Quarterhill Inc.

2020 First Quarter

Unaudited Condensed Consolidated Interim Financial Statements

Quarterhill Inc.
Condensed Consolidated Interim Statements of Loss
(Unaudited)
(in thousands of Canadian dollars, except share and per share amounts)

	Note	Three months ended March 31, 2020	2019
Revenues			
License		$ **10,729**	$ 37,199
Systems		**8,003**	7,448
Services		**1,043**	859
Recurring		**6,247**	7,458
		26,022	52,964
Direct cost of revenues			
License		**5,740**	17,026
Systems		**5,980**	5,043
Services		**867**	386
Recurring		**2,467**	3,861
		15,054	26,316
Gross profit		**10,968**	26,648
Operating expenses			
Depreciation of right-of-use assets	7	**275**	517
Depreciation of property, plant and equipment		**267**	503
Amortization of intangibles		**5,758**	6,955
Selling, general and administrative expenses		**8,203**	8,307
Research and development expenses		**1,896**	1,520
Special charges	12	**213**	1,724
		16,612	19,526
Results from operations		**(5,644)**	7,122
Finance income		**(222)**	(269)
Finance expense		**106**	107
Foreign exchange (gain) loss		**(499)**	322
Other income		**(378)**	(98)
(Loss) income before taxes		**(4,651)**	7,060
Current income tax expense		**1,237**	5,420
Deferred income tax (recovery) expense		**(776)**	1,687
Income tax expense		**461**	7,107
Net loss		$ **(5,112)**	$ (47)
Net loss per share	13		
Basic		**$(0.04)**	$(0.00)
Diluted		**$(0.04)**	$(0.00)

See accompanying notes to these unaudited condensed consolidated interim financial statements

Quarterhill Inc.

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

(Unaudited)

(In thousands of Canadian dollars)

	Three months ended March 31,			
	2020		2019	
Net loss	**$**	**(5,112)**	$	(47)
Other comprehensive income (loss) which may be reclassified to net loss:				
Foreign currency translation adjustment		**21,094**		(4,599)
Comprehensive income (loss)	**$**	**15,982**	$	(4,646)

See accompanying notes to these unaudited condensed consolidated interim financial statements

Quarterhill Inc.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
(In thousands of Canadian dollars)

As at	Note	March 31, 2020	December 31, 2019	January 1, 2019
Current assets				
Cash and cash equivalents		$ **101,596**	$ 87,870	$ 87,029
Short-term investments		**1,550**	1,550	1,551
Restricted short-term investments		**—**	—	2,995
Accounts receivable (net of allowance for doubtful accounts)		**24,535**	42,925	14,719
Other current assets		**351**	108	124
Unbilled revenue	5	**8,883**	8,965	5,432
Income taxes receivable		**99**	137	270
Inventories (net of obsolescence)	6	**8,653**	8,570	8,114
Prepaid expenses and deposits		**2,349**	2,242	2,927
		148,016	152,367	123,161
Non-current assets				
Accounts receivable		**4,076**	3,846	565
Right-of-use assets	7	**4,404**	4,502	3,972
Property, plant and equipment		**2,975**	2,826	3,614
Intangible assets		**89,833**	89,534	119,015
Investment in joint venture	8	**5,952**	5,233	5,203
Deferred income tax assets		**36,538**	33,270	36,948
Goodwill		**35,911**	32,977	34,446
		179,689	172,188	203,763
TOTAL ASSETS		$ **327,705**	$ 324,555	$ 326,924
Liabilities				
Current liabilities				
Bank indebtedness		$ **2,379**	$ 4,026	$ 3,537
Accounts payable and accrued liabilities		**15,047**	25,755	24,644
Income taxes payable		**254**	203	—
Current portion of lease liabilities	7	**1,022**	998	1,120
Contingent liabilties	9	**—**	—	1,265
Current portion of deferred revenue	5	**9,834**	8,638	6,357
Current portion of long-term debt		**65**	59	407
		28,601	39,679	37,330
Non-current liabilities				
Deferred revenue	5	**1,617**	1,513	1,954
Long-term lease liabilities	7	**3,364**	3,550	2,604
Long-term debt		**288**	271	236
Deferred income tax liabilities		**3,121**	3,297	5,905
		8,390	8,631	10,699
TOTAL LIABILITIES		**36,991**	48,310	48,029
Shareholders' equity				
Capital stock	10	**570,577**	570,553	570,553
Contributed surplus	10	**31,955**	32,011	31,252
Accumulated other comprehensive income		**32,030**	10,936	22,112
Deficit		**(343,848)**	(337,255)	(345,022)
		290,714	276,245	278,895
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ **327,705**	$ 324,555	$ 326,924

See accompanying notes to these unaudited condensed consolidated interim financial statements

Quarterhill Inc.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
(In thousands of Canadian dollars)

	Note	Three months ended March 31, 2020	Three months ended March 31, 2019
Cash generated from (used in) Operations			
Net loss		**$ (5,112)**	$ (47)
Non-cash items			
Stock-based compensation (recovery) expense		**(56)**	241
Depreciation of right-of-use assets		**275**	517
Interest expense on lease liabilities		**56**	49
Depreciation and amortization		**6,025**	7,457
Foreign exchange loss (gain)		**266**	(82)
Equity in earnings from joint venture		**(378)**	(98)
Gain on disposal of assets		**(4)**	—
Deferred income tax (recovery) expense		**(776)**	1,687
Accrued investment income		**110**	—
Embedded derivatives		**(222)**	93
Changes in non-cash working capital balances			
Accounts receivable		**19,683**	(35,892)
Unbilled revenue		**736**	(477)
Income taxes receivable		**43**	267
Inventories		**612**	28
Prepaid expenses and deposits		**88**	150
Deferred revenue		**302**	1,094
Accounts payable and accrued liabilities		**(12,575)**	8,990
Income taxes payable		**18**	84
Cash from (used in) operations		**9,091**	(15,939)
Financing			
Dividends paid	10	**(1,481)**	(1,502)
Bank indebtedness		**(1,812)**	96
Payment of lease liabilities		**(317)**	(451)
Repayment of long-term debt		**(107)**	(32)
Common shares issued from Performance Stock Units		**24**	—
Cash used in financing		**(3,693)**	(1,889)
Investing			
Proceeds from sale of property, plant and equipment		**4**	—
Purchase of property and equipment		**(371)**	(210)
Purchase of intangibles		**(17)**	(27)
Cash used in investing		**(384)**	(237)
Foreign exchange gain (loss) on cash held in foreign currency		**8,712**	(1,670)
Net increase (decrease) in cash and cash equivalents		**13,726**	(19,735)
Cash and cash equivalents, beginning of period		**87,870**	87,029
Cash and cash equivalents, end of period		**$ 101,596**	$ 67,294

See accompanying notes to these unaudited condensed consolidated interim financial statements.

Quarterhill Inc.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Unaudited)
(In thousands of Canadian dollars)

	Note	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
US$, US GAAP - January 1, 2019		$ 419,111	$ 22,957	$ 16,243	$ (253,443)	$ 204,868
Balance - January 1, 2019		$ 570,553	$ 31,252	$ 22,112	$ (345,022)	$ 278,895
Net loss		–	–	–	(47)	(47)
Other comprehensive loss		–	–	(4,599)	–	(4,599)
Stock-based compensation expense		–	241	–	–	241
Dividends declared	10	–	–	–	(1,502)	(1,502)
Balance - March 31,2019		$ 570,553	$ 31,493	$ 17,513	$ (346,571)	$ 272,988
US$, US GAAP - January 1, 2020		$ 419,111	$ 23,527	$ 16,797	$ (247,391)	$ 212,044
US$, IFRS adjustments					$ (85)	$ (85)
US$, IFRS - January 1, 2020		$ 419,111	$ 23,527	$ 16,797	$ (247,476)	$ 211,959
Balance - January 1, 2020		$ 570,553	$ 32,011	$ 10,936	$ (337,255)	$ 276,245
Net loss		–	–	–	(5,112)	(5,112)
Other comprehensive income		–	–	21,094	–	21,094
Stock-based compensation expense		–	(56)	–	–	(56)
Common shares issued from performance stock units	10	24	–	–	–	24
Dividends declared	10	–	–	–	(1,481)	(1,481)
Balance - March 31,2020		$ 570,577	$ 31,955	$ 32,030	$ (343,848)	$ 290,714

See accompanying notes to these unaudited condensed consolidated interim financial statements.

1. NATURE OF BUSINESS

Quarterhill Inc. (“Quarterhill” or the “Company”), formerly “Wi-LAN Inc.”, is a Canadian company domiciled in Canada. The address of the Company's registered office is 30 Duke Street West, Suite 604, Kitchener, Ontario, N2H 3W5. The Company's shares are listed under the symbol “QTRH” on the Toronto Stock Exchange (the “TSX”) and the United States OTCQX Best Market (the “OTCQX”) under the symbol “QTRHF”. Quarterhill is focused on the disciplined acquisition, management and growth of companies in dedicated technology areas including vertical enterprise software and solutions, intelligent industrial systems and innovation and licensing.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
Statement of compliance
These condensed consolidated interim financial statements of the Company were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements represent the Company’s first presentation of its results and financial position under IFRS and have been prepared in accordance with International Accounting Standards (“IAS”) 34, “Interim Financial Reporting” and IFRS 1, “First-Time Adoption of IFRS.” Subject to certain transition elections disclosed in Note 18, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2019, and throughout all periods presented as if these policies had always been in effect.

The Company’s condensed consolidated interim financial statements were previously prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). These condensed consolidated interim financial statements should be read in conjunction with the Company’s US GAAP annual financial statements for the year ended December 31, 2019. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 18. This note includes reconciliations of equity and comprehensive income of the comparative periods and of equity at the date of transition reported under US GAAP to IFRS for those periods.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 21, 2020.

Basis of measurement
The condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain assets and liabilities that are measured at their estimated fair value on a recurring basis on transition to IFRS as explained in Note 18.

Functional and presentation currency
The condensed consolidated interim financial statements are presented in Canadian dollars, which differs from the Company’s functional currency of US dollars.

On January 1, 2020 the Company changed its presentation currency from US dollar to Canadian dollar to facilitate comparisons with its industry peers, and better meet the needs of the Canadian investor. This change was applied retrospectively to all periods presented in the condensed consolidated interim financial statements.

The Company follows the requirements as prescribed in IAS 21, *The Effects of Change in Foreign Exchange Rates* to translate to the presentation currency. The assets and liabilities of the Consolidated entity are translated to Canadian dollars at the exchange rate as at the reporting date, and the income and expenses are translated to Canadian dollars at the monthly average exchange rates of the reporting period.

Foreign currency differences arising from the translation are recognized in other comprehensive income ("OCI"'). Retained earnings and historical equity transactions existing as at January 1, 2019 were translated at the prevailing exchange rate at that date.

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

Key estimates, including judgments and uncertainties

Revenue recognition

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

Leases

Management uses judgment in determining whether a contract contains a lease, the interest used to discount the present value of fixed payments in accounting for the lease liability and corresponding Right-of-use (ROU) asset, and in determining whether it is likely that a lease term will be extended.

Asset impairments and impairment reversals

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

As a result of the COVID - 19 pandemic an assessment of the recoverable amount of the Company's cash-generating units ("CGUs") compared to their carrying values was performed based on updated cash flow projections. The cash flows are management's best projections based on current and anticipated market conditions covering a five-year period. However, these projections are inherently uncertain due to the recent and fluidly evolving impact of the COVID - 19 pandemic. At present, recoverable amounts for all CGUs exceed their carrying values.

Other

Other estimates and assumptions are made in determining the recoverability of financial assets and equity investments, accounting for income tax and the recoverability of deferred tax assets, and determination of indicators of impairment for non-financial assets as well as the determination for indicators of recoverability for assets for which an impairment was previously recognized.

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

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

Foreign Currency Transactions
Monetary assets and liabilities denominated in foreign currencies are translated into the applicable functional currency of the entity at exchange rates prevailing at the 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 profit or loss.

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

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

Restricted Short-Term Investments
Restricted short-term investments are amounts held specifically as collateral for bank guarantees that the Company has entered into for security against potential procedural costs pursuant to a court order regarding patent infringement whereby the Company is the plaintiff. As at March 31, 2020, the Company had no bank guarantees outstanding that required collateral.

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

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

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

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

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

Intangible Assets
Intangibles consist of finite-lived patents, developed software, customer relationships and brand.

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

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

Fair value of the developed software and brand is determined based on the present value of the estimated net future income-producing capabilities.

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

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

Patents	up to 20 years
Developed software	5 years
Customer relationship and backlog	7 years
Brand	7 years

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

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

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

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

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

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

Revenue Recognition
The Company recognizes revenue, at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, when control of the promised goods or services is transferred to the customer. Revenue represents the amount that the Company expects to receive for products and services in its contracts with customers, net of sales taxes. The cumulative effects of revisions to contract revenues and estimated completion costs are recorded in the accounting period in which the amounts become evident and can be reasonably estimated. These revisions can include such items as the effects of change orders and claims, warranty claims, liquidated damages or other contractual penalties and adjustments for contract closeout settlements. The Company reports revenue under the following categories: license, systems, services, and recurring. The following

paragraphs describe the specific revenue recognition policies for each of the Company's significant types of revenue by segment.

Licensing segment
Patent licenses are considered a promise to provide the right to use specific intellectual property ("IP") to the customer. Revenue from contracts containing no sales or usage-based royalties is recognized when the patent right is effective. Payment is either due immediately or within 30 days.

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

Revenue related to right to use specific IP are recognized as license revenues while revenue related to sales or usage-based royalties are recognized as recurring revenues.

Intelligent Systems segment
Contracted projects
The majority of sales of integrated systems are delivered as contracted projects with contract terms of less than 1 year to more than 5 years. The customer controls all of the work in progress as intelligent transportation systems are being developed and installed. The Company's contract types include fixed price and time and materials contracts. The transaction price includes amounts expected to be received in exchange for the goods or services plus any contract amendments that are expected to be received. Payment terms are based on completion of milestones throughout the project life for fixed price contracts and monthly for time and materials projects.

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

Installations
Revenue for the installation obligations of fixed price contracts is recognized over time using the input method based on costs incurred relative to the total expected costs to complete each project. Control is transferred to the customer over time as the customer controls the work in progress and revenue earned from the contract is recognized over time based on the extent of progress towards completion of the performance obligation. The company reviews and updates the contract related estimates regularly. Determining the contract costs and estimates to complete requires significant judgment. Adjustments are recognized in profit on contracts under the cumulative catch-up method in the period the adjustment is identified. If the Company anticipates the estimated remaining costs to completion will exceed the value allocated to the performance obligation, the resulting loss is recognized immediately.

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

The following revenue streams are recognized as recurring revenues.

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

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

Enterprise Software segment
Software projects
The Enterprise software segment provides bolt-on software products to enhance enterprise resource planning ("ERP") - based asset maintenance systems. These contracts contain up to five separate performance obligations: the license, implementation services, training services, post-contract customer support ("PCS") and software maintenance. Customers obtain access to licenses through online software and each additional component is added incrementally at the stand-alone market price which represents the price allocated to each performance obligation. Payment for licenses and services is typically received 30 to 60 days after control has transferred to the customer.

License revenue
When selling the licensed software, the Company is providing the customer with the right to use its intellectual property and does not provide significant modifications or updates to the provided license, therefore revenue is recognized at the point in time when the customer gains control of the license, typically at contract inception.

Services revenue
Implementation and training services and PCS are recognized over the time the relevant services are delivered using a time based method based on time lapsed as this best represents the value transferred to the customer based on the specifications for each within the contract.

Recurring revenue
Software maintenance revenue is also recognized over time using a time-based method as this best represents the value transferred to the customer over the term of the contract.

Financial Instruments
Recognition and initial measurement
Financial assets and liabilities, with the exception of accounts receivable and unbilled revenues that do not have a significant financing component, are initially recognized at fair value plus or minus directly attributable transaction costs as appropriate, except for financial assets at fair value through profit and loss (FVTPL) , for which transaction costs are expensed. Accounts receivable and unbilled revenues that do not have a significant financing component are initially measured at the transaction price determined in accordance with IFRS 15. Accounts receivable are recognized on the date which they originate and all other financial instruments are recognized when the Company becomes party to the contractual provisions of the instrument.

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

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

Financial liabilities
The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities consist of bank indebtedness, accounts payable and accrued liabilities, contingent liabilities and long-term debt. Bank indebtedness, accounts payable and accrued liabilities and long-term debt are classified as amortized cost and contingent liabilities are classified as FVTPL.

Subsequent measurement
Subsequent to initial recognition, financial assets and liabilities classified as amortized cost are measured using the effective interest method, less, in the case of financial assets, any impairment. Interest income and expense, foreign exchange gains and losses, impairment and any gain or loss on de-recognition are recognized in profit and loss. Contingent liabilities are reported at fair value and the gain or loss recognized in profit and loss as a special charge.

Derecogniton
The Company derecognizes a financial asset when the rights to receive cash flows from the financial asset have expired or has been transferred and the Company has transferred substantially all risks and rewards of ownership.

The Company dercognizes a financial liability when the contractual obligations are discharged, canceled or expire.

Derivative financial instruments
The Company uses derivative financial instruments to reduce exposure to fluctuation in foreign currency exchange rates. The Company may enter into foreign exchange contracts to hedge anticipated cash flows denominated in a foreign currency. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

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

Fair Value Measurement of Financial Instruments
The Company uses various valuation techniques and assumptions when measuring fair value of its financial assets and financial liabilities. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique.
The Company's fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are:

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

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

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

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

Derivative financial instruments: The fair value of embedded derivatives is measured using a market approach, based on the difference between the quoted forward exchange rate as of the contract date and quoted forward exchange rate as of the reporting date. The fair value of forward exchange contracts is determined using the quoted forward exchange rates at the reporting date.

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

The carrying amount of the Company's other financial assets and liabilities, including cash and cash equivalents, short-term investments, restricted short-term investments, accounts receivable, unbilled revenue and accounts payable and accrued liabilities approximate their fair value due to the short-term maturity of these items. The fair value of the bank indebtedness and long-term debt approximate the carrying amount since these debt instruments have floating interest rates.

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

Research and Development
Research costs are included in profit and loss in the periods in which they are incurred. Software development costs are deferred and amortized when technological feasibility has been established, or otherwise are expensed as incurred.

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

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

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

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

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

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

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

The lease payments associated with short term and low value leases are recognized as an expense on a straight-line basis over the lease term as the Company has elected the relevant practical expedients. Short term leases are those with a lease term of 12 months or less. Low value asset leases are those leases where the asset being leased when new has a value of less than $10,000 USD.

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

Income Taxes, Deferred Taxes and Investment Tax Credits
Income taxes comprise current and deferred income taxes. Income taxes are recognised in the consolidated statements of operations, except to the extent that they relate to items recognized directly in equity or in OCI, in which case, the income taxes are also recognised directly in equity or in OCI.

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

Deferred income tax assets and liabilities are determined based on the difference between the accounting and tax bases of the assets and liabilities and measured using the enacted tax rates that are expected to be in effect when the differences are estimated to be reversed. 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.

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

3. FUTURE ACCOUNTING PRONOUNCEMENTS

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

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)
In January 2020, the IASB issued amendments to IAS 1, Presentation of Financial Statements to clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and is unaffected by expectations about whether or not an entity will exercise their right to defer settlement of a liability. The amendments further clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments. These amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The adoption of these amendments is not expected to have a significant impact on the consolidated financial statements.

4. FINANCIAL INSTRUMENTS

Derivatives consists of the embedded derivative portion of the unearned revenue of US dollar denominated sales contracts in the Company's Canadian, Chilean and Mexican subsidiaries and foreign exchange forward contracts. The fair value of embedded derivatives is measured using a market approach, based on the difference between quoted forward exchange rates as of the contract date and quoted forward exchange rates as of the reporting date. Contingent liabilities are carried at fair value which is calculated using management estimates or, where appropriate, a Monte Carlo simulation model. The carrying amount of the Company's other financial assets and liabilities, including cash and cash equivalents, short-term investments, restricted short-term investments, accounts receivable, unbilled revenue and accounts payable and accrued liabilities approximate their fair value due to the short-term maturity of these items. The fair value of the bank indebtedness and long-term debt approximate the carrying amount since these debt instruments have floating interest rates.

Inputs used to calculate the fair value of derivative financial instruments and long-term debt are classified as level 2 inputs, inputs used to calculate contingent liabilities are classified as level 3 inputs, and inputs for all other financial instruments for which fair value approximates carrying value are classified as Level 1 inputs.

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

5. UNBILLED REVENUE AND DEFERRED REVENUE

Significant changes in unbilled revenue and deferred revenue balances during the three months ended March 31, 2020 are as follows:

As at		**March 31, 2020**		December 31, 2019		$ Change		January 1,2019
Unbilled revenue	**$**	**8,883**	$	8,965	$	(82)	$	5,432
Deferred revenue - current		**(9,834)**		(8,638)		(1,196)		(6,357)
Deferred revenue - non-current		**(1,617)**		(1,513)		(104)		(1,954)
Net contract assets (liabilities)	**$**	**(2,568)**	$	(1,186)	$	(1,382)	$	(2,879)

Revenue recognized for the three months ended March 31, 2020 that was included in deferred revenue at the beginning of the period was $3,126 (2019 - $2,168).

6. INVENTORIES

Inventories consist of the following at March 31, 2020, December 31, 2019 and January 1, 2019:

As at		**March 31, 2020**		December 31, 2019		January 1, 2019
Raw materials	**$**	**1,179**	$	1,182	$	992
Original equipment manufacturer materials		**3,269**		3,948		4,258
Work in process		**1,402**		1,291		1,108
Finished goods		**2,803**		2,149		1,756
	$	**8,653**	$	8,570	$	8,114

For the three months ended March 31, 2020, the Company recorded non-cash, pretax charges of $38 (2019 - $61) relating to the write down of inventory.

7. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company has leases for corporate offices, production facilities, and certain equipment. These leases have remaining lease terms ranging from 9 months to 9.1 years, some of which include options to extend the leases for up to 10 years or to terminate the lease with notice periods of 90 days to 6 months or at predetermined dates as specified within the lease contract. The Company has classified the assets related to these leases as right-of-use assets and the liabilities associated with the future lease payments under these leases as lease liabilities.

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

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

	Buildings	Office Equipment	Total
Cost			
Balance, January 1, 2019	$ 3,939	$ 33	**$ 3,972**
Additions	2,128	—	**2,128**
Foreign currency translation	(213)	(1)	**(214)**
Balance, December 31,2019	$ 5,854	$ 32	**$ 5,886**
Additions	—	—	**—**
Foreign currency translation	249	3	**252**
Balance, March 31,2020	$ 6,103	$ 35	**$ 6,138**
Accumulated Depreciation			
Balance, January 1, 2019	—	—	**—**
Additions	1,388	15	**1,403**
Foreign currency translation	(19)	—	**(19)**
Balance, December 31,2019	$ 1,369	$ 15	**$ 1,384**
Additions	272	3	**275**
Foreign currency translation	74	1	**75**
Balance, March 31,2020	$ 1,715	$ 19	**$ 1,734**
Net Book Value			
Balance, January 1, 2019	3,939	33	**3,972**
Balance, December 31,2019	4,485	17	**4,502**
Balance, March 31,2020	4,388	16	**4,404**

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

Balance, January 1, 2019	$ 3,724
Additions	2,080
Interest	231
Payments	(1,389)
Foreign currency translation	(98)
Balance, December 31,2019	4,548
Additions	—
Interest	56
Payments	(317)
Foreign currency translation	99
Balance, March 31,2020	$ 4,386

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

		As at March 31, 2020
Maturities of lease liabilities:		
Remainder of 2020	$	**935**
2021		**1,173**
2022		**1,045**
2023		**425**
2024		**305**
Thereafter		**1,247**
Total lease payments		**5,130**
Less imputed interest		**744**
Total	$	**4,386**
Comprised of:		
Current portion of lease liabilities	$	**1,022**
Long-term lease liabilities		**3,364**
Lease liabilities as of March 31, 2020	$	**4,386**

8. INVESTMENT IN JOINT VENTURE

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

IRD had sales to XPCT of $nil during the three months ended March 31, 2020 (2019 - $nil). At March 31, 2020 accounts receivable from XPCT was $56 (December 31, 2019 - $33, January 1, 2019 -$23).

		As at March 31, 2020		As at March 31, 2019		As at December 31,2019
Carrying value, beginning of the period	$	**5,233**	$	5,203	$	5,203
Currency gain (loss) on financial statement translation		**341**		18		(326)
Company's share of earnings		**378**		98		873
Dividend received		**—**		—		(517)
Carrying value, end of period	$	**5,952**	$	5,319	$	5,233

The Company's ownership interest comprises a 50% share of net assets and net earnings of XPCT as well as purchase price adjustments to allocate fair values assigned to certain assets and liabilities at the time of acquisition.

As at March 31, 2020, IRD has an outstanding loan guarantee in the amount of 10.0 million yuan (approximately $2.0 million) for 50% of a bank loan to XPCT representing IRD's proportionate interest in this entity.

9. CONTINGENT LIABILITIES

In connection with the acquisition of VIZIYA on May 4, 2017, subject to the terms of the acquisition agreement, the Company agreed to pay the former owners of VIZIYA up to an additional $11,900 if VIZIYA achieved certain earnings before interest, taxes and amortization ("Eligible Earnings") targets for the period from April 1, 2017 to July 31, 2019. Additionally, if VIZIYA achieved cumulative Eligible Earnings during that period exceeding $11,900, the Company would be required to pay 50% of that excess Eligible Earnings as additional contingent consideration until that cumulative Eligible Earnings reach a cap of $24,000. In 2019, the Company determined that VIZIYA did not achieve the minimum amount of cumulative Eligible Earnings and adjusted its accrual for contingent consideration to $nil. The former shareholders of VIZIYA have initiated arbitration of the Eligible Earnings calculation as permitted pursuant to the terms of the acquisition agreement. The results of any arbitration may, or may not, result in a determination that the former shareholders may be entitled to receive some or all of this earn out obligation under the acquisition agreement.

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

10. SHARE CAPITAL

The share capital of the company consists of the following:

		Issued and Outstanding		
	Authorized	**March 31, 2020**	December 31, 2019	January 1, 2019
common shares	unlimited	**118,857,433**	118,817,466	118,817,466
special preferred, redeemable, retractable, non-voting shares	6,350.9	**Nil**	Nil	Nil
preferred shares, issuable in series	unlimited	**Nil**	Nil	Nil

Common Shares Issued and Outstanding	
January 1, 2020	118,817,466
Conversion of PSU to common shares	39,967
March 31, 2020	**118,857,433**

Dividends Declared and Paid	**Q1, 2020**	Q1, 2019
per common share	**$0.125**	$0.125
amount	**$1,481**	$1,502

11. EMPLOYEE COMPENSATION

	Three months ended March 31,	
	2020	2019
Salaries and Benefits	**$ 10,997**	$ 10,865
Stock-based compensation	**(56)**	241
	$ 10,941	$ 11,106

12. SPECIAL CHARGES

Special charges within the interim condensed consolidated statements of loss include costs and recoveries that relate to certain restructuring initiatives that the Company has undertaken from time to time, acquisition-related costs and recoveries and other charges. During the three months ended March 31, 2020, the Company incurred restructuring costs of $213 (2019 - $1,724). The current period's costs related to workforce reduction at the Company's corporate office while costs incurred in the prior year comparative period took place within the licensing segment and included a reduction in its workforce as well as its operating lease facilities.

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

13. LOSS PER SHARE

Basic loss per share is calculated by dividing Net loss by the weighted average number of common shares outstanding during the period.

Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potential dilutive stock options to common shares.

		Three months ended March 31,	
		2020	2019
Numerator:			
Net loss	$	**(5,112)**	(47)
Denominator:			
Weighted average number of common shares outstanding for basic EPS		**118,857,433**	118,817,466
Adjustment for stock options		**1,808**	—
Weighted average number of common shares outstanding for diluted EPS		**118,859,241**	118,817,466
Basic loss per share		**(0.04)**	(0.00)
Diluted loss per share		**(0.04)**	(0.00)

14. SEGMENT REPORTING

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. The operating results of all operating segments are reviewed regularly by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assessing their performance. The Company's chief operating decision maker is the Acting Chief Executive Officer. The Company operates in three reportable segments described below.

Licensing – The Licensing segment includes companies that count licensing as their principal business activity. Current patent portfolios held by this segment include patents relating to 3D television technologies, automotive headlight assemblies, phased loop semiconductor licensing, microcontrollers applicable to safety-critical aerospace, semiconductor manufacturing and packaging technologies, medical, industrial and automotive applications, computer gaming, medical stent technologies, intelligent personal assistant technologies, CMOS image sensors, enhanced image processing, streaming video technologies, building automation, non-volatile flash memory, other memory technologies, semiconductor clocking technologies, smart meter monitoring, LED lighting technologies and many other technologies.

Intelligent Systems – The Intelligent systems segment includes companies providing systems and services focused on the interconnection of devices for mobile applications. The first investment in this segment is IRD, one of the world’s leading providers of integrated systems and solutions for the global Intelligent Transportation Systems industry ("ITS industry"). The ITS industry is focused on improving the Intelligent systems, enhancing the safety, increasing the efficiency and reducing the environmental impact of highway and roadway transportation systems. IRD has a network of direct and independent operations and relationships in strategic geographic regions to identify and pursue ITS opportunities around the world.

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

Enterprise Software – The Company considers businesses focused on operations optimization, predictive maintenance, inventory optimization and health and safety in production environments as operating in an "Enterprise Software" environment and classifies its related investments in the Enterprise Software segment. The Company's first investment in this segment is VIZIYA, based in Hamilton, Ontario, Canada, a software company providing Enterprise Asset Management software solutions to asset intensive industries worldwide through its presence in Australia, Europe, the Middle East and South Africa. VIZIYA has created software solutions that enhance each step of a customer's work management process, to help customers measure the results of their initiatives, particularly focused on asset criticality, urgency and compliance to ensure customers implement their asset strategies.

The following table reconciles the Adjusted EBITDA measure which is used in the evaluation of the performance of each segment to Net loss:

	For the three months ended March 31,	
	2020	2019
Segment Adjusted EBITDA:		
Licensing	**$ 3,467**	$ 19,827
Intelligent Systems	**(1,336)**	(327)
Enterprise Software	**596**	(75)
Total	**2,727**	19,425
Unallocated corporate expenses	**1,914**	2,363
Stock-based compensation (recovery) expense	**(56)**	241
Special charges	**213**	1,724
Depreciation of right-of-use assets	**275**	517
Depreciation of property, plant and equipment	**267**	503
Amortization of intangibles	**5,758**	6,955
Results from operations	**(5,644)**	7,122
Finance income	**(222)**	(269)
Finance expense	**106**	107
Foreign exchange (gain) loss	**(499)**	322
Other income	**(378)**	(98)
(Loss) income before taxes	**(4,651)**	7,060
Current income tax expense	**1,237**	5,420
Deferred income tax (recovery) expense	**(776)**	1,687
Income tax expense	**461**	7,107
Net loss	**$ (5,112)**	(47)

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

Segmented statements of loss for the three months ended March 31, 2020 and 2019 are included below:

	For the three months ended March 31, 2020				
	Licensing	Intelligent Systems	Enterprise Software	Corporate	Total
Revenues					
License	$ 9,732	$ —	$ 997	$ —	$ 10,729
Systems	—	8,003	—	—	8,003
Services	—	—	1,043	—	1,043
Recurring	451	3,403	2,393	—	6,247
	10,183	11,406	4,433	—	26,022
Direct cost of revenues	5,767	8,416	871	—	15,054
Gross profit	4,416	2,990	3,562	—	10,968
Depreciation of right-of-use assets	61	168	31	15	275
Depreciation of property, plant and equipment	16	203	43	5	267
Amortization of intangibles	3,484	1,259	1,015	—	5,758
Selling, general and administrative expenses	979	3,482	1,910	1,832	8,203
Research and development	—	870	1,026	—	1,896
Special charges	—	—	—	213	213
Results from operations	(124)	(2,992)	(463)	(2,065)	(5,644)
Finance income	(100)	(1)	—	(121)	(222)
Finance expense	39	52	10	5	106
Foreign exchange loss (gain)	1,244	(689)	79	(1,133)	(499)
Other income	—	(378)	—	—	(378)
Loss before taxes	(1,307)	(1,976)	(552)	(816)	(4,651)
Current income tax expense (recovery)	1,186	80	(29)	—	1,237
Deferred income tax (recovery) expense	(1,402)	(783)	(343)	1,752	(776)
Income tax (recovery) expense	(216)	(703)	(372)	1,752	461
Net loss	**$ (1,091)**	**$ (1,273)**	**$ (180)**	**$ (2,568)**	**$ (5,112)**
Segment assets as at March 31, 2020, December 31, 2019 and January 1, 2019 are as follows:					
As at March 31, 2020	103,576	59,693	9,500	154,936	327,705
As at December 31, 2019	104,191	60,852	12,239	147,273	324,555
As at January 1, 2019	126,911	61,877	41,819	96,317	326,924

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

	For the three months ended March 31,2019				
	Licensing	Intelligent Systems	Enterprise Software	Corporate	Total
Revenues					
License	$ 36,720	$ –	$ 479	$ –	$ 37,199
Systems	–	7,448	–	–	7,448
Services	–	–	859	–	859
Recurring	671	4,967	1,820	–	7,458
	$ 37,391	$ 12,415	$ 3,158	$ –	$ 52,964
Direct cost of revenues	17,004	8,904	408	–	26,316
Gross profit	20,387	3,511	2,750	–	26,648
Depreciation of right-of-use assets	300	173	29	15	517
Depreciation of property, plant and equipment	55	402	41	5	503
Amortization of intangibles	4,691	1,258	1,006	–	6,955
Selling, general and administrative expenses	532	3,140	2,062	2,573	8,307
Research and development	–	738	782	–	1,520
Special charges	1,724	–	–	–	1,724
Results from operations	13,085	(2,200)	(1,170)	(2,593)	7,122
Finance income	(24)	(3)	–	(242)	(269)
Finance expense	4	94	5	4	107
Foreign exchange (gain) loss	(255)	255	44	278	322
Other income	–	(98)	–	–	(98)
Income (loss) before taxes	13,360	(2,448)	(1,219)	(2,633)	7,060
Current income tax expense	5,194	226	–	–	5,420
Deferred income tax expense (recovery)	2,565	(796)	(437)	355	1,687
Income tax expense (recovery)	7,759	(570)	(437)	355	7,107
Net income (loss)	$ 5,601	$ (1,878)	$ (782)	$ (2,988)	$ (47)

Segment assets as at March 31, 2019, December 31, 2018 are as follows:					
As at March 31, 2019	147,053	60,187	41,289	80,364	328,893
As at January 1, 2019	126,911	61,877	41,819	96,317	326,924

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

Revenue by geography for the three months ended March 31, 2020 and 2019 are as follows:

	Three months ended March 31,	
Revenues	**2020**	2019
United States	**$ 10,677**	$ 10,229
Taiwan	**9,014**	826
South Africa	**1,121**	3
Canada	**759**	1,477
Australia	**704**	284
Singapore	**570**	—
Qatar	**349**	—
Chile	**341**	887
Sweden	**333**	122
Finland	**210**	74
Korea	**97**	35,895
China	**67**	215
Germany	**20**	37
Thailand	**14**	72
Japan	**—**	72
Rest of the world	**1,746**	2,773
Total revenues	**$ 26,022**	$ 52,964

Major Customers

A major customer is defined as an external customer whose transactions with the Company amount to 10% or more of the Company's annual revenues. During the three months ended March 31, 2020, there were two major customers identified (March 31, 2019 - one).

Remaining performance obligations

As at March 31, 2020 the amount of transaction price allocated to remaining performance obligations was $43,748. The Company expects to recognize approximately 71% of this balance as revenue in 2020, 12% in 2021 and 17% thereafter.

15. FINANCIAL RISK MANAGEMENT

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

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

The Company recognizes a loss allowance provision using the simplified approach based on lifetime expected credit losses (ECLs). The Company's exposure to credit risk with its accounts receivable from customers is influenced mainly by the individual characteristics of each customer. The Company's customers are for the most part, large multinational companies or government organizations which do not have a history of non-payment. Credit risk from accounts receivable encompasses the default risk of the Company's customers. Prior to entering into transactions with new customers, the Company assesses the risk of default associated with the particular customer. In addition, on an ongoing basis, management monitors the level of accounts receivable attributable to each customer and the length of time taken for amounts to be settled and where necessary, takes appropriate action to follow up on those balances considered overdue. The Company has had no significant bad debts for any periods presented.

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

The Company reviews financial assets on an ongoing basis with the objective of identifying potential matters which could delay the collection of funds at an early stage. Once items are identified as being past due, contact is made with the respective customer to determine the reason for the delay in payment and to establish an agreement to rectify the breach of contractual terms.

Liquidity Risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company manages its liquidity needs through various sources including cash generated through operations, cash reserves, various revolving credit facilities, and the issuance of common shares. At March 31, 2020, the Company had cash and cash equivalents and short-term investments of $103,146.

Currency Risk
A portion of Quarterhill's revenues and operating expenses are denominated in Canadian dollars, Indian rupee, Chilean peso, Euro, Australian dollar and Chinese Yuan. Because the parent company's functional currency is in US dollars, Quarterhill's operating results are subject to changes in the exchange rate of the foreign currencies (primarily Canadian dollar) relative to the US dollar. Any decrease in the value of the Canadian dollar relative to the US dollar has an unfavorable impact on Canadian dollar denominated revenues and a favorable impact on Canadian dollar denominated operating expenses. Approximately 3.9% 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.

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 Quarterhill 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. For the three months ended March 31, 2020 the Company did not hold any foreign exchange forward contracts.

The COVID-19 Pandemic

While we are not immune to the impacts of the pandemic, the majority of the work we do within each portfolio company remains ongoing, and in the case of the Intelligent Systems business segment, certain of its work has been deemed "essential"by governing authorities. However, there remains some risk that certain project work or license sales will be deferred or restricted and new orders delayed, in particular, in international jurisdictions.

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

16. RELATED-PARTY TRANSACTION

Key management personnel includes the Chief Executive Officer, Chief Financial Officer, President and other Vice-Presidents. Other related parties include close family members of the key management personnel and entities controlled by key management personnel.

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

	Three months ended March 31,	
	2020	2019
Salaries and Benefits	**$ 572**	$ 867
Board fees	**212**	181
Stock-based compensation	**81**	141
	$ 865	$ 1,189

17. SUBSEQUENT EVENTS

On May 19, 2020, the Company announced that it has completed the sale of its total investment in VIZIYA, which represents its Enterprise Software segment, for total cash proceeds of $49.4 million. Proceeds from the transaction will be used to support the Company's growth initiatives. The sale of this business segment and all IFRS 5 - *Non-current assets held for sale and discontinued operations* disclosure requirements will be reported in the second quarter financial statements.

18. EXPLANATION OF TRANSITION TO IFRS

As stated in note 2, these are the Company's first interim condensed consolidated financial statements prepared in accordance with IFRS as issued by the IASB.

The accounting policies set out in note 2 have been applied in preparing these first interim condensed consolidated financial statements for the three months ended March 31, 2020, the comparative information for the three months ended March 31, 2019, and in the opening IFRS statement of financial position as at January 1, 2019 (the Company's date of transition).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with US GAAP.

An explanation of the effect of the Company's transition to IFRS is summarized in this note.

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

Reconciliation of Statements of Financial Position to IFRS as at December 31, 2019 and January 1, 2019

	December 31, 2019				January 1, 2019	
	US GAAP	IFRS adjustments	IFRS	IFRS	US GAAP	IFRS
As at	US$	US$	US$	CAD$	US$	CAD$
Current assets						
Cash and cash equivalents	$ 67,422		$ 67,422	$ 87,870	$ 63,929	$ 87,029
Short-term investments	1,189		1,189	1,550	1,139	1,551
Restricted short-term investments	—		—	—	2,200	2,995
Accounts receivable (net of allowance for doubtful accounts)	32,936		32,936	42,925	10,812	14,719
Other current assets	83		83	108	91	124
Unbilled revenue	6,879		6,879	8,965	3,990	5,432
Income taxes receivable	105		105	137	198	270
Inventories (net of obsolescence)	6,576		6,576	8,570	5,960	8,114
Prepaid expenses and deposits	1,720		1,720	2,242	2,150	2,927
	116,910	—	116,910	152,367	90,469	123,161
Non-current assets						
Accounts receivable	2,951		2,951	3,846	415	565
Right-of-use assets	3,570	(116)	3,454	4,502	2,918	3,972
Property, plant and equipment	2,168		2,168	2,826	2,655	3,614
Intangible assets	68,699		68,699	89,534	87,425	119,015
Investment in joint venture	4,015		4,015	5,233	3,822	5,203
Deferred income tax assets	25,497	31	25,528	33,270	27,141	36,948
Goodwill	25,303		25,303	32,977	25,303	34,446
	132,203	(85)	132,118	172,188	149,679	203,763
TOTAL ASSETS	$ 249,113	$ (85)	$ 249,028	$ 324,555	$ 240,148	$ 326,924
Liabilities						
Current liabilities						
Bank indebtedness	$ 3,089		$ 3,089	$ 4,026	$ 2,598	$ 3,537
Accounts payable and accrued liabilities	19,762		19,762	25,755	18,103	24,644
Income taxes payable	156		156	203	—	—
Current portion of lease liabilities	766		766	998	823	1,120
Contingent liabilties	—		—	—	929	1,265
Current portion of deferred revenue	6,628		6,628	8,638	4,670	6,357
Current portion of long-term debt	45		45	59	299	407
	30,446	—	30,446	39,679	27,422	37,330
Non-current liabilities						
Deferred revenue	1,161		1,161	1,513	1,435	1,954
Long-term lease liabilities	2,724		2,724	3,550	1,913	2,604
Long-term debt	208		208	271	173	236
Deferred income tax liabilities	2,530		2,530	3,297	4,337	5,905
	6,623	—	6,623	8,631	7,858	10,699
TOTAL LIABILITIES	37,069	—	37,069	48,310	35,280	48,029
Shareholders' equity						
Capital stock	419,111		419,111	570,553	419,111	570,553
Contributed surplus	23,527		23,527	32,011	22,957	31,252
Accumulated other comprehensive income	16,797		16,797	10,936	16,243	22,112
Deficit	(247,391)	(85)	(247,476)	(337,255)	(253,443)	(345,022)
	212,044	(85)	211,959	276,245	204,868	278,895
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 249,113	$ (85)	$ 249,028	$ 324,555	$ 240,148	$ 326,924

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

Reconciliation of Statement of Income (loss) to IFRS for the three months ended March 31, 2019

	US GAAP	IFRS adjustments	IFRS	IFRS
	US$	US$	US$	CAD$
Revenues				
License	27,980		27,980	**37,199**
Systems	5,602		5,602	**7,448**
Services	646		646	**859**
Recurring	5,610		5,610	**7,458**
	39,838	–	39,838	**52,964**
Direct cost of revenues				
License	12,806		12,806	**17,026**
Systems	3,793		3,793	**5,043**
Services	290		290	**386**
Recurring	2,904		2,904	**3,861**
	19,793	–	19,793	**26,316**
Gross profit	20,045	–	20,045	**26,648**
Operating expenses				
Depreciation of right-of-use assets	–	389	389	**517**
Depreciation of property, plant and equipment	378		378	**503**
Amortization of intangibles	5,231		5,231	**6,955**
Selling, general and administrative expenses	6,587	(339)	6,248	**8,307**
Research and development expenses	1,179	(36)	1,143	**1,520**
Special charges	1,297		1,297	**1,724**
	14,672	14	14,686	**19,526**
Results from operations	5,373	(14)	5,359	**7,122**
Finance income	(202)		(202)	**(269)**
Finance expense	44	37	81	**107**
Foreign exchange loss	242		242	**322**
Other income	(74)		(74)	**(98)**
Income (Loss) before taxes	5,363	(51)	5,312	**7,060**
Current income tax expense	4,041	36	4,077	**5,420**
Deferred income tax expense (recovery)	1,293	(24)	1,269	**1,687**
Income tax expense	5,334	12	5,346	**7,107**
Net income (loss)	**29**	(63)	(34)	**(47)**
Net loss per share				
Basic	$0.00	$(0.00)	$(0.00)	**$(0.00)**
Diluted	$0.00	$(0.00)	$(0.00)	**$(0.00)**

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

Reconciliation of Statement of Comprehensive Income to IFRS for the three months ended March 31, 2019

	US GAAP	IFRS adjustments	IFRS	IFRS
	US$	US$	US$	CAD$
Net income (loss)	29	(63)	(34)	(47)
Other comprehensive income (loss) which may be reclassified to net loss:			–	–
Foreign currency translation adjustment	599		599	796
Comprehensive income (loss)	$ 628	$ (63)	$ 565	$ 749

Reconciliation of Statement of Comprehensive Income to IFRS for the year ended December 31, 2019

	US GAAP	IFRS adjustments	IFRS	IFRS
	US$	US$	US$	CAD$
Net income (loss)	**10,528**	**(85)**	**10,443**	**13,704**
Other comprehensive income (loss) which may be reclassified to net loss:				
Foreign currency translation adjustment	**554**	**–**	**554**	**(11,916)**
Comprehensive income (loss)	**11,082**	**(85)**	**10,997**	**1,788**

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

Reconciliation of Statement of Income (loss) to IFRS for the year ended December 31, 2019

	US GAAP	IFRS adjustments	IFRS	IFRS
	US$	US$	US$	CAD$
Revenues				
License	$ 87,068		$ 87,068	**$ 115,653**
Systems	36,108		36,108	**47,905**
Services	2,490		2,490	**3,303**
Recurring	21,054		21,054	**27,947**
	146,720	—	146,720	**194,808**
Direct cost of revenues				
License	40,012		40,012	**53,153**
Systems	22,550		22,550	**29,926**
Services	1,509		1,509	**2,001**
Recurring	9,762		9,762	**12,961**
	73,833	—	73,833	**98,041**
Gross profit	72,887	—	72,887	**96,767**
Operating expenses				
Depreciation of right-of-use assets	—	1,072	1,072	**1,423**
Depreciation of property, plant and equipment	1,112		1,112	**1,478**
Amortization of intangibles	20,592		20,592	**27,325**
Selling, general and administrative expenses	28,722	(1,132)	27,590	**36,593**
Research and development expenses	5,133	(215)	4,918	**6,525**
Impairment losses on intangibles	87		87	**115**
Special charges	2,173		2,173	**3,073**
	57,819	(275)	57,544	**76,532**
Results from operations	15,068	275	15,343	**20,235**
Finance income	(1,256)		(1,256)	**(1,665)**
Finance expense	394	176	570	**761**
Foreign exchange loss	266		266	**355**
Other income	(658)		(658)	**(872)**
Income (loss) before taxes	16,322	99	16,421	**21,656**
Current income tax expense	5,991	215	6,206	**8,232**
Deferred income tax recovery	(197)	(31)	(228)	**(280)**
Income tax expense	5,794	184	5,978	**7,952**
Net income (loss)	$ 10,528	(85)	$ 10,443	**$ 13,704**
Net income (loss) per share				
Basic	$0.09	$(0.00)	$0.09	**$0.12**
Diluted	$0.09	$(0.00)	$0.09	**$0.12**

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

Reconciliation of Statement of Cash Flows to IFRS for the three months ended March 31, 2019

	US GAAP	IFRS adjustments	IFRS	IFRS
	US$	US$	US$	CAD$
Cash generated from (used in) Operations				
Net loss	$ 29	(63)	$ (34)	$ (47)
Non-cash items	—		—	—
Stock-based compensation (recovery) expense	181		181	241
Depreciation of right-of-use assets	—	389	389	517
Interest expense on lease liabilities	—	37	37	49
Depreciation and amortization	5,609		5,609	7,457
Foreign exchange loss (gain)	(62)		(62)	(82)
Equity in earnings from joint venture	(74)		(74)	(98)
Deferred income tax (recovery) expense	1,293	(24)	1,269	1,687
Embedded derivatives	70		70	93
Accounts receivable	(26,998)		(26,998)	(35,892)
Unbilled revenue	(359)		(359)	(477)
Income taxes receivable	201		201	267
Inventories	21		21	28
Prepaid expenses and deposits	113		113	150
Deferred revenue	823		823	1,094
Accounts payable and accrued liabilities	6,762		6,762	8,990
Income taxes payable	63		63	84
Cash used in (from) operations	(12,328)	339	(11,989)	(15,939)
Financing				
Dividends paid	(1,130)		(1,130)	(1,502)
Bank indebtedness	72		72	96
Payment of lease liabilities	—	(339)	(339)	(451)
Repayment of long-term debt	(24)		(24)	(32)
Common shares issued from Performance Stock Units	—		—	—
Cash used in financing	(1,082)	(339)	(1,421)	(1,889)
Investing				
Purchase of property and equipment	(158)		(158)	(210)
Purchase of intangibles	(20)		(20)	(27)
Cash used in investing	(178)	—	(178)	(237)
Foreign exchange gain (loss) on cash held in foreign currency	65		65	(1,670)
Net increase (decrease) in cash and cash equivalents	(13,523)	—	(13,523)	(19,735)
Cash and cash equivalents, beginning of period	63,929		63,929	87,029
Cash and cash equivalents, end of period	$ 50,406	$ —	$ 50,406	$ 67,294

Notes to reconciliations

Leases
Under US GAAP, all leases recognized by the Company were classified as operating leases and subsequently accounted for as a straight-line expense over the lease term. This expense is comprised of Interest on the accretion of the lease liabilities, calculated using the effective interest rate method, and depreciation of the ROU assets, which is calculated based on the difference in the interest expense and the total straight-line lease expense.

IFRS does not distinguish between operating and finance leases for lessees. A single recognition and measurement model is applied to all leases where the reporting entity acts in the capacity as the lessee.

While the effective interest rate method is used to subsequently measure the accretion of the lease liability (the interest expense), similar to US GAAP, the subsequent measurement for the ROU asset differs. Under IFRS, the Company will amortize the ROU assets at the shorter of the estimated useful life and the lease term, on a straight-line basis. Additionally, while all costs relating to leases are recognized as operating expenses under US GAAP, under IFRS the interest expense is classified as a finance expense outside of the line, "Results from operations" whereas depreciation expense continues to be recognized within operating expenses. These classification differences also resulted in corresponding changes to the statement of cash flows.

IFRS 1 First-time adoption of International Financial Reporting Standards

IFRS 1 *First-time adoption of International Financial Reporting Standards* sets out the reporting requirements when IFRS is adopted for the first time. The Company is required to establish its IFRS accounting policies for the period ended March 31, 2020 and apply those policies retrospectively to determine the Company's consolidated statement of financial position at the date of transition, January 1, 2019. IFRS 1 provides for a number of mandatory exceptions from full retrospective application of IFRS standards effective as of the end of the Company's first IFRS reporting period. None of these mandatory exceptions had a material impact on the Company's transition to IFRS.

IFRS 1 also provides certain optional exemptions from full retrospective application, that may be elected by first time adopters of IFRS. As part of the transition, the Company elected the following optional exemptions:

Business Combinations

The company has elected to apply IFRS 3, Business Combinations, prospectively from January 1, 2019. As such, US GAAP balances relating to business combinations entered into before that date, including goodwill, have been carried forward without adjustment.

US GAAP revaluation for impaired assets as deemed cost

The Company has elected to record certain of its intangible assets (patent licenses) in the opening statement of financial position on the transition date at its US GAAP revaluation of its previously impaired patent licenses, adjusted for any subsequent changes to depreciation based on differences between US GAAP and IFRS, as these assets' deemed cost at the date of transition.

Revenue from contracts with customers

The Company elected to apply select transition provisions per IFRS 15 – *Revenue From Contracts with Customers* upon transition to IFRS. In doing so, the Company will:

- not restate contracts that were completed upon transition to IFRS; completed contracts are determined to be contracts for which the company has transferred all of the goods or services identified in accordance with the company's previous US GAAP;
- for contracts that were modified before the Company's IFRS transition date, the Company has considered the aggregate effect of all modifications when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to satisfied and unsatisfied performance obligations; and
- for all reporting periods presented before the Company's IFRS transition date, not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

Leases

The Company elected to apply select transition provisions per IFRS 16 – *Leases* upon transition to IFRS. In doing so, the Company has elected to:

- measure the lease liability at January 1, 2019 at the present value of remaining lease payments, discounted using the Company's incremental borrowing rate at January 1, 2019;
- measure the ROU asset at January 1, 2019 at an amount equal to the corresponding lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before January 1, 2019;
- apply IAS 36 to ROU Assets at January 1, 2019;
- not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low value assets;
- exclude initial direct costs from the measurement of the ROU asset at January 1, 2019; and
- use hindsight in determining if the lease term of the contract contains options to extend or terminate the lease.

Share-based payments

The Company has elected not to retrospectively apply IFRS 2 *Share-based Payments* to equity instruments that were granted and had vested before the transition date. As a result of applying this exemption, the Company applied the provision of IFRS 2 to any outstanding equity instruments that are unvested as at the date of transition to IFRS.

Foreign currency transactions and advance consideration

The Company has elected not to apply IFRIC 22- *Foreign Currency Transactions and Advance Consideration* to assets, expenses and income recognized before the date of transition to IFRS.