Quarterhill Inc.

2024 Second Quarter

Interim Condensed Consolidated Financial Statements

(Unaudited)

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

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

	Note	Three months ended June 30, 2024	Three months ended June 30, 2023	Six months ended June 30, 2024	Six months ended June 30, 2023
			(restated, notes 2, 19)		(restated, notes 2, 19)
Revenues	8	**$41,513**	$38,623	**$76,410**	$66,969
Direct cost of revenues		**32,997**	28,616	**61,537**	53,205
Gross profit		**8,516**	10,007	**14,873**	13,764
Operating expenses					
Selling, general and administrative expenses		**7,073**	6,132	**13,448**	13,090
Research and development expenses		**479**	1,008	**796**	1,877
Depreciation of right-of-use assets		**364**	384	**708**	721
Depreciation of property, plant and equipment		**383**	407	**760**	818
Amortization of intangible assets		**2,140**	2,088	**4,377**	4,175
Other charges	15	**321**	555	**1,155**	1,519
		10,760	10,574	**21,244**	22,200
Results from operations		**(2,244)**	(567)	**(6,371)**	(8,436)
Finance income		**(97)**	(27)	**(365)**	(60)
Finance expense		**1,651**	1,731	**3,356**	3,368
Foreign exchange (gain) loss		**(387)**	769	**(1,497)**	1,104
Other income		**(267)**	(227)	**(134)**	(458)
Change in fair value of derivative liability		**(432)**	(11)	**(927)**	(215)
Loss before taxes		**(2,712)**	(2,802)	**(6,804)**	(12,175)
Current income tax expense (recovery)		**272**	(2,688)	**345**	(2,570)
Deferred income tax (recovery) expense		**(17)**	10,073	**36**	9,665
Income tax expense		**255**	7,385	**381**	7,095
Net loss from continuing operations		**(2,967)**	(10,187)	**(7,185)**	(19,270)
Net loss from discontinued operations	5	**-**	(11,594)	**-**	(14,061)
Net loss		**(2,967)**	(21,781)	**(7,185)**	(33,331)
Other comprehensive loss that may be reclassified subsequently to net loss:					
Foreign currency translation adjustment		**(247)**	(2,905)	**(932)**	(2,590)
Comprehensive loss		**($3,214)**	($24,686)	**($8,117)**	($35,921)
Loss per share - Basic					
From continuing operations		**($0.03)**	($0.09)	**($0.06)**	($0.17)
From discontinued operations		**-**	(0.10)	**-**	(0.12)
Loss per share - Basic	16	**($0.03)**	($0.19)	**($0.06)**	($0.29)
Loss per share - Diluted					
From continuing operations		**($0.03)**	($0.09)	**($0.06)**	($0.17)
From discontinued operations		**-**	(0.10)	**-**	(0.12)
Loss per share - Diluted	16	**($0.03)**	($0.19)	**($0.06)**	($0.29)

See accompanying notes to these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Financial Position (Unaudited)

(in thousands and in United States dollars)

As at	Note	**June 30, 2024**	December 31, 2023	January 1, 2023
			(restated, notes 2, 19)	(restated, notes 2, 19)
Current assets				
Cash and cash equivalents		**$24,041**	$42,733	$48,905
Short-term investments		**-**	-	1,142
Restricted short-term investments		**-**	-	4,812
Accounts receivable, net		**29,396**	27,291	17,155
Unbilled revenue	8	**39,465**	34,247	30,529
Income taxes receivable		**130**	-	251
Inventories (net of obsolescence)		**11,453**	10,760	10,076
Prepaid expenses and deposits		**4,067**	4,795	5,050
		108,552	119,826	117,920
Non-current assets				
Accounts and other long-term receivables	5	**4,516**	4,364	397
Long-term prepaid expenses and deposits		**-**	-	1,257
Right-of-use assets, net		**5,452**	5,288	7,600
Property, plant and equipment, net		**3,786**	4,136	5,104
Intangible assets, net		**79,799**	79,092	104,164
Investment in joint venture	9	**4,782**	5,054	5,712
Investment in other entity	5, 10	**2,898**	2,898	-
Deferred compensation asset	11	**1,048**	952	991
Deferred income tax assets		**-**	-	18,903
Goodwill	4	**31,046**	29,019	41,556
		133,327	130,803	185,684
TOTAL ASSETS		**$241,879**	$250,629	$303,604
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		**$28,350**	$30,330	$34,685
Income taxes payable		**734**	662	724
Current portion of lease liabilities		**2,056**	1,954	1,924
Current portion of deferred revenue	8	**6,869**	5,806	6,295
Current portion of long-term debt	12	**2,125**	2,125	21,588
Convertible debentures	2, 13	**37,840**	38,196	35,655
Derivative liability	2, 13	**1,296**	2,290	1,316
		79,270	81,363	102,187
Non-current liabilities				
Deferred revenue	8	**1,252**	621	2,022
Long-term lease liabilities		**5,529**	5,727	7,116
Long-term debt	12	**16,293**	17,312	-
Deferred compensation liabilities	11	**1,065**	945	862
Deferred income tax liabilities		**2,032**	1,221	1,519
		26,171	25,826	11,519
TOTAL LIABILITIES		**105,441**	107,189	113,706
Shareholders' equity				
Capital stock	14	**314,119**	313,738	401,248
Contributed surplus		**126,863**	126,129	37,545
Accumulated other comprehensive income		**14,720**	15,652	15,928
Deficit		**(319,264)**	(312,079)	(264,823)
		136,438	143,440	189,898
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$241,879**	$250,629	$303,604

See accompanying notes to these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands and in United States dollars)

	Note	Three months ended June 30, 2024	Three months ended June 30, 2023 (restated, note 2)	Six months ended June 30, 2024	Six months ended June 30, 2023 (restated, note 2)
Operating activities:					
Net loss from continuing operations		**($2,967)**	($10,187)	**($7,185)**	($19,270)
Add (deduct) non-cash items:					
Stock-based compensation expense		**708**	39	**1,212**	270
Depreciation and amortization		**2,887**	2,879	**5,845**	5,714
Foreign exchange (gain) loss		**(387)**	769	**(1,497)**	1,104
Other income		**(315)**	(227)	**(134)**	(458)
Deferred and non-cash income tax (recovery) expense		**(17)**	10,073	**36**	9,665
Embedded derivatives		**(33)**	-	**6**	93
Change in fair value of derivative liability	13	**(432)**	(11)	**(927)**	(215)
Non-cash interest expense		**552**	873	**1,092**	1,351
Net change in non-cash working capital balances	18	**806**	(11,083)	**(7,760)**	(11,704)
Cash generated from (used in) continuing operations		**802**	(6,875)	**(9,312)**	(13,450)
Net operating cash flows attributable to discontinued operations		**-**	(3,378)	**-**	(4,685)
Net cash generated from (used in) operating activities		**802**	(10,253)	**(9,312)**	(18,135)
Financing activities:					
Dividends paid		**-**	(1,067)	**-**	(2,127)
Payment of lease liabilities		**(561)**	(436)	**(1,138)**	(828)
Repayment of long-term debt		**(531)**	(625)	**(1,062)**	(1,250)
Cash used in financing activities		**(1,092)**	(2,128)	**(2,200)**	(4,205)
Net financing cash flows attributable to discontinued operations		**-**	(51)	**-**	(100)
Net cash used in financing activities		**(1,092)**	(2,179)	**(2,200)**	(4,305)
Investing activities:					
Net proceeds from disposition of a subsidiary		**-**	32,021	**-**	32,021
Cash sold on disposition of a subsidiary		**-**	(8,000)	**-**	(8,000)
Acquisition of business, Red Fox	4	**(7,181)**	-	**(7,181)**	-
Cash acquired on acquisition of business, Red Fox	4	**2,296**	-	**2,296**	-
Proceeds from sale of property, plant and equipment		**10**	-	**10**	-
Purchase of property, plant and equipment		**(344)**	(305)	**(545)**	(638)
Capitalized software costs		**(650)**	(932)	**(1,373)**	(2,316)
Cash (used in) generated from investing activities		**(5,869)**	22,784	**(6,793)**	21,067
Net investing cash flows attributable to discontinued operations		**-**	1,194	**-**	1,194
Net cash used in investing activities		**(5,869)**	23,978	**(6,793)**	22,261
Foreign exchange on cash held in foreign currencies		**(223)**	(2,514)	**(386)**	(2,692)
Net (decrease) increase in cash and cash equivalents		**(6,382)**	9,032	**(18,692)**	(2,871)
Cash and cash equivalents, beginning of period		**30,423**	37,002	**42,733**	48,905
Cash and cash equivalents, end of period		**$24,041**	$46,034	**$24,041**	$46,034

See accompanying notes to these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Shareholders' Equity (Unaudited)

QUARTERHILL

(in thousands and in United States dollars)

	Note	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity
Balance, January 1, 2023 (restated)	2	$401,248	$37,545	$15,928	($264,823)	$189,898
Net loss		-	-	-	(33,331)	(33,331)
Other comprehensive loss		-	-	(2,590)	-	(2,590)
Stock-based compensation expense		-	288	-	-	288
Common shares issued from restricted stock units		60	(63)	-	-	(3)
Reduction of stated capital	14	(87,948)	87,948	-	-	-
Dividends declared	14	-	-	-	(1,060)	(1,060)
Balance, June 30, 2023		$313,360	$125,718	$13,338	($299,214)	$153,202
Balance, January 1, 2024		**$313,738**	**$126,129**	**$15,652**	**($312,079)**	**$143,440**
Net loss		**-**	**-**	**-**	**(7,185)**	**(7,185)**
Other comprehensive loss		**-**	**-**	**(932)**	**-**	**(932)**
Stock-based compensation expense		**-**	**1,212**	**-**	**-**	**1,212**
Common shares issued from restricted stock units	**14**	**326**	**(423)**	**-**	**-**	**(97)**
Common shares issued from deferred stock units	**14**	**55**	**(55)**	**-**	**-**	**-**
Balance, June 30, 2024		**$314,119**	**$126,863**	**$14,720**	**($319,264)**	**$136,438**

See accompanying notes to these interim condensed consolidated financial statements.

1. NATURE OF BUSINESS

Quarterhill Inc. (“Quarterhill” or the “Company”) is a Canadian company incorporated and domiciled in Canada. The address of the Company's registered office is 200 Bay Street, Suite 1200, Toronto, Ontario, M5J 2J2. The Company's shares are listed under the symbol “QTRH” on the Toronto Stock Exchange (the “TSX”) and on the United States OTCQX Best Market under the symbol “QTRHF”. Quarterhill is focused on the acquisition, management and growth of companies that provide integrated, tolling and mobility systems and solutions to the intelligent transportation systems ("ITS") industry as well as its adjacent markets.

On June 15, 2023, the Company sold its investment in WiLAN Inc. and its related entities (“WiLAN”), which represented the Licensing segment. The results of WiLAN have been presented as discontinued operations in the Company’s interim condensed consolidated financial statements and further disclosed in Note 5, Discontinued Operations.

2. MATERIAL ACCOUNTING POLICY INFORMATION

Basis of presentation

Statement of compliance

These interim condensed consolidated financial statements (“financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and, specifically, IAS 34, *Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). These financial statements do not include all of the information required in the annual financial statements and should be read in conjunction with the Company’s annual consolidated financial statements as at and for the year ended December 31, 2023.

The preparation of these financial statements in accordance with IAS 34 requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in adjustment to the carrying amount of an asset or liability or the reported amounts of revenue and expenses in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, were the same as those that applied to the Company's annual consolidated financial statements as at and for the year ended December 31, 2023.

The accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements as at and for the year ended December 31, 2023, apart from any listed below. Several amendments apply for the first time in the current fiscal year, but do not have an impact on the financial statements of the Company. The Company has not early-adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Functional and presentation currency
Effective January 1, 2023, the Company changed the presentation currency of its financial statements to United States ("US") dollars, the functional currency of Quarterhill. A significant proportion of the Company's sales, expenses, assets and liabilities are denominated in US dollars. This change in presentation currency aims to enhance external stakeholders' ability to assess the financial performance of the Company and to reduce the impact of foreign exchange volatility.

For the prior year comparative periods, assets and liabilities presented and previously reported in Canadian dollars have been translated to US dollars using year-end exchange rates of 0.7547 (December 31, 2023) and 0.7370 (January 1, 2023). Consolidated statements of loss and comprehensive loss previously reported for the year ended December 31, 2023 have been translated using average quarterly exchange rates of 0.7398, 0.7447, 0.7455 and 0.7350 for the three-month periods ending March 31, 2023, June 30, 2023, September 30, 2023 and December 31, 2023, respectively. Retained earnings and historical equity transactions were recorded at the historical exchange rate of the transactions. Foreign currency differences arising from the translation were recognized in accumulated other comprehensive income. The effects of the change in presentation currency are detailed in note 19.

Classification of liabilities as current or non-current
The Company has adopted amendments to paragraphs 69 - 76 of IAS 1, *Presentation of Financial Statements* to clarify the requirements for classifying liabilities as current or non-current. The amendments specify that the conditions that exist at the end of a reporting period are those that will be used to determine if a right to defer settlement of a liability exists. The amendments define the settlement of a liability to include settlement by transfer of the Company's own equity instruments. As a result, the convertible debentures and related derivative liability have been retrospectively classified on the interim condensed consolidated statements of financial position to current liabilities.

These financial statements were authorized for issue by the Board of Directors on August 7, 2024.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

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

Amendments to IAS 21, *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability*
In August 2023, the IASB issued *Lack of Exchangeability* (Amendments to IAS 21), which specifies how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments will be effective for annual periods on or after January 1, 2025, with early adoption permitted. Comparative information cannot be restated when applying the amendments.

3. FUTURE ACCOUNTING PRONOUNCEMENTS (continued)

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

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

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

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

4. BUSINESS COMBINATIONS

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

On April 8, 2024, the Company acquired 100% of the issued and outstanding shares of Red Fox I.D. Limited ("Red Fox") through a combination of cash and equity. Based in England, Red Fox is a provider of Automatic Vehicle Detection and Classification ("AVDC") software to the tolling industry. AVDC is responsible for the detection, classification and tracking of a vehicle as it enters and exits a tolling facility. The transaction, valued at $7,367 (GBP £5,835), was financed through the Company's cash reserves.

The following table summarizes the fair value allocation of identifiable assets acquired and liabilities assumed on the acquisition closing date:

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

4. BUSINESS COMBINATIONS (continued)

Cash consideration paid	**$7,181**
Contingent consideration	**695**
Total consideration	**7,876**
Settlement of pre-existing relationship	**(509)**
Total consideration paid for acquisition of Red Fox	**7,367**

Identifiable net assets acquired at fair value:	
Cash and cash equivalents	**$2,296**
Accounts receivable	**148**
Inventories	**50**
Prepaid expenses and deposits	**23**
Property, plant and equipment	**31**
Intangible assets	
Customer relationships	**2,185**
Developed software	**1,440**
Goodwill	**2,105**
Accounts payable and accrued liabilities	**(96)**
Deferred revenue	**(20)**
Net deferred income tax liabilities	**(795)**
Total identifiable net assets at fair value	**$7,367**

The fair values of the assets and liabilities associated with the acquisition of Red Fox were not finalized by the date these financial statements were approved by the Board of Directors on August 7, 2024, and therefore are provisional. The provisional items include intangible assets and deferred tax liabilities due to pending third party valuations. Fair values assigned to these assets and liabilities may be subsequently adjusted with a corresponding adjustment to goodwill prior to one year after the date of acquisition, which is April 8, 2025.

The goodwill recognized is attributable to intangible assets that do not qualify for separate recognition and may include expected synergies with the Company's existing businesses, and expected growth in the markets that they serve.

Total transaction costs related to the acquisition were $349. These costs are included within the interim condensed consolidated statements of loss and comprehensive loss as special charges.

For the three months ended June 30, 2024, revenues and net loss relating to Red Fox were $31 and $367. If the Red Fox acquisition had been completed as of January 1, 2024, the Company estimates that this subsidiary's revenues and net income would have been $1,467 and $481 for the six months ended June 30, 2024.

Reconciliation of the carrying amount of goodwill at beginning and end of reporting period is presented below:

Balance, January 1, 2024	**$29,019**
Acquisition of Red Fox	**2,105**
Currency translation	**(78)**
Balance, June 30, 2024	**$31,046**

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

5. DISCONTINUED OPERATIONS

On June 15, 2023, the Company sold its investment in WiLAN for an estimated fair market value of $40,722. Equity consideration retained consists of 10% of WiLAN currently recognized at fair market value. The contingent consideration has also been fair valued using Level 3 inputs and is recorded on the interim condensed consolidated statements of financial position in accounts and other long-term receivables. WiLAN represented the Company's Licensing segment since its inception and, thus, following disposition, the Company has a single operating segment, comprised solely of its ITS operations.

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

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	**2024**	2023
Revenues	-	$129	-	$4,373
Direct cost of revenues	-	1,526	-	6,077
Gross loss	-	(1,397)	-	(1,704)
Operating expenses	-	2,376	-	5,896
Results from operations	-	(3,773)	-	(7,600)
Other income	-	(254)	-	(226)
Loss before taxes	-	(3,519)	-	(7,374)
Current income tax recovery	-	(291)	-	(279)
Deferred income tax recovery	-	(1,100)	-	(2,500)
Loss from discontinued operations	-	(2,128)	-	(4,595)
Loss on disposal, before tax	-	6,503	-	6,503
Income tax expense on disposal	-	2,963	-	2,963
Net loss from discontinued operations	-	($11,594)	-	($14,061)

6. SEASONALITY AND ONE-TIME NATURE OF REVENUES

Interim period revenues, gross profit and net income or loss are not necessarily indicative of the results of operations for the full fiscal year. Seasonal weather conditions in the North American operations in particular may impact installation for certain projects, potentially resulting in lower revenues in the first quarter of a fiscal year, while subsequent quarters are generally when project and service contracts are most active, resulting in higher revenues, gross profit and net income during these periods.

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

7. FINANCIAL INSTRUMENTS

Derivatives include the embedded derivative portion of the unearned revenue of US dollar denominated sales contracts in the Company's Canadian, Chilean and Mexican subsidiaries. The fair value of sales contract embedded derivatives is measured using a market approach, based on the difference between quoted forward exchange rates as of the contract date and quoted forward exchange rates as of the reporting date. Derivatives also include the derivative liability portion of convertible debentures and are measured using the Black-Scholes option pricing model. The fair value of convertible debentures and long-term debt approximates carrying value as these instruments bear interest at market rates. The carrying amount of the Company's other financial assets and liabilities, including cash and cash equivalents, short-term investments, restricted short-term investments, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, and deferred revenue approximates their fair values due to the short-term maturity of these items.

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

8. UNBILLED REVENUE AND DEFERRED REVENUE

Significant changes in unbilled revenue and deferred revenue balances during the six months ended June 30, 2024 are as follows:

As at	**June 30, 2024**	December 31, 2023	$ Change
Unbilled revenue	**$39,465**	$34,247	$5,218
Deferred revenue - current	**(6,869)**	(5,806)	(1,063)
Deferred revenue - non-current	**(1,252)**	(621)	(631)
Net contract assets	**$31,344**	$27,820	$3,524

Revenue recognized for the three and six months ended June 30, 2024 that was included in deferred revenue at the beginning of the period was $806 and $3,289, respectively (2023- $1,708 and $2,898, respectively).

9. INVESTMENT IN JOINT VENTURE

	June 30, 2024	December 31, 2023
Balance, beginning of period	**$5,054**	$5,712
Currency loss on financial statement translation	**(221)**	(328)
Company's share of (loss) earnings (recorded in other income)	**(51)**	375
Dividend received	**-**	(705)
Balance, end of period	**$4,782**	$5,054

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

9. INVESTMENT IN JOINT VENTURE (continued)

Xuzhou-PAT Control Technologies Limited (“XPCT”) is a joint venture in China in which the Company’s subsidiary, International Road Dynamics Inc. (“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 no sales to XPCT during the six months ended June 30, 2024 (2023- $8). As at June 30, 2024, XPCT had no amounts owing to IRD (December 31, 2023 - $nil).

As at June 30, 2024, IRD has an outstanding 100% joint and several liability guarantee to XPCT, for a loan in the amount of 15,000 yuan, or $2,064 (December 31, 2023 - $2,119); however, IRD can seek recourse against its joint venture partner for any amount greater than IRD's proportionate share of the liability. The amount owing represents the maximum amount available to be drawn under this facility.

10. INVESTMENT IN OTHER ENTITY

On June 15, 2023, as part of the consideration for the sale of WiLAN, the Company retained a 10% equity stake in WiLAN. The investment is recorded at fair value using Level 3 inputs, with changes in fair value recognized through profit or loss. As at June 30, 2024, the investment in WiLAN is valued at $2,898 (December 31, 2023 - $2,898).

11. DEFERRED COMPENSATION

The Company's subsidiary, Electronic Transaction Consultants, LLC (“ETC”), provides a deferred compensation plan that enables upper-level management and executives to defer compensation until retirement. ETC funds these deferred compensation liabilities by making contributions to a trust invested in various mutual funds, presented as a deferred compensation asset on the financial statements.

12. LONG-TERM DEBT

As at	**June 30, 2024**	December 31, 2023
Senior term credit facility:		
$50,000 due September 1, 2026	**$18,594**	$19,657
Less: current portion of long-term debt	**(2,125)**	(2,125)
Debt issuance costs, net of amortization	**(176)**	(220)
Total long-term debt	**$16,293**	$17,312

During the year ended December 31, 2021, Quarterhill ITS, the parent company of IRD and ETC and wholly owned subsidiary of Quarterhill, entered into a credit agreement to receive senior secured credit facilities from HSBC Bank Canada and Royal Bank of Canada consisting of a revolving credit facility in the maximum amount of $15,000 and a term credit facility of $50,000. These credit facilities replaced all existing facilities the Company had with HSBC Bank Canada. The interest rate for the facilities as at June 30, 2024 was 7.43% (December 31,

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

12. LONG-TERM DEBT (continued)

2023 – 6.74%). Both the facilities have a maturity date of September 1, 2026 with a general security agreement over all of the assets in North America of IRD, ETC and its parent holding company, Quarterhill USA Inc. The carrying value of these assets as at June 30, 2024 was $216,364.

During the six months ended June 30, 2024, no amounts were drawn from the revolving credit facility. Repayments, if any amounts are drawn, on the revolving credit facility are ultimately due on the maturity date.

On June 27, 2023 ("Amendment Date"), the Company finalized an amendment to its existing credit agreement. As of the Amendment Date, the balance on the term loan was $21,250. The amendment modifies certain terms and conditions of the credit agreement to provide the Company with additional flexibility in its covenant and cash management, including a waiver on the Senior Leverage Ratio for all reporting periods up to March 31, 2024 (the "Covenant Relief Period") and a reduction in the revolving credit facility from $15,000 to $5,000.

Repayment of principal on the term credit facility has been renegotiated to 2.5% of the balance as at the Amendment Date per quarter up to the maturity date, upon which the remaining balance is due.

The financial covenants the Company must maintain are as follows:

- A Fixed Charge Coverage Ratio of at least 1.20 to 1.00 on a rolling four-quarter basis. During the Covenant Relief Period, this covenant is satisfied through support of the parent company to Quarterhill ITS; and
- A Senior Leverage Ratio of not more than 3.00 to 1.00. This ratio may increase by 0.50 to 1.00 for the next two fiscal quarters immediately following an acquisition if the aggregate purchase price is equal to or greater than $20,000.

The Company was in compliance with all covenants as at June 30, 2024.

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

	Principal
To June 30, 2025	**$2,125**
To June 30, 2026	**2,125**
To September 1, 2026	**14,344**
	$18,594

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

13. CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY

The following table illustrates the allocation of the gross proceeds of the debentures between debt and equity at issuance and subsequent remeasurement:

	June 30, 2024	December 31, 2023
Convertible unsecured subordinated debentures:		
Gross proceeds	**$42,460**	$43,397
Convertible debentures, host debt component	**$38,587**	$39,122
Debt issuance costs, net of amortization	**(747)**	(926)
Convertible debentures	**$37,840**	$38,196
Convertible debentures, derivative liability component, opening	**$2,290**	$1,316
Currency (gain) loss on financial statement translation	**(67)**	61
Change in fair value of derivative liability	**(927)**	913
Derivative liability, ending	**$1,296**	$2,290

On October 27, 2021, the Company completed a brokered financing of Can$57,500 by way of the issuance of unsecured subordinated convertible debentures (the "Debentures"), which includes the full exercise of a Can$7,500 over allotment option by the underwriters. The Debentures are traded on the TSX under the symbol "QTRH.DB".

The Debentures have a coupon rate of 6%, payable semi-annually, with a maturity date of October 30, 2026 and an initial conversion price into common shares of Can$3.80. Each Debenture is convertible into common shares of the Company at the option of the holder at any time prior to the close of business on the earlier of the last business day immediately preceding the date of maturity of October 30, 2026 (the "Maturity Date"). Holders converting their Debentures will, in addition to the applicable number of common shares to be received on conversion, receive accrued and unpaid interest, if any, thereon for the period from the last interest payment date on their Debentures up to, but excluding, the date of conversion. Except in certain circumstances involving a "Change of Control", the Debentures will not be redeemable at the option of the Company before October 31, 2024. On or after October 31, 2024 and prior to October 31, 2025, the Debentures may be redeemed in whole or in part at the option of the Company on not more than 60 days' and not less than 30 days' prior notice at a price equal to the principal amount plus accrued and unpaid interest, provided that the volume-weighted average trading price of the common shares on the TSX for 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the then conversion price. On or after October 31, 2025 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part at the option of the Company on not more than 60 days' and not less than 30 days' prior notice at a price equal to their principal amount plus accrued and unpaid interest.

Effective January 1, 2024, the Company adopted amendments to paragraphs 69 - 76 of IAS 1, *Presentation of Financial Statements*. Due to the adoption of the amendments, convertible debentures and derivative liability have been retrospectively classified as current liabilities. See Note 2, Material Accounting Policy Information.

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

13. CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY (continued)

Assuming the conversion of all the Debentures, the Company will issue 15,131,579 common shares. The initial fair value of the conversion option was estimated at Can$9,533. The conversion option is considered a derivative because the exercise price is in Canadian dollars whereas the Company's functional currency is US dollars. Accordingly, the Company recognizes the conversion option as a liability at fair value with changes in fair value recognized through profit or loss. The fair value of the conversion option is calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

As at	**June 30, 2024**	December 31, 2023
Risk-free rate	**4.75%**	5.00%
Expected life (in years)	**2.33**	2.83
Expected volatility	**42%**	40%
Expected dividend yield	**0.0%**	0.0%
Share price	**Can$1.77**	Can$1.95

14. SHARE CAPITAL

The share capital of the Company consists of the following:

		Issued and Outstanding	
	Authorized	**June 30, 2024**	December 31, 2023
a) Common shares, with no par value	Unlimited	**115,363,994**	115,076,583
b) Special preferred, redeemable, retractable, non-voting shares	6,350.90	**Nil**	Nil
c) Preferred shares, issuable in series	Unlimited	**Nil**	Nil

	Number
January 1, 2023	114,639,700
Issuance of common shares upon vesting of restricted stock units	278,915
Conversion of deferred stock units to common shares	51,168
Exercise of stock options	106,800
December 31, 2023	115,076,583
Issuance of common shares upon vesting of restricted stock units	**242,022**
Conversion of deferred stock units to common shares	**45,389**
June 30, 2024	**115,363,994**

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

14. SHARE CAPITAL (continued)

The Company paid quarterly cash dividends as follows:

	Six months ended June 30,	
	2024	2023
Dividends declared per common share	-	Can$0.0125
Amount	-	$1,060

Stated capital reduction
On May 8, 2023, the Company's shareholders approved a reduction of the stated capital of the Company in the amount of Can$120,000 or $87,948. The purpose of the stated capital reduction was to grant the Board of Directors more flexibility in capital management, specifically in relation to its ability to distribute dividends. The reduction in stated capital was offset by a corresponding increase in contributed surplus.

15. OTHER CHARGES

Other charges within the interim condensed consolidated statements of loss and comprehensive loss include costs that relate to certain cost reduction initiatives that the Company has undertaken from time to time, acquisition and divestiture-related costs, and other charges. During the three and six months ended June 30, 2024 and June 30, 2023 the Company recognized other charges as follows:

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	**2024**	2023
Acquisition related costs	**$69**	-	**$349**	-
Severance costs	**252**	555	**806**	1,519
Other charges	**$321**	$555	**$1,155**	$1,519

The acquisition-related costs resulted from the purchase of Red Fox – see Note 4, Business Combinations.

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

16. LOSS PER SHARE

Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by dividing net loss by the adjusted weighted average number of common shares outstanding to assume conversion of all potential dilutive stock options to common shares.

	Three months ended June 30,		Six months ended June 30,	
	2024	2023	**2024**	2023
Numerator:				
Net loss from continuing operations	**($2,967)**	($10,187)	**($7,185)**	($19,270)
Net loss from discontinued operations	-	(11,594)	-	(14,061)
Net loss	**($2,967)**	($21,781)	**($7,185)**	($33,331)
Denominator:				
Weighted average number of common shares outstanding for basic loss per share	**115,274,980**	114,649,772	**115,186,092**	114,644,764
Weighted average number of common shares outstanding for diluted loss per share	**115,274,980**	114,649,772	**115,186,092**	114,644,764
From continuing operations	**($0.03)**	($0.09)	**($0.06)**	($0.17)
From discontinued operations	-	(0.10)	-	(0.12)
Basic loss per share	**($0.03)**	($0.19)	**($0.06)**	($0.29)
From continuing operations	**($0.03)**	($0.09)	**($0.06)**	($0.17)
From discontinued operations	-	(0.10)	-	(0.12)
Diluted loss per share	**($0.03)**	($0.19)	**($0.06)**	($0.29)

17. FINANCIAL RISK MANAGEMENT

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, restricted short-term investments, accounts receivable and unbilled revenue. The Company recognizes a loss allowance provision using the simplified approach based on lifetime expected credit losses. The Company's exposure to credit risk with its accounts receivable from customers is influenced mainly by the individual characteristics of each customer. The Company's customers are for the most part large multinational companies or government organizations that do not have a history of non-payment. Credit risk from accounts receivable encompasses the default risk of the Company's customers. Prior to entering into transactions with new customers, the Company assesses the risk of default associated with the particular customer. In addition, on an ongoing basis, management monitors the 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.

17. FINANCIAL RISK MANAGEMENT (continued)

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

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

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company manages its liquidity needs through various sources including cash generated through operations, cash reserves, various revolving credit facilities, and the issuance of common shares.

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

Interest rate risk
The financial instruments that expose the Company to interest rate risk are its cash and cash equivalents, short-term investments and long-term debt. The Company's objectives of managing its cash and cash equivalents and short-term investments are to ensure sufficient funds are maintained on hand at all times to meet day-to-day requirements and to place any amounts that are considered in excess of day-to-day requirements on short-term deposit with the Company's banks so that they earn interest. When placing amounts of cash and cash equivalents into short-term investments, the Company only places investments with Canadian chartered banks and ensures that access to the amounts placed can be obtained on short notice. A 1% increase or decrease in interest rates would not have resulted in a material increase or decrease in interest income or expense during the six months ended June 30, 2024.

Currency risk
Portions of the Company's revenues and operating expenses are denominated in Canadian dollars, euros, British pounds and Chinese yuan. Because these financial statements are reported in US dollars, the Company's operating results are subject to changes in the exchange rate of the foreign currencies (primarily Canadian dollars and euros) relative to the US dollar. For instance, a decrease in the value of the Canadian dollar relative to the US dollar has an unfavourable impact on Canadian dollar denominated revenues and a favourable impact on Canadian dollar denominated direct cost of revenue and operating expenses. Approximately 14% of the Company's cash and cash equivalents are denominated in Canadian dollars, euros and British pounds, and are subject to changes in the exchange rate of the Canadian dollar, euro and British pound relative to the US dollar.

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

17. FINANCIAL RISK MANAGEMENT (continued)

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

18. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

	Three months ended June 30,		**Six months ended June 30,**	
	2024	2023	**2024**	2023
Accounts receivable	**($2,597)**	($9,464)	**($2,257)**	($5,821)
Unbilled revenue	**(3,036)**	(1,713)	**(5,218)**	($1,241)
Income taxes receivable	**(2)**	105	**(130)**	$103
Inventories	**850**	552	**(693)**	($663)
Prepaid expenses and deposits	**860**	(436)	**728**	($359)
Deferred revenue	**1,791**	(1,468)	**1,694**	($2,743)
Deferred compensation asset	**(18)**	(48)	**(96)**	($47)
Deferred compensation liabilities	**48**	31	**120**	$31
Accounts payable and accrued liabilities	**3,046**	1,427	**(1,980)**	($1,003)
Income taxes payable	**(136)**	(69)	**72**	$39
	$806	($11,083)	**($7,760)**	($11,704)

Supplemental cash flow information

	Three months ended June 30,		**Six months ended June 30,**	
	2024	2023	**2024**	2023
Net interest paid in cash	**$1,002**	$831	**$1,899**	$1,957
Taxes paid	**$138**	$294	**$58**	$263

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

19. EFFECT OF THE CHANGE IN PRESENTATION CURRENCY

The effects of the change in presentation currency discussed in note 2 above were as follows.

	Three months ended June 30, 2023				Six months ended June 30, 2023			
	USD		CAD		USD		CAD	
	(restated, note 2)				(restated, note 2)			
Revenues	US$	$38,623	C$	$51,865	US$	$66,969	C$	$90,180
Direct cost of revenues		28,616		38,428		53,205		71,665
Gross profit		10,007		13,437		13,764		18,515
Operating expenses								
Selling, general and administrative expenses		6,132		8,235		13,090		17,640
Research and development expenses		1,008		1,354		1,877		2,529
Depreciation of right-of-use assets		384		515		721		971
Depreciation of property, plant and equipment		407		547		818		1,102
Amortization of intangible assets		2,088		2,804		4,175		5,625
Other charges		555		745		1,519		2,048
		10,574		14,200		22,200		29,915
Results from operations		(567)		(763)		(8,436)		(11,400)
Finance income		(27)		(36)		(60)		(81)
Finance expense		1,731		2,324		3,368		4,537
Foreign exchange loss		769		1,033		1,104		1,486
Other income		(227)		(336)		(458)		(647)
Change in fair value of derivative liability		(11)		16		(215)		(261)
Loss before taxes		(2,802)		(3,764)		(12,175)		(16,434)
Current income tax recovery		(2,688)		(3,610)		(2,570)		(3,450)
Deferred income tax expense		10,073		13,527		9,665		12,976
Income tax expense		7,385		9,917		7,095		9,526
Net loss from continuing operations		(10,187)		(13,681)		(19,270)		(25,960)
Net loss from discontinued operations		(11,594)		(18,839)		(14,061)		(22,174)
Net loss	US$	(21,781)	C$	(32,520)	US$	(33,331)	C$	(48,134)
Other comprehensive loss that may be reclassified subsequently to net loss:								
Foreign currency translation adjustment		(2,905)		(5,376)		(2,590)		(5,415)
Comprehensive loss	US$	($24,686)	C$	($37,896)	US$	($35,921)	C$	($53,549)
Loss per share - Basic								
From continuing operations	US$	($0.09)	C$	($0.12)	US$	($0.17)	C$	($0.23)
From discontinued operations		(0.10)		(0.16)		(0.12)		(0.19)
Loss per share - Basic	US$	($0.19)	C$	($0.28)	US$	($0.29)	C$	($0.42)
Loss per share - Diluted								
From continuing operations	US$	($0.09)	C$	($0.12)	US$	($0.17)	C$	($0.23)
From discontinued operations		(0.10)		(0.16)		(0.12)		(0.19)
Loss per share - Diluted	US$	($0.19)	C$	($0.28)	US$	($0.29)	C$	($0.42)

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

19. EFFECT OF THE CHANGE IN PRESENTATION CURRENCY (continued)

As at	December 31, 2023				January 1, 2023			
	USD		CAD		USD		CAD	
	(restated, note 2)				(restated, note 2)			
Current assets								
Cash and cash equivalents	US$	$42,733	C$	$56,621	US$	$48,905	C$	$66,357
Short-term investments		-		-		1,142		1,550
Restricted short-term investments		-		-		4,812		6,529
Accounts receivable, net		27,291		36,160		17,155		23,277
Unbilled revenue		34,247		45,377		30,529		41,423
Income taxes receivable		-		-		251		340
Inventories (net of obsolescence)		10,760		14,257		10,076		13,671
Prepaid expenses and deposits		4,795		6,353		5,050		6,852
		119,826		158,768		117,920		159,999
Non-current assets								
Accounts and other long-term receivables		4,364		5,782		397		539
Long-term prepaid expenses and deposits		-		-		1,257		1,705
Right-of-use assets, net		5,288		7,006		7,600		10,312
Property, plant and equipment, net		4,136		5,480		5,104		6,926
Intangible assets, net		79,092		104,795		104,164		141,335
Investment in joint venture		5,054		6,696		5,712		7,751
Investment in other entity		2,898		3,840		-		-
Deferred compensation asset		952		1,262		991		1,344
Deferred income tax assets		-		-		18,903		25,648
Goodwill		29,019		38,450		41,556		56,385
		130,803		173,311		185,684		251,945
TOTAL ASSETS	US$	$250,629	C$	$332,079	US$	$303,604	C$	$411,944
Liabilities								
Current liabilities								
Accounts payable and accrued liabilities	US$	$30,330	C$	$40,186	US$	$34,685	C$	$47,063
Income taxes payable		662		877		724		982
Current portion of lease liabilities		1,954		2,589		1,924		2,611
Current portion of deferred revenue		5,806		7,693		6,295		8,542
Current portion of long-term debt		2,125		2,816		21,588		29,292
Convertible debentures		38,196		50,609		35,655		48,379
Derivative liability		2,290		3,034		1,316		1,786
		81,363		107,804		102,187		138,655
Non-current liabilities								
Deferred revenue		621		823		2,022		2,744
Long-term lease liabilities		5,727		7,588		7,116		9,655
Long-term debt		17,312		22,938		-		-
Deferred compensation liabilities		945		1,252		862		1,169
Deferred income tax liabilities		1,221		1,618		1,519		2,061
		25,826		34,219		11,519		15,629
TOTAL LIABILITIES		107,189		142,023		113,706		154,284
Shareholders' equity								
Capital stock		313,738		427,155		401,248		546,482
Contributed surplus		126,129		171,826		37,545		50,958
Accumulated other comprehensive income		15,652		14,356		15,928		16,457
Deficit		(312,079)		(423,281)		(264,823)		(356,237)
		143,440		190,056		189,898		257,660
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	US$	$250,629	C$	$332,079	US$	$303,604	C$	$411,944