

Quarterhill Inc.
2020 Second Quarter
Unaudited Condensed Consolidated
Interim Financial Statements

Quarterhill Inc.
Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)

(Unaudited)

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

CONTINUING OPERATIONS	Note	Three months ended June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Revenues					
License		\$ 68	\$ 32,807	\$ 9,817	\$ 69,527
Systems		11,138	14,035	19,141	21,483
Recurring		5,618	6,036	9,479	11,674
		16,824	52,878	38,437	102,684
Direct cost of revenues					
License		3,063	16,035	8,803	33,038
Systems		6,594	9,181	12,574	14,224
Recurring		2,999	3,511	5,466	7,372
		12,656	28,727	26,843	54,634
Gross profit		4,168	24,151	11,594	48,050
Operating expenses					
Depreciation of right-of-use assets	8	237	279	481	766
Depreciation of property, plant and equipment		247	436	471	898
Amortization of intangibles		4,848	5,960	9,590	11,909
Selling, general and administrative expenses		5,826	6,575	12,121	12,819
Research and development expenses	13	555	779	1,424	1,517
Impairment losses on intangibles		233	—	233	—
Special charges	14	659	14,955	872	16,679
		12,605	28,984	25,192	44,588
Results from operations		(8,437)	(4,833)	(13,598)	3,462
Finance income		(160)	(389)	(382)	(658)
Finance expense		118	364	214	465
Foreign exchange (gain) loss		(3)	87	(585)	365
Other income		(431)	(241)	(809)	(339)
(Loss) income before taxes		(7,961)	(4,654)	(12,036)	3,629
Current income tax expense		78	35	1,344	5,455
Deferred income tax (recovery) expense		(3,052)	943	(3,481)	3,067
Income tax (recovery) expense		(2,974)	978	(2,137)	8,522
Net loss from continuing operations		\$ (4,987)	\$ (5,632)	\$ (9,899)	\$ (4,893)
Net income (loss) from discontinued operations	4	\$ 14,455	\$ (306)	\$ 14,255	\$ (1,092)
Net income (loss)		\$ 9,468	\$ (5,938)	\$ 4,356	\$ (5,985)
Other comprehensive income (loss) that may be reclassified subsequently to net income (loss):					
Foreign currency translation adjustment		(11,188)	(4,290)	9,875	(8,869)
Comprehensive (loss) income		\$ (1,720)	\$ (10,228)	\$ 14,231	\$ (14,854)
Net income (loss) per share					
From continuing operations		\$(0.04)	\$(0.05)	\$(0.08)	\$(0.04)
From discontinued operations		0.12	0.00	0.12	(0.01)
Net income (loss) per share - Basic	15	\$0.08	\$(0.05)	\$0.04	\$(0.05)
From continuing operations		\$(0.04)	\$(0.05)	\$(0.08)	\$(0.04)
From discontinued operations		0.12	0.00	0.12	(0.01)
Net income (loss) per share - Diluted	15	\$0.08	\$(0.05)	\$0.04	\$(0.05)

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	June 30, 2020	December 31, 2019	January 1, 2019
Current assets				
Cash and cash equivalents		\$ 141,515	\$ 87,870	\$ 87,029
Short-term investments		1,551	1,550	1,551
Restricted short-term investments		—	—	2,995
Accounts receivable (net of allowance for doubtful accounts)		11,858	42,925	14,719
Other current assets		218	108	124
Unbilled revenue	6	11,260	8,965	5,432
Income taxes receivable		353	137	270
Inventories (net of obsolescence)	7	10,242	8,570	8,114
Prepaid expenses and deposits		3,287	2,242	2,927
		180,284	152,367	123,161
Non-current assets				
Accounts receivable		682	3,846	565
Right-of-use assets	8	3,906	4,502	3,972
Property, plant and equipment		2,941	2,826	3,614
Intangible assets		70,760	89,534	119,015
Investment in joint venture	9	6,210	5,233	5,203
Deferred income tax assets		36,877	33,270	36,948
Goodwill		17,274	32,977	34,446
		138,650	172,188	203,763
TOTAL ASSETS		\$ 318,934	\$ 324,555	\$ 326,924
Liabilities				
Current liabilities				
Bank indebtedness		\$ 7,036	\$ 4,026	\$ 3,537
Accounts payable and accrued liabilities		12,106	25,755	24,644
Dividends payable		1,462	—	—
Income taxes payable		285	203	—
Current portion of lease liabilities	8	884	998	1,120
Contingent liabilities	10	—	—	1,265
Current portion of deferred revenue	6	4,544	8,638	6,357
Current portion of long-term debt		41	59	407
		26,358	39,679	37,330
Non-current liabilities				
Deferred revenue	6	1,522	1,513	1,954
Long-term lease liabilities	8	3,002	3,550	2,604
Long-term debt		285	271	236
Deferred income tax liabilities		—	3,297	5,905
		4,809	8,631	10,699
TOTAL LIABILITIES		31,167	48,310	48,029
Shareholders' equity				
Capital stock		570,591	570,553	570,553
Contributed surplus		32,207	32,011	31,252
Accumulated other comprehensive income		20,811	10,936	22,112
Deficit		(335,842)	(337,255)	(345,022)
		287,767	276,245	278,895
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 318,934	\$ 324,555	\$ 326,924

Quarterhill Inc.
Condensed Consolidated Interim Statements of Cash Flows

(Unaudited)

(In thousands of Canadian dollars)

Note	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Cash generated from (used in) Operations				
Net loss from continuing operations	\$ (4,987)	\$ (5,632)	\$ (9,899)	\$ (4,893)
Non-cash items				
Stock-based compensation expense	221	285	196	507
Depreciation of right-of-use assets	237	279	481	766
Interest expense on lease liabilities	56	54	112	103
Depreciation and amortization	5,095	6,396	10,061	12,807
Foreign exchange (gain) loss	(478)	(45)	(194)	(127)
Equity in earnings from joint venture	(431)	(241)	(809)	(339)
Impairment losses on intangibles	233	—	233	—
(Gain) loss on disposal of assets	(6)	785	(10)	785
Deferred income tax (recovery) expense	(3,052)	943	(3,481)	3,067
Long-term accounts receivable	—	—	—	(85)
Embedded derivatives	121	39	(101)	132
Contingent consideration adjustment	—	14,244	—	14,244
Changes in non-cash working capital balances				
Accounts receivable	5,949	36,744	26,559	1,697
Unbilled revenue	(2,762)	(3,027)	(2,026)	(3,504)
Income taxes receivable	(252)	(72)	(209)	195
Inventories	(1,952)	(213)	(1,340)	(185)
Prepaid expenses and deposits	(1,474)	(278)	(1,296)	(4)
Deferred revenue	(539)	(771)	(52)	(331)
Accounts payable and accrued liabilities	(282)	(4,423)	(12,911)	4,269
Income taxes payable	45	(35)	92	49
Cash (used in) generated from continuing operations	(4,258)	45,032	5,406	29,153
Net cash flows attributable to discontinuing operations	(2,478)	928	(3,075)	869
Net cash (used in) generated from operating activities	(6,736)	45,960	2,331	30,022
Financing				
Dividends paid	—	(1,473)	(1,481)	(2,975)
Bank indebtedness	4,796	2,467	2,984	2,566
Payment of lease liabilities	(271)	(420)	(586)	(871)
Repayment of long-term debt	(13)	(276)	(120)	(300)
Exercise of stock options	14	—	14	—
Common shares issued from Performance Stock Units	—	—	24	—
Cash generated from (used in) continuing operations	4,526	298	835	(1,580)
Net cash flows attributable to discontinuing operations	—	(8)	—	(19)
Net cash generated from (used in) financing activities	4,526	290	835	(1,599)
Investing				
Proceeds from disposition of a subsidiary	49,400	—	49,400	—
Cash sold on disposition of a subsidiary	(1,825)	—	(1,825)	—
Proceeds from sale of property, plant and equipment	12	—	16	—
Purchase of property and equipment	(586)	(381)	(887)	(499)
Purchase of intangibles	(8)	(98)	(25)	(125)

Cash generated from (used in) continuing operations	46,993	(479)	46,679	(624)
Net cash flows attributable to discontinuing operations	(11)	(31)	(81)	(123)
Net cash generated from (used in) investing activities	46,982	(510)	46,598	(747)
Foreign exchange gain (loss) on cash held in foreign currency	(4,853)	(1,951)	3,881	(3,622)
Net increase in cash and cash equivalents	39,919	43,789	53,645	24,054
Cash and cash equivalents, beginning of period	101,596	67,294	87,870	87,029
Cash and cash equivalents, end of period	\$ 141,515	\$ 111,083	\$ 141,515	\$ 111,083

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

Quarterhill Inc.
Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

For the six months ended June 30, 2020 and 2019

(In thousands of Canadian dollars)

	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Equity
January 1, 2019	\$ 570,553	\$ 31,252	\$ 22,112	\$ (345,022)	\$ 278,895
Net loss	—	—	—	(5,985)	(5,985)
Other comprehensive loss	—	—	(8,869)	—	(8,869)
Stock-based compensation expense	—	507	—	—	507
Dividends declared	—	—	—	(2,975)	(2,975)
June 30, 2019	570,553	31,759	13,243	(353,982)	261,573
January 1, 2020	\$ 570,553	\$ 32,011	\$ 10,936	\$ (337,255)	\$ 276,245
Net income				4,356	4,356
Other comprehensive income			9,875		9,875
Exercise of options	14				14
Stock-based compensation expense		196			196
Common shares issued from performance stock units	24				24
Dividends declared				(2,943)	(2,943)
June 30, 2020	570,591	32,207	20,811	(335,842)	287,767

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

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 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 20, 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 20. 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 August 5, 2020.

Basis of measurement

The condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at fair value on a recurring basis, as explained in the accounting policies below, and certain intangible assets (patent licenses) that the company elected to record at the IFRS transition date of January 1, 2019 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.

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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Unaudited)

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

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.

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 of indicators of recoverability for assets for which an impairment was previously recognized.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

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 June 30, 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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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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.

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(Unaudited)

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

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.

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(Unaudited)

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

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, 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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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(Unaudited)

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

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.

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.

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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.

Derecognition

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 derecognizes 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

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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 and contract assets. Lifetime expected credit losses are estimated based on factors such as the Company's past experience of collecting payments, observable changes in national or local economic conditions that correlate with default on receivables, and financial condition of the borrower. Financial assets are written off when there is no reasonable expectation of recovery.

Research and Development

Research costs are included in 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.

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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 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.

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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.

Discontinued Operations

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

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

Government Grants

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

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

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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.

COVID-19 Related Rent Concessions (Amendment to IFRS 16)

IFRS 16 *Leases* has been revised to incorporate an amendment issued by the IASB in May 2020. The amendment permits lessees not to assess whether particular COVID-19 related rent concessions are lease modifications and, instead, account for those rent concessions as if they were not lease modifications. In addition, the amendment to IFRS 16 provides specific disclosure requirements regarding COVID-19 related rent concessions. The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. The Company does not expect the adoption of these amendments to have any impact on the consolidated financial statements.

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4. DISCONTINUED OPERATIONS

On May 15, 2020 the Company sold its investment in VIZIYA Corp. and its related entities ("VIZIYA") for \$49,400. VIZIYA was acquired in May 2017 and represented the Company's Enterprise Software segment. The Company's results for the prior fiscal period reported throughout these interim condensed consolidated financial statements have been adjusted to reflect continuing operation results and figures with respect to these discontinued operations. As a result of the sale, during the quarter ended, June 30, 2020, the Company recognized the following gain on disposition in the condensed consolidated interim statement of income.

Gain on sale of VIZIYA

Gross cash proceeds of sale	49,400
less, transaction costs	(32)
Net cash proceeds of sale	49,368
Net assets disposed	32,827
Cumulative exchange gain on translating foreign operations reclassified from equity	1,172
Gain on disposal, before tax	17,713

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

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Revenues	1,723	3,782	6,132	6,940
Direct cost of revenues	344	476	1,211	885
Gross profit	1,379	3,306	4,921	6,055
Operating expenses	3,284	3,821	7,309	7,743
Results from operations	(1,905)	(515)	(2,388)	(1,688)
Other expenses	11	25	104	75
Income tax recovery	(217)	(234)	(593)	(671)
Loss from discontinued operations	(1,699)	(306)	(1,899)	(1,092)
Gain on disposal, before tax	17,713	—	17,713	—
Deferred income tax expense	1,559	—	1,559	—
Net income (loss) from discontinued operations	14,455	(306)	14,255	(1,092)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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5. 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.

6. UNBILLED REVENUE AND DEFERRED REVENUE

Significant changes in unbilled revenue and deferred revenue balances during the six months ended June 30, 2020 are as follows:

As at	June 30, 2020	December 31, 2019	\$ Change	January 1, 2019
Unbilled revenue	\$ 11,260	\$ 8,965	\$ 2,295	\$ 5,432
Deferred revenue - current	(4,544)	(8,638)	4,094	(6,357)
Deferred revenue - non-current	(1,522)	(1,513)	(9)	(1,954)
Net contract assets (liabilities)	\$ 5,194	\$ (1,186)	\$ 6,380	\$ (2,879)

Revenue recognized for the three months ended June 30, 2020 that was included in deferred revenue at the beginning of the period was \$1,974 (2019 - \$2,495).

7. INVENTORIES

Inventories consist of the following at June 30, 2020, December 31, 2019 and January 1, 2019:

As at	June 30, 2020	December 31, 2019	January 1, 2019
Raw materials	\$ 1,359	\$ 1,182	\$ 992
Original equipment manufacturer materials	4,851	3,948	4,258
Work in process	1,487	1,291	1,108
Finished goods	2,545	2,149	1,756
	\$ 10,242	\$ 8,570	\$ 8,114

For the three and six months ended June 30, 2020, the Company recorded non-cash, pretax incremental provisions for excess and obsolete inventories of \$5 and \$43 respectively (2019-\$nil and \$61).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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8. 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 6 months to 8.8 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. The weighted average incremental borrowing rate applied to these lease liabilities at initial recognition on January 1, 2019 was 5.45%.

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		—		—	—
Disposals		(348)		—	(348)
Foreign currency translation		138		2	140
Balance, June 30,2020	\$	5,644	\$	34	\$ 5,678
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		475		6	481
Disposals		(158)		—	(158)
Foreign currency translation		65		—	65
Balance, June 30,2020	\$	1,751	\$	21	\$ 1,772
Net Book Value					
Balance, January 1, 2019		3,939		33	3,972
Balance, December 31,2019		4,485		17	4,502
Balance, June 30,2020		3,893		13	3,906

Quarterhill Inc.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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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		112
Disposals		(201)
Payments		(586)
Foreign currency translation		13
Balance, June 30, 2020	\$	3,886

	As at June 30, 2020
Maturities of lease liabilities:	
Remainder of 2020	\$ 554
2021	1,067
2022	1,044
2023	425
2024	312
Thereafter	1,168
Total lease payments	4,570
Less imputed interest	684
Total	\$ 3,886

Comprised of:	
Current portion of lease liabilities	\$ 884
Long-term lease liabilities	3,002
Lease liabilities as of June 30, 2020	\$ 3,886

9. 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 and six months ended June 30, 2020 (2019 - \$56). At June 30, 2020 accounts receivable from XPCT was \$18 (December 31, 2019 - \$33, January 1, 2019 - \$23).

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	June 30, 2020	December 31, 2019	As at January 1, 2019
Carrying value, beginning of the period	\$ 5,233	\$ 5,203	\$ 4,244
Currency gain (loss) on financial statement translation	168	(326)	144
Company's share of earnings	809	873	1,232
Dividend received	—	(517)	(418)
Carrying value, end of period	\$ 6,210	\$ 5,233	\$ 5,202

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 June 30, 2020, IRD has an outstanding loan guarantee in the amount of 12.5 million yuan (approximately \$2.4 million) for 50% of a bank loan to XPCT representing IRD's proportionate interest in this entity.

10. 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. The arbitration claim is not affected by the sale of this subsidiary, as described in Note 4.

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11. SHARE CAPITAL

The share capital of the company consists of the following:

	Authorized	Issued and Outstanding		
		June 30, 2020	December 31, 2019	January 1, 2019
common shares	unlimited	118,865,333	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
Exercise of stock options	7,900
June 30, 2020	118,865,333

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Dividends Declared				
per common share	\$0.125	\$0.125	\$0.250	\$0.250
amount	\$1,462	\$1,473	\$2,943	\$2,975

12. EMPLOYEE COMPENSATION

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Salaries and Benefits	\$ 9,213	\$ 9,141	\$ 17,818	\$ 17,777
Stock-based compensation	221	285	196	507
Government grants earned	\$ (1,662)	\$ —	\$ (1,662)	\$ —
	\$ 7,772	\$ 9,426	\$ 16,352	\$ 18,284

There are no unfilled conditions or other contingencies attached to the government assistance that has been recognized.

13. RESEARCH & DEVELOPMENT

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Research and development expenditures	\$ 720	\$ 925	\$ 1,771	\$ 1,818
Government grants earned	(111)	(99)	(240)	(206)
Less investment tax credits	(54)	(47)	(107)	(95)
	\$ 555	\$ 779	\$ 1,424	\$ 1,517

14. SPECIAL CHARGES

Special charges within the interim condensed consolidated statements of income (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 and six months ended June 30, 2020, the Company recognized special charges of \$659 and \$872 respectively (2019-\$14,955 and \$16,679). The current period charges relate to retirement costs incurred in the Intelligent Systems segment while prior year costs for the comparative period related to workforce reduction at the Company's Licensing segment as well as an increased charge for contingent consideration relating to the VIZIYA acquisition which is further described in Note 10 Contingent Liabilities.

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15. INCOME (LOSS) PER SHARE

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

Diluted income (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 June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Numerator:				
Net loss from continuing operations	(4,987)	(5,632)	(9,899)	(4,893)
Net income (loss) from discontinued operations	14,455	(306)	14,255	(1,092)
Net income (loss)	9,468	(5,938)	4,356	(5,985)
Denominator:				
Weighted average number of common shares outstanding for basic EPS	118,861,166	118,817,466	118,846,724	118,817,466
Adjustment for stock options	36,861	—	32,892	—
Weighted average number of common shares outstanding for diluted EPS	118,898,027	118,817,466	118,879,616	118,817,466
From continuing operations	(0.04)	(0.05)	(0.08)	(0.04)
From discontinued operations	0.12	0.00	0.12	(0.01)
Basic income (loss) per share	0.08	(0.05)	0.04	(0.05)
From continuing operations	(0.04)	(0.05)	(0.08)	(0.04)
From discontinued operations	0.12	0.00	0.12	(0.01)
Diluted income (loss) per share	0.08	(0.05)	0.04	(0.05)

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16. SEGMENT REPORTING

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, and for which discrete financial information is available. The operating results of all operating segments are reviewed regularly by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assessing their performance. The Company's chief operating decision maker is the Chief Executive Officer. The Company's operating segments are organized on the basis of products and services provided and also represent its reportable segments. The Company's reportable segments, identified as Licensing and Intelligent Systems, follow the same accounting policies as those described in the summary of significant accounting policies, and are further described below. The Company divested its Enterprise Software Segment on May 15, 2020.

Licensing – The Licensing segment includes companies that count licensing as their principal business activity. The Company's investment in this segment consists of WiLAN and its wholly owned subsidiaries. Current patent portfolios 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 that provide integrated systems and solutions to the Intelligent Transportation System (ITS) industry and its adjacent markets. The Company's investment in this segment consists of IRD and its wholly owned subsidiaries. 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.

Quarterhill Inc.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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(Unaudited)

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

CONTINUING OPERATIONS	For the three months ended June 30,		For the Six months end June 30,	
	2020	2019	2020	2019
Segment Adjusted EBITDA:				
Licensing	\$ (3,419)	\$ 16,628	\$ 64	\$ 36,456
Intelligent Systems	4,041	3,089	2,709	2,761
Total	622	19,717	2,773	39,217
Unallocated corporate expenses	2,614	2,635	4,528	4,996
Stock-based compensation expense	221	285	196	507
Special charges	659	14,955	872	16,679
Depreciation of right-of-use assets	237	279	481	766
Depreciation of property, plant and equipment	247	436	471	898
Amortization of intangibles	4,848	5,960	9,590	11,909
Impairment losses of intangible assets	233	—	233	—
Results from operations	(8,437)	(4,833)	(13,598)	3,462
Finance income	(160)	(389)	(382)	(658)
Finance expense	118	364	214	465
Foreign exchange (gain) loss	(3)	87	(585)	365
Other income	(431)	(241)	(809)	(339)
(Loss) income before taxes	(7,961)	(4,654)	(12,036)	3,629
Current income tax expense	78	35	1,344	5,455
Deferred income tax (recovery) expense	(3,052)	943	(3,481)	3,067
Income tax (recovery) expense	(2,974)	978	(2,137)	8,522
Net loss from continuing operations	\$ (4,987)	(5,632)	\$ (9,899)	(4,893)

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Segmented statements of loss for the three months ended June 30, 2020 and 2019 are included below:

CONTINUING OPERATIONS	For the Three months ended June 30, 2020			
	Licensing	Intelligent Systems	Corporate	Total
Revenues				
License	\$ 68	\$ —	\$ —	\$ 68
Systems	—	11,138	—	11,138
Recurring	252	5,366	—	5,618
	320	16,504	—	16,824
Direct cost of revenues	3,062	9,594	—	12,656
Gross profit	(2,742)	6,910	—	4,168
Depreciation of right-of-use assets	63	159	15	237
Depreciation of property, plant and equipment	16	225	6	247
Amortization of intangibles	3,588	1,260	—	4,848
Selling, general and administrative expenses	746	2,333	2,747	5,826
Research and development expenses	—	555	—	555
Impairment losses of intangible assets	233	—	—	233
Special charges	—	659	—	659
Results from operations	(7,388)	1,719	(2,768)	(8,437)
Finance income	(22)	(6)	(132)	(160)
Finance expense	38	74	6	118
Foreign exchange loss (gain)	342	(235)	(110)	(3)
Other income	—	(431)	—	(431)
(Loss) income before taxes	(7,746)	2,317	(2,532)	(7,961)
Current income tax expense	56	22	—	78
Deferred income tax (recovery) expense	(4,582)	167	1,363	(3,052)
Income tax (recovery) expense	(4,526)	189	1,363	(2,974)
Net (loss) income from continuing operations	\$ (3,220)	\$ 2,128	\$ (3,895)	\$ (4,987)

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	For the Six months ended June 30, 2020			
	Licensing	Intelligent Systems	Corporate	Total
CONTINUING OPERATIONS				
Revenues				
License	\$ 9,817	\$ —	\$ —	\$ 9,817
Systems	—	19,141	—	19,141
Recurring	703	8,776	—	9,479
	10,520	27,917	—	38,437
Direct cost of revenues	8,831	18,012	—	26,843
Gross profit	1,689	9,905	—	11,594
Depreciation of right-of-use assets	124	327	30	481
Depreciation of property, plant and equipment	32	428	11	471
Amortization of intangibles	7,071	2,519	—	9,590
Selling, general and administrative expenses	1,724	5,817	4,580	12,121
Research and development expenses	—	1,424	—	1,424
Impairment losses of intangible assets	233	—	—	233
Special charges	—	659	213	872
Results from operations	(7,495)	(1,269)	(4,834)	(13,598)
Finance income	(122)	(7)	(253)	(382)
Finance expense	78	125	11	214
Foreign exchange loss (gain)	1,596	(929)	(1,252)	(585)
Other income	—	(809)	—	(809)
(Loss) income before taxes	(9,047)	351	(3,340)	(12,036)
Current income tax expense	1,242	102	—	1,344
Deferred income tax (recovery) expense	(5,971)	(608)	3,098	(3,481)
Income tax (recovery) expense	(4,729)	(506)	3,098	(2,137)
Net (loss) income from continuing operations	\$ (4,318)	\$ 857	\$ (6,438)	\$ (9,899)

Segment assets are as follows:

	Licensing	Intelligent	Corporate	Dis Ops	Total
As at June 30, 2020	92,078	66,165	160,691	—	318,934
As at December 31, 2019	104,191	60,852	147,273	12,239	324,555
As at January 1, 2019	126,911	61,877	96,317	41,819	326,924

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CONTINUING OPERATIONS	For the Three months ended June 30, 2019				
	Licensing	Intelligent Systems	Corporate	Total	
Revenues					
License	\$ 32,807	\$ —	\$ —	\$ 32,807	
Systems	—	14,035	—	14,035	
Recurring	292	5,744	—	6,036	
	\$ 33,099	\$ 19,779	\$ —	\$ 52,878	
Direct cost of revenues	16,035	12,692	—	28,727	
Gross profit	17,064	7,087	—	24,151	
Depreciation of right-of-use assets	82	182	15	279	
Depreciation of property, plant and equipment	40	391	5	436	
Amortization of intangibles	4,703	1,257	—	5,960	
Selling, general and administrative expenses	451	3,255	2,869	6,575	
Research and development expenses	—	779	—	779	
Special charges	711	—	14,244	14,955	
Results from operations	11,077	1,223	(17,133)	(4,833)	
Finance income	(52)	(5)	(332)	(389)	
Finance expense	10	349	5	364	
Foreign exchange (gain) loss	(236)	74	249	87	
Other income	(4)	(237)	—	(241)	
Income (loss) before taxes	11,359	1,042	(17,055)	(4,654)	
Current income tax expense (recovery)	54	(19)	—	35	
Deferred income tax expense (recovery)	2,564	(489)	(1,132)	943	
Income tax expense (recovery)	2,618	(508)	(1,132)	978	
Net income (loss) from continuing operations	\$ 8,741	\$ 1,550	\$ (15,923)	\$ (5,632)	

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CONTINUING OPERATIONS	For the Six months ended June 30, 2019			
	Licensing	Intelligent Systems	Corporate	Total
Revenues				
License	\$ 69,527	\$ —	\$ —	\$ 69,527
Systems	—	21,483	—	21,483
Recurring	963	10,711	—	11,674
	\$ 70,490	\$ 32,194	\$ —	\$ 102,684
Direct cost of revenues	33,038	21,596	—	54,634
Gross profit	37,452	10,598	—	48,050
Depreciation of right-of-use assets	381	355	30	766
Depreciation of property, plant and equipment	95	793	10	898
Amortization of intangibles	9,394	2,515	—	11,909
Selling, general and administrative expenses	983	6,395	5,441	12,819
Research and development expenses	—	1,517	—	1,517
Special charges	2,435	—	14,244	16,679
Results from operations	24,164	(977)	(19,725)	3,462
Finance income	(76)	(8)	(574)	(658)
Finance expense	14	443	8	465
Foreign exchange (gain) loss	(491)	329	527	365
Other income	(4)	(335)	—	(339)
Income (loss) before taxes	24,721	(1,406)	(19,686)	3,629
Current income tax expense (recovery)	5,248	207	—	5,455
Deferred income tax expense (recovery)	5,129	(1,285)	(777)	3,067
Income tax expense (recovery)	10,377	(1,078)	(777)	8,522
Net income (loss) from continuing operations	\$ 14,344	\$ (328)	\$ (18,909)	\$ (4,893)

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(Unaudited)

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Revenue by geography for the three months ended June 30, 2020 and 2019 are as follows:

Revenues	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
United States	\$ 12,779	\$ 46,056	\$ 21,703	\$ 54,554
Taiwan	80	—	9,094	826
Thailand	1,260	661	1,274	733
Canada	530	1,236	1,010	2,282
Chile	543	979	881	1,866
Korea	277	566	374	36,463
Rest of the world	1,355	3,380	4,101	5,960
Total revenues	\$ 16,824	\$ 52,878	\$ 38,437	\$ 102,684

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 revenues. There were no major customers identified in the three months ended June 30, 2020; revenues from one customer of the Licensing segment represents \$4,203 of the Company's total revenues for the six months ended June 30, 2020. For the three months ended June 30, 2019 one customer from the Company's Licensing segment represented \$32,772 of the Company's revenues; revenues from two customers totaling \$68,666 from the Company's Licensing segment were included in revenues for the six months ended, June 30, 2019.

Remaining performance obligations

As at June 30, 2020 the amount of transaction price allocated to remaining performance obligations was \$36,185. The Company expects to recognize approximately 58% of this balance as revenue in the remainder of 2020, 15% in 2021 and 27% thereafter.

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17. 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,

Quarterhill Inc.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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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 June 30, 2020, the Company had cash and cash equivalents and short-term investments of \$143,066.

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

	<i>Total</i>	<i>Less than 1</i>	<i>2 - 3 years</i>	<i>4 - 5 years</i>	<i>Thereafter</i>
Bank indebtedness	\$ 7,036	\$ 7,036	\$ —	\$ —	\$ —
Accounts payable and accrued liabilities	12,106	12,106	—	—	—
Long-term debt	333	42	59	53	179
	\$ 19,475	\$ 19,184	\$ 59	\$ 53	\$ 179

See Note 8 for maturity of lease liabilities.

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 12.8% 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.

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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. The Company qualified for the Government of Canada's Canada Emergency Wage Subsidy (CEWS) program and has recorded amounts as disclosed in Note 12.

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18. 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 June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Salaries and Benefits	\$ 533	\$ 578	\$ 1,105	\$ 1,445
Board fees	184	165	396	346
Stock-based compensation	127	164	208	305
	<u>\$ 844</u>	<u>\$ 907</u>	<u>\$ 1,709</u>	<u>\$ 2,096</u>

19. SUBSEQUENT EVENTS

On May 21, 2020, the Company announced its intention to make a Substantial Issuer Bid (SIB) to purchase for cancellation up to \$20 million of its outstanding common shares from shareholders for cash by way of modified-Dutch auction with a price range of between \$1.95 and \$2.15 per share. The SIB commenced on June 1, 2020 and expired on July 7, 2020.

On July 7, 2020, the Company repurchased for cancellation 2,687,981 common shares at a purchase price of \$2.15 per share totaling \$5.8 million under this SIB.

20. 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 June 30, 2020, the comparative information for the three months ended June 30, 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.

Quarterhill Inc.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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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
	US\$	US\$	US\$	CAD\$	US\$	CAD\$
As at						
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 liabilities	—		—	—	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

Quarterhill Inc.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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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

Quarterhill Inc.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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Reconciliation of Statement of Income (loss) to IFRS for the three months ended June 30, 2019

	US GAAP, as reported	IFRS adjustments	IFRS	IFRS	Viziya Dis Ops	IFRS Restated
	US\$	US\$	US\$	CAD\$	CAD\$	CAD\$
CONTINUING OPERATIONS						
Revenues						
License	25,581		25,581	34,220	1,413	32,807
Systems	10,492		10,492	14,035	—	14,035
Services	547		547	732	732	—
Recurring	5,736		5,736	7,673	1,637	6,036
	42,356	0	42,356	56,660	3,782	52,878
Direct cost of revenues						
License	11,987		11,987	16,035	—	16,035
Systems	6,863		6,863	9,181	—	9,181
Services	356		356	476	476	—
Recurring	2,625		2,625	3,511	—	3,511
	21,831	0	21,831	29,203	476	28,727
Gross profit	20,525	0	20,525	27,457	3,306	24,151
Operating expenses						
Depreciation of right-of-use assets	—	231	231	309	30	279
Depreciation of property, plant and equipment	362	—	362	484	48	436
Amortization of intangibles	5,213	—	5,213	6,973	1,013	5,960
Selling, general and administrative expenses	6,650	(314)	6,336	8,476	1,901	6,575
Research and development expenses	1,237	(35)	1,202	1,608	829	779
Special charges	11,180	—	11,180	14,955	—	14,955
	24,642	(118)	24,524	32,805	3,821	28,984
Results from operations	(4,117)	118	(3,999)	(5,348)	(515)	(4,833)
Finance income	(291)	0	(291)	(389)	—	(389)
Finance expense	235	41	276	369	5	364
Foreign exchange loss	80	0	80	107	20	87
Other income	(180)	0	(180)	(241)	—	(241)
Loss before taxes	(3,961)	77	(3,884)	(5,194)	(540)	(4,654)
Current income tax (recovery) expense	(8)	35	27	36	1	35
Deferred income tax expense (recovery)	517	12	529	708	(235)	943
Income tax expense (recovery)	509	47	556	744	(234)	978
Net (loss) income from continuing operations	(4,470)	30	(4,440)	(5,938)	(306)	(5,632)
Net loss from discontinued operations						(306)
Net loss						(5,938)
Other comprehensive loss that may be reclassified subsequently to loss:						
Foreign currency translation adjustment						(4,290)
Comprehensive loss						\$ (10,228)
Net loss per share						
From continuing operations	\$(0.04)	0	\$(0.04)	\$(0.05)	\$0.00	\$(0.05)
From discontinued operations						\$0.00
Net loss per share - Basic						\$(0.05)

Quarterhill Inc.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

From continuing operations	\$(0.04)	0	\$(0.04)	\$(0.05)	\$0.00	\$(0.05)
From discontinued operations						\$0.00
Net loss per share - Diluted						\$(0.05)

Quarterhill Inc.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

Reconciliation of Statement of Income (loss) to IFRS for the six months ended June 30, 2019

	US GAAP, as reported	IFRS adjustments	IFRS	IFRS	Viziya Dis Ops	IFRS Restated
	US\$	US\$	US\$	CAD\$	CAD\$	CAD\$
CONTINUING OPERATIONS						
Revenues						
License	53,561		53,561	71,419	1,892	69,527
Systems	16,094		16,094	21,483	—	21,483
Services	1,193		1,193	1,591	1,591	—
Recurring	11,346		11,346	15,131	3,457	11,674
	82,194	—	82,194	109,624	6,940	102,684
Direct cost of revenues						
License	24,793		24,793	33,061	23	33,038
Systems	10,656		10,656	14,224	—	14,224
Services	646		646	862	862	—
Recurring	5,529		5,529	7,372	—	7,372
	41,624	—	41,624	55,519	885	54,634
Gross profit	40,570	—	40,570	54,105	6,055	48,050
Operating expenses						
Depreciation of right-of-use assets	—	620	620	826	60	766
Depreciation of property, plant and equipment	740	—	740	987	89	898
Amortization of intangibles	10,444	—	10,444	13,928	2,019	11,909
Selling, general and administrative expenses	13,237	(653)	12,584	16,783	3,964	12,819
Research and development expenses	2,416	(71)	2,345	3,128	1,611	1,517
Special charges	12,477	—	12,477	16,679	—	16,679
	39,314	(104)	39,210	52,331	7,743	44,588
Results from operations	1,256	104	1,360	1,774	(1,688)	3,462
Finance income	(493)	—	(493)	(658)	—	(658)
Finance expense	279	77	356	476	11	465
Foreign exchange loss	322	—	322	429	64	365
Other income	(254)	—	(254)	(339)	—	(339)
Income (Loss) before taxes	1,402	27	1,429	1,866	(1,763)	3,629
Current income tax expense	4,033	71	4,104	5,456	1	5,455
Deferred income tax expense (recovery)	1,810	(12)	1,798	2,395	(672)	3,067
Income tax expense (recovery)	5,843	59	5,902	7,851	(671)	8,522
Net loss from continuing operations	(4,441)	(32)	(4,473)	(5,985)	(1,092)	(4,893)
Net loss from discontinued operations						(1,092)
Net loss						(5,985)

Other comprehensive loss that may be reclassified subsequently to loss:

Foreign currency translation adjustment	(8,869)
Comprehensive loss	\$ (14,854)

Net loss per share

From continuing operations	\$(0.04)	\$0.00	\$(0.04)	\$(0.05)	\$(0.01)	\$(0.04)
From discontinued operations						\$(0.01)
Net loss per share - Basic						\$(0.05)

Quarterhill Inc.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

From continuing operations	\$(0.04)	\$0.00	\$(0.04)	\$(0.05)	\$(0.01)	\$(0.04)
From discontinued operations						\$(0.01)
Net loss per share - Diluted						\$(0.05)

Quarterhill Inc.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(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, as reported	IFRS adjustments	IFRS	IFRS	Viziya Dis Ops	IFRS Restated
	US\$	US\$	US\$	CAD\$	CAD\$	CAD\$
Revenues						
License	\$ 87,068		\$ 87,068	\$115,653	\$ 11,122	\$104,531
Systems	36,108		36,108	47,905	—	47,905
Services	2,490		2,490	3,303	3,303	—
Recurring	21,054		21,054	27,947	7,458	20,489
	146,720	—	146,720	194,808	21,883	172,925
Direct cost of revenues						
License	40,012		40,012	53,153	23	53,130
Systems	22,550		22,550	29,926	—	29,926
Services	1,509		1,509	2,001	2,001	—
Recurring	9,762		9,762	12,961	—	12,961
	73,833	—	73,833	98,041	2,024	96,017
Gross profit	72,887	—	72,887	96,767	19,859	76,908
Operating expenses						
Depreciation of right-of-use assets	—	1,072	1,072	1,423	118	1,305
Depreciation of property, plant and equipment	1,112		1,112	1,478	182	1,296
Amortization of intangibles	20,592		20,592	27,325	4,020	23,305
Selling, general and administrative expenses	28,722	(1,132)	27,590	36,593	9,874	26,719
Research and development expenses	5,133	(215)	4,918	6,525	3,651	2,874
Impairment losses on intangibles	87	—	87	115	—	115
Special charges	2,173		2,173	3,073	1,134	1,939
	57,819	(275)	57,544	76,532	18,979	57,553
Results from operations	15,068	275	15,343	20,235	880	19,355
Finance income	(1,256)		(1,256)	(1,665)	—	(1,665)
Finance expense	394	176	570	761	21	740
Foreign exchange loss	266		266	355	31	324
Other income	(658)		(658)	(872)	(3)	(869)
Income before taxes	16,322	99	16,421	21,656	831	20,825
Current income tax expense	5,991	215	6,206	8,232	115	8,117
Deferred income tax (recovery) expense	(197)	(31)	(228)	(280)	(853)	573
Income tax expense	5,794	184	5,978	7,952	(738)	8,690
Net income from continuing operations	10,528	(85)	10,443	13,704	1,569	12,135
Net income from discontinued operations						\$ 1,569
Net income						\$ 13,704
Other comprehensive income (loss) that may be reclassified subsequently to net income (loss):						
Foreign currency translation adjustment						(11,916)
Comprehensive income						\$ 1,788
Net income per share						
From continuing operations	\$0.09	\$0.00	\$0.09	\$0.12		\$0.10
From discontinued operations						\$0.01
Net income per share - Basic						\$0.12

Quarterhill Inc.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

From continuing operations	\$0.09	\$0.00	\$0.09	\$0.12	\$0.10
From discontinued operations					\$0.01
Net income per share - Diluted					\$0.12

Quarterhill Inc.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

(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 June 30, 2019

	US GAAP, as reported	IFRS adjustments	IFRS	IFRS	IFRS - Restated
	US\$	US\$	US\$	CAD\$	CAD\$
Cash generated from (used in) Operations					
Net loss from continuing operations	\$ (4,470)	30	\$ (4,440)	\$ (5,938)	\$ (5,632)
Non-cash items					
Stock-based compensation expense	228		228	305	285
Depreciation of right-of-use assets	—	231	231	309	279
Interest expense on lease liabilities	—	41	41	54	54
Depreciation and amortization	5,575		5,575	7,458	6,396
Foreign exchange (gain) loss	(34)		(34)	(45)	(45)
Equity in earnings from joint venture	(177)		(177)	(237)	(241)
(Gain) loss on disposal of assets	587		587	785	785
Deferred income tax (recovery) expense	517	12	529	708	943
Long-term accounts receivable	18		18	24	—
Embedded derivatives	29		29	39	39
Contingent consideration adjustment	10,648		10,648	14,244	14,244
Changes in non-cash working capital balances					
Accounts receivable	28,099		28,099	37,588	36,744
Unbilled revenue	(2,263)		(2,263)	(3,027)	(3,027)
Income taxes receivable	(54)		(54)	(72)	(72)
Inventories	(159)		(159)	(213)	(213)
Prepaid expenses and deposits	(284)		(284)	(380)	(278)
Deferred revenue	(941)		(941)	(1,259)	(771)
Accounts payable and accrued liabilities	(3,248)		(3,248)	(4,345)	(4,423)
Income taxes payable	(26)		(26)	(35)	(35)
Cash generated from continuing operations	34,045	314	34,359	45,963	45,032
Net cash flows attributable to discontinuing operations					928
Net cash generated from operating activities					45,960
Financing					
Dividends paid	(1,101)		(1,101)	(1,473)	(1,473)
Bank indebtedness	1,844		1,844	2,467	2,467
Payment of lease liabilities	—	(314)	(314)	(420)	(420)
Repayment of long-term debt	(212)		(212)	(284)	(276)
Cash generated from (used in) continuing operations	531	(314)	217	290	298
Net cash flows attributable to discontinuing operations					(8)
Net cash generated from financing activities					290
Investing					
Purchase of property and equipment	(308)		(308)	(412)	(381)
Purchase of intangibles	(73)		(73)	(98)	(98)
Cash generated used in continuing operations	(381)	—	(381)	(510)	(479)
Net cash flows attributable to discontinuing operations			—	—	(31)

Quarterhill Inc.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

Net cash used in investing activities						(510)
Foreign exchange gain (loss) on cash held in foreign currency		33		33	(1,954)	(1,951)
Net increase in cash and cash equivalents	\$	34,228	\$	—	\$ 34,228	\$ 43,789
Cash and cash equivalents, beginning of period		50,406		—	50,406	67,294
Cash and cash equivalents, end of period	\$	84,634	\$	—	\$ 84,634	\$ 113,083

Quarterhill Inc.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

Reconciliation of Statement of Cash Flows to IFRS for the six months ended June 30, 2019

	US GAAP, as reported	IFRS adjustments	IFRS	IFRS	IFRS - Restated
	US\$	US\$	US\$	CAD\$	CAD\$
Cash generated from (used in) Operations					
Net loss from continuing operations	\$ (4,441)	(32)	\$ (4,473)	\$ (5,985)	\$ (4,893)
Non-cash items					
Stock-based compensation expense	409	—	409	546	507
Depreciation of right-of-use assets	—	620	620	826	766
Interest expense on lease liabilities	—	77	77	103	103
Depreciation and amortization	11,184	—	11,184	14,915	12,807
Foreign exchange (gain) loss	(96)	—	(96)	(127)	(127)
Equity in earnings from joint venture	(251)	—	(251)	(335)	(339)
Loss on disposal of assets	587	—	587	785	785
Deferred income tax expense (recovery)	1,810	(12)	1,798	2,395	3,067
Long-term accounts receivable	18	—	18	24	(85)
Embedded derivatives	99	—	99	132	132
Contingent consideration adjustment	10,648	—	10,648	14,244	12,244
Changes in non-cash working capital balances					
Accounts receivable	1,101	—	1,101	1,694	1,697
Unbilled revenue	(2,622)	—	(2,622)	(3,504)	(3,504)
Income taxes receivable	147	—	147	195	195
Inventories	(138)	—	(138)	(185)	(185)
Prepaid expenses and deposits	(171)	—	(171)	(230)	(4)
Deferred revenue	(118)	—	(118)	(165)	(331)
Accounts payable and accrued liabilities	3,514	—	3,514	4,645	4,269
Income taxes payable	37	—	37	49	49
Cash generated from continuing operations	21,717	653	22,370	30,022	29,153
Net cash flows attributable to discontinuing operations					869
Net cash generated from operating activities					30,022
Financing					
Dividends paid	(2,231)	—	(2,231)	(2,975)	(2,975)
Bank indebtedness	1,916	—	1,916	2,563	2,566
Payment of lease liabilities	—	(653)	(653)	(871)	(871)
Repayment of long-term debt	(236)	—	(236)	(316)	(300)
Cash used in continuing operations	(551)	(653)	(1,204)	(1,599)	(1,580)
Net cash flows attributable to discontinuing operations	—	—	—	—	(19)
Net cash used in financing activities					(1,599)
Investing					
Purchase of property and equipment	(466)	—	(466)	(622)	(499)
Purchase of intangibles	(93)	—	(93)	(125)	(125)
Cash used in continuing operations	(559)	—	(559)	(747)	(624)
Net cash flows attributable to discontinuing operations					(123)
Net cash used in investing activities					(747)
Foreign exchange gain (loss) on cash held in foreign currency	98	—	98	(3,622)	(3,622)
Net increase in cash and cash equivalents	\$ 20,705	\$ —	\$ 20,705	\$ 24,054	\$ 24,054

Quarterhill Inc.**NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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(Unaudited)

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

Cash and cash equivalents, beginning of period	63,929	—	63,929	87,029	87,029
Cash and cash equivalents, end of period	\$ 84,634	\$ —	\$ 84,634	\$ 111,083	\$ 111,083

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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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:

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three and six months ended June 30, 2020 and 2019

(Unaudited)

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

- 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.