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## Quarterhill Inc.

2025 Third Quarter

Interim Condensed Consolidated Financial Statements

(Unaudited)

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



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

	Note	Three months ended September 30,		Nine months ended September 30,	
		2025	2024	2025	2024
Revenues	6	<b>\$39,743</b>	\$38,019	<b>\$116,707</b>	\$114,429
Direct cost of revenues		<b>29,288</b>	32,892	<b>95,978</b>	94,429
<b>Gross profit</b>		<b>10,455</b>	5,127	<b>20,729</b>	20,000
Operating expenses					
Selling, general and administrative expenses		<b>9,902</b>	8,125	<b>27,608</b>	21,573
Research and development expenses		<b>510</b>	275	<b>1,291</b>	1,071
Depreciation of right-of-use assets		<b>373</b>	373	<b>925</b>	1,081
Depreciation of property, plant and equipment		<b>369</b>	384	<b>1,103</b>	1,144
Amortization of intangible assets		<b>2,069</b>	1,789	<b>6,089</b>	6,166
Other charges	12	<b>483</b>	313	<b>807</b>	1,468
		<b>13,706</b>	11,259	<b>37,823</b>	32,503
Results from operations		<b>(3,251)</b>	(6,132)	<b>(17,094)</b>	(12,503)
Finance income		<b>(58)</b>	(43)	<b>(178)</b>	(408)
Finance expense		<b>1,507</b>	1,646	<b>4,564</b>	5,002
Foreign exchange (gain) loss		<b>(824)</b>	845	<b>2,196</b>	(652)
Other income	13	<b>(98)</b>	(3,874)	<b>(3,707)</b>	(4,008)
Change in fair value of derivative liability	10	<b>(29)</b>	(499)	<b>(519)</b>	(1,426)
Loss before taxes		<b>(3,749)</b>	(4,207)	<b>(19,450)</b>	(11,011)
Current income tax expense		<b>734</b>	45	<b>777</b>	390
Deferred income tax expense (recovery)		<b>251</b>	(143)	<b>(288)</b>	(107)
Income tax expense (recovery)		<b>985</b>	(98)	<b>489</b>	283
<b>Net loss</b>		<b>(4,734)</b>	(4,109)	<b>(19,939)</b>	(11,294)
Other comprehensive loss that may be reclassified subsequently to net loss:					
Foreign currency translation adjustment		<b>(650)</b>	974	<b>1,856</b>	42
<b>Comprehensive loss</b>		<b>(\$5,384)</b>	(\$3,135)	<b>(\$18,083)</b>	(\$11,252)
<b>Loss per share - Basic</b>	14	<b>(\$0.04)</b>	(\$0.04)	<b>(\$0.17)</b>	(\$0.10)
<b>Loss per share - Diluted</b>	14	<b>(\$0.04)</b>	(\$0.04)	<b>(\$0.17)</b>	(\$0.10)

See accompanying notes to these interim condensed consolidated financial statements.

# Interim Condensed Consolidated Statements of Financial Position (Unaudited)



(in thousands and in United States dollars)

As at	Note	<b>September 30, 2025</b>	December 31, 2024
<b>Current assets</b>			
Cash and cash equivalents		<b>\$24,085</b>	\$31,893
Accounts receivable, net		<b>24,698</b>	20,716
Unbilled revenue	6	<b>32,939</b>	34,461
Income taxes receivable		<b>3</b>	231
Inventories (net of obsolescence)		<b>8,875</b>	10,143
Prepaid expenses and deposits		<b>4,293</b>	4,588
		<b>94,893</b>	102,032
<b>Non-current assets</b>			
Accounts and other long-term receivables		<b>5,143</b>	4,781
Right-of-use assets, net		<b>4,902</b>	5,035
Property, plant and equipment, net		<b>3,241</b>	3,961
Intangible assets, net		<b>75,711</b>	78,370
Investment in other entity	7	<b>3,919</b>	3,919
Deferred compensation asset	8	<b>1,161</b>	1,050
Goodwill		<b>31,415</b>	30,960
		<b>125,492</b>	128,076
<b>TOTAL ASSETS</b>		<b>\$220,385</b>	\$230,108
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		<b>\$30,226</b>	\$25,598
Income taxes payable		<b>580</b>	334
Current portion of lease liabilities		<b>2,239</b>	2,040
Current portion of deferred revenue	6	<b>9,202</b>	5,708
Current portion of long-term debt	9	<b>13,860</b>	2,125
Convertible debentures	10	<b>39,352</b>	36,825
Derivative liability	10	<b>1</b>	516
		<b>95,460</b>	73,146
<b>Non-current liabilities</b>			
Deferred revenue	6	<b>1,296</b>	1,574
Long-term lease liabilities		<b>3,809</b>	4,803
Long-term debt	9	<b>-</b>	15,273
Deferred compensation liabilities	8	<b>1,265</b>	1,100
Deferred income tax liabilities		<b>2,383</b>	2,577
Other long-term liabilities		<b>512</b>	512
		<b>9,265</b>	25,839
<b>TOTAL LIABILITIES</b>		<b>104,725</b>	98,985
<b>Shareholders' equity</b>			
Capital stock	11	<b>315,987</b>	314,630
Contributed surplus		<b>128,709</b>	127,446
Accumulated other comprehensive income		<b>14,004</b>	12,148
Deficit		<b>(343,040)</b>	(323,101)
		<b>115,660</b>	131,123
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$220,385</b>	\$230,108

See accompanying notes to these interim condensed consolidated financial statements.

# Interim Condensed Consolidated Statements of Cash Flows (Unaudited)



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

	Note	Three months ended September 30,		Nine months ended September 30,	
		2025	2024	2025	2024
Operating activities:					
Net loss		<b>(\$4,734)</b>	(\$4,109)	<b>(\$19,939)</b>	(\$11,294)
Add (deduct) non-cash items:					
Stock-based compensation expense		<b>1,343</b>	724	<b>3,440</b>	1,936
Depreciation and amortization		<b>2,811</b>	2,546	<b>8,117</b>	8,391
Foreign exchange (gain) loss		<b>(824)</b>	845	<b>2,196</b>	(652)
Other income		<b>(98)</b>	(3,874)	<b>(3,500)</b>	(4,008)
Deferred and non-cash income tax expense (recovery)		<b>251</b>	(143)	<b>(288)</b>	(107)
Embedded derivatives		<b>25</b>	6	<b>(20)</b>	12
Change in fair value of derivative liability	10	<b>(29)</b>	(499)	<b>(519)</b>	(1,426)
Non-cash interest expense		<b>556</b>	593	<b>1,655</b>	1,685
Net change in non-cash working capital balances	17	<b>7,140</b>	2,259	<b>7,112</b>	(5,501)
Cash generated from (used in) operating activities		<b>6,441</b>	(1,652)	<b>(1,746)</b>	(10,964)
Financing activities:					
Payment of lease liabilities		<b>(551)</b>	(629)	<b>(1,862)</b>	(1,767)
Repayment of long-term debt		<b>(3,062)</b>	(531)	<b>(3,593)</b>	(1,594)
Cash used in financing activities		<b>(3,613)</b>	(1,160)	<b>(5,455)</b>	(3,361)
Investing activities:					
Net proceeds from disposition of a joint venture		-	-	<b>319</b>	-
Acquisition of business, Red Fox		-	-	-	(7,181)
Cash acquired on acquisition of business, Red Fox		-	-	-	2,296
Proceeds from sale of property, plant and equipment		-	7	<b>26</b>	17
Purchase of property, plant and equipment		<b>(161)</b>	(459)	<b>(530)</b>	(1,004)
Dividend received from investment in other entity	7	-	3,849	<b>3,203</b>	3,849
Capitalized software costs		<b>(862)</b>	(1,634)	<b>(3,009)</b>	(3,007)
Cash (used in) generated from investing activities		<b>(1,023)</b>	1,763	<b>9</b>	(5,030)
Foreign exchange on cash held in foreign currencies		<b>(378)</b>	141	<b>(616)</b>	(245)
Net increase (decrease) in cash and cash equivalents		<b>1,427</b>	(908)	<b>(7,808)</b>	(19,600)
Cash and cash equivalents, beginning of period		<b>22,658</b>	24,041	<b>31,893</b>	42,733
Cash and cash equivalents, end of period		<b>\$24,085</b>	\$23,133	<b>\$24,085</b>	\$23,133

See accompanying notes to these interim condensed consolidated financial statements.

# Interim Condensed Consolidated Statements of Shareholders' Equity (Unaudited)



(in thousands and in United States dollars)

	<b>Capital Stock</b>	<b>Contributed Surplus</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Deficit</b>	<b>Total Shareholders' Equity</b>
Balance, January 1, 2024	\$313,738	\$126,129	\$15,652	(\$312,079)	\$143,440
Net loss	-	-	-	(11,294)	(11,294)
Other comprehensive loss	-	-	42	-	42
Stock-based compensation expense	-	1,936	-	-	1,936
Common shares issued from restricted stock units	729	(976)	-	-	(247)
Common shares issued from performance stock units	55	(55)	-	-	-
<b>Balance, September 30, 2024</b>	<b>\$314,522</b>	<b>\$127,034</b>	<b>\$15,694</b>	<b>(\$323,373)</b>	<b>\$133,877</b>
<b>Balance, January 1, 2025</b>	<b>\$314,630</b>	<b>\$127,446</b>	<b>\$12,148</b>	<b>(\$323,101)</b>	<b>\$131,123</b>
<b>Net loss</b>	-	-	-	<b>(19,939)</b>	<b>(19,939)</b>
<b>Other comprehensive income</b>	-	-	<b>1,856</b>	-	<b>1,856</b>
<b>Stock-based compensation expense</b>	-	<b>3,440</b>	-	-	<b>3,440</b>
<b>Common shares issued from restricted stock units</b>	<b>1,012</b>	<b>(1,436)</b>	-	-	<b>(424)</b>
<b>Common shares issued from deferred stock units</b>	<b>345</b>	<b>(741)</b>	-	-	<b>(396)</b>
<b>Balance, September 30, 2025</b>	<b>\$315,987</b>	<b>\$128,709</b>	<b>\$14,004</b>	<b>(\$343,040)</b>	<b>\$115,660</b>

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, 2025 and 2024

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

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## 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 that provide integrated, tolling and mobility systems and solutions to the intelligent transportation systems ("ITS") industry as well as its adjacent markets.

## 2. MATERIAL ACCOUNTING POLICY INFORMATION

### **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, International Accounting Standards ("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, 2024.

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, 2024.

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, 2024, 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.

## 3. ACCOUNTING STANDARDS

### Changes in accounting policy

A number of amendments to existing standards became effective January 1, 2025 but they were not applicable to the Company's financial statements.

### New standards and interpretations not yet adopted

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.

#### *IFRS 18, Presentation and Disclosure in the Financial Statements ("IFRS 18")*

In April 2024, the IASB issued IFRS 18, which replaces IAS 1, *Presentation of Financial Statements*, and aims to improve the quality of financial reporting by introducing three sets of new requirements, which include new required categories and subtotals in the statement of profit and loss, disclosure about management-defined performance measures, and enhanced guidance on grouping of information. The issuance of IFRS 18 results in consequential amendments to IAS 7, *Statement of Cash Flows*, and IAS 33, *Earnings Per Share*. This standard is effective for annual periods beginning on or after January 1, 2027, with early adoption permitted.

#### *Amendments to IFRS 9, Financial Instruments ("IFRS 9") and IFRS 7, Classification and Measurement of Financial Instruments ("IFRS 7")*

In May 2024, the IASB issued *Amendments to the Classification and Measurement of Financial Instruments* (Amendments to IFRS 9 and IFRS 7), which aim to clarify the classification and measurement of certain financial instruments. For a financial liability, the amendments clarify derecognition should be on settlement date – when the obligation is discharged, cancelled, expired or otherwise qualified for derecognition. In addition, a new accounting policy option allows for derecognition of financial liabilities through electronic payment systems before settlement date, provided specific conditions are met.

The amendments also clarify how to assess the contractual cash flow characteristics of financial assets with environmental, social, and governance ("ESG")-linked features or other similar contingent features, and treatment of non-recourse assets and contractually linked instruments. Enhanced disclosure requirements are introduced for financial assets and liabilities with contractual terms referencing contingent events (including those that are ESG-linked) and equity instruments classified at fair value through other comprehensive income. The new requirements will be applied retrospectively with adjustment to opening retained earnings. Prior periods are not required to be restated and can only be restated without using hindsight. The amendments will be effective for annual periods beginning on or after January 1, 2026, with early adoption permitted for financial assets classification and the related disclosures.

Management is currently assessing the impact of these amendments and new requirements.

# Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2025 and 2024

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

## 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. 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 or loss during these periods.

## 5. FINANCIAL INSTRUMENTS

Derivatives include the embedded derivative portion of the unearned revenue of US dollar-denominated sales contracts in the Company's Canadian 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 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, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, and deferred revenue approximates their fair values due to the short-term maturity of these items.

Inputs used to calculate the fair value of derivative and convertible debentures 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.

## 6. UNBILLED REVENUE AND DEFERRED REVENUE

Significant changes in unbilled revenue and deferred revenue balances during the nine months ended September 30, 2025 are as follows:

As at	<b>September 30, 2025</b>	December 31, 2024	\$ Change
Unbilled revenue	<b>\$32,939</b>	\$34,461	(\$1,522)
Deferred revenue - current	<b>(9,202)</b>	(5,708)	(3,494)
Deferred revenue - non-current	<b>(1,296)</b>	(1,574)	278
Net contract assets	<b>\$22,441</b>	\$27,179	(\$4,738)

Revenue recognized for the three and nine months ended September 30, 2025 that was included in deferred revenue at the beginning of the period was \$727 and \$3,554, respectively (2024 - \$592 and \$3,881, respectively).

# Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2025 and 2024

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

## 7. INVESTMENT IN OTHER ENTITY

On June 15, 2023, as part of the consideration for the sale of WiLAN Inc. and its related entities (“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 at September 30, 2025, the investment in WiLAN is valued at \$3,919 (December 31, 2024 - \$3,919).

## 8. 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 interim condensed consolidated statements of financial position.

## 9. LONG-TERM DEBT

As at	<u>September 30, 2025</u>	<u>December 31, 2024</u>
Senior term credit facility:		
\$50,000 due September 1, 2026	<b>\$13,938</b>	\$17,531
Less: current portion of long-term debt	<b>(13,860)</b>	(2,125)
Debt issuance costs, net of amortization	<b>(78)</b>	(133)
Total long-term debt	<b>\$ -</b>	\$15,273

During the year ended December 31, 2021, Quarterhill ITS, the parent company of International Road Dynamics Inc. (“IRD”) and ETC and wholly owned subsidiary of Quarterhill, 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 \$15,000 and a term credit facility of \$50,000. These credit facilities replaced all existing facilities the Company had with HSBC Bank Canada. The effective interest rate for the facilities as at September 30, 2025 was 6.45% (December 31, 2024 - 6.54%). Both 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, 2025 was \$196,200.

During the nine months ended September 30, 2025, 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 April 23, 2025, the Company completed an amendment to its existing credit agreement. This amendment modified certain terms and conditions of the credit agreement in its covenants for all reporting periods up to June 30, 2025 (the “Covenant Relief Period”). The financial covenants effective during the Covenant Relief Period are as follows:

- A Fixed Charge Coverage Ratio of at least 1.00 to 1.00 on a rolling four-quarter basis.
- A Senior Leverage Ratio of not more than 3.00 to 1.00.

## Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2025 and 2024

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

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### 9. LONG-TERM DEBT (continued)

As at June 30, 2025, the Company was not in compliance with the financial covenants of the April 23, 2025 amendment. On August 6, 2025 (the "Amendment Date"), the Company finalized an amendment to its credit agreement. As of the Amendment Date, the balance of the term loan was \$16,469. The amendment modifies certain terms and conditions of the credit agreement to provide the Company with additional flexibility in its covenant and cash management, including a waiver of the Senior Leverage Ratio to September 30, 2025 (the "Subsequent Covenant Relief Period"). The amendment required the Company to repay \$2,000 of principal in addition to the previously scheduled repayment amounts of long-term debt and includes the following financial covenants the Company must maintain:

- A Fixed Charge Coverage Ratio of at least 1.20 to 1.00 on a rolling four-quarter basis. During the Subsequent Covenant Relief Period, the Fixed Charge Coverage Ratio has been waived.
- A Senior Leverage Ratio of not more than 3.00 to 1.00. 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 \$20,000. During the Subsequent Covenant Relief Period, the Senior Leverage Ratio has been waived.
- Certain minimum earnings thresholds must be met at each reporting quarter during the Subsequent Covenant Relief Period.

The Company was in compliance with the minimum earnings threshold for the three months ended September 30, 2025.

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

	<b>Principal</b>
To September 1, 2026	<b>13,938</b>

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# Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2025 and 2024

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

## 10. 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:

	<b>September 30, 2025</b>	<b>December 31, 2024</b>
Convertible unsecured subordinated debentures:		
Gross proceeds	<b>\$41,321</b>	\$42,524
Convertible debentures, host debt component	<b>\$39,703</b>	\$37,390
Debt issuance costs, net of amortization	<b>(351)</b>	(565)
Convertible debentures	<b>\$39,352</b>	\$36,825
Convertible debentures, derivative liability component, opening	<b>\$516</b>	\$2,290
Currency loss (gain) on financial statement translation	<b>4</b>	(100)
Change in fair value of derivative liability	<b>(519)</b>	(1,674)
Derivative liability, ending	<b>\$1</b>	\$516

On October 27, 2021, the Company completed a brokered financing of Can\$57,500 by way of the issuance of unsecured subordinated convertible debentures (the "Debentures"), which includes the full exercise of a Can\$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 (the "Maturity Date") and an initial conversion price into common shares of Can\$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 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 up to, but excluding, the date of conversion. 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.

Assuming the conversion of all the Debentures, the Company will issue 15,131,579 common shares. The initial fair value of the conversion option was estimated at Can\$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 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:

# Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2025 and 2024

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

## 10. CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY (continued)

As at	September 30, 2025	December 31, 2024
Risk-free rate	2.50%	3.25%
Expected life (in years)	1.08	1.83
Expected volatility	37%	41%
Expected dividend yield	0.0%	0.0%
Share price	\$1.05	\$1.64

## 11. SHARE CAPITAL

The share capital of the Company consists of the following:

	Issued and Outstanding		
	Authorized	September 30, 2025	December 31, 2024
a) Common shares, with no par value	Unlimited	117,087,870	115,786,320
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, 2024	115,076,583
Issuance of common shares upon vesting of restricted stock units	664,348
Conversion of deferred stock units to common shares	45,389
December 31, 2024	115,786,320
Issuance of common shares upon vesting of restricted stock units	991,588
Conversion of deferred stock units to common shares	309,962
September 30, 2025	117,087,870

## 12. OTHER CHARGES

Other charges within the interim condensed consolidated statements of loss and comprehensive loss include costs that relate to certain cost reduction initiatives that the Company has undertaken from time to time, acquisition- and divestiture-related costs, and other charges. During the three and nine months ended September 30, 2025, the Company recognized other charges of \$483 and \$807, respectively (2024 - \$313 and \$1,468, respectively). Other charges include severance costs of \$483 and \$753, respectively (2024 - \$313 and \$1,119, respectively), and other costs of \$nil and \$54, respectively (2024 - \$nil and \$349, respectively).

## 13. OTHER INCOME

During the three and nine months ended September 30, 2025, the Company recognized other income of \$98 and \$3,707, respectively (2024 - \$3,874 and \$4,008, respectively). Other income includes dividends received from WiLAN (Note 7) of \$nil and \$3,403, respectively (2024 - \$3,849 and \$3,849, respectively), and other income of \$98 and \$304, respectively (2024 - \$25 and \$159, respectively).

## Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2025 and 2024

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

### 14. LOSS PER SHARE

Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by dividing net loss 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,	
	2025	2024	2025	2024
<b>Numerator:</b>				
Net loss	<b>(\$4,734)</b>	(\$4,109)	<b>(\$19,939)</b>	(\$11,294)
<b>Denominator:</b>				
Weighted average number of common shares outstanding for basic loss per share	<b>116,898,292</b>	115,393,052	<b>116,394,088</b>	115,255,582
Weighted average number of common shares outstanding for diluted loss per share	<b>116,898,292</b>	115,393,052	<b>116,394,088</b>	115,255,582
<b>Basic loss per share</b>	<b>(\$0.04)</b>	(\$0.04)	<b>(\$0.17)</b>	(\$0.10)
<b>Diluted loss per share</b>	<b>(\$0.04)</b>	(\$0.04)	<b>(\$0.17)</b>	(\$0.10)

### 15. 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 ("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 interim condensed consolidated statements of loss and comprehensive loss reflect the sole ITS segment.

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

	Three months ended September 30,		Nine months ended September 30,	
	2025	2024	2025	2024
Revenue recognized at a point in time	<b>\$5,221</b>	\$5,138	<b>\$15,711</b>	\$13,433
Revenue recognized over time	<b>34,522</b>	32,881	<b>100,996</b>	100,996
<b>Total revenues</b>	<b>\$39,743</b>	\$38,019	<b>\$116,707</b>	\$114,429

# Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2025 and 2024

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

## 15. SEGMENT REPORTING (continued)

Revenues by geography are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2025	2024	2025	2024
United States	<b>\$35,923</b>	\$32,682	<b>\$106,473</b>	\$101,275
Thailand	<b>479</b>	1,587	<b>1,837</b>	3,185
Germany	<b>624</b>	766	<b>1,619</b>	2,048
Canada	<b>371</b>	903	<b>1,079</b>	2,761
Korea	<b>276</b>	738	<b>842</b>	1,476
Belgium	<b>362</b>	157	<b>782</b>	481
France	<b>227</b>	177	<b>683</b>	586
Chile	<b>13</b>	26	<b>207</b>	93
Rest of the world	<b>1,468</b>	983	<b>3,185</b>	2,524
Total revenues	<b>\$39,743</b>	\$38,019	<b>\$116,707</b>	\$114,429

The total of property, plant and equipment, right-of-use assets, intangible assets, and goodwill by geography are as follows:

As at	<b>September 30, 2025</b>	December 31, 2024
United States	<b>\$102,831</b>	\$106,206
Great Britain	<b>5,538</b>	5,445
Germany	<b>3,518</b>	3,392
Canada	<b>3,139</b>	3,063
Belgium	<b>243</b>	220
Total	<b>\$115,269</b>	\$118,326

## 16. FINANCIAL RISK MANAGEMENT

### Credit risk

Credit risk is the risk of financial loss to the Company if a 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 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 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

## 16. FINANCIAL RISK MANAGEMENT (continued)

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 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 collectible in the future.

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, and the issuance of common shares. 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 chartered banks in Canada and the United States. Management does not expect any counterparties to fail to meet their obligations.

Based on the Company's liquidity position as at September 30, 2025, management has forecasted its cash flow requirements and believes that the Company has sufficient funds available to meet its liquidity requirements for the foreseeable future.

As noted in note 9, the Company has finalized an amendment to its credit agreement to provide the Company with additional flexibility in its covenant and cash management.

The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investment and financing activities. Management's current expectations with respect to future events are based on currently available information and the actual outcomes may differ materially from those current expectations.

### **Market risk**

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

## 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 and long-term debt. The Company's objectives of managing its cash and cash equivalents and short-term investments are to ensure sufficient funds are maintained on hand at all times to meet day-to-day requirements and to place any amounts 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 1% increase or decrease in interest rates would not have resulted in a material increase or decrease in interest income or expense during the nine months ended September 30, 2025.

### **Currency risk**

Portions of the Company's revenues and operating expenses are denominated in Canadian dollars, euros and British pounds. Because these consolidated financial statements are reported in US dollars, the Company's operating results are subject to changes in the exchange rate of the foreign currencies (primarily Canadian dollars and euros) relative to the US dollar. For instance, a decrease in the value of the Canadian dollar relative to the US dollar has an unfavourable impact on Canadian dollar-denominated revenues and a favourable impact on Canadian dollar-denominated direct cost of revenue and operating expenses. Approximately 12% of the Company's cash and cash equivalents are denominated in Canadian dollars, euros and British pounds, and are subject to changes in the exchange rate of the Canadian dollar, euro and British pound relative to the US dollar.

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign exchange gains or losses in net loss arise on the translation of foreign currency-denominated assets and liabilities held in the Company's North American operations and foreign subsidiaries. Subsidiary companies with a functional currency not in US dollars are subject primarily to changes in the exchange rate of foreign currencies, primarily the Canadian dollar.

As at September 30, 2025, the Company's sensitivity to a 5% strengthening (weakening) of the Canadian dollar and all other currencies relative to the US dollar for which the functional currency of the subsidiary company differs from the Canadian dollar would result in approximately \$145 of pre-tax loss to the interim condensed consolidated statements of loss and comprehensive loss.

## Notes to Interim Condensed Consolidated Financial Statements (Unaudited)

For the three and nine months ended September 30, 2025 and 2024

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

### 17. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	Three months ended September 30,		Nine months ended September 30,	
	2025	2024	2025	2024
Accounts receivable	<b>(\$4,762)</b>	(\$1,847)	<b>(\$4,345)</b>	(\$4,104)
Unbilled revenue	<b>9,944</b>	5,601	<b>1,522</b>	383
Income taxes receivable	<b>254</b>	27	<b>228</b>	(103)
Inventories	<b>1,249</b>	(864)	<b>1,268</b>	(1,557)
Prepaid expenses and deposits	<b>206</b>	(1,447)	<b>295</b>	(719)
Deferred revenue	<b>1,496</b>	(865)	<b>3,216</b>	829
Deferred compensation asset	<b>(58)</b>	(49)	<b>(111)</b>	(145)
Deferred compensation liabilities	<b>93</b>	81	<b>165</b>	201
Accounts payable and accrued liabilities	<b>(1,789)</b>	1,969	<b>4,628</b>	(11)
Income taxes payable	<b>507</b>	(347)	<b>246</b>	(275)
	<b>\$7,140</b>	\$2,259	<b>\$7,112</b>	(\$5,501)

#### Supplemental cash flow information

	Three months ended September 30,		Nine months ended September 30,	
	2025	2024	2025	2024
Net interest paid in cash	<b>\$893</b>	\$379	<b>\$2,731</b>	\$2,324
Taxes paid	<b>(\$743)</b>	\$320	<b>(\$474)</b>	\$378