

WiLAN

Wi-LAN Inc.
2015 Annual Report



2	Letter to Shareholders
5	Management's Discussion and Analysis (MD&A)
34	Management's Report
35	Auditor's Report
36	Consolidated December 31, 2015 Financial Statements
40	Notes to Financial Statements
62	Directors and Officers
63	Corporate Information

Dear Fellow Shareholders,

2015 saw WiLAN continue to execute against the long-term business plan we unveiled in 2014. The goals of our plan are to achieve revenue growth with cost containment, resulting in significant cash flow generation and a strong financial foundation for the business. To achieve these goals, our plan calls for an increase in partnerships with patent holders, diversification into new industry verticals, revenue sharing with legal partners and a growing volume of license agreements. We are pleased to report that progress was made in all these areas in 2015.

In 2015 we signed 11 new partner agreements, bringing our total to 43 partner programs. With our partner programs, we generally make little-to-no upfront payment to acquire the portfolio and we share in the outcomes of our patent settlements. As a result, partner programs reduce the cost of patent acquisition and enable us to broadly expand our patent portfolio at little cost.

One of our notable partner agreements in 2015 was the acquisition of more than 3,000 patents from Freescale Semiconductor. The Freescale portfolio includes U.S. and foreign patents across a range of technologies, including processors, memory, semiconductor packaging, wireless and the “Internet of Things”, among others. We have documented dozens of examples of patent use in various companies’ products and have already signed license agreements with the portfolio. We believe this portfolio will be a key driver of future revenue.

In unique circumstances, rather than partner, we may consider a larger outlay of cash to acquire a portfolio. Such was the case for our July 2015 acquisition of the Qimonda semiconductor patent portfolio from Infineon. Like Freescale, the Qimonda portfolio is an important acquisition due to its size, quality, and revenue potential. The portfolio was quick to prove its worth as we completed a significant license with Samsung immediately following the acquisition, and more recently, in early 2016, GlobalFoundries signed a license to this portfolio.

Also in 2015, we acquired microscopy-related IP from a top research institution. This primarily biomedical IP is used to produce enhanced images with microscopes and has potential applications in life sciences, material sciences and semiconductor research, among others. We have already signed several licenses related to this portfolio.

As we look to the future, we believe having a large portfolio of quality patents will be required to drive higher volumes of licenses and related revenue. Along those lines, we made great progress building for this future in 2015. The Qimonda and Freescale portfolio acquisitions alone added more than 10,000 patents to WiLAN’s overall portfolio, representing an increase of more than five times, year over year. As a result, we estimate that the revenue potential of our current portfolio, including backlog, is now close to \$1 billion.

Our licensing teams were very busy in 2015 with 45 new agreements completed, including 16 in the fourth quarter alone. Since our re-birth as an IP licensing company in 2006, we have signed more than 400 license agreements with more than 320 companies in an ever-growing number of vertical markets.

A snapshot of the vertical markets we were active in, and the companies with whom we completed agreements with in 2015, included: image sensing (Toshiba), streaming video (Netflix), semiconductors (Samsung, Powertech), orthopedic (Smith & Nephew, DJO Global), wireless (Kyocera, NEC, Vertu), point-of-sale, printer and smart TV (Xerox, Lexmark, Yamaha) and image processing (Nikon, Olympus, Leica).

Included in our 2015 license totals were six renewals. These included renewals with Xirrus, Gamma Tech and TRENDnet, which were all related to wireless technologies.

With more than 60 litigations currently active, we have a robust pipeline of potential settlements, which combined with our revenue backlog, provides good visibility for 2016. We have an enviable track record for resolving infringement cases before they go to trial, which helps to keep costs down, and to attract both patent holders and patent litigators looking to partner with an IP licensing firm like WiLAN.

As with our partner strategy for patent acquisition, we also follow a strategy of sharing in the awards with our litigation firms. We look to minimize payments before and during a trial, and to share in the awards when an agreement is reached. This has had the effect of helping to reduce and contain our legal costs, while at the same time aligning our litigation firms' interests with our own.

Driven by strong patent licensing activity, financial results for 2015 included revenue growth of 5% to \$102.9 million. This was our third straight year of top-line growth. With a focus also on cost control, adjusted earnings increased to \$59.6 million, or \$0.49 per share, representing approximately 58% of revenue. For the year we generated \$43.5 million of cash from operations, returning \$20.1 million to shareholders in dividend payments. We ended the year with \$94.6 million cash on the balance sheet and no debt.

To meet the changes in the evolving IP market and to position ourselves for long-term growth, we announced a restructuring in the fourth quarter. We reduced our staff by approximately 30%, which we expect will decrease our annual expenses by \$8 to \$10 million. We believe that we have emerged as a leaner and stronger organization, and that we have significant capacity to expand the business without having to increase headcount from today's level.

We also announced a reduction of our annual dividend to CDN \$0.05 per share from CDN \$0.21 per share. This will reduce cash expenditures by approximately CDN \$20.0 million per year. Reducing the dividend will enable us to direct a greater portion of our cash flow towards growing the business. While difficult to make, we believe these were prudent and necessary decisions to both manage our cost base and allocate resources to where they can best maximize WiLAN's long-term potential.

The IP licensing market has not been favorable to patent licensing firms for several years now, yet we continue to grow and generate significant cash from operations despite the headwinds. Along with our restructuring, we have taken steps to reduce the risk and expense in our business model by launching partner programs with patent holders and extending the partner model to our litigators. While there is the potential for the introduction of new patent legislation in the U.S., in particular, legislation that calls for the losing party to pay the winning side's legal fees, we believe that any impact to WiLAN resulting from such legislation would be limited and manageable. In fact, that type of legislation could create opportunities for WiLAN as certain patent generators, such as universities, would look to companies like ours to help navigate the new legislative environment.

Our business plan calls for growth with less risk and expense, and we believe we have the strategies and operational structure in place to achieve those objectives. We have increased the number of patents, partners and license programs within the business, creating more future revenue sources for us to develop and capitalize on. An additional by-product of this evolving strategy is that a single licensee may now be required to take a license from multiple portfolios. At the same time we are committed to containing expenses and

managing risk in the business by maintaining a strong balance sheet, keeping a close eye on staffing levels and operational expenses, and by controlling our litigation costs.

We would like to thank the employees and the Board of Directors of WiLAN for their dedication and effort to deliver growth in 2015. We would also like to thank you, our fellow shareholders, for your ongoing support of the Company.

Sincerely,



Paul McCarten
Chairman of the Board



Jim Skippen
President & CEO

Management's Discussion and Analysis ("MD&A") of Financial
Condition and Results of Operations

For the Twelve Months ended December 31, 2015 and 2014

February 8, 2016

INTRODUCTION

This Management's Discussion and Analysis ("MD&A") is dated February 8, 2016. It should be read in conjunction with the audited consolidated financial statements and notes thereto for Wi-LAN Inc. for the year ended December 31, 2015 (the "Financial Statements"). References in this MD&A to "WiLAN," "Company," "our company," "we," "us" and "our" refer to Wi-LAN Inc. and its consolidated subsidiaries during the periods presented unless the context requires otherwise. The Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP" or "GAAP") and applicable United States Securities and Exchange Commission ("SEC") regulations for annual financial information.

Unless otherwise indicated, all financial information in this MD&A is reported in thousands of United States dollars ("U.S. dollars"), with the exception of share and earnings per share data which is reported in number of shares and U.S. dollars respectively. The tables and charts included in this document form an integral part of this MD&A.

We prepared this MD&A with reference to National Instrument 51-102 - Continuous Disclosure Obligations of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, we are permitted to prepare this MD&A in accordance with Canadian disclosure requirements which may differ from U.S. disclosure requirements. This MD&A provides information for the year ended December 31, 2015 and up to and including February 4, 2016. Additional information filed by us with the Canadian Securities Administrators, including quarterly reports, annual reports and our annual information form for the year ended December 31, 2015 (our "AIF"), is available on-line at www.sedar.com and also on our website at www.WiLAN.com. Our Form 40-F can be found on the SEC's EDGAR website at www.sec.gov.

Our management is responsible for establishing appropriate information systems, procedures and controls to ensure that all financial information disclosed externally, including this MD&A, and used internally by us, is complete and reliable. These procedures include the review and approval of our financial statements and associated information, including this MD&A, first by our management's Disclosure Committee, then by our Board of Directors' Audit Committee (the "Audit Committee") and, finally, by our Board of Directors as a whole (the "Board").

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements and forward-looking information within the meaning of the United States Private Securities Litigation Reform Act of 1995 and other applicable United States and Canadian securities laws, including such statements relating to:

- assumptions and expectations described in our critical accounting policies and estimates;
- our expectation regarding the adoption and impact of certain accounting pronouncements;
- our expectation regarding the growth rates of licensees' businesses and the expected revenues to be collected from such licensees;
- our expectations with respect to revenues to be recorded as a consequence of license agreements with fixed periodic payment structures;
- our expectations with respect to the timing and amounts of any license agreements that may be entered into with respect to any of our litigation matters;
- our expectations with respect to our ability to sign new licenses and to sign renewal agreements with existing licensees;
- our estimates regarding our effective tax rate;
- our expectations with respect to the sufficiency of our financial resources; and
- our expectations regarding continued expansion of our patent portfolio through the acquisition of patents from third-parties and from the development of new inventions or our entry into licensing relationships with third-parties.

The words "expect", "anticipate", "estimate", "may", "will", "should", "would", "intend", "believe", "plan", "continue", "anticipate", "project" or the negative of these words or other variations on these words, comparable terms and similar expressions are intended to identify forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information are based on estimates and assumptions made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate in the circumstances.

We provide forward-looking statements and forward-looking information to assist external stakeholders in understanding our management's expectations and plans relating to the future as of the date of this MD&A and such statements and information may not be appropriate for any other purposes. The forward-looking statements and forward-looking information in this MD&A are made as of the date of this MD&A only. We have no intention and undertake no obligation to update or revise any forward-looking statements or forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

RISKS AND UNCERTAINTIES

Many factors could cause our actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements and forward-looking information, including, without limitation, the following factors, which are discussed in greater detail under the heading "Risk Factors" in our AIF and should be reviewed in detail by all readers:

- certain of our patents may be found to be invalid, unenforceable and/or not infringed by any specific third-party;
- we may be required to establish the enforceability of our patents in court to obtain material licensing revenues;
- finding, retaining and appropriately compensating expert legal counsel to represent us in litigation matters can be complex and expensive;
- certain of our patents are, and others may be, subject to administrative proceedings that could invalidate or limit the scope of those patents;
- changes in patent or other applicable laws or in the interpretation or application of those laws could materially adversely affect us;
- our industry is subject to increased regulatory scrutiny, political commentary and related proceedings;
- the generation of future V-Chip revenues and the likelihood of our signing additional V-Chip licenses could be negatively impacted by changes in government regulation – in addition, the failure of leading digital television manufacturers to adopt or to continue to use our patented V-Chip technologies or to adopt competing technologies may harm our business;
- licensing our patents can take an extremely long time and may be subject to variable cycles;
- we are reliant on licensees paying royalties under existing licensing agreements and on the additional licensing of our patent portfolio to generate future revenues and increased cash flows;
- delays in renewing or an inability to renew existing license agreements could cause revenue and cash flow to decline;
- royalty rates could decrease for future license agreements;
- reduced spending by consumers and businesses due to the uncertainty of economic and geopolitical conditions may negatively affect us;
- fluctuations in foreign exchange rates impact and may continue to impact our operating expenses, potentially adversely affecting financial results;
- we will need to acquire new patents to continue and grow our business;
- we may engage in acquisitions or other strategic transactions or make investments that could result in significant changes or management disruption, and fail to enhance shareholder value;
- diversification into new technology areas may result in additional cost, delay and complication to our licensing efforts;
- we may not be able to compete effectively against others to acquire patent assets – any failure to compete effectively could harm our business and results of operations;
- our acquisitions of patents are time consuming, complex and costly, which could adversely affect our operating results;
- we have made and may make (or attempt to make) future acquisitions of technologies or businesses which could materially adversely affect us;
- our quarterly revenue and operating results can be difficult to predict and can fluctuate substantially;
- we may require additional investment to translate our intellectual property position into sustainable profit in the market;

-
- there can be no assurance as to the payment of future dividends;
 - our ability to recruit and retain management and other qualified personnel is crucial to our ability to develop, market and license our patented technologies;
 - our business could be negatively affected as a result of actions of activist shareholders;
 - the trading price of our common shares has been, and may continue to be, subject to large fluctuations;
 - as a foreign private issuer, we are subject to different United States securities laws and rules than a domestic United States issuer, which may limit the information publicly available to our shareholders;
 - if we lose our United States “foreign private issuer” status in the future, it could result in significant additional costs and expenses to us;
 - the financial reporting obligations of being a public company in the United States are expensive and time consuming, and place significant additional demands on our management;
 - failure to maintain an effective system of internal controls may result in us not being able to accurately report financial results or to prevent fraud;
 - we are an “emerging growth company” under the United States Jumpstart Our Business Startups Act of 2012; we cannot be certain whether the reduced disclosure requirements applicable to emerging growth companies could make our common shares less attractive as an investment;
 - an investor may be unable to bring actions or enforce judgments against us and certain of our directors and officers;
 - our actual financial results may vary from our publicly disclosed forecasts;
 - if at any time we are classified as a passive foreign investment company under United States tax laws, United States holders of our common shares may be subject to adverse tax consequences;
 - the acquisition of, investment in, and disposition of our common shares has tax consequences;
 - substantial future sales of our common shares by existing shareholders, or the perception that such sales may occur, could cause the market price of our common shares to decline, even if our business is doing well;
 - we may require additional capital in the future and no assurance can be given that such capital will be available at all or available on terms acceptable to us;
 - certain Canadian laws could delay or deter a change of control; and
 - our authorized capital permits our directors to issue preferred shares which may prevent a takeover by a third-party.

These factors should be considered carefully, and readers should not place undue reliance on our forward-looking statements and forward-looking information.

RESTRUCTURING PROGRAM

We commenced restructuring activities in October 2015 and completed them in December 2015. The restructuring impacted approximately 30% of the Company’s workforce. We recorded a restructuring charge of \$1,302 in the fourth quarter of fiscal 2015 of which \$533 remains as a liability on the balance sheet as at December 31, 2015 and expect the cash payments related to this liability to be completed by the end of the third quarter of fiscal 2016. The restructuring is expected to result in a reduction of operating expenses in the range of \$8 million to \$10 million annually.

We also assessed which assets we would continue to support and which areas of the business on which to continue to focus. As a result of this assessment we concluded that certain licensing programs would be terminated and therefore the carrying value of the patent portfolios associated with these licensing programs were determined to be impaired. Consequently, we recorded a non-cash, pre-tax charge for asset impairment of \$1,747 during the fourth quarter of fiscal 2015.

As part of the restructuring, the Board decided to lower the annual dividend from CDN \$0.21 to CDN \$0.05 per share. This will result in annual cash savings of approximately \$15.0 million to the Company. The Board believes this is a prudent step to support our efforts to adapt to an evolving and challenging patent licensing business environment and to position us for long-term growth opportunities. Combined with savings from the reduction in our workforce, we will focus our cash resources on monetizing the existing patent portfolio and acquiring other high quality patents which, in the view of management and the Board, presents the best use of capital to create value for shareholders.

NON-GAAP DISCLOSURE

We use the term “adjusted earnings” and “adjusted earnings per share” to reference earnings from continuing operations before stock-based compensation expense, depreciation & amortization expense, interest expense, unrealized foreign exchange gains or losses, restructuring charges, incentive buy-out, success fee, transaction costs, investment income, debenture financing costs, provision for income taxes, and certain other charges all as disclosed in the reconciliation of net earnings/loss to adjusted earnings included in this MD&A. We report adjusted earnings in the belief that it may be useful for certain investors and readers of the financial statements as a measure of our performance. **ADJUSTED EARNINGS IS NOT A MEASURE OF FINANCIAL PERFORMANCE UNDER U.S. GAAP. IT DOES NOT HAVE ANY STANDARDIZED MEANING PRESCRIBED BY U.S. GAAP AND IS THEREFORE UNLIKELY TO BE COMPARABLE TO SIMILARLY TITLED MEASURES USED BY OTHER COMPANIES. ADJUSTED EARNINGS SHOULD NOT BE INTERPRETED AS AN ALTERNATIVE TO NET EARNINGS AND CASH FLOWS FROM OPERATIONS AS DETERMINED IN ACCORDANCE WITH U.S. GAAP OR AS A MEASURE OF LIQUIDITY.**

DESCRIPTION OF THE BUSINESS

Generally, in exchange for disclosing specific, novel and non-obvious inventions that meet applicable legal requirements in a particular country, a granted patent will provide its holder with time-limited, legally enforceable exclusive rights in that country to practice the inventions disclosed in the patent and to exclude others from practicing those inventions. If the inventions disclosed in the claims of a granted patent meet applicable legal validity and enforceability requirements and are important enough that a third-party wishes to practice those inventions or cannot conduct its business without practicing those inventions, the patent may be of great value to that third-party. Unfortunately, many third-parties are content to practice such inventions, thereby infringing the patent in which they are disclosed, without compensating its holder, believing the holder will not discover the infringement, will be unable to convince the third-party to pay any compensation, or will be unable to prove infringement sufficiently to convince a court to force the third-party to pay appropriate compensation or, in the worst cases, will have one or more of their patents found invalid, unenforceable and/or not infringed.

If the infringer of patented inventions is willing to properly compensate the patent holder for its unauthorized use of these inventions, however, then the holder will typically grant the infringer permission (i.e. a license) to practice those inventions for a period of time (which may be for the life of the patent), free from the threat of legal action. Compensation for such a license may be a single amount (whether paid in a lump sum or over time) or may be based on sales of products or services that rely on the patented inventions as they are sold over the life of the license.

We seek to apply our licensing, technology, and legal expertise to crystallize the value in patented inventions by obtaining licenses to use inventions we own outright and licenses for the inventions for which third-party inventors and assignees have entrusted the licensing program to us.

During our entire corporate history, we have developed and patented inventions that have proven of great value to third-parties. In addition, we also have a history of acquiring patents that we believe hold great value from other inventors. We also work with patent inventors and owners to unlock the value trapped in patents by developing and licensing their patents while sharing with those inventors and assignees both any revenues generated by these patents and much of the financial risk associated with these licensing programs.

In mid-2006, WiLAN re-focused its business on technology innovation and licensing. At that time, we owned approximately twenty patents including certain patents we believed could be used in a licensing program. In launching this new form of business, a key strategy was to strengthen WiLAN’s patent portfolio to sustain long-term revenue opportunities and associated growth.

Over the past nine years, we have grown from 1 employee in mid-2006 to 47 employees at December 31, 2015 (following the restructuring announced by us on November 4, 2015), increased our patent portfolio from approximately 20 patents in two portfolios

to more than 15,000 patents and patent applications worldwide in more than 50 technology portfolios, signed over 320 companies, and grown annual revenues from approximately \$1.9 million in 2006 to over \$102 million in 2015, representing a compound annual growth rate of over 56%.

We plan to build upon our significant base of signed license agreements and increase our licensing opportunities by growing our patent offerings with a combination of patent acquisitions, licensing partnerships with patent holders and corporate mergers and acquisitions.

Historically, we licensed patents categorized as Wireless Access and Digital TV and Display technologies.

Technology areas generally included in the Wireless Access program include 3G/4G, Wi-Fi and Bluetooth, as well as other technologies generally applicable to handheld devices or to infrastructures necessary to operate wireless networks. We have generated licensing revenue from companies that sell products described as cellular handsets (such as smart phones) and infrastructure, tablets, laptop computers and Wi-Fi routers.

The Digital TV and Display portfolio originated with the acquisition of our V-Chip technology patents in July 2007 and has been augmented with acquisitions from several other sources. This portfolio now includes patents and patent applications around such technology areas as multimedia processing, display and touch screens and graphical user interfaces, all of which are potentially used in smart phones, digital televisions, “smart” televisions, tablet computers and laptop computers.

In addition to our historic patent licensing programs, we are focusing on entering into relationships with third-party inventors and patent owners to license their patents in exchange for sharing in both the reward and the risk in such licensing programs. In these relationships, instead of paying significant amounts up front for the acquisition of patents, we acquire patents from their inventors or owners through a dedicated subsidiary in exchange for a percentage of the recoveries derived from licensing those patents paid to the inventors or owners. We strive to conduct any litigation relating to these patents by way of contingency or “hybrid contingency” arrangements with appropriate legal counsel through which a significant portion of the costs of such counsel are contingent upon and tied to recovery made in any litigation involving the patents. Given the sharing of recoveries among the original inventor or owner of the patents, external legal counsel, and ourselves, we believe that all parties’ interests are aligned towards obtaining an appropriate recovery from licensing these patents.

Current patent portfolios acquired by us through such relationships with third-party inventors and patent owners include patents relating to 3D television technologies, automotive headlight assemblies, phased loop technology, microcontrollers applicable to safety-critical aerospace, semiconductor manufacturing and packaging technologies, medical, industrial and automotive applications, computer gaming, medical stent technologies, irrigation technologies, CMOS image sensors, enhanced image processing, streaming video technologies, Internet search, building automation, non-volatile Flash memory, other memory technologies, semiconductor clocking technologies, smart meter monitoring, LED lighting technologies and many other technologies.

In all of our licensing programs, if court action is required to protect and enforce our rights, we strive to use legal counsel based on either a “full” or “hybrid” contingency basis through which we share the financial risks and rewards of such litigation with its legal counsel. Historically, and in particular for the Wireless Access and Digital TV and Display programs, we sought to retain 100% of the benefits of any patent litigation and therefore we bore 100% of the costs relating to that litigation.

Where we retain litigation counsel on a “full” contingency basis, we pay no legal fees relating to such litigation, instead compensating legal counsel based on a portion of any actual recovery from the infringer(s) in that litigation, although we may bear the expense of third-parties and disbursements incurred related to that litigation.

Where we retain legal counsel on a “hybrid” contingency basis, we would modify a full contingency model as outlined above to include an agreement to pay a set regular amount to counsel throughout the conduct of a litigation, often subject to a maximum amount, with such payments being considered an advance against the agreed contingency amount.

THE BUSINESS MODEL

We have developed licensing programs that have yielded strong results since mid-2006, having generated cumulative revenues to the end of 2015 of more than \$640 million. When approaching a potential licensee, we present compelling reasons to enter into a license agreement with detailed infringement analysis along with a fair and reasonable license rate. In many circumstances, we also present a

potential licensee with an array of patents or patent families that may be applicable to the licensee's business or products thus increasing the value in signing a license. We continue to consistently sign licenses every year and have entered into 6 renewal and 42 entirely new licenses in the last thirteen months.

Generally our license agreements take into consideration rights to license the patents covered and releases for past infringement. Related payments may be lump-sum, fixed-price with set payments made over a specified period of time or running royalty based depending on a price per-unit and/or a percentage of product sales or service revenues enjoyed by licensees. Running royalty based licensees generally provide us with quarterly or semi-annual royalty reports which are typically received subsequent to the period in which the underlying sales occurred.

Consideration for license agreements is generally paid in cash, although we have accepted a combination of cash and in-kind patents in the past and may do so again in the future if any such patents fit our value proposition and strategic objectives. We recognize revenue from these arrangements as amounts become due and collection is assured.

Royalty rates and the consideration for a license may vary significantly with different licensees because there are many factors that may make different rates and other terms appropriate. These include, without limitation: the clarity of the reads of patent claims on the prospective licensee's products; the significance of the patented invention to the performance of such products; the strength of the patents generally; the profitability of the products in question; the propensity of the prospective licensee to resist taking a license or to litigate; the number of applicable patents; the volume of products that infringe; the geographies in which infringing products are manufactured and sold; the prospective licensee's future sales plans; and the prospective licensee's financial position.

Although we prefer to negotiate license agreements without litigation, we are prepared to take all necessary steps, including investing in litigation, to ensure we receive fair compensation for the use of our patented inventions. If litigation is initiated against a prospective licensee, we seek resolution of the litigation through the signing of a license agreement as early as possible. Licensing discussions may be ongoing with a number of prospective licensees at any time and although we cannot anticipate how any litigation may affect ongoing discussions, our experience is that discussions will often continue through the litigation process and that some parties may be inclined to take licenses before the commencement of trial proceedings or even after the conclusion of trial proceedings.

Notwithstanding our early success in many areas, the business and legal environment for patent licensing companies has become increasingly difficult during the past several years. In this more difficult licensing environment, we will continue to adapt and evolve to achieve success; in particular, as announced on November 4, 2015, we recently restructured our operations to focus our growth efforts on monetizing our existing patent portfolios and acquiring additional high quality patents while reducing our workforce by approximately 30% and our annual expenses by up to \$10 million. Despite our best efforts, however, it appears that the United States Patent and Trademark Office, U.S. courts and U.S. juries are becoming less willing to side with patent assertion companies in proceedings brought by or against technology manufacturers, which may lead to those manufacturers and other potential licensees delaying or resisting taking licenses to our patents or taking licenses on terms less favourable to us.

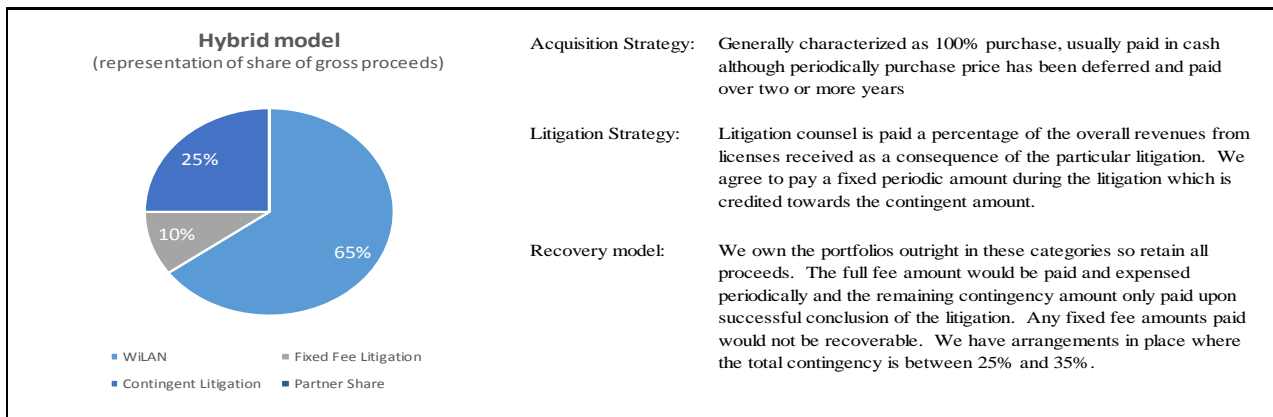
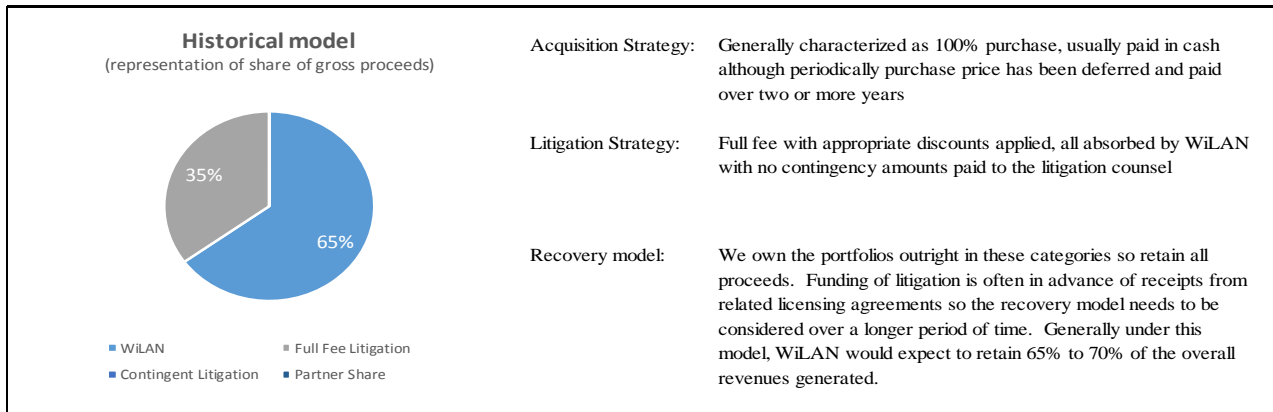
In all of our licensing efforts, if litigation is required to protect and enforce our rights, we strive to litigate third-party infringement using external litigation counsel based on either a "full" or "hybrid" contingency basis through which we share the financial risks of such litigation with our external litigation counsel. We have addressed changes in the licensing and the litigation landscape proactively. In our initial phase of development, we adopted a strategy characterized by outright acquisitions of patent portfolios and a full fee litigation model. Under this model, we would retain all of the benefit of a license agreement and would pay the litigation expenses as and when incurred. This model would generally be characterized by litigation expense accounting for approximately 35% of the total license revenue available which is consistent with our experience to date.

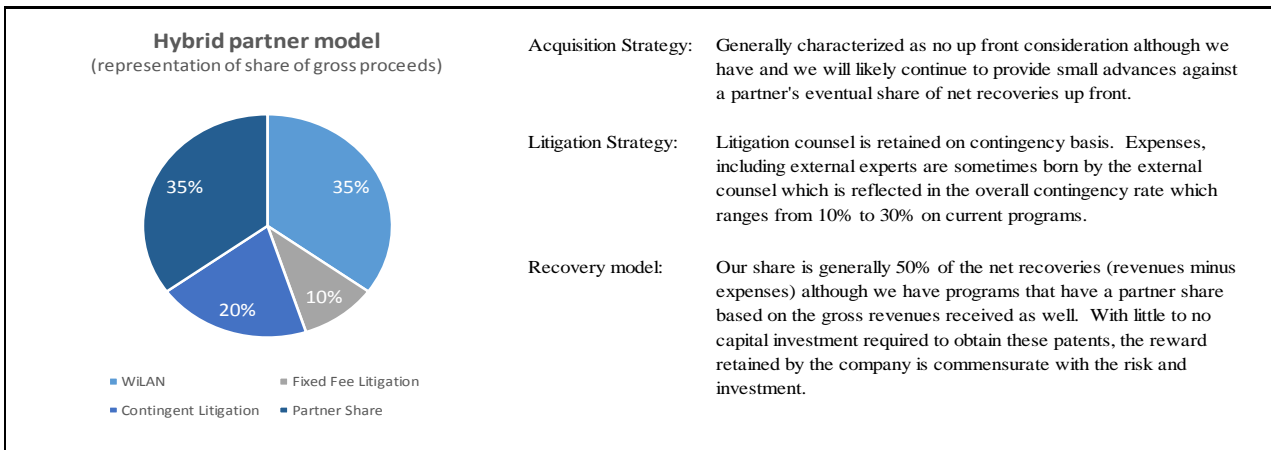
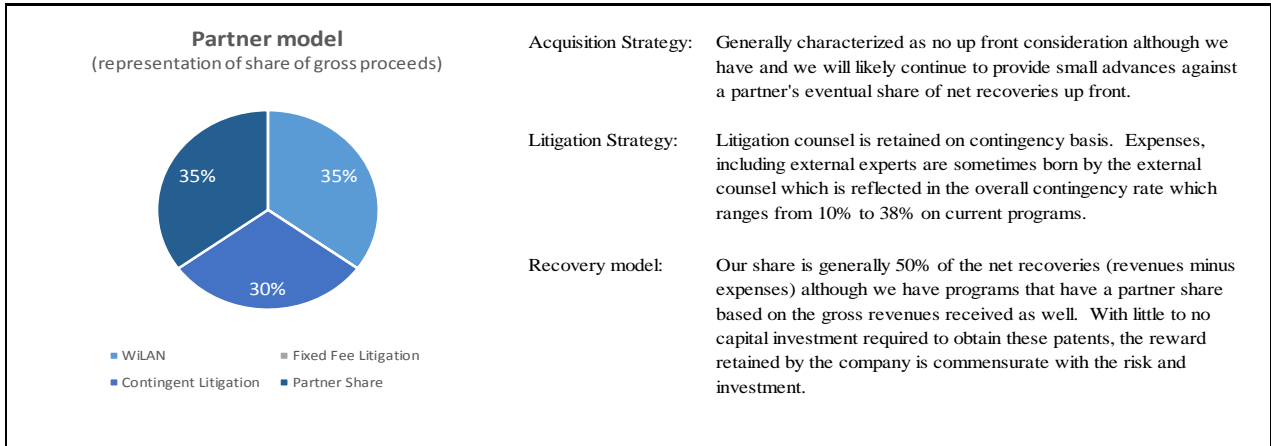
While we retain a higher portion of the overall revenues under such a model, the risks are more significant and therefore the rate of return is commensurate. We have adopted a new fee model for the majority of our litigations which includes an increased component of the compensation for the external litigation counsel being comprised of a percentage of actual license revenues received in consequence of the particular litigation.

In the hybrid model, generally applicable to license programs where we do not have a recovery sharing component, we will agree to a fixed fee amount, generally a fraction of the overall expected litigation budget, which is a component of an overall contingent amount that reflects the success of the licensing program. We have contingent amounts under such programs ranging from 10% to 35% as of the date of this MD&A.

As outlined above, we have adopted a model wherein the third-party inventor or prior assignee of patents we acquire will be compensated as a percentage of the net recoveries from those patents. Generally, these arrangements are characterized by contingent litigation relationships which may be of the hybrid nature referred to above or where the litigation counsel is exclusively paid through a share of the overall proceeds. The third-party inventor or prior assignee of patents we acquire will share with us in any recoveries from such patents, generally on a 50/50 basis. We have the flexibility to structure arrangements in a number of ways to address the needs and specific sets of circumstances presented by each of the unique third-party inventors or prior assignees of patents we acquire, and the above discussion is intended to provide a general overview of the various approaches employed to both acquire and license portfolios in the face of a constantly changing marketplace.

The following charts have been included to assist in understanding the various strategies we employ and generally reflect the strategies and outcomes in four broad categories.





RESULTS AND OUTLOOK

Overall performance

The following table sets forth consolidated statements of operations data, which is expressed in thousands of U.S. dollars, except share and per share amounts, for the indicated years as well as certain balance sheet data as at December 31, 2015, 2014, and 2013.

	Year ended December 31, 2015		Year ended December 31, 2014		Year ended December 31, 2013	
	\$000's	%	\$000's	%	\$000's	%
Revenue						
Royalties	\$ 102,855	100	\$ 98,311	100	\$ 88,209	100
	102,855	100	98,311	100	88,209	100
Operating expenses						
Cost of revenue	70,400	68	63,201	64	88,648	100
Research and development	2,430	2	2,416	2	2,858	3
Marketing, general and administrative	7,462	7	10,565	11	13,065	15
Foreign exchange loss	2,985	3	2,038	2	2,538	3
Impairment of assets	1,747	2	—	—	—	—
Restructuring charges	1,302	1	—	—	—	—
Total operating expenses	86,326	84	78,220	80	107,109	121
Earnings (loss) from operations						
	16,529	16	20,091	20	(18,900)	(21)
Investment income	428	0	533	1	728	1
Earnings (loss) before income taxes						
	16,957	16	20,624	21	(18,172)	(21)
Provision for (recovery of) income tax expense						
Current	4,013	4	4,623	5	5,980	7
Future	2,908	3	6,290	6	(6,059)	(7)
	6,921	7	10,913	11	(79)	(0)
Net earnings (loss)						
	\$ 10,036	10	\$ 9,711	10	\$ (18,093)	(21)
Earnings (loss) per share						
Basic	\$ 0.08		\$ 0.08		\$ (0.15)	
Diluted	0.08		0.08		(0.15)	
Weighted average number of common shares						
Basic	120,713,535		120,103,422		120,856,511	
Diluted	120,720,171		120,368,583		120,856,511	

	As at December 31, 2015	As at December 31, 2014	As at December 31, 2013
Cash and cash equivalents	\$ 93,431	\$ 126,311	\$ 130,394
Short-term investments	1,120	1,336	1,457
Total assets	293,218	313,194	337,201
Long-term debt	—	—	—
Dividends declared per common share	0.17	0.18	0.16

Revenues for the twelve months ended December 31, 2015 were \$102,855 representing an increase of \$4,544 over the twelve months ended December 31, 2014. The increase in revenue is attributable to one-time lump sum payment license agreements signed during the twelve months ended December 31, 2015 partially offset by the completion of certain fixed

payment license agreements signed in previous years.

Our license agreements can generally be classified as either: (1) running royalty agreements in which licensees provide reports on their sales activities for the previous fiscal quarter, and calculate and remit the appropriate royalty; or (2) fixed fee arrangements with either a one-time lump sum payment or periodic payments that may be over a period shorter than or equal to the license term. In all cases, licenses provide for a release of past infringement and a license to some or all of our patents for a specified period of time. In certain cases, licenses may also extend to certain patents acquired by us during the term of the license. In all cases, the continued right to the license is subject to the licensee making the required payments defined in the agreement, all of which are non-refundable once received by us. We recognize revenue, generally, when the license fee is earned, fixed or determinable, collectability is reasonably assured, and all other conditions of revenue recognition are met.

Our business is unique because, unless approached, entities who infringe our patents are content to not pay fair compensation to us for the right to use the inventions claimed in those patents. Our licensing process involves the preparation of claim charts which are detailed descriptions of the claims in our patents and how those claims relate to a particular technology standard or a particular product offering. These claim charts are presented to entities which we believe to be infringing these patents as the first step in commencing licensing discussions. The licensing process then generally includes countering arguments relating to technology and legal matters relating to these and other patents, arriving at mutually satisfactory business, financial and legal terms for license agreements and signing such license agreements. We note that with more than 15,000 patents, we generally only prepare claim charts on a small subset of the entire portfolio. Accordingly, we will commence license discussions focusing on only a small number of patents that we believe are being infringed.

If licensing discussions are not productive, we may resort to litigation as a means to motivate a potential licensee to negotiate a license. Although our preference is to reach a negotiated license agreement without commencing patent litigation, we have found that many entities will not engage in substantive discussions without litigation. If litigation is required, it will most certainly be on only a subset of the patents that we believe are infringed, for example on only two or three patents out of our entire portfolio. We may also engage in additional infringement litigation against a potential licensee to create additional pressure to enter into a negotiated license agreement.

As a result of the above, we are not necessarily in control of when a license is executed and, accordingly, we may experience fluctuations in revenues year over year.

Operating expenses for the twelve months ended December 31, 2015 were \$86,326 or 84% of revenues, representing an increase of \$8,106 or 10% as compared to \$78,220 or 80% of revenues for the twelve months ended December 31, 2014. The increase in operating expenses is primarily attributable to higher litigation costs, amortization expense, restructuring costs, asset impairment, patent maintenance, prosecution and evaluation costs, and contingent partner payments and legal fees partially offset by a decrease in compensation and benefits, stock-based compensation and public company costs.

Litigation expense accounted for approximately \$13,203 and \$9,908 or 15% and 13% of total operating expenses in each of fiscal 2015 and 2014 respectively. As noted, we would prefer to negotiate licenses without the use of litigation but that is not always possible. Given the number of litigations we are currently involved in and the related fee arrangements, litigation expenses for 2016 are expected to decrease from the 2015 levels excluding contingent litigation payments. Litigation activities, and therefore expenses, are difficult to predict as there are many factors that can influence any action that is commenced.

We recorded net earnings for the twelve months ended December 31, 2015 of \$10,036 or \$0.08 per basic and diluted share as compared to the twelve months ended December 31, 2014 of \$9,711 or \$0.08 per basic and diluted share.

We consider adjusted earnings, a non-GAAP measure, to be a good indicator of performance for the business as it more accurately captures financial performance in a given period related to the operations of the business.

The table below reconciles the net earnings/loss to the adjusted earnings.

	Twelve months ended		
	December 31, 2015	December 31, 2014	December 31, 2013
Net earnings (loss) under GAAP	\$ 10,036	\$ 9,711	\$ (18,093)
Adjusted for:			
Unrealized foreign exchange loss	605	892	1,730
Depreciation and amortization	38,164	35,139	29,682
Stock based compensation	847	2,081	4,192
Restructuring charges	1,302	—	—
Impairment of assets	1,747	—	—
Loss on disposal of assets	15	1	123
Income tax expense (recovery)	6,921	10,913	(79)
Adjusted earnings	<u>\$ 59,637</u>	<u>\$ 58,737</u>	<u>\$ 17,555</u>
Weighted average number of common shares (1)			
Basic	120,713,535	120,103,422	120,856,511
Adjusted earnings per basic share	\$ 0.49	\$ 0.49	\$ 0.15
Earnings (loss) per basic share under GAAP	0.08	0.08	(0.15)

1. Weighted average number of commons shares used in the calculation of adjusted earnings per basic share and earnings per basic share under GAAP.

The adjusted earnings for the twelve months ended December 31, 2015 were \$59,637 as compared to \$58,737 for the twelve months ended December 31, 2014. The increase in adjusted earnings as compared to last year is primarily attributable to an increase in revenue and a decrease in compensation and benefits, and public company costs partially offset by an increase in litigation cost, contingent partner payments and legal fees, patent maintenance, prosecution and evaluation costs, and realized foreign exchange loss.

Results of Operations for the twelve months ended December 31, 2015 as compared to the twelve months ended December 31, 2014

Revenues

Revenues for the twelve months ended December 31, 2015 were \$102,855, representing an increase of \$4,544 as compared to the twelve months ended December 31, 2014.

	Twelve months ended	
	December 31, 2015	December 31, 2014
Revenues	\$ 102,855	\$ 98,311
Increase from comparative period	5%	

Our revenues are derived from five principal sources: (i) running royalty agreements pursuant to which licensees pay us royalties based on either a percentage of the net selling price of licensed products or a fixed fee per licensed product sold; (ii) fixed fee royalties consisting of a set quarterly or annual amount for all licensed products sold by licensees; (iii) one-time lump sum fees to cover the sale of all licensed products by a particular licensee, subject to certain limitations; (iv) licensing patents on behalf of our partners; or (v) brokerage which provides the acquirer exclusive rights to the technology. License agreements are generally for a five to eight year period but can be significantly longer. We consider revenue to be earned when we have persuasive evidence of an arrangement, all obligations that we need to perform have been fulfilled in accordance with the terms of the license agreement, including delivery and acceptance, the revenue amount is fixed or determinable and collection is reasonably assured.

Revenues can vary significantly from quarter to quarter depending upon the type of royalty arrangement with licensees, the timing of royalty reporting by licensees, the cyclical nature of licensees' markets and fluctuations in foreign currency and other factors. Revenues can fluctuate based on individual licensees' growth and success rates in their respective markets, and other market factors on their respective businesses and other factors outside of our control. See "Risk Factors" contained in our AIF for more detailed information.

Three licensees individually accounted for 16%, 12% and 10%, respectively, of revenues from royalties for the twelve months ended December 31, 2015 as compared to two licensees which individually accounted for 15% and 13%, respectively, of revenues from royalties for the twelve months ended December 31, 2014. For the twelve months ended December 31, 2015, the top ten licensees accounted for 76% of revenues from royalties, whereas in the comparable period last year the top ten licensees accounted for 74% of revenues from royalties, respectively.

For the twelve months ended December 31, 2015 and 2014, there were no revenues from brokerage. We may sell patents from our portfolio when we believe the revenue from an outright sale of patents is greater than what can be derived from licensing the patents.

Our estimated backlog position, which consists of the value of signed license agreements characterized as having fixed periodic payments plus management's estimate of revenues to be reported and collected under signed running royalty license agreements, was in a range between \$175 million and \$205 million at December 31, 2015. We expect the majority of these revenues to be collected over the next three fiscal years with some license agreements extending for more than seven years.

Our estimated revenue backlog represents our estimates of revenues yet to be recorded from signed license agreements. These estimates consider the market forecasts for the technologies covered within our patent portfolio, publicly available and, in certain cases, privately provided forecasts for existing licensees' product sales, and the relevant license rates in effect in these signed agreements. The timing of license agreement closings, breadth and depth of product portfolios licensed and other external market forces may cause our estimated revenue backlog to vary from one reporting period to the next.

Historically, a significant portion of our revenues has been generated by license agreements having fixed periodic payments, however we expect that an increasing portion of our revenues will be generated by license agreements having one-time lump sum payments and therefore our revenue backlog position is expected to decrease. Given the expected shift in the business model just described, revenues are likely to vary, perhaps significantly, from period to period.

Cost of Revenue

Cost of revenue is comprised of patent licensing expenses which includes royalty obligations, cost of patents sold through brokerage activities (if any), employee related costs and other costs incurred in conducting license negotiations, contingent partner payments and legal fees, litigation expense and amortization of patents expense related to acquired patents. We also consider the expenses related to the management of our patent portfolio as cost of revenue. The management of our patent portfolio involves filing patent applications, prosecuting applications to obtain issued patents, documenting infringement, assessing validity of issued patents, conducting due diligence on patents and applications to be acquired, and other general administrative tasks. Many of these costs are directly related to the size and breadth of our patent portfolio and, therefore, as we add or reduce patents, these costs would be expected to increase or decrease accordingly. We are continuously looking at ways to reduce costs including reducing our patent count if revenues will not be impacted.

Litigation, other than contingent litigation, and amortization expenses are not necessarily variable with revenues. We also include, as a cost of revenue, any costs related to sourcing new patent portfolios or developing new strategic partnerships.

The table below provides the details of cost of revenue:

	Twelve months ended	
	December 31, 2015	December 31, 2014
Compensation and benefits	\$ 6,680	\$ 7,883
Litigation	13,203	9,908
Patent maintenance, prosecution, and evaluation	7,715	6,864
Contingent partner payments and legal fees	3,617	1,704
Amortization of patents	37,723	34,400
Stock-based compensation	460	840
Other	1,002	1,602
	\$ 70,400	\$ 63,201
Percent of revenue	68%	64%
Increase from comparative period	11%	

Cost of revenue for the twelve months ended December 31, 2015 was \$70,400 or 68% of revenues as compared to \$63,201 or 64% of revenue for the same period last year.

The increase in expenses is primarily attributable to an increase in litigation costs, patent maintenance, prosecution and evaluation expenses, contingent partner payments and contingent legal fees, and amortization expense partially offset by a decrease in compensation and benefits as a result of lower accrued variable compensation costs, stock-based compensation, and travel costs. In general, patent licensing expenses are proportional to the breadth and depth of our licensing and brokerage programs and should be expected to increase as we add programs to our business operations. As a result of the expansion in the number of licensing programs and the increase in partnering agreements with contingent partner payment arrangements and contingent legal fee arrangements with law firms, licensing expenses are expected to increase in fiscal 2016.

A key element of our strategy involves acquiring additional patents or obtaining exclusive licensing arrangements through relationships with patent holders that may be accounted for as acquisitions. Any further acquisitions will increase amortization expense from our current levels. We have acquired approximately \$360,000 in patents since November 1, 2006.

Litigations are a normal part of our business which may extend over multiple years and are principally a discretionary cost, not directly related to or necessarily proportional to the revenues we generate. Our litigation expenses consist of all expenses related to the conduct of our litigation activities and include the costs of external legal counsel and third-party costs including those of expert witnesses and other service providers required during the course of litigations.

Pursuant to our engagement of McKool Smith (“McKools”) in respect of certain litigations that concluded in 2011, in consideration for a discount on fees in connection with such litigations, we have agreed to pay McKools a success fee based on achieving certain minimum financial measures attributable to such litigations. Upon achieving these financial measures, McKools will be entitled to receive a percentage of the proceeds actually received pursuant to the licensing agreements relating to these litigations up to a maximum of \$27,986. We have collected and expect to collect proceeds from these license agreements over the next three years. Should we collect these amounts as contemplated in the agreements, McKools will be entitled to the entire success fee. We accrued the full amount of the success fee obligation in fiscal 2011. As at December 31, 2015, the current and long term portions of the success fee obligation are \$2,983 and \$656, respectively. During the twelve months ended December 31, 2015, we paid McKools \$3,736 (twelve months ended December 31, 2014 - \$4,032) based on proceeds collected as of September 30, 2015.

For the twelve months ended December 31, 2015, litigation expenses amounted to \$13,203 as compared to \$9,908 for the same period last year. The increase in litigation expenses is attributable to an increase in the level of litigation activities in comparison to the same period last year. Litigation expenses are expected to vary from period to period due to the variability of litigation activities, and shared risk fee arrangements. We expect a decrease in litigation expenses in fiscal

2016 as a result of the expected level of litigation activities and the corresponding fee arrangements.

In the course of our normal operations, we are subject to claims, lawsuits and contingencies. Accruals are made in instances where it is probable that liabilities may be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, we have no reason to believe that the ultimate outcome of these matters would have a significant impact on our consolidated financial position.

Our partnering programs relate to specific patent portfolios owned or controlled by our operating subsidiaries, have contingent partner payment arrangements with the previous patent owners and most often contingent legal fee arrangements with law firms. As these licensing programs generate revenues we will expect to incur contingent partner payments and contingent legal fees. The contingent partner payments and contingent legal fees are expected to fluctuate from period to period based on the amount of revenues recognized each period, the terms and conditions of the particular contingent legal fee arrangements, the type of contingent partner payment arrangements with the previous patent owners and the mix of specific patent portfolios generating revenues each period.

Research and development expense

We designed, developed and sold or licensed a variety of advanced digital wireless technologies, systems and products since our inception in the early 1990s until 2006. Over the course of our history, we have been able to explore emerging technologies, identify needs created by the development of advanced wireless systems and build technologies for those new requirements. Today, we are focusing our research and development (“R&D”) efforts on advanced wireless technologies. These efforts have fostered inventions that form the basis of a number of new patent applications. The costs associated with these efforts, principally staff costs (including stock-based compensation) and certain external consultants, have been classified as R&D.

The table below provides the details of R&D expense:

	Twelve months ended	
	December 31, 2015	December 31, 2014
Compensation and benefits	\$ 1,914	\$ 1,990
Depreciation	20	153
Stock-based compensation	80	26
Other	416	247
	\$ 2,430	\$ 2,416
Percent of revenue	2%	2%
Increase from comparative period	1%	

For the twelve months ended December 31, 2015, R&D expenses were \$2,430 or 2% of revenue as compared to \$2,416 or 2% of revenue for the twelve months ended December 31, 2014. The increase in spending for the twelve months ended December 31, 2015 is primarily attributable to an increase in consulting costs, and stock-based compensation expense partially offset by a decrease in depreciation, and compensation and benefits.

The restructuring activities, which commenced in October 2015, resulted in the elimination of our R&D activities and therefore we do not expect to incur any expenses related to R&D beginning in the first quarter of fiscal 2016. We do not expect the elimination of our R&D activities to have a material impact, if any, on our business model.

Marketing, general and administration expense

Marketing, general and administration (“MG&A”) expenses represent the cost of corporate services including facilities, executive management, finance, corporate legal, human resources, office administration, marketing and communications, information technology and all costs associated with being a public company.

The table below provides the details of MG&A expense:

	Twelve months ended	
	December 31, 2015	December 31, 2014
Compensation and benefits	\$ 3,608	\$ 4,258
Depreciation	422	568
Stock-based compensation	307	1,181
Public company costs	1,199	1,999
Facilities	575	689
Other	1,351	1,870
	<u>\$ 7,462</u>	<u>\$ 10,565</u>
Percent of revenue	7%	11%
Decrease from comparative period	(29%)	

For the twelve months ended December 31, 2015, MG&A expenses amounted to \$7,462 or 7% of revenues as compared to \$10,565 or 11% of revenue for the twelve months ended December 31, 2014. The decrease in spending for the twelve months ended December 31, 2015 is primarily attributable to a decrease in compensation and benefits as a result of lower accrued variable compensation costs, stock-based compensation, and public company costs related to accrued costs for deferred stock units granted to certain non-executive members of our board and other costs as a result of a decrease in consulting, travel and recruiting costs.

MG&A costs will vary from period to period depending on activities and initiatives undertaken, and changes in staffing levels in any given period. Restricted share units and deferred stock units are variable elements and therefore changes in the stock price could be expected to impact compensation spending.

The restructuring activities, which commenced in October 2015, are expected to result in lower MG&A expenses, although not materially lower, in fiscal 2016.

Impairment of assets

We commenced restructuring activities in October 2015 and as a result assessed which assets we would continue to support and which areas of the business on which to continue to focus. As a result of this assessment, we concluded that certain licensing programs would be terminated and the carrying value of the patent portfolios associated with these licensing programs were determined to be fully impaired. As a result, we recorded a non-cash, pre-tax charge for asset impairment of \$1,747 during the fourth quarter of fiscal 2015.

Restructuring charges

The restructuring activities are expected to result in a reduction of operating expenses in the range of \$8,000 to \$10,000 annually. The workforce reduction is not expected to have a material impact, if any, on our business model.

The cash payments related to liability of \$533 on the balance sheet as at December 31, 2015 are expected to be completed by the end of the third quarter of fiscal 2016.

Foreign exchange loss

The table below provides the details of the foreign exchange loss:

	Twelve months ended	
	December 31, 2015	December 31, 2014
Realized foreign exchange loss	\$ 2,380	\$ 1,146
Unrealized foreign exchange loss	605	892
	\$ 2,985	\$ 2,038
Percent of revenue	3%	2%
Increase from comparative period	46%	

The increase in the realized foreign exchange loss for the twelve months ended December 31, 2015 is primarily attributable to losses on foreign exchange contracts settled during fiscal 2015 as a result of the difference in the prescribed rates as per the contracts and the rates in effect on the settlement date. During the twelve months ended December 31, 2015 the U.S. dollar appreciated relative to the Canadian dollar. In addition to the losses realized on the foreign exchange contracts, we realized a foreign exchange loss as a result of the change in exchange rates in effect when foreign denominated transactions are initially recorded and the corresponding settlement.

The unrealized foreign exchange loss recognized in the twelve months ended December 31, 2015 resulted from the translation of monetary accounts, primarily cash and cash equivalents, short-term investments, dividends, and accounts payable, denominated in Canadian dollars to U.S. dollars. The change from last year is attributable to the decrease in the level of monetary accounts denominated in Canadian dollars.

From time to time we utilize foreign exchange forward contracts to enhance our ability to manage foreign currency exchange rate risk and exposure to currency rate fluctuations related primarily to future cash outflows of Canadian dollars. The foreign exchange forward contracts require us to sell U.S. dollars for Canadian dollars at prescribed rates.

As at December 31, 2015, we did not have any foreign exchange forward contracts.

We cannot accurately predict foreign exchange movements and as such, cannot accurately predict future gains and losses related to unhedged transactions denominated in currencies other than U.S. dollars.

Investment income

Our recorded investment income for the twelve months ended December 31, 2015 was \$428 as compared to \$533 for the twelve months ended December 31, 2014. Investment income includes interest earned on deposits and short-term investments as well as, gains on equity holdings. The decrease in investment income for the twelve months ended December 31, 2015 is attributable to a decreased cash position.

Provision for income taxes

The table below provides the details of income tax expense:

	Twelve months ended	
	December 31, 2015	December 31, 2014
Current income tax expense	\$ 4,013	\$ 4,623
Deferred income tax expense	2,908	6,290
	\$ 6,921	\$ 10,913
 Current income tax expense % of revenue	 4%	 5%

Income tax expense for the twelve months ended December 31, 2015 was \$6,921 as compared to \$10,913 for the same period last year.

The decrease in the deferred income tax expense is primarily attributable to a decrease in the utilization of certain previously recognized Canadian loss carryforwards. There is a valuation allowance of \$17,583 as at December 31, 2015 (December 31, 2014 - \$14,323) against deferred tax assets for certain of our Canadian and all of our U.S. subsidiaries. We establish a valuation allowance for any portion of our deferred tax assets for which management believes it is more likely than not that we will be unable to utilize the assets to offset future taxes. We will continue to evaluate our deferred income tax position quarterly and record any adjustment necessary in that period.

We expect to continue to utilize certain previously recognized Canadian loss carryforwards. Until such time as our licensing programs in certain of our Canadian and U.S. subsidiaries generate sufficient taxable income we expect to continue to maintain a full valuation allowance against deferred tax assets for these Canadian and U.S. subsidiaries. As a result, we expect our provision for deferred income tax expense to be disproportionately higher when compared to our estimated average annual rate.

The current income tax expense for the twelve months ended December 31, 2015 and 2014, consisted primarily of foreign taxes withheld on royalty revenues received from licensees in foreign tax jurisdictions for which there is no treaty relief. Withholding tax expense for the twelve months ended December 31, 2015 was 4% of revenue as compared to 5% of revenue for the same period last year. The decrease in withholding tax expense as a percentage of revenue is attributable to an increase in revenue from jurisdictions for which there is tax treaty relief.

SELECTED CONSOLIDATED QUARTERLY RESULTS
(Unaudited)

Thousands of U.S. dollars except per share amounts	Three months ended December 31, 2015	Three months ended September 30, 2015	Three months ended June 30, 2015	Three months ended March 31, 2015
Revenues	\$ 26,017	\$ 21,438	\$ 34,990	\$ 20,410
Adjusted earnings (1)	\$ 15,748	\$ 12,220	\$ 24,851	\$ 6,818
Adjusted earnings per share (1)				
Basic	\$ 0.13	\$ 0.10	\$ 0.21	\$ 0.06
Diluted	\$ 0.13	\$ 0.10	\$ 0.21	\$ 0.06
Net earnings (loss)	\$ 3,007	\$ 829	\$ 10,958	\$ (4,758)
Net earnings (loss) per share				
Basic	\$ 0.02	\$ 0.01	\$ 0.09	\$ (0.04)
Diluted	\$ 0.02	\$ 0.01	\$ 0.09	\$ (0.04)
Weighted average number of common shares				
Basic	120,817,531	120,747,848	120,747,848	120,472,290
Diluted	120,817,531	120,749,618	120,749,618	120,472,290

Thousands of U.S. dollars except per share amounts	Three months ended December 31, 2014	Three months ended September 30, 2014	Three months ended June 30, 2014	Three months ended March 31, 2014
Revenues	\$ 22,102	\$ 24,576	\$ 25,655	\$ 25,978
Adjusted earnings (1)	\$ 12,182	\$ 13,162	\$ 16,623	\$ 16,769
Adjusted earnings per share (1)				
Basic	\$ 0.10	\$ 0.11	\$ 0.14	\$ 0.14
Diluted	\$ 0.10	\$ 0.11	\$ 0.14	\$ 0.14
Net earnings (loss)	\$ 518	\$ (375)	\$ 5,599	\$ 3,969
Net earnings (loss) per share				
Basic	\$ 0.00	\$ 0.00	\$ 0.05	\$ 0.03
Diluted	\$ 0.00	\$ 0.00	\$ 0.05	\$ 0.03
Weighted average number of common shares				
Basic	120,215,989	120,211,493	120,065,465	119,916,260
Diluted	120,415,297	120,211,493	120,335,029	120,260,260

1. Adjusted earnings and adjusted earnings per share are non-GAAP measures. See “Non-GAAP Disclosures” and the “Reconciliation of Adjusted Earnings” contained in this MD&A.

Our quarterly revenues are affected by the amount and timing of fixed payment based licenses, the amount of running royalty based licenses, and any new lump sum payment based licenses signed in a quarter. Given these factors, quarterly revenues can fluctuate and be difficult to predict. Our operating expenses have increased over the past six quarters which is primarily attributable to an increase in litigation spending as a result of a higher number of litigation matters, the

expansion of our licensing programs and an increase in foreign exchange losses. In addition, our quarterly expenses are impacted by timing of partner payment obligations and contingent legal fees associated with our partnering program.

Historically, our operating results have fluctuated on a quarterly basis and we expect that quarterly results will continue to fluctuate in the future. The operating results for interim periods should not be relied upon as an indication of the results to be expected or achieved in any future period or any fiscal year as a whole. The factors affecting our revenue and results, many of which are outside of our control, include the factors set out under the heading “Risks and Uncertainties” above which are discussed in greater detail under the heading “Risk Factors” in our AIF which we urge readers to review carefully.

Because our quarterly revenue is dependent upon a relatively small number of transactions, even minor variations in the rate and timing of payment of royalties could cause us to plan or budget inaccurately, and those variations could adversely affect our operating results. Delays or reductions in the amounts of royalty payments would adversely affect our business, results of operations and financial condition.

CAPITAL AND LIQUIDITY

Cash and cash equivalents, and short-term investments amounted to \$94,551 at December 31, 2015, representing a decrease of \$33,096 from the \$127,647 held at December 31, 2014. The decrease is primarily attributable to the payments for patents acquired in the current and previous years totaling \$56,100 and the payment of dividends totaling \$20,082, partially offset by cash generated from operations of \$43,532.

At December 31, 2015 we had working capital of \$73,304, long-term success fee obligation of \$655 and patent finance obligations of \$19,895 which relates to deferred payment terms on patents and patent rights we acquired in fiscal 2013.

During the twelve months ended December 31, 2015, we made repayments for patent finance obligations of \$8,571 and \$9,556 related to patents acquired during fiscal 2014 and 2013, respectively, and made payments totaling \$46,973 related to patents acquired in fiscal 2015. As at December 31, 2015, \$9,000 remains as a liability on the balance sheet with respect to patents acquired in fiscal 2015.

As at December 30, 2015, the current and long-term portions of the patent finance obligations are \$8,085 and \$19,895, respectively. We expect the repayment of the long-term portion of the patent finance obligation to be completed within the next one to four years.

We have a revolving credit facility available in the amount of CDN\$8,000 or the equivalent in U.S. dollars for general corporate purposes and a further CDN\$2,000 for foreign exchange facility. Canadian dollar or U.S. 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 U.S. base rate plus 1.0% per annum. Borrowings under this facility are collateralized by a general security agreement over our cash and cash equivalents, receivables and present and future personal property. As at and during the twelve months ended December 31, 2015, we had no borrowings under this facility.

Effective May 27, 2014, we received regulatory approval to make a normal course issuer bid (the “2014 NCIB”) pursuant to which we were permitted to purchase up to 11,676,510 common shares for cancellation. The 2014 NCIB commenced on May 29, 2014 and was completed on May 28, 2015. During the twelve months ended December 31, 2015, we repurchased 125,000 common shares under the 2014 NCIB for a total of \$329.

We plan to use our cash resources to fund our operations and any litigation that might be required, and to purchase additional high quality patent portfolios and patent licensing businesses that are identified and fit our value proposition and strategic objectives.

Our ability to generate cash from operations going forward is based on collecting royalties under our signed licenses and additional licensing of our patent portfolios to companies around the world. It is difficult to predict the timing and nature of future licenses.

We plan to finance our cash requirements for operating expenses, litigation costs and technology acquisitions by a combination of cash generated from licensing our patent portfolios and, if desirable based on market conditions, by selling common shares and debt securities to the public.

A summary of our contractual obligations due by period for the next 5 years is noted below:

Contractual Obligations	Payments due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long term debt	\$ -	\$ -	\$ -	\$ -	\$ -
Capital lease obligations	-	-	-	-	-
Operating leases	3,140	580	1,169	696	696
Purchase obligations	-	-	-	-	-
Other long term obligations	32,916	11,539	21,377	-	-
Total contractual obligations	<u>\$ 36,056</u>	<u>\$ 12,119</u>	<u>\$ 22,546</u>	<u>\$ 696</u>	<u>\$ 696</u>

OUTSTANDING COMMON SHARE DATA

We are authorized to issue an unlimited number of common shares, 6,350.9 special preferred, redeemable, retractable, non-voting shares and an unlimited number of preferred shares, issuable in series. As at December 31, 2015, there were 120,842,448 common shares and no special or preferred shares issued and outstanding. We also maintain a Share Option Plan, an Employee Share Purchase Plan and a Deferred Stock Unit Plan. Under the Share Option Plan, we can issue a maximum of 10% of our issued and outstanding common shares from time to time which was, as at December 31, 2015, 12,084,245 common shares combined. The common shares authorized for issuance under the Employee Share Purchase Plan and the Deferred Stock Option Plan are limited to 800,000 and 430,000, respectively. As at December 31, 2015, we had 8,071,056 options outstanding, 260,398 deferred stock units outstanding and have issued 536,000 shares under the Employee Share Purchase Plan.

OFF-BALANCE SHEET ARRANGEMENTS

There are no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

Dr. Michel Fattouche, a member of our Board of Directors, has provided consulting services to us. For the twelve months ended December 31, 2015, consulting services have totaled \$100 (twelve months ending December 31, 2014 – \$76) all of which had been paid as at year end.

FOURTH QUARTER REVIEW
Results of Operations for the three months ended December 31, 2015 as compared to the three months ended December 31, 2014
Revenues

Revenues for the three months ended December 31, 2015 were \$26,017, representing an increase of \$3,915 or 18% over the same period last year. The increase in revenues is primarily attributable to license agreements signed during fiscal 2015 which had lump sum payment amounts.

	Three months ended	
	December 31, 2015	December 31, 2014
Revenues	\$ 26,017	\$ 22,102
Increase from comparative period	18%	

Three licensees individually accounted for 15%, 12%, and 10%, respectively, of revenues from royalties for the three months ended December 31, 2014 as compared to three licensees individually accounted for 14%, 12%, and 10%, respectively, for the three months ended December 31, 2014. For the three months ended December 31, 2015 and 2014, the top ten licensees accounted for 76% and 81% respectively, of revenues from royalties.

Cost of Revenue

The table below provides the details of cost of revenue:

	Three months ended	
	December 31, 2015	December 31, 2014
Compensation and benefits	\$ 1,289	\$ 1,862
Litigation	2,091	3,471
Patent maintenance, prosecution, and evaluation	1,999	1,769
Contingent partner payments and legal fees	2,400	89
Amortization of patents	9,979	8,774
Stock-based compensation	94	125
Other	249	370
	\$ 18,101	\$ 16,460
Percent of revenue	70%	74%
Increase from comparative period	10%	

Cost of revenue for the three months ended December 31, 2015 was \$18,101 or 70% of revenues as compared to \$16,460 or 74% of revenues for the three months ended December 31, 2014. The increase in expenses is primarily attributable to an increase in contingent partner payments and legal fees, and amortization expense partially offset by a decrease in litigation expenses, and compensation and benefits costs as a result of lower accrued variable compensation costs.

For the three months ended December 31, 2015, litigation expenses amounted to \$2,091 as compared to \$3,471 for the same period last year. The decrease in litigation for the three months ended December 31, 2015 is attributable to a decrease in the level of litigation activities in comparison to the same period last year and the fee arrangements entered into with our external counsel. Litigation expenses are expected to vary from period to period due to the variability of litigation activities and fee arrangements.

During the three months ended December 31, 2015, we paid McKools \$737 of the success fee payable based on proceeds collected during the three months ended September 30, 2015.

Research and development expense

The table below provides the details of R&D expense:

	Three months ended	
	December 31, 2015	December 31, 2014
Compensation and benefits	\$ 342	\$ 482
Depreciation	5	11
Stock-based compensation	4	3
Other	61	76
	<u>\$ 412</u>	<u>\$ 572</u>
Percent of revenue	2%	3%
Decrease from comparative period	(28%)	

For the three months ended December 31, 2015, R&D expenses were \$412 or 2% of revenue as compared to \$572 or 3% of revenue for the three months ended December 31, 2014. The decrease in spending for the three months ended December 31, 2015 is primarily attributable to a decrease in compensation and benefits as a result of lower staffing levels through most of the period.

Marketing, general and administration expense

The table below provides the details of MG&A expense:

	Three months ended	
	December 31, 2015	December 31, 2014
Compensation and benefits	\$ 844	\$ 1,057
Depreciation	102	114
Stock-based compensation	47	235
Public company costs	219	164
Facilities	136	164
Other	235	397
	<u>\$ 1,583</u>	<u>\$ 2,131</u>
Percent of revenue	6%	10%
Decrease from comparative period	(26%)	

For the three months ended December 31, 2015, MG&A expenses amounted to \$1,583 or 6% of revenues as compared to \$2,131 or 10% of revenue for the same period last year. The decrease in spending for the three months ended December 31, 2015 is primarily attributable to a decrease in compensation and benefits as a result of lower accrued variable compensation costs, stock-based compensation, and the provision for doubtful accounts.

Impairment of assets

We recorded a non-cash, pre-tax charge for asset impairment of \$1,747 for the three months ended December 31, 2015.

Restructuring charges

We recorded a restructuring charge of \$1,302 for the three months ended December 31, 2015. As at December 31, 2015, \$533 remains on the balance sheet as a liability.

Foreign exchange loss

The table below provides the details of the foreign exchange loss:

	Three months ended	
	December 31, 2015	December 31, 2014
Realized foreign exchange loss	\$ 516	\$ 202
Unrealized foreign exchange (gain) loss	(425)	482
	\$ 91	\$ 684
Percent of revenue	0%	3%
Decrease from comparative period	(87%)	

The increase in the realized foreign exchange loss for the three months ended December 31, 2015 is primarily attributable to losses on foreign exchange contracts settled during the three months ended December 31, 2015 as a result of the difference in the prescribed rates as per the contract and the foreign exchange rates in effect on the settlement date. In addition to the losses realized on the foreign exchange contracts for the three months ended December 31, 2015, we realized a foreign exchange gain as a result of the change in exchange rates in effect when foreign denominated transactions are initially recorded and the corresponding settlement.

The unrealized foreign exchange gain recognized in the three months ended December 31, 2015 is primarily attributable to the reversal of previously recognized unrealized foreign exchange losses related to foreign exchange contracts outstanding at the end of the third quarter of fiscal 2015 which were settled and the corresponding losses recorded as a realized foreign exchange loss during the three months ended December 31, 2015.

Investment income

Our recorded investment income for the three months ended December 31, 2015 was \$97 as compared to \$131 for the three months ended December 31, 2014.

Provision for income taxes

The table below provides the details of the provision for income taxes:

	Three months ended	
	December 31, 2015	December 31, 2014
Current income tax expense	\$ 1,140	\$ 915
Deferred income tax (recovery) expense	(1,269)	953
	\$ (129)	\$ 1,868
Current income tax expense % of revenue	4%	4%

Income tax recovery for the three months ended December 31, 2015 was \$129 as compared to income tax expense of \$1,868 for the same period last year.

The decrease in the deferred income tax expense as compared to the same period last year is primarily attributable to a decrease in the utilization of certain previously recognized Canadian loss carryforwards as a result of lower earnings in certain of our Canadian entities.

The current income tax expense for the three months ended December 31, 2015 and 2014, consisted primarily of foreign taxes withheld on royalty revenues received from licensees in foreign tax jurisdictions for which there is no treaty relief. Withholding tax expense for the three months ended December 31, 2015 was 4% of revenue as compared to 4% of revenue for the same period last year.

PROPOSED TRANSACTIONS

There are no proposed transactions.

CRITICAL ACCOUNTING POLICIES, INCLUDING INITIAL ADOPTION OF POLICIES, AND CRITICAL ESTIMATES

Our management is required to make judgments, assumptions and estimates in applying our accounting policies and practices which have a significant impact on our financial results. The following outlines the accounting policies and practices involving the use of professional judgment and estimates that are critical to determining our financial results.

Revenue recognition

Our revenue consists principally of royalty revenue from licensing our own patent portfolio. We also generate royalty revenue from licensing patent portfolios on behalf of our partners. We consider revenue to be earned when we have persuasive evidence of an arrangement, the obligation has been fulfilled in accordance with the terms of the licensing agreement, including delivery and acceptance, the amounts are fixed or determinable and collection is reasonably assured. We defer recognizing revenue until such time as all criteria are met. Determination of whether or not these criteria have been met may require us to make judgments, assumptions and estimates based upon current information and historical experience.

Our royalty revenues consist of fixed fee and running royalty payments.

Royalties from running royalty arrangements can be based on either a percentage of sales or number of units sold for which we earn royalties at the time the licensees' sales occur. The licensees are obligated to provide us with quarterly or semi-annual royalty reports. Our licensees do not, however, report and pay royalties owed for sales in any given reporting period until after the conclusion of that reporting period. As we are unable to estimate the licensees' sales in any given reporting period to determine the royalties due to us, we recognize running royalty revenues based on royalties reported by the licensees during the quarter and when other revenue recognition criteria are met. We monitor the receipt of reports to ensure that there is not a disproportionate number of months of revenue in any given fiscal year.

Royalties from fixed fee royalty arrangements may consist of one or more installments of cash. The timing and amount of revenue recognized from each licensee depends upon a variety of factors, including the specific terms of each agreement and the nature of the deliverables and obligations. Where agreements include multiple elements, we assess if the deliverables have standalone value upon delivery, and if so, we account for each deliverable separately. When multiple-deliverables included in an arrangement are separated into different units of accounting, the arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. We determine the relative selling price for a deliverable based on our best estimate of selling price ("BESP"). We determine BESP by considering our overall pricing objectives and market conditions. Significant pricing practices taken into consideration include discounting practices, the size and volume of transactions, the customer demographic, the geographic area covered by licenses, price lists, licensing strategy, historical standalone licenses and contracted royalty rates. The determination of BESP is made through consultation with and approval by management, taking into consideration the licensing strategy.

Generally, as part of our partnering agreements with third-parties, we are able to recover certain out-of-pocket expenses and legal costs. These amounts are included in revenue in the period which the aforementioned revenue criteria is met and the amounts become reimbursable.

Revenue arrangements with extended payment terms, where fees are fixed in one or more installments of cash and which contain terms that could impact the amounts ultimately collected, are generally recognized as collection becomes reasonably assured.

Investment Tax Credits

At December 31, 2015, we have approximately \$5,647 (December 31, 2014 - \$6,171) of non-refundable investment tax credits carried forward, relating primarily to past R&D. These credits can be applied against future income taxes payable and are subject to a 20 year carry-forward period. Judgment is required in determining the amount of unutilized investment tax credits to record as an asset. In assessing the potential utilization of investment tax credits, we have considered whether it is more likely than not that some portion or all of the unutilized investment tax credits will be realized based upon estimates of our anticipated income tax position in future periods. We will continue to evaluate our future income tax position quarterly and record any adjustment necessary in that period.

Valuation of Deferred Income Tax Assets and Deferred Income Tax Expense/Recovery

As at December 31, 2015, we had accumulated \$19,061 of unused R&D expenditures for income tax purposes. These deductions are available without expiry to reduce future year's taxable income. We also had approximately \$112,088 of temporary differences and tax losses available for carry forward. As a result, as at December 31, 2015, we have a deferred income tax asset of \$35,257 of which \$17,677 has been recorded. Judgment is required in determining the amounts of deferred income tax assets and liabilities and the related valuation allowance recorded against the net deferred income tax assets. In assessing the potential realization of deferred income tax assets, we consider all available evidence, both positive and negative. The realization of deferred tax assets is dependent on our ability to generate sufficient future taxable income during periods prior to the expiration of tax attributes to fully utilize these assets. Our forecasted future operating results are highly influenced by, among other factors, assumptions regarding (1) our ability to achieve forecasted revenue, (2) our ability to effectively manage our expenses relative to our forecasted revenue and (3) market conditions in the technology areas in which we operate. We considered both positive and negative evidence and based on revenue from existing contracts and spending managed to the revenue levels determined future taxable income will be sufficient to utilize existing tax attributes.

We assess the probability that deferred income tax assets will be recovered from future taxable income, and whether a valuation allowance is required to reflect any uncertainty at each reporting period. We will continue to evaluate our deferred income tax position quarterly and record any adjustment necessary in that period. As at December 31, 2015, we had a valuation allowance of \$17,583 (December 31, 2014 - \$14,323) primarily related to net operating losses and capital losses in certain operating subsidiaries which we have assessed as more likely than not that these losses will not be utilized.

Patents

We have acquired patents and patent rights (hereinafter, collectively "patents") directly, through business acquisitions or as full or partial payments for licensing fees. In determining the fair value of these patents, we make estimates and judgments about the future income-producing capabilities of these assets and related future cash flows. We also make estimates about the useful lives of these assets based on assessment of the legal and economic lives of the patents and potential future licensing revenues achievable from our patent portfolios. Our patent portfolios as at December 31, 2015 are being amortized on a straight-line basis over the remaining useful lives of the patents which range from approximately one to thirteen years. If our basis for assessing the useful lives of the intangibles and potential future licensing revenues achievable from our patent portfolio is adversely affected by future events or circumstances, we will record write-downs of patents, write-down of other intangible assets, or changes in the estimated useful lives of these assets, which would result in changes to amortization expense in the future. Such changes would not affect cash flows.

The carrying value of patents is reviewed for impairment when events or circumstances indicate that the carrying amount may not be recoverable. Impairments are determined by comparing the carrying value to the estimated undiscounted future cash flows to be generated by those assets. If this assessment indicates that the carrying value of the patents is not recoverable, the carrying value is then compared with the estimated fair value of the assets, and the carrying value is written down to the estimated fair value.

In October 2015, we commenced a restructuring of our operations and as a result undertook a review of our licensing programs to determine those which we would continue to support. We concluded that certain licensing programs would be terminated and the carrying value of the patent portfolios associated with these licensing programs was determined to be fully impaired. As a result, we recorded a non-cash, pre-tax charge against our patents of \$1,747.

We experienced a significant decline in our share price following the announcement on November 4, 2015 that we had commenced a restructuring of our operations and were lowering the annual dividend. We considered these events as an indicator of impairment and as a result, a test for impairment of our long-lived assets was performed as at November 30, 2015 (the "Measurement Date"). The patents ("asset groups") were categorized in accordance with their licensing programs. We performed the recoverability test using undiscounted cash flows of the asset groups, which were based on our internal forecasts and assumptions for each of the licensing programs. Based on this analysis, we concluded that the carrying value for the asset groups did not exceed the undiscounted cash flows as at the Measurement Date and therefore the second step of long-lived asset impairment was not required.

Goodwill

Goodwill is subject to annual impairment tests or on a more frequent basis if events or conditions indicate that goodwill may be impaired.

As a whole, we are considered one reporting unit. We estimate the value of our reporting unit based on market capitalization and discounted estimated future cash flows. If we determine that our carrying value exceeds our fair value, we would conduct the second step of the goodwill impairment test which compares the implied fair value of the goodwill (determined as the excess fair value over the fair value assigned to our other assets and liabilities) to the carrying amount of goodwill.

Due to the decline in our market capitalization subsequent to the announcement on November 4, 2015 that we had commenced a restructuring of our operations and were lowering the annual dividend, we concluded that goodwill impairment indicators existed and a goodwill assessment was required. Consequently, we performed an impairment assessment by comparing the estimated fair value of the reporting unit, using an income based approach and market based approach, to our carrying value as at November 30, 2015. Under the income based approach, we used a discounted cash flow methodology using a discount rate determined by our management which is commensurate with the risk inherent in our current business model. Our discounted cash flow projections are based on our annual financial forecasts developed internally by management for use in managing our business. Under the market based approach, we considered our market capitalization in addition to an estimated control premium. The results of this impairment assessment indicated that the estimated fair value of the reporting unit exceeded the carrying value, and therefore, we concluded there was no impairment of goodwill.

In performing our annual goodwill impairment assessment as at December 31, 2015, we determined there were no material changes to the assumptions underlying the estimated fair value of the reporting unit or its carrying value, therefore, we concluded there was no impairment of goodwill as at December 31, 2015.

Estimation uncertainty

Critical accounting policies and estimates utilized in the normal course of preparing our consolidated financial statements require the determination of the best estimate of selling price, future cash flows utilized in assessing net recoverable amounts and net realizable values, determination of discount rates, amortization, allowance for bad debt, legal contingency estimate, useful lives of property, equipment and intangible assets, valuation of intangibles, valuation of debt securities, determination of indicators of impairment assessment and related impairment assessments, assumptions used in determining the fair value of stock options granted, timing of payments related to patent finance obligations and measurement of deferred taxes. In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis where required.

These estimates have been applied in a manner consistent with that in the prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in the consolidated financial statements. The estimates are impacted by many factors, some of which are highly uncertain.

The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on our financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances.

Critical accounting estimates are defined as estimates that are very important to the portrayal of our financial position and operating results and require management to make judgments based on underlying assumptions about future events and their effects.

These underlying assumptions are based on historical experience and other factors that we believe to be reasonable under the circumstances and are subject to change as events occur, as additional information is obtained and as the environment in which we operate changes.

Critical accounting estimates and accounting policies are reviewed annually or more often if needed, by the Audit Committee.

Recent accounting pronouncements

See Note 2, “Significant Accounting Policies”, of Notes to Audited Consolidated Financial Statements for a full description of recent accounting pronouncements including the respective expected dates of adoption.

DISCLOSURE CONTROLS AND PROCEDURES

In compliance with National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings of the Canadian Securities Administrators, we have filed certificates signed by our Chief Executive Officer and Chief Financial Officer that, among other things, deal with the matter of disclosure controls and procedures.

Our management has evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2015, and based on our evaluation has concluded that these are effective.

The evaluation took into consideration our corporate disclosure policy and the functioning of our executive officers, Board and Board Committees. In addition, our evaluation covered our processes, systems and capabilities relating to regulatory filings, public disclosures and the identification and communication of material information.

Critical accounting estimates are defined as estimates that are very important to the portrayal of our financial position and operating results and require management to make judgments based on underlying assumptions about future events and their effects.

These underlying assumptions are based on historical experience and other factors that we believe to be reasonable under the circumstances and are subject to change as events occur, as additional information is obtained and as the environment in which we operate changes.

MANAGEMENT’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and our Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Because of its inherent limitations, however, internal control over financial reporting may not prevent or detect misstatements on a timely basis.

Our management evaluated, under the supervision of the Chief Executive Officer and Chief Financial Officer, the effectiveness of our internal control over financial reporting as at December 31, 2015. We based our evaluation on criteria established in “Internal Control over Financial Reporting – 2013” issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and, based on that evaluation, we have concluded that, as of December 31, 2015, our internal control over financial reporting is effective.

No Attestation Report of the Registered Public Accounting Firm

Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to an exemption for emerging growth companies under the U.S. Jumpstart Our Business Startups Act.

We shall continue to be deemed an emerging growth company until the earliest of:

- (a) the last day of our fiscal year during which we had total annual gross revenues of \$1,000,000,000 (as such amount is indexed for inflation every 5 years by the SEC to reflect the change in the U.S. Consumer Price Index for All Urban Consumers published by the U.S. Bureau of Labor Statistics, setting the threshold to the nearest \$1,000,000) or more;
- (b) the last day of our fiscal year following the fifth anniversary of the date of the first sale of our common equity securities pursuant to an effective IPO registration statement, which for us would be February 7, 2017;
- (c) the date on which we have, during the previous 3-year period, issued more than \$1,000,000,000 in non-convertible debt; or
- (d) the date on which we are deemed to be a large accelerated filer.

As an emerging growth company we are exempt from Section 404(b) of the U.S. Sarbanes-Oxley Act of 2002 and in particular exempt from the requirement that the registered public accounting firm attest to and report on the assessment on the effectiveness of the internal control structure and procedures for financial reporting.

CHANGES IN INTERNAL CONTROLS

There have been no changes in our "internal control over financial reporting" that occurred during the twelve months ended December 31, 2015 which have materially affected or are reasonably likely to materially affect the internal control over financial reporting.

MANAGEMENT'S REPORT

The consolidated financial statements and other financial information of Wi-LAN Inc. ("WiLAN" or the "Company") included in this annual report are the responsibility of the Company's management and have been examined and approved by its Audit Committee and Board of Directors. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in the United States of America and include amounts that are based on management's best estimates using careful judgment. The selection of accounting principles and methods is management's responsibility.

To discharge its responsibility for financial reporting and the safeguarding of assets, the Company maintains internal control systems designed to provide reasonable assurances that financial information is reliable and accurate. Management recognizes its responsibility for conducting the Company's affairs to comply with the requirements of applicable laws and establishes financial standards and principles, and for maintaining proper standards of conduct in its activities.

The Board of Directors supervises the consolidated financial statements and other financial information such as the management's discussion and analysis of financial condition and results of operations ("MD&A") through its Audit Committee, which consists solely of outside directors. The Audit Committee meets at least quarterly with management and annually with the independent auditors to review the Company's reported financial performance and discuss audit, internal control, accounting policy and financial reporting matters.

PricewaterhouseCoopers LLP ("PwC") have audited the consolidated financial statements in accordance with generally accepted auditing standards. PwC are the external auditors who were appointed by the Company's shareholders.



Jim Skippen
President & CEO



Shaun McEwan, CA
CFO

INDEPENDENT AUDITOR'S REPORT**To the Shareholders of Wi-LAN Inc.**

We have audited the accompanying consolidated financial statements of Wi-LAN Inc. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2015 and 2014 and the consolidated statements of operations and comprehensive earnings, shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting principles in the United States of America 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Wi-LAN Inc. and its subsidiaries as at December 31, 2015 and 2014 and their results of operations and their cash flows for the years then ended in accordance with generally accepted accounting principles in the United States of America.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

February 8, 2016

Ottawa, Ontario

Wi-LAN Inc.

Consolidated Statements of Operations and Comprehensive Earnings

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

	Year ended December 31, 2015	Year ended December 31, 2014
Revenue		
Royalties	\$ 102,855	\$ 98,311
Operating expenses		
Cost of revenue	70,400	63,201
Research and development	2,430	2,416
Marketing, general and administration	7,462	10,565
Foreign exchange loss	2,985	2,038
Impairment of assets (Note 6)	1,747	-
Restructuring charges (Note 13)	1,302	-
Total operating expenses	86,326	78,220
Earnings from operations	16,529	20,091
Investment income	428	533
Earnings before income taxes	16,957	20,624
Provision for income tax expense (Note 3)		
Current	4,013	4,623
Deferred	2,908	6,290
	6,921	10,913
Net and comprehensive earnings	\$ 10,036	\$ 9,711
Earnings per share (Note 10(g))		
Basic	\$ 0.08	\$ 0.08
Diluted	\$ 0.08	\$ 0.08
Weighted average number of common shares		
Basic	120,713,535	120,103,422
Diluted	120,720,171	120,368,583

See accompanying notes to consolidated financial statements

Wi-LAN Inc.

Consolidated Balance Sheets

(in thousands of United States dollars)

As at	December 31, 2015	December 31, 2014
Current assets		
Cash and cash equivalents	\$ 93,431	\$ 126,311
Short-term investments	1,120	1,336
Accounts receivable (Note 11)	8,436	2,198
Prepaid expenses and deposits	1,607	494
	<u>104,594</u>	<u>130,339</u>
Loan receivable (Note 4)	1,497	1,268
Property and equipment, net (Note 5)	1,614	1,894
Patents, net (Note 6)	155,213	146,485
Deferred tax asset (Note 3)	17,677	20,585
Goodwill	12,623	12,623
	<u>\$ 293,218</u>	<u>\$ 313,194</u>
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	\$ 23,205	\$ 18,915
Current portion of patent finance obligations (Note 8)	8,085	17,418
	<u>31,290</u>	<u>36,333</u>
Patent finance obligations (Note 8)	19,895	27,465
Success fee obligation (Note 9)	655	3,639
	<u>51,840</u>	<u>67,437</u>
<i>Commitments and contingencies (Note 12)</i>		
Shareholders' equity		
Capital stock	427,781	426,037
Additional paid-in capital	16,549	16,375
Accumulated other comprehensive income	16,225	16,225
Deficit	(219,177)	(212,880)
	<u>241,378</u>	<u>245,757</u>
	<u>\$ 293,218</u>	<u>\$ 313,194</u>

See accompanying notes to consolidated financial statements

On behalf of the Board:



Richard Shorkey
Director



John Gillberry
Director

Wi-LAN Inc.
Consolidated Statements of Cash Flow
 (in thousands of United States dollars)

	Year ended December 31, 2015	Year ended December 31, 2014
Cash generated from (used in)		
Operations		
Net earnings	\$ 10,036	\$ 9,711
Non-cash items		
Stock-based compensation	847	2,081
Depreciation and amortization	38,164	35,139
Foreign exchange loss	1,339	1,082
Loss on disposal of assets	15	1
Impairment of assets	1,747	-
Deferred income tax expense	2,908	6,290
Accrued investment income	(229)	(193)
Changes in non-cash working capital balances		
Accounts receivable	(6,238)	9,801
Prepaid expenses and deposits	(1,113)	98
Payments associated with success fee obligation	(3,736)	(4,032)
Accounts payable and accrued liabilities	(208)	(1,349)
Cash generated from operations	43,532	58,629
Financing		
Dividends paid	(20,082)	(18,725)
Common shares repurchased under normal course issuer bid	(329)	(472)
Common shares issued for cash on the exercise of options	1,269	759
Common shares issued for cash from Employee Share Purchase Plan	131	171
Cash used in financing	(19,011)	(18,267)
Investing		
Sale of short-term investments	-	121
Purchase of property and equipment	(178)	(422)
Repayment of patent finance obligations	(18,127)	(8,865)
Purchase of patents	(37,973)	(34,197)
Cash used in investing	(56,278)	(43,363)
Foreign exchange loss on cash held in foreign currency	(1,123)	(1,082)
Net cash and cash equivalents used in the year	(32,880)	(4,083)
Cash and cash equivalents, beginning of year	126,311	130,394
Cash and cash equivalents, end of year	\$ 93,431	\$ 126,311

See accompanying notes to consolidated financial statements

Wi-LAN Inc.
Consolidated Statements of Shareholders' Equity
 (in thousands of United States dollars)

	Capital Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Deficit	Total Equity
Balance - December 31, 2013	\$ 425,238	\$ 14,635	\$ 16,225	\$ (202,989)	\$ 253,109
Comprehensive earnings:					
Net earnings	-	-	-	9,711	9,711
Shares and options issued:					
Stock-based compensation expense (Note 10 (d))	-	2,081	-	-	2,081
Exercise of stock options (Note 10 (c))	1,160	(401)	-	-	759
Sale of shares under Employee Share Purchase Plan (Note 10 (c))	171	-	-	-	171
Shares repurchased under normal course issuer bid (Note 10 (c))	(532)	60	-	-	(472)
Dividends declared (Note 10 (c))	-	-	-	(19,602)	(19,602)
Balance - December 31, 2014	\$ 426,037	\$ 16,375	\$ 16,225	\$ (212,880)	\$ 245,757
Comprehensive earnings:					
Net earnings	-	-	-	10,036	10,036
Shares and options issued:					
Stock-based compensation expense (Note 10 (d))	-	847	-	-	847
Exercise of stock options (Note 10 (c))	2,056	(787)	-	-	1,269
Sale of shares under Employee Share Purchase Plan (Note 10 (c))	131	-	-	-	131
Shares repurchased under normal course issuer bid (Note 10 (c))	(443)	114	-	-	(329)
Dividends declared (Note 10 (c))	-	-	-	(16,333)	(16,333)
Balance - December 31, 2015	<u>\$ 427,781</u>	<u>\$ 16,549</u>	<u>\$ 16,225</u>	<u>\$ (219,177)</u>	<u>\$ 241,378</u>

See accompanying notes to consolidated financial statements

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

1. NATURE OF BUSINESS

Wi-LAN Inc. (“WiLAN” or the “Company”) is an intellectual property licensing company which develops, acquires, licenses and otherwise enforces a range of patented technologies which are utilized in products in a wide array of markets including communications and consumer electronics, medical, industrial, semiconductor, automotive and aerospace. The Company generates revenue by licensing its patents to companies that sell products utilizing technologies including: Wi-Fi, WiMAX, LTE, CDMA, DSL, DOCSIS, Bluetooth, V-Chip, 3D television, automotive headlight assemblies, semiconductor manufacturing and packaging, medical stent, video streaming, CMOS image sensors, building automation, computer gaming, smart meter monitoring and LED lighting. The Company also generates revenue by licensing patent portfolios on behalf of its partners and, if necessary, the enforcement of their patented technologies.

2. SIGNIFICANT ACCOUNTING POLICIES***Basis of Presentation***

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). The consolidated financial statements of WiLAN include the accounts of WiLAN and its wholly owned subsidiaries. All inter-company transactions and balances have been eliminated in the consolidated financial statements.

The significant accounting policies are summarized below:

Estimates and Assumptions

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the years. Actual results could differ from those estimates. The significant accounting policies contained herein include estimates and assumptions with respect to best estimate of selling price, determination of discount rates, recoverability of deferred tax assets, determination of indicators of impairment assessment and related impairment assessments, initial estimate of risk of concessions, timing of payments related to patent finance obligations, and the assumptions used in determining the fair value of stock options granted.

Revenue Recognition

The Company’s revenue consists principally of royalty revenue from licensing its own patent portfolio. The Company may also generate royalty revenue from licensing patent portfolios on behalf of its partners. The Company considers revenue to be earned when it has persuasive evidence of an arrangement, the obligation has been fulfilled in accordance with the terms of the licensing agreement, including delivery and acceptance, the amounts are fixed or determinable and collection is reasonably assured. The Company defers recognizing revenue until such time as all criteria are met. Determination of whether or not these criteria have been met may require the Company to make judgments, assumptions and estimates based upon current information and historical experience.

The Company’s royalty revenues consist of fixed fee and running royalty payments.

Royalties from running royalty arrangements can be based on either a percentage of sales or number of units sold for which the Company earns royalties at the time the licensees’ sales occur. The licensees are obligated to provide the Company with quarterly or semi-annual royalty reports and these reports are typically received subsequent to the period in which the licensees underlying sales occurred. The Company’s licensees do not, however, report and pay royalties owed for sales in any given reporting period until after the conclusion of that reporting period. As the Company is unable

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

to estimate the licensees' sales in any given reporting period to determine the royalties due to it, the Company recognizes running royalty revenues based on royalties reported by the licensees during the quarter and when other revenue recognition criteria are met. The Company monitors the receipt of royalty reports to ensure that there is not a disproportionate number of months of revenue in any given fiscal year.

Royalties from fixed fee royalty arrangements may consist of one or more installments of cash. The timing and amount of revenue recognized from each licensee depends upon a variety of factors, including the specific terms of each agreement and the nature of the deliverables and obligations. Where agreements include multiple elements, the Company assesses if the deliverables have standalone value upon delivery, and if so, accounts for each deliverable separately. When multiple-deliverables included in an arrangement are separated into different units of accounting, the arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. WiLAN determines the relative selling price for a deliverable based on its best estimate of selling price ("BESP"). WiLAN determines BESP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include discounting practices, the size and volume of transactions, the customer demographic, the geographic area covered by licenses, price lists, licensing strategy, historical standalone licenses and contracted royalty rates. The determination of BESP is made through consultation with and approval by management, taking into consideration the licensing strategy.

As part of the partnering agreements with third parties, the Company is able to recover certain out-of-pocket expenses and legal costs. These amounts are included in revenue in the years which the aforementioned revenue criteria is met and the amounts become reimbursable.

Revenue arrangements with extended payment terms, where fees are fixed in one or more installments of cash and which contain terms that could impact the amounts ultimately collected, are generally recognized as collection becomes assured.

Stock-based Compensation

The Company has a share option plan ("Option Plan") for certain employees, directors and consultants. The Company accounts for stock options using the fair value method. Compensation expense is measured at the estimated fair value of the options at the date of grant and charged to earnings on a straight-line basis over the vesting periods. The amount expensed is credited to additional paid-in capital in the period. Upon the exercise of stock options, cash received is credited to share capital together with any amount previously credited to additional paid-in capital related to the options exercised.

Deferred Stock Units ("DSUs")

The Company has a DSU plan for certain employees and directors. The DSUs vest immediately and the Company has the right to settle the DSUs in either cash or by the issuance of common shares. The liability for outstanding units and related expense for the DSUs are adjusted to reflect the market value of the common shares at each balance sheet date.

Restricted Share Units ("RSUs")

The Company has a RSU plan for certain employees and directors. Under the RSU plan, units are settled in cash based on the market value of WiLAN's common shares on dates the RSUs vest. The RSUs vest over a three-year period. The accrued liability and related expense for the RSUs are adjusted to reflect the market value of the common shares at each balance sheet date.

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

Income Taxes

The Company uses the liability method of accounting for income taxes. 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 substantively enacted tax rates that are expected to be in effect when the differences are estimated to be reversed. In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The realization of deferred income tax assets is dependent upon the generation of sufficient future taxable income during the periods prior to the expiration of the associated tax attributes.

Cost of Revenue

Cost of revenue includes patent licensing expenses, royalty obligations, staff costs (including stock-based compensation) and other costs incurred in conducting license negotiations as well as litigation, the expenses related to the management of the patent portfolio, contingent partner payments and legal fees and amortization expense related to acquired patents, which are expensed as incurred.

Research and Development (“R&D”)

R&D includes engineering expenses, staff costs (including stock-based compensation) and certain external consultants related to the development efforts, which are expensed as incurred.

Computation of Earnings (Loss) Per Share

Basic earnings/loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings/loss per share is computed using the treasury stock method.

Foreign Currency Translation

The Company’s functional currency is the U.S. dollar; monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at exchange rates prevailing at the balance sheet date. Revenue and expenses are translated at the average rate for the period. The gains and losses from foreign currency denominated transactions are included in foreign exchange gain/loss in the consolidated statement of operations and comprehensive earnings.

The Company enters into foreign exchange forward contracts, from time to time, to manage its exposure to currency rate fluctuations related primarily to future cash inflows and outflows of Canadian dollars. The Company does not hold or issue derivative financial instruments for trading or speculative purposes and it has chosen not to designate them as hedges. Therefore these contracts must be fair valued each quarter. The resulting gain or loss on the valuation of these financial instruments is included in foreign exchange gain/loss in the consolidated statement of operations and comprehensive earnings.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash in bank accounts, term deposits and Guaranteed Investment Certificates (“GICs”) with maturities of three months or less at the date of the investment.

Short-term Investments

Short-term investments are designated as “held to maturity” and accounted for at amortized cost using the effective interest rate method. Short-term investments comprise GICs with maturities of one-year or less at the date of investment and their carrying value approximates their fair value.

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

Loan Receivable

The loan receivable is accounted for at amortized cost using the effective interest rate method.

Property and Equipment

Furniture and equipment is carried at cost less accumulated depreciation. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	term of the lease
Computer equipment and software	3 years
Furniture and equipment	5 years

Patents

Patents include patents and patent rights (hereinafter, collectively "patents") and are carried at cost less accumulated amortization. Amortization is calculated on the straight-line basis over the estimated useful life or the remaining term of the patent (up to 20 years), whichever is less.

Impairment of long-lived assets

The Company reviews long-lived assets ("LLA") such as property and equipment and patent asset groups for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset or asset group may not be recoverable. These events and circumstances may include significant decreases in the market price of an asset or asset group, significant changes in the extent or manner in which an asset or asset group is being used by the Company or in its physical condition, a significant change in legal factors or in the business climate, a history or forecast of future operating or cash flow losses, significant disposal activity, a significant decline in the Company's share price, a significant decline in revenues or adverse changes in the economic environment.

When significant indicators of impairment exist, LLA impairment is tested using a two-step process. The Company performs a cash flow recoverability test as the first step, which involves comparing the estimated undiscounted future cash flows for the asset group to the carrying amount of the asset group. If the net cash flows of the asset group exceed its carrying amount, the asset group is not considered to be impaired. If the carrying amount of the asset group exceeds the net cash flows, there is an indication of potential impairment and the second step of the LLA impairment test is performed to measure the impairment amount. The second step involves determining the fair value of the asset group. Fair value is determined using valuation techniques that are in accordance with U.S. GAAP, including the market approach, income approach and cost approach. If the carrying amount of the asset group exceeds its fair value, then the excess represents the maximum amount of potential impairment that will be allocated to the asset group, with the limitation that the carrying value of each asset cannot be reduced to a value lower than that of its fair value. The total impairment amount allocated is recognized as a non-cash impairment loss.

Goodwill

Goodwill is recorded as at the date of the business combination and represents the excess of the purchase price of acquired businesses over the fair value assigned to identifiable assets acquired and liabilities assumed. Goodwill is not amortized, but is tested for impairment annually or more frequently if events or changes in circumstances indicate the asset might be impaired.

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

The impairment test is carried out in two steps. In the first step, the carrying value of the reporting unit including goodwill is compared with its fair value. When the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not to be impaired and the second step is unnecessary. The Company has one reporting unit.

In the event the fair value of the reporting unit, including goodwill, is less than the carrying value, the implied fair value of the reporting unit's goodwill is compared with its carrying value to measure the amount of any impairment loss. When the carrying value of goodwill in the reporting unit exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

Patent Finance Obligations

Patent finance obligations have maturities beyond one year. Patent finance obligations, at inception, are recorded at their fair value using an estimated risk-adjusted discount rate and the carrying value is at amortized cost using the effective interest rate method.

Business Segment Information

The Company has one operating segment and one reportable segment; Intellectual Property. The Company generates the majority of its revenues in U.S. dollars from several geographic regions; however it has allocated its revenues to the location in which the license originated. Substantially all licenses and revenue are attributable to Canada, as are long-lived assets.

Adoption of accounting pronouncements

In May 2014, the Financial Accounting Standards Board issued ASU 2014-9, "Revenue from Contracts with Customers". The amendments in this Update create Topic 606, Revenue from Contracts with Customers, and supersede the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, Revenue Recognition-Construction-Type and Production-Type Contracts, and create new Subtopic 340-40, Other Assets and Deferred Costs-Contracts with Customers. In August 2015, the Financial Accounting Standards Board issued ASU No. 2015-14, "Revenue from Contracts with Customers" which reflects decisions reached by the Financial Accounting Standards Board at its meeting earlier in the year to defer the effective date to fiscal years beginning after December 15, 2017, with early adoption permitted. The Company is currently assessing the impact this amendment will have on the Company's consolidated financial statements.

In November 2015, the Financial Accounting Standards Board issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes". The amendments in this update eliminate the current requirement for companies to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. Instead, companies will be required to classify all deferred tax liabilities and assets as non-current. The guidance is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted. The guidance will not have an impact on the Company's financial statements since deferred income taxes are already presented as long-term on the balance sheet.

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

3. TAXES

The reconciliation of the expected provision for income tax expense to the actual provision for income tax expense reported in the consolidated statements of operations and comprehensive earnings for the years ended December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Earnings before income taxes	\$ 16,957	\$ 20,624
Expected income tax expense at Canadian statutory income tax rate of 26.5% (2014 - 26.5%)	4,494	5,465
Permanent differences	380	2,471
Effect of change in tax rates	154	-
Foreign withholding taxes paid	496	212
Foreign rate differential	(683)	(918)
Prior year adjustments	(1,180)	343
Increase in valuation allowance	3,260	3,340
Provision for income tax expense	<u>\$ 6,921</u>	<u>\$ 10,913</u>

During the years ended December 31, 2015 and 2014, the reported earnings before income taxes includes foreign losses of \$8,299 and \$7,940, respectively.

The significant components of the Company's deferred income tax assets and liabilities as at December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Tax loss carryforwards	\$ 26,155	\$ 29,730
Scientific research and experimental development ("SR&ED") carryforwards	5,051	5,251
Share issue costs	-	213
Investment tax credits	4,151	4,571
Accounts payable and accrued liabilities	1,291	2,558
Difference between tax and book value of finance obligations	(343)	(693)
Difference between tax and book value of capital and intangible assets	(1,072)	(6,758)
Difference between tax and book value of loan receivable	27	36
Total deferred income tax asset	35,260	34,908
Valuation allowance	(17,583)	(14,323)
Net deferred income tax asset	<u>\$ 17,677</u>	<u>\$ 20,585</u>

Management has assigned probabilities to the Company's expected future taxable income based on significant risk factors, sensitivity analysis and timing of non-capital tax losses. The amount of the deferred income tax asset considered realizable could change materially in the near term, based on future taxable income during the carryforward period. The valuation allowance consists of \$7,165 in Canada and \$10,418 in the US.

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

As at December 31, 2015, the Company had unused non-capital tax losses of approximately \$77,647 (2014 - \$92,396) that are due to expire as follows:

	U.S. Tax Losses	Canadian Tax Losses
2021	\$ 203	\$ -
2022	603	-
2023	616	-
2024	-	-
2025	-	-
2026	-	-
2027	-	-
2028	1	-
2029	9	1
2030	414	9,221
2031	3,026	2,442
2032	2,084	6,518
2033	4,807	30,139
2034	7,629	4,332
2035	3,685	1,917
	<u>\$ 23,077</u>	<u>\$ 54,570</u>

The Company also has investment tax credits of \$5,647, that expire in various amounts from 2017 to 2032, \$22,068 of capital losses carried forward with no expiry date, and SR&ED expenditure pool of \$19,061 (2014 - \$19,813) with no expiry date. 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 had no uncertain income tax positions for the years ended December 31, 2015 and 2014.

The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax provision. In the years ended December 31, 2015 and 2014, there were no interest or penalties included in the income tax provision.

The Company files Canadian and U.S. federal and state income tax returns. The Company is subject to examination by the tax authorities for the tax years ended 2009 through 2014.

4. LOAN RECEIVABLE

On October 19, 2012 (the "Closing Date"), the Company advanced a term loan facility in the amount of \$1,000 to Montebello Technologies LLC (the "Borrower"). The loan bears interest at 15% per annum, compounded annually with a maturity date of October 18, 2017 at which time the outstanding principal and accrued interest is to be fully repaid. The term loan facility is collateralized by a general security agreement.

In accordance with the terms and conditions of the loan agreement the use of the funds is solely and exclusively for the purchase and monetization of patents and for the period commencing on the Closing Date to and including the tenth

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

anniversary of the Closing Date, the Company will be entitled to receive (a) 15% of the first \$10 million in gross revenue and (b) 10% of all gross revenue over the first \$10 million realized by the Borrower from any patents acquired utilizing the term loan facility.

To estimate the fair value, at inception, the Company considered the estimated future cash flow projections using an effective interest rate of 18%.

The carrying value of the term loan facility is as follows:

	As at December 31, 2015	As at December 31, 2014
15% Term loan facility	\$ 1,000	\$ 1,000
Unamortized discount	(70)	(94)
Accrued interest	567	362
Net carrying amount	<u>\$ 1,497</u>	<u>\$ 1,268</u>

5. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value
As at December 31, 2015			
Leasehold improvements	\$ 1,373	\$ 322	\$ 1,051
Computer equipment and software	2,092	1,843	249
Furniture and equipment	872	558	314
	<u>\$ 4,337</u>	<u>\$ 2,723</u>	<u>\$ 1,614</u>
As at December 31, 2014			
Leasehold improvements	\$ 1,373	\$ 184	\$ 1,189
Computer equipment and software	2,825	2,545	280
Furniture and equipment	852	427	425
	<u>\$ 5,050</u>	<u>\$ 3,156</u>	<u>\$ 1,894</u>

The Company purchased property and equipment totaling \$178 during 2015 (2014 - \$422). During 2015, the Company disposed of property and equipment with a cost and accumulated amortization totaling \$891 and \$876, respectively for no proceeds resulting in a loss on disposal of \$15.

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

6. PATENTS

	Cost	Accumulated Amortization	Net Book Value
As at December 31, 2015			
Patents	\$ 357,059	\$ 201,846	\$ 155,213
As at December 31, 2014			
Patents	\$ 312,702	\$ 166,217	\$ 146,485

The Company purchased patents totaling \$46,973 during 2015 (2014 - \$29,198) and recorded amortization expense of \$36,498 (2014 - \$32,738). As of December 31, 2015, the estimated remaining economic useful lives of the patents range from one to thirteen years.

In October 2015, the Company commenced a restructuring of its operations (see Note 13) and as a result undertook a review of its licensing programs to determine those which it would continue to support. The Company concluded that certain licensing programs would be terminated and the carrying value of the patent portfolios associated with these licensing programs were determined to be fully impaired. As a result, the Company recorded a non-cash, pre-tax charge against its patents of \$1,747.

The Company experienced a significant decline in its share price subsequent to the announcement on November 4, 2015 that it had commenced a restructuring of its operations and was lowering its annual dividend. These events were considered by management to be an indicator of impairment, and as a result, a test for impairment of its long-lived assets was performed as of November 30, 2015 (the "Measurement Date"). The patents ("asset groups") were categorized in accordance with their licensing programs. The Company performed the recoverability test using undiscounted cash flows of the asset groups based on the Company's internal forecast and assumptions for each of the licensing programs. Based on this analysis, the Company concluded that the carrying value for the asset groups is recoverable, as the amount did not exceed the undiscounted cash flows as at the Measurement Date and therefore the second step of long-lived asset impairment was not required.

The estimated future amortization expense of patents as of December 31, 2015 is as follows:

Year ending December 31:	Amount
2016	\$ 31,699
2017	21,088
2018	18,023
2019	16,276
2020	15,112
	\$ 102,198

7. GOODWILL

Due to the decline of its market capitalization subsequent to the announcement on November 4, 2015 that it had commenced a restructuring of its operations (see Note 13) and was lowering its annual dividend, the Company concluded that goodwill impairment indicators existed and a goodwill assessment was required. Consequently, the Company

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

performed an impairment assessment by comparing the estimated fair value of the reporting unit, using an income based approach and market based approach, to its carrying value as at November 30, 2015. Under the income based approach, the Company used a discounted cash flow methodology. Under the market based approach, the Company considered its market capitalization in addition to an estimated control premium. The results of this impairment assessment indicated that the estimated fair value of the reporting unit exceeded its carrying amount, therefore, the Company concluded there was no impairment of goodwill.

In performing its annual goodwill impairment assessment as at December 31, 2015, the Company determined there were no material changes to the assumptions underlying the estimated fair value of the reporting unit or its carrying value, therefore, the Company concluded there was no impairment of goodwill as at December 31, 2015..

8. PATENT FINANCE OBLIGATIONS

On June 18, 2013, the Company acquired the right to license certain patents, the consideration for which is to be fully paid on or before June 18, 2023; however, the timing of the payments is subject to the Company entering into certain future license agreements with third-parties. The Company has set up the liability based on its expected payment schedule using a discount rate of 6.0%. The discount rate is an estimate of a risk-adjusted rate giving consideration to rates for revolving debt with no fixed payments.

As at December 31, 2015, the current and long-term portions of this obligation are \$3,072 and \$10,563, respectively.

On September 13, 2013, the Company acquired certain patents and entered into a licensing agreement with the same counter-party. The obligation was based on the quarterly payment stream of \$1,389 using a discount rate of 4.5%. The discount rate is an estimate of a risk-adjusted rate giving consideration to rates for secured term debt with fixed payments over a five year term.

As at December 31, 2015, the current and long-term portions of this obligation are \$5,013 and \$9,332, respectively.

On June 26, 2014, the Company acquired certain patents for future considerations while entering into a licensing agreement with the same counter-party. The obligation was based on an initial payment of \$2,143, a \$12,000 payment in July 2014 and, beginning August 2014, six quarterly payments of \$2,143 using a discount rate of 4.75%. The discount rate is based on interest rates for secured term debt with fixed payments over a two year term.

As at December 31, 2015, the current and long term portions of this obligation are nil.

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

The current and long-term portions of these obligations are reflected as follows:

	Gross	Unamortized Discount	Net Carrying Amount
As at December 31, 2015			
Patent rights finance obligation, due June 18, 2023	\$ 14,000	\$ (364)	\$ 13,636
Patent finance obligation, due August 18, 2018	15,277	(933)	14,344
	29,277	(1,297)	27,980
Current portion			(8,085)
			\$ 19,895
As at December 31, 2014			
Patent finance obligation, due November 26, 2015	\$ 8,572	\$ (217)	\$ 8,355
Patent rights finance obligation, due June 18, 2023	18,000	(609)	17,391
Patent finance obligation, due August 18, 2018	20,833	(1,696)	19,137
	47,405	(2,522)	44,883
Current portion			(17,418)
			\$ 27,465

Payments are expected to be as follows:

2016	\$ 8,556
2017	13,556
2018	7,165
	\$ 29,277

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at December 31, 2015	As at December 31, 2014
Trade payables	\$ 1,318	\$ 2,522
Accrued compensation	3,146	3,883
Accrued litigation costs	2,363	100
Dividends	1,091	5,196
Success fee obligation	2,983	3,736
Accrued contingent partner payments & legal fees	1,140	974
Patent acquisition liability	9,000	-
Accrued other	2,164	2,504
	<u>\$ 23,205</u>	<u>\$ 18,915</u>

The success fee obligation is pursuant to the Company's engagement with a law firm, for which the firm is entitled to a percentage of proceeds actually received from certain license agreements signed by the Company related to certain litigation matters concluded in 2011 in which the firm was representing the Company. Should the Company collect these amounts as contemplated in the agreements, the firm will be entitled to the entire success fee of \$27,986. For the year ended December 31, 2011, the Company accrued the full, undiscounted amount of the success fee obligation.

The current and long term portion of this liability is reflected as follows:

	As at December 31, 2015	As at December 31, 2014
Success fee obligation	\$ 3,639	\$ 7,375
Current portion	(2,983)	(3,736)
	<u>\$ 656</u>	<u>\$ 3,639</u>

10. SHARE CAPITAL
a) Authorized

Unlimited number of common shares.

6,350.9 special preferred, redeemable, retractable, non-voting shares.

An unlimited number of preferred shares, issuable in series.

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

b) Issued and Outstanding

The issued and outstanding common shares of WiLAN, along with equity instruments convertible into common shares, are as follows:

	As at December 31, 2015	As at December 31, 2014
Common shares	120,842,448	120,247,647
Securities convertible into common shares		
Stock options	8,071,056	9,465,372
Deferred stock units (DSUs)	260,398	244,526
	<u>129,173,902</u>	<u>129,957,545</u>

As at December 31, 2015, no preferred shares or special preferred shares were issued or outstanding.

c) Common Shares

	Number	Amount
December 31, 2013	119,909,016	\$ 425,238
Issued on exercise of stock options	423,031	759
Transfer from additional paid-in capital on exercise of options	-	401
Issued on sale of shares under Employee Share Purchase Plan	65,600	171
Repurchased under normal course issuer bid	(150,000)	(532)
December 31, 2014	120,247,647	\$ 426,037
Issued on exercise of stock options	625,201	1,269
Transfer from additional paid-in capital on exercise of options	-	787
Issued on sale of shares under Employee Share Purchase Plan	94,600	131
Repurchased under normal course issuer bid	(125,000)	(443)
December 31, 2015	120,842,448	\$ 427,781

The Company paid quarterly cash dividends as follows:

	2015		2014	
	Per Share	Total	Per Share	Total
1st Quarter	Cdn\$ 0.0500	US \$ 5,183	Cdn \$ 0.0400	US \$ 4,510
2nd Quarter	0.0525	5,005	0.0400	4,339
3rd Quarter	0.0525	5,077	0.0400	4,510
4th Quarter	0.0525	4,817	0.0500	5,366
	<u>Cdn\$ 0.2075</u>	<u>US \$ 20,082</u>	<u>Cdn \$ 0.1700</u>	<u>US \$ 18,725</u>

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

The Company declared quarterly dividends as follows:

	2015		2014	
	Cdn	\$	Cdn	\$
1st Quarter		0.0525		0.0400
2nd Quarter		0.0525		0.0400
3rd Quarter		0.0525		0.0500
4th Quarter		0.0125		0.0500

On May 27, 2014, the Company received regulatory approval to make a normal course issuer bid (the “2014 NCIB”) through the facilities of the Toronto Stock Exchange. Under the 2014 NCIB, the Company was permitted to purchase up to 11,676,510 common shares. The 2014 NCIB commenced on May 29, 2014 and was completed on May 28, 2015. The Company repurchased 125,000 common shares under the 2014 NCIB during the twelve months ended December 31, 2015 for a total of \$329.

The Company records share repurchases as a reduction to shareholders’ equity. A portion of the purchase price of the repurchased shares is recorded as a decrease to additional paid-in capital when the price of the shares repurchased exceeds the average original price per share received from the issuance of Common Stock or an increase to additional paid-in capital when the prices of the shares repurchased is less than the average original price per share received from the issuance of Common Stock. During the year ended December 31, 2015, the cumulative price of the shares repurchased was less than the proceeds received from the issuance of the same number of shares. For the year ended December 31, 2015, \$114 was recorded as an increase to additional paid-in capital. During the year ended December 31, 2014, the cumulative price of the shares repurchased was less than the proceeds received from the issuance of the same number of shares. For the year ended December 31, 2014, \$60 was recorded as an increase to additional paid-in capital.

d) Stock Options

WiLAN has an Option Plan, a DSU plan, an Employee Stock Purchase Plan, and a RSU plan for its directors, employees and consultants. The current RSU plan calls for settlement only in cash. The Option Plan, the DSU plan and the Employee Stock Purchase Plan are considered “security based compensation arrangements” for the purposes of the TSX. The Company is authorized to issue up to an aggregate of 10% of its outstanding common shares under these “security based compensation arrangements”, with the common shares authorized for issuance under the DSU plan limited to 430,000 and under the Employee Purchase Plan limited to 800,000. The options vest at various times ranging from immediate vesting on grant to vesting over a three to four year period. Options generally have a six-year life.

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

Option activity for the years ended December 31, 2015 and 2014 was as follows:

	Options Outstanding				Exercisable Options	
	Number of Options	Price Range		Weighted Average Exercise Price	Number	Weighted Average Exercise Price
December 31, 2013	10,340,968	\$ 1.88	\$ 7.09	\$ 4.62	5,314,786	\$ 4.61
Granted	555,000	3.25	4.23	3.57		
Exercised	(423,031)	1.42	2.53	1.95		
Forfeited	(1,007,565)	3.33	7.06	5.02		
December 31, 2014	9,465,372	\$ 1.42	\$ 7.06	\$ 4.63	6,760,992	\$ 4.83
Granted	-	-	-	-		
Exercised	(625,201)	2.53	2.53	2.53		
Forfeited	(769,115)	2.53	5.52	3.97		
December 31, 2015	8,071,056	\$ 3.12	\$ 7.09	\$ 4.86	7,062,972	\$ 4.97

The Company uses the Black-Scholes model for estimating the fair value of options granted, with the following weighted average assumptions for the options granted in 2014:

Risk free interest rate	1.6%
Volatility	49%
Expected option life (in years)	4.7
Dividend yield	4.6%
Forfeiture rate	8.9%

The weighted average fair value per option granted during the year ended December 31, 2014 was CDN \$1.04.

The intrinsic value of options exercised was CDN \$488 for the year ended December 31, 2015 (2014 – CDN \$610). Intrinsic value is the total value of exercised options based on the price of the Company's common shares at the time of the exercise less the proceeds received from the employees to exercise the options.

The intrinsic value of the exercisable options was nil as at December 31, 2015.

The total fair value of options vested was \$1,634 for the year ended December 31, 2015.

As of December 31, 2015, there was \$268 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 1.03 years.

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

Details of the outstanding options at December 31, 2015 are as follows:

Range of Exercise Prices		Outstanding Options at December 31, 2015	Remaining Term of Options in Years	Weighted Average Exercise Price	Exercisable Options at December 31, 2015	Weighted Average Exercise Price
\$ 3.12	\$ 4.00	917,912	3.85	\$ 3.45	532,752	\$ 3.46
4.01	6.00	6,808,144	1.92	4.94	6,185,220	4.99
6.01	7.09	345,000	1.65	7.00	345,000	7.00
\$ 3.12	\$ 7.09	8,071,056	2.13	\$ 4.63	7,062,972	\$ 4.97

Stock-based compensation expense for the year ended December 31, 2015 was \$847 (2014 - \$2,081). The following provides a summary of the stock-based compensation expense for the years ended December 31, 2015 and 2014:

	2015	2014
Cost of revenue	\$ 460	\$ 840
Research and development	81	61
Marketing, general and administration	306	1,180
	<u>\$ 847</u>	<u>\$ 2,081</u>

e) Deferred Stock Units

The Company has a Deferred Stock Unit (“DSU”) plan as a tool to assist in the retention of selected employees and directors and to help conserve the Company’s cash position. Under the DSU plan, DSUs may be awarded and will become due when the conditions of retention have been met and employment terminated or completed. The value of each DSU is determined in reference to the Company’s common share price, and the DSU value is payable in either cash or shares at the Company’s option.

DSUs issued and outstanding as at December 31, 2015 were 260,398 (2014 – 244,526). The liability recorded in respect of the outstanding DSUs was \$367 as at December 31, 2015 (2014 - \$742). The change in the liability is recorded as compensation expense.

During the year ended December 31, 2015, DSUs were granted to certain directors in lieu of cash for their quarterly fees earned and dividends paid during the year ended December 31, 2015.

f) Restricted Share Units

The Company implemented a Restricted Share Unit (“RSU”) plan for certain employees and directors in January 2007. Under the RSU plan, units are settled in cash based on the market value of WiLAN’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 balance sheet date. The liability recorded in respect of the vested RSUs was \$684 as at December 31, 2015 (2014 - \$1,376). The change in the liability is recorded as compensation expense.

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

RSU activity for the years ended December 31, 2015 and 2014 was as follows:

	<u>Number</u>
December 31, 2013	361,314
Granted	1,251,522
Settled	(115,517)
Forfeited	(203,041)
December 31, 2014	1,294,278
Granted	1,101,021
Settled	(103,155)
Forfeited	(783,112)
December 31, 2015	<u>1,509,032</u>

During the year ended December 31, 2015, 783,112 RSUs (2014 – 203,041) were forfeited as they related to former employees.

g) Per Share Amounts

The weighted average number of common shares outstanding used in the basic and diluted earnings per share (“EPS”) computation was:

	<u>2015</u>	<u>2014</u>
Basic weighted average common shares outstanding	120,713,535	120,103,422
Effect of options	6,636	265,161
Diluted weighted average common shares outstanding	<u>120,720,171</u>	<u>120,368,583</u>

The effect of options totaling 8,071,056 for fiscal 2015 (fiscal 2014 – 8,763,349), were anti-dilutive.

11. FINANCIAL INSTRUMENTS

The Company is exposed to a number of risks related to changes in foreign currency exchange rates, interest rates, collection of accounts receivable and loan receivable, settlement of liabilities and management of cash and cash equivalents.

Fair Value

The Company uses various valuation techniques and assumptions when measuring fair value of its assets and 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 accounting standard establishes a hierarchy that prioritizes fair value measurements based on the types of input used for the various valuation techniques (market approach, income approach and cost approach). The levels of the hierarchy are described below:

Level 1 Inputs — Level 1 includes financial instruments for which quoted market prices for identical instruments are available in active markets.

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

Level 2 Inputs — Level 2 includes financial instruments for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets with insufficient volume or infrequent transactions (less active markets) or model-driven valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data, including market interest rate curves, referenced credit spreads and pre-payment rates.

Level 3 Inputs — Level 3 includes financial instruments for which fair value is derived from valuation techniques including pricing models and discounted cash flow models in which one or more significant inputs are unobservable, including the company's own assumptions. The pricing models incorporate transaction details such as contractual terms, maturity and, in certain instances, timing and amount of future cash flows, as well as assumptions related to liquidity and credit valuation adjustments of marketplace participants.

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:

Cash and cash equivalent, and short-term investments: The carrying amount approximates fair value because of the short maturity of those instruments.

Loan receivable: The fair value is estimated based on currently available market interest rates for instruments with similar terms.

Patent finance obligations: The fair values are estimated based on the quoted market prices for those or similar instruments or on the current rates offered to the Company for debt of similar terms.

Foreign exchange contracts: The fair value of foreign currency contracts is estimated by obtaining quotes from brokers.

The estimated fair values of the Company's financial instruments are as follows:

	Hierarchy Level	As at December 31, 2015		As at December 31, 2014	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	1	\$ 93,431	\$ 93,431	\$ 126,311	\$ 126,311
Short-term investments	1	1,120	1,120	1,336	1,336
Loan receivable	2	1,497	1,497	1,268	1,268
Patent finance obligations	2	27,980	27,980	44,883	44,883
Foreign currency contracts	2	-	-	(732)	(732)

Credit risk

Credit risk is the risk of financial loss to the Company if a licensee or counter-party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, accounts receivable, loan receivable, and foreign exchange forward contracts.

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

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

The Company's loan receivable is a term loan facility which is collateralized by a general security agreement. Management does not expect the borrower to fail to meet its obligations.

The Company's exposure to credit risk with its accounts receivable from licensees is influenced mainly by the individual characteristics of each licensee. The Company's licensees are for the most part, manufacturers and distributors of telecommunications and consumer electronics products primarily located in the United States, Canada, Taiwan, Korea, Japan, Hong Kong and China. Credit risk from accounts receivable encompasses the default risk of the Company's licensees. Prior to entering into licensing agreements with new licensees the Company assesses the risk of default associated with the particular company. In addition, on an ongoing basis, management monitors the level of accounts receivable attributable to each licensee 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.

Three licensees individually accounted for 16%, 12% and 10%, respectively of revenues from royalties for the year ended December 31, 2015 (for the year ended December 31, 2014 – two licensees individually accounted for 15% and 13%, respectively). Management does not believe that there is significant credit risk arising from any of the Company's licensees for which revenue has been recognized. However, should one of the Company's major licensees be unable to settle amounts due, the impact on the Company could be significant. The maximum exposure to loss arising from accounts receivable is equal to their total carrying amounts. At December 31, 2015, three licensees individually accounted for 47%, 15% and 10% of total accounts receivable (December 31, 2014 – one licensee individually accounted for 57% of total accounts receivable).

Financial assets past due

The following table provides information regarding the aging and collectability of the Company's accounts receivable balances as at December 31, 2015:

Current	\$	7,664
Past due 1 - 30 days		435
Past due 31 - 60 days		71
Past due 61 - 90 days		4
Over 91 days past due		273
Less allowance for doubtful accounts		(11)
	<u>\$</u>	<u>8,436</u>

The definition of items that are past due is determined by reference to terms agreed with individual licensees. As at January 28, 2015, approximately \$284 of past due amounts have been collected. None of the amounts outstanding have been challenged by the respective licensees and the Company continues to conduct business with them on an ongoing basis. Accordingly, management has no reason to believe that this balance is not fully collectable in the future.

The Company reviews financial assets past due on an ongoing basis with the objective of identifying potential matters which could delay the collection of funds at an early stage. Once items are identified as being past due, contact is made

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

with the respective company to determine the reason for the delay in payment and to establish an agreement to rectify the breach of contractual terms. At December 31, 2015, the Company had a provision for doubtful accounts of \$11 (2014 - \$138) which was made against accounts receivable where collection efforts to date have been unsuccessful.

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.

At December 31, 2015, the Company had cash and cash equivalents and short-term investments of \$94,551, a credit facility of CDN\$8,000 and accounts receivable of \$8,436 available to meet its obligations.

The Company has a revolving credit facility available in the amount of CDN\$8,000 or the equivalent in U.S. dollars for general corporate purposes and a further CDN\$2,000 for foreign exchange facility. Canadian dollar or U.S. 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 U.S. base rate plus 1.0% per annum. Borrowings under this facility are collateralized by a general security agreement over our cash and cash equivalents, receivables and present and future personal property. As at and during the twelve months ended December 31, 2015, the Company had no borrowings under this facility.

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 only financial instruments that expose the Company to interest rate risk are its cash and cash equivalents and short-term investments. 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 which are considered in excess of day to day requirements on short-term deposit with the Company's banks so that they earn interest. When placing amounts of cash and cash equivalents into short-term investments, the Company only places investments with Canadian chartered banks and ensures that access to the amounts placed can be obtained on short-notice. A one percent increase/decrease in interest rates could have resulted in an approximate increase/decrease to investment income of \$946.

Currency risk

A portion of WiLAN's revenues and operating expenses are denominated in Canadian dollars. Because the Company reports its financial performance in US dollars, WiLAN's operating results are subject to changes in the exchange rate of the Canadian dollar relative to the US dollar. Any decrease in the value of the Canadian dollar relative to the US dollar has an unfavourable impact on Canadian dollar denominated revenues and a favourable impact on Canadian dollar denominated operating expenses. Approximately 7% of the Company's cash and cash equivalents and short term investments are denominated in Canadian dollars and are subject to changes in the exchange rate of the Canadian dollar relative to the US dollar.

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

For the year ended December 31, 2015, the Company had revenues and expenses denominated in Canadian dollars of approximately nil and \$17,912, respectively. Fluctuations in foreign currency rates between the U.S. and Canadian dollars could impact the net exposure approximating \$17,912 and adversely affect net earnings of the Company.

At December 31, 2015, the Company had Canadian dollar denominated cash and cash equivalents and short-term investments, and accounts receivable balances of approximately \$5,394 and \$3 respectively, offset by accounts payable and accrued liabilities totaling approximately \$5,047. Fluctuations in foreign currency rates between the U.S. and Canadian dollars could impact the net exposure approximating \$349 and adversely affect net earnings of the Company.

A ten cent increase/decrease in foreign currency rates between the U.S. and Canadian dollars could have resulted in an approximate increase/decrease to net and comprehensive earnings of \$30.

The Company may manage the risk associated with foreign exchange rate fluctuations by, from time to time, entering into foreign exchange forward contracts and engaging in other hedging strategies. To the extent that WiLAN engages in risk management activities related to foreign exchange rates, it may be subject to credit risks associated with the counterparties with whom it contracts.

The Company's objective in obtaining foreign exchange forward contracts is to manage its risk and exposure to currency rate fluctuations related primarily to future cash inflows and outflows of Canadian dollars. The Company does not use foreign exchange forward contracts for speculative or trading purposes.

As of December 31, 2015, the Company did not hold any foreign exchange forward contracts. For the year ended December 31, 2015 the Company recorded approximately \$2,498 of losses related to its foreign exchange forward contracts.

12. COMMITMENTS AND CONTINGENCIES
a) Operating lease

The Company has lease agreements for office space and equipment with terms extending to 2023. The aggregate minimum annual lease payments under these agreements are as follows:

	Amount
2016	\$ 580
2017	453
2018	368
2019	348
2020	348
2021 and thereafter	1,043
	<u>\$ 3,140</u>

b) Other

In connection with the acquisition of certain patents and patent rights, the Company has agreed to future additional payments to the former owners of the respective patents or patent rights, based on future revenues (as defined in the respective agreements) generated as a result of licensing the respective patents or patent portfolios. For the year ended

Wi-LAN Inc.

NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

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

December 31, 2015, partner royalties totaled \$669 (year ended December 31, 2014 – \$974) of which \$538 (as at December 31, 2014 - \$974) remains outstanding as at December 31, 2015.

On December 16, 2013, the Company engaged the services of an external law firm to represent the Company in certain patent infringement litigations. Pursuant to this engagement, in consideration for a discounted fixed fee arrangement, the Company has agreed to pay the firm a success fee which is based on a percentage of proceeds received (as defined in the respective agreements) pursuant to future license agreements resulting from these patent infringement litigations. As at December 31, 2015, the success fees are not yet determinable because the total proceeds have not yet been determined and therefore no amounts have been accrued.

13. RESTRUCTURING CHARGES

In October 2015, the Company undertook a restructuring plan which included a workforce reduction of approximately 30%. The components of the restructuring charge included \$1,272 for termination costs related to the affected employees, and \$30 for lease obligations.

The following table summarizes the details of the Company's restructuring charges and related reserves:

	<u>Workforce Reduction</u>	<u>Lease Obligation</u>	<u>Total</u>
Charges	\$ 1,272	\$ 30	\$ 1,302
Cash payments	(760)	(9)	(769)
Balance of provision as at December 31, 2015	<u>\$ 512</u>	<u>\$ 21</u>	<u>\$ 533</u>

14. SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2015</u>	<u>2014</u>
Net interest received in cash, included in operations	\$ (207)	\$ (352)
Cash taxes paid	3,623	5,045
Patents acquired under deferred financing arrangement	-	26,482
Patent acquisition liability	9,000	-

15. RELATED-PARTY TRANSACTION

Dr. Michel Fattouche, a member of the Company's Board of Directors, has provided consulting services to the Company. For the year ended December 31, 2015, consulting services have totaled \$100 (year ended December 31, 2014 – \$76) all of which had been paid as at year end.

DIRECTORS

W. Paul McCarten (1,2)
Chairman of the Board and of the
Compensation Committee

James Skippen
President & Chief Executive Officer

Roxanne Anderson (3,4)

Robert Bramson (3)
Chairman of the Governance Committee

Dr. Michel Fattouche (3)

John Gillberry (2,4)
Chairman of the Nominating Committee

Ron Laurie (1,2)

Richard Shorkey
Chairman of the Audit Committee (1,4)

*Member of (1) Compensation Committee, (2) Nominating
Committee, (3) Governance Committee, (4) Audit Committee*

SENIOR OFFICERS

James Skippen
President & Chief Executive Officer

Shaun McEwan
Chief Financial Officer

Michael Vladescu
Chief Operating Officer

Prashant Watchmaker
Senior Vice-President, General Corporate Counsel
and Secretary

STOCK EXCHANGE LISTINGS

TORONTO STOCK EXCHANGE
Symbol: WIN

NASDAQ GLOBAL SELECT MARKET
Symbol: WILN

TRANSFER AGENT

COMPUTERSHARE INVESTOR SERVICES INC

PUBLIC FILINGS – SEDAR & EDGAR

WiLAN's publicly filed documents are available on:
SEDAR at www.sedar.com: and on
EDGAR at www.sec.gov/edgar.shtml.

AUDITORS

PRICEWATERHOUSECOOPERS LLP

COMMERCIAL BANKERS

ROYAL BANK OF CANADA
CANADIAN IMPERIAL BANK OF COMMERCE

HEAD OFFICE

303 Terry Fox Drive, Suite 300
Ottawa, ON Canada
K2K 3J1
Tel: 1.613.688.4900
Fax: 1.613.688.4894

INVESTOR RELATIONS

DAVE MASON
Tel: 1.613.688.1693
Fax: 1.613.688.4894

Wi-LAN Inc.
303 Terry Fox Drive, Suite 300
Ottawa, ON Canada
K2K 3J1

Tel: 1.613.688.4900
Fax: 1.613.688.4894
www.wilan.com

This page intentionally left blank

WiLAN