include the costs of external legal counsel and third-party costs including those of expert witnesses and other service providers required during the course of litigations for all litigations not otherwise covered under a contingency arrangement.

Pursuant to our engagement of McKool Smith (“McKools”) in respect of certain litigations that concluded in 2011, in consideration for a discount on fees in connection with such litigations, we have agreed to pay McKools a success fee based on achieving certain minimum financial measures attributable to such litigations. Upon achieving these financial measures, McKools will be entitled to receive a percentage of the proceeds actually received pursuant to the licensing agreements relating to these litigations up to a maximum of \$27,986. We have collected and expect to collect proceeds from these license agreements over the next two years. Should we collect these amounts as contemplated in the agreements, McKools will be entitled to the entire success fee. We accrued the full amount of the success fee obligation in fiscal 2011. As at December 31, 2016, the current and long term portions of the success fee obligation are \$585 and \$47, respectively. During the twelve months ended December 31, 2016, we paid McKools \$3,007 (twelve months ended December 31, 2015 - \$3,736) based on proceeds collected as of September 30, 2016.

For the twelve months ended December 31, 2016, litigation expenses amounted to \$4,824 as compared to \$13,203 for the same period last year. The decrease in litigation expenses is attributable to a decrease in the level of litigation activities considered non-contingency related in comparison to the same period last year. Litigation expenses are expected to vary from period to period due to the variability of litigation activities, and shared risk fee arrangements. We expect an increase in litigation expenses in fiscal 2017 as a result of the expected level of litigation activities and the corresponding fee arrangements.

In the course of our normal operations, we are subject to claims, lawsuits and contingencies. Accruals are made in instances where it is probable that liabilities may be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, we have no reason to believe that the ultimate outcome of these matters would have a significant impact on our consolidated financial position.

Our partnering programs relate to specific patent portfolios owned or controlled by our operating subsidiaries, have contingent partner payment arrangements with the previous patent owners and most often contingent legal fee arrangements with law firms. As these licensing programs generate revenues we will expect to incur contingent partner payments and contingent legal fees. The contingent partner payments and contingent legal fees are expected to fluctuate from period to period based on the amount of revenues recognized each period, the terms and conditions of the particular contingent legal fee arrangements, the type of contingent partner payment arrangements with the previous patent owners and the mix of specific patent portfolios generating revenues each period.

We have engaged the services of certain law firms to represent us in certain patent infringement litigations. Pursuant to these engagements, we have agreed to pay these law firms a success fee which is based on a percentage of proceeds received (as defined in the respective agreements) pursuant to future license agreements resulting from these patent infringement litigations. We have in the past, and may again in the future, agree to pay a discounted fixed-fee. These fees are capped at an amount that would normally be a fraction of the estimated total fees and serve as an advance against any future success fee payments. Any success fees payable to these law firms are expensed in the period for which the applicable revenue is recognized. All fixed fee amounts are expensed in the period they are incurred.

The Company’s short-term incentives consists of an annual “at risk” cash incentive forming part of target compensation, which is paid based on achieving annual corporate and individual performance targets. These targets take the form of short-term financial and operating metrics and personal objectives, all focused on positioning WiLAN for present and

future success. The Company believes that the use of financial targets such as bookings (new license agreements signed) and EBITDA are variables that are best correlated to WiLAN's long-term, sustainable financial strength. These targets are set at levels believed to be challenging yet realistically attainable given anticipated trends.

Incentive restricted stock units ("RSUs") are granted as part of each employee's "at risk" incentives and are considered "medium-term" incentives because they vest over the three years from the date of grant, with payments on the vesting dates determined with reference to the market price of the Company's common shares on those dates. The Company believes that RSUs assist in aligning employees and shareholder interests. RSUs generally make up 40% of the annual "at risk" portion of target compensation; given that RSUs vest and are paid out over three years, these awards are considered "at risk" in terms of how much they will pay out because the value of RSUs rises (and may fall) in conjunction with the market price of the Company's common shares.

Long-term incentives in the form of stock options and performance restricted stock units ("PRsUs"), generally available to all employees at the discretion of WiLAN's senior executives and, in the case of such senior executives themselves, the Board or Compensation Committee, are intended to align the employees' interests with those of WiLAN's shareholders. PRsUs are contractual rights provided to specific employees requiring WiLAN to grant a pre-set number of RSUs to those employees on January 1, 2017 if stipulated target performance metrics are achieved.

Compensation expense, as a result of the above noted factors, increased year over year as the Company surpassed its performance targets for the year and the share price appreciated approximately 20% year over year resulting in a higher accrued variable compensation at December 31, 2016.

In general, patent licensing expenses are proportional to the breadth and depth of our licensing and brokerage programs and should be expected to increase as we add programs to our business operations. As a result of the expansion in the number of licensing programs and the increase in partnering agreements with contingent partner payment arrangements and contingent legal fee arrangements with law firms, licensing expenses are expected to increase in fiscal 2017.

A key element of our strategy involves acquiring additional patents or obtaining exclusive licensing arrangements through relationships with patent holders that may be accounted for as acquisitions. Any further acquisitions will increase amortization expense from our current levels. We have acquired approximately \$361,300 in patents since November 1, 2006.

Research and development expense

During the fourth quarter of fiscal 2015, we eliminated our R&D activities and, therefore, we did not incur any expenses related to R&D in the year ended December 31, 2016. We do not expect the elimination of our R&D activities to have a material impact, if any, on our business model.

The table below provides the details of R&D expense:

	Twelve months ended	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Compensation and benefits	\$ -	\$ 1,914
Depreciation	-	20
Stock-based compensation	-	80
Other	-	416
	<u>\$ -</u>	<u>\$ 2,430</u>
Percent of revenue	0%	2%
Increase from comparative period	(100%)	

Marketing, general and administration expense

Marketing, general and administration (“MG&A”) expenses represent the cost of corporate services including facilities, executive management, finance, corporate legal, human resources, office administration, marketing and communications, information technology and all costs associated with being a public company.

The table below provides the details of MG&A expense:

	Twelve months ended	
	December 31, 2016	December 31, 2015
Compensation and benefits	\$ 5,416	\$ 3,608
Depreciation	407	422
Stock-based compensation	43	307
Public company costs	1,681	1,199
Facilities	633	575
Other	1,614	1,351
	<u>\$ 9,794</u>	<u>\$ 7,462</u>
Percent of revenue	11%	7%
Increase from comparative period	31%	

For the twelve months ended December 31, 2016, MG&A expenses amounted to \$9,794 or 11% of revenues as compared to \$7,462 or 7% of revenue for the twelve months ended December 31, 2015. The increase in spending for the twelve months ended December 31, 2016 is primarily attributable to an increase in compensation and benefits as a result of higher accrued variable compensation costs and public company costs related to higher accrued costs for restricted share and deferred stock units granted to certain non-executive members of our board.

MG&A costs will vary from period to period depending on activities and initiatives undertaken, and changes in staffing levels in any given period. Restricted share units and deferred stock units are variable elements and therefore changes in the stock price could be expected to impact compensation spending.

Impairment of assets

We commenced restructuring activities in October 2015 and as a result assessed which assets we would continue to support and which areas of the business on which to continue to focus. As a result of this assessment, we concluded that certain licensing programs would be terminated and the carrying value of the patent portfolios associated with these licensing programs were determined to be fully impaired. As a result, we recorded a non-cash, pre-tax charge for asset impairment of \$1,747 during the fourth quarter of fiscal 2015.

Foreign exchange (gain) loss

The table below provides the details of the foreign exchange loss:

	Twelve months ended	
	December 31, 2016	December 31, 2015
Realized foreign exchange loss	\$ 135	\$ 2,380
Unrealized foreign exchange (gain) loss	(238)	605
	<u>\$ (103)</u>	<u>\$ 2,985</u>
Percent of revenue	0%	3%
Decrease from comparative period	Not meaningful	

Our realized foreign exchange loss is attributable to unhedged transactions denominated in currencies other than our U.S. dollar functional currency and is a result of the change in exchange rates in effect when foreign currency denominated transactions are initially recorded and the corresponding settlement. For the year ended December 31, 2015 the realized foreign exchange loss is primarily attributable to losses on foreign exchange contracts settled during fiscal 2015 as a result of the difference in the prescribed rates as per the contracts and the rates in effect on the settlement date. During the twelve months ended December 31, 2015 the U.S. dollar appreciated relative to the Canadian dollar. We did not utilize foreign exchange contracts during the year ended December 31, 2016.

The unrealized foreign exchange gain recognized in the twelve months ended December 31, 2016 resulted from the translation of monetary accounts, primarily cash and cash equivalents, short-term investments, dividends, and accounts payable, denominated in Canadian dollars to U.S. dollars. The change from last year is attributable to the decrease in the level of monetary accounts denominated in Canadian dollars and the Canadian dollar strengthening relative to the U.S. dollar during the year as compared to the same periods last year when the Canadian dollar weakened relative to the U.S. dollar.

From time to time we utilize foreign exchange forward contracts to enhance our ability to manage foreign currency exchange rate risk and exposure to currency rate fluctuations related primarily to future cash outflows of Canadian dollars. The foreign exchange forward contracts require us to sell U.S. dollars for Canadian dollars at prescribed rates. As at December 31, 2016, we did not have any foreign exchange forward contracts.

We cannot accurately predict foreign exchange movements and as such, cannot accurately predict future gains and losses related to unhedged transactions denominated in currencies other than U.S. dollars.

Interest income

Our recorded interest income for the twelve months ended December 31, 2016 was \$548 as compared to \$428 for the twelve months ended December 31, 2015. Interest income includes interest earned on deposits and short-term investments. The increase in interest income for the twelve months ended December 31, 2016 is generally attributable to an increased cash position.

Provision for income taxes

The table below provides the details of income tax expense:

	Twelve months ended	
	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current income tax expense	\$ 5,539	\$ 4,013
Deferred income tax expense	3,031	2,908
	<u>\$ 8,570</u>	<u>\$ 6,921</u>
Current income tax expense % of revenue	6%	4%

Income tax expense for the twelve months ended December 31, 2016 was \$8,570 as compared to \$6,921 for the same period last year. The current income tax expense for the twelve months ended December 31, 2016 and 2015, consisted primarily of foreign taxes withheld on royalty revenues received from licensees in foreign tax jurisdictions for which there is no treaty relief. Withholding tax expense for the twelve months ended December 31, 2016 was 6% of revenue as compared to 4% of revenue for the same period last year. The increase in withholding tax expense as a percentage of revenue is attributable to an increase in revenue from jurisdictions for which there is no tax treaty relief.

The increase in the deferred income tax expense is primarily attributable to an increase in the utilization of certain previously recognized Canadian loss carryforwards. There is a valuation allowance of \$19,308 as at December 31, 2016 (December 31, 2015 - \$17,583) against deferred tax assets for certain of our Canadian and all of our U.S. subsidiaries. We establish a valuation allowance for any portion of our deferred tax assets for which management believes it is more likely than not that we will be unable to utilize the assets to offset future taxes. We will continue to evaluate our deferred income tax position quarterly and record any adjustment necessary in that period.

We expect to continue to utilize certain previously recognized Canadian loss carryforwards. Until such time as our licensing programs in certain of our Canadian and U.S. subsidiaries generate sufficient taxable income we expect to continue to maintain a full valuation allowance against deferred tax assets for these Canadian and U.S. subsidiaries. As a result, we expect our provision for deferred income tax expense to be disproportionately higher when compared to our estimated average annual rate.

SELECTED CONSOLIDATED QUARTERLY RESULTS (Unaudited)

Thousands of U.S. dollars except share and per share amounts	Three months ended <u>December 31, 2016</u>	Three months ended <u>September 30, 2016</u>	Three months ended <u>June 30, 2016</u>	Three months ended <u>March 31, 2016</u>
Revenue	\$ 30,186	\$ 16,569	\$ 15,961	\$ 30,160
EBITDA (1)	\$ 17,484	\$ 9,291	\$ 7,136	\$ 19,814
EBITDA per share (1)				
Basic	\$ 0.15	\$ 0.08	\$ 0.06	\$ 0.16
Diluted	\$ 0.15	\$ 0.08	\$ 0.06	\$ 0.16
Net earnings (loss)	\$ 8,627	\$ 657	\$ (3,152)	\$ 4,920
Net earnings (loss) per share				
Basic	\$ 0.07	\$ 0.01	\$ (0.03)	\$ 0.04
Diluted	\$ 0.07	\$ 0.01	\$ (0.03)	\$ 0.04
Weighted average number of common shares				
Basic	118,555,989	118,912,606	119,255,090	120,281,998
Diluted	118,555,989	118,912,606	119,255,090	120,281,998

Thousands of U.S. dollars except share and per share amounts	Three months ended December 31, 2015	Three months ended September 30, 2015	Three months ended June 30, 2015	Three months ended March 31, 2015
Revenue	\$ 26,017	\$ 21,438	\$ 34,990	\$ 20,410
EBITDA (1)	\$ 12,867	\$ 11,982	\$ 25,168	\$ 4,676
EBITDA per share (1)				
Basic	\$ 0.11	\$ 0.10	\$ 0.21	\$ 0.04
Diluted	\$ 0.11	\$ 0.10	\$ 0.21	\$ 0.04
Net earnings (loss)	\$ 3,007	\$ 829	\$ 10,958	\$ (4,758)
Net earnings (loss) per share				
Basic	\$ 0.02	\$ 0.01	\$ 0.09	\$ (0.04)
Diluted	\$ 0.02	\$ 0.01	\$ 0.09	\$ (0.04)
Weighted average number of common shares				
Basic	120,817,531	120,790,348	120,747,848	120,472,290
Diluted	120,817,531	120,790,986	120,749,618	120,472,290

1. EBITDA and EBITDA per share are non-GAAP measures. See “Non-GAAP Disclosures” and the “Reconciliation of EBITDA” contained in this MD&A.

Our quarterly revenues are affected by the amount and timing of fixed payment based licenses, the amount of running royalty based licenses, and any new lump sum payment based licenses signed in a quarter. Given these factors, quarterly revenues can fluctuate and be difficult to predict. Our quarterly operating expenses are affected by the number of litigation matters and licensing programs, the timing of partner payment obligations and contingent legal fees associated with our partnering program and foreign exchange gains/losses. Given these factors, quarterly revenues and operating expenses can fluctuate and be difficult to predict.

Historically, our operating results have fluctuated on a quarterly basis and we expect that quarterly results will continue to fluctuate in the future. The operating results for interim periods should not be relied upon as an indication of the results to be expected or achieved in any future period or any fiscal year as a whole. The factors affecting our revenue and results, many of which are outside of our control, include the factors set out under the heading “Risks and Uncertainties” above which are discussed in greater detail under the heading “Risk Factors” in our AIF which we urge readers to review carefully.

Because our quarterly revenue is dependent upon a relatively small number of transactions, even minor variations in the rate and timing of payment of royalties could result in plans or budgets (which were based on our best estimates when they were completed) not being attained, and these variations could adversely affect our operating results. Delays or reductions in the amounts of royalty payments would adversely affect our business, results of operations and financial condition.

CAPITAL AND LIQUIDITY

Cash and cash equivalents, and short-term investments amounted to \$107,707 at December 31, 2016, representing an increase of \$13,156 from the \$94,551 held at December 31, 2015. The increase is primarily attributable to \$36,842 cash generated from operations offset by payments for patents acquired in the current and previous years totaling \$15,215, the

repurchase of common shares under a normal course issuer bid totaling \$4,225 and the payment of dividends totaling \$4,527.

At December 31, 2016 we had working capital of \$103,340, long-term success fee obligation of \$47 and long-term patent finance obligations of \$12,775 which relates to deferred payment terms on patents and patent rights we acquired in fiscal 2014.

During the twelve months ended December 31, 2016, we made repayments for patent finance obligations of \$9,000 and \$5,555 related to patents acquired during fiscal 2015 and 2014, respectively, and made payments totaling \$660 related to patents acquired in fiscal 2016.

As at December 30, 2016, the current and long-term portions of the patent finance obligations are \$10,372 and \$12,775, respectively. Although we expect the repayment of the long-term portion of the patent finance obligation to be completed within the next two years, this repayment is based on certain licensing activities occurring within that same two year period. A majority of this obligation may be deferred until a later date subject to these licensing activities, such date to be no later than June 30, 2013.

We have a revolving credit facility available in the amount of CDN\$8,000 or the equivalent in U.S. dollars for general corporate purposes and a further CDN\$2,000 for foreign exchange facility. Canadian dollar or U.S. dollar amounts advanced under this credit facility are payable on demand and bear interest at the bank's Canadian prime rate plus 1.0% per annum or U.S. base rate plus 1.0% per annum. Borrowings under this facility are collateralized by a general security agreement over our cash and cash equivalents, receivables and present and future personal property. As at and during the twelve months ended December 31, 2016, we had no borrowings under this facility.

Effective February 10, 2016, we received regulatory approval to make a normal course issuer bid (the "2016 NCIB") pursuant to which we are permitted to purchase up to 11,762,446 common shares for cancellation. The 2016 NCIB commenced on February 12, 2016 and will expire on February 11, 2017. During the twelve months ended December 31, 2016, we repurchased 2,398,500 common shares under the 2016 NCIB for a total cost of \$4,225.

We plan to use our cash resources to fund our operations and any litigation that might be required, and to purchase additional high quality patent portfolios and patent licensing businesses that are identified and fit our value proposition and strategic objectives. We may acquire operating businesses with interesting patent portfolios that could enhance an overall patent licensing business.

Our ability to generate cash from operations going forward is based on collecting royalties under our signed licenses and additional licensing of our patent portfolios to companies around the world. It is difficult to predict the timing and nature of future licenses.

We plan to finance our cash requirements for operating expenses, litigation costs and technology acquisitions by a combination of cash generated from licensing our patent portfolios and, if desirable based on market conditions, by selling common shares and debt securities to the public.

A summary of our contractual obligations due by period for the next 5 years is noted below:

Contractual Obligations	Payments due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long term debt	\$ -	\$ -	\$ -	\$ -	\$ -
Capital lease obligations	-	-	-	-	-
Operating leases	3,151	652	1,423	717	358
Purchase obligations	-	-	-	-	-
Other long term obligations	24,354	11,141	13,213	-	-
Total contractual obligations	<u>\$ 27,505</u>	<u>\$ 11,793</u>	<u>\$ 14,636</u>	<u>\$ 717</u>	<u>\$ 358</u>

* Relates to deferred patent finance obligations and success fee payable.

OUTSTANDING COMMON SHARE DATA

We are authorized to issue an unlimited number of common shares, 6,350.9 special preferred, redeemable, retractable, non-voting shares and an unlimited number of preferred shares, issuable in series. As at December 31, 2016, there were 118,572,181 common shares and no special or preferred shares issued and outstanding. We also maintain a Share Option Plan, an Employee Share Purchase Plan and a Deferred Stock Unit Plan. Under the Share Option Plan, we can issue a maximum of 10% of our issued and outstanding common shares from time to time which was, as at December 31, 2016, 11,857,218 common shares combined. The common shares authorized for issuance under the Employee Share Purchase Plan and the Deferred Stock Option Plan are limited to 800,000 and 430,000, respectively. As at December 31, 2016, we had 5,985,454 options outstanding, 197,367 deferred stock units outstanding and have issued 606,600 shares under the Employee Share Purchase Plan.

OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

Dr. Michel Fattouche, a member of our Board of Directors, has provided consulting services to us. For the twelve months ended December 31, 2016, consulting services have totaled \$8 (twelve months ending December 31, 2015 – \$100).

FOURTH QUARTER REVIEW

Results of Operations for the three months ended December 31, 2016 as compared to the three months ended December 31, 2015

Revenues

Revenues for the three months ended December 31, 2016 were \$30,186, representing an increase of \$4,169 or 16% over the same period last year. The increase in revenues is primarily attributable to license agreements signed during the fourth quarter of 2016 which had lump sum payment amounts.

	Three months ended	
	December 31, 2016	December 31, 2015
Revenues	\$ 30,186	\$ 26,017
Increase from comparative period	16%	

Three licensees individually accounted for 54%, 11%, and 10%, respectively, of revenues for the three months ended December 31, 2016 as compared to three licensees individually accounted for 15%, 12%, and 10%, respectively, for the three months ended December 31, 2015. For the three months ended December 31, 2016 and 2015, the top ten licensees accounted for 98% and 76% respectively, of revenues.

Cost of Revenue

The table below provides the details of cost of revenue:

	Three months ended	
	December 31, 2016	December 31, 2015
Compensation and benefits	\$ 2,578	\$ 1,289
Litigation	2,595	2,091
Patent maintenance, prosecution, and evaluation	1,864	1,999
Contingent partner payments and legal fees	2,987	2,400
Amortization of patents	7,626	9,979
Stock-based compensation	10	94
Other	174	249
	<u>\$ 17,834</u>	<u>\$ 18,101</u>
Percent of revenue	59%	70%
Decrease from comparative period	(1%)	

Cost of revenue for the three months ended December 31, 2016 was \$17,834 or 59% of revenues as compared to \$18,101 or 70% of revenues for the three months ended December 31, 2015. The decrease in expenses is primarily attributable to a decrease in amortization expense partially offset by an increase in compensation and benefits as a result of increased accrued variable compensation costs, increased litigation costs, and increased contingent partner payments and legal fees.

For the three months ended December 31, 2016, litigation expenses amounted to \$2,595 as compared to \$2,091 for the same period last year. The increase in litigation for the three months ended December 31, 2016 is attributable to an increase in the level of litigation activities in comparison to the same period last year that are governed by fee arrangements that are not contingent upon the signing of any license agreements. Litigation expenses are expected to vary from period to period due to the variability of litigation activities and fee arrangements.

For the three months ended December 31, 2016, contingent partner payments and legal fees amounted to \$2,987 as compared to \$2,400 for the same period last year. This increase for the three months ended December 31, 2016 is attributable to an increase in the level of license agreements signed in the quarter that relate to licensing programs for which there are contingent payment programs.

During the three months ended December 31, 2016, we paid McKools \$796 of the success fees based on proceeds collected during the three months ended September 30, 2016.

Research and development expense

The table below provides the details of R&D expense:

	Three months ended	
	December 31, 2016	December 31, 2015
Compensation and benefits	\$ -	\$ 342
Depreciation	-	5
Stock-based compensation	-	4
Other	-	61
	<u>\$ -</u>	<u>\$ 412</u>
Percent of revenue	0%	2%
Decrease from comparative period	(100%)	

During the fourth quarter of fiscal 2015, we eliminated our R&D activities and, therefore, we do not expect to incur any expenses related to R&D. We do not expect the elimination of our R&D activities to have a material impact, if any, on our business model.

Marketing, general and administration expense

The table below provides the details of MG&A expense:

	Three months ended	
	December 31, 2016	December 31, 2015
Compensation and benefits	\$ 1,466	\$ 844
Depreciation	93	102
Stock-based compensation	12	47
Public company costs	384	219
Facilities	151	136
Other	385	235
	<u>\$ 2,491</u>	<u>\$ 1,583</u>
Percent of revenue	8%	6%
Increase from comparative period	57%	

For the three months ended December 31, 2016, MG&A expenses amounted to \$2,491 or 8% of revenues as compared to \$1,583 or 6% of revenue for the same period last year. The increase in spending for the three months ended December 31, 2016 is primarily attributable to an increase in compensation and benefits as a result of higher accrued variable compensation costs.

Foreign exchange loss

The table below provides the details of the foreign exchange loss:

	Three months ended	
	December 31, 2016	December 31, 2015
Realized foreign exchange (gain) loss	\$ (15)	\$ 516
Unrealized foreign exchange loss (gain)	111	(425)
	<u>\$ 96</u>	<u>\$ 91</u>
Percent of revenue	0%	0%
Increase from comparative period	Not meaningful	

The realized foreign exchange gain is attributable to unhedged transactions denominated in currencies other than our functional currency, U.S. dollars and is a result of the change in exchange rates in effect when foreign currency denominated transactions are initially recorded and the corresponding settlement. For the three months ended December 31, 2016 we realized a gain of \$15 as compared to a loss of \$516 for the corresponding period last year. The loss last year is primarily attributable to losses on foreign exchange contracts settled during the three months ended December 31, 2015 as a result of the difference in the prescribed rates as per the contract and the foreign exchange rates in effect on the settlement date.

The unrealized foreign exchange loss recognized in the twelve months ended December 31, 2016 resulted from the translation of monetary accounts, primarily cash and cash equivalents, short-term investments, dividends, and accounts payable, denominated in Canadian dollars to U.S. dollars.

Interest income

Our recorded interest income for the three months ended December 31, 2016 was \$172 as compared to \$97 for the three months ended December 31, 2015. Interest income includes interest earned on deposits and short-term investments.

Provision for income taxes

The table below provides the details of the provision for income taxes:

	Three months ended	
	December 31, 2016	December 31, 2015
Current income tax expense	\$ 651	\$ 1,140
Deferred income tax expense (recovery)	659	(1,269)
	<u>\$ 1,310</u>	<u>\$ (129)</u>
Current income tax expense % of revenue	2%	4%

The current income tax expense for the three months ended December 31, 2016 and 2015, consisted primarily of foreign taxes withheld on royalty revenues received from licensees in foreign tax jurisdictions for which there is no treaty relief. Withholding tax expense for the three months ended December 31, 2016 was 2% of revenue as compared to 4% of revenue for the same period last year.

The increase in the deferred income tax expense as compared to the same period last year is primarily attributable to an increase in the utilization of certain previously recognized Canadian loss carryforwards as a result of higher earnings in certain of our Canadian entities.

PROPOSED TRANSACTIONS

There are no proposed transactions.

CRITICAL ACCOUNTING POLICIES, INCLUDING INITIAL ADOPTION OF POLICIES, AND CRITICAL ESTIMATES

Our management is required to make judgments, assumptions and estimates in applying our accounting policies and practices which have a significant impact on our financial results. The following outlines the accounting policies and practices involving the use of professional judgment and estimates that are critical to determining our financial results.

Revenue recognition

Our revenue consists principally of royalty revenue from licensing our own patent portfolio. We also generate royalty revenue from licensing patent portfolios on behalf of our partners. We consider revenue to be earned when we have persuasive evidence of an arrangement, the obligation has been fulfilled in accordance with the terms of the licensing agreement, including delivery and acceptance, the amounts are fixed or determinable and collection is reasonably assured. We defer recognizing revenue until such time as all criteria are met. Determination of whether or not these criteria have been met may require us to make judgments, assumptions and estimates based upon current information and historical experience.

Our royalty revenues consist of fixed fee and running royalty payments.

Royalties from running royalty arrangements can be based on either a percentage of sales or number of units sold for which we earn royalties at the time the licensees' sales occur. The licensees are obligated to provide us with quarterly or semi-annual royalty reports. Our licensees do not, however, report and pay royalties owed for sales in any given reporting period until after the conclusion of that reporting period. We currently recognize running royalty revenues based on royalties reported by the licensees during the quarter and when other revenue recognition criteria are met. We monitor the receipt of reports to ensure that there is not a disproportionate number of months of revenue in any given fiscal year.

Royalties from fixed fee royalty arrangements may consist of one or more installments of cash. The timing and amount of revenue recognized from each licensee depends upon a variety of factors, including the specific terms of each agreement and the nature of the deliverables and obligations. Where agreements include multiple elements, we assess if the deliverables have standalone value upon delivery, and if so, we account for each deliverable separately. When multiple-deliverables included in an arrangement are separated into different units of accounting, the arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. We determine the relative selling price for a deliverable based on our best estimate of selling price (“BESP”). We determine BESP by considering our overall pricing objectives and market conditions. Significant pricing practices taken into consideration include discounting practices, the size and volume of transactions, the customer demographic, the geographic area covered by licenses, price lists, licensing strategy, historical standalone licenses and contracted royalty rates. The determination of BESP is made through consultation with and approval by management, taking into consideration the licensing strategy.

Generally, as part of our partnering agreements with third-parties, we are able to recover certain out-of-pocket expenses and legal costs. These amounts are included in revenue in the period which the aforementioned revenue criteria is met and the amounts become reimbursable.

Revenue arrangements with extended payment terms, where fees are fixed in one or more installments of cash and which contain terms that could impact the amounts ultimately collected, are generally recognized as collection becomes reasonably assured.

Investment Tax Credits

At December 31, 2016, we have approximately \$5,647 (December 31, 2015 - \$5,647) of non-refundable investment tax credits carried forward, relating primarily to past R&D. These credits can be applied against future income taxes payable and are subject to a 20 year carry-forward period. Judgment is required in determining the amount of unutilized investment tax credits to record as an asset. In assessing the potential utilization of investment tax credits, we have considered whether it is more likely than not that some portion or all of the unutilized investment tax credits will be realized based upon estimates of our anticipated income tax position in future periods. We will continue to evaluate our future income tax position quarterly and record any adjustment necessary in that period.

Valuation of Deferred Income Tax Assets and Deferred Income Tax Expense/Recovery

As at December 31, 2016, we had accumulated \$19,061 of unused R&D expenditures for income tax purposes. These deductions are available without expiry to reduce future year’s taxable income. Including the unused R&D expenditures and investment tax credits noted above, we had approximately \$108,502 of temporary differences and tax losses available for carry forward. As a result, as at December 31, 2016, we have a deferred income tax asset of \$33,954 of which \$14,646 has been recorded. Judgment is required in determining the amounts of deferred income tax assets and liabilities and the related valuation allowance recorded against the net deferred income tax assets. In assessing the potential realization of deferred income tax assets, we consider all available evidence, both positive and negative. The realization of deferred tax assets is dependent on our ability to generate sufficient future taxable income during periods prior to the expiration of tax attributes to fully utilize these assets. Our forecasted future operating results are highly influenced by, among other factors, assumptions regarding (1) our ability to achieve forecasted revenue, (2) our ability to effectively manage our expenses relative to our forecasted revenue and (3) market conditions in the technology areas in which we operate. We considered both positive and negative evidence and based on revenue from existing contracts and spending managed to the revenue levels determined future taxable income will be sufficient to utilize existing tax attributes.

We assess the probability that deferred income tax assets will be recovered from future taxable income, and whether a valuation allowance is required to reflect any uncertainty at each reporting period. We will continue to evaluate our deferred income tax position quarterly and record any adjustment necessary in that period. As at December 31, 2016, we had a valuation allowance of \$19,308 (December 31, 2015 - \$17,583) primarily related to net operating losses and capital

losses in certain operating subsidiaries which we have assessed as more likely than not that these losses will not be utilized.

Patents

We have acquired patents and patent rights (hereinafter, collectively “patents”) directly or through business acquisitions. In determining the fair value of these patents, we make estimates and judgments about the future income-producing capabilities of these assets and related future cash flows. We also make estimates about the useful lives of these assets based on assessment of the legal and economic lives of the patents and potential future licensing revenues achievable from our patent portfolios. Our patent portfolios as at December 31, 2016 are being amortized on a straight-line basis over the remaining useful lives of the patents which range from approximately one to nine years. If our basis for assessing the useful lives of the intangibles and potential future licensing revenues achievable from our patent portfolio is adversely affected by future events or circumstances, we will record write-downs of patents, write-down of other intangible assets, or changes in the estimated useful lives of these assets, which would result in changes to amortization expense in the future. Such changes would not affect cash flows.

The carrying value of patents is reviewed for impairment when events or circumstances indicate that the carrying amount may not be recoverable. Impairments are determined by comparing the carrying value to the estimated undiscounted future cash flows to be generated by those assets. If this assessment indicates that the carrying value of the patents is not recoverable, the carrying value is then compared with the estimated fair value of the assets, and the carrying value is written down to the estimated fair value.

In October 2015, we commenced a restructuring of our operations and as a result undertook a review of our licensing programs to determine those which we would continue to support. We concluded that certain licensing programs would be terminated and the carrying value of the patent portfolios associated with these licensing programs were determined to be fully impaired. As a result, we recorded a non-cash, pre-tax charge against our patents of \$1,747.

At December 31, 2016, the market value of the Company was approximately \$193 million and net of cash, cash equivalents and short term investments would be \$86 million. We considered this a possible indicator of impairment and as a result, a test for impairment of our long-live assets was performed as at December 31, 2016 (the “Measurement Date”). The patents (“asset groups”) were categorized in accordance with their licensing programs. We performed the recoverability test using undiscounted cash flows of the asset groups, which were based on our internal forecasts covering the period from January 1, 2017 through December 31, 2023 and related assumptions for each of the licensing programs. Based on this analysis, we concluded that the carrying value for the asset groups did not exceed the estimated undiscounted future cash flows as at the Measurement Date and therefore the second step of the long-lived asset impairment test was not required.

Goodwill

Goodwill is subject to annual impairment tests or on a more frequent basis if events or conditions indicate that goodwill may be impaired.

As a whole, we are considered one reporting unit. We estimate the value of our reporting unit based on market capitalization and discounted estimated future cash flows. If we determine that our carrying value exceeds our fair value, we would conduct the second step of the goodwill impairment test which compares the implied fair value of the goodwill (determined as the excess fair value over the fair value assigned to our other assets and liabilities) to the carrying amount of goodwill.

We performed an impairment assessment by comparing the estimated fair value of the reporting unit, using an income based approach and market based approach, to our carrying value as at December 31, 2016. Under the income based approach, we used a discounted cash flow methodology using a discount rate determined by our management which is commensurate with the risk inherent in our current business model. Our discounted cash flow projections are based on our annual financial forecasts developed internally by management for use in managing our business. Under the market based approach, we considered our market capitalization in addition to an estimated control premium. The results of this

impairment assessment indicated that the estimated fair value of the reporting unit exceeded the carrying value, and therefore, we concluded there was no impairment of goodwill.

Estimation uncertainty

Critical accounting policies and estimates utilized in the normal course of preparing our consolidated financial statements require the determination of the best estimate of selling price, future cash flows utilized in assessing net recoverable amounts and net realizable values, determination of discount rates, amortization, allowance for bad debts, legal contingency estimate, useful lives of property, equipment and intangible assets, valuation of intangibles, valuation of debt securities, determination of indicators of impairment assessments and related impairment assessments, assumptions used in determining the fair value of stock options granted, timing of payments related to patent finance obligations and measurement of deferred taxes. In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis where required.

These estimates have been applied in a manner consistent with that in the prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in the consolidated financial statements. The estimates are impacted by many factors, some of which are highly uncertain. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on our financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances.

Critical accounting estimates are defined as estimates that are very important to the portrayal of our financial position and operating results and require management to make judgments based on underlying assumptions about future events and their effects.

These underlying assumptions are based on historical experience and other factors that we believe to be reasonable under the circumstances and are subject to change as events occur, as additional information is obtained and as the environment in which we operate changes.

Critical accounting estimates and accounting policies are reviewed annually or more often if needed, by the Audit Committee.

Recent accounting pronouncements

See Note 2, “Significant Accounting Policies”, of Notes to Audited Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption.

DISCLOSURE CONTROLS AND PROCEDURES

In compliance with National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings of the Canadian Securities Administrators, we have filed certificates signed by our Chief Executive Officer and Chief Financial Officer that, among other things, deal with the matter of disclosure controls and procedures.

Our management has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2016, and based on our evaluation has concluded that these are effective.

The evaluation took into consideration our corporate disclosure policy and the functioning of our executive officers, Board and Board Committees. In addition, our evaluation covered our processes, systems and capabilities relating to regulatory filings, public disclosures and the identification and communication of material information.

Critical accounting estimates are defined as estimates that are very important to the portrayal of our financial position and operating results and require management to make judgments based on underlying assumptions about future events and their effects.

These underlying assumptions are based on historical experience and other factors that we believe to be reasonable under the circumstances and are subject to change as events occur, as additional information is obtained and as the environment in which we operate changes.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and our Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Because of its inherent limitations, however, internal control over financial reporting may not prevent or detect misstatements on a timely basis.

Our management evaluated, under the supervision of the Chief Executive Officer and Chief Financial Officer, the effectiveness of our internal control over financial reporting as at December 31, 2016. We based our evaluation on criteria established in “Internal Control over Financial Reporting – 2013” issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and, based on that evaluation, we have concluded that, as of December 31, 2016, our internal control over financial reporting is effective.

No Attestation Report of the Registered Public Accounting Firm

Management’s report was not subject to attestation by the Company’s independent registered public accounting firm pursuant to an exemption for emerging growth companies under the U.S. Jumpstart Our Business Startups Act.

We shall continue to be deemed an emerging growth company until the earliest of:

- (a) the last day of our fiscal year during which we had total annual gross revenues of \$1,000,000,000 (as such amount is indexed for inflation every 5 years by the SEC to reflect the change in the U.S. Consumer Price Index for All Urban Consumers published by the U.S. Bureau of Labor Statistics, setting the threshold to the nearest \$1,000,000) or more;
- (b) the last day of our fiscal year following the fifth anniversary of the date of the first sale of our common equity securities pursuant to an effective IPO registration statement, which for us would be February 7, 2017;
- (c) the date on which we have, during the previous 3-year period, issued more than \$1,000,000,000 in non-convertible debt; or
- (d) the date on which we are deemed to be a large accelerated filer.

We will cease to be an emerging growth company on December 31, 2017 and as a result will no longer be exempt from section 404(b) of the U.S. Sarbanes-Oxley Act of 2002 and in particular no longer exempt from the requirement that the registered public accounting firm attest to and report on the assessment on the effectiveness of the internal control structure and procedures for financial reporting for the fiscal 2017 year.

CHANGES IN INTERNAL CONTROLS

There have been no changes in our “internal control over financial reporting” that occurred during the year ended December 31, 2016 which have materially affected or are reasonably likely to materially affect the internal control over financial reporting.

MANAGEMENT'S REPORT

The consolidated financial statements and other financial information of Wi-LAN Inc. ("WiLAN" or the "Company") included in this annual report are the responsibility of the Company's management and have been examined and approved by its Audit Committee and Board of Directors. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in the United States of America and include amounts that are based on management's best estimates using careful judgment. The selection of accounting principles and methods is management's responsibility.

To discharge its responsibility for financial reporting and the safeguarding of assets, the Company maintains internal control systems designed to provide reasonable assurances that financial information is reliable and accurate. Management recognizes its responsibility for conducting the Company's affairs to comply with the requirements of applicable laws and establishes financial standards and principles, and for maintaining proper standards of conduct in its activities.

The Board of Directors is responsible for ensuring that management fulfills its obligations related to completion of the consolidated financial statements and other financial information such as management's discussion and analysis of financial condition and results of operations ("MD&A"). The Board of Directors carries out this responsibility through its Audit Committee, which consists solely of outside directors. The Audit Committee meets at least quarterly with management and annually with the independent auditors to review the Company's reported financial performance and discuss audit, internal control, accounting policy and financial reporting matters.

PricewaterhouseCoopers LLP ("PwC") have audited the consolidated financial statements in accordance with generally accepted auditing standards. PwC are the external auditors who were appointed by the Company's shareholders.



Jim Skippen
President & CEO



Shaun McEwan, CA
CFO

INDEPENDENT AUDITOR'S REPORT**To the Shareholders of Wi-LAN Inc.**

We have audited the accompanying consolidated financial statements of WI-LAN Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2016 and 2015 and the consolidated statements of operations and comprehensive earnings, shareholders' equity and cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting principles in the United States of America and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. We were not engaged to perform an audit of the company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Wi-LAN Inc. and its subsidiaries as at December 31, 2016 and 2015 and the results of their operations and their cash flows for the years then ended in accordance with generally accepted accounting principles in the United States of America.

/s/ PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

February 10, 2017
Ottawa, Ontario, Canada

Wi-LAN Inc.

Consolidated Statements of Operations and Comprehensive Earnings

(in thousands of United States dollars, except share and per share amounts)

	Year ended December 31, 2016	Year ended December 31, 2015
Revenue	\$ 92,876	\$ 102,855
Operating expenses		
Cost of revenue	64,111	70,400
Research and development	-	2,430
Marketing, general and administration	9,794	7,462
Foreign exchange (gain) loss	(103)	2,985
Impairment of assets (Note 6)	-	1,747
Restructuring charges (Note 13)	-	1,302
Total operating expenses	73,802	86,326
Earnings from operations	19,074	16,529
Interest income	548	428
Earnings before income taxes	19,622	16,957
Provision for income tax expense (Note 3)		
Current	5,539	4,013
Deferred	3,031	2,908
	8,570	6,921
Net and comprehensive earnings	\$ 11,052	\$ 10,036
Earnings per share (Note 10(g))		
Basic	\$ 0.09	\$ 0.08
Diluted	\$ 0.09	\$ 0.08
Weighted average number of common shares		
Basic	119,245,581	120,713,535
Diluted	119,245,581	120,720,171

See accompanying notes to consolidated financial statements

Wi-LAN Inc.
Consolidated Balance Sheets
 (in thousands of United States dollars)

As at	December 31, 2016	December 31, 2015
Current assets		
Cash and cash equivalents	\$ 106,553	\$ 93,431
Short-term investments	1,154	1,120
Accounts receivable (Note 11)	20,357	8,436
Prepaid expenses and deposits	1,293	1,607
	129,357	104,594
Loan receivable (Note 4)	1,766	1,497
Property and equipment, net (Note 5)	1,240	1,614
Patents, net (Note 6)	123,351	155,213
Deferred tax asset (Note 3)	14,646	17,677
Goodwill	12,623	12,623
	\$ 282,983	\$ 293,218
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	\$ 15,645	\$ 23,205
Current portion of patent finance obligations (Note 8)	10,372	8,085
	26,017	31,290
Patent finance obligations (Note 8)	12,775	19,895
Success fee obligation (Note 9)	47	655
	38,839	51,840
<i>Commitments and contingencies (Note 12)</i>		
Shareholders' equity		
Capital stock (Note 10 (c))	419,485	427,781
Additional paid-in capital (Note 10 (d))	21,036	16,549
Accumulated other comprehensive income	16,225	16,225
Deficit	(212,602)	(219,177)
	244,144	241,378
	\$ 282,983	\$ 293,218

See accompanying notes to consolidated financial statements

On behalf of the Board:

/s/ Richard Shorkey
 Richard Shorkey
 Director

/s/ John Gillberry
 John Gillberry
 Director

Wi-LAN Inc.
Consolidated Statements of Cash Flow
 (in thousands of United States dollars)

	Year ended December 31, 2016	Year ended December 31, 2015
Cash generated from (used in)		
Operations		
Net earnings	\$ 11,052	\$ 10,036
Non-cash items		
Stock-based compensation	217	847
Depreciation and amortization	34,651	38,164
Foreign exchange (gain) loss	(247)	1,339
Loss on disposal of assets	13	15
Impairment of assets	-	1,747
Deferred income tax expense	3,031	2,908
Accrued interest income	(269)	(229)
Changes in non-cash working capital balances		
Accounts receivable	(11,921)	(6,238)
Prepaid expenses and deposits	314	(1,113)
Payments associated with success fee obligation	(3,007)	(3,736)
Accounts payable and accrued liabilities	3,008	(208)
Cash generated from operations	<u>36,842</u>	<u>43,532</u>
Financing		
Dividends paid	(4,527)	(20,082)
Common shares repurchased under normal course issuer bid	(4,225)	(329)
Common shares issued for cash on the exercise of options	11	1,269
Common shares issued for cash from Employee Share Purchase Plan	72	131
Cash used in financing	<u>(8,669)</u>	<u>(19,011)</u>
Investing		
Purchase of property and equipment	(48)	(178)
Repayment of patent finance obligations	(5,555)	(18,127)
Purchase of patents	(9,660)	(37,973)
Cash used in investing	<u>(15,263)</u>	<u>(56,278)</u>
Foreign exchange loss (gain) on cash held in foreign currency	212	(1,123)
Net increase (decrease) in cash and cash equivalents	13,122	(32,880)
Cash and cash equivalents, beginning of year	93,431	126,311
Cash and cash equivalents, end of year	<u>\$ 106,553</u>	<u>\$ 93,431</u>

See accompanying notes to consolidated financial statements

Wi-LAN Inc.
Consolidated Statements of Shareholders' Equity
 (in thousands of United States dollars)

	<u>Capital Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Deficit</u>	<u>Total Equity</u>
Balance - December 31, 2014	\$ 426,037	\$ 16,375	\$ 16,225	\$ (212,880)	\$ 245,757
Comprehensive earnings:					
Net earnings	-	-	-	10,036	10,036
Shares and options issued:					
Stock-based compensation expense (Note 10 (d))	-	847	-	-	847
Exercise of stock options (Note 10 (c))	2,056	(787)	-	-	1,269
Sale of shares under Employee Share Purchase Plan (Note 10 (c))	131	-	-	-	131
Shares repurchased under normal course issuer bid (Note 10 (c))	(443)	114	-	-	(329)
Dividends declared (Note 10 (c))	-	-	-	(16,333)	(16,333)
Balance - December 31, 2015	\$ 427,781	\$ 16,549	\$ 16,225	\$ (219,177)	\$ 241,378
Comprehensive earnings:					
Net earnings	-	-	-	11,052	11,052
Shares and options issued:					
Stock-based compensation expense (Note 10 (d))	-	217	-	-	217
Conversion of deferred stock units to common shares	116	-	-	-	116
Exercise of stock options (Note 10 (c))	17	(6)	-	-	11
Sale of shares under Employee Share Purchase Plan (Note 10 (c))	72	-	-	-	72
Shares repurchased under normal course issuer bid (Note 10 (c))	(8,501)	4,276	-	-	(4,225)
Dividends declared (Note 10 (c))	-	-	-	(4,477)	(4,477)
Balance - December 31, 2016	<u>\$ 419,485</u>	<u>\$ 21,036</u>	<u>\$ 16,225</u>	<u>\$ (212,602)</u>	<u>\$ 244,144</u>

See accompanying notes to consolidated financial statements

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(thousands of United States dollars, except share and per share amounts, unless otherwise stated)

1. NATURE OF BUSINESS

Wi-LAN Inc. (“WiLAN” or the “Company”) is an intellectual property licensing company which develops, acquires, licenses and otherwise enforces a range of patented technologies which are utilized in products in a wide array of markets including communications and consumer electronics, medical, industrial, semiconductor, automotive and aerospace. The Company generates revenue by licensing its patents to companies that sell products utilizing technologies including: Wi-Fi, WiMAX, LTE, CDMA, DSL, DOCSIS, Bluetooth, V-Chip, 3D television, automotive headlight assemblies, semiconductor manufacturing and packaging, medical stent, video streaming, CMOS image sensors, building automation, computer gaming, smart meter monitoring and LED lighting. The Company also generates revenue by licensing patent portfolios on behalf of its partners and, if necessary, the enforcement of their patented technologies.

2. SIGNIFICANT ACCOUNTING POLICIES***Basis of Presentation***

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). The consolidated financial statements of WiLAN include the accounts of WiLAN and its wholly owned subsidiaries. All inter-company transactions and balances have been eliminated in the consolidated financial statements.

The significant accounting policies are summarized below:

Estimates and Assumptions

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the years. Actual results could differ from those estimates. The significant accounting policies contained herein include estimates and assumptions with respect to best estimate of selling price, determination of discount rates, recoverability of deferred tax assets, determination of indicators of impairment assessment and related impairment assessments, initial estimate of risk of concessions, timing of payments related to patent finance obligations, and the assumptions used in determining the fair value of stock options granted.

Revenue Recognition

The Company’s revenue consists principally of royalty revenue from licensing its own patent portfolio. The Company may also generate royalty revenue from licensing patent portfolios on behalf of its partners. The Company considers revenue to be earned when it has persuasive evidence of an arrangement, the obligation has been fulfilled in accordance with the terms of the licensing agreement, including delivery and acceptance, the amounts are fixed or determinable and collection is reasonably assured. The Company defers recognizing revenue until such time as all criteria are met. Determination of whether or not these criteria have been met may require the Company to make judgments, assumptions and estimates based upon current information and historical experience.

The Company’s revenues consist of fixed fee and running royalty payments.

Revenues from running royalty arrangements can be based on either a percentage of sales or number of units sold for which the Company earns revenues at the time the licensees’ sales occur. The licensees are obligated to provide the Company with quarterly or semi-annual royalty reports and these reports are typically received subsequent to the period in which the licensees underlying sales occurred. The Company’s licensees do not, however, report and pay royalties

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(thousands of United States dollars, except share and per share amounts, unless otherwise stated)

owed for sales in any given reporting period until after the conclusion of that reporting period. As the Company is unable to estimate the licensees' sales in any given reporting period to determine the royalties due to it, the Company recognizes running royalty revenues based on royalties reported by the licensees during the quarter and when other revenue recognition criteria are met. The Company monitors the receipt of royalty reports to ensure that there is not a disproportionate number of months of revenue in any given fiscal year.

Revenues from fixed fee royalty arrangements may consist of one or more installments of cash. The timing and amount of revenue recognized from each licensee depends upon a variety of factors, including the specific terms of each agreement and the nature of the deliverables and obligations. Where agreements include multiple elements, the Company assesses if the deliverables have standalone value upon delivery, and if so, accounts for each deliverable separately. When multiple-deliverables included in an arrangement are separated into different units of accounting, the arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. WiLAN determines the relative selling price for a deliverable based on its best estimate of selling price ("BESP"). WiLAN determines BESP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include discounting practices, the size and volume of transactions, the customer demographic, the geographic area covered by licenses, price lists, licensing strategy, historical standalone licenses and contracted royalty rates. The determination of BESP is made through consultation with and approval by management, taking into consideration the licensing strategy.

As part of the partnering agreements with third parties, the Company is able to recover certain out-of-pocket expenses and legal costs. These amounts are included in revenue in the years which the aforementioned revenue criteria is met and the amounts become reimbursable.

Revenue arrangements with extended payment terms, where fees are fixed in one or more installments of cash and which contain terms that could impact the amounts ultimately collected, are generally recognized as collection becomes assured.

Stock-based Compensation

The Company has a share option plan ("Option Plan") for certain employees, directors and consultants. The Company accounts for stock options using the fair value method. Compensation expense is measured at the estimated fair value of the options at the date of grant and charged to earnings on a straight-line basis over the vesting periods. The amount expensed is credited to additional paid-in capital in the period. Upon the exercise of stock options, cash received is credited to share capital together with any amount previously credited to additional paid-in capital related to the options exercised.

Deferred Stock Units ("DSUs")

The Company has a DSU plan for certain employees and directors. The DSUs vest immediately and the Company has the right to settle the DSUs in either cash or by the issuance of common shares. The liability for outstanding units and related expense for the DSUs are adjusted to reflect the market value of the common shares at each balance sheet date.

Restricted Share Units ("RSUs")

The Company has a RSU plan for certain employees and directors. Under the RSU plan, units are settled in cash based on the market value of WiLAN's common shares on dates the RSUs vest. The RSUs vest over a three-year period. The accrued liability and related expense for the RSUs are adjusted to reflect the market value of the common shares at each balance sheet date.

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Income Taxes

The Company uses the liability method of accounting for income taxes. Deferred income tax assets and liabilities are determined based on the difference between the accounting and tax bases of the assets and liabilities and measured using the enacted tax rates that are expected to be in effect when the differences are estimated to be reversed. In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The realization of deferred income tax assets is dependent upon the generation of sufficient future taxable income during the periods prior to the expiration of the associated tax attributes.

Cost of Revenue

Cost of revenue includes patent licensing expenses, royalty obligations, staff costs (including stock-based compensation) and other costs incurred in conducting license negotiations as well as litigation, the expenses related to the management of the patent portfolio, contingent partner payments and legal fees and amortization expense related to acquired patents, which are expensed as incurred.

Research and Development (“R&D”)

R&D includes engineering expenses, staff costs (including stock-based compensation) and certain external consultants related to the development efforts, which were expensed as incurred.

Computation of Earnings (Loss) Per Share

Basic earnings/loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings/loss per share is computed using the treasury stock method.

Foreign Currency Translation

The Company’s functional currency is the U.S. dollar; monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates prevailing at the balance sheet date. Revenue and expenses are translated at the average rate for the period. The gains and losses from foreign currency denominated transactions are included in foreign exchange gain/loss in the consolidated statement of operations and comprehensive earnings.

The Company enters into foreign exchange forward contracts, from time to time, to manage its exposure to currency rate fluctuations related primarily to future cash inflows and outflows of Canadian dollars. The Company does not hold or issue derivative financial instruments for trading or speculative purposes and it has chosen not to designate them as hedges. Therefore these contracts must be fair valued each quarter. The resulting gain or loss on the valuation of these financial instruments is included in foreign exchange gain/loss in the consolidated statement of operations and comprehensive earnings.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash in bank accounts, term deposits and Guaranteed Investment Certificates (“GICs”) with original maturities of three months or less at the date of the investment.

Short-term Investments

Short-term investments are designated as “held to maturity” and accounted for at amortized cost using the effective interest rate method. Short-term investments comprise GICs with original maturities of one-year or less at the date of investment and their carrying value approximates their fair value.

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Loan Receivable

The loan receivable is accounted for at amortized cost using the effective interest rate method.

Property and Equipment

Furniture and equipment is carried at cost less accumulated depreciation. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	term of the lease
Computer equipment and software	3 years
Furniture and equipment	5 years

Patents

Patents include patents and patent rights (hereinafter, collectively "patents") and are carried at cost less accumulated amortization. Amortization is calculated on the straight-line basis over the estimated useful life or the remaining term of the patent (up to 20 years), whichever is less.

Impairment of long-lived assets

The Company reviews long-lived assets ("LLA") such as property and equipment and patent asset groups for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset or asset group may not be recoverable. These events and circumstances may include significant decreases in the market price of an asset or asset group, significant changes in the extent or manner in which an asset or asset group is being used by the Company or in its physical condition, a significant change in legal factors or in the business climate, a history or forecast of future operating or cash flow losses, significant disposal activity, a significant decline in the Company's share price, a significant decline in revenues or adverse changes in the economic environment.

When significant indicators of impairment exist, LLA impairment is tested using a two-step process. The Company performs a cash flow recoverability test as the first step, which involves comparing the estimated undiscounted future cash flows for the asset group to the carrying amount of the asset group. If the net cash flows of the asset group exceed its carrying amount, the asset group is not considered to be impaired. If the carrying amount of the asset group exceeds the net cash flows, there is an indication of potential impairment and the second step of the LLA impairment test is performed to measure the impairment amount. The second step involves determining the fair value of the asset group. Fair value is determined using valuation techniques that are in accordance with U.S. GAAP, including the market approach, income approach and cost approach. If the carrying amount of the asset group exceeds its fair value, then the excess represents the maximum amount of potential impairment that will be allocated to the asset group, with the limitation that the carrying value of each asset cannot be reduced to a value lower than that of its fair value. The total impairment amount allocated is recognized as a non-cash impairment loss.

Goodwill

Goodwill is recorded as at the date of the business combination and represents the excess of the purchase price of acquired businesses over the fair value assigned to identifiable assets acquired and liabilities assumed. Goodwill is not amortized, but is tested for impairment at year end or more frequently if events or changes in circumstances indicate the asset might be impaired.

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The impairment test is carried out in two steps. In the first step, the carrying value of the reporting unit including goodwill is compared with its fair value. When the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not to be impaired and the second step is unnecessary. The Company has one reporting unit.

In the event the fair value of the reporting unit, including goodwill, is less than the carrying value, the implied fair value of the reporting unit's goodwill is compared with its carrying value to measure the amount of any impairment loss. When the carrying value of goodwill in the reporting unit exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

Patent Finance Obligations

Patent finance obligations have maturities beyond one year. Patent finance obligations, at inception, are recorded at their fair value using an estimated risk-adjusted discount rate and the carrying value is at amortized cost using the effective interest rate method.

Business Segment Information

The Company has one operating segment and one reportable segment; Intellectual Property. The Company generates the majority of its revenues in U.S. dollars from several geographic regions; however it has allocated its revenues to the location in which the license originated. Substantially all licenses and revenue are attributable to Canada, as are long-lived assets.

Future accounting pronouncements

In May 2014, the Financial Accounting Standards Board issued ASU 2014-9, "Revenue from Contracts with Customers". The amendments in this Update create Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts, and create new Subtopic 340-40, Other Assets and Deferred Costs-Contracts with Customers. In August 2015, the Financial Accounting Standards Board issued ASU No. 2015-14, "Revenue from Contracts with Customers" which reflects decisions reached by the Financial Accounting Standards Board at its meeting earlier in the year to defer the effective date to fiscal years beginning after December 15, 2017, with early adoption permitted.

Under this new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has issued several amendments to the standard, including clarification on accounting for licenses of intellectual property and identifying performance obligations.

This new standard specifically outlines that patents, underlying highly functional items, are considered functional IP. Licenses to functional IP are considered satisfied at a point in time and any resulting revenue is recognized at that point in time. The standard further indicates that "in very rare circumstances, if at all" can licenses to functional IP be recognized over time.

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The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company currently anticipates adopting the standard using the full retrospective method to restate each prior reporting period presented effective beginning January 1, 2018.

License agreements can generally be classified as either: (1) running royalty agreements in which licensees provide reports on their sales activities for the previous fiscal quarter, and calculate and remit the appropriate royalty; or (2) fixed fee arrangements with either a one-time lump sum payment or periodic payments that may be over a period shorter than or equal to the license term.

The Company anticipates this standard will have a material impact on its consolidated financial statements. While the Company is continuing to assess all potential impacts of the standard, it currently believes the most significant impact relates to its accounting for fixed fee arrangement license agreements for functional IP that contain periodic payments that may be over a period shorter than or equal to the license term. The Company expects to recognize license revenue at a point in time, when the right to use the functional IP is granted which coincides with contract execution and the time of billing, rather than over the period of periodic payments. Due to the complexity of certain of these license agreements, the actual revenue recognition treatment required under the standard will be dependent on contract-specific terms, and may vary in some instances from recognition at the time of billing. The Company is also further evaluating the income tax impact of these changes in revenue recognition.

In November 2015, the Financial Accounting Standards Board issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes". The amendments in this update eliminate the current requirement for companies to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. Instead, companies will be required to classify all deferred tax liabilities and assets as non-current. The guidance is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. The guidance will not have an impact on the Company's financial statements since deferred income taxes are already presented as long-term on the balance sheet.

In February 2016, the Financial Accounting Standards Board issued ASU 2016-2, "Leases". The amendments in this update would require companies and other organizations to include lease obligations in their balance sheets, including a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use ("ROU") asset and a corresponding lease liability. For finance leases the lessee would recognize interest expense and amortization of the ROU asset, and for operating leases, the lessee would recognize a straight-line total lease expense. The guidance is effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently assessing the impact of this new standard.

In March 2016, the Financial Accounting Standards Board issued ASU 2016-09, "Improvements to Employee Share-Based Payments Accounting". The amendments in this update address the simplification of several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for interim and annual periods beginning after December 15, 2016. The Company is currently assessing the impact of this new standard.

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In August 2016, Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update 2016-15, “Statement of Cash Flows (Topic 230)”, a consensus of the FASB’s Emerging Issues Task Force. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. For public business entities, the standard is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. The Company is currently assessing the impact of this new standard.

3. TAXES

The reconciliation of the expected provision for income tax expense to the actual provision for income tax expense reported in the consolidated statements of operations and comprehensive earnings for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
Earnings before income taxes	\$ 19,622	\$ 16,957
Expected income tax expense at Canadian statutory income tax rate of 26.5% (2015 - 26.5%)	5,200	4,494
Permanent differences	398	(800)
Effect of change in tax rates	-	154
Foreign withholding taxes paid	1,089	496
Foreign rate differential	158	(683)
Increase in valuation allowance	1,725	3,260
Provision for income tax expense	<u>\$ 8,570</u>	<u>\$ 6,921</u>

During the years ended December 31, 2016 and 2015, the reported earnings before income taxes includes foreign earnings of \$542 and losses of \$8,299, respectively.

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The significant components of the Company's deferred income tax assets and liabilities as at December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Tax loss carryforwards	\$ 24,096	\$ 26,155
Scientific research and experimental development ("SR&ED") carryforwards	5,051	5,051
Investment tax credits	4,151	4,151
Accounts payable and accrued liabilities	489	1,291
Difference between tax and book value of patent finance obligations	(153)	(343)
Difference between tax and book value of capital and intangible assets	306	(1,072)
Difference between tax and book value of loan receivable	14	27
Total future income tax asset	<u>33,954</u>	<u>35,260</u>
Valuation allowance	<u>(19,308)</u>	<u>(17,583)</u>
Net future income tax asset	<u>\$ 14,646</u>	<u>\$ 17,677</u>

Management has assigned probabilities to the Company's expected future taxable income based on significant risk factors, sensitivity analysis and timing of non-capital tax losses. The amount of the deferred income tax asset considered realizable could change materially in the near term, based on future taxable income during the carryforward period. The valuation allowance consists of \$9,655 in Canada and \$9,653 in the US.

As at December 31, 2016, the Company had unused non-capital tax losses of approximately \$71,999 (2015 - \$77,647) that are due to expire as follows:

	<u>SR&ED Expenditure Pool</u>	<u>Canadian Tax Losses</u>	<u>United States Tax Losses</u>	<u>Consolidated Tax Losses</u>
2030	\$ -	\$ 1,146	\$ -	\$ 1,146
2031	-	2,442	601	3,043
2032	-	4,458	2,084	6,542
2033	-	26,703	4,807	31,510
2034	-	4,276	7,629	11,905
2035	-	1,889	4,154	6,043
2036	-	11,810	-	11,810
Indefinite	19,061	-	-	-
	<u>\$ 19,061</u>	<u>\$ 52,724</u>	<u>\$ 19,275</u>	<u>\$ 71,999</u>

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The Company also has investment tax credits of \$5,647, that expire in various amounts from 2017 to 2032 and \$22,068 of capital losses carried forward with no expiry date. Investment tax credits, which are earned as a result of qualifying SR&ED expenditures, are recognized and applied to reduce income tax expense in the year in which the expenditures are made and their realization is reasonably assured.

The Company had no uncertain income tax positions for the years ended December 31, 2016 and 2015.

The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax provision. In the years ended December 31, 2016 and 2015, there were no interest or penalties included in the income tax provision.

The Company files Canadian and U.S. federal and state income tax returns. The Company is subject to examination by the tax authorities for the tax years ended 2010 through 2015.

4. LOAN RECEIVABLE

On October 19, 2012 (the "Closing Date"), the Company advanced a term loan facility in the amount of \$1,000 to Montebello Technologies LLC (the "Borrower"). The loan bears interest at 15% per annum, compounded annually with a maturity date of October 18, 2017 at which time the outstanding principal and accrued interest is to be fully repaid. The term loan facility is collateralized by a general security agreement.

In accordance with the terms and conditions of the loan agreement the use of the funds is solely and exclusively for the purchase and monetization of patents and for the period commencing on the Closing Date to and including the tenth anniversary of the Closing Date, the Company will be entitled to receive (a) 15% of the first \$10 million in gross revenue and (b) 10% of all gross revenue over the first \$10 million realized by the Borrower from any patents acquired utilizing the term loan facility.

To estimate the fair value, at inception, the Company considered the estimated future cash flow projections using an effective interest rate of 18%.

The carrying value of the term loan facility is as follows:

	As at December 31,	As at December 31,
	2016	2015
15% Term loan facility	\$ 1,000	\$ 1,000
Unamortized discount	(36)	(70)
Accrued interest	802	567
Net carrying amount	\$ 1,766	\$ 1,497

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5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value
As at December 31, 2016			
Leasehold improvements	\$ 1,373	\$ 461	\$ 912
Computer equipment and software	2,102	1,882	220
Furniture and equipment	496	388	108
	<u>\$ 3,971</u>	<u>\$ 2,731</u>	<u>\$ 1,240</u>
As at December 31, 2015			
Leasehold improvements	\$ 1,373	\$ 322	\$ 1,051
Computer equipment and software	2,092	1,843	249
Furniture and equipment	872	558	314
	<u>\$ 4,337</u>	<u>\$ 2,723</u>	<u>\$ 1,614</u>

The Company purchased property and equipment totaling \$48 during 2016 (2015 - \$178). During 2016, the Company disposed of property and equipment with a cost and accumulated amortization totaling \$414 and \$401, respectively for no proceeds resulting in a loss on disposal of \$13.

6. PATENTS

	Cost	Accumulated Amortization	Net Book Value
As at December 31, 2016			
Patents	\$ 345,603	\$ 222,252	\$ 123,351
As at December 31, 2015			
Patents	\$ 357,059	\$ 201,846	\$ 155,213

The Company purchased patents totaling \$1,660 during 2016 (2015 - \$46,973) and recorded amortization expense of \$33,521 (2015 - \$36,498). As at December 31, 2016, the estimated remaining economic useful lives of the patents range from one to thirteen years.

In October 2015, the Company commenced a restructuring of its operations (see Note 13) and as a result undertook a review of its licensing programs to determine those which it would continue to support. The Company concluded that certain licensing programs would be terminated and the carrying value of the patent portfolios associated with these licensing programs were determined to be fully impaired. As a result, the Company recorded a non-cash, pre-tax charge against its patents of \$1,747.

The Company's market valuation at December 31, 2016 net of its cash position was below the carrying value of its assets. Management deemed this to be an indicator of impairment and therefore a test for impairment of its long-lived assets was performed as at December 31, 2016 (the "Measurement Date"). The patents ("asset groups") were categorized

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in accordance with their licensing programs. The Company performed the recoverability test using undiscounted cash flows of the asset groups based on the Company's internal forecast for the period from January 1, 2017 through to December 31, 2023, and assumptions for each of the licensing programs. Based on this analysis, the Company concluded that the carrying value for the asset groups is recoverable, as the amount did not exceed the estimated undiscounted future cash flows as at the Measurement Date and therefore the second step of long-lived asset test impairment was not required.

The estimated future amortization expense of patents as at December 31, 2016 is as follows:

Year ending December 31:	Amount
2017	\$ 20,874
2018	17,941
2019	16,354
2020	15,302
2021	14,566
	\$ 85,037

7. GOODWILL

The Company performed its annual impairment assessment as at December 31, 2016 by comparing the estimated fair value of the reporting unit, using an income based approach and market based approach, to its carrying value as at December 31, 2016. Under the income based approach, the Company used a discounted cash flow methodology. Under the market based approach, the Company considered its market capitalization in addition to an estimated control premium. The results of this impairment assessment indicated that the estimated fair value of the reporting unit exceeded its carrying amount, therefore, the Company concluded there was no impairment of goodwill.

8. PATENT FINANCE OBLIGATIONS

On June 18, 2014, the Company acquired the right to license certain patents, the consideration for which is to be fully paid on or before June 18, 2023; however, the timing of the payments is subject to the Company entering into certain future license agreements with third-parties. The Company has set up the liability based on its expected payment schedule using a discount rate of 6.0%. The discount rate is an estimate of a risk-adjusted rate giving consideration to rates for revolving debt with no fixed payments.

As at December 31, 2016, the current and long-term portions of this obligation are \$5,129 and \$8,685, respectively.

On September 13, 2014, the Company acquired certain patents and entered into a licensing agreement with the same counter-party. The obligation was based on the quarterly payment stream of \$1,389 using a discount rate of 4.5%. The discount rate is an estimate of a risk-adjusted rate giving consideration to rates for secured term debt with fixed payments over a five year term.

As at December 31, 2016, the current and long-term portions of this obligation are \$5,243 and \$4,090, respectively.

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The current and long-term portions of these obligations are reflected as follows:

	Gross	Unamortized Discount	Net Carrying Amount
As at December 31, 2016			
Patent rights finance obligation, due June 18, 2023	\$ 14,000	\$ (185)	\$ 13,815
Patent finance obligation, due August 18, 2018	9,722	(390)	9,332
	<u>23,722</u>	<u>(575)</u>	<u>23,147</u>
Current portion			<u>(10,372)</u>
			<u>\$ 12,775</u>
As at December 31, 2015			
Patent rights finance obligation, due June 18, 2023	\$ 14,000	\$ (364)	\$ 13,636
Patent finance obligation, due August 18, 2018	15,277	(933)	14,344
	<u>29,277</u>	<u>(1,297)</u>	<u>27,980</u>
Current portion			<u>(8,085)</u>
			<u>\$ 19,895</u>

Payments are expected to be as follows:

2017	10,556
2018	11,166
2019	2,000
	<u>\$ 23,722</u>

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9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at December 31, 2016	As at December 31, 2015
Trade payables	\$ 913	\$ 1,318
Accrued compensation	6,099	3,146
Accrued litigation costs	151	2,363
Dividends	1,102	1,091
Success fee obligation - current portion	585	2,983
Accrued contingent partner payments & legal fees	4,077	1,140
Patent acquisition liability	1,000	9,000
Accrued other	1,718	2,164
	<u>\$ 15,645</u>	<u>\$ 23,205</u>

The success fee obligation is pursuant to the Company's engagement with a law firm, for which the firm is entitled to a percentage of proceeds actually received from certain license agreements signed by the Company related to certain litigation matters concluded in 2011 in which the firm was representing the Company. Should the Company collect these amounts as contemplated in the agreements, the firm will be entitled to the entire success fee of \$27,986. During the year ended December 31, 2011, the Company accrued the full, undiscounted amount of the success fee obligation.

The current and long term portion of this liability is reflected as follows:

	As at December 31, 2016	As at December 31, 2015
Success fee obligation	\$ 632	\$ 3,638
Current portion	(585)	(2,983)
	<u>\$ 47</u>	<u>\$ 655</u>

10. SHARE CAPITAL
a) Authorized

Unlimited number of common shares.

6,350.9 special preferred, redeemable, retractable, non-voting shares.

An unlimited number of preferred shares, issuable in series.

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b) Issued and Outstanding

The issued and outstanding common shares of WiLAN, along with equity instruments convertible into common shares, are as follows:

	As at December 31, 2016	As at December 31, 2015
Common shares	118,572,181	120,842,448
Securities convertible into common shares		
Stock options	5,985,454	8,071,056
Deferred stock units (DSUs)	197,367	260,398
	<u>124,755,002</u>	<u>129,173,902</u>

As at December 31, 2016, no preferred shares or special preferred shares were issued or outstanding.

c) Common Shares

	Number	Amount
December 31, 2014	120,247,647	\$ 426,037
Issued on exercise of stock options	625,201	1,269
Transfer from additional paid-in capital on exercise of options	-	787
Issued on sale of shares under Employee Share Purchase Plan	94,600	131
Repurchased under normal course issuer bid	(125,000)	(443)
December 31, 2015	<u>120,842,448</u>	<u>\$ 427,781</u>
Issued on exercise of stock options	4,333	11
Transfer from additional paid-in capital on exercise of options	-	6
Issued on sale of shares under Employee Share Purchase Plan	70,600	72
Conversion of deferred stock units to common shares	53,300	116
Repurchased under normal course issuer bid	(2,398,500)	(8,501)
December 31, 2016	<u>118,572,181</u>	<u>\$ 419,485</u>

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The Company paid quarterly cash dividends as follows:

	2016		2015	
	Per Share	Total	Per Share	Total
1st Quarter	Cdn\$ 0.0125	US \$ 1,091	Cdn \$ 0.0500	US \$ 5,183
2nd Quarter	0.0125	1,151	0.0525	5,005
3rd Quarter	0.0125	1,153	0.0525	5,077
4th Quarter	0.0125	1,132	0.0525	4,817
	Cdn\$ 0.0500	US \$ 4,527	Cdn \$ 0.2075	US \$ 20,082

The Company declared quarterly dividends as follows:

	2016	2015
1st Quarter	Cdn \$ 0.0125	Cdn \$ 0.0525
2nd Quarter	0.0125	0.0525
3rd Quarter	0.0125	0.0525
4th Quarter	0.0125	0.0125

On February 10, 2016, the Company received regulatory approval to make a normal course issuer bid (“2016 NCIB”) through the facilities of the Toronto Stock Exchange. Under the 2016 NCIB, the Company is permitted to purchase up to 11,762,446 common shares. The NCIB commenced on February 12, 2016 and will expire on February 11, 2017. The Company repurchased 2,398,500 common shares under the NCIB during the year ended December 31, 2016 for a total cost of \$4,225.

On May 27, 2014, the Company received regulatory approval to make a normal course issuer bid (the “2014 NCIB”) through the facilities of the Toronto Stock Exchange. Under the 2014 NCIB, the Company was permitted to purchase up to 11,676,510 common shares. The 2014 NCIB commenced on May 29, 2014 and was completed on May 28, 2015. The Company repurchased 125,000 common shares under the 2014 NCIB during the twelve months ended December 31, 2015 for a total of \$329.

The Company records share repurchases as a reduction to shareholders’ equity. A portion of the purchase price of the repurchased shares is recorded as a decrease to additional paid-in capital when the price of the shares repurchased exceeds the average original price per share received from the issuance of Common Stock or an increase to additional paid-in capital when the prices of the shares repurchased is less than the average original price per share received from the issuance of Common Stock. During the year ended December 31, 2016, the cumulative price of the shares repurchased was less than the proceeds received from the issuance of the same number of shares. For the year ended December 31, 2016, \$4,276 was recorded as an increase to additional paid-in capital. During the year ended December 31, 2015, the cumulative price of the shares repurchased was less than the proceeds received from the issuance of the same number of shares. For the year ended December 31, 2015, \$114 was recorded as an increase to additional paid-in capital.

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

(thousands of United States dollars, except share and per share amounts, unless otherwise stated)

d) Stock Options

WiLAN has an Option Plan, a DSU plan, an Employee Stock Purchase Plan, and a RSU plan for its directors, employees and consultants. The current RSU plan calls for settlement only in cash. The Option Plan, the DSU plan and the Employee Stock Purchase Plan are considered “security based compensation arrangements” for the purposes of the TSX. The Company is authorized to issue up to an aggregate of 10% of its outstanding common shares under these “security based compensation arrangements”, with the common shares authorized for issuance under the DSU plan limited to 430,000 and under the Employee Purchase Plan limited to 800,000. The options vest at various times ranging from immediate vesting on grant to vesting over a three to four year period. Options generally have a six-year life.

Option activity for the years ended December 31, 2016 and 2015 was as follows:

	Options Outstanding			Weighted Average Exercise Price (Cdn)	Exercisable Options	
	Number of Options	Price Range (Cdn)			Number	Weighted Average Exercise Price (Cdn)
December 31, 2014	9,465,372	\$ 1.42	\$ 7.09	\$ 4.63	6,760,992	\$ 4.83
Granted	-	-	-	-		
Exercised	(625,201)	2.53	2.53	2.53		
Forfeited	(769,115)	2.53	5.52	3.97		
December 31, 2015	8,071,056	\$ 1.42	\$ 7.09	\$ 4.86	7,062,972	\$ 4.97
Granted	256,477	2.84	3.32	2.86		
Exercised	(4,333)	3.12	3.33	3.28		
Forfeited	(86,999)	3.49	4.37	3.84		
Expired	(2,250,747)	3.40	7.09	4.85		
December 31, 2016	5,985,454	\$ 2.84	\$ 5.66	\$ 4.78	5,617,312	\$ 4.89

The Company uses the Black-Scholes model for estimating the fair value of options granted, with the following weighted average assumptions for the options granted in 2015:

	2016	2015
Risk free interest rate	0.9%	NA
Volatility	49%	NA
Expected option life (in years)	5.6	NA
Dividend yield	3.2%	NA
Forfeiture rate	14.5%	NA

The weighted average fair value per option granted during the year ended December 31, 2016 was CDN \$0.98 (2015 – NA)

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The intrinsic value of options exercised was CDN \$2 for the year ended December 31, 2016 (2015 – CDN \$488). Intrinsic value is the total value of exercised options based on the price of the Company’s common shares at the time of the exercise less the proceeds received from the employees to exercise the options.

The intrinsic value of the exercisable options was Nil as at December 31, 2016 (2015 – Nil).

The total fair value of options vested was CDN \$956 for the year ended December 31, 2016 (2015 – CDN \$1,634).

As at December 31, 2016, there was CDN \$154 of total unrecognized stock-based compensation cost, net of expected forfeitures, related to unvested stock-based compensation arrangements granted under the stock option plan. This cost is expected to be recognized over a weighted average period of 2.17 years.

Details of the outstanding options at December 31, 2016 are as follows:

Range of Exercise Prices (Cdn)	Outstanding Options at December 31, 2016	Remaining Term of Options in Years	Weighted Average Exercise Price (Cdn)	Exercisable Options at December 31, 2016	Weighted Average Exercise Price (Cdn)
\$ 2.84 \$ 3.00	246,477	5.58	\$ 2.84	-	\$ -
3.01 4.00	757,167	2.93	3.43	660,502	3.44
4.01 5.00	1,500,800	2.19	4.45	1,475,800	4.46
5.01 6.00	3,481,010	0.60	5.36	3,481,010	5.36
<u>\$ 2.84 \$ 6.00</u>	<u>5,985,454</u>	<u>1.50</u>	<u>\$ 4.78</u>	<u>5,617,312</u>	<u>\$ 4.89</u>

Stock-based compensation expense for the year ended December 31, 2016 was \$217 (2015 - \$847). The following provides a summary of the stock-based compensation expense for the years ended December 31, 2016 and 2015:

	2016	2015
Cost of revenue	\$ 174	\$ 460
Research and development	-	81
Marketing, general and administration	43	306
	<u>\$ 217</u>	<u>\$ 847</u>

e) Deferred Stock Units

The Company has a Deferred Stock Unit (“DSU”) plan as a tool to assist in the retention of selected employees and directors and to help conserve the Company’s cash position. Under the DSU plan, DSUs may be awarded and will become due when the conditions of retention have been met and employment terminated or completed. The value of each DSU is determined in reference to the Company’s common share price, and the DSU value is payable in either cash or shares at the Company’s option.

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	<u>Number</u>
December 31, 2014	244,526
Issued in lieu of quarterly fees	5,000
Issued in lieu of dividends paid	10,872
Settled for cash	-
Settled for common shares	-
December 31, 2015	260,398
Issued in lieu of quarterly fees	21,936
Issued in lieu of dividends paid	14,690
Settled for cash	(46,357)
Settled for common shares	(53,300)
December 31, 2016	<u>197,367</u>

The liability recorded in respect of the outstanding DSUs was \$322 as at December 31, 2016 (2015 - \$367). The change in the liability is recorded as compensation expense.

f) Restricted Share Units

The Company implemented a Restricted Share Unit ("RSU") plan for certain employees and directors in January 2007. Under the RSU plan, units are settled in cash based on the market value of WiLAN's common shares on the dates when the RSUs vest. The accrued liability and related expense for the RSUs are adjusted to reflect the market value of the common shares at each balance sheet date. The liability recorded in respect of the vested RSUs was \$1,348 as at December 31, 2016 (2015 - \$684). The change in the liability is recorded as compensation expense.

RSU activity for the years ended December 31, 2016 and 2015 was as follows:

	<u>Number</u>
December 31, 2014	1,294,278
Granted	1,101,021
Settled	(103,155)
Forfeited	(783,112)
December 31, 2015	1,509,032
Granted	2,477,861
Settled	(1,148,892)
Forfeited	(125,491)
December 31, 2016	<u>2,712,510</u>

During the year ended December 31, 2016, 125,491 RSUs (2015 – 783,112) were forfeited as they related to former employees.

 Wi-LAN Inc.

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g) Per Share Amounts

The weighted average number of common shares outstanding used in the basic and diluted earnings per share (“EPS”) computation was:

	<u>2016</u>	<u>2015</u>
Basic weighted average common shares outstanding	119,245,581	120,713,535
Effect of options	-	6,636
Diluted weighted average common shares outstanding	<u>119,245,581</u>	<u>120,720,171</u>

The effect of options totaling 5,985,454 for fiscal 2016 (fiscal 2015 – 8,071,056), were anti-dilutive.

11. FINANCIAL INSTRUMENTS

The Company is exposed to a number of risks related to changes in foreign currency exchange rates, interest rates, collection of accounts receivable and loan receivable, settlement of liabilities and management of cash and cash equivalents.

Fair Value

The Company uses various valuation techniques and assumptions when measuring fair value of its assets and liabilities. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. The accounting standard establishes a hierarchy that prioritizes fair value measurements based on the types of input used for the various valuation techniques (market approach, income approach and cost approach). The levels of the hierarchy are described below:

Level 1 Inputs — Level 1 includes financial instruments for which quoted market prices for identical instruments are available in active markets.

Level 2 Inputs — Level 2 includes financial instruments for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets with insufficient volume or infrequent transactions (less active markets) or model-driven valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data, including market interest rate curves, referenced credit spreads and prepayment rates.

Level 3 Inputs — Level 3 includes financial instruments for which fair value is derived from valuation techniques including pricing models and discounted cash flow models in which one or more significant inputs are unobservable, including the company’s own assumptions. The pricing models incorporate transaction details such as contractual terms, maturity and, in certain instances, timing and amount of future cash flows, as well as assumptions related to liquidity and credit valuation adjustments of marketplace participants.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalent, and short-term investments: The carrying amount approximates fair value because of the short maturity of those instruments.

Wi-LAN Inc.

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Loan receivable: The fair value is estimated based on currently available market interest rates for instruments with similar terms.

Patent finance obligations: The fair values are estimated based on the quoted market prices for those or similar instruments or on the current rates offered to the Company for debt of similar terms.

	Hierarchy Level	As at December 31, 2016		As at December 31, 2015	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	1	\$ 106,553	\$ 106,553	\$ 93,431	\$ 93,431
Short-term investments	1	1,154	1,154	1,120	1,120
Loan receivable	2	1,766	1,766	1,497	1,497
Patent finance obligations	3	23,146	23,146	27,980	27,980

The estimated fair values of the Company's financial instruments are as follows:

Credit risk

Credit risk is the risk of financial loss to the Company if a licensee or counter-party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable, loan receivable, and foreign exchange forward contracts.

The Company's cash and cash equivalents, and short-term investments consist primarily of deposit investments that are held only with Canadian chartered banks. Management does not expect any counter-parties to fail to meet their obligations.

The Company's loan receivable is a term loan facility which is collateralized by a general security agreement. Management does not expect the borrower to fail to meet its obligations.

The Company's exposure to credit risk with its accounts receivable from licensees is influenced mainly by the individual characteristics of each licensee. The Company's licensees are for the most part, manufacturers and distributors of telecommunications and consumer electronics products primarily located in the United States, Canada, Taiwan, Korea, Japan, Hong Kong and China. Credit risk from accounts receivable encompasses the default risk of the Company's licensees. Prior to entering into licensing agreements with new licensees the Company assesses the risk of default associated with the particular company. In addition, on an ongoing basis, management monitors the level of accounts receivable attributable to each licensee and the length of time taken for amounts to be settled and where necessary, takes appropriate action to follow up on those balances considered overdue. The Company has had no significant bad debts for any periods presented.

Three licensees individually accounted for 18%, 14% and 11%, respectively of revenues for the year ended December 31, 2016 (for the year ended December 31, 2015 – three licensees individually accounted for 16%, 12 and 10%, respectively). Management does not believe that there is significant credit risk arising from any of the Company's licensees for which revenue has been recognized. However, should one of the Company's major licensees be unable to

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settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts receivable is equal to their total carrying amounts. At December 31, 2016, two licensees individually accounted for 80%, and 16% of total accounts receivable (December 31, 2015 – three licensees individually accounted for 47%, 15%, and 10% of total accounts receivable).

Financial assets past due

The following table provides information regarding the aging and collectability of the Company's accounts receivable balances as at December 31, 2016:

Current	\$	20,311
Past due 1 - 30 days		19
Past due 31 - 60 days		7
Past due 61 - 90 days		-
Over 91 days past due		158
Less allowance for doubtful accounts		(138)
	<u>\$</u>	<u>20,357</u>

The definition of items that are past due is determined by reference to terms agreed with individual licensees. As at January 31, 2017, Nil of past due amounts have been collected. None of the amounts outstanding have been challenged by the respective licensees and the Company continues to conduct business with them on an ongoing basis. Accordingly, management has no reason to believe that this balance is not fully collectable in the future.

The Company reviews financial assets past due on an ongoing basis with the objective of identifying potential matters which could delay the collection of funds at an early stage. Once items are identified as being past due, contact is made with the respective company to determine the reason for the delay in payment and to establish an agreement to rectify the breach of contractual terms. At December 31, 2016, the Company had a provision for doubtful accounts of \$138 (2015 - \$11) which was made against accounts receivable where collection efforts to date have been unsuccessful.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due.

At December 31, 2016, the Company had cash and cash equivalents and short-term investments of \$107,707, a credit facility of CDN\$8,000 and accounts receivable of \$20,357 available to meet its obligations.

The Company has a revolving credit facility available in the amount of CDN\$8,000 or the equivalent in U.S. dollars for general corporate purposes and a further CDN\$2,000 for foreign exchange facility. Canadian dollar or U.S. dollar amounts advanced under this credit facility are payable on demand and bear interest at the bank's Canadian prime rate plus 1.0% per annum or U.S. base rate plus 1.0% per annum. Borrowings under this facility are collateralized by a general security agreement over our cash and cash equivalents, accounts receivable and present and future personal property. As at and during the twelve months ended December 31, 2016, the Company had no borrowings under this facility.

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Market risk

Market risk is the risk to the Company that the fair value of future cash flows from its financial instruments will fluctuate due to changes in interest rates and foreign currency exchange rates. Market risk arises as a result of the Company generating revenues in foreign currencies.

Interest rate risk

The only financial instruments that expose the Company to interest rate risk are its cash and cash equivalents and short-term investments. The Company's objectives of managing its cash and cash equivalents and short-term investments are to ensure sufficient funds are maintained on hand at all times to meet day to day requirements and to place any amounts which are considered in excess of day to day requirements on short-term deposit with the Company's banks so that they earn interest. When placing amounts of cash and cash equivalents into short-term investments, the Company only places investments with Canadian chartered banks and ensures that access to the amounts placed can be obtained on short-notice. A one percent increase/decrease in interest rates could have resulted in an approximate increase/decrease to interest income of \$1,077.

Currency risk

A portion of WiLAN's revenues and operating expenses are denominated in Canadian dollars. Because the Company reports its results of operations in US dollars, WiLAN's operating results are subject to changes in the exchange rate of the Canadian dollar relative to the US dollar. Any decrease in the value of the Canadian dollar relative to the US dollar has an unfavourable impact on Canadian dollar denominated revenues and a favourable impact on Canadian dollar denominated operating expenses. Approximately 5% of the Company's cash and cash equivalents and short term investments are denominated in Canadian dollars and are subject to changes in the exchange rate of the Canadian dollar relative to the US dollar.

For the year ended December 31, 2016, the Company had revenues and expenses denominated in Canadian dollars of approximately Nil and \$14,019 (2015 – Nil and \$17,912), respectively. Fluctuations in foreign currency rates between the U.S. and Canadian dollars could impact the net exposure approximating \$14,019 (2015 - \$17,912) and adversely affect net earnings of the Company.

At December 31, 2016, the Company had Canadian dollar denominated cash and cash equivalents and short-term investments, and accounts receivable balances of approximately \$5,235 and Nil (2015 - \$5,394 and \$3), respectively, offset by accounts payable and accrued liabilities totaling approximately \$9,108 (2015 - \$5,047). Fluctuations in foreign currency rates between the U.S. and Canadian dollars could impact the net exposure approximating \$3,873 (2015 - \$349) and adversely affect net earnings of the Company.

A ten cent increase/decrease in foreign currency rates between the U.S. and Canadian dollars could have resulted in an approximate increase/decrease to net and comprehensive earnings of \$1,144. (2015 - \$30)

The Company may manage the risk associated with foreign exchange rate fluctuations by, from time to time, entering into foreign exchange forward contracts and engaging in other hedging strategies. To the extent that WiLAN engages in risk management activities related to foreign exchange rates, it may be subject to credit risks associated with the counterparties with whom it contracts.

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The Company's objective in obtaining foreign exchange forward contracts is to manage its risk and exposure to currency rate fluctuations related primarily to future cash inflows and outflows of Canadian dollars. The Company does not use foreign exchange forward contracts for speculative or trading purposes.

For the year, and as at December 31, 2016, the Company did not hold any foreign exchange forward contracts

12. COMMITMENTS AND CONTINGENCIES
a) Operating lease

The Company has lease agreements for office space and equipment with terms extending to 2023. The aggregate minimum annual lease payments under these agreements are as follows:

	Amount
2017	\$ 652
2018	\$ 568
2019	\$ 497
2020	\$ 358
2021 and thereafter	\$ 1,075
	<u>\$ 3,150</u>

b) Other

In connection with the acquisition of certain patents and patent rights, the Company has agreed to future additional payments to the former owners of the respective patents or patent rights, based on future revenues (as defined in the respective agreements) generated as a result of licensing the respective patents or patent portfolios. For the year ended December 31, 2016, partner royalties totaled \$832 (year ended December 31, 2015 – \$669) of which \$121 (as at December 31, 2015 - \$538) remains outstanding as at December 31, 2016.

On December 16, 2013, the Company engaged the services of an external law firm to represent the Company in certain patent infringement litigations. Pursuant to this engagement, in consideration for a discounted fixed fee arrangement, the Company has agreed to pay the firm a success fee which is based on a percentage of proceeds received (as defined in the respective agreements) pursuant to future license agreements resulting from these patent infringement litigations. As at December 31, 2016, the success fees are not yet determinable because the total proceeds have not yet been determined and therefore no amounts have been accrued.

13. RESTRUCTURING CHARGES

In October 2015, the Company undertook a restructuring plan which included a workforce reduction of approximately 30%. The components of the restructuring charge included \$1,272 for termination costs related to the affected employees, and \$30 for lease obligations.

The following table summarizes the details of the Company's restructuring charges and related reserves:

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	Workforce Reduction	Lease Obligation	Total
Charges	\$ 1,272	\$ 30	\$ 1,302
Cash payments	(760)	(9)	(769)
Balance of provision as at December 31, 2015	512	21	533
Charges	-	-	-
Cash payments	(512)	(21)	(533)
Balance of provision as at December 31, 2016	\$ -	\$ -	\$ -

14. SUPPLEMENTAL CASH FLOW INFORMATION

	2016	2015
Net interest received in cash, included in operations	\$ (206)	\$ (207)
Taxes paid	5,699	3,623
Patent acquisition liability	1,000	9,000

15. RELATED-PARTY TRANSACTION

Dr. Michel Fattouche, a member of the Company's Board of Directors, has provided consulting services to the Company. For the year ended December 31, 2016, consulting services have totaled \$8 (year ended December 31, 2015 – \$100) all of which had been paid as at year end.

DIRECTORS

W. Paul McCarten (1,2)
Chairman of the Board and of the
Compensation Committee

James Skippen
President & Chief Executive Officer

Roxanne Anderson (3,4)

Robert Bramson (3)
Chairman of the Governance Committee

Dr. Michel Fattouche (3)

John Gillberry (2,4)
Chairman of the Nominating Committee

Ron Laurie (1,2)

Richard Shorkey
Chairman of the Audit Committee (1,4)

*Member of (1) Compensation Committee, (2) Nominating
Committee, (3) Governance Committee, (4) Audit Committee*

SENIOR OFFICERS

James Skippen
President & Chief Executive Officer

Shaun McEwan
Chief Financial Officer

Michael Vladescu
Chief Operating Officer

Prashant Watchmaker
Senior Vice-President, General Corporate Counsel
and Secretary

STOCK EXCHANGE LISTINGS

TORONTO STOCK EXCHANGE

Symbol: WIN

NASDAQ GLOBAL SELECT MARKET

Symbol: WILN

TRANSFER AGENT

COMPUTERSHARE INVESTOR SERVICES INC

PUBLIC FILINGS – SEDAR & EDGAR

WiLAN's publicly filed documents are available on:

SEDAR at www.sedar.com: and on

EDGAR at www.sec.gov/edgar.shtml.

AUDITORS

PRICEWATERHOUSECOOPERS LLP

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CANADIAN IMPERIAL BANK OF COMMERCE

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