

Quarterhill Inc.  
2020 Third Quarter  
Interim Condensed Consolidated  
Financial Statements  
(Unaudited)

**Interim Condensed Consolidated Statements of Income and Comprehensive Income (Loss)**

(Unaudited)

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

CONTINUING OPERATIONS	Note	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
Revenues					
License		\$ 67,192	\$ 4,833	\$ 77,009	\$ 74,360
Systems		15,380	12,586	34,521	34,069
Recurring		5,425	4,524	14,904	16,198
		<b>87,997</b>	<b>21,943</b>	<b>126,434</b>	<b>124,627</b>
Direct cost of revenues					
License		32,064	8,694	40,867	41,732
Systems		8,202	7,497	20,776	21,721
Recurring		2,130	3,255	7,596	10,627
		<b>42,396</b>	<b>19,446</b>	<b>69,239</b>	<b>74,080</b>
Gross profit		<b>45,601</b>	<b>2,497</b>	<b>57,195</b>	<b>50,547</b>
Operating expenses					
Depreciation of right-of-use assets	8	257	290	738	1,056
Depreciation of property, plant and equipment		250	188	721	1,086
Amortization of intangibles		4,726	5,779	14,316	17,688
Selling, general and administrative expenses		6,424	6,409	18,545	19,228
Research and development expenses	13	390	712	1,814	2,229
Impairment losses on intangibles		62	—	295	—
Special charges	14	—	(15,277)	872	1,402
		<b>12,109</b>	<b>(1,899)</b>	<b>37,301</b>	<b>42,689</b>
Results from operations		<b>33,492</b>	<b>4,396</b>	<b>19,894</b>	<b>7,858</b>
Finance income		(146)	(499)	(528)	(1,157)
Finance expense		153	144	367	609
Foreign exchange loss (gain)		72	(210)	(513)	155
Other income		(383)	(157)	(1,192)	(496)
Income before taxes		<b>33,796</b>	<b>5,118</b>	<b>21,760</b>	<b>8,747</b>
Current income tax expense		325	342	1,669	5,797
Deferred income tax expense (recovery)		8,943	(2,572)	5,462	495
Income tax expense (recovery)		<b>9,268</b>	<b>(2,230)</b>	<b>7,131</b>	<b>6,292</b>
Net income from continuing operations		<b>24,528</b>	<b>7,348</b>	<b>14,629</b>	<b>2,455</b>
Net income from discontinued operations	4	—	4,927	14,255	3,835
Net income		<b>24,528</b>	<b>12,275</b>	<b>28,884</b>	<b>6,290</b>
Other comprehensive income (loss) that may be reclassified subsequently to net income:					
Foreign currency translation adjustment		(4,693)	1,661	5,182	(7,208)
Comprehensive income (loss)		<b>19,835</b>	<b>13,936</b>	<b>34,066</b>	<b>(918)</b>
<b>Net income per share</b>					
From continuing operations		0.21	0.06	0.13	0.02
From discontinued operations		—	0.04	0.12	0.03
<b>Net income per share - Basic</b>	15	\$ 0.21	\$ 0.10	\$ 0.25	\$ 0.05
From continuing operations		\$ 0.21	\$ 0.06	\$ 0.12	\$ 0.02
From discontinued operations		—	0.04	0.12	0.03
<b>Net income per share - Diluted</b>	15	\$ 0.21	\$ 0.10	\$ 0.24	\$ 0.05

See accompanying notes to these unaudited condensed consolidated interim financial statements

**Interim Condensed Consolidated Statements of Financial Position**

(In thousands of Canadian dollars)

As at	Note	(Unaudited) September 30, 2020	December 31, 2019	January 1, 2019
<b>Current assets</b>				
Cash and cash equivalents		\$ 124,130	\$ 87,870	\$ 87,029
Short-term investments		5,549	1,550	1,551
Restricted short-term investments		—	—	2,995
Accounts receivable (net of allowance for doubtful accounts)		72,043	42,925	14,719
Other current assets		145	108	124
Unbilled revenue	6	16,059	8,965	5,432
Income taxes receivable		220	137	270
Inventories (net of obsolescence)	7	10,241	8,570	8,114
Prepaid expenses and deposits		3,412	2,242	2,927
		<b>231,799</b>	<b>152,367</b>	<b>123,161</b>
<b>Non-current assets</b>				
Accounts receivable		667	3,846	565
Right-of-use assets	8	3,622	4,502	3,972
Property, plant and equipment		2,977	2,826	3,614
Intangible assets		64,867	89,534	119,015
Investment in joint venture	9	6,701	5,233	5,203
Deferred income tax assets		27,494	33,270	36,948
Goodwill		16,910	32,977	34,446
		<b>123,238</b>	<b>172,188</b>	<b>203,763</b>
<b>TOTAL ASSETS</b>		<b>\$ 355,037</b>	<b>\$ 324,555</b>	<b>\$ 326,924</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Bank indebtedness		\$ 3,214	\$ 4,026	\$ 3,537
Accounts payable and accrued liabilities		40,198	25,755	24,644
Dividends payable		1,498	—	—
Income taxes payable		344	203	—
Current portion of lease liabilities	8	886	998	1,120
Contingent liabilities	10	—	—	1,265
Current portion of deferred revenue	6	5,339	8,638	6,357
Current portion of long-term debt		43	59	407
		<b>51,522</b>	<b>39,679</b>	<b>37,330</b>
<b>Non-current liabilities</b>				
Deferred revenue	6	3,103	1,513	1,954
Long-term lease liabilities	8	2,746	3,550	2,604
Long-term debt		268	271	236
Deferred income tax liabilities		368	3,297	5,905
		<b>6,485</b>	<b>8,631</b>	<b>10,699</b>
<b>TOTAL LIABILITIES</b>		<b>58,007</b>	<b>48,310</b>	<b>48,029</b>
<b>Shareholders' equity</b>				
Capital stock		561,269	570,553	570,553
Contributed surplus		32,455	32,011	31,252
Accumulated other comprehensive income		16,118	10,936	22,112
Deficit		(312,812)	(337,255)	(345,022)
		<b>297,030</b>	<b>276,245</b>	<b>278,895</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 355,037</b>	<b>\$ 324,555</b>	<b>\$ 326,924</b>

See accompanying notes to these unaudited condensed consolidated interim financial statements.

**Interim Condensed Consolidated Statements of Cash Flows**

(In thousands of Canadian dollars)

	Note	(Unaudited)		(Unaudited)	
		Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
Cash generated from (used in) Operations					
Net income from continuing operations		\$ 24,528	\$ 7,348	\$ 14,629	\$ 2,455
Non-cash items					
Stock-based compensation expense		248	238	444	744
Depreciation of right-of-use assets		257	290	738	1,056
Interest expense on lease liabilities		59	67	171	170
Depreciation and amortization		4,976	5,967	15,037	18,774
Foreign exchange (gain) loss		(38)	46	(232)	(81)
Equity in earnings from joint venture		(383)	(157)	(1,192)	(496)
Impairment losses on intangibles		62	—	295	—
Loss (gain) on disposal of assets		14	(26)	4	759
Deferred income tax expense (recovery)		8,943	(2,572)	5,462	495
Long-term accounts receivable		—	—	—	(85)
Embedded derivatives		69	(106)	(32)	26
Contingent consideration adjustment		—	(15,286)	—	(1,042)
Changes in non-cash working capital balances	19	(34,231)	(11,425)	(25,414)	(9,239)
Cash generated from (used in) continuing operations		4,504	(15,616)	9,910	13,536
Net cash flows attributable to discontinuing operations		—	(439)	(4,349)	430
Net cash generated from (used in) operating activities		4,504	(16,055)	5,561	13,966
Financing					
Dividends paid		(1,443)	(1,475)	(2,924)	(4,450)
Bank indebtedness		(3,596)	(1,005)	(612)	1,561
Payment of lease liabilities		(274)	(318)	(860)	(1,189)
Repayment of long-term debt		(8)	(25)	(128)	(325)
Exercise of stock options		—	—	14	—
Repurchase of shares for cancellation		(9,322)	—	(9,322)	—
Common shares issued from Performance Stock Units		—	—	24	—
Cash used in continuing operations		(14,643)	(2,823)	(13,808)	(4,403)
Net cash flows attributable to discontinuing operations		—	(8)	—	(27)
Net cash used in financing activities		(14,643)	(2,831)	(13,808)	(4,430)
Investing					
Proceeds from disposition of a subsidiary		—	—	49,400	—
Cash sold on disposition of a subsidiary		—	—	(1,825)	—
Purchase of short-term investments		(4,054)	—	(4,054)	—
Proceeds from sale of restricted short-term investments		—	132	—	132
Proceeds from sale of property, plant and equipment		16	30	32	30
Purchase of property and equipment		(309)	(312)	(1,196)	(811)
Purchase of intangibles		(30)	(1,759)	(55)	(1,884)
Cash (used in) generated from continuing operations		(4,377)	(1,909)	42,302	(2,533)
Net cash flows attributable to discontinuing operations		—	(37)	(81)	(160)
Net cash (used in) generated from investing activities		(4,377)	(1,946)	42,221	(2,693)
Foreign exchange (loss) gain on cash held in foreign currency		(2,869)	900	2,286	(2,721)
Net (decrease) increase in cash and cash equivalents		(17,385)	(19,932)	36,260	4,122
Cash and cash equivalents, beginning of period		141,515	111,083	87,870	87,029
Cash and cash equivalents, end of period		\$ 124,130	\$ 91,151	\$ 124,130	\$ 91,151

See accompanying notes to these unaudited condensed consolidated interim financial statements.

**Interim Condensed Consolidated Statements of Changes in Shareholders' Equity**

For the nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars)

	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
January 1, 2019	\$ 570,553	\$ 31,252	\$ 22,112	\$ (345,022)	\$ 278,895
Net income	—	—	—	6,290	6,290
Other comprehensive loss	—	—	(7,208)	—	(7,208)
Stock-based compensation expense	—	744	—	—	744
Dividends declared	—	—	—	(4,450)	(4,450)
<b>September 30, 2019</b>	<b>\$ 570,553</b>	<b>\$ 31,996</b>	<b>\$ 14,904</b>	<b>\$ (343,182)</b>	<b>\$ 274,271</b>
January 1, 2020	\$ 570,553	\$ 32,011	\$ 10,936	\$ (337,255)	\$ 276,245
Net income	—	—	—	28,884	28,884
Repurchase of shares for cancellation	(9,322)	—	—	—	(9,322)
Other comprehensive income	—	—	5,182	—	5,182
Exercise of options	14	—	—	—	14
Stock-based compensation expense	—	444	—	—	444
Common shares issued from performance stock units	24	—	—	—	24
Dividends declared	—	—	—	(4,441)	(4,441)
<b>September 30, 2020</b>	<b>\$ 561,269</b>	<b>\$ 32,455</b>	<b>\$ 16,118</b>	<b>\$ (312,812)</b>	<b>\$ 297,030</b>

See accompanying notes to these interim condensed consolidated financial statements.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

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### 1. NATURE OF BUSINESS

Quarterhill Inc. ("Quarterhill" or the "Company"), formerly "Wi-LAN Inc.", is a Canadian company domiciled in Canada. The address of the Company's registered office is 30 Duke Street West, Suite 604, Kitchener, Ontario, N2H 3W5. The Company's shares are listed under the symbol "QTRH" on the Toronto Stock Exchange (the "TSX") and the United States OTCQX Best Market (the "OTCQX") under the symbol "QTRHF". Quarterhill is focused on the disciplined acquisition, management and growth of companies in the intelligent transportation systems and innovation and licensing industries. On May 15, 2020, the Company sold its investment in VIZIYA Corp. which represented the Enterprise Software segment.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

##### *Statement of compliance*

These interim condensed consolidated financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting" and IFRS 1, "First-Time Adoption of IFRS." Subject to certain transition elections disclosed in Note 20, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2019, and throughout all periods presented as if these policies had always been in effect.

Until the period ended December 31, 2019, the Company's interim condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). These interim condensed consolidated financial statements should be read in conjunction with the Company's US GAAP annual financial statements for the year ended December 31, 2019. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 20. This note includes reconciliations of equity and comprehensive income of the comparative periods and of equity at the date of transition reported under US GAAP to IFRS for those periods.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on November 4, 2020.

##### *Basis of measurement*

The interim condensed consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at fair value on a recurring basis, as explained in the accounting policies below, and certain intangible assets (patent licenses) that the company elected to record at the IFRS transition date of January 1, 2019 at its US GAAP revaluation of its previously impaired patent licenses, adjusted for any subsequent changes to depreciation based on differences between US GAAP and IFRS, as these assets' deemed cost.

##### *Functional and presentation currency*

The interim condensed consolidated financial statements are presented in Canadian dollars, which differs from the Company's functional currency of US dollars.

On January 1, 2020 the Company changed its presentation currency from US dollar to Canadian dollar to facilitate comparisons with its industry peers, and better meet the needs of the Canadian investor. This change was applied retrospectively to all periods presented in these interim condensed consolidated financial statements.

The Company follows the requirements as prescribed in IAS 21, *The Effects of Change in Foreign Exchange Rates* to translate to the presentation currency. The assets and liabilities of the Consolidated entity are translated to Canadian dollars at the exchange rate as at the reporting date, and the income and expenses are translated to Canadian dollars at the monthly average exchange rates of the reporting period. Foreign currency differences arising from the translation are recognized in other comprehensive income ("OCI"). Retained earnings and historical equity transactions existing as at January 1, 2019 were translated at the prevailing exchange rate at that date.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

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### *Estimates, assumptions, and judgments*

The preparation of these interim condensed consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in adjustments to the carrying amount of an asset or liability or the reported amount of revenue and expense in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

### *Key estimates, including judgments and uncertainties*

#### Revenue recognition

Contract revenue, contract costs, contract liabilities and contract assets relating to the Intelligent Transportation Systems segment are based on estimates and judgments used in determining the progress of a contract. Estimates include amounts derived to measure the progress of the contract. Progress towards completion is measured by comparing the actual costs incurred to the total estimated costs for the contract. In determining the estimated costs to complete the contracts, assumptions and estimates are required to evaluate issues related to schedule, material and labour costs, changes in contract scope and subcontractor costs. Due to the nature of project contracts, estimates may change significantly between accounting periods. Changes in estimates are reflected in the period in which the circumstances that gave rise to the change became known and affect the Company's revenue, contract assets, and contract liabilities.

#### Leases

Management uses judgment in determining whether a contract contains a lease, the interest used to discount the present value of fixed payments in accounting for the lease liability and corresponding Right-of-use (ROU) asset, and in determining whether it is likely that a lease term will be extended.

#### Asset impairments for non-financial assets and impairment reversals

The Company's estimate of the recoverable amount for the purpose of impairment testing requires management to make assumptions regarding estimates of the present value of future cash flows including growth opportunities, economic risk, and the discount rate. These same assumptions are also used when assessing recoverability of impairments previously recognized.

#### Other

Other estimates and assumptions are made in determining the recoverability of financial assets, the recoverability of deferred tax assets, and determination of indicators of impairment for non-financial assets as well as the determination of indicators of recoverability for assets for which an impairment was previously recognized.

### *Basis of consolidation*

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned subsidiaries. The Company also holds, through one of its subsidiaries, a 50% joint venture ownership interest in Xuzhou-PAT Control Technologies Limited ("XPCT") which is accounted for using the equity method and includes only the Company's net investment and equity in earnings of the joint venture. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company ceases to control the subsidiary. All intercompany transactions and balances have been eliminated in these interim condensed consolidated financial statements.

### **Business Combinations**

The Company uses the acquisition method of accounting for business combinations. The cost of an acquisition is measured as the consideration transferred at fair value at the acquisition date. The determination of fair values for the acquired intangible assets involves the use of discounted cash flow analyses. Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. The Company determines that a pre-

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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acquisition contingency is probable in nature and estimable as of the acquisition date and records its best estimate for the contingency as part of the purchase price allocation. The Company continues to gather information and evaluates any pre-acquisition contingencies throughout the measurement period and makes adjustments as necessary to the purchase price allocation. Changes in fair value of contingent consideration outside of the measurement period are measured at fair value with changes in fair value recognized in profit or loss. Acquisition related costs are expensed as incurred. Any excess of the fair value of the consideration transferred over the fair value of net identifiable assets acquired, at acquisition date, is recorded as goodwill.

### Foreign Currency Transactions

Monetary assets and liabilities denominated in foreign currencies are translated into the applicable functional currency of the entity 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 profit or loss.

### Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks and highly liquid investments with original terms to maturity at the date of acquisition of less than three months.

### 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 guaranteed investment certificates with original maturities of one-year or less at the date of investment and their carrying value approximates their fair value.

### Restricted Short-Term Investments

Restricted short-term investments are amounts held specifically as collateral for bank guarantees that the Company has entered into for security against potential procedural costs pursuant to a court order regarding patent infringement whereby the Company is the plaintiff. As at September 30, 2020, the Company had no bank guarantees outstanding that required collateral.

### Unbilled Revenue

Unbilled revenue includes unbilled amounts typically resulting from sales under long-term contracts when the cost-to-cost method of revenue recognition is utilized and revenue recognized exceeds the amount billed to the customer accounted for under IFRS 15. At any given period-end, a large portion of the balance in this account represents the accumulation of labor, materials and other costs that have not been billed due to timing, whereby the accumulation of each month's costs and earnings are administratively billed in subsequent months. Also included in the account are amounts that will become billable according to contract terms, which usually require the consideration of the passage of time, achievement of milestones or completion of the project.

### Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is determined on the weighted average basis. Costs comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

### Property Plant and Equipment

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses, if any. Costs include the purchase price and the directly attributable costs required to bring the asset to the condition necessary for the asset to be capable of operating in the manner intended by management. When components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment and depreciated accordingly. The cost of replacing or repairing a component of an item is recognized in the carrying amount of the item if it is probable that future economic benefits will occur and the cost can be measured reliably. The costs of routine maintenance are recognized in profit or loss as incurred. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets as follows:

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Leasehold improvements	term of the lease
Computer equipment and software	3 years
Furniture and fixtures	5 years
Machinery and equipment	4-7 years
Building	20 years

The company reviews the residual value, useful lives and depreciation methods used on an annual basis and, where revisions are required, the Company applies such changes in estimates on a prospective basis.

### Intangible Assets

Intangibles consist of finite-lived patents, developed software, customer relationships and brand.

Patents include patents and patent rights (hereinafter, collectively "patents"), are purchased separately, and are carried at cost less accumulated amortization and impairments.

Developed software, customer relationships, and brand were acquired through business acquisitions and are recognized at fair value as determined on the acquisition date less accumulated amortization and impairments.

Fair value of the developed software and brand is determined based on the present value of the estimated net future income-producing capabilities.

Customer relationships represent acquired customer relationships with customers that are capable of being separated from the acquired entity and being sold, transferred, licensed, rented or exchanged. These customer relationships are initially recorded at their fair value based on the present value of expected future cash flows.

Amortization is calculated on a straight-line basis over the estimated useful lives of the intangible assets as follows:

Patents	up to 20 years
Developed software	5 years
Customer relationship and backlog	7 years
Brand	7 years

The Company continually evaluates the remaining estimated useful life of its finite intangible assets to determine whether events and circumstances warrant a revision to the remaining period of amortization and are accounted for prospectively from the date of the change.

### Impairment of Non-Financial Assets

The carrying amounts of non-financial assets, excluding inventories, deferred income tax assets, and contract assets are reviewed for impairment at each reporting date, or whenever events or changes in circumstances indicate the carrying amounts may not be recoverable. If there are indicators of impairment, a review is undertaken to determine whether the carrying amounts are in excess of their recoverable amounts. Goodwill and indefinite lived intangible assets are tested at least annually, at year-end, for impairment. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows, the cash-generating unit ("CGU"), from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is determined by the cash flows expected to arise from the CGU discounted using a pre-tax discount rate which reflects the current market assessments of the time value of money and asset-specific risk. In determining fair value less costs of disposal, an appropriate valuation model is used. These calculations are corroborated by the use of valuation multiples, quoted share prices and other available fair value indicators. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit and loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amount of the other assets in the CGUs.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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For non-financial assets that have been previously impaired, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previous impairment losses may no longer exist or may have decreased. If such an indication exists, the Company estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the impairment loss was recognized. The impairment loss to be reversed in the consolidated statements of profit or loss is limited to the recoverable amount, but not beyond the carrying amount, net of depreciation or amortization, that would have arisen if the prior impairment loss had not been recognized.

### **Investment in Joint Venture**

The Company's joint arrangement has been determined to be a joint venture based on the Company's assessment of their contractual rights and obligations. Joint ventures are accounted for using the equity method whereby the investments are initially recorded at cost. The investment is increased or decreased to reflect the Company's proportionate share of the post-acquisition earnings or losses and equity movements of the investees, after adjustments to align the accounting policies with those of the Company. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

### **Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is presented separately on the statement of financial position and is subsequently measured at cost less any accumulated impairment losses.

### **Revenue Recognition**

The Company recognizes revenue, at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, when control of the promised goods or services is transferred to the customer. Revenue represents the amount that the Company expects to receive for products and services in its contracts with customers, net of sales taxes. The cumulative effects of revisions to contract revenues and estimated completion costs are recorded in the accounting period in which the amounts become evident and can be reasonably estimated. These revisions can include such items as the effects of change orders and claims, warranty claims, liquidated damages or other contractual penalties and adjustments for contract closeout settlements. The Company reports revenue under the following categories: license, systems, and recurring. The following paragraphs describe the specific revenue recognition policies for each of the Company's significant types of revenue by segment.

#### *Licensing segment*

Patent licenses are considered a promise to provide the right to use specific intellectual property ("IP") to the customer. Revenue from contracts containing no sales or usage-based royalties is recognized when the patent right is effective with the exception of certain instances where licensing rights applicable to future portfolio licenses are granted. In these arrangements, revenue on these specific rights would be recognized over the term of the applicable rights. Payment is generally either due immediately or within 30 days.

Revenue from contracts containing a sales or usage based royalty is recognized only when the associated sale or usage occurs or the performance obligation to which the royalty has been allocated has been satisfied. Customers generally report their royalty obligations one quarter in arrears and accordingly, the Company estimates the expected royalties to be reported for an accounting period, with an adjustment for actual royalties reported in the following financial reporting period. Payment is due upon submission of the royalty report.

Revenue related to right to use specific IP are recognized as license revenues while revenue related to sales or usage-based royalties are recognized as recurring revenues.

#### *Intelligent Transportation Systems segment*

##### *Contracted projects*

The majority of sales of integrated systems are delivered as contracted projects with contract terms of less than 1 year to more than 5 years. The customer controls all of the work in progress as intelligent transportation systems are being

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developed and installed. The Company's contract types include fixed price and time and materials contracts. The transaction price includes amounts expected to be received in exchange for the goods or services plus any contract amendments that are expected to be received. Payment terms are based on completion of milestones throughout the project life for fixed price contracts and monthly for time and materials projects.

Many of these projects have distinct performance obligations typically encompassing one or more of installation, maintenance and warranty. A contract's transaction price is allocated to each distinct performance obligation using the best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus margin approach. Revenue is recognized when or as the performance obligation is satisfied.

The following revenue streams are recognized as systems revenues.

### *Installations*

Revenue for the installation obligations of fixed price contracts is recognized over time using the input method based on costs incurred relative to the total expected costs to complete each project. Control is transferred to the customer over time as the customer controls the work in progress and revenue earned from the contract is recognized over time based on the extent of progress towards completion of the performance obligation. The company reviews and updates the contract related estimates regularly. Determining the contract costs and estimates to complete requires significant judgment. Adjustments are recognized in profit on contracts under the cumulative catch-up method in the period the adjustment is identified. If the Company anticipates the estimated remaining costs to completion will exceed the value allocated to the performance obligation, the resulting loss is recognized immediately.

### *Product sales*

Product sales revenue is recognized when control transfers under the term of the enforceable contract. Customers are billed when transfer of control occurs and payments are typically due within 30 days.

The following revenue streams are recognized as recurring revenues.

### *Maintenance*

The maintenance obligation of contracts with multiple performance obligations are recognized over the term of the contract as control is transferred to the customer. Stand-alone maintenance service contracts are typically time and materials, but some are fixed price for which revenue is recognized in the same manner as fixed price installations, over time using the input method based on costs incurred relative to the total expected costs to complete each project. For time and materials contracts, labor and material rates are established within the contract. Revenues from time and materials contracts are recognized as control is transferred to the customer based on cost plus margin. These services are billed on a monthly basis and collected shortly thereafter.

### *Warranty*

Revenue from warranty obligations is recognized over time based on time lapsed as this best represents the value transferred to the customer.

## **Financial Instruments**

### ***Recognition and initial measurement***

Financial assets and liabilities, with the exception of accounts receivable and unbilled revenues that do not have a significant financing component, are initially recognized at fair value plus or minus directly attributable transaction costs as appropriate, except for financial assets at fair value through profit and loss ("FVTPL"), for which transaction costs are expensed. Accounts receivable and unbilled revenues that do not have a significant financing component are initially measured at the transaction price determined in accordance with IFRS 15. Accounts receivable are recognized on the date which they originate and all other financial instruments are recognized when the Company becomes party to the contractual provisions of the instrument.

### ***Financial assets***

The classification of financial assets depends on the business model for managing the financial assets and the associated contractual cash flows. A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets to collect contractual cash flows, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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The Company's financial assets consist of cash and cash equivalents, short-term investments, restricted short-term investments, accounts receivable and unbilled revenue: all are classified as amortized cost.

### *Financial liabilities*

The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities consist of bank indebtedness, accounts payable and accrued liabilities, contingent liabilities and long-term debt. Bank indebtedness, accounts payable and accrued liabilities and long-term debt are classified as amortized cost and contingent liabilities are classified as FVTPL.

### *Subsequent measurement*

Subsequent to initial recognition, financial assets and liabilities classified as amortized cost are measured using the effective interest method, less, in the case of financial assets, any impairment. Interest income and expense, foreign exchange gains and losses, impairment and any gain or loss on de-recognition are recognized in profit and loss. Contingent liabilities are reported at fair value and the gain or loss recognized in profit and loss as a special charge.

### *De-recognition*

The Company de-recognizes a financial asset when the rights to receive cash flows from the financial asset have expired or has been transferred and the Company has transferred substantially all risks and rewards of ownership.

The Company de-recognizes a financial liability when the contractual obligations are discharged, canceled or expire.

### *Derivative financial instruments*

The Company uses derivative financial instruments to reduce exposure to fluctuation in foreign currency exchange rates. The Company may enter into foreign exchange contracts to hedge anticipated cash flows denominated in a foreign currency. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

The Company has elected not to apply hedge accounting to derivative contracts; as such, these derivative financial instruments are recorded at fair value upon recognition and on a recurring basis, with subsequent changes in fair value recorded in profit or loss during the period of change. Derivatives are reported as other current assets when they have a positive fair value and as other current liabilities when they have a negative fair value.

### **Fair Value Measurement of Financial Instruments**

The Company uses various valuation techniques and assumptions when measuring fair value of its financial assets and financial 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 Company's fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are:

Level 1 – Inputs are based on quoted prices (unadjusted) in active markets that are accessible at the reporting date for identical assets or liabilities;

Level 2 – Inputs are based on quoted prices included in level 1 that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and

Level 3 – Inputs are based on prices or valuation techniques that are both unobservable and significant to the overall fair value measurement.

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.

Derivative financial instruments: The fair value of embedded derivatives is measured using a market approach, based on the difference between the quoted forward exchange rate as of the contract date and quoted forward exchange rate

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as of the reporting date. The fair value of forward exchange contracts is determined using the quoted forward exchange rates at the reporting date.

Contingent liabilities: Contingent liabilities are carried at fair value which is calculated using management estimates or, where appropriate, a Monte Carlo simulation model.

The carrying amount of the Company's other financial assets and liabilities, including cash and cash equivalents, short-term investments, restricted short-term investments, accounts receivable, unbilled revenue and accounts payable and accrued liabilities approximate their fair value due to the short-term maturity of these items. The fair value of the bank indebtedness and long-term debt approximate the carrying amount since these debt instruments have floating interest rates.

### **Impairment of Non-Derivative Financial Assets**

The company applies the IFRS 9 simplified approach to measuring expected credit losses ("ECL") which uses a lifetime expected loss allowance for all accounts receivable and contract assets. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, observable changes in national or local economic conditions that correlate with default on receivables, and financial condition of the borrower. Financial assets are written off when there is no reasonable expectation of recovery.

### **Research and Development**

Research costs are included in profit and loss in the periods in which they are incurred. Software development costs are deferred and amortized when technological feasibility has been established, or otherwise are expensed as incurred.

### **Warranties**

The Company records the estimated costs of product warranties at the time revenue is recognized. Warranty obligation arises from the Company having to replace goods and/or services that have failed to meet required customer specifications due to breakdown or error related to product or workmanship. The Company's warranty obligations are affected by product failure rates, differences in warranty periods, regulatory developments with respect to warranty obligations in the countries in which the Company carries on business, freight expense and material usage and other related repair costs.

The Company's estimates of costs are based upon historical experience, expectations of future return rates and unit warranty repair costs. If the Company experiences increased or decreased warranty activity or increased or decreased costs associated with servicing those obligations, revisions to the estimated warranty liability are recognized in the reporting period when such revisions are made.

### **Financing Costs**

Financing costs are comprised of borrowing costs related to short and long-term debt and the unwinding of the discount on provisions.

### **Leases**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company recognizes a ROU asset and a lease liability at the lease commencement date, which is the date the leased asset is available for use. The Company has elected not to separate lease and non-lease components and instead treats them all as lease payments and a single lease component.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The incremental borrowing rate is the rate which the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment with similar terms, security and conditions. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. The lease liability is measured at amortized cost using the effective interest method. The lease liability is remeasured when there is a change in future lease payments arising from a change in the Company's estimate of the amount expected to be payable under a

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residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset unless it has been reduced to zero. Any further reduction in the lease liability is then recognized in profit or loss.

The ROU asset is initially measured based on the initial lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The ROU assets are depreciated over the shorter of the lease term and the useful life of the underlying asset using the straight-line method as this most closely reflects the expected pattern of the consumption of the future economic benefits. In addition, the ROU asset can be periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Company will remeasure the lease liability using the Company's incremental borrowing rate on the date of modification, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset.

The lease payments associated with short term and low value leases are recognized as an expense on a straight-line basis over the lease term as the Company has elected the relevant practical expedients. Short term leases are those with a lease term of 12 months or less. Low value asset leases are those leases where the asset being leased when new has a value of less than \$10,000 USD.

### **Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM is the person or persons who are responsible for allocating resources and assessing performance of the operating segments. The CODM has been identified as the Chief Executive Officer.

### **Income Taxes, Deferred Taxes and Investment Tax Credits**

Income taxes comprise current and deferred income taxes. Income taxes are recognized in the consolidated statements of operations, except to the extent that they relate to items recognized directly in equity or in OCI, in which case, the income taxes are also recognized directly in equity or in OCI.

Current income taxes are the expected taxes payable on the taxable income for the year, using income tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to income taxes payable in respect of previous years.

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.

The Company is also engaged in scientific research and experimental development giving rise to investment tax credits that may be available to reduce future taxes payable in certain jurisdictions. In calculating income taxes and investment tax credits, consideration is given to factors such as current and future tax rates in the different jurisdictions, non-deductible expenses, qualifying expenditures and changes in tax law. In addition, management makes judgments on the ability of the Company to realize deferred taxes and investment tax credits reported as assets based on their estimations of amounts and timing of future taxable income and future cash flows in the related jurisdiction.

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### **Discontinued Operations**

A discontinued operation is a component of the Company's business, the operations and cash flows of which can be clearly distinguished from the rest of the Company, and either (a) represents a separate major line of business or geographic area of operations; (b) is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale.

Discontinued operations are presented separately from continuing operations in the consolidated statements of income and consolidated statements of cash flows for all periods presented.

### **Government Grants**

The Company recognizes government grants when there is reasonable assurance that the Company will comply with the corresponding conditions attached to the grant and that the grant will be received. Government grants are recognized in the consolidated statement of income or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate and are deducted from the related expense.

## **3. FUTURE ACCOUNTING PRONOUNCEMENTS**

Listed below are the standard, amendments, and interpretations that the Company reasonably expects to be applicable at a future date and intends to adopt when they become effective.

### **Classification of Liabilities as Current or Non-current (Amendments to IAS 1)**

In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements to clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and is unaffected by expectations about whether or not an entity will exercise their right to defer settlement of a liability. The amendments further clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments. These amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

### **COVID-19 Related Rent Concessions (Amendment to IFRS 16)**

IFRS 16 *Leases* has been revised to incorporate an amendment issued by the IASB in May 2020. The amendment permits lessees not to assess whether particular COVID-19 related rent concessions are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. In addition, the amendment to IFRS 16 provides specific disclosure requirements regarding COVID-19 related rent concessions. The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. The Company does not expect the adoption of these amendments to have any impact on the consolidated financial statements.

### **Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)**

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* has been revised to incorporate amendments issued by the IASB in May 2020. The amendments specify which costs an entity includes in determining the costs of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The Company is currently assessing the impact of these amendments.

### **Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 30, IFRS 7, IFRS 4 and IFRS 16)**

IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Disclosure*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases* have been revised to incorporate amendments issued by the IASB in August 2020. The amendments provide relief to accounting for the modifications required by the interest rate benchmark reform and hedge accounting. In addition, the amendments to IFRS 7 require additional disclosure related to interest rate benchmark reform. The amendments are effective for annual periods beginning on or after January 1, 2021. Earlier application is permitted. The Company is currently assessing the impact of these amendments.

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### 4. DISCONTINUED OPERATIONS

On May 15, 2020 the Company sold its investment in VIZIYA Corp. and its related entities ("VIZIYA") for \$49,400. VIZIYA was acquired in May 2017 and represented the Company's Enterprise Software segment. The Company's results for the prior fiscal period reported throughout these interim condensed consolidated financial statements have been adjusted to reflect continuing operation results and figures with respect to these discontinued operations. As a result of the sale, during the quarter ended, June 30, 2020, the Company recognized the following gain on disposition in the interim condensed consolidated statement of income.

#### Gain on sale of VIZIYA

Gross cash proceeds of sale	\$	49,400
less, transaction costs		(32)
Net cash proceeds of sale		49,368
Net assets disposed		32,827
Cumulative exchange gain on translating foreign operations reclassified from equity		1,172
Gain on disposal, before tax	\$	17,713

The results of the discontinued operations are presented below for the following periods:

	Three months ended September 30,		Nine months ended September 30,					
	2020	2019	2020	2019				
Revenues	\$	–	\$	11,554	\$	6,132	\$	18,494
Direct cost of revenues		–	491	1,211	1,375			
Gross profit		–	11,063	4,921	17,119			
Operating expenses		–	4,653	7,309	12,394			
Results from operations		–	6,410	(2,388)	4,725			
Other expenses		–	(12)	104	62			
Income tax recovery		–	1,495	(593)	828			
Loss from discontinued operations		–	4,927	(1,899)	3,835			
Gain on disposal, before tax		–	–	17,713	–			
Deferred income tax expense		–	–	1,559	–			
Net income (loss) from discontinued operations	\$	–	\$	4,927	\$	14,255	\$	3,835

### 5. FINANCIAL INSTRUMENTS

Derivatives consists of the embedded derivative portion of the unearned revenue of US dollar denominated sales contracts in the Company's Canadian, Chilean and Mexican subsidiaries and foreign exchange forward contracts. The fair value of embedded derivatives is measured using a market approach, based on the difference between quoted forward exchange rates as of the contract date and quoted forward exchange rates as of the reporting date. Contingent liabilities are carried at fair value which is calculated using management estimates or, where appropriate, a Monte Carlo simulation model. The carrying amount of the Company's other financial assets and liabilities, including cash and cash equivalents, short-term investments, restricted short-term investments, accounts receivable, unbilled revenue and accounts payable and accrued liabilities approximate their fair value due to the short-term

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maturity of these items. The fair value of the bank indebtedness and long-term debt approximate the carrying amount since these debt instruments have floating interest rates.

Inputs used to calculate the fair value of derivative financial instruments and long-term debt are classified as level 2 inputs, inputs used to calculate contingent liabilities are classified as level 3 inputs, and inputs for all other financial instruments for which fair value approximates carrying value are classified as Level 1 inputs.

### 6. UNBILLED REVENUE AND DEFERRED REVENUE

Significant changes in unbilled revenue and deferred revenue balances during the Nine months ended September 30, 2020 are as follows:

As at	September 30, 2020	December 31, 2019	\$ Change	January 1, 2019
Unbilled revenue	\$ 16,059	\$ 8,965	\$ 7,094	\$ 5,432
Deferred revenue - current	(5,339)	(8,638)	3,299	(6,357)
Deferred revenue - non-current	(3,103)	(1,513)	(1,590)	(1,954)
Net contract assets (liabilities)	\$ 7,617	\$ (1,186)	\$ 8,803	\$ (2,879)

Revenue recognized for the three months ended September 30, 2020 that was included in deferred revenue at the beginning of the period was \$2,944 (2019 - \$2,557).

### 7. INVENTORIES

Inventories consist of the following at September 30, 2020, December 31, 2019 and January 1, 2019:

As at	September 30, 2020	December 31, 2019	January 1, 2019
Raw materials	\$ 1,300	\$ 1,182	\$ 992
Original equipment manufacturer materials	4,877	3,948	4,258
Work in process	1,460	1,291	1,108
Finished goods	2,604	2,149	1,756
	\$ 10,241	\$ 8,570	\$ 8,114

For the three and nine months ended September 30, 2020, the Company recorded non-cash, pretax incremental provisions for excess and obsolete inventories of \$17 and \$60 respectively (2019 - \$56 and \$118).

### 8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company has leases for corporate offices, production facilities, and certain equipment. These leases have remaining lease terms ranging from 4 months to 8.5 years, some of which include options to extend the leases for up to 10 years or to terminate the lease with notice periods of 90 days to 6 months or at predetermined dates as specified within the lease contract. The Company has classified the assets related to these leases as right-of-use assets and the liabilities associated with the future lease payments under these leases as lease liabilities. The weighted average incremental borrowing rate applied to these lease liabilities at initial recognition on January 1, 2019 was 5.45%.

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The following table provides details of changes in the Company's lease assets:

	Buildings		Office Equipment		Total
<b>Cost</b>					
Balance, January 1, 2019	\$	3,939	\$	33	\$ 3,972
Additions		2,128		—	2,128
Foreign currency translation		(213)		(1)	(214)
Balance, December 31, 2019	\$	5,854	\$	32	\$ 5,886
Additions		—		—	—
Disposals		(348)		—	(348)
Foreign currency translation		121		1	122
Balance, September 30, 2020	\$	5,627	\$	33	\$ 5,660
<b>Accumulated Depreciation</b>					
Balance, January 1, 2019		—		—	—
Additions		1,388		15	1,403
Foreign currency translation		(19)		—	(19)
Balance, December 31, 2019	\$	1,369	\$	15	\$ 1,384
Additions		728		10	738
Disposals		(158)		—	(158)
Foreign currency translation		74		—	74
Balance, September 30, 2020	\$	2,013	\$	25	\$ 2,038
<b>Net Book Value</b>					
Balance, January 1, 2019		3,939		33	3,972
Balance, December 31, 2019		4,485		17	4,502
Balance, September 30, 2020		3,614		8	3,622

The following table provides details of changes in the Company's lease liabilities:

Balance, January 1, 2019	\$	3,724
Additions		2,080
Interest		231
Payments		(1,389)
Foreign currency translation		(98)
Balance, December 31, 2019		4,548
Additions		—
Interest		171
Disposals		(201)
Payments		(860)
Foreign currency translation		(26)
Balance, September 30, 2020	\$	3,632

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	<u>As at September 30, 2020</u>	
Maturities of lease liabilities:		
Remainder of 2020	\$	276
2021		1,064
2022		1,041
2023		420
2024		303
Thereafter		1,148
Total lease payments		4,252
Less imputed interest		620
Total	\$	3,632
Comprised of:		
Current portion of lease liabilities	\$	886
Long-term lease liabilities		2,746
Lease liabilities as of September 30, 2020	\$	3,632

### 9. INVESTMENT IN JOINT VENTURE

XPCT is a joint venture in China in which the Company's subsidiary IRD holds a 50% interest. XPCT has two business divisions providing products and services to both the ITS industry and construction equipment manufacturers.

IRD had sales to XPCT of \$nil during the three and nine months ended September 30, 2020 (2019 - \$nil and \$56). At September 30, 2020 accounts receivable from XPCT was \$13 (December 31, 2019 - \$33, January 1, 2019 -\$23).

	<u>September 30, 2020</u>	December 31, 2019	As at January 1, 2019
Carrying value, beginning of the period	\$ 5,233	\$ 5,203	\$ 4,244
Currency gain (loss) on financial statement translation	276	(326)	145
Company's share of earnings	1,192	873	1,232
Dividend received	—	(517)	(418)
Carrying value, end of period	\$ 6,701	\$ 5,233	\$ 5,203

The Company's ownership interest comprises a 50% share of net assets and net earnings of XPCT as well as purchase price adjustments to allocate fair values assigned to certain assets and liabilities at the time of acquisition.

As at September 30, 2020, IRD has an outstanding loan guarantee in the amount of 7.5 million yuan (approximately \$1.5 million) for 50% of a bank loan to XPCT representing IRD's proportionate interest in this entity.

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### 10. CONTINGENT LIABILITIES

In connection with the acquisition of VIZIYA on May 4, 2017, subject to the terms of the acquisition agreement, the Company agreed to pay the former owners of VIZIYA up to an additional US\$11,900 if VIZIYA achieved certain earnings before interest, taxes and amortization ("Eligible Earnings") targets for the period from April 1, 2017 to July 31, 2019. Additionally, if VIZIYA achieved cumulative Eligible Earnings during that period exceeding US\$11,900, the Company would be required to pay 50% of that excess Eligible Earnings as additional contingent consideration until that cumulative Eligible Earnings reached a cap of US\$24,000. In 2019, the Company determined that VIZIYA did not achieve the minimum amount of cumulative Eligible Earnings and adjusted its accrual for contingent consideration to \$nil. The former shareholders of VIZIYA have initiated arbitration of the Eligible Earnings calculation as permitted pursuant to the terms of the acquisition agreement. The results of any arbitration may, or may not, result in a determination that the former shareholders may be entitled to receive some or all of this earn out obligation under the acquisition agreement. The arbitration claim is not affected by the sale of this subsidiary, as described in Note 4.

### 11. SHARE CAPITAL

The share capital of the company consists of the following:

	Authorized	Issued and Outstanding		
		September 30, 2020	December 31, 2019	January 1, 2019
Common shares	unlimited	114,592,016	118,817,466	118,817,466
Special preferred, redeemable, retractable, non-voting shares	6,351	Nil	Nil	Nil
Preferred shares, issuable in series	unlimited	Nil	Nil	Nil

#### Common Shares Issued and Outstanding

January 1, 2020				118,817,466
Conversion of PSU to common shares				39,967
Exercise of stock options				7,900
Shares repurchased under SIB for cancellation				(2,687,981)
Shares repurchased under NCIB for cancellation				(1,585,336)
September 30, 2020				114,592,016

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Dividends Declared				
Per common share	\$ 0.0125	\$ 0.0125	\$ 0.0375	\$ 0.0375
Amount	\$ 1,498	\$ 1,475	\$ 4,441	\$ 4,450

### SIB

On May 21, 2020, the Company announced its intention to make a Substantial Issuer Bid ("SIB") to purchase for cancellation up to \$20 million of its outstanding common shares from shareholders for cash by way of modified-Dutch auction with a price range of between \$1.95 and \$2.15 per share. The SIB commenced on June 1, 2020 and expired on July 7, 2020. During the third quarter of 2020, the Company repurchased for cancellation 2,687,981 common shares at an average purchase price of \$2.15 per share, plus transaction costs of \$0.5 million, for a total of \$6.3 million.

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### NCIB

On August 6, 2020, the Company received approval from TSX on its notice of intention to make a Normal Course Issuer Bid ("NCIB") to purchase for cancellation up to 11,303,777 of its outstanding common shares. During the third quarter of 2020, the Company repurchased for cancellation 1,585,336 common shares at an average purchase price of \$1.89 per share totaling \$3.0 million.

## 12. EMPLOYEE COMPENSATION

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Salaries and Benefits	\$ 9,098	\$ 8,418	\$ 26,916	\$ 26,195
Stock-based compensation	248	238	443	744
Government grants earned	(2,428)	—	(4,090)	—
	<u>\$ 6,918</u>	<u>\$ 8,656</u>	<u>\$ 23,269</u>	<u>\$ 26,939</u>

There are no unfilled conditions or other contingencies attached to the government assistance that has been recognized.

## 13. RESEARCH & DEVELOPMENT

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Research and development expenditures	\$ 512	\$ 864	\$ 2,283	\$ 2,682
Government grants earned	(122)	(109)	(362)	(315)
Less investment tax credits	—	(43)	(107)	(138)
	<u>\$ 390</u>	<u>\$ 712</u>	<u>\$ 1,814</u>	<u>\$ 2,229</u>

## 14. SPECIAL CHARGES

Special charges within the interim condensed consolidated statements of income include costs and recoveries that relate to certain restructuring initiatives that the Company has undertaken from time to time, acquisition-related costs and recoveries and other charges. During the three and nine months ended September 30, 2020, the Company recognized special charges of \$nil and \$872 respectively (2019 - (\$15,277) and \$1,402). Charges for the nine months ended September 30, 2020 relate to retirement costs incurred in the Intelligent Systems segment while prior year costs for the comparative period related to workforce reduction and reduction of operating facilities at the Company's Licensing segment as well as the recovery of contingent consideration in the amount of \$15,286 relating to the VIZIYA acquisition which is further described in Note 10.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

### 15. INCOME PER SHARE

Basic income per share is calculated by dividing Net income by the weighted average number of common shares outstanding during the period.

Diluted income per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potential dilutive stock options to common shares.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
<b>Numerator:</b>				
Net income from continuing operations	24,528	7,348	14,629	2,455
Net income from discontinued operations	—	4,927	14,255	3,835
<b>Net income</b>	<b>24,528</b>	<b>12,275</b>	<b>28,884</b>	<b>6,290</b>
<b>Denominator:</b>				
Weighted average number of common shares outstanding for basic EPS	115,990,313	118,817,466	117,884,124	118,817,466
Adjustment for stock options	57,108	—	35,867	—
<b>Weighted average number of common shares outstanding for diluted EPS</b>	<b>116,047,421</b>	<b>118,817,466</b>	<b>117,919,991</b>	<b>118,817,466</b>
From continuing operations	0.21	0.06	0.13	0.02
From discontinued operations	—	0.04	0.12	0.03
<b>Basic income per share</b>	<b>0.21</b>	<b>0.10</b>	<b>0.25</b>	<b>0.05</b>
From continuing operations	0.21	0.06	0.12	0.02
From discontinued operations	—	0.04	0.12	0.03
<b>Diluted income per share</b>	<b>0.21</b>	<b>0.10</b>	<b>0.24</b>	<b>0.05</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

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### 16. SEGMENT REPORTING

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, and for which discrete financial information is available. The operating results of all operating segments are reviewed regularly by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assessing their performance. The Company's chief operating decision maker is the Chief Executive Officer. The Company's operating segments are organized on the basis of products and services provided and also represent its reportable segments. The Company's reportable segments, identified as Licensing and Intelligent Systems, follow the same accounting policies as those described in the summary of significant accounting policies, and are further described below. The Company divested its Enterprise Software Segment on May 15, 2020.

Licensing - The Licensing segment includes companies that count licensing as their principal business activity. The Company's investment in this segment consists of WiLAN and its wholly owned subsidiaries. Current patent portfolios held by this segment include patents relating to 3D television technologies, automotive headlight assemblies, phased loop semiconductor licensing, 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.

Intelligent Transportation Systems - The Intelligent Transportation Systems segment includes companies that provide integrated systems and solutions to the Intelligent Transportation System (ITS) industry and its adjacent markets. The Company's investment in this segment consists of IRD and its wholly owned subsidiaries. The ITS industry is focused on improving the Intelligent systems, enhancing the safety, increasing the efficiency and reducing the environmental impact of highway and roadway transportation systems.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

The following table reconciles the Adjusted EBITDA measure which is used in the evaluation of the performance of each segment to Net income (loss):

CONTINUING OPERATIONS	For the three months ended September 30,		For the Nine months ended September 30,	
	2020	2019	2020	2019
Segment Adjusted EBITDA:				
Licensing	\$ 34,353	\$ (4,269)	\$ 34,417	\$ 32,187
Intelligent Transportation Systems	7,477	2,415	10,186	5,176
Total	41,830	(1,854)	44,603	37,363
Unallocated corporate expenses	2,795	2,532	7,323	7,529
Stock-based compensation expense	248	238	444	744
Special charges	—	(15,277)	872	1,402
Depreciation of right-of-use assets	257	290	738	1,056
Depreciation of property, plant and equipment	250	188	721	1,086
Amortization of intangibles	4,726	5,779	14,316	17,688
Impairment losses of intangible assets	62	—	295	—
Results from operations	33,492	4,396	19,894	7,858
Finance income	(146)	(499)	(528)	(1,157)
Finance expense	153	144	367	609
Foreign exchange loss (gain)	72	(210)	(513)	155
Other income	(383)	(157)	(1,192)	(496)
Income before taxes	33,796	5,118	21,760	8,747
Current income tax expense	325	342	1,669	5,797
Deferred income tax expense (recovery)	8,943	(2,572)	5,462	495
Income tax expense (recovery)	9,268	(2,230)	7,131	6,292
<b>Net income from continuing operations</b>	<b>\$ 24,528</b>	<b>7,348</b>	<b>\$ 14,629</b>	<b>2,455</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

Segmented statements of income and loss for the three and nine months ended September 30, 2020 and 2019 are included below:

CONTINUING OPERATIONS	For the three months ended September 30, 2020			
	Licensing	Intelligent Systems	Corporate	Total
Revenues				
License	\$ 67,192	\$ —	\$ —	\$ 67,192
Systems	—	15,380	—	15,380
Recurring	71	5,354	—	5,425
	67,263	20,734	—	87,997
Direct cost of revenues	32,118	10,278	—	42,396
Gross profit	35,145	10,456	—	45,601
Depreciation of right-of-use assets	61	181	15	257
Depreciation and amortization	3,449	1,522	5	4,976
Selling, general and administrative expenses	862	2,607	2,955	6,424
Research and development expenses	—	390	—	390
Impairment losses of intangible assets	62	—	—	62
Results from operations	30,711	5,756	(2,975)	33,492
Finance (income) expense, net	(18)	110	(85)	7
Foreign exchange (gain) loss	(280)	305	47	72
Other income	—	(383)	—	(383)
Income (loss) before taxes	31,009	5,724	(2,937)	33,796
Income tax expense	7,608	1,236	424	9,268
<b>Net income (loss) from continuing operations</b>	<b>\$ 23,401</b>	<b>\$ 4,488</b>	<b>\$ (3,361)</b>	<b>\$ 24,528</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

CONTINUING OPERATIONS	For the Nine months ended September 30, 2020			
	Licensing	Intelligent Systems	Corporate	Total
Revenues				
License	\$ 77,009	\$ —	\$ —	\$ 77,009
Systems	—	34,521	—	34,521
Recurring	774	14,130	—	14,904
	77,783	48,651	—	126,434
Direct cost of revenues	40,949	28,290	—	69,239
Gross profit	36,834	20,361	—	57,195
Depreciation of right-of-use assets	185	508	45	738
Depreciation and amortization	10,552	4,469	16	15,037
Selling, general and administrative expenses	2,586	8,424	7,535	18,545
Research and development expenses	—	1,814	—	1,814
Impairment losses of intangible assets	295	—	—	295
Special charges	—	659	213	872
Results from operations	23,216	4,487	(7,809)	19,894
Finance (income) expense, net	(62)	228	(327)	(161)
Foreign exchange loss (gain)	1,316	(624)	(1,205)	(513)
Other income	—	(1,192)	—	(1,192)
Income (loss) before taxes	21,962	6,075	(6,277)	21,760
Income tax expense	2,879	730	3,522	7,131
<b>Net income (loss) from continuing operations</b>	<b>\$ 19,083</b>	<b>\$ 5,345</b>	<b>\$ (9,799)</b>	<b>\$ 14,629</b>

Segment assets are as follows:	Licensing	Intelligent Systems	Corporate	Total
As at September 30, 2020	143,170	68,383	143,484	355,037
As at December 31, 2019	104,191	60,852	159,512	324,555
As at January 1, 2019	126,911	61,877	138,136	326,924

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

CONTINUING OPERATIONS	For the three months ended September 30, 2019			
	Licensing	Intelligent Systems	Corporate	Total
Revenues				
License	\$ 4,833	\$ –	\$ –	\$ 4,833
Systems	–	12,586	–	12,586
Recurring	139	4,385	–	4,524
	4,972	16,971	–	21,943
Direct cost of revenues	8,694	10,752	–	19,446
Gross profit	(3,722)	6,219	–	2,497
Depreciation of right-of-use assets	98	177	15	290
Depreciation and amortization	4,533	1,429	5	5,967
Selling, general and administrative expenses	559	3,121	2,729	6,409
Research and development expenses	–	712	–	712
Special charges	9	–	(15,286)	(15,277)
Results from operations	(8,921)	780	12,537	4,396
Finance (income) expense, net	(166)	101	(290)	(355)
Foreign exchange loss (gain)	151	(292)	(69)	(210)
Other income	–	(157)	–	(157)
(Loss) income before taxes	(8,906)	1,128	12,896	5,118
Income tax (recovery) expense	(2,725)	65	430	(2,230)
Net (loss) income from continuing operations	\$ (6,181)	\$ 1,063	\$ 12,466	\$ 7,348

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

CONTINUING OPERATIONS	For the Nine months ended September 30, 2019			
	Licensing	Intelligent Systems	Corporate	Total
Revenues				
License	\$ 74,360	\$ –	\$ –	\$ 74,360
Systems	–	34,069	–	34,069
Recurring	1,102	15,096	–	16,198
	75,462	49,165	–	124,627
Direct cost of revenues	41,732	32,348	–	74,080
Gross profit	33,730	16,817	–	50,547
Depreciation of right-of-use assets	479	532	45	1,056
Depreciation and amortization	14,022	4,737	15	18,774
Selling, general and administrative expenses	1,542	9,516	8,170	19,228
Research and development expenses	–	2,229	–	2,229
Special charges	2,444	–	(1,042)	1,402
Results from operations	15,243	(197)	(7,188)	7,858
Finance (income) expense, net	(228)	536	(856)	(548)
Foreign exchange (gain) loss	(340)	37	458	155
Other income	(4)	(492)	–	(496)
Income (loss) before taxes	15,815	(278)	(6,790)	8,747
Income tax expense (recovery)	7,652	(1,013)	(347)	6,292
Net income (loss) from continuing operations	\$ 8,163	\$ 735	\$ (6,443)	\$ 2,455

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

Revenue by geography for the three and nine months ended September 30, 2020 and 2019 are as follows:

Revenues	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
United States	\$ 82,517	\$ 11,769	\$ 104,221	\$ 66,323
Taiwan	–	4,853	9,094	5,678
Thailand	889	345	2,163	1,078
Canada	1,018	784	2,028	3,066
Chile	771	543	1,651	2,409
Korea	1,168	2	1,541	36,465
Ukraine	308	1,492	328	2,303
Rest of the world	1,326	2,155	5,408	7,305
<b>Total revenues</b>	<b>\$ 87,997</b>	<b>\$ 21,943</b>	<b>\$ 126,434</b>	<b>\$ 124,627</b>

### Major Customers

A major customer is defined as an external customer whose transactions within a segment of the Company amount to 10% or greater of the respective segment's revenue. Two major customers of the Licensing segment represented \$66,226 of the segment's total revenues for the three and nine months ended September 30, 2020 while one customer of the Intelligent Systems segment represented \$4,892 of the segment's total revenues for the three months ended September 30, 2020 and \$6,650 of the segment's total revenue for the nine months ended September 30, 2020. For the three months ended September 30, 2019 one customer of the Company's Licensing segment represented \$4,833 of this segment's revenues while revenues from two customers of the Licensing segment represented \$68,666 of this segment's revenues for the nine months ended September 30, 2019. There were no major customers for the Intelligent Systems segment in the three and nine months ended September 30, 2019.

### Remaining performance obligations

As at September 30, 2020 the amount of transaction price allocated to remaining performance obligations was \$35,890. The Company expects to recognize approximately 37% of this balance as revenue in the remainder of 2020, 35% in 2021 and 28% thereafter.

## 17. FINANCIAL RISK MANAGEMENT

### 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, and foreign exchange forward contracts.

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

The Company recognizes a loss allowance provision using the simplified approach based on lifetime expected credit losses ("ECLs"). The Company's exposure to credit risk with its accounts receivable from customers is influenced mainly by the individual characteristics of each customer. The Company's customers are for the most part, large multinational companies or government organizations which do not have a history of non-payment. Credit risk from accounts receivable encompasses the default risk of the Company's customers. Prior to entering into transactions with new customers, the Company assesses the risk of default associated with the particular customer. In addition, on an ongoing basis, management monitors the level of accounts receivable attributable to each customer and the length of

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

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.

None of the amounts outstanding have been challenged by the respective counterparties and the Company continues to conduct business with them on an ongoing basis. Accordingly, management has no reason to believe that these balances are not fully collectable in the future.

The Company reviews financial assets 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 customer to determine the reason for the delay in payment and to establish an agreement to rectify the breach of contractual terms.

### 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. The Company manages its liquidity needs through various sources including cash generated through operations, cash reserves, various revolving credit facilities, and the issuance of common shares. At September 30, 2020, the Company had cash and cash equivalents and short-term investments of \$129,679.

The table below presents a maturity analysis of the Company's financial liabilities:

	<i>Total</i>	<i>Less than 1 year</i>	<i>2 - 3 years</i>	<i>4 - 5 years</i>	<i>Thereafter</i>
Bank indebtedness	\$ 3,214	\$ 3,214	\$ —	\$ —	\$ —
Accounts payable and accrued liabilities	40,198	40,198	—	—	—
Long-term debt	319	44	48	43	184
	<b>\$ 43,731</b>	<b>\$ 43,456</b>	<b>\$ 48</b>	<b>\$ 43</b>	<b>\$ 184</b>

See Note 8 for maturity of lease liabilities.

### Currency Risk

A portion of Quarterhill's revenues and operating expenses are denominated in Canadian dollars, Indian rupee, Chilean peso, Euro, Australian dollar and Chinese Yuan. Because the parent company's functional currency is in US dollars, Quarterhill's operating results are subject to changes in the exchange rate of the foreign currencies (primarily Canadian dollar) relative to the US dollar. Any decrease in the value of the Canadian dollar relative to the US dollar has an unfavorable impact on Canadian dollar denominated revenues and a favorable impact on Canadian dollar denominated operating expenses. Approximately 7.1% 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.

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 Quarterhill 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.

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 nine months ended September 30, 2020 the Company did not hold any foreign exchange forward contracts.

### The COVID-19 Pandemic

While the Company is not immune to the impacts of the pandemic, the majority of the work performed within each portfolio company remains ongoing, and in the case of the Intelligent Systems business segment, certain of its work has been deemed "essential" by governing authorities. However, there remains some risk that certain project work or

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

license sales will be deferred or restricted and new orders delayed, in particular, in international jurisdictions. The Company qualified for the Government of Canada's Canada Emergency Wage Subsidy ("CEWS") program and has recorded amounts as disclosed in Note 12.

### 18. RELATED-PARTY TRANSACTIONS

These interim condensed consolidated financial statements include the accounts of Quarterhill Inc. and its wholly-owned subsidiaries. Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions and balances with XPCT, a joint venture in China in which the Company's subsidiary IRD holds a 50% interest, which is also a related party, are disclosed in Note 9.

Key management personnel are Quarterhill Inc.'s President & Chief Executive Officer, Chief Financial Officer and Senior Vice-President, General Counsel & Corporate Secretary and the Chief Executive Officers of each of International Road Dynamics Inc. and Wi-LAN Inc. Other related parties are close family members of the key management personnel and entities controlled by key management personnel.

The executive compensation expense to the five key management personnel is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Salaries and Benefits	\$ 660	\$ 588	\$ 1,232	\$ 1,455
Board fees	153	148	365	329
Stock-based compensation	153	137	234	278
	<u>\$ 966</u>	<u>\$ 873</u>	<u>\$ 1,831</u>	<u>\$ 2,062</u>

### 19. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Accounts receivable	(59,436)	(2,765)	(32,877)	(1,068)
Unbilled revenue	(5,019)	(813)	(7,045)	(4,317)
Income tax receivable	125	44	(84)	239
Inventories	(185)	(639)	(1,525)	(824)
Prepaid expenses and deposits	(201)	651	(1,497)	647
Deferred revenue	2,451	179	2,399	(152)
Income taxes payable	27,966	(8,086)	15,055	(3,817)
Accounts payable and accrued liabilities	68	4	160	53
	<u>\$ (34,231)</u>	<u>\$ (11,425)</u>	<u>\$ (25,414)</u>	<u>\$ (9,239)</u>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

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### 20. EXPLANATION OF TRANSITION TO IFRS

As stated in note 2, these are the Company's interim condensed consolidated financial statements prepared in accordance with IFRS as issued by the IASB.

The accounting policies set out in note 2 have been applied in preparing these interim condensed consolidated financial statements for the three and nine months ended September 30, 2020, the comparative information for the three and nine months ended September 30, 2019, and in the opening IFRS statement of financial position as at January 1, 2019 (the Company's date of transition).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with US GAAP.

An explanation of the effect of the Company's transition to IFRS is summarized in this note.

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

### Reconciliation of Statements of Financial Position to IFRS as at December 31, 2019 and January 1, 2019

	December 31, 2019				January 1, 2019	
	US GAAP	IFRS adjustments	IFRS	IFRS	US GAAP	IFRS
	US\$	US\$	US\$	CAD\$	US\$	CAD\$
As at						
<b>Current assets</b>						
Cash and cash equivalents	\$ 67,422	\$ —	\$ 67,422	\$ 87,870	\$ 63,929	\$ 87,029
Short-term investments	1,189	—	1,189	1,550	1,139	1,551
Restricted short-term investments	—	—	—	—	2,200	2,995
Accounts receivable (net of allowance for doubtful accounts)	32,936	—	32,936	42,925	10,812	14,719
Other current assets	83	—	83	108	91	124
Unbilled revenue	6,879	—	6,879	8,965	3,990	5,432
Income taxes receivable	105	—	105	137	198	270
Inventories (net of obsolescence)	6,576	—	6,576	8,570	5,960	8,114
Prepaid expenses and deposits	1,720	—	1,720	2,242	2,150	2,927
	116,910	—	116,910	152,367	90,469	123,161
<b>Non-current assets</b>						
Accounts receivable	2,951	—	2,951	3,846	415	565
Right-of-use assets	3,570	(116)	3,454	4,502	2,918	3,972
Property, plant and equipment	2,168	—	2,168	2,826	2,655	3,614
Intangible assets	68,699	—	68,699	89,534	87,425	119,015
Investment in joint venture	4,015	—	4,015	5,233	3,822	5,203
Deferred income tax assets	25,497	31	25,528	33,270	27,141	36,948
Goodwill	25,303	—	25,303	32,977	25,303	34,446
	132,203	(85)	132,118	172,188	149,679	203,763
<b>TOTAL ASSETS</b>	<b>\$ 249,113</b>	<b>\$ (85)</b>	<b>\$ 249,028</b>	<b>\$ 324,555</b>	<b>\$ 240,148</b>	<b>\$ 326,924</b>
<b>Liabilities</b>						
<b>Current liabilities</b>						
Bank indebtedness	\$ 3,089	\$ —	\$ 3,089	\$ 4,026	\$ 2,598	\$ 3,537
Accounts payable and accrued liabilities	19,762	—	19,762	25,755	18,103	24,644
Income taxes payable	156	—	156	203	—	—
Current portion of lease liabilities	766	—	766	998	823	1,120
Contingent liabilities	—	—	—	—	929	1,265
Current portion of deferred revenue	6,628	—	6,628	8,638	4,670	6,357
Current portion of long-term debt	45	—	45	59	299	407
	30,446	—	30,446	39,679	27,422	37,330
<b>Non-current liabilities</b>						
Deferred revenue	1,161	—	1,161	1,513	1,435	1,954
Long-term lease liabilities	2,724	—	2,724	3,550	1,913	2,604
Long-term debt	208	—	208	271	173	236
Deferred income tax liabilities	2,530	—	2,530	3,297	4,337	5,905
	6,623	—	6,623	8,631	7,858	10,699
<b>TOTAL LIABILITIES</b>	<b>37,069</b>	<b>—</b>	<b>37,069</b>	<b>48,310</b>	<b>35,280</b>	<b>48,029</b>
<b>Shareholders' equity</b>						
Capital stock	419,111	—	419,111	570,553	419,111	570,553
Contributed surplus	23,527	—	23,527	32,011	22,957	31,252
Accumulated other comprehensive income	16,797	—	16,797	10,936	16,243	22,112
Deficit	(247,391)	(85)	(247,476)	(337,255)	(253,443)	(345,022)
	212,044	(85)	211,959	276,245	204,868	278,895
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 249,113</b>	<b>\$ (85)</b>	<b>\$ 249,028</b>	<b>\$ 324,555</b>	<b>\$ 240,148</b>	<b>\$ 326,924</b>

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

### Reconciliation of Statement of Income to IFRS for the three months ended September 30, 2019

	US GAAP, as reported	IFRS adjustments	IFRS	IFRS	Viziya Dis Ops	IFRS Restated
	US\$	US\$	US\$	CAD\$	CAD\$	CAD\$
<b>CONTINUING OPERATIONS</b>						
Revenues						
License	\$ 10,542	\$ —	\$ 10,542	\$ 13,920	\$ 9,087	\$ 4,833
Systems	9,532	—	9,532	12,586	—	12,586
Services	610	—	610	805	805	—
Recurring	4,685	—	4,685	6,186	1,662	4,524
	25,369	—	25,369	33,497	11,554	21,943
Direct cost of revenues						
License	6,584	—	6,584	8,694	—	8,694
Systems	5,678	—	5,678	7,497	—	7,497
Services	372	—	372	491	491	—
Recurring	2,465	—	2,465	3,255	—	3,255
	15,099	—	15,099	19,937	491	19,446
Gross profit	10,270	—	10,270	13,560	11,063	2,497
Operating expenses						
Depreciation of right-of-use assets	—	241	241	319	29	290
Depreciation of property, plant and equipment	181	—	181	239	51	188
Amortization of intangibles	5,134	—	5,134	6,779	1,000	5,779
Selling, general and administrative expenses	7,186	(241)	6,945	9,170	2,761	6,409
Research and development expenses	1,229	(74)	1,155	1,524	812	712
Special charges	(11,570)	—	(11,570)	(15,277)	—	(15,277)
	2,160	(74)	2,086	2,754	4,653	(1,899)
Results from operations	8,110	74	8,184	10,806	6,410	4,396
Finance income	(378)	—	(378)	(499)	—	(499)
Finance expense	62	51	113	149	5	144
Foreign exchange loss	(172)	—	(172)	(227)	(17)	(210)
Other income	(119)	—	(119)	(157)	—	(157)
Income before taxes	8,717	23	8,740	11,540	6,422	5,118
Current income tax expense	1,275	75	1,350	1,783	1,441	342
Deferred income tax (recovery) expense	(1,893)	(14)	(1,907)	(2,518)	54	(2,572)
Income tax (recovery) expense	(618)	61	(557)	(735)	1,495	(2,230)
Net income from continuing operations	9,335	(38)	9,297	12,275	4,927	7,348
Net income from discontinued operations	—	—	—	—	—	4,927
Net income	9,335	(38)	9,297	12,275	4,927	12,275
Other comprehensive income that may be reclassified subsequently to net income:						
Foreign currency translation adjustment						1,661
Comprehensive income						\$ 13,936
<b>Net income per share</b>						
From continuing operations	\$ 0.08	\$ —	\$ 0.08	\$ 0.10	\$ 0.04	\$ 0.06
From discontinued operations						0.04
Net income per share - Basic						\$ 0.10
<b>Net income per share - Diluted</b>						
From continuing operations	\$ 0.08	\$ —	\$ 0.08	\$ 0.10	\$ 0.04	\$ 0.06
From discontinued operations						0.04
Net income per share - Diluted						\$ 0.10

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

### Reconciliation of Statement of Income (loss) to IFRS for the Nine months ended September 30, 2019

	US GAAP, as reported	IFRS adjustments	IFRS	IFRS	Viziya Dis Ops	IFRS Restated
	US\$	US\$	US\$	CAD\$	CAD\$	CAD\$
<b>CONTINUING OPERATIONS</b>						
Revenues						
License	\$ 64,103	\$ —	\$ 64,103	\$ 85,339	\$ 10,979	\$ 74,360
Systems	25,626	—	25,626	34,069	—	34,069
Services	1,803	—	1,803	2,396	2,396	—
Recurring	16,031	—	16,031	21,317	5,119	16,198
	107,563	—	107,563	143,121	18,494	124,627
Direct cost of revenues						
License	31,377	—	31,377	41,755	23	41,732
Systems	16,334	—	16,334	21,721	—	21,721
Services	1,018	—	1,018	1,353	1,353	—
Recurring	7,994	—	7,994	10,627	—	10,627
	56,723	—	56,723	75,456	1,376	74,080
Gross profit	50,840	—	50,840	67,665	17,118	50,547
Operating expenses						
Depreciation of right-of-use assets	—	861	861	1,145	89	1,056
Depreciation of property, plant and equipment	921	—	921	1,226	140	1,086
Amortization of intangibles	15,578	—	15,578	20,707	3,019	17,688
Selling, general and administrative expenses	20,423	(893)	19,530	25,953	6,725	19,228
Research and development expenses	3,645	(146)	3,499	4,652	2,423	2,229
Special charges	907	—	907	1,402	—	1,402
	41,474	(178)	41,296	55,085	12,396	42,689
Results from operations	9,366	178	9,544	12,580	4,722	7,858
Finance income	(871)	—	(871)	(1,157)	—	(1,157)
Finance expense	341	128	469	625	16	609
Foreign exchange loss	150	—	150	202	47	155
Other income	(373)	—	(373)	(496)	—	(496)
Income before taxes	10,119	50	10,169	13,406	4,659	8,747
Current income tax expense	5,308	146	5,454	7,239	1,442	5,797
Deferred income tax (recovery) expense	(83)	(26)	(109)	(123)	(618)	495
Income tax expense	5,225	120	5,345	7,116	824	6,292
Net income from continuing operations	4,894	(70)	4,824	6,290	3,835	2,455
Net income from discontinued operations	—	—	—	—	—	3,835
Net income	\$ 4,894	\$ (70)	\$ 4,824	\$ 6,290	\$ 3,835	\$ 6,290

Other comprehensive loss that may be reclassified subsequently to Net income:

Foreign currency translation adjustment						(7,208)
Comprehensive loss						\$ (918)

#### Net income per share

From continuing operations	\$ 0.04	\$ —	\$ 0.04	\$ 0.05	\$ 0.03	\$ 0.02
From discontinued operations						0.03
Net income per share - Basic						\$ 0.05
From continuing operations	\$ 0.04	\$ —	\$ 0.04	\$ 0.05	\$ 0.03	\$ 0.02
From discontinued operations						0.03
Net income per share - Diluted						\$ 0.05

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

### Reconciliation of Statement of Income (loss) to IFRS for the year ended December 31, 2019

	US GAAP, as reported	IFRS adjustments	IFRS	IFRS	Viziya Dis Ops	IFRS Restated
	US\$	US\$	US\$	CAD\$	CAD\$	CAD\$
Revenues						
License	\$ 87,068	\$ —	\$ 87,068	\$ 115,653	\$ 11,122	\$ 104,531
Systems	36,108	—	36,108	47,905	—	47,905
Services	2,490	—	2,490	3,303	3,303	—
Recurring	21,054	—	21,054	27,947	7,458	20,489
	146,720	—	146,720	194,808	21,883	172,925
Direct cost of revenues						
License	40,012	—	40,012	53,153	23	53,130
Systems	22,550	—	22,550	29,926	—	29,926
Services	1,509	—	1,509	2,001	2,001	—
Recurring	9,762	—	9,762	12,961	—	12,961
	73,833	—	73,833	98,041	2,024	96,017
Gross profit	72,887	—	72,887	96,767	19,859	76,908
Operating expenses						
Depreciation of right-of-use assets	—	1,072	1,072	1,423	118	1,305
Depreciation of property, plant and equipment	1,112	—	1,112	1,478	182	1,296
Amortization of intangibles	20,592	—	20,592	27,325	4,020	23,305
Selling, general and administrative expenses	28,722	(1,132)	27,590	36,593	9,874	26,719
Research and development expenses	5,133	(215)	4,918	6,525	3,651	2,874
Impairment losses on intangibles	87	—	87	115	—	115
Special charges	2,173	—	2,173	3,073	1,134	1,939
	57,819	(275)	57,544	76,532	18,979	57,553
Results from operations	15,068	275	15,343	20,235	880	19,355
Finance income	(1,256)	—	(1,256)	(1,665)	—	(1,665)
Finance expense	394	176	570	761	21	740
Foreign exchange loss	266	—	266	355	31	324
Other income	(658)	—	(658)	(872)	(3)	(869)
Income before taxes	16,322	99	16,421	21,656	831	20,825
Current income tax expense	5,991	215	6,206	8,232	115	8,117
Deferred income tax (recovery) expense	(197)	(31)	(228)	(280)	(853)	573
Income tax expense	5,794	184	5,978	7,952	(738)	8,690
Net income from continuing operations	10,528	(85)	10,443	13,704	1,569	12,135
Net income from discontinued operations						\$ 1,569
Net income						\$ 13,704

Other comprehensive income (loss) that may be reclassified subsequently to net income:

Foreign currency translation adjustment						(11,916)
Comprehensive income						\$ 1,788

#### Net income per share

From continuing operations	\$ 0.09	\$ —	\$ 0.09	\$ 0.12	\$ 0.01	\$ 0.10
From discontinued operations						0.01

**Net income per share - Basic** **\$ 0.12**

From continuing operations	\$ 0.09	\$ —	\$ 0.09	\$ 0.12	\$ 0.01	\$ 0.10
From discontinued operations						0.01

**Net income per share - Diluted** **\$ 0.12**

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

### Reconciliation of Statement of Cash Flows to IFRS for the three months ended September 30, 2019

	US GAAP, as reported	IFRS adjustments	IFRS	IFRS	IFRS - Restated
	US\$	US\$	US\$	CAD\$	CAD\$
Cash generated from (used in) Operations					
Net income from continuing operations	\$ 9,335	\$ (38)	\$ 9,297	\$ 12,277	\$ 7,348
Non-cash items					
Stock-based compensation expense	194	–	194	256	238
Depreciation of right-of-use assets	–	241	241	290	290
Interest expense on lease liabilities	–	51	51	67	67
Depreciation and amortization	5,315	–	5,315	7,018	5,967
Foreign exchange (gain) loss	35	–	35	46	46
Equity in earnings from joint venture	(119)	–	(119)	(157)	(157)
Loss (gain) on disposal of assets	(20)	–	(20)	(26)	(26)
Deferred income tax expense (recovery)	(1,893)	(13)	(1,906)	(2,518)	(2,572)
Long-term accounts receivable	(2,593)	–	(2,593)	(3,423)	–
Embedded derivatives	(80)	–	(80)	(106)	(106)
Contingent consideration adjustment	(11,577)	–	(11,577)	(15,286)	(15,286)
Changes in non-cash working capital balances	(10,976)	–	(10,976)	(14,493)	(11,425)
Cash generated from (used in) continuing operations	(12,379)	241	(12,138)	(16,055)	(15,616)
Net cash flows attributable to discontinuing operations					(439)
Net cash generated from (used in) operating activities					(16,055)
Financing					
Dividends paid	(1,117)	–	(1,117)	(1,475)	(1,475)
Bank indebtedness	(761)	–	(761)	(1,005)	(1,005)
Payment of lease liabilities	–	(241)	(241)	(318)	(318)
Repayment of long-term debt	(25)	–	(25)	(33)	(25)
Cash used in continuing operations	(1,903)	(241)	(2,144)	(2,831)	(2,823)
Net cash flows attributable to discontinuing operations					(8)
Net cash used in financing activities	(1,903)	(241)	(2,144)	(2,831)	(2,831)
Investing					
Proceeds from sale of restricted short-term investments	100	–	100	132	132
Proceeds from sale of property, plant and equipment	23	–	23	30	30
Purchase of property and equipment	(264)	–	(264)	(349)	(312)
Purchase of intangibles	(1,332)	–	(1,332)	(1,759)	(1,759)
Cash used in generated from continuing operations	(1,473)	–	(1,473)	(1,946)	(1,909)
Net cash flows attributable to discontinuing operations	–	–	–	–	(37)
Net cash used in from investing activities	(1,473)	–	(1,473)	(1,946)	(1,946)
Foreign exchange loss on cash held in foreign currency	(33)	–	(33)	900	900
Net (decrease) increase in cash and cash equivalents	\$ (15,788)	\$ –	\$ (15,788)	\$ (19,932)	\$ (19,932)
Cash and cash equivalents, beginning of period	84,634	–	84,634	111,083	111,083
Cash and cash equivalents, end of period	\$ 68,846	\$ –	\$ 68,846	\$ 91,151	\$ 91,151

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

### Reconciliation of Statement of Cash Flows to IFRS for the Nine months ended September 30, 2019

	US GAAP, as reported	IFRS adjustments	IFRS	IFRS	IFRS - Restated
	US\$	US\$	US\$	CAD\$	CAD\$
Cash generated from (used in) Operations					
Net income from continuing operations	\$ 4,894	\$ (70)	\$ 4,824	\$ 6,292	\$ 2,454
Non-cash items					
Stock-based compensation expense	603	—	603	802	744
Depreciation of right-of-use assets	—	861	861	1,116	1,056
Interest expense on lease liabilities	—	128	128	170	170
Depreciation and amortization	16,499	—	16,499	21,933	18,774
Foreign exchange (gain) loss	(61)	—	(61)	(81)	(81)
Equity in earnings from joint venture	(370)	—	(370)	(492)	(496)
Loss on disposal of assets	567	—	567	759	759
Deferred income tax expense (recovery)	(83)	(25)	(108)	(123)	495
Long-term accounts receivable	(2,511)	—	(2,511)	(3,400)	(85)
Embedded derivatives	19	—	19	26	26
Contingent consideration adjustment	(929)	—	(929)	(1,042)	(1,042)
Changes in non-cash working capital balances	(9,290)	—	(9,290)	(11,994)	(9,239)
Cash generated from continuing operations	9,338	894	10,232	13,966	13,536
Net cash flows attributable to discontinuing operations			—		430
Net cash generated from operating activities			—		13,966
Financing					
Dividends paid	(3,348)	—	(3,348)	(4,450)	(4,450)
Bank indebtedness	1,155	—	1,155	1,558	1,561
Payment of lease liabilities	—	(894)	(894)	(1,189)	(1,189)
Repayment of long-term debt	(261)	—	(261)	(349)	(325)
Cash used in continuing operations	(2,454)	(894)	(3,348)	(4,430)	(4,403)
Net cash flows attributable to discontinuing operations	—	—	—	—	(27)
Net cash used in financing activities	(2,454)	(894)	(3,348)	(4,430)	(4,430)
Investing					
Proceeds from sale of restricted short-term investments	100	—	100	132	132
Proceeds from sale of property, plant and equipment	23	—	23	30	30
Purchase of property and equipment	(730)	—	(730)	(971)	(811)
Purchase of intangibles	(1,425)	—	(1,425)	(1,884)	(1,884)
Cash used in continuing operations	(2,032)	—	(2,032)	(2,693)	(2,533)
Net cash flows attributable to discontinuing operations	—	—	—	—	(160)
Net cash used in investing activities	(2,032)	—	(2,032)	(2,693)	(2,693)
Foreign exchange gain (loss) on cash held in foreign currency	65	—	65	(2,721)	(2,721)
Net (decrease) increase in cash and cash equivalents	\$ 4,917	\$ —	\$ 4,917	\$ 4,122	\$ 4,122
Cash and cash equivalents, beginning of period	63,929	—	63,929	87,029	87,029
Cash and cash equivalents, end of period	\$ 68,846	\$ —	\$ 68,846	\$ 91,151	\$ 91,151

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

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### Notes to reconciliations

#### Leases

Under US GAAP, all leases recognized by the Company were classified as operating leases and subsequently accounted for as a straight-line expense over the lease term. This expense is comprised of Interest on the accretion of the lease liabilities, calculated using the effective interest rate method, and depreciation of the ROU assets, which is calculated based on the difference in the interest expense and the total straight-line lease expense.

IFRS does not distinguish between operating and finance leases for lessees. A single recognition and measurement model is applied to all leases where the reporting entity acts in the capacity as the lessee. While the effective interest rate method is used to subsequently measure the accretion of the lease liability (the interest expense), similar to US GAAP, the subsequent measurement for the ROU asset differs. Under IFRS, the Company will amortize the ROU assets at the shorter of the estimated useful life and the lease term, on a straight-line basis. Additionally, while all costs relating to leases are recognized as operating expenses under US GAAP, under IFRS the interest expense is classified as a finance expense outside of the line, "Results from operations" whereas depreciation expense continues to be recognized within operating expenses. These classification differences also resulted in corresponding changes to the statement of cash flows.

### IFRS 1 First-time adoption of International Financial Reporting Standards

IFRS 1 *First-time adoption of International Financial Reporting Standards* sets out the reporting requirements when IFRS is adopted for the first time. The Company is required to establish its IFRS accounting policies for the period ended March 31, 2020 and apply those policies retrospectively to determine the Company's consolidated statement of financial position at the date of transition, January 1, 2019. IFRS 1 provides for a number of mandatory exceptions from full retrospective application of IFRS standards effective as of the end of the Company's first IFRS reporting period. None of these mandatory exceptions had a material impact on the Company's transition to IFRS.

IFRS 1 also provides certain optional exemptions from full retrospective application, that may be elected by first time adopters of IFRS. As part of the transition, the Company elected the following optional exemptions:

#### Business Combinations

The company has elected to apply IFRS 3, Business Combinations, prospectively from January 1, 2019. As such, US GAAP balances relating to business combinations entered into before that date, including goodwill, have been carried forward without adjustment.

#### US GAAP revaluation for impaired assets as deemed cost

The Company has elected to record certain of its intangible assets (patent licenses) in the opening statement of financial position on the transition date at its US GAAP revaluation of its previously impaired patent licenses, adjusted for any subsequent changes to depreciation based on differences between US GAAP and IFRS, as these assets' deemed cost at the date of transition.

#### Revenue from contracts with customers

The Company elected to apply select transition provisions per IFRS 15 - *Revenue From Contracts with Customers* upon transition to IFRS. In doing so, the Company will:

- not restate contracts that were completed upon transition to IFRS; completed contracts are determined to be contracts for which the company has transferred all of the goods or services identified in accordance with the company's previous US GAAP;
- for contracts that were modified before the Company's IFRS transition date, the Company has considered the aggregate effect of all modifications when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to satisfied and unsatisfied performance obligations; and

## NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2020 and 2019

(In thousands of Canadian dollars, except share and per share amounts, unless otherwise stated)

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- for all reporting periods presented before the Company's IFRS transition date, not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

### Leases

The Company elected to apply select transition provisions per IFRS 16 – *Leases* upon transition to IFRS. In doing so, the Company has elected to:

- measure the lease liability at January 1, 2019 at the present value of remaining lease payments, discounted using the Company's incremental borrowing rate at January 1, 2019;
- measure the ROU asset at January 1, 2019 at an amount equal to the corresponding lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before January 1, 2019;
- apply IAS 36 to ROU Assets at January 1, 2019;
- not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets;
- exclude initial direct costs from the measurement of the ROU asset at January 1, 2019; and
- use hindsight in determining if the lease term of the contract contains options to extend or terminate the lease.

### Share-based payments

The Company has elected not to retrospectively apply IFRS 2 *Share-based Payments* to equity instruments that were granted and had vested before the transition date. As a result of applying this exemption, the Company applied the provision of IFRS 2 to any outstanding equity instruments that are unvested as at the date of transition to IFRS.

### Foreign currency transactions and advance consideration

The Company has elected not to apply IFRIC 22- *Foreign Currency Transactions and Advance Consideration* to assets, expenses and income recognized before the date of transition to IFRS.