



Quarterhill Inc.

2023 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,	
		2023	2022	2023	2022
Revenues	7	\$45,685	\$42,185	\$135,865	\$119,192
Direct cost of revenues		35,120	30,663	106,785	91,549
Gross profit		10,565	11,522	29,080	27,643
Operating expenses					
Depreciation of right-of-use assets		566	546	1,537	1,580
Depreciation of property, plant and equipment		532	602	1,634	1,590
Amortization of intangible assets		2,733	2,679	8,358	8,787
Selling, general and administrative expenses		8,219	11,245	25,859	36,689
Research and development expenses		756	516	3,285	1,953
Other charges	14	523	1,405	2,571	16,007
		13,329	16,993	43,244	66,606
Results from operations		(2,764)	(5,471)	(14,164)	(38,963)
Finance income		(486)	(130)	(567)	(250)
Finance expense		2,193	2,095	6,730	7,177
Foreign exchange gain		(2,026)	(2,159)	(540)	(2,669)
Other income		(475)	(1,170)	(1,383)	(9,427)
Loss before taxes		(1,970)	(4,107)	(18,404)	(33,794)
Current income tax expense (recovery)		33	437	(3,417)	989
Deferred income tax expense		225	441	13,201	423
Income tax expense		258	878	9,784	1,412
Net loss from continuing operations		(2,228)	(4,985)	(28,188)	(35,206)
Net income (loss) from discontinued operations	4	365	(4,729)	(21,809)	58,061
Net (loss) income		(1,863)	(9,714)	(49,997)	22,855
Other comprehensive income that may be reclassified subsequently to net (loss) income:					
Foreign currency translation adjustment		6,318	15,215	903	17,764
Comprehensive income (loss)		\$4,455	\$5,501	(\$49,094)	\$40,619
(Loss) income per share - Basic					
From continuing operations		(\$0.02)	(\$0.04)	(\$0.25)	(\$0.31)
From discontinued operations		-	(0.04)	(0.19)	0.51
(Loss) income per share - Basic	15	(\$0.02)	(\$0.08)	(\$0.44)	\$0.20
(Loss) income per share - Diluted					
From continuing operations		(\$0.02)	(\$0.04)	(\$0.25)	(\$0.31)
From discontinued operations		-	(0.04)	(0.19)	0.51
(Loss) income per share - Diluted	15	(\$0.02)	(\$0.08)	(\$0.44)	\$0.20

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, 2023	December 31, 2022
Current assets			
Cash and cash equivalents		\$60,868	\$66,357
Short-term investments		-	1,550
Restricted short-term investments		-	6,529
Accounts receivable, net		30,847	23,277
Unbilled revenue	7	38,246	41,423
Income taxes receivable		253	340
Inventories (net of obsolescence)		14,677	13,671
Prepaid expenses and deposits		6,283	6,852
		151,174	159,999
Non-current assets			
Accounts and other long-term receivables		5,699	539
Long-term prepaid expenses and deposits		478	1,705
Right-of-use assets, net		9,481	10,312
Property, plant and equipment, net		6,629	6,926
Intangible assets, net		111,009	141,335
Investment in joint venture	8	7,732	7,751
Investment in other entity	4, 9	3,974	-
Deferred compensation asset	10	1,219	1,344
Deferred income tax assets		20	25,648
Goodwill		39,254	56,385
		185,495	251,945
TOTAL ASSETS		\$336,669	\$411,944
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$27,239	\$47,063
Income taxes payable		683	982
Current portion of lease liabilities		2,633	2,611
Current portion of deferred revenue	7	6,660	8,542
Current portion of long-term debt	11	2,886	29,292
		40,101	88,490
Non-current liabilities			
Deferred revenue	7	1,871	2,744
Long-term lease liabilities		8,377	9,655
Long-term debt	11	24,197	-
Convertible debentures	12	50,042	48,379
Derivative liability	12	1,277	1,786
Deferred compensation liabilities	10	1,205	1,169
Deferred income tax liabilities		1,886	2,061
		88,855	65,794
TOTAL LIABILITIES		128,956	154,284
Shareholders' equity			
Capital stock	13	427,060	546,482
Contributed surplus	13	170,960	50,958
Accumulated other comprehensive income		17,360	16,457
Deficit		(407,667)	(356,237)
		207,713	257,660
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$336,669	\$411,944

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		Nine months ended	
		September 30,		September 30,	
		2023	2022	2023	2022
Operating activities:					
Net loss from continuing operations		(\$2,228)	(\$4,985)	(\$28,188)	(\$35,206)
Add (deduct) non-cash items:					
Stock-based compensation expense		345	536	710	1,305
Depreciation of right-of-use assets		566	546	1,537	1,580
Depreciation and amortization		3,265	3,281	9,992	10,377
Foreign exchange gain		(2,026)	(2,159)	(540)	(2,669)
Other income, excluding change in derivative liability		(227)	(262)	(874)	(2,104)
Loss on disposal of assets		-	-	-	70
Deferred income tax expense		225	441	9,332	423
Embedded derivatives		-	881	126	341
Change in fair value of derivative liability	12	(248)	(908)	(509)	(7,323)
Non-cash interest expense		727	-	2,546	452
Net change in non-cash working capital balances	17	(2,711)	(20,895)	(15,106)	(42,200)
Cash used in continuing operations		(2,312)	(23,524)	(20,974)	(74,954)
Net cash flows attributable to discontinued operations		-	(3,350)	(6,303)	116,721
Net cash (used in) generated from operating activities		(2,312)	(26,874)	(27,277)	41,767
Financing activities:					
Dividends paid		-	(1,420)	(2,866)	(4,260)
Payment of lease liabilities		(288)	(710)	(1,403)	(1,646)
Repayment of long-term debt		(721)	(20,777)	(2,396)	(35,280)
Common shares issued for cash on the exercise of options		107	54	107	1,149
Cash used in financing activities		(902)	(22,853)	(6,558)	(40,037)
Net financing cash flows attributable to discontinued operations		-	(67)	(135)	(201)
Net cash used in financing activities		(902)	(22,920)	(6,693)	(40,238)
Investing activities:					
Net proceeds from disposition of a subsidiary	4	497	-	43,181	-
Cash sold on disposition of a subsidiary	4	-	-	(10,501)	-
Proceeds from short-term investments		-	-	-	301
Proceeds from sale of property, plant and equipment		56	-	56	211
Purchase of property, plant and equipment		(360)	(1,391)	(1,220)	(2,487)
Dividend received from joint venture	8	-	718	-	718
Capitalized software costs		(1,057)	(2,083)	(4,179)	(3,303)
Cash (used in) generated from investing activities		(864)	(2,756)	27,337	(4,560)
Net investing cash flows attributable to discontinued operations		-	-	1,603	(3,516)
Net cash (used in) generated from financing activities		(864)	(2,756)	28,940	(8,076)
Foreign exchange on cash held in foreign currencies		3,930	5,390	(459)	10,002
Net (decrease) increase in cash and cash equivalents		(148)	(47,160)	(5,489)	3,455
Cash and cash equivalents, beginning of		61,016	121,361	66,357	70,746
Cash and cash equivalents, end of		\$60,868	\$74,201	\$60,868	\$74,201

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
Balance, January 1, 2022		\$544,345	\$49,937	\$144	(\$353,310)	\$241,116
Net income		-	-	-	22,855	22,855
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		-	289	-	-	289
Common shares issued from performance stock units		46	(46)	-	-	-
Dividends declared	13	-	-	-	(4,260)	(4,260)
Balance, September 30, 2022		\$546,169	\$51,091	\$17,908	(\$334,715)	\$280,453
Balance, January 1, 2023		\$546,482	\$50,958	\$16,457	(\$356,237)	\$257,660
Net loss		-	-	-	(49,997)	(49,997)
Other comprehensive income		-	-	903	-	903
Stock-based compensation expense		-	710	-	-	710
Exercise of stock options		195	(88)	-	-	107
Common shares issued from restricted stock units		308	(545)	-	-	(237)
Common shares issued from deferred stock units		75	(75)	-	-	-
Reduction of stated capital	13	(120,000)	120,000	-	-	-
Dividends declared	13	-	-	-	(1,433)	(1,433)
Balance, September 30, 2023		\$427,060	\$170,960	\$17,360	\$(407,667)	\$207,713

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, 2023 and 2022

(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 200 Bay Street, Suite 1200, Toronto, Ontario, M5J 2J2. 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") industry.

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 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, 2022.

The preparation of these 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 annual consolidated financial statements as at and for the year ended December 31, 2022.

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, 2022, apart from any listed below. 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.

Discontinued operations

A discontinued operation is a component of the Company's business, of which the operations and cash flows 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.

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 interim condensed consolidated statements of (loss) income and comprehensive income (loss) and interim condensed consolidated statements of cash flows for all periods presented.

These financial statements were authorized for issue by the Board of Directors on November 7, 2023.

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.

Amendments to IAS 1, "Presentation of Financial Statements" - *Classification of Liabilities as Current or Non-Current*

In January 2020 and October 2022, the IASB issued amendments to paragraphs 69 to 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 for annual periods on or after January 1, 2024, with early adoption permitted. The amendments are to be applied retrospectively.

Amendments to IFRS 16, "Leases" - *Lease Liability in a Sale and Leaseback*

In September 2022, the IASB issued *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16). The amendment to IFRS 16 *Leases* specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognize any amount of the gain or loss that relates to the right of use it retains. After the commencement date in a sale and leaseback transaction, the seller-lessee applies paragraphs 29 to 35 of IFRS 16 to the right-of-use asset arising from the leaseback and paragraphs 36 to 46 of IFRS 16 to the lease liability arising from the leaseback. In applying paragraphs 36 to 46, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognize any amount of the gain or loss that relates to the right of use retained by the seller-lessee. Applying these requirements does not prevent the seller-lessee from recognizing, in profit or loss, any gain or loss relating to the partial or full termination of a lease, as required by paragraph 46(a) of IFRS 16. The amendments are effective for annual periods on or after January 1, 2024, with early adoption permitted. The amendments are to be applied retrospectively.

Management is currently assessing the impact of these amendments.

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

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

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

4. DISCONTINUED OPERATIONS

On June 15, 2023, the Company sold its subsidiary WiLAN Inc. and its related entities ("WiLAN") for a combination of cash, equity and other non-cash proceeds totalling an estimated fair market value of \$54,286. During the three months ended September 30, 2023, the Company finalized closing costs, net working capital adjustments and liability settlements resulting in an additional \$497 of net cash consideration. This adjusted the fair market value of the proceeds of sale to \$54,286. Equity consideration retained consists of 10% of WiLAN currently recognized at fair market value on the interim condensed consolidated statement of financial position using level 3 inputs. The contingent consideration has also be fair valued using level 3 inputs. WiLAN represented the Company's Licensing segment since its inception and, thus, upon disposition the Company currently has a single operating segment, comprised solely of its ITS operations. As a result of the sale the Company recognized the following loss on sale in the interim condensed consolidated statement of (loss) income:

Loss on sale of WiLAN

Gross cash proceeds at time of sale	\$46,378
Amounts in escrow or receivable	2,176
Fair value of contingent consideration	5,065
Fair value of equity investment in other entity	3,864
Transaction costs	(3,694)
Subsequent adjustment to proceeds of sale (net)	497
Net proceeds of sale	54,286
Net assets disposed (including cash of \$10,501)	(62,625)
Cumulative foreign exchange loss reclassified from equity	(3,166)
Loss on disposal, before tax	(\$11,505)

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Revenues	-	\$248	\$5,850	\$135,625
Direct cost of revenues	-	2,976	8,160	56,469
Gross (loss) profit	-	(2,728)	(2,310)	79,156
Operating expenses	-	4,396	7,918	13,986
Results from operations	-	(7,124)	(10,228)	65,170
Other (income) expenses	-	350	(303)	650
(Loss) income before taxes	-	(7,474)	(9,925)	64,520
Current income tax (recovery) expense	-	(125)	(375)	480
Deferred income tax (recovery) expense	-	(2,620)	(3,357)	5,979
(Loss) income from discontinued operations	-	(4,729)	(6,193)	58,061
(Gain) loss on disposal, before tax	(497)	-	11,505	-
Income tax expense on disposal	132	-	4,111	-
Net income (loss) from discontinued operations	\$365	(\$4,729)	(\$21,809)	\$58,061

5. 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. 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 net income during these periods.

6. 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 option pricing model. The fair value of convertible debentures and long-term debt approximates their carrying value as these instruments bear interest at market rates. The carrying amount of the Company's other financial assets and liabilities, including cash and cash equivalents, short-term investments, accounts receivable, unbilled

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

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

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

6. FINANCIAL INSTRUMENTS (continued)

revenue and accounts payable and accrued liabilities, approximates their fair values due to the short-term maturity of these items. Inputs used to calculate the fair value of derivative liability and convertible debentures financial instruments are classified as Level 2 inputs, and inputs for all other financial instruments for which fair value approximates carrying value are classified as Level 1 inputs. Equity investments in associates are measured using level 3 inputs.

7. UNBILLED REVENUE AND DEFERRED REVENUE

Significant changes in unbilled revenue and deferred revenue balances during the nine months ended September 30, 2023 are as follows:

As at	September 30, 2023	December 31, 2022	\$ Change
Unbilled revenue	\$38,246	\$41,423	(\$3,177)
Deferred revenue - current	(6,660)	(8,542)	1,882
Deferred revenue - non-current	(1,871)	(2,744)	873
Net contract assets	\$29,715	\$30,137	(\$422)

Revenue recognized for the nine months ended September 30, 2023 that was included in deferred revenue at the beginning of the year was \$5,104 (2022 - \$6,138).

8. INVESTMENT IN JOINT VENTURE

	September 30, 2023	December 31, 2022
Balance, beginning of the year	\$7,751	\$7,458
Currency loss on financial statement translation	(632)	(223)
Company's share of earnings	613	1,806
Dividend received	-	(1,290)
Balance, as at	\$7,732	\$7,751

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.

IRD had sales to XPCT of \$11 during the nine months ended September 30, 2023 (nine months ended September 30, 2022 - \$60). As at September 30, 2023, XPCT had \$nil owing to IRD (December 31, 2022 - \$nil).

As at September 30, 2023, IRD has an outstanding 100% joint and several liability guarantee to XPCT, for a loan in the amount of 15,000 Chinese yuan, or \$2,811 (December 31, 2022 - \$2,945); however, IRD can 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, 2023 and 2022

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

9. INVESTMENT IN OTHER ENTITY

On June 15, 2023, as part of the consideration for the sale of WiLAN, the Company retained a 10% equity stake in WiLAN. The investment is recorded at fair value using level 3 inputs, with changes in fair value recognized through profit or loss. As of September 30, 2023, the investment in WiLAN is valued at \$3,974.

10. DEFERRED COMPENSATION

The Company's subsidiary, Electronic Transaction Consultants, LLC ("ETC"), provides a deferred compensation plan that enables upper-level management and executives to defer compensation until retirement. ETC funds these deferred compensation liabilities by making contributions to a trust invested in various mutual funds, presented as a deferred compensation asset on the financial statements.

11. LONG-TERM DEBT

As at	<u>September 30, 2023</u>	<u>December 31, 2022</u>
Senior term credit facility:		
US\$50,000 due September 1, 2026	\$27,413	\$29,681
Less: current portion of long-term debt	(2,886)	(29,292)
Debt issuance costs, net of amortization	(330)	(389)
Total long-term debt	\$24,197	-

During the year ended December 31, 2021, Quarterhill ITS, the parent company of IRD and ETC, 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, 2023 was 8.79%. Both of the facilities have a maturity date of September 1, 2026, with a general security agreement over all of the assets in North America of IRD, ETC and its parent holding company, Quarterhill USA Inc. The carrying value of these assets as at September 30, 2023 was \$269,070.

During the nine months ended September 30, 2023, no amounts were drawn from the revolving credit facility. Repayments, if any amounts are drawn, on the revolving credit facility are ultimately due on the maturity date.

On June 27, 2023 ("Amendment Date"), the Company finalized an amendment to its existing credit agreement. As of the Amendment Date, the balance on the term loan was US\$21,250. The amendment modifies certain terms and conditions of the credit agreement to provide the Company with additional flexibility in its covenant and cash

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

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

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

11. LONG-TERM DEBT (continued)

management, including a waiver on the Senior Leverage Ratio for all reporting periods up to March 31, 2024 (the "Covenant Relief Period") and a reduction in the revolving credit facility from US\$15,000 to US\$5,000.

Repayment of principal on the term credit facility has been renegotiated to 2.5% of the balance as at the Amendment Date per quarter up to the maturity date, upon which the remaining balance is due.

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. During the Covenant Relief Period, this covenant is satisfied through support of the parent company to Quarterhill ITS;
- A Senior Leverage Ratio of not more than 3.50 to 1.00 as at September 1, 2021 and thereafter up to and including the fiscal quarter ending March 31, 2023. From April 1, 2023 and at all times thereafter, up to and including the maturity date, the Senior Leverage Ratio may not exceed 3.00 to 1.00. This covenant is waived for all reporting periods from March 31, 2023 up to March 31, 2024. 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; and
- Certain minimum earnings thresholds must be met at each reporting quarter during the covenant relief period.

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

	Principal
To September 30, 2024	\$2,886
To September 30, 2025	2,886
To September 1, 2026	21,641
	\$27,413

The Company was in compliance with its financial covenants as at September 30, 2023.

Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

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

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

12. CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY

The following table illustrates the allocation of the gross proceeds of the unsecured subordinated convertible debentures (the "Debentures") between debt and equity at issuance and subsequent remeasurement:

	September 30, 2023	December 31, 2022
Convertible Unsecured Subordinated Debentures:		
Gross proceeds	\$57,500	\$57,500
Convertible debentures, host debt component	\$51,370	\$50,003
Debt issuance costs, net of amortization	(1,328)	(1,624)
Convertible debentures	\$50,042	\$48,379
Convertible debentures, derivative liability component, opening	\$1,786	\$9,441
Change in fair value of derivative liability	(509)	(7,655)
Derivative liability, ending	\$1,277	\$1,786

On October 27, 2021, the Company completed a brokered financing of \$57,500 by way of the issuance of the Debentures, which includes the full exercise of a \$7,500 overallotment 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").

Holder 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 up 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 20 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.

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

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

12. CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY (continued)

Assuming the conversion of all of the Debentures, the Company will issue 15,131,579 common shares. The conversion option is considered a derivative because the exercise price is in Canadian dollars whereas the Company's functional currency is in US dollars.

Accordingly, the Company recognizes the conversion option as a liability at fair value with changes in fair value recognized through profit or loss. The fair value of the conversion option is calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

As at	September 30, 2023	December 31, 2022
Risk-free rate	5.00%	3.89%
Expected life (in years)	3.08	3.80
Expected volatility	40%	38%
Expected dividend yield	0.86%	1.95%
Share price	\$1.46	\$1.58

Debt issuance costs incurred in 2021 associated with the issuance of the Debentures were \$2,476 and were allocated between the host debt and the conversion option on a relative fair value basis.

13. SHARE CAPITAL

The share capital of the Company consists of the following:

	Issued and Outstanding		
	Authorized	September 30, 2023	December 31, 2022
a) Common shares, with no par value	Unlimited	115,021,304	114,639,700
b) Special preferred, redeemable, retractable, non-voting shares	6,350.90	Nil	Nil
c) Preferred shares, issuable in series	Unlimited	Nil	Nil
			Number
January 1, 2022			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 stock options			608,335
December 31, 2022			114,639,700
Issuance of common shares upon vesting of restricted stock units			223,636
Conversion of deferred stock units to common shares			51,168
Exercise of stock options			106,800
September 30, 2023			115,021,304

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13. SHARE CAPITAL (continued)

Dividends

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Dividends declared				
Per common share	-	\$0.0125	\$0.0125	\$0.0375
Amount	-	\$1,420	\$1,433	\$4,260

Stated Capital Reduction

On May 8, 2023, the Company's shareholders approved a reduction of the stated capital of the Company in the amount of \$120,000. The purpose of the stated capital reduction was to grant the Board of Directors more flexibility in capital management, specifically in relation to its ability to distribute dividends. The reduction in stated capital was offset by a corresponding increase in contributed surplus.

14. 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 cost reduction initiatives that the Company has undertaken from time to time, acquisition-related costs and recoveries and other charges.

Other charges for the three and nine months ended September 30, 2023 and September 30, 2022 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Termination costs	\$523	-	\$2,571	-
VIZIYA settlement	-	1,405	-	16,007
Total other charges	\$523	\$1,405	\$2,571	\$16,007

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

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15. (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		Nine months ended	
	2023	2022	2023	2022
Numerator:				
Net loss from continuing operations	(\$2,228)	(\$4,985)	(\$28,188)	(\$35,206)
Net income (loss) from discontinued operations	365	(4,729)	(21,809)	58,061
Net (loss) income	(\$1,863)	(\$9,714)	(\$49,997)	\$22,855
Denominator:				
Weighted average number of common shares outstanding for basic (loss) income per share	114,785,188	114,601,779	114,692,086	114,305,328
Weighted average number of common shares outstanding for diluted (loss) income per share	114,785,188	114,601,779	114,692,086	114,305,328
From continuing operations	(\$0.02)	(\$0.04)	(\$0.25)	(\$0.31)
From discontinued operations	-	(0.04)	(0.19)	0.51
Basic (loss) income per share	(\$0.02)	(\$0.08)	(\$0.44)	\$0.20
From continuing operations	(\$0.02)	(\$0.04)	(\$0.25)	(\$0.31)
From discontinued operations	-	(0.04)	(0.19)	0.51
Diluted (loss) income per share	(\$0.02)	(\$0.08)	(\$0.44)	\$0.20

16. 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 consist primarily of deposit investments that are held primarily with Canadian and American 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.

16. FINANCIAL RISK MANAGEMENT (continued)

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 and long-term debt. The Company's objectives of managing its cash and cash equivalents, short-term investments, restricted short-term investments 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.

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 93% 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, 2023.

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17. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Accounts receivable	\$254	(\$12,414)	(\$5,595)	(\$18,989)
Unbilled revenue	2,927	(4,533)	1,903	(8,768)
Income taxes receivable	2	(419)	87	(448)
Inventories	(63)	414	(1,006)	828
Prepaid expenses and deposits	(1,631)	(869)	(1,355)	680
Deferred revenue	1,478	1,114	(1,663)	853
Deferred compensation asset	157	(22)	125	(44)
Deferred compensation liabilities	22	20	36	40
Accounts payable and accrued liabilities	(6,007)	(4,216)	(7,761)	(16,377)
Income taxes payable	150	30	123	25
	(\$2,711)	(\$20,895)	(\$15,106)	(\$42,200)

Supplemental Cash Flow Information

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Net interest paid in cash, included in operations	\$716	\$699	\$2,390	\$1,020
Taxes paid	\$165	\$215	\$694	\$1,166