



Quarterhill Inc.

2022 Third Quarter Interim
Condensed Consolidated
Financial Statements
(Unaudited)

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



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

	Note	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Revenues	6, 14				
Licensing		\$ 248	\$ 11,416	\$ 135,625	\$ 21,014
Intelligent Transportation Systems		42,185	24,927	119,192	53,520
		42,433	36,343	254,817	74,534
Direct cost of revenues					
Licensing		2,976	5,318	56,469	16,041
Intelligent Transportation Systems		30,663	15,612	91,549	33,133
		33,639	20,930	148,018	49,174
Gross profit		8,794	15,413	106,799	25,360
Operating expenses					
Depreciation of right-of-use assets		599	418	1,734	1,001
Depreciation of property, plant and equipment		612	323	1,619	812
Amortization of intangible assets		6,015	5,156	18,561	13,994
Selling, general and administrative expenses		12,242	8,831	40,117	22,242
Research and development expenses		516	728	1,953	1,701
Other charges	10, 12	1,405	3,666	16,608	4,048
		21,389	19,122	80,592	43,798
Results from operations		(12,595)	(3,709)	26,207	(18,438)
Finance income		(176)	(56)	(671)	(110)
Finance expense		1,878	343	7,385	524
Foreign exchange gain		(1,546)	(637)	(1,806)	(655)
Other income		(1,170)	(661)	(9,427)	(1,847)
(Loss) income before taxes		(11,581)	(2,698)	30,726	(16,350)
Current income tax expense		312	270	1,469	1,044
Deferred income tax (recovery) expense		(2,179)	(965)	6,402	(4,728)
Income tax (recovery) expense		(1,867)	(695)	7,871	(3,684)
Net (loss) income		\$ (9,714)	\$ (2,003)	\$ 22,855	\$ (12,666)
Other comprehensive income (loss) that may be reclassified subsequently to net (loss) income:					
Foreign currency translation adjustment		15,215	4,439	17,764	(2,407)
Comprehensive income (loss)		\$ 5,501	\$ 2,436	\$ 40,619	\$ (15,073)
Net (loss) income per share	13				
Basic		\$ (0.08)	\$ (0.02)	\$ 0.20	\$ (0.11)
Diluted		\$ (0.08)	\$ (0.02)	\$ 0.18	\$ (0.11)

See accompanying notes to these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Financial Position
(Unaudited)



(in thousands and in Canadian dollars)

As at	Note	September 30, 2022	December 31, 2021
Current assets			
Cash and cash equivalents		\$ 74,201	\$ 70,746
Short-term investments		1,824	1,851
Restricted short-term investments		7,012	3,095
Accounts receivable		20,450	30,176
Unbilled revenue	6	41,751	35,926
Income taxes recoverable		515	385
Inventories (net of obsolescence)		13,553	13,731
Prepaid expenses and deposits		7,204	5,192
		166,510	161,102
Non-current assets			
Accounts receivable		544	505
Prepaid expenses and deposits		1,591	945
Right-of-use assets, net		9,758	7,761
Property, plant and equipment, net		6,814	5,694
Intangible assets, net		145,775	151,355
Investment in joint venture	7	7,669	7,458
Deferred compensation asset		1,640	1,524
Deferred income tax assets		28,283	37,786
Goodwill		56,630	53,065
		258,704	266,093
TOTAL ASSETS		\$ 425,214	\$ 427,195
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 38,218	\$ 42,008
Income taxes payable		1,144	700
Current portion of lease liabilities		2,270	2,166
Current portion of deferred revenue	6	8,684	7,989
Current portion of long-term debt	8	3,424	3,181
		53,740	56,044
Non-current liabilities			
Deferred revenue	6	3,974	2,839
Long-term lease liabilities		7,602	5,626
Long-term debt	8	26,803	58,968
Convertible debentures	9	47,427	45,959
Derivative liability	9	2,118	9,441
Deferred compensation liability		1,453	1,350
Deferred income tax liabilities		1,149	5,852
		90,526	130,035
TOTAL LIABILITIES		144,266	186,079
Shareholders' equity			
Capital stock		546,169	544,345
Contributed surplus		51,091	49,937
Accumulated other comprehensive income		17,908	144
Deficit		(334,220)	(353,310)
		280,948	241,116
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 425,214	\$ 427,195

Contingent liabilities (Note 10)

See accompanying notes to these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)
(in thousands and in Canadian dollars)



	Note	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
Cash used in operations					
Net (loss) income		\$ (9,714)	\$ (2,003)	\$ 22,855	\$ (12,666)
Non-cash items					
Stock-based compensation expense		589	374	1,540	1,384
Depreciation of right-of-use assets		599	418	1,734	1,001
Interest expense on lease liabilities		—	66	—	150
Depreciation and amortization		6,627	5,479	20,180	14,806
Foreign exchange gain		(1,546)	(637)	(1,806)	(655)
Other income		(262)	(587)	(2,104)	(1,774)
Impairment losses on intangible assets		—	158	—	158
Loss on disposal of assets		—	—	70	—
Deferred income tax (recovery) expense		(2,179)	(965)	6,402	(4,728)
Embedded derivatives		881	49	341	54
Gain from change in fair value of derivative liability	9	(908)	—	(7,323)	—
Changes in non-cash working capital balances	16	(20,961)	(13,266)	(617)	(12,773)
Net cash generated (used in) from operating activities		(26,874)	(10,914)	41,272	(15,043)
Financing					
Dividends paid	11	(1,420)	(1,420)	(4,260)	(4,274)
Advances from revolving credit facilities		—	12,727	—	12,727
Increase in long-term debt		—	62,926	—	62,926
Payment of lease liabilities		(777)	(523)	(1,847)	(1,085)
Repayment of long-term debt		(20,777)	—	(35,280)	—
Repurchase of shares for cancellation		—	—	—	(2,065)
Common shares issued for cash on the exercise of options		54	46	1,149	280
Net cash (used in) generated from financing activities		(22,920)	73,756	(40,238)	68,509
Investing					
Proceeds from restricted short-term investments		—	—	1,707	—
Proceeds from short-term investments		—	—	301	3,000
Purchase of restricted short-term investments		—	—	(5,223)	(3,025)
Proceeds from sale of property, plant and equipment		—	—	211	—
Purchase of property, plant and equipment		(1,391)	(331)	(2,487)	(419)
Acquisition of business, VDS		—	—	—	(2,780)
Acquisition of business, ETC		—	(151,469)	—	(151,469)
Dividend received from joint venture		718	1,348	718	1,348
Purchase of intangible assets		(2,083)	(252)	(3,303)	(252)
Net cash used in investing activities		(2,756)	(150,704)	(8,076)	(153,597)
Foreign exchange on cash held in foreign currencies		5,390	1,924	10,497	(1,644)
Net increase (decrease) in cash and cash equivalents		(47,160)	(85,938)	3,455	(101,775)
Cash and cash equivalents, beginning of		121,361	119,863	70,746	135,700
Cash and cash equivalents, end of		\$ 74,201	\$ 33,925	\$ 74,201	\$ 33,925

See accompanying notes to these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Shareholders'
Equity (Unaudited)
(in thousands and in Canadian dollars)



	Note	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity
January 1, 2021		\$ 547,537	\$ 46,250	\$ 3,581	\$ (325,438)	\$ 271,930
Net loss		—	—	—	(12,666)	(12,666)
Repurchase of shares for cancellation		(4,027)	1,962	—	—	(2,065)
Other comprehensive loss		—	—	(2,407)	—	(2,407)
Stock-based compensation expense		—	1,384	—	—	1,384
Exercise of options		387	(107)	—	—	280
Common shares issued from restricted stock units		156	(12)	—	—	144
Common shares issued from performance stock units		12	(12)	—	—	—
Dividends declared	11	—	—	—	(4,274)	(4,274)
September 30, 2021		\$ 544,065	\$ 49,465	\$ 1,174	\$ (342,378)	\$ 252,326
January 1, 2022		\$ 544,345	\$ 49,937	\$ 144	\$ (353,310)	\$ 241,116
Net income		—	—	—	23,350	23,350
Other comprehensive income		—	—	17,764	—	17,764
Stock-based compensation expense		—	1,540	—	—	1,540
Exercise of stock options		1,778	(629)	—	—	1,149
Common shares issued from restricted stock units	11	—	289	—	—	289
Common shares issued from performance stock units	11	46	(46)	—	—	—
Dividends declared		—	—	—	(4,260)	(4,260)
September 30, 2022		\$ 546,169	\$ 51,091	\$ 17,908	\$ (334,220)	\$ 280,948

See accompanying notes to these interim condensed consolidated financial statements.

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2022 and 2021

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

1. NATURE OF BUSINESS

Quarterhill Inc. ("Quarterhill" or the "Company") is a Canadian company incorporated and domiciled in Canada. The address of the Company's registered office is 25 King St. W Suite 1101, Toronto, Ontario, M5L 2A1. The Company's shares are listed under the symbol "QTRH" on the Toronto Stock Exchange (the "TSX") and on the United States OTCQX Best Market under the symbol "QTRHF". Quarterhill is focused on the acquisition, management and growth of companies in the intelligent transportation systems ("ITS") and innovation and licensing industries, which correspond with the Company's operating segments identified as Intelligent Transportation Systems and Licensing.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Statement of compliance

These interim condensed consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, specifically, IAS 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). These financial statements do not include all of the information required in the annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements as at and for the year ended December 31, 2021.

The preparation of these interim condensed consolidated financial statements ("financial statements") in accordance with IAS 34 requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in adjustment to the carrying amount of an asset or liability or the reported amounts of revenue and expenses 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. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, were the same as those that applied to the Company's consolidated financial statements as at and for the year ended December 31, 2021.

The accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements as at and for the year ended December 31, 2021. Several amendments apply for the first time in the current fiscal year, but do not have an impact on the financial statements of the Company. The Company has not early-adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

These financial statements were authorized for issue by the Board of Directors on November 9, 2022.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

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

Amendment to IAS 1, Presentation of Financial Statements - Classification of Liabilities as Current or Non-Current

In January 2020, the IASB issued amendments to paragraphs 69-76 of IAS 1 to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions which exist at the end of a reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective January 1, 2023, with early adoption permitted. The amendments are to be applied retrospectively. Management is currently assessing the impact of this amendment.

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2022 and 2021

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Amendments to IAS 8, Definition of Accounting Estimates

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective January 1, 2023, with early adoption permitted. Management is currently assessing the impact of these amendments.

Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to account policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments are applicable January 1, 2023, with early adoption permitted. Management is currently assessing the impact of these amendments.

4. SEASONALITY AND ONE-TIME NATURE OF REVENUES

Interim period revenues, gross profit and net income or loss are not necessarily indicative of the results of operations for the full fiscal year. Within the Company's Intelligent Transportation Systems segment, seasonal weather conditions in the North American operations in particular may impact installation for certain projects, potentially resulting in lower revenues in the first quarter of a fiscal year, while subsequent quarters are generally when project and service contracts are most active, resulting in higher revenues, gross profit and income during these periods. Patent license revenue earned in the Licensing segment is considered a promise to provide the right to use patented technologies, is recognized when the patent right is effective, and is generally one-time in nature, which may result in significant fluctuations in revenue, gross profit and net income or loss on a quarterly basis.

5. FINANCIAL INSTRUMENTS

Derivatives include the embedded derivative portion of the unearned revenue of US dollar denominated sales contracts in the Company's Canadian, Chilean and Mexican subsidiaries. The fair value of sales contract 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. Derivatives also include the derivative liability portion of convertible debentures and are measured using the Black-Scholes pricing model. Contingent liabilities are carried at fair value, which is calculated using management estimates or, where appropriate, a Monte Carlo simulation model. The fair value long-term debt approximates carrying value as these instruments bear interest at market rates. Convertible debentures are freely traded and thus fair value is determined by the market. 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, approximates their fair value due to the short-term maturity of these items.

Inputs used to calculate the fair value of derivative liability financial instruments 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.

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2022 and 2021

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

6. UNBILLED REVENUE AND DEFERRED REVENUE

Significant changes in unbilled revenue and deferred revenue balances during the nine months ended September 30, 2022 are as follows:

As at	September 30, 2022	December 31, 2021	\$ Change
Unbilled revenue	\$ 41,751	\$ 35,926	\$ 5,825
Deferred revenue - current	(8,684)	(7,989)	(695)
Deferred revenue - non-current	(3,974)	(2,839)	(1,135)
Net contract assets	\$ 29,093	\$ 25,098	\$ 3,995

Revenue recognized for the nine months ended September 30, 2022 that was included in deferred revenue at the beginning of the period was \$6,138 (2021 - \$2,944).

7. INVESTMENT IN JOINT VENTURE

Xuzhou-PAT Control Technologies Limited ("XPCT") is a joint venture in China in which the Company's subsidiary International Road Dynamics, Inc. ("IRD") holds a 50% interest. XPCT has two business divisions providing products and services to both the ITS industry and construction equipment manufacturers. 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 a distributor for the Company's ITS manufactured goods, XPCT provides a strategic advantage to the Company to increase sales in the Chinese market.

IRD had sales to XPCT of \$60 during the nine months ended September 30, 2022 (2021 - \$nil). As at September 30, 2022, accounts receivable from XPCT was \$1. As at December 31, 2021, IRD had amounts owing to XPCT of \$1.

	September 30, 2022	December 31, 2021
Balance, beginning of the year	\$ 7,458	\$ 6,704
Currency (loss) gain on financial statement translation	(354)	178
Company's share of earnings	1,283	1,924
Dividend received	(718)	(1,348)
Balance	\$ 7,669	\$ 7,458

As at September 30, 2022, IRD has an outstanding 100% guarantee to XPCT, for a loan in the amount of 15,000 Chinese yuan or \$2,892 (December 31, 2021 - \$3,008); IRD has the right to seek recourse against its joint venture partner for any amount greater than IRD's proportionate share of the liability. The amount owing represents the maximum amount available to be drawn under this facility.

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2022 and 2021

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8. LONG-TERM DEBT

As at	September 30, 2022	December 31, 2021
Senior term credit facility:		
US\$50,000, due August 31, 2026	\$ 30,813	\$ 62,826
Less: current portion of long-term debt	(3,424)	(3,181)
Debt issuance costs, net of amortization	(586)	(677)
Total long-term debt	\$ 26,803	\$ 58,968

In the prior fiscal year, Quarterhill ITS, the parent company of the ITS segment and wholly owned subsidiary of Quarterhill Inc., entered into a credit agreement to receive senior secured credit facilities from HSBC Bank Canada and Royal Bank of Canada consisting of a revolving credit facility in the maximum amount of US\$15,000 and a term credit facility of US\$50,000. These credit facilities replaced all existing facilities the Company had with HSBC Bank Canada. The interest rate for the facilities as at September 30, 2022, was 5.96% (December 31, 2021 – 3.20%). Both the facilities have a maturity date of August 31, 2026 with a general security agreement over all of the assets in North America of IRD, Electronic Transaction Consultants, LLC and its parent holding company, Quarterhill USA, Inc. The carrying value of these assets as at September 30, 2022 was \$240,898.

As at September 30, 2022 there were no amounts drawn from the revolving credit facility. For any amounts drawn, repayment on the revolving credit facility is ultimately due on the maturity date. The repayment of principal on the term credit facility is structured as quarterly payments based on 1.25% principal repayment per quarter in the first two years and 2.5% per quarter thereafter until the maturity date, upon which the remaining balance is due.

The credit agreement includes covenants, restrictions and events of default usually present in credit facilities of this nature, including requirements to meet certain financial tests periodically and restrictions on additional indebtedness and encumbrances. The financial covenants the Company must maintain are as follows:

- a *Fixed Charge Coverage Ratio* of at least 1.20 to 1.00 on a rolling four-quarter basis; and
- a *Senior Leverage Ratio* of not more than 3.50 to 1.00 as at August 31, 2021 and thereafter up to and including the fiscal quarter ending March 31, 2023 and 3.00 to 1.00 from April 1, 2023 and at all times thereafter, up to and including the maturity date. This ratio may increase by 0.50 to 1.00 for the next two fiscal quarters immediately following an acquisition if the aggregate purchase price is equal to or greater than US\$20,000.

The Company was in compliance with all covenants as at September 30, 2022.

Scheduled principal repayments on long-term debt are as follows:

	Principal
To September 30, 2023	\$ 3,424
To September 30, 2024	6,847
To September 30, 2025	6,847
To August 31, 2026	13,695
	\$ 30,813

The Company also has incurred a revolving demand facility through its WiLAN Inc. ("WiLAN") subsidiary to support letters of credit and/or letters of guarantee with Royal Bank of Canada for which restricted short-term investments are held as collateral. As at September 30, 2022, a \$5,721 (US\$4,178) letter of credit is outstanding against the revolving demand facility.

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2022 and 2021

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

9. CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY

The following table illustrates the allocation of the gross proceeds of the Debentures between debt and equity at issuance and subsequent remeasurement:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Convertible unsecured subordinated debentures:		
<u>Gross proceeds</u>	<u>\$ 57,500</u>	<u>\$ 57,500</u>
Convertible debentures, host debt component	\$ 49,118	\$ 47,967
Debt issuance costs, net of amortization	(1,691)	(2,008)
<u>Convertible debentures</u>	<u>\$ 47,427</u>	<u>\$ 45,959</u>
Convertible debentures, derivative liability component, opening	\$ 9,441	\$ 9,533
Change in fair value of derivative liability	(7,323)	(92)
<u>Convertible debentures, derivative liability component, closing</u>	<u>\$ 2,118</u>	<u>\$ 9,441</u>

On October 27, 2021, the Company completed a brokered financing of \$57,500 by way of the issuance of unsecured subordinated convertible debentures (the "Debentures"), which includes the full exercise of a \$7,500 over allotment option by the underwriters. The Debentures are traded on the TSX under the symbol "QTRH.DB".

The Debentures have a coupon rate of 6%, payable semi-annually, with a maturity date of October 30, 2026 and an initial conversion price into common shares of \$3.80. Each Debenture is convertible into common shares of the Company at the option of the holder at any time prior to the close of business on the earlier of the last business day immediately preceding the date of maturity of October 30, 2026 (the "Maturity Date"). Holders converting their Debentures will, in addition to the applicable number of common shares to be received on conversion, receive accrued and unpaid interest, if any, thereon for the period from the last interest payment date on their Debentures to, but excluding, the date of conversion. Except in certain circumstances involving a "Change of Control", the Debentures will not be redeemable at the option of the Company before October 31, 2024. On or after October 31, 2024 and prior to October 31, 2025, the Debentures may be redeemed in whole or in part at the option of the Company on not more than 60 days' and not less than 30 days' prior notice at a price equal to the principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the common shares on the TSX for twenty consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the then conversion price. On or after October 31, 2025 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part at the option of the Company on not more than 60 days' and not less than 30 days' prior notice at a price equal to their principal amount plus accrued and unpaid interest.

Assuming the conversion of all of the Debentures, the Company will issue 15,131,579 shares. The initial fair value of the conversion option was estimated at \$9,533. The conversion option is considered a derivative because the exercise price is in Canadian dollars whereas the Company's functional currency is US dollars. Accordingly, the Company recognizes the conversion option as a liability at fair value with changes in fair value recognized through other income. The fair value of the conversion option is calculated using the Black-Scholes option pricing model with the following weighted average assumptions.

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Risk-free rate	1.5 %	1.0 %
Expected life (in years)	4.3	4.8
Expected volatility	39.9 %	46.0 %
Expected dividend yield	1.95 %	1.95 %
Share price	\$ 1.86	\$ 2.70

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2022 and 2021

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

10. CONTINGENT LIABILITIES

In connection with Quarterhill's original acquisition of VIZIYA in 2017, the Company agreed to pay VIZIYA's former shareholders up to an additional US\$11,900 in cash and common shares pursuant to the terms of the acquisition agreement if VIZIYA achieved certain targets for its earnings before interest, taxes and amortization ("Eligible Earnings") between at least US\$6,750 and US\$11,850 for the period from April 1, 2017 to July 31, 2019. Additionally, if VIZIYA achieved cumulative Eligible Earnings during that period exceeding US\$11,850, the Company would be required to pay 50% of the amount of those excess Eligible Earnings as additional contingent consideration until that cumulative Eligible Earnings reached a cap of US\$23,700. In 2019, Quarterhill determined that VIZIYA did not achieve the minimum amount of cumulative Eligible Earnings for its former shareholders to be paid any additional amounts. In 2019, VIZIYA's former shareholders initiated arbitration of the Eligible Earnings and additional payment calculations pursuant to the terms of the acquisition agreement. This arbitration and a related litigation matter were fully and finally settled in July 2022 including by way of Quarterhill making a \$14,600 (approximately US\$11,300) payment in cash; all other details of this settlement are confidential. The Company has recognized this payment through "Other charges".

On February 3, 2022, the United States District Court for the District of Delaware issued a decision that WiLAN be required to pay an award of attorney fees and related costs upon the issuance of an order in respect of litigation before that Court. On April 29, 2022, the United States District Court for the District of Delaware issued orders instructing WiLAN to pay US\$3,146 to Sharp Electronics Corporation and US\$1,032 to Vizio, Inc., representing a total amount of US\$4,179. WiLAN filed appeals of these orders with the United States Court of Appeal for the Federal Circuit on May 31, 2022 and as at June 30, 2022, it was determined that it is not more likely than not that a legal liability exists as to these matters and, therefore, no provision has been made in the Company's financial statements related thereto.

11. SHARE CAPITAL

The share capital of the Company consists of the following:

	Authorized	Issued and Outstanding	
		September 30, 2022	December 31, 2021
Common shares	unlimited	114,639,700	113,880,853
Special preferred, redeemable, retractable, non-voting shares	6,351	nil	nil
Preferred shares, issuable in series	unlimited	nil	nil
December 31, 2021			113,880,853
Issuance of common shares upon vesting of restricted stock units			131,316
Issuance of common shares upon vesting of performance stock units			19,196
Exercise of options			608,335
September 30, 2022			114,639,700

	September 30,		September 30,	
	2022	2021	2022	2021
Dividends declared				
Per common share	\$ 0.0125	\$ 0.0125	\$ 0.0375	\$ 0.0375
Amount	\$ 1,420	\$ 1,498	\$ 4,260	\$ 4,274

Restricted Stock Units

Pursuant to the Company's 2018 Equity Incentive Plan (the "Equity Plan"), the Company has granted restricted stock units ("RSUs") to certain employees which may be settled in cash or Common Shares issued from treasury on a one-to-one basis in six tranches, with the first tranche vested at the grant date and each subsequent tranche vesting upon the Company coming out of its regular quarterly blackout for the fiscal quarters ending June 30 and December 31, in 2022, 2023, and 2024 until fully vested. The Company granted 556,721 RSUs on

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March 15, 2021, valued using the most recent TSX closing price for the Common Shares on the grant date of \$2.59 for a total of \$1,441. The Company granted 196,417 RSUs on May 13, 2022, valued using the most recent TSX closing price for the Common Shares on the grant date of \$2.14 for a total of \$420. The Company granted 150,000 RSUs on June 6, 2022, valued using the most recent TSX closing price for the Common Shares on the grant date of \$2.09 for a total of \$314. For the three and nine months ended September 30, 2022, the Company has recognized \$270 and \$715, respectively, in stock-based compensation expense as a result.

12. OTHER CHARGES

Other charges within the interim condensed consolidated statements of (loss) income and comprehensive income (loss) 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, 2022, the Company recognized other charges of \$1,405 and \$16,608, respectively (2021 - \$3,666 and \$4,048) with \$14,600 related to the contingent liability VIZIYA settlement, \$1,405 related to the VIZIYA arbitration legal fees and \$603 related to termination costs.

13. (LOSS) INCOME PER SHARE

Basic (loss) income per share is calculated by dividing net (loss) income by the weighted average number of common shares outstanding during the period. Diluted (loss) income per share is calculated by dividing net (loss) income by the adjusted 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,	
	2022	2021	2022	2021
Numerator:				
Net (loss) income	\$ (9,714)	\$ (2,003)	\$ 22,855	\$ (12,666)
Denominator:				
Weighted average number of common shares outstanding for basic (loss) income per share	114,601,779	113,756,329	114,305,328	114,109,298
Adjustment for stock options	—	—	777,664	—
Dilutive effect of Convertible Debentures	—	—	15,131,579	—
Weighted average number of common shares outstanding for diluted (loss) income per share	114,601,779	113,756,329	130,214,571	114,109,298
Basic	\$ (0.08)	\$ (0.02)	\$ 0.20	\$ (0.11)
Diluted	\$ (0.08)	\$ (0.02)	\$ 0.18	\$ (0.11)

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14. 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 those 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 ("CODM") to make decisions about resources to be allocated to the segment and assess their performance. The Company's CODM 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 Intelligent Transportation Systems and Licensing, follow the same accounting policies as those described in the most recent annual audited consolidated financial statements and are further described below.

Intelligent Transportation Systems – This segment includes companies that provide integrated, tolling and mobility systems and solutions to the ITS industry as well as its adjacent markets. The ITS industry is focused on enhancing the safety, increasing the efficiency and reducing the environmental impact of highway and roadway transportation systems.

Licensing – This 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 include patents relating to memory interface technologies, semiconductor manufacturing and packaging technologies, automotive applications, computer gaming, intelligent personal assistant technologies, enhanced image processing, streaming video technologies, non-volatile Flash memory, DRAM and other memory technologies as well as semiconductor analog circuitry technologies.

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

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14. SEGMENT REPORTING (continued)

Segmented interim condensed consolidated statements of (loss) income for the three and nine months ended September 30, 2022 and 2021 are included below:

	Three months ended September 30, 2022			
	Licensing	Intelligent Transportation Systems	Corporate	Total
Revenues	\$ 248	\$ 42,185	\$ —	\$ 42,433
Direct cost of revenues	2,976	30,663	—	33,639
Gross (loss) profit	(2,728)	11,522	—	8,794
Depreciation of right-of-use assets	53	507	39	599
Depreciation of property, plant and equipment	10	594	8	612
Amortization of intangible assets	3,336	2,679	—	6,015
Selling, general and administrative expenses	997	9,909	1,336	12,242
Research and development expenses	—	516	—	516
Other charges	—	—	1,405	1,405
Results from operations	(7,124)	(2,683)	(2,788)	(12,595)
Finance income	(46)	(1)	(129)	(176)
Finance expense	(217)	1,090	1,005	1,878
Foreign exchange loss (gain)	613	707	(2,866)	(1,546)
Other income	—	(305)	(865)	(1,170)
(Loss) income before taxes	(7,474)	(4,174)	67	(11,581)
Current income tax (recovery) expense	(125)	437	—	312
Deferred income tax recovery	(2,620)	(1,492)	1,933	(2,179)
Income tax recovery	(2,745)	(1,055)	1,933	(1,867)
Net loss	\$ (4,729)	\$ (3,119)	\$ (1,866)	\$ (9,714)

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2022 and 2021

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14. SEGMENT REPORTING (continued)

	Three months ended September 30, 2021			
	Licensing	Intelligent Transportation Systems	Corporate	Total
Revenues	\$ 11,416	\$ 24,927	\$ —	\$ 36,343
Direct cost of revenues	5,318	15,612	—	20,930
Gross profit	6,098	9,315	—	15,413
Depreciation of right-of-use assets	52	330	36	418
Depreciation of property, plant and equipment	12	300	11	323
Amortization of intangible assets	3,073	2,083	—	5,156
Selling, general and administrative expenses	850	5,511	2,470	8,831
Research and development expenses	—	728	—	728
Other charges	—	3,538	128	3,666
Results from operations	2,111	(3,175)	(2,645)	(3,709)
Finance income	(28)	(1)	(27)	(56)
Finance expense	40	296	7	343
Foreign exchange loss (gain)	306	(620)	(323)	(637)
Other income	—	(655)	(6)	(661)
Income (loss) before taxes	1,793	(2,195)	(2,296)	(2,698)
Current income tax expense (recovery)	47	227	(4)	270
Deferred income tax (recovery) expense	(261)	(1,082)	378	(965)
Income tax (recovery) expense	(214)	(855)	374	(695)
Net income (loss)	\$ 2,007	\$ (1,340)	\$ (2,670)	\$ (2,003)

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14. SEGMENT REPORTING (continued)

	Nine months ended September 30, 2022			
	Licensing	Intelligent Transportation Systems	Corporate	Total
Revenues	\$ 135,625	\$ 119,192	\$ —	\$ 254,817
Direct cost of revenues	56,469	91,549	—	148,018
Gross profit	79,156	27,643	—	106,799
Depreciation of right-of-use assets	154	1,469	111	1,734
Depreciation of property, plant and equipment	29	1,566	24	1,619
Amortization of intangible assets	9,774	8,787	—	18,561
Selling, general and administrative expenses	3,428	28,953	7,736	40,117
Research and development expenses	—	1,953	—	1,953
Other charges	601	2	16,005	16,608
Results from operations	65,170	(15,087)	(23,876)	26,207
Finance income	(421)	(1)	(249)	(671)
Finance expense	208	2,548	4,629	7,385
Foreign exchange loss (gain)	863	648	(3,317)	(1,806)
Other income	—	(1,439)	(7,988)	(9,427)
Income (loss) before taxes	64,520	(16,843)	(16,951)	30,726
Current income tax expense	480	989	—	1,469
Deferred income tax expense (recovery)	5,979	(4,633)	5,056	6,402
Income tax expense (recovery)	6,459	(3,644)	5,056	7,871
Net income (loss)	\$ 58,061	\$ (13,199)	\$ (22,007)	\$ 22,855

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14. SEGMENT REPORTING (continued)

	Nine months ended September 30, 2021			
	Licensing	Intelligent Transportation Systems	Corporate	Total
Revenues	\$ 21,014	\$ 53,520	\$ —	\$ 74,534
Direct cost of revenues	16,041	33,133	—	49,174
Gross profit	4,973	20,387	—	25,360
Depreciation of right-of-use assets	149	715	137	1,001
Depreciation of property, plant and equipment	34	760	18	812
Amortization of intangible assets	9,135	4,859	—	13,994
Selling, general and administrative expenses	2,976	11,638	7,628	22,242
Research and development expenses	—	1,701	—	1,701
Other charges	—	3,733	315	4,048
Results from operations	(7,321)	(3,019)	(8,098)	(18,438)
Finance income	(47)	(1)	(62)	(110)
Finance expense	102	395	27	524
Foreign exchange gain	(82)	(460)	(113)	(655)
Other income (loss)	—	(1,850)	3	(1,847)
Loss before taxes	(7,294)	(1,103)	(7,953)	(16,350)
Current income tax expense	550	494	—	1,044
Deferred income tax (recovery) expense	(3,537)	(1,626)	435	(4,728)
Income tax (recovery) expense	(2,987)	(1,132)	435	(3,684)
Net (loss) income	\$ (4,307)	\$ 29	\$ (8,388)	\$ (12,666)

The following table includes revenue by contracts disaggregated by the timing of revenue recognition:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Revenue recognized at a point in time	\$ 11,874	\$ 15,773	\$ 144,416	\$ 36,152
Revenue recognized over time	30,559	20,570	110,401	38,382
Total revenues	\$ 42,433	\$ 36,343	\$ 254,817	\$ 74,534

15. FINANCIAL RISK MANAGEMENT

Credit Risk

Credit risk is the risk of financial loss to the Company if a licensee or counterparty 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, restricted short-term investments, accounts receivable and unbilled revenue.

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

The Company recognizes a loss allowance provision using the simplified approach based on lifetime expected credit losses. 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 that do not have a history of consistent 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 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 material 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.

The Company reviews financial assets on an ongoing basis with the objective of identifying potential matters that 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, long-term debt and the issuance of common shares.

Market Risk

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

Interest Rate Risk

The financial instruments that expose the Company to interest rate risk are its cash and cash equivalents, short-term investments, restricted short-term investments, bank indebtedness and long-term debt. The Company's objectives of managing its cash and cash equivalents, short-term investments, restricted short-term investments, bank indebtedness and long-term debt are to ensure sufficient funds are maintained on hand at all times to meet day-to-day requirements and to place any amounts that are considered in excess of day-to-day requirements on short-term deposit with the Company's banks so that they earn interest. When placing amounts of cash and cash equivalents into short-term investments, the Company only places investments with Canadian chartered banks and ensures that access to the amounts placed can be obtained on short notice. A one percent increase or decrease in interest rates would not have resulted in a material increase or decrease in interest income or expense during the period.

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15. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

Portions of the Company's revenues and operating expenses are denominated in US dollars, Chilean pesos, Mexican pesos, Euros and Chinese yuan. Because these financial statements are reported in Canadian dollars, the Company's operating results are subject to changes in the exchange rate of the foreign currencies (primarily US dollars) relative to the Canadian dollar. For instance, a decrease in the value of the US dollar relative to the Canadian dollar has an unfavourable impact on US dollar denominated revenues and a favourable impact on US dollar denominated direct cost of revenues and operating expenses. Approximately 76% of the Company's cash and cash equivalents and short-term investments are denominated in US dollars and are subject to changes in the exchange rate of the Canadian dollar relative to the US dollar.

From time to time, the Company may manage the risk associated with foreign exchange rate fluctuations by entering into foreign exchange forward contracts and engaging in other hedging strategies. To the extent that the Company 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 did not hold any foreign exchange forward contracts as at September 30, 2022.

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 Transportation Systems segment, certain of its work has been deemed "essential" by governing authorities. However, there remains some risk that certain project work or license sales will be deferred or restricted and new orders delayed, in particular, in international jurisdictions.

16. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Accounts receivable	\$ 1,367	\$ (6,625)	\$ 9,687	\$ (5,009)
Unbilled revenue	(9,234)	(5,586)	(5,825)	(2,959)
Income taxes recoverable	(58)	(186)	(130)	(161)
Inventories	592	(1,346)	178	(2,575)
Prepaid expenses and deposits	(868)	175	(2,658)	(1,015)
Deferred revenue	1,766	(165)	1,830	1,467
Deferred compensation asset	(94)	—	(116)	—
Deferred compensation liability	83	—	103	—
Accounts payable and accrued liabilities	(14,535)	757	(3,790)	(2,492)
Income taxes payable	20	(290)	104	\$ (29)
	\$ (20,961)	\$ (13,266)	\$ (617)	(12,773)

Supplemental Cash Flow Information

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Interest in cash, included in operations	\$ (699)	\$ (4)	\$ (1,020)	\$ 20
Taxes paid	215	26	1,166	265

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17. COMPARATIVE INFORMATION

In preparing the Company's financial statements for the three and nine months ended September 30, 2022, management determined that certain revenues and expenses previously reported for the three and six months ended June 30, 2022, by its subsidiaries were not appropriately recorded in the consolidated statements of loss and comprehensive loss.

The effects of these corrections had an impact on the consolidated statement of financial position as at June 30, 2022 and the consolidated statement of changes in shareholders' equity for the three and six months ended June 30, 2022.

The interim condensed consolidated statements of (loss) income have been restated as follows:

	Previously reported		Effect of correction		Restated	
	Three months ended June 30, 2022	Six months ended June 30, 2022	Three months ended June 30, 2022	Six months ended June 30, 2022	Three months ended June 30, 2022	Six months ended June 30, 2022
Revenues						
Intelligent Transportation Systems	\$ 39,230	\$ 76,997	\$ 10	\$ 10	\$ 39,240	\$ 77,007
Direct costs of revenue						
Intelligent Transportation Systems	33,235	60,381	505	505	33,740	60,886
Net loss (income)	(23,837)	33,064	(495)	(495)	(24,332)	32,569
Foreign currency translation adjustment	5,992	2,054	495	495	6,487	2,549
Comprehensive (loss) income	(17,845)	35,118	495	495	(17,350)	35,613

The interim condensed consolidated statement of financial position has been restated as follows:

	Previously reported	Effect of correction	Restated
	As at June 30, 2022	As at June 30, 2022	As at June 30, 2022
Accumulated other comprehensive income	\$ 2,198	\$ 495	\$ 2,693
Deficit	(323,086)	(495)	(323,581)

The interim condensed consolidated statement of shareholders' equity has been restated as follows:

	Previously reported	Effect of correction	Restated
	Six months ended June 30, 2022	Six months ended June 30, 2022	Six months ended June 30, 2022
Other comprehensive income	\$ 2,054	\$ 495	\$ 2,549
Net income	33,064	(495)	32,569