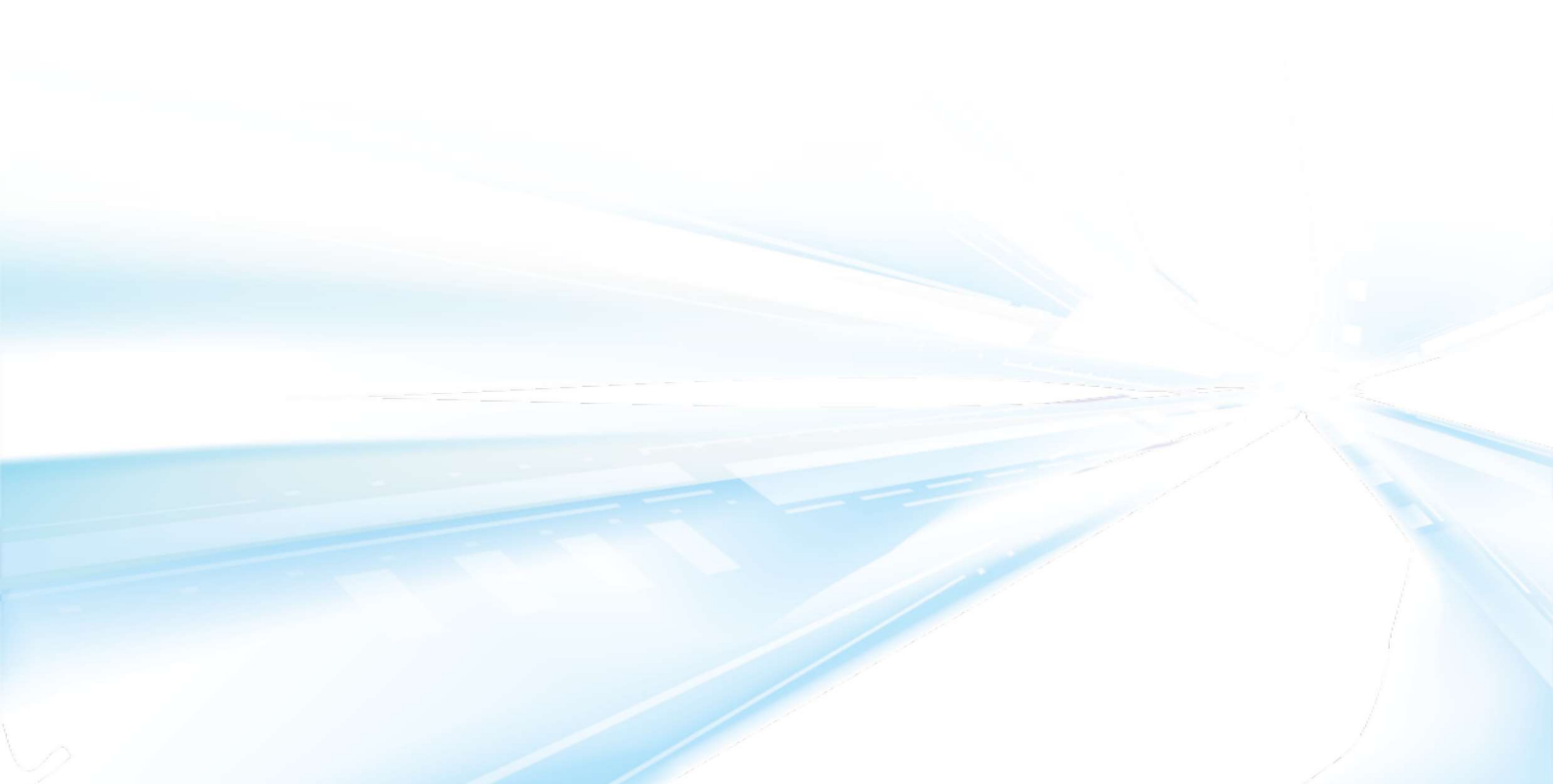




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## Quarterhill Inc.

2021 Annual Consolidated Financial Statements





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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Quarterhill Inc. ("Quarterhill" or the "Company") are the responsibility of management and have been approved by the Board of Directors (the "Board").

The consolidated financial statements have been prepared by management in accordance with the International Financial Reporting Standards. Management is responsible for ensuring that these consolidated financial statements, which include certain amounts based on estimates and judgments, reflect the Company's business transactions and financial position in all material respects.

Quarterhill maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate, and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit Committee (the "Committee"). The Committee is appointed by the Board, and all of its members are independent unrelated directors.

The Committee meets periodically with management, as well as with external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting items, to satisfy itself that each party is properly discharging its responsibilities, the consolidated financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors on behalf of the shareholders. Ernst & Young LLP has full and free access to the Committee.

March 20, 2022

*/s/ Bret Kidd*

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Bret Kidd

Chief Executive Officer

*/s/ Steve Thompson*

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Steve Thompson

Interim Chief Financial Officer

## Independent auditor's report

To the Shareholders of  
**Quarterhill Inc.**

### Opinion

We have audited the consolidated financial statements of **Quarterhill Inc.** and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of (loss) income and comprehensive (loss) income, consolidated statements of shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020 and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards ["IFRS"].

### Basis for opinion

We conducted our audit in accordance with Canadian general accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## Key Audit Matter

### Revenue recognition – Intelligent Transportation Systems

The Company's Intelligent Transportation Systems segment sells integrated systems with distinct performance obligations which involve the design, manufacturing and installation, maintenance and warranty of long-term projects that can span over periods beyond one year. Revenues for these fixed price integrated systems contracts are recognized over the progress towards completion of the performance obligations of the contract using a percentage-of-completion method. This method is measured by reference to costs incurred relative to the total estimated costs. The Company's policy for revenue recognition together with the related significant accounting estimates and assumptions is described in note 2 of the consolidated financial statements. For the year ended December 31, 2021, the Company's Intelligent Systems segment recognized \$100 million of revenue which includes revenues earned from fixed price integrated systems contracts.

The determination of the estimated costs to complete for each integrated system fixed price contract that is open as at the reporting date requires significant judgment in order to determine the amount of revenue to be recognized.

We determined that revenue recognition for open contracts for the Intelligent Transportation Systems segment is a matter of significance to the audit due to the significant judgment made by management in determining the estimated costs to complete for fixed priced contracts and, where applicable, the estimation of any loss on a project. Remaining costs to complete including material, labor and subcontracting costs, among others, are unique to each project, resulting in a high degree of auditor judgement, subjectivity and effort in performing procedures related to testing these estimates as of the reporting date.

### How our audit addressed the key audit matter

For a sample of fixed price integrated system contracts that were open as of December 31, 2021, our audit procedures, among others:

- We inspected contractual arrangements including pricing and billing terms, change orders and terms and conditions impacting revenue recognition;
- We inquired and evaluated the consistency of responses obtained from operational and finance personnel regarding risks and uncertainties with respect to significant fixed-price contracts as well as the nature of the work yet to be completed and estimated costs to complete such work;
- We compared estimated costs to vendor quotes or actual costs for similar completed projects;
- We performed look back analysis where we compared the current margin for projects to the initial gross margin and / or to other similar completed projects and investigated differences from expectations; and
- We considered subsequent events after year end to corroborate estimates made at December 31, 2021.

### **Business Combination – valuation of acquired intangible assets**

As disclosed in note 4 of the consolidated financial statements, the Company acquired all of the issued and outstanding shares of Electronic Transaction Consultant ("ETC") for cash consideration of \$151 million.

The acquisition is accounted for as a business combination in accordance with IFRS 3, the estimates of which are subjective in nature in determining the fair values of identified intangible assets.

The primary element of the valuation and purchase price allocation process was to assess the fair value of intangible assets of \$102 million in the form of customer relationships, technology and trade name.

Business combinations is a key audit matter in the audit due to significant management judgement in evaluating the inputs and assumptions used in the determination of fair value. The key inputs and assumptions include revenue growth, customer attrition, earnings margin and discount rate. Changes to these significant assumptions could have a significant impact on the fair value of acquired intangible assets.

### **How our audit addressed the key audit matter**

To test the Company's estimated fair value of intangible assets, we performed the following procedures, among others:

- We reviewed the purchase agreement to obtain an understanding of the key terms and conditions to identify the necessary accounting considerations and identification of acquired assets and assumed liabilities;
- We evaluated the objectivity, competence, and independence of management's specialist;
- With the assistance of our valuation specialists, we evaluated the Company's model, valuation methodology and the various inputs utilized, including the discount rate, by referencing current industry and comparable company information as well as cash flow and company-specific risk; and
- We evaluated the reasonableness of significant assumptions and estimates used by management, including revenue growth, customer attrition and earnings margin, by comparing to the past performance of the acquired business, comparing management's past projections to historical performance, as well as available third-party published economic and industry data. We performed sensitivity analysis on significant assumptions, including revenue growth, customer attrition, earnings margin and discount rate.

### **Other information**

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis; and
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

## **Responsibilities of management and those charged with governance for the consolidated financial statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian general accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Kwan-Ho Song.

Toronto, Canada  
March 20, 2022

*Ernst & Young LLP*

Chartered Professional Accountants  
Licensed Public Accountants

Consolidated Statements of (Loss) Income and Comprehensive  
(Loss) Income  
(in thousands and in Canadian dollars, except share and per share amounts)



	Note	Year ended December 31,	
		2021	2020
<b>CONTINUING OPERATIONS</b>			
Revenues	7, 22		
Licensing		\$ 25,722	\$ 78,260
Intelligent Transportation Systems		99,973	66,266
		<b>125,695</b>	<b>144,526</b>
Direct cost of revenues	23		
Licensing		21,809	46,205
Intelligent Transportation Systems		66,451	39,463
		<b>88,260</b>	<b>85,668</b>
Gross profit		<b>37,435</b>	<b>58,858</b>
Operating expenses	23		
Depreciation of right-of-use assets	9	1,568	979
Depreciation of property, plant and equipment	10	1,583	969
Amortization of intangible assets	11	20,228	18,855
Selling, general and administrative expenses		33,339	26,868
Research and development expenses		2,372	2,282
Impairment losses on intangible assets		—	295
Other charges	20	6,133	1,227
		<b>65,223</b>	<b>51,475</b>
Results from operations		<b>(27,788)</b>	<b>7,383</b>
Finance income		(164)	(573)
Finance expense		2,328	459
Foreign exchange gain		(1,216)	(88)
Other income		(2,007)	(1,680)
(Loss) income before taxes		<b>(26,729)</b>	<b>9,265</b>
Current income tax expense	24	1,306	2,037
Deferred income tax (recovery) expense	24	(5,852)	2,800
Income tax (recovery) expense		<b>(4,546)</b>	<b>4,837</b>
Net (loss) income from continuing operations		<b>(22,183)</b>	<b>4,428</b>
Net income from discontinued operations	5	—	14,255
Net (loss) income		<b>\$ (22,183)</b>	<b>\$ 18,683</b>
Other comprehensive loss that may be reclassified subsequently to net (loss) income:			
Foreign currency translation adjustment		(3,437)	(7,355)
Comprehensive (loss) income		<b>\$ (25,620)</b>	<b>\$ 11,328</b>
<b>(Loss) income per share</b>			
From continuing operations	21	\$ (0.19)	\$ 0.04
From discontinued operations		—	0.12
<b>(Loss) income per share - Basic</b>		<b>\$ (0.19)</b>	<b>\$ 0.16</b>
From continuing operations		\$ (0.19)	\$ 0.04
From discontinued operations		—	0.12
<b>(Loss) income per share - Diluted</b>		<b>\$ (0.19)</b>	<b>\$ 0.16</b>

See accompanying notes to these consolidated financial statements.

Consolidated Statements of Financial Position  
(in thousands and in Canadian dollars)



As at	Note	December 31, 2021	December 31, 2020
<b>Current assets</b>			
Cash and cash equivalents		\$ 70,746	\$ 135,700
Short-term investments		1,851	5,550
Restricted short-term investments		3,095	—
Accounts receivable, net	25	30,176	13,747
Unbilled revenue	7	35,926	13,549
Income taxes receivable		385	264
Inventories (net of obsolescence)	8	13,731	9,068
Prepaid expenses and deposits		5,192	8,264
		<b>161,102</b>	<b>186,142</b>
<b>Non-current assets</b>			
Accounts and other long-term receivables	25	1,450	506
Prepaid expenses and deposits		—	338
Right-of-use assets, net	9	7,761	3,780
Property, plant and equipment, net	10	5,694	2,783
Intangible assets, net	11	151,355	59,261
Investment in joint venture	12	7,458	6,704
Deferred compensation asset	13	1,524	—
Deferred income tax assets	24	37,786	34,346
Goodwill	14	53,065	16,093
		<b>266,093</b>	<b>123,811</b>
<b>TOTAL ASSETS</b>		<b>\$ 427,195</b>	<b>\$ 309,953</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	15	\$ 42,008	\$ 20,038
Income taxes payable		700	631
Current portion of lease liabilities	9	2,166	1,012
Current portion of deferred revenue	7	7,989	4,800
Current portion of long-term debt	16	3,181	—
		<b>56,044</b>	<b>26,481</b>
<b>Non-current liabilities</b>			
Deferred revenue	7	2,839	2,573
Long-term lease liabilities	9	5,626	2,747
Long-term debt	16	58,968	—
Convertible debentures	17	45,959	—
Derivative liability	17	9,441	—
Deferred compensation liability	13	1,350	—
Deferred income tax liabilities	24	5,852	6,222
		<b>130,035</b>	<b>11,542</b>
<b>TOTAL LIABILITIES</b>		<b>186,079</b>	<b>38,023</b>
<b>Shareholders' equity</b>			
Capital stock		544,345	547,537
Contributed surplus		49,937	46,250
Accumulated other comprehensive income		144	3,581
Deficit		(353,310)	(325,438)
		<b>241,116</b>	<b>271,930</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 427,195</b>	<b>\$ 309,953</b>

Contingent liabilities (Note 18)

See accompanying notes to these consolidated financial statements.

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



	Note	Year ended December 31,	
		2021	2020
Cash (used in) generated from operations			
Net (loss) income from continuing operations		\$ (22,183)	\$ 4,428
Non-cash items			
Stock-based compensation (recovery) expense		1,955	1,015
Depreciation of right-of-use assets	9	1,568	979
Interest expense on lease liabilities	9	—	223
Depreciation and amortization		21,811	19,824
Foreign exchange gain		(1,216)	(359)
Equity in earnings from joint venture	12	(1,924)	(1,680)
Gain on disposal of intangible assets		—	(1)
Impairment losses on intangible assets		—	295
(Gain) loss on disposal of assets		(77)	4
Deferred income tax (recovery) expense	24	(5,852)	2,800
Embedded derivatives		54	190
Change in fair value of derivative liability		(92)	—
Changes in non-cash working capital balances	28	(7,384)	7,478
Cash (used in) generated from continuing operations		(13,340)	35,196
Net cash flows attributable to discontinuing operations		—	24
Net cash (used in) generated from operating activities		(13,340)	35,220
Financing			
Dividends paid		(5,648)	(4,441)
Advances from revolving credit facilities		12,727	—
Repayment of revolving credit facilities		(12,727)	(3,654)
Net proceeds from long-term debt	16	62,926	—
Proceeds from convertible debentures	17	55,024	—
Payment of lease liabilities	9	(1,659)	(1,103)
Repayment of long-term debt		(776)	(521)
Repurchase of shares for cancellation	19	(2,065)	(10,622)
Common shares issued for cash on the exercise of options		461	830
Cash generated from (used in) continuing operations financing activities		108,263	(19,511)
Net cash flows attributable to discontinuing operations		—	32
Net cash generated from (used in) financing activities		108,263	(19,479)
Investing			
Proceeds from disposition of a subsidiary	5	—	49,400
Cash sold on disposition of a subsidiary		—	(1,825)
Proceeds from (purchase of) short-term investments		4,000	(4,054)
Purchase of restricted short-term investments		(3,025)	—
Proceeds from sale of property, plant and equipment		117	32
Purchase of property, plant and equipment	10	(1,149)	(1,255)
Acquisition of business, VDS	4	(2,780)	—
Acquisition of business, ETC	4	(151,168)	—
Dividend received from joint venture	12	1,348	477
Purchase of intangibles	11	(5,434)	(1,336)
Net cash (used in) generated from investing activities		(158,091)	41,439
Foreign exchange on cash held in foreign currencies		(1,786)	(9,350)
Net (decrease) increase in cash and cash equivalents		(64,954)	47,830
Cash and cash equivalents, beginning of		135,700	87,870
Cash and cash equivalents, end of		\$ 70,746	\$ 135,700

See accompanying notes to these consolidated financial statements.

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



	Note	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity
January 1, 2020		\$ 570,553	\$ 32,011	\$ 10,936	\$ (338,297)	\$ 275,203
Net income		—	—	—	18,683	18,683
Repurchase of shares for cancellation		(24,054)	13,432	—	—	(10,622)
Other comprehensive loss		—	—	(7,355)	—	(7,355)
Stock-based compensation expense		—	1,015	—	—	1,015
Exercise of options	19	1,006	(176)	—	—	830
Common shares issued from performance stock units		32	(32)	—	—	—
Dividends declared	19	—	—	—	(5,824)	(5,824)
<b>December 31, 2020</b>		<b>\$ 547,537</b>	<b>\$ 46,250</b>	<b>\$ 3,581</b>	<b>\$ (325,438)</b>	<b>\$ 271,930</b>
January 1, 2021		\$ 547,537	\$ 46,250	\$ 3,581	\$ (325,438)	\$ 271,930
Net loss		—	—	—	(22,183)	(22,183)
Repurchase of shares for cancellation	19	(4,027)	1,962	—	—	(2,065)
Other comprehensive loss		—	—	(3,437)	—	(3,437)
Stock-based compensation expense		—	1,955	—	—	1,955
Exercise of stock options		667	(206)	—	—	461
Common shares issued from restricted stock units	19	156	(12)	—	—	144
Common shares issued from performance stock units		12	(12)	—	—	—
Dividends declared	19	—	—	—	(5,689)	(5,689)
<b>December 31, 2021</b>		<b>\$ 544,345</b>	<b>\$ 49,937</b>	<b>\$ 144</b>	<b>\$ (353,310)</b>	<b>\$ 241,116</b>

See accompanying notes to these consolidated financial statements.

# Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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

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## 1. NATURE OF BUSINESS

Quarterhill Inc. ("Quarterhill" or the "Company"), formerly "Wi-LAN Inc.", is a Canadian company 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, "Licensing", which correspond with the Company's operating segments identified as Intelligent Transportation Systems and Licensing. On May 15, 2020, the Company sold its investment in VIZIYA Corp., which represented the Enterprise Software segment and has been presented as a discontinued operation within the Company's consolidated financial statements ("financial statements") and further disclosed in Note 5, Discontinued Operations.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### **Basis of Presentation**

#### *Statement of compliance*

These consolidated financial statements of the Company were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issue by the Board of Directors on March 20, 2022.

### **Basis of measurement**

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are measured at fair value on a recurring basis, as explained in the accounting policies below.

### **Basis of consolidation**

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

### **Functional and presentation currency**

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

The Company follows the requirements as prescribed in IAS 21, "The Effects of Changes in Foreign Exchange Rates" to translate to the presentation currency. The assets and liabilities of the consolidated entity are translated to Canadian dollars at the exchange rate as at the reporting date and the income and expenses are translated to Canadian dollars at the monthly average exchange rates of the reporting period. Foreign currency differences arising from the translation are recognized in other comprehensive income ("OCI").

### **Estimates, assumptions, and judgments**

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

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Business combinations*

Purchase prices related to business combinations are allocated to the underlying acquired assets and liabilities based on their estimated fair value at the time of acquisition. The determination of fair value requires the Company to make assumptions, estimates and judgments regarding cash flow projects, valuation techniques, economic risk, weighted average cost of capital and future events. Significant judgments, estimates and assumptions are also required by management in estimating the amount of contingent consideration payable. As a result, the purchase price allocation impacts the Company's reported assets and liabilities, including the amounts allocated to intangible assets and goodwill, and future earnings due to the impacts of amortization expense and impairment testing.

#### *Revenue recognition*

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

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

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

#### *Income taxes and deferred taxes*

The Company is subject to income taxes in Canada and other foreign jurisdictions. The calculation of income taxes in many cases, however, requires significant judgment in interpreting tax rules and regulations. The Company's tax filings are subject to audits which could materially change the amount of current and deferred income taxes and liabilities. Additionally, estimation of the income tax provision includes evaluating the recoverability of deferred tax assets based on the assessment of the Company's ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based on existing tax laws, estimates of future profitability and tax planning strategies. If the future taxable results of the Company differ significantly from those expected, the Company would be required to increase or decrease the carrying value of the deferred tax assets with a potentially material impact on the Company's consolidated statements of financial position and consolidated statements of income and comprehensive income. The carrying amount of deferred tax assets is reassessed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to utilize all or part of the deferred tax assets. Unrecognized deferred tax assets are recognized to the extent that it is more likely than not that taxable income will be available against which deferred tax assets can be utilized.

#### **Business Combinations**

The Company uses the acquisition method of accounting for business combinations. The cost of an acquisition is measured as the consideration transferred at fair value at the acquisition date. The determination of fair values for the acquired intangible assets involves the use of discounted cash flow analyses. Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. The Company determines that a pre-acquisition contingency is probable in nature and estimable as of the acquisition date and records its best estimate for the contingency as part of the purchase price allocation. The Company continues to gather information and evaluates any pre-acquisition contingencies throughout the measurement period and makes adjustments as necessary to the purchase price allocation. Changes in fair value of contingent consideration outside of the measurement period are measured at fair value, with changes in fair value recognized in profit or loss. Acquisition-related costs are expensed as incurred. Any excess of the

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

fair value of the consideration transferred over the fair value of identifiable net assets acquired, at acquisition date, is recorded as goodwill.

#### **Foreign Currency Transactions**

Monetary assets and liabilities denominated in foreign currencies are translated into the applicable functional currency of the entity at exchange rates prevailing at the consolidated statements of financial position date. Revenue and expenses are translated at the average rate for the period. The gains and losses from foreign currency denominated transactions are included in foreign exchange gain/loss in the consolidated statements of (loss) income and comprehensive (loss) income.

#### **Cash and Cash Equivalents**

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

#### **Short-Term Investments**

Short-term investments are accounted for at amortized cost using the effective interest rate method. Short-term investments comprise guaranteed investment certificates with original maturities of one year or less at the date of investment and their carrying value approximates their fair value.

#### **Restricted Short-Term Investments**

Restricted short-term investments are amounts held specifically as collateral for bank guarantees that the Company has entered into for security against potential procedural costs pursuant to a court order regarding patent infringement whereby the Company is the plaintiff. As at December 31, 2021, the Company had a letter of credit of \$997 (2020 - \$nil) outstanding against the credit facility.

#### **Unbilled Revenue**

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

#### **Inventories**

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

#### **Property Plant and Equipment**

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

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

#### Intangible Assets

Intangible assets consist of finite-lived patents, developed software, customer relationships, non-competition agreements, trade name and backlog.

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

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

Fair value of the developed software and brand is determined based on the present value of expected future cash flows.

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

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

Patents	up to 20 years
Developed software	5-15 years
Customer relationships and backlog	7-15 years
Trade name	7-12 years
Non-competition agreements	term of agreement

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

#### Impairment of Non-Financial Assets

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is determined by the cash flows expected to arise from the CGU discounted using a pre-tax

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

#### **Investment in Joint Venture**

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

#### **Deferred Compensation Asset and Liability**

The Company recognizes a deferred compensation plan that enables upper level management and executives to defer compensation until retirement. The Company funds these deferred compensation liabilities by making contributions to a trust invested in various mutual funds, presented as deferred compensation assets on the financial statements.

#### **Goodwill**

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

#### **Revenue Recognition**

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

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Year ended December 31, 2021 and 2020

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Licensing segment*

##### Right-to-use

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

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 year over year.

##### Sales or usage-based royalty

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

#### *Intelligent Transportation Systems segment*

##### Contracted projects

The majority of sales of integrated systems are delivered as contracted projects with contract terms of less than one year to more than five years, and the Company typically transfers control of goods or services, and satisfies performance obligations over time and therefore recognizes revenue over time as these performance obligations are satisfied. This continuous transfer of control to the customer is often supported by the customer's physical possession or legal title to the work in process, contractual clauses that provide the Company with a present right to payment for work performed to date plus a reasonable profit in the event a customer unilaterally terminates the contract for convenience, and as the customer simultaneously receives and consumes the benefits provided by the Company's performance. The Company's contract types include fixed price and time and materials contracts. The transaction price includes amounts expected to be received in exchange for the goods or services plus any contract amendments that are expected to be received. Payment terms are based on completion of milestones throughout the project life for fixed price contracts and monthly for time and materials projects.

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

##### Installations

Revenue for the installation obligations of fixed price contracts is recognized over time using the input method based on costs incurred relative to the total expected costs to complete each project. Control is transferred to the customer over time as the customer gains physical possession or legal title to the work in process, as well as contractual clauses that provide the Company with a present right to payment for work performed to date plus a reasonable profit in the event a customer unilaterally terminates the contract for convenience and correspondingly revenue earned from the contract is recognized over time based on the extent of progress towards completion of the performance obligation based on costs incurred relative to the total expected costs to complete each project. The Company reviews and updates the contract-related estimates regularly. Determining the contract costs and estimates to complete requires significant judgment. Adjustments are recognized in profit on contracts under the cumulative catch-up method in the period the adjustment is identified. If the Company anticipates the estimated remaining costs to completion will exceed the value allocated to the performance obligation, the resulting loss is recognized immediately.

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Maintenance

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

#### Warranty

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

#### Product sales

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

#### Financial Instruments

##### *Recognition and initial measurement*

Financial assets and liabilities, with the exception of accounts receivable and unbilled revenues that do not have a significant financing component, are initially recognized at fair value plus or minus directly attributable transaction costs as appropriate, except for financial assets at fair value through profit and loss ("FVTPL"), for which transaction costs are expensed. Accounts receivable and unbilled revenues that do not have a significant financing component are initially measured at the transaction price determined in accordance with IFRS 15. Accounts receivable are recognized on the date that they originate, and all other financial instruments are recognized when the Company becomes party to the contractual provisions of the instrument. The Company considers whether a contract contains an embedded derivative when the Company first becomes party to it. Embedded derivatives are separately accounted for from the host contract if the host contract is not measured at FVTPL and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment of the fair value of derivatives occurs each reporting period, with the changes in fair value recognized through profit or loss.

##### Financial assets

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

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

##### Financial liabilities

The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities consist of accounts payable and accrued liabilities, convertible debentures, long-term debt and deferred compensation liabilities, which are classified as amortized cost.

##### Subsequent measurement

Subsequent to initial recognition, financial assets and liabilities classified as amortized cost are measured using the effective interest method, less, in the case of financial assets, any impairment. Interest income and expense, foreign exchange gains and losses, impairment and any gain or loss on derecognition are recognized in profit

## Notes to Consolidated Financial Statements

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

and loss. Contingent liabilities are reported at fair value and the gain or loss recognized in profit and loss as an other charge.

#### Derecognition

The Company derecognizes a financial asset when the rights to receive cash flows from the financial asset have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. The Company derecognizes a financial liability when the contractual obligations are discharged, canceled or expire.

#### Derivative instruments

The Company may use derivative financial instruments to reduce exposure to fluctuation in foreign currency exchange rates. The Company may enter into foreign exchange contracts to hedge anticipated cash flows denominated in a foreign currency. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset or liability and certain criteria are met. Derivative assets and liabilities are remeasured at each subsequent reporting period with any gains or losses arising from changes in fair value recorded within profit or loss.

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

#### Fair Value Measurement of Financial Instruments

The Company uses various valuation techniques and assumptions when measuring fair value of its financial assets and financial liabilities. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique.

The Company's fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are:

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

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

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

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

#### *Derivative financial instruments*

The fair value of sales contract embedded derivatives is measured using a market approach, based on the difference between the quoted forward exchange rate as of the contract date and quoted forward exchange rate as of the reporting date. The fair value of forward exchange contracts is determined using the quoted forward exchange rates at the reporting date. The fair value of derivative liabilities related to the convertible debentures is measured using the Black-Scholes option pricing model.

#### *Contingent liabilities*

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

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, accounts payable and accrued liabilities, and convertible debentures, approximates their fair value due to the short-term maturity of these items. The fair value of the bank indebtedness and long-term debt approximates the carrying amount since these debt instruments have floating interest rates.

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

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

#### **Research and Development**

Research costs are included in the consolidated statements of (loss) income and comprehensive (loss) income in the periods in which they are incurred, net of earned investment tax credits. Software development costs are deferred and amortized when technological feasibility has been established, or otherwise are expensed as incurred.

#### **Warranties**

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

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

#### **Financing Costs**

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

#### **Leases**

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

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

## Notes to Consolidated Financial Statements

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset unless it has been reduced to zero. Any further reduction in the lease liability is then recognized in profit or loss.

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

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

The lease payments associated with short-term and low-value leases are recognized as an expense on a straight-line basis over the lease term as the Company has elected the relevant practical expedients. Short-term leases are those with a lease term of 12 months or less. Low-value asset leases are those leases where the asset being leased when new has a value of less than US\$5.

#### Segment Reporting

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

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

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

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

Deferred income tax assets and liabilities are determined based on the difference between the accounting and tax bases of the assets and liabilities and measured using the enacted tax rates that are expected to be in effect when the differences are estimated to be reversed. The realization of deferred income tax assets is dependent upon the generation of sufficient future taxable income during the periods prior to the expiration of the associated tax attributes. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be used. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

## Notes to Consolidated Financial Statements

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

as assets based on its estimations of amounts and timing of future taxable income and future cash flows in the related jurisdiction.

#### **Discontinued Operations**

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

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

#### **Government Grants**

The Company recognizes government grants when there is reasonable assurance that the Company will comply with the corresponding conditions attached to the grant and that the grant will be received.

Government grants are recognized in the consolidated statements of (loss) income and comprehensive (loss) income on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate and are deducted from the related expense.

### 3. FUTURE ACCOUNTING PRONOUNCEMENTS

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

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

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

#### **Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)**

In February 2021, the IASB issued *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)*. The amendments provide guidance to help entities disclose their material (previously "significant") accounting. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is currently assessing the impact of these amendments.

#### **Definition of Accounting Estimates (Amendments to IAS 8)**

In February 2021, the IASB issued *Definition of Accounting Estimates (Amendments to IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors)*. The amendments define accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. The Company is currently assessing the impact of these amendments.

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### 3. FUTURE ACCOUNTING PRONOUNCEMENTS (continued)

#### **Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendments to IFRS 9)**

As part of its 2018-2020 annual improvements to the IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the types of fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. The amendment specifies that only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf, should be included. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective January 1, 2022, with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the Company.

### 4. BUSINESS COMBINATIONS

Acquisitions are accounted for using the acquisition method of accounting and the financial statements include the acquisition results since the respective acquisition dates.

On January 5, 2021, the Company's wholly owned subsidiary, International Road Dynamics Inc. ("IRD"), acquired 100% of the issued and outstanding shares of Sensor Line – Gesellschaft für Optoelektronische Sensoren mbH ("Sensor Line"), a German ITS provider of highly regarded fiber optic traffic sensors for road and rail markets. On April 28, 2021, IRD acquired 100% of the issued and outstanding shares of VDS Verkehrstechnik GmbH ("VDS"), a German ITS provider of high-precision monitoring devices. Both Sensor Line and VDS have been integrated into IRD and form part of the ITS segment. On September 1, 2021, the Company acquired 100% of the issued and outstanding equity of Richardson, Texas-based Electronic Transaction Consultants, LLC ("ETC") by acquiring all the issued and outstanding shares of its parent holding companies. ETC is a leader in providing tolling and mobility systems to tolling authorities across the United States. The purchase of these acquisitions broadens the Company's product and services suite in the ITS industry and expands its geographic footprint further into the European and North American markets. The transactions, valued at \$5,933 (€3,800), \$2,780 (€1,837) and \$151,313 (USD \$120,023) for Sensor Line, VDS and ETC, respectively, were financed through the Company's cash reserves and debt financing.

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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

### 4. BUSINESS COMBINATIONS (continued)

The following tables summarize the fair value allocations of identifiable assets acquired and liabilities assumed as part of the acquisitions on each closing date:

#### Sensor Line

<b>Cash consideration paid</b>	<b>\$</b>	<b>5,933</b>
<b>Identifiable net assets acquired at fair value:</b>		
Accounts receivable	\$	793
Inventories		547
Prepaid expenses and deposits		103
Property, plant and equipment		151
Intangible assets		
Customer relationships		2,322
Developed software		854
Goodwill		2,563
Deferred income tax assets		36
Bank indebtedness		(142)
Accounts payable and accrued liabilities		(295)
Income taxes payable		(46)
Deferred income tax liabilities		(953)
<b>Total identifiable net assets at fair value</b>	<b>\$</b>	<b>5,933</b>

#### VDS

<b>Cash consideration paid</b>	<b>\$</b>	<b>2,780</b>
<b>Identifiable net assets acquired at fair value:</b>		
Accounts receivable	\$	154
Inventories		674
Prepaid expenses and deposits		16
Right-of-use assets		600
Property, plant and equipment		271
Intangible assets		
Customer relationships		746
Developed software		640
Goodwill		995
Accounts payable and accrued liabilities		(316)
Lease liabilities		(600)
Deferred income tax liabilities		(400)
<b>Total identifiable net assets at fair value</b>	<b>\$</b>	<b>2,780</b>

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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

### 4. BUSINESS COMBINATIONS (continued)

#### ETC

<b>Cash consideration paid</b>	<b>\$</b>	<b>151,313</b>
<b>Identifiable net assets acquired at fair value:</b>		
Cash and cash equivalents	\$	145
Accounts receivable		9,589
Unbilled revenue		9,715
Prepaid expenses and deposits		2,665
Accounts and other long-term receivables		218
Deferred compensation asset		1,413
Right-of-use assets		4,201
Property, plant and equipment		2,974
Intangible assets		
Customer relationships		50,680
Developed software		34,039
Trade name and other		16,137
Non-competition agreement		1,135
Goodwill		33,379
Accounts payable and accrued liabilities		(8,452)
Deferred revenue		(291)
Lease liabilities		(4,202)
Deferred compensation liability		(1,257)
Deferred income tax liabilities		(775)
<b>Total identifiable net assets at fair value</b>	<b>\$</b>	<b>151,313</b>

The fair values of the assets and liabilities associated with these acquisitions were finalized by the date these financial statements were approved by the Board of Directors on March 20, 2022.

The goodwill recognized is attributable to intangible assets that do not qualify for separate recognition and may include expected synergies arising from the combined operations and the Company's other existing businesses within the ITS segment, expected growth in the markets that they serve, and the strength of the assembled workforce in each. Only the goodwill from the ETC acquisition is deductible for tax purposes.

For the year ended December 31, 2021, sales and net loss relating to the Sensor Line acquisition were \$3,539 and \$25. Due to the timing of the acquisition of Sensor Line, these amounts are the same as if the acquisition had occurred at the beginning of the year. Sales and net income relating to the VDS acquisition were \$2,314 and \$98 for the year ended December 31, 2021. If the acquisition of VDS had been completed as of January 1, 2021, the Company estimates that this subsidiary's revenue would have been \$2,899 and its net loss would have been \$178 for the year ended December 31, 2021. The sales and net income of ETC for the year ended December 31, 2021 were \$36,446 and \$162. Had the acquisition of ETC occurred on January 1, 2021, sales and net loss are estimated to have been \$91,440 and \$5,473 for the year ended December 31, 2021.

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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

### 5. DISCONTINUED OPERATIONS

On May 15, 2020, the Company sold its investment in VIZIYA Corp. and its related entities (collectively, "VIZIYA") for \$49,400. VIZIYA was acquired in May 2017 and represented the Company's former Enterprise Software segment. The Company's results for the prior fiscal period reported throughout these consolidated financial statements have been adjusted to reflect continuing operational results and figures with respect to these discontinued operations.

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

	Year ended December 31,	
	2021	2020
Revenues	\$ —	\$ 6,132
Direct cost of revenues	—	1,211
Gross profit	—	4,921
Operating expenses	—	7,309
Results from operations	—	(2,388)
Other expenses	—	104
Income tax recovery	—	(593)
Loss from discontinued operations	—	(1,899)
Gain on disposal, before tax	—	17,713
Deferred income tax expense	—	1,559
Net income from discontinued operations	\$ —	\$ 14,255

### 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 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 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, 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 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.

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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### 7. UNBILLED REVENUE AND DEFERRED REVENUE

Significant changes in unbilled revenue and deferred revenue balances during the year ended December 31, 2021 are as follows:

As at	<b>December 31, 2021</b>	December 31, 2020	\$ Change
Unbilled revenue	<b>\$ 35,926</b>	\$ 13,549	\$ 22,377
Deferred revenue - current	<b>(7,989)</b>	(4,800)	(3,189)
Deferred revenue - non-current	<b>(2,839)</b>	(2,573)	(266)
Net contract assets	<b>\$ 25,098</b>	\$ 6,176	\$ 18,922

Revenue recognized for the year ended December 31, 2021 that was included in deferred revenue at the beginning of the year was \$3,129 (2020 - \$5,784).

### 8. INVENTORIES

As at	<b>December 31, 2021</b>	December 31, 2020
Raw materials	<b>\$ 2,150</b>	\$ 1,392
Original equipment manufacturer materials	<b>5,528</b>	4,001
Work in process	<b>1,564</b>	1,571
Finished goods	<b>4,489</b>	2,104
	<b>\$ 13,731</b>	\$ 9,068

During the year, inventories expensed within direct cost of revenues were \$24,230 (2020 - \$18,126). Write-downs of inventory that were included in direct cost of revenues for the year were \$230 (2020 - \$169). Reversals of write-downs recognized during the year were \$125 (2020 - \$101).

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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

### 9. RIGHT-OF-USE ASSETS AND LIABILITIES

The Company has leases for corporate offices, production facilities, vehicles and equipment used in operations. These leases have remaining lease terms ranging from 3 months to 7 years, some of which include options to extend the leases for up to 14 years or to terminate the lease with notice periods of 120 days to 6 months or at predetermined dates as specified within the lease contract. The Company has classified the assets related to these leases as right-of-use assets and the liabilities associated with the future lease payments under these leases as lease liabilities.

The following table provides details of changes in the Company's right-of-use assets:

	Note	Buildings	Vehicles and Operations Equipment	Total
<b>Cost</b>				
Balance, January 1, 2020	\$	5,854	\$ 32	\$ 5,886
Additions		407	—	407
Disposals		(348)	—	(348)
Foreign currency translation		(14)	(1)	(15)
Balance, December 31, 2020		5,899	31	5,930
Additions		909	—	909
Acquisitions through business combinations	4	4,375	426	4,801
Disposals		(131)	—	(131)
Foreign currency translation		(118)	(20)	(138)
<b>Balance, December 31, 2021</b>	<b>\$</b>	<b>10,934</b>	<b>\$ 437</b>	<b>\$ 11,371</b>
<b>Accumulated Depreciation</b>				
Balance, January 1, 2020	\$	1,369	\$ 15	\$ 1,384
Depreciation		997	13	1,010
Disposals		(158)	—	(158)
Foreign currency translation		(85)	(1)	(86)
Balance, December 31, 2020		2,123	27	2,150
Depreciation		1,441	127	1,568
Foreign currency translation		(107)	(1)	(108)
<b>Balance, December 31, 2021</b>	<b>\$</b>	<b>3,457</b>	<b>\$ 153</b>	<b>\$ 3,610</b>
<b>Net Book Value</b>				
Balance, January 1, 2020	\$	4,485	\$ 17	\$ 4,502
Balance, December 31, 2020	\$	3,776	\$ 4	\$ 3,780
<b>Balance, December 31, 2021</b>	<b>\$</b>	<b>7,477</b>	<b>\$ 284</b>	<b>\$ 7,761</b>

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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### 9. RIGHT-OF-USE ASSETS AND LIABILITIES (continued)

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

Balance, January 1, 2020	Note \$	4,548
Disposal		(201)
Interest		223
Payments		(1,144)
Foreign currency translation		333
<b>Balance, December 31, 2020</b>		<b>3,759</b>
Additions		909
Acquisitions through business combinations	4	4,802
Disposal		(131)
Interest		245
Payments		(1,659)
Foreign currency translation		(133)
<b>Balance, December 31, 2021</b>	<b>\$</b>	<b>7,792</b>
As at		<b>December 31, 2021</b>
Maturities of lease liabilities:		
2022	\$	2,418
2023		1,644
2024		1,429
2025		1,307
2026		954
Thereafter		800
Total lease payments		8,552
Less imputed interest		760
<b>Total</b>	<b>\$</b>	<b>7,792</b>
Comprised of:		
Current portion of lease liabilities	\$	2,166
Long-term lease liabilities		5,626
<b>Lease liabilities as of December 31, 2021</b>	<b>\$</b>	<b>7,792</b>

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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

### 10. PROPERTY, PLANT AND EQUIPMENT

	Note	Leasehold Improvements	Computer Equipment & Software	Furniture & Fixtures	Machinery & Equipment	Land & Building	Total
<b>Cost</b>							
Balance, January 1, 2020		\$ 573	\$ 3,876	\$ 769	\$ 2,066	\$ 701	\$ 7,985
Additions		49	718	35	534	—	1,336
Disposals		(177)	(598)	(97)	(314)	—	(1,186)
Foreign currency translation		(7)	(60)	(27)	9	3	(82)
Balance, December 31, 2020		438	3,936	680	2,295	704	8,053
Additions		34	158	347	610	—	1,149
Acquisitions through business combinations	4	8	1,979	676	704	29	3,396
Disposals		—	—	(44)	(381)	—	(425)
Foreign currency translation		(3)	(58)	(13)	(158)	(32)	(264)
<b>Balance, December 31, 2021</b>		<b>\$ 477</b>	<b>\$ 6,015</b>	<b>\$ 1,646</b>	<b>\$ 3,070</b>	<b>\$ 701</b>	<b>\$ 11,909</b>
<b>Accumulated Depreciation</b>							
Balance, January 1, 2020		\$ 186	\$ 3,425	\$ 688	\$ 818	\$ 42	\$ 5,159
Depreciation		93	349	22	555	18	1,037
Disposals		(111)	(386)	(59)	(287)	—	(843)
Foreign currency translation		(1)	(70)	(24)	11	1	(83)
Balance, December 31, 2020		167	3,318	627	1,097	61	5,270
Depreciation		43	633	207	701	(1)	1,583
Disposals		—	—	—	(385)	—	(385)
Foreign currency translation		—	(57)	(7)	(180)	(9)	(253)
<b>Balance, December 31, 2021</b>		<b>\$ 210</b>	<b>\$ 3,894</b>	<b>\$ 827</b>	<b>\$ 1,233</b>	<b>\$ 51</b>	<b>\$ 6,215</b>
<b>Net Book Value</b>							
Balance, January 1, 2020		\$ 387	\$ 451	\$ 81	\$ 1,248	\$ 659	\$ 2,826
Balance, December 31, 2020		\$ 271	\$ 618	\$ 53	\$ 1,198	\$ 643	\$ 2,783
<b>Balance, December 31, 2021</b>		<b>\$ 267</b>	<b>\$ 2,121</b>	<b>\$ 819</b>	<b>\$ 1,837</b>	<b>\$ 650</b>	<b>\$ 5,694</b>

The Company recognized no impairment during the year ended December 31, 2021 (2020 - \$nil).

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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### 11. INTANGIBLE ASSETS

	Note	Patents	Developed Software	Customer Relationships, Trade Name, Non-competition Agreements and Backlog	Total
<b>Cost</b>					
Balance, January 1, 2020		\$ 406,231	\$ 23,354	\$ 30,364	\$ 459,949
Additions		1,336	—	—	1,336
Disposals		—	(12,750)	(9,180)	(21,930)
Foreign currency translation		(8,836)	(282)	(180)	(9,298)
Balance, December 31, 2020		398,731	10,322	21,004	430,057
Additions		4,663	771	—	5,434
Acquisitions through business combinations	4	—	35,533	71,020	106,553
Disposals		(81)	—	—	(81)
Foreign currency translation		(826)	320	394	(112)
<b>Balance, December 31, 2021</b>		<b>\$ 402,487</b>	<b>\$ 46,946</b>	<b>\$ 92,418</b>	<b>\$ 541,851</b>
<b>Accumulated Amortization &amp; Impairment</b>					
Balance, January 1, 2020		\$ 346,929	\$ 12,172	\$ 11,314	\$ 370,415
Amortization		13,795	3,603	3,004	20,402
Disposals		—	(8,248)	(3,498)	(11,746)
Impairment		295	—	—	295
Foreign currency translation		(8,263)	(235)	(72)	(8,570)
Balance, December 31, 2020		352,756	7,292	10,748	370,796
Amortization		12,589	2,836	4,803	20,228
Disposals		(27)	—	—	(27)
Foreign currency translation		(457)	9	(53)	(501)
<b>Balance, December 31, 2021</b>		<b>\$ 364,861</b>	<b>\$ 10,137</b>	<b>\$ 15,498</b>	<b>\$ 390,496</b>
<b>Net Book Value</b>					
Balance, January 1, 2020		\$ 59,302	\$ 11,182	\$ 19,050	\$ 89,534
Balance, December 31, 2020		\$ 45,975	\$ 3,030	\$ 10,256	\$ 59,261
<b>Balance, December 31, 2021</b>		<b>\$ 37,626</b>	<b>\$ 36,809</b>	<b>\$ 76,920</b>	<b>\$ 151,355</b>

## Notes to Consolidated Financial Statements

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### 12. INVESTMENT IN JOINT VENTURE

	<b>December 31, 2021</b>	December 31, 2020
Balance, beginning of the year	<b>\$ 6,704</b>	\$ 5,233
Currency gain on financial statement translation	<b>178</b>	268
Company's share of earnings	<b>1,924</b>	1,680
Dividend received	<b>(1,348)</b>	(477)
Balance, December 31, 2021	<b>\$ 7,458</b>	\$ 6,704

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

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 \$150 during the year ended December 31, 2021 (2020 - \$nil). At December 31, 2021, IRD had amounts owing to XPCT of \$1 (2020 - \$48).

As at December 31, 2021, IRD has an outstanding 100% joint and several liability guarantee to XPCT, for a loan in the amount of 15,000 yuan, or \$3,008 (2020 - \$2,954); 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.

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. Summary financial information for XPCT is as follows:

As at	<b>December 31, 2021</b>	December 31, 2020
Cash	<b>\$ 1,942</b>	\$ 3,840
Other current assets	<b>38,888</b>	32,697
Non-current assets	<b>1,456</b>	—
Current liabilities		
Trade and other	<b>(14,630)</b>	(12,562)
Short-term loans	<b>(10,753)</b>	(9,849)
Non-current liabilities	<b>(1,987)</b>	(718)
Net assets - 100%	<b>14,916</b>	13,408
Net assets attributable to the Company - 50%	<b>\$ 7,458</b>	\$ 6,704

	<b>Year ended December 31,</b>	
	<b>2021</b>	2020
Revenue	<b>\$ 53,722</b>	\$ 39,542
Direct cost of revenues	<b>(44,698)</b>	(32,258)
Depreciation and amortization	<b>(1,428)</b>	(1,310)
Finance expense	<b>(980)</b>	(602)
Other expense	<b>(2,082)</b>	(1,420)
Income before income taxes	<b>4,534</b>	3,952
Income tax expense	<b>686</b>	592
Net income - 100%	<b>\$ 3,848</b>	\$ 3,360
Net income attributable to the Company - 50%	<b>\$ 1,924</b>	\$ 1,680

## Notes to Consolidated Financial Statements

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### 13. DEFERRED COMPENSATION

Within the Company's ITS segment, its subsidiary, 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 deferred compensation assets on the financial statements.

### 14. GOODWILL

The changes in the carrying amount of goodwill by reporting units are presented in the table below:

	Note	Licensing	Intelligent Transportation Systems	Enterprise Software	Total
Balance, January 1, 2020		\$ 16,451	\$ —	\$ 16,526	\$ 32,977
Disposition		—	—	(16,526)	(16,526)
Currency translation		(358)	—	—	(358)
Balance at December 31, 2020		16,093	—	—	16,093
Acquisitions	4	—	36,937	—	36,937
Currency translation		(32)	67	—	35
<b>Balance at December 31, 2021</b>		<b>\$ 16,061</b>	<b>\$ 37,004</b>	<b>\$ —</b>	<b>\$ 53,065</b>

In accordance with the IFRS guidance related to goodwill, the Company is required to assess the carrying amount of its goodwill for potential impairment annually or more frequently if events or a change in circumstances indicate that impairment may have occurred. The Company tests goodwill for impairment annually at year-end using data as of December 31 of that year at the level of the group of CGUs to which the goodwill is allocated, which corresponds with the corresponding operating segment.

The recoverable amount of the CGU to which the goodwill belongs is determined based on a value-in-use calculation that discounts the present value of estimated future cash flows at an appropriate risk-adjusted rate. The Company uses its internal forecasts to estimate future cash flows and includes an estimate of long-term future growth rates based on its most recent views of the long-term outlook for each business for a period of five years and did not use terminal growth rate. Actual results may differ from those assumed in these forecasts. The Company derives its discount rates using a capital asset pricing model and by analyzing published rates for industries relevant to its reporting units to estimate the cost of equity financing. The Company uses discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in its internally developed forecasts. The discount rates used in the licensing and ITS segment valuations at December 31, 2021 were 12% and 8%, respectively (2020 - 13.6%, Licensing segment only).

The results of the assessments performed at December 31, 2021 and December 31, 2020 indicated that the recoverable amount of these operating segments exceeded their carrying values, and management believes that no reasonably possible change in any of the above key assumptions would have caused the carrying amount to exceed its recoverable amount.

Estimating the fair value of reporting units requires the use of estimates and significant judgments that are based on a number of factors including actual operating results. It is reasonably possible that the judgments and estimates described above could change in future periods.

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### 15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	December 31, 2021	December 31, 2020
Trade payables	\$ 25,448	\$ 10,039
Accrued compensation	7,325	6,202
Accrued contingent partner payments & legal fees	3,156	433
Dividends	1,424	1,383
Accrued litigation costs	1,161	1,578
Project losses	1,471	321
Other current liabilities	2,023	82
	<b>\$ 42,008</b>	<b>\$ 20,038</b>

### 16. LONG-TERM DEBT

As at	December 31, 2021	December 31, 2020
Senior term credit facility:		
US\$50,000, due August 31, 2026	\$ 62,826	\$ —
Less: current portion of long-term debt	(3,181)	—
Debt issuance costs, net of amortization	(677)	—
Total long-term debt	<b>\$ 58,968</b>	<b>\$ —</b>

During the year ended December 31, 2021, 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 December 31, 2021, was 3.2%. 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, ETC and its parent holding company, Quarterhill USA, Inc. The carrying value of these assets as at December 31, 2021 was \$230,788.

During the year ended December 31, 2021, \$12,727 (US\$10,000) was drawn and repaid from the revolving credit facility. Repayments, if any amounts are drawn, on the revolving credit facility are ultimately due on the maturity. 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 September 1, 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 December 31, 2021.

## Notes to Consolidated Financial Statements

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

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

	<b>Principal</b>
To December 31, 2022	\$ 3,181
To December 31, 2023	3,976
To December 31, 2024	6,362
To December 31, 2025	6,362
To December 31, 2026	42,945
	<b>\$ 62,826</b>

The Company also has incurred a revolving demand facility through its WiLAN Inc. ("WiLAN") subsidiary in the amount of \$3,040 to support letters of credit and/or letters of guarantee as well as a credit facility in the amount of \$50 with Royal Bank of Canada for which \$3,095 in restricted short-term investments are held as collateral. As at December 31, 2021, a \$997 (€692) letter of credit is outstanding against the revolving demand facility.

In addition, the Company has a revolving credit facility available with the Canadian Imperial Bank of Commerce in the amount of \$8,000 or the equivalent in US dollars for general corporate purposes and a further US\$2,000 for a foreign exchange facility. Canadian dollar or US dollar amounts advanced under this credit facility are payable on demand and bear interest at the bank's Canadian prime rate plus 1.0% per annum or US base rate plus 1.0% per annum. Borrowings under this facility are collateralized by a general security agreement over the Company's cash and cash equivalents, accounts receivable and present and future personal property. As at December 31, 2021 and during the year ended December 31, 2021, the Company had no borrowings under this facility (2020 - \$nil).

IRD's Chilean subsidiary also maintains a secured line of credit to support performance guarantees required for selected projects. As at December 31, 2021, the dollar value of these performance guarantees totaled \$291 (2020 - \$706).

### 17. 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>December 31, 2021</b>	December 31, 2020
<b>Convertible Unsecured Subordinated Debentures:</b>		
Gross proceeds	\$ 57,500	—
Convertible debentures, host debt component	\$ 47,967	—
Debt issuance costs, net of amortization	(2,008)	—
Convertible debentures	\$ 45,959	—
Convertible debentures, derivative liability component	\$ 9,533	—
Change in fair value of derivative liability	(92)	—
Derivative liability	\$ 9,441	—

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".

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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

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 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:

	October 27, 2021	December 31, 2021
Risk-free rate	1.0 %	1.0 %
Expected life (in years)	5.0	4.8
Expected volatility	46.0 %	46.0 %
Expected dividend yield	1.95 %	1.95 %
Share price	\$ 2.59	\$ 2.70

Debt issuance costs associated with the issuance of the Debentures for the year December 31, 2021 were \$2,476 and were allocated between the host debt and the conversion option on a relative fair value basis.

### 18. 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. VIZIYA's former shareholders have initiated arbitration of the Eligible Earnings and additional payment calculations as permitted pursuant to the terms of the acquisition agreement, the results of which arbitration may, or may not, result in a determination that the former shareholders are entitled to receive some or all of this earn-out obligation under the acquisition agreement. Quarterhill has defended this arbitration and does not believe that it will ultimately be found liable; however, the outcome of any litigation including this arbitration is inherently uncertain, including as to the finding of any liabilities and the adjudication of any damages amount. As at December 31, 2021, it was determined that it is not more likely than not that a legal liability exists and therefore no provision has been made in the Company's consolidated financial statements.

## Notes to Consolidated Financial Statements

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### 19. SHARE CAPITAL

The share capital of the Company consists of the following:

	Issued and Outstanding		
	Authorized	December 31, 2021	December 31, 2020
a. common shares, with no par value	unlimited	113,880,853	114,322,032
b. special preferred, redeemable, retractable, non-voting shares	6,350.9	Nil	Nil
c. preferred shares, issuable in series	unlimited	Nil	Nil
			<b>Number</b>
January 1, 2020			118,817,466
Conversion of PSU to common shares			47,290
Exercise of stock options			351,893
Shares repurchased under substantial issuer bid for cancellation			(2,687,981)
Shares repurchased under normal course issuer bid for cancellation			(2,206,636)
<b>December 31, 2020</b>			<b>114,322,032</b>
Issuance of common shares upon vesting of restricted stock units			106,887
Issuance of common shares upon vesting of performance stock units			41,312
Shares repurchased under normal course issuer bid for cancellation			(841,300)
Exercise of stock options			251,922
<b>December 31, 2021</b>			<b>113,880,853</b>

#### SIB

On May 21, 2020, the Company announced its intention to make a Substantial Issuer Bid ("SIB") to purchase for cancellation up to \$20,000 of its outstanding common shares from shareholders for cash by way of modified-Dutch auction with a price range of between \$1.95 and \$2.15 per share. The SIB commenced on June 1, 2020 and expired on July 7, 2020. During the third quarter of 2020, the Company repurchased for cancellation 2,687,981 common shares at an average purchase price of \$2.15 per share, plus transaction costs of \$545, for a total of \$6,324. As purchases were made, the Company reduced share capital for the average book value of the shares repurchased.

#### NCIB

On August 6, 2020, the Company received approval from TSX on its notice of intention to make a normal course issuer bid to purchase for cancellation up to 11,303,777 of its outstanding common shares (the "NCIB"). During the year ended December 31, 2021, the Company repurchased for cancellation 841,300 common shares at an average purchase price of \$2.45 per share totaling \$2,065 under the NCIB. Since the commencement of the NCIB on August 10, 2020, the Company has repurchased a total of 3,047,936 shares for \$6,363. The NCIB expired on August 9, 2021.

The Company paid quarterly cash dividends as follows:

	2021		2020	
	Per Share	Total	Per Share	Total
1st quarter	\$ 0.0125	\$ 1,432	\$ 0.0125	\$ 1,481
2nd quarter	0.0125	1,422	0.0125	1,462
3rd quarter	0.0125	1,420	0.0125	1,498
4th quarter	0.0125	1,415	0.0125	1,383
	<b>\$ 0.0500</b>	<b>\$ 5,689</b>	<b>\$ 0.0500</b>	<b>\$ 5,824</b>

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### 19. SHARE CAPITAL (continued)

#### Stock-Based Compensation

At the annual and special meeting of shareholders held on April 18, 2018, Quarterhill's shareholders approved the adoption of the Company's 2018 Equity Incentive Plan (the "Equity Plan"). As at December 31, 2021, the Company had options to purchase up to 8,544,271 common shares outstanding. Upon adoption of the Equity Plan, all options outstanding under the Option Plan are now governed by the Equity Plan.

During the year ended December 31, 2021, the Company granted options to purchase 2,322,887 common shares at exercise prices ranging from \$2.39 to \$2.70 with a weighted average fair value of \$1.13. The Company used the Black-Scholes model for estimating the fair value of options granted with the following weighted average assumptions for the options granted in 2021.

	<u>2021</u>
Risk free rate	0.99 %
Volatility	46.12 %
Expected option life (in years)	3.7
Expected dividend yield	1.95 %
Forfeiture rate	22.12 %

The table below illustrates the options activity for the years ending December 31, 2021 and 2020:

	Options Outstanding			Exercisable Options	
	Number of Options	Price Range	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
January 1, 2020	3,788,908	\$1.33 — \$4.23	\$2.14	1,508,063	\$2.12
Granted	4,571,757	1.80 — 2.60	2.03		
Forfeited	(1,057,983)	1.33 — 2.38	2.19		
Expired	(140,000)	3.25 — 4.23	3.83		
Exercised	(351,893)	1.33 — 2.38	2.32		
December 31, 2020	6,810,789	\$1.33 — \$4.23	\$2.02	1,570,308	\$2.04
Granted	<b>2,322,887</b>	<b>2.39 — 2.70</b>	<b>2.64</b>		
Forfeited	<b>(267,482)</b>	<b>1.81 — 2.16</b>	<b>1.94</b>		
Expired	<b>(70,001)</b>	<b>1.89 — 2.14</b>	<b>2.01</b>		
Exercised	<b>(251,922)</b>	<b>1.33 — 2.16</b>	<b>1.87</b>		
December 31, 2021	<b>8,544,271</b>	<b>\$1.81 — \$2.70</b>	<b>\$2.19</b>	<b>2,987,725</b>	<b>\$2.05</b>

The weighted average fair value per option granted during the year ended December 31, 2021 was \$0.64 (2020 - \$0.69).

The intrinsic value of the exercisable options was \$1,384 as at December 31, 2021 (2020 - \$495). The total fair value of options vested was \$1,775 for the year ended December 31, 2021 (2020 - \$468).

## Notes to Consolidated Financial Statements

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### 19. SHARE CAPITAL (continued)

As at December 31, 2021, there was \$4,216 of total unrecognized stock-based compensation cost, net of expected forfeitures, related to unvested stock-based compensation arrangements granted under the stock option plan. This cost is expected to be recognized over a weighted average period of 3.2 years. Details of the outstanding options at December 31, 2021 are as follows:

Range of Exercise Prices		Outstanding Options at December 31, 2021	Remaining Term of Options in Years	Weighted Average Exercise Price	Exercisable Options at December 31, 2021	Weighted Average Exercise Price
\$ 1.30	\$ 1.49	383,880	3.18	\$ 1.33	255,921	\$ 1.33
1.50	1.99	3,389,497	4.40	1.90	1,211,373	1.89
2.00	2.49	1,854,417	5.36	2.14	1,040,620	2.09
2.50	2.99	2,916,477	5.87	2.68	479,811	2.72
\$ 1.89	\$ 4.37	8,544,271	5.06	\$ 2.19	2,987,725	\$ 2.04

#### Restricted Stock Units

Pursuant to the Company's Equity Plan, the Company granted restricted stock units ("RSUs") to certain employees in March 2021. Pursuant to the Equity Plan, these RSUs are settled in common shares issued from treasury on a one-to-one basis in six tranches, with the first tranche vested at the grant date on March 15, 2021 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 2021, 2022 and 2023. The Company granted 556,721 RSUs on 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. For the year ended December 31, 2021, the Company has recognized \$1,085 in stock-based compensation expense as a result. The Company also had also implemented an RSU plan for certain employees and directors in January 2007, which awarded RSUs that are settled in cash based on the market value of Quarterhill's common shares on the dates when the RSUs vest. The accrued liability and related expense for the RSUs are adjusted to reflect the market value of the common shares at each consolidated statements of financial position date. The liability recorded in respect of the vested RSUs was \$92 as at December 31, 2021 (2020 - \$250). Of the 395,257 RSUs outstanding as at December 31, 2021, 361,022 settle in shares and 34,235 settle in cash.

RSU activity for the years ended December 31, 2021 and 2020 was as follows:

	Number
January 1, 2020	870,834
Settled	(682,739)
Forfeited	(10,977)
December 31, 2020	177,118
Granted	556,721
Settled	(328,457)
Forfeited	(10,125)
<b>December 31, 2021</b>	<b>395,257</b>

During the year ended December 31, 2021, 10,125 RSUs (2020 - 10,977) were forfeited as they related to former employees.

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### 20. OTHER CHARGES

Other charges within the consolidated statements of (loss) income and comprehensive (loss) income include costs and recoveries that relate to certain restructuring initiatives that the Company has undertaken from time to time, acquisition-related costs and recoveries and other charges. During the year ended December 31, 2021, the Company recognized other charges of \$6,133 (2020 - \$1,227), \$4,574 of other charges relating to the acquisitions of ETC, Sensor Line and VDS, \$1,442 in restructuring and termination costs, as well as \$117 related to workforce reductions and other charges. Other charges during the year ended December 31, 2020 pertained to retirement allowances of \$1,029 and acquisitions costs related to Sensor Line of \$198.

### 21. (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 year. 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.

	Year ended December 31,		
	2021	2020	
<b>Numerator:</b>			
Net (loss) income from continuing operations	\$ (22,183)	\$ 4,428	
Net income from discontinued operations	—	14,255	
<b>Net (loss) income</b>	<b>\$ (22,183)</b>	<b>\$ 18,683</b>	
<b>Denominator:</b>			
Weighted average number of common shares outstanding for basic (loss) income per share	<b>114,013,610</b>	116,939,833	
Adjustment for stock options	—	70,082	
Weighted average number of common shares outstanding for diluted (loss) income per share	<b>114,013,610</b>	117,009,915	
From continuing operations	\$ (0.19)	\$ 0.04	
From discontinued operations	—	0.12	
<b>(Loss) income per share - Basic</b>	<b>\$ (0.19)</b>	<b>\$ 0.16</b>	
From continuing operations	\$ (0.19)	\$ 0.04	
From discontinued operations	—	0.12	
<b>(Loss) income per share - Diluted</b>	<b>\$ (0.19)</b>	<b>\$ 0.16</b>	

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### 22. 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 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 Licensing and ITS, follow the same accounting policies as those described in these 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.

Segmented statements of (loss) income for the years ended December 31, 2021 and 2020 are included below:

CONTINUING OPERATIONS	Year ended December 31, 2021			
	Licensing	Intelligent Transportation Systems	Corporate	Total
Revenues	\$ 25,722	\$ 99,973	\$ —	\$ 125,695
Direct cost of revenues	21,809	66,451	—	88,260
Gross profit	3,913	33,522	—	37,435
Depreciation of right-of-use assets	200	1,194	174	1,568
Depreciation of property, plant and equipment	44	1,513	26	1,583
Amortization of intangible assets	12,306	7,922	—	20,228
Selling, general and administrative expenses	3,544	20,237	9,558	33,339
Research and development expenses	—	2,372	—	2,372
Other charges	—	3,630	2,503	6,133
Results from operations	(12,181)	(3,346)	(12,261)	(27,788)
Finance income	(47)	(4)	(113)	(164)
Finance expense	165	1,155	1,008	2,328
Foreign exchange gain	(119)	(692)	(405)	(1,216)
Other (income) loss	—	(2,039)	32	(2,007)
Loss before taxes	(12,180)	(1,766)	(12,783)	(26,729)
Current income tax expense	552	754	—	1,306
Deferred income tax (recovery) expense	(5,523)	(1,639)	1,310	(5,852)
Income tax (recovery) expense	(4,971)	(885)	1,310	(4,546)
<b>Net loss from continuing operations</b>	<b>\$ (7,209)</b>	<b>\$ (881)</b>	<b>\$ (14,093)</b>	<b>\$ (22,183)</b>

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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### 22. SEGMENT REPORTING (continued)

CONTINUING OPERATIONS	Year ended December 31, 2020			
	Licensing	Intelligent Transportation Systems	Corporate	Total
Revenues	\$ 78,260	\$ 66,266	\$ —	\$ 144,526
Direct cost of revenues	46,205	39,463	—	85,668
Gross profit	32,055	26,803	—	58,858
Depreciation of right-of-use assets	238	646	95	979
Depreciation of property, plant and equipment	59	889	21	969
Amortization of intangible assets	13,785	5,070	—	18,855
Selling, general and administrative expenses	3,386	11,393	12,089	26,868
Research and development expenses	—	2,282	—	2,282
Impairment losses on intangible assets	295	—	—	295
Special charges	—	883	344	1,227
Results from operations	14,292	5,640	(12,549)	7,383
Finance income	(200)	(10)	(363)	(573)
Finance expense	139	293	27	459
Foreign exchange loss (gain)	647	27	(762)	(88)
Other income	—	(1,680)	—	(1,680)
Income (loss) before taxes	13,706	7,010	(11,451)	9,265
Current income tax expense	1,834	203	—	2,037
Deferred income tax (recovery) expense	(2,159)	1,661	3,298	2,800
Income tax (recovery) expense	(325)	1,864	3,298	4,837
Net income (loss) from continuing operations	\$ 14,031	\$ 5,146	\$ (14,749)	\$ 4,428

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

	Year ended December 31,	
	2021	2020
Revenue recognized at a point in time	\$ 24,902	\$ 82,524
Revenue recognized over time	100,793	62,002
Total revenues	\$ 125,695	\$ 144,526

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### 22. SEGMENT REPORTING (continued)

Revenue by geography for the years ending December 31, 2021 and 2020 are as follows:

	Year ended December 31,	
	2021	2020
Revenues		
United States	\$ 87,310	\$ 115,412
Canada	2,936	2,509
Chile	3,193	2,791
China	1,164	179
Korea	4,932	1,825
Ukraine	1,477	2,151
Taiwan	6,019	9,094
Thailand	3,306	2,876
Singapore	597	570
Belgium	1,042	440
Germany	6,135	75
Rest of the world	7,584	6,604
Total revenues	\$ 125,695	\$ 144,526

Segment assets as at December 31, 2021 and December 31, 2020 are as follows:

As at	December 31, 2021	December 31, 2020
Licensing	\$ 86,468	\$ 107,852
Intelligent Transportation Systems	263,622	65,888
Total segment assets	350,090	173,740
Total corporate assets	77,105	136,213
Total assets	\$ 427,195	\$ 309,953

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

As at	December 31, 2021	December 31, 2020
United States	\$ 160,592	\$ 17,230
Canada	47,468	63,295
Belgium	339	567
Chile	841	825
Germany	8,635	—
Total non-current assets	\$ 217,875	\$ 81,917

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### 22. SEGMENT REPORTING (continued)

#### Major Customers

A major customer is defined as an external customer whose transactions within a segment of the Company amount to 10% or greater of the respective segment's revenue. Five major customers of the Licensing segment represented \$22,777 of total revenues for this segment for the year ended December 31, 2021, whereas for the year ended December 31, 2020, two major customers totaled \$66,295 of the segment's total revenues. There was one major customer of the ITS segment totaling \$10,941 for the year ended December 31, 2021, whereas for the year ended December 31, 2020, there was one major customer that accounted for \$8,877 of the segment's total revenues.

#### Remaining Performance Obligations

As at December 31, 2021, the amount of transaction price allocated to remaining performance obligations was \$176,550. The Company expects to recognize approximately 49% of this revenue in 2022, 22% in 2023, and 29% thereafter.

### 23. EXPENSE BY NATURE

	Year ended December 31,	
	2021	2020
Personnel costs	\$ 46,632	\$ 30,338
Subcontractor fees	15,175	7,594
Direct and indirect materials costs	23,911	19,299
Litigation and licensing costs	13,698	38,142
Professional, patent and outside services	16,018	13,956
Communications and information technology	4,783	1,471
Facilities	2,294	1,581
Travel and entertainment	834	2,287
Other administrative expenses	626	150
Depreciation of right-of-use assets	1,568	979
Depreciation of property, plant and equipment	1,583	969
Amortization and impairment of intangible assets	20,228	19,150
Other charges	6,133	1,227
Total direct cost of revenues and operating expenses	153,483	137,143
Salaries and wages	39,388	26,528
Employee benefits	6,352	4,245
Stock-based compensation	1,955	1,015
Bonuses	1,921	3,544
Commissions	—	172
Other personnel costs	690	572
Government grants earned	(3,674)	(5,738)
Personnel costs	\$ 46,632	\$ 30,338

## Notes to Consolidated Financial Statements

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### 24. TAXES

The reconciliation of the expected provision for income tax (recovery) expense to the actual provision for income tax (recovery) expense reported in the consolidated statements of (loss) income and comprehensive (loss) income for the years ended December 31, 2021 and December 31, 2020 is as follows:

	Year ended December 31,	
	2021	2020
Net (loss) income before income taxes	\$ (26,729)	\$ 9,265
Canadian statutory income tax rate	26.5 %	26.5 %
Expected income tax (recovery) expense	(7,083)	2,455
Permanent differences	521	251
Foreign withholding taxes paid	66	16
Foreign rate differential	67	(234)
Return to provision	545	297
Change in benefit of tax assets not recognized	1,151	1,672
Other	187	380
<b>Income tax (recovery) expense</b>	<b>\$ (4,546)</b>	<b>\$ 4,837</b>

The income tax (recovery) expense from continuing operations is as follows:

	Year ended December 31,	
	2021	2020
Current income tax expense		
Current period	\$ 1,245	\$ 2,170
Adjustment in respect of prior periods	61	(133)
	<b>1,306</b>	<b>2,037</b>
Deferred income tax (recovery) expense		
Current period	(6,337)	2,370
Adjustment in respect of prior periods	485	430
	<b>(5,852)</b>	<b>2,800</b>
	<b>\$ (4,546)</b>	<b>\$ 4,837</b>

## Notes to Consolidated Financial Statements

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### 24. TAXES (continued)

The effect of temporary differences, tax losses, and tax credits that give rise to significant components of the Company's deferred income tax assets and liabilities, which have been recognized during the year ended December 31, 2021, are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
<b>Deferred income tax assets</b>		
Tax loss carryforwards	\$ 23,741	\$ 18,014
Capital assets	2,151	4,430
Scientific research and experimental development ("SR&ED") carryforwards	8,023	8,087
Financing charges	39	—
Lease liabilities	1,991	1,800
Tax credits	1,024	1,178
Deferred revenue, unbilled revenue & prepaid accounts	15	379
Tax reserves	802	458
<b>Deferred income tax assets</b>	<b>37,786</b>	<b>34,346</b>
<b>Deferred income tax liabilities</b>		
Right-of-use assets	(1,974)	(1,794)
Capital assets	(2,811)	(4,021)
Investments	(256)	(198)
Deferred revenue, unbilled revenue & prepaid accounts	(525)	(209)
Foreign exchange	(286)	—
<b>Deferred income tax liabilities</b>	<b>(5,852)</b>	<b>(6,222)</b>
<b>Deferred income tax assets, net</b>	<b>\$ 31,934</b>	<b>\$ 28,124</b>

The Company is required to assess whether it is probable that it will realize the benefits of its deferred tax assets based on consideration of all available evidence. The factors the Company uses to assess the likelihood of realization are its history of losses, forecasts of future pre-tax income, and tax planning strategies that could be implemented to realize the deferred tax assets. Accordingly, available deferred income tax assets in the amount of \$22,491 were not recognized as it is not probable that future taxable income will be available to the Company to utilize the benefits.

Additionally, the Company has recognized a deferred tax asset of \$16,029 in jurisdictions that incurred a loss in the current year; although a loss was incurred in the year, based upon the level of historical profitability, forecasted profits, and viable tax planning strategies, management believes it is probable that the Company will realize the benefit of these deductible temporary differences and operating tax loss carry forwards.

The amount of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognized in the consolidated statements of financial position for the years ended December 31, 2021 and 2020 are as follows:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Tax loss carryforwards	\$ 51,769	\$ 44,423
Fixed assets	18,300	21,079
Tax credits	6,642	6,387
Other deductible temporary differences	265	713
	<b>\$ 76,976</b>	<b>\$ 72,602</b>

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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

### 24. TAXES (continued)

As at December 31, 2021, the Company had unused non-capital tax losses of approximately \$140,214 (2020 - \$109,618) that are due to expire as follows:

Expiry	SR&ED pool	Canadian Tax Losses	US Tax Losses	Other Jurisdictions	Consolidated Tax Losses
2022	\$ —	\$ —	\$ —	\$ 349	\$ 349
2023	—	—	—	18	18
2024	—	—	—	277	277
2025	—	—	—	70	70
2026	—	—	—	—	—
2027	—	—	—	563	563
2028	—	—	—	412	412
2029	—	—	—	—	—
2030	—	—	—	—	—
2031	—	—	448	—	448
2032	—	—	2,651	—	2,651
2033	—	7,765	6,117	—	13,882
2034	—	3,369	9,707	—	13,076
2035	—	1,629	5,286	—	6,915
2036	—	18,693	1,493	—	20,186
2037	—	3,845	10,560	—	14,405
2038	—	31,033	—	—	31,033
2039	—	372	—	—	372
2040	—	192	—	—	192
2041	—	17,462	3,567	—	21,029
Indefinite	30,942	—	11,848	2,488	14,336
	\$ 30,942	\$ 84,360	\$ 51,677	\$ 4,177	\$ 140,214

The Company has investment tax credits of \$2,722 that expire in various amounts from 2022 to 2042. Investment tax credits, which are earned as a result of qualifying SR&ED expenditures, are recognized and applied to reduce income tax expense in the year in which the expenditures are made and their realization is reasonably assured. The Company also has unused foreign tax credits of approximately \$5,106 that expire in various amount from 2026 to 2031.

As at December 31, 2021, the Company had temporary differences of \$4,458 (2020 - \$3,546) associated with investments in subsidiaries for which no deferred tax liabilities have been recognized, as the Company is able to control the timing of the reversal of these temporary differences and it is not probable that these differences will reverse in the foreseeable future.

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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

### 25. FINANCIAL RISK MANAGEMENT

#### Credit Risk

Credit risk is the risk of financial loss to the Company if a licensee or counter party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, 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 ("ECLs"). The Company's exposure to credit risk with its accounts receivable from customers is influenced mainly by the individual characteristics of each customer. The Company's customers are for the most part, large multinational companies or government organizations which do not have a history of non-payment. Credit risk from accounts receivable encompasses the default risk of the Company's customers. Prior to entering into transactions with new customers, the Company assesses the risk of default associated with the particular customer. In addition, on an ongoing basis, management monitors the level of accounts receivable attributable to each customer and the length of 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.

The following table provides an aging analysis of trade accounts receivable. The age of an invoice does not necessarily indicate an account is past due as many contracts for system revenue require the successful completion of system testing and acceptance.

As at	December 31, 2021	December 31, 2020
Current	\$ 5,542	\$ 178
1 - 30 days	13,241	7,494
31 - 60 days	4,123	2,083
61 - 90 days	3,141	1,549
91 days and over	5,065	3,044
Less expected credit loss	(936)	(601)
Accounts receivable	30,176	13,747
Long-term accounts receivable	1,450	506
Total accounts receivable	\$ 31,626	\$ 14,253

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

The Company reviews financial assets on an ongoing basis with the objective of identifying potential matters 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 Canadian chartered banks. Management does not expect any counter parties to fail to meet their obligations.

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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

### 25. FINANCIAL RISK MANAGEMENT (continued)

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

	Total	Less than 1 year	2 - 3 years	4 - 5 years	Thereafter
Accounts payable and accrued liabilities	\$ 42,008	\$ 42,008	\$ —	\$ —	\$ —
Long-term debt	62,826	3,181	10,338	49,307	—
Convertible debentures	57,500	—	—	57,500	—
Lease liabilities	8,552	2,418	3,073	2,261	800
	<b>\$ 170,886</b>	<b>\$ 47,607</b>	<b>\$ 13,411</b>	<b>\$ 109,068</b>	<b>\$ 800</b>

See Note 9 for maturity of lease liabilities.

#### Market Risk

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

#### Interest Rate Risk

The financial instruments that expose the Company to interest rate risk are its cash and cash equivalents, short-term investments, bank indebtedness 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 year ended December 31, 2021.

#### Currency Risk

Portions of the Company's revenues and operating expenses are denominated in US dollars, Indian rupees, 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 37% 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.

Foreign exchange 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) income arise on the translation of foreign currency-denominated assets and liabilities held in the Company's North American operations and foreign subsidiaries. As the parent company's functional currency is in US dollars, it is subject to changes in the exchange rate of foreign currencies, primarily the Canadian dollar, relative to the US dollar while subsidiary companies with a functional currency not in US dollars are subject primarily to changes in the exchange rate of foreign currencies, primarily the US dollar. As at December 31, 2021, the Company's sensitivity to a 5% strengthening (weakening) of the US dollar relative to the Canadian dollar and all other currencies for which the functional currency of the subsidiary company differs from the Canadian dollar would result in a pre-tax \$2,194 increase (decrease) to the consolidated statement of (loss) income.

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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

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### 25. FINANCIAL RISK MANAGEMENT (continued)

#### 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 ITS 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.

### 26. RELATED-PARTY TRANSACTIONS

These consolidated financial statements include the accounts of Quarterhill Inc. and its wholly owned subsidiaries. Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions and balances with XPCT, a joint venture in China in which the Company's subsidiary IRD holds a 50% interest, which is also a related party, are disclosed in Note 12.

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

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

	Year ended December 31,	
	2021	2020
Salaries and benefits	\$ 4,485	\$ 2,658
Board fees	306	717
Stock-based compensation	1,229	601
	<b>\$ 6,020</b>	<b>\$ 3,976</b>

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## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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

### 27. CAPITAL MANAGEMENT

The Company's capital management objectives are to maintain financial flexibility in order to pursue its strategy of organic acquisitional growth, pay dividends, and, from time to time, return capital to shareholders, while maintaining an adequate return for shareholders. The Company defines its capital as cash, the aggregate of cash and cash equivalents, short-term investments, restricted short-term investments, long-term debt, convertible debentures and shareholders' equity.

	December 31, 2021	December 31, 2020
Current portion of long-term debt	\$ 3,181	\$ —
Non-current portion of long-term debt	58,968	—
Convertible debentures	45,959	—
Long-term debt and convertible debentures, net of debt issuance costs	108,108	—
Less:		
Cash and cash equivalents	(70,746)	(135,700)
Short-term investments	(1,851)	(5,550)
Restricted short-term investments	(3,095)	—
Net debt	32,416	(141,250)
Shareholders' equity	241,116	271,930
Total capital management	\$ 273,532	\$ 130,680

The Company manages its capital structure in accordance with changes in economic conditions. To maintain or adjust its capital structure, the Company may purchase shares for cancellation pursuant to an NCIB or SIB, issue new shares, or raise or retire debt. In the current year, the Company took advantage of its surplus of cash by settling all of its bank indebtedness to reduce interest expense and maintain a healthy buffer for financial covenants. The Company is subject to covenants and restrictions related to its credit facilities as further described in Note 16, Long-term Debt. The Company was in compliance with the covenants as at and throughout the year ended December 31, 2021. During the year ended December 31, 2021, the Company also issued unsecured subordinated convertible debentures with net proceeds of \$55,024 as a means to further advance its acquisition strategy, which the Company intends to settle in shares, thus, eliminating the liquidity risk of settling in cash.

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

	Year ended December 31,	
	2021	2020
Accounts receivable	\$ (6,686)	\$ 23,962
Unbilled revenue	(10,785)	(5,287)
Income taxes receivable	(121)	(139)
Inventories	(5,210)	(829)
Prepaid expenses and deposits	(180)	(6,861)
Deferred revenue	3,258	1,713
Accounts and other long-term receivables	(728)	—
Deferred compensation asset	(111)	—
Deferred compensation liability	(93)	—
Accounts payable and accrued liabilities	13,203	(5,547)
Income taxes payable	69	466
	\$ (7,384)	\$ 7,478

## Notes to Consolidated Financial Statements

Year ended December 31, 2021 and 2020

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

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### 28. CHANGES IN NON-CASH WORKING CAPITAL BALANCES (continued)

#### Supplemental Cash Flow Information

	Year ended December 31,	
	2021	2020
Net interest received in cash, included in operations	\$ 84	\$ (553)
Taxes paid	785	2,099

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### 29. COMPARATIVE INFORMATION

The information presented in the prior year's consolidated statement of financial position relating to deferred tax assets and liabilities was adjusted to reflect the method of presentation adopted in the current year.