



**Quarterhill**

# 2025 Annual Report

## Table of Contents

3	Management's Discussion & Analysis
20	Management's Report
22	Auditor's Report
27	Consolidated Financial Statements
32	Notes to Financial Statements
68	Directors and Officers
69	Corporate Information



Quarterhill Inc.

Management's Discussion and Analysis  
For the three months and year ended December 31, 2025 and 2024

March 23, 2026

## CONTENTS

CONTENTS .....	4
INTRODUCTION .....	6
FOURTH QUARTER 2025 HIGHLIGHTS .....	6
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS .....	6
NON-IFRS FINANCIAL MEASURES AND NON-IFRS RATIOS .....	7
DESCRIPTION OF OUR BUSINESS .....	8
OVERALL PERFORMANCE .....	9
SELECTED CONSOLIDATED QUARTERLY RESULTS .....	12
CAPITAL AND LIQUIDITY .....	13
CONTRACTUAL OBLIGATIONS .....	14
OUTSTANDING COMMON SHARE DATA .....	14
OFF-BALANCE SHEET ARRANGEMENTS .....	14
RELATED PARTY TRANSACTIONS .....	15
PROPOSED TRANSACTIONS .....	15
CRITICAL ACCOUNTING ESTIMATES .....	15
FUTURE ACCOUNTING PRONOUNCEMENTS .....	16
RISKS AND UNCERTAINTIES .....	16
DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING .....	18

## INTRODUCTION

This Management's Discussion and Analysis of Quarterhill Inc. (this "MD&A") is dated March 23, 2026. References in this MD&A to "Quarterhill", "the Company", "we", "us" and "our" refer to Quarterhill Inc. and its consolidated subsidiaries during the periods presented, unless the context requires otherwise. References to "Common Shares" in this MD&A refer to common shares in the capital of Quarterhill. References to "Convertible Debentures" in this MD&A refer to Quarterhill's 6.0% Convertible Unsecured Subordinated Debentures due October 30, 2026.

The Common Shares and Convertible Debentures are listed under the symbols "QTRH" and "QTRH.DB" respectively on the Toronto Stock Exchange (the "TSX") and the Common Shares are listed on the United States OTCQX Best Market (the "OTCQX") under the symbol "QTRHF".

Quarterhill is a growth-oriented Canadian company operating in the intelligent transportation system ("ITS") industry. We are a global leader in ITS that manages attractive technology companies in the intelligent transportation systems industry and its adjacent markets.

This MD&A provides information for the three months and year ended December 31, 2025 and up to and including March 23, 2026. This MD&A should be read in conjunction with Quarterhill's consolidated financial statements ("financial statements") and the notes thereto for the three months and year ended December 31, 2025, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Unless otherwise indicated, all financial information in this MD&A is reported in thousands of United States ("U.S.") dollars, except for Common Share and loss per share data which is reported in number of Common Shares and U.S. dollars, respectively. The tables and charts included in this document form an integral part of this MD&A.

This MD&A has been prepared with reference to National Instrument 51-102 - Continuous Disclosure Obligations of the Canadian Securities Administrators. Additional information filed by us with the Canadian Securities Administrators, including quarterly reports, annual reports and our Annual Information Form for the year ended December 31, 2025 (our "AIF"), is available online at [www.sedarplus.ca](http://www.sedarplus.ca) and also on our website at [www.Quarterhill.com](http://www.Quarterhill.com).

Quarterhill and our operating subsidiaries operate in ever-changing business and competitive economic environments that expose us to a number of risks and uncertainties, many of which are discussed under the heading "Risks and Uncertainties" in this MD&A and under the heading "Risk Factors" in our AIF available online at [www.sedarplus.ca](http://www.sedarplus.ca).

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

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## FOURTH QUARTER 2025 HIGHLIGHTS

### Business Performance

Revenues for the three months and year ended December 31, 2025 were \$38,463 and \$155,170 compared to \$38,876 and \$153,305 in the comparative prior year periods, respectively. Revenues for the three months ended December 31, 2025 were comparable to the prior year period. Revenues for the year ended December 31, 2025 increased compared to the prior year, reflecting overall growth in the safety and enforcement business unit.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements and forward-looking information within the meaning of Canadian securities laws, including such statements relating to:

- assumptions and expectations described in our critical accounting policies and estimates;
- our expectation regarding the adoption and impact of certain accounting pronouncements;
- our expectation regarding the growth rates of our subsidiaries' businesses;
- our estimates regarding our effective tax rate;
- our expectations regarding our ability to acquire additional businesses to further our growth; and
- our expectations with respect to the sufficiency of our financial resources.

The words "expect", "anticipate", "estimate", "may", "will", "should", "would", "intend", "believe", "plan", "continue", "project", "could", the negatives of these words or other variations on these words, comparable terms and similar expressions are intended to identify forward-looking statements and forward-looking information. Forward-looking statements and forward-looking information are based on estimates and assumptions made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate in the circumstances. With respect to forward-looking statements contained herein, we have made assumptions regarding, but not limited to: our ability to execute on our business plan; successful integration of acquisitions; general economic and industry trends; operating assumptions relating to our operations; demand for our products and services; cost estimates for fixed price contracts; and the other assumptions set forth in our AIF available at [www.sedarplus.ca](http://www.sedarplus.ca). There are numerous material risk factors that could cause actual results to differ materially from the forward-looking information, including those discussed under the heading "Risks and Uncertainties" in this MD&A and under the heading "Risk Factors" in our AIF available at [www.sedarplus.ca](http://www.sedarplus.ca).

Quarterhill's actual results could differ materially from those anticipated in the forward-looking statements, as a result of numerous known and unknown risks and uncertainties and other factors including, but not limited to: changes in demand for our products and services; general economic, political, market and business conditions, including fluctuations in interest rates, foreign exchange rates and stock market volatility; the impacts of tariffs or other economic sanctions imposed; reliance on key management personnel; risks related to competition and technological advances; litigation risks; cyber-security risks; fixed price contracts may result in unexpected costs; risks of health epidemics, pandemics and similar outbreaks; and the other risks set forth in our AIF available at [www.sedarplus.ca](http://www.sedarplus.ca).

We provide forward-looking statements and forward-looking information to assist external stakeholders in understanding our management's expectations and plans relating to the future as of the date of this MD&A and such statements and information may not be appropriate for any other purposes. The forward-looking statements and forward-looking information in this MD&A are made as of the date of this MD&A only. Readers are cautioned that the foregoing lists of important factors are not exhaustive, and they should not unduly rely on the forward-looking statements included herein. We have no intention and undertake no

obligation to update or revise any forward-looking statements or forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

## NON-IFRS FINANCIAL MEASURES AND NON-IFRS RATIOS

### Non-IFRS Financial Measures and Non-IFRS Ratios

Quarterhill uses both IFRS and certain non-IFRS financial measures to assess performance. Non-IFRS financial measures are financial measures disclosed by a company that (a) depict historical or expected future financial performance, financial position or cash flow of a company, (b) with respect to their composition, exclude amounts that are included in, or include amounts that are excluded from the composition of the most directly comparable financial measure disclosed in the primary financial statements of the company, (c) are not disclosed in the financial statements of the company and (d) are not a ratio, fraction, percentage or similar representation. Non-IFRS ratios are financial measures disclosed by a company that are in the form of a ratio, fraction, percentage or similar representation that has a non-IFRS financial measure as one or more of its components, and that are not disclosed in the financial statements of the Company.

These non-IFRS financial measures and non-IFRS ratios are not standardized financial measures under IFRS and, therefore, are unlikely to be comparable to similar financial measures presented by other companies. Management believes these non-IFRS financial measures and non-IFRS ratios provide transparent and useful supplemental information to help investors evaluate our financial performance, financial condition, and liquidity using the same measures as management. These non-IFRS financial measures and non-IFRS ratios should not be considered as a substitute for, or superior to, measures of financial performance prepared in accordance with IFRS.

### *Adjusted EBITDA - Non-IFRS Financial Measure*

In this MD&A, we use the non-IFRS financial measure “Adjusted EBITDA” to mean net income (loss) adjusted for (i) income taxes; (ii) finance expense or income; (iii) amortization and impairment of intangibles; (iv) impairment of goodwill; (v) other charges and other one-time items; (vi) depreciation of right-of-use assets and property, plant and equipment; (vii) stock-based compensation; (viii) foreign exchange (gain) loss; (ix) other income which includes equity in earnings from joint ventures; and (x) changes in fair value of derivative liability. Adjusted EBITDA is used by our management to assess our normalized cash generated. Adjusted EBITDA is also a performance measure that may be used by investors to analyze the cash generated by Quarterhill. Adjusted EBITDA should not be interpreted as an alternative to net income (loss) and cash flows from operations as determined in accordance with IFRS or as a measure of liquidity. The most directly comparable IFRS financial measure is net loss. See the Reconciliation of Net Loss to Adjusted EBITDA within the Overall Performance section of this MD&A.

### *Adjusted EBITDA per share – Non-IFRS ratio*

Adjusted EBITDA per share is calculated as Adjusted EBITDA divided by the basic weighted average of Common Shares. Adjusted EBITDA per share is used by our management and investors to analyze cash generated by Quarterhill on a per share basis. The most directly comparable IFRS measure is earnings per share.

### Supplementary Financial Measures

Supplementary financial measures are financial measures disclosed by a company that (a) are, or are intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of a company, (b) are not disclosed in the financial statements of the company, (c) are not non-IFRS financial measures, and (d) are not non-IFRS ratios.

Key supplementary measures disclosed in this MD&A are as follows:

*Gross margin %*

Calculated as gross profit as a percentage of revenue.

*Working capital*

Calculated as total current assets minus total current liabilities.

## DESCRIPTION OF OUR BUSINESS

Quarterhill is a disciplined manager and acquirer of established ITS companies. Our goal is to pursue both organic and inorganic growth that capitalizes on attractive market trends in the ITS industry and its adjacent markets. Additionally, in appropriate circumstances, we may also divest certain assets if favourable conditions for such a divestiture are presented.

### Strategy

We are focusing our business on building a consistently profitable company through the management and growth of companies in the ITS industry and its adjacent markets.

We believe that if we increase the share of our revenue derived from recurring sources we will also increase the predictability of our revenues and cash flows. This will allow us to better scale our operations to ensure we meet our strategic mandate of operating profitably regardless of the prevailing economic market conditions as we grow both organically and through acquisitions. In appropriate circumstances, we may also divest certain assets if favourable conditions for such a divestiture are presented.

Our existing businesses are fully described in more detail in our AIF.

### Our Business

Our businesses are focused on enhancing safety, mobility, efficiency and environmental performance across road and other transportation infrastructure by providing ITS products, solutions and services. Based on market research, we believe the global ITS industry is expected to exceed \$70 billion by 2029<sup>1</sup>, influenced by major driving factors such as infrastructure spending, public safety, traffic congestion, smart city development and environmental impact. We believe that we are well positioned to capitalize on these trends.

Our businesses are leading providers of essential ITS products, solutions and services with more than 60 years of combined experience in areas such as commercial vehicle enforcement and tolling. Our customers include government transportation and tolling agencies, traffic engineering operators and industrial, and transportation service companies worldwide.

We have predictable and recurring revenue streams derived from selling ITS systems, products and solutions through long-term customer relationships and recurring service contracts. Our businesses offer a portfolio of integrated hardware and software to detect, measure and analyze a variety of transportation metrics which produces a valuable source of analytics and telematics for users. With a variety of product and service offerings throughout our operations in North America and Europe, we believe there is an abundance of opportunity to create scale and efficiencies. We remain focused on building robust cash flows and controlling expenses throughout all our businesses to facilitate a healthy and sustainable balance sheet capable of supporting both our organic and acquisitive growth strategies.

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<sup>1</sup> "Intelligent Transportation System Market – Global Forecast to 2029", MarketsandMarkets, July 2024, p. 46.

## OVERALL PERFORMANCE

	Three months ended December 31,		Year ended December 31,	
	2025	2024	2025	2024
Revenues	\$38,463	\$38,876	\$155,170	\$153,305
Direct cost of revenues	26,363	31,099	122,341	125,528
Gross profit	12,100	7,777	32,829	27,777
Operating expenses				
Selling, general and administrative expenses	11,212	6,913	38,820	28,486
Impairment of goodwill	31,412	-	31,412	-
Research and development expenses (recovery)	(639)	306	652	1,377
Depreciation of right-of-use assets	399	369	1,324	1,450
Depreciation of property, plant and equipment	269	394	1,372	1,538
Amortization of intangible assets	2,187	2,307	8,276	8,473
Other charges	1,102	923	1,909	2,391
	45,942	11,212	83,765	43,715
Results from operations	(33,842)	(3,435)	(50,936)	(15,938)
Finance income	(4)	(127)	(182)	(535)
Finance expense	1,575	1,468	6,139	6,470
Foreign exchange (gain) loss	899	(3,310)	3,095	(3,962)
Other income	(1,364)	(2,254)	(5,071)	(6,262)
Change in fair value of derivative liability	(1)	(248)	(520)	(1,674)
Loss before taxes	(34,947)	1,036	(54,397)	(9,975)
Current income tax expense	(172)	50	605	440
Deferred income tax expense (recovery)	(304)	714	(592)	607
Income tax expense (recovery)	(476)	764	13	1,047
Net loss	(34,471)	272	(54,410)	(11,022)
Other comprehensive income (loss) that may be reclassified subsequently to net loss:				
Foreign currency translation adjustment	19	(3,546)	1,875	(3,504)
Comprehensive loss	(\$34,452)	(\$3,274)	(\$52,535)	(\$14,526)
Loss per share - Basic	(\$0.29)	\$0.00	(\$0.47)	(\$0.10)
Loss per share - Diluted	(\$0.29)	\$0.00	(\$0.47)	(\$0.10)

Our revenue streams consist of revenues earned on contracted projects, which are generally recognized over time, product sales, hardware and software system implementations, and service and maintenance contracts. Service and maintenance projects generally range from one to five-year terms but can be renewed with some contracts that could reach up to ten years or more. For project-based work, revenues will routinely vary significantly depending on the timing and nature of the specific projects underway in each reporting period.

Revenues for the three months and year ended December 31, 2025 were \$38,463 and \$155,170 compared to \$38,876 and \$153,305 in the comparative prior year periods, respectively. Revenues for the three months ended December 31, 2025 were comparable to the prior year period. Revenues for the year ended December 31, 2025 increased compared to the prior year, reflecting overall growth in the safety and enforcement business unit.

Gross profit as a value and as a percentage of revenues may be subject to significant variance in each reporting period due to the nature and type of contract and service work performed and currency volatility. Gross profit for the three months and year ended December 31, 2025 were \$12,100 and \$32,829 or 31% and 21%, as compared to \$7,777 and 27,777, or 20% and 18%, in the prior year comparative periods. The increase in gross profit percentages compared to the prior year period was primarily due to the restructuring, improved margins on certain tolling contracts and continued strong margin performance in the Company's safety and enforcement operations.

Total operating expenses are comprised of selling, general and administrative costs ("SG&A"), research and development ("R&D") costs, impairment of goodwill, depreciation, amortization of intangible assets and other charges. Total operating expenses for the three months and year ended December 31, 2025 were \$45,942 and \$83,765, or 119.4% and 54.0% as a percentage of revenue, compared to \$11,212 and \$43,715 or 29.6% and 28.4% as a percentage of revenue, in the prior year comparative periods. The increase for the three months and year ended December 31, 2025 is primarily due to goodwill impairment, stock-based compensation, recruitment, technical consulting, facilities expenses and other charges.

We are committed to continual investments in R&D to enhance our current products and advance the availability of new products within the ITS industry. For the three months and year ended December 31, 2025, net R&D spending levels as a percentage of revenue were approximately -1.7% and 0.4% as compared to 0.8% and 0.9% in the comparative prior year periods, respectively. R&D expenses compared to the prior year comparative periods declined due to capitalization of development costs.

For the three months and year ended December 31, 2025 we recognized income tax expense of \$476 and income tax recovery of \$13 compared to income tax (recovery) expense of \$(764) and \$1,047 for the comparative prior year periods, respectively.

The Company is exposed to foreign exchange risk primarily relating to its revenue, operating and capital expenditures, and net assets held in foreign currencies. This is more fully described in the Risks and Uncertainties section.

For the three months and year ended December 31, 2025, other income was \$1,364 and \$5,071 compared to \$2,254 and \$6,262 in the prior year comparative periods. For the three months and year ended December 31, 2025, other income included dividends of \$1,148 and \$4,551 from WiLAN.

#### **Reconciliation of Net Loss to Adjusted EBITDA**

Management considers Adjusted EBITDA, a non-IFRS financial measure, to be a useful indicator for the business to capture financial performance in a given period related to the operations of Quarterhill.

We reported Adjusted EBITDA of \$4,387 and \$(343) for the three months and year ended December 31, 2025, compared to \$1,150 and \$233 for the comparative prior year periods, respectively. The increase in Adjusted EBITDA for the three months ended December 31, 2025, compared to the prior year period is due to the factors impacting revenue, gross margin and expenses, as previously described. Other charges generally consist of advisor fees, accounting and valuation fees, due diligence related

expenses and legal fees, restructuring charges, and other one-time items. Items not reflective of underlying operating performance in the period have been excluded in the calculation of Adjusted EBITDA. The remaining adjustments relate to finance income or expense, depreciation and amortization, non-cash stock-based compensation, change in fair value of derivative liability, other acquisition related accounting items and other one-time charges.

From time to time, we may acquire businesses in purchase transactions that typically result in the recognition of goodwill and other identifiable intangible assets. Acquired goodwill is not amortized but is subject to impairment testing at least annually and as other events and circumstances dictate. Other identifiable intangible assets are typically subject to amortization and, therefore, will likely increase future expenses. The determination of the value of such intangible assets requires us to make estimates and assumptions. We have ascribed value to identifiable intangible assets other than goodwill in our purchase price allocations including, but not limited to, backlog, trade name, non-competition agreements, customers and developed software related intangible assets. To the extent we ascribe values to identifiable intangible assets that have finite lives, we amortize those values over the estimated useful lives of the assets.

### Reconciliation of Net Loss to Adjusted EBITDA

	Three months ended December 31,			
	2025		2024	
	\$	Per Share <sup>[3]</sup>	\$	Per Share
Net loss	<b>(\$34,471)</b>	<b>(\$0.29)</b>	\$272	\$0.00
Adjusted for:				
Income tax expense (recovery)	<b>(476)</b>	<b>(0.00)</b>	764	0.01
Foreign exchange (gain) loss	<b>899</b>	<b>0.01</b>	(3,310)	(0.03)
Finance expense, net	<b>1,571</b>	<b>0.01</b>	1,341	0.01
Impairment loss on goodwill	<b>31,412</b>	<b>0.26</b>	-	-
Other charges	<b>1,102</b>	<b>0.01</b>	923	0.01
Depreciation and amortization	<b>2,855</b>	<b>0.02</b>	3,070	0.03
Stock based compensation expense	<b>2,720</b>	<b>0.02</b>	592	0.02
Non-recurring project costs <sup>[1]</sup>	<b>140</b>	<b>0.00</b>	-	-
Change in fair value of derivative liability	<b>(1)</b>	<b>-</b>	(248)	(0.00)
Other income	<b>(1,364)</b>	<b>(0.01)</b>	(2,254)	(0.02)
<b>Adjusted EBITDA <sup>[2]</sup></b>	<b>\$4,387</b>	<b>\$0.04</b>	<b>\$1,150</b>	<b>\$0.02</b>

Weighted average number of Common Shares

Basic	<b>118,814,471</b>	115,393,052
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[1] Non-recurring project costs relates to legal expenses for a specific project that will not continue in the future.

[2] Refer to Adjusted EBITDA - Non-IFRS Financial Measure

[3] Refer to Adjusted EBITDA per share – Non-IFRS ratio

	Year ended December 31,			
	2025		2024	
	\$	Per Share <sup>[3]</sup>	\$	Per Share
Net loss	(\$54,410)	(\$0.47)	(\$11,022)	(\$0.10)
Adjusted for:				
Income tax expense	13	0.00	1,047	0.01
Foreign exchange loss (gain)	3,095	0.02	(3,962)	(0.03)
Finance expense, net	5,957	0.04	5,935	0.05
Impairment loss on goodwill	31,412	0.27	-	-
Other charges	1,909	0.02	2,391	0.02
Depreciation and amortization	10,972	0.09	11,461	0.10
Stock based compensation expense	6,160	0.05	2,319	0.02
Non-recurring project costs <sup>[1]</sup>	140	0.00	-	-
Change in fair value of derivative liability	(520)	0.00	(1,674)	(0.02)
Other income	(5,071)	(0.04)	(6,262)	(0.04)
<b>Adjusted EBITDA <sup>[2]</sup></b>	<b>(\$343)</b>	<b>(\$0.02)</b>	<b>\$233</b>	<b>\$0.01</b>

Weighted average number of Common Shares

Basic	116,785,826	115,369,947
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[1] Non-recurring project costs relates to legal expenses for a specific project that will not continue in the future.

[2] Refer to Adjusted EBITDA - Non-IFRS Financial Measure

[3] Refer to Adjusted EBITDA per share – Non-IFRS ratio

## SELECTED CONSOLIDATED QUARTERLY RESULTS

### Selected Quarterly Results

Quarter ended	Revenues	Net (loss) income	Net (loss) income per share (basic)	Adjusted EBITDA*	Adjusted EBITDA per share* (basic)
	\$ 000s	\$ 000s	\$	\$ 000s	\$
December 31, 2025	38,463	(34,471)	(0.29)	4,387	0.04
September 30, 2025	39,743	(4,734)	(0.04)	1,386	0.01
June 30, 2025	43,075	(6,835)	(0.06)	(2,679)	(0.03)
March 31, 2025	33,889	(8,370)	(0.07)	(3,437)	(0.03)
December 31, 2024	38,876	272	0.00	1,150	0.01
September 30, 2024	38,019	(4,109)	(0.04)	(2,758)	(0.02)
June 30, 2024	41,513	(2,967)	(0.03)	1,672	0.01
March 31, 2024	34,897	(4,218)	(0.03)	169	0.01

\* Adjusted EBITDA and the respective per share amounts are non-IFRS measures; please refer to "Non-IFRS Financial Measures and Non-IFRS Ratios" and "Reconciliation of Net Loss to Adjusted EBITDA" sections of this MD&A.

Historically, our operating results have fluctuated on a quarterly basis and we expect that quarterly results will continue to fluctuate in the future, as revenues derived from the ITS business may be subject to varying project phases and seasonality. Operating results for interim periods should not be relied upon as an indication of the results to be expected or achieved in any future period or any fiscal year as a whole. The risk factors affecting our revenue and results, many of which are outside of our control, include those set out under the heading “Risk Factors” in our AIF.

## CAPITAL AND LIQUIDITY

The Company’s capital management objectives are to maintain financial flexibility in order to pursue its strategy of organic growth and acquisition. The Company defines our capital as cash, the aggregate of cash and cash equivalents, long-term debt, convertible debentures and shareholders’ equity. The Company manages its capital structure in accordance with changes in economic conditions. To maintain or adjust its capital structure, the Company may purchase Common Shares for cancellation pursuant to one or more normal course issuer bids and/or substantial issuer bids, issue new Common Shares, issue convertible debentures or raise or retire our debts.

Cash generated from operations for the three months and year ended December 31, 2025, was \$4,086 and \$2,340 compared to cash generated from (used in) operations of \$6,542 and \$(4,422) in the prior year comparative periods. Our cash and cash equivalents totaled \$24,846 as at December 31, 2025 compared to \$31,893 as at December 31, 2024, representing a decrease of \$7,047 primarily due to the operational losses, debt repayment, and working capital fluctuations. At December 31, 2025, working capital was \$(3,793) compared to \$28,886 at December 31, 2024. Negative working capital is a result of the reclassification to current liabilities of \$40,395 for convertible debentures which have a maturity date of October 30, 2026 and long-term debt of \$13,938 with a maturity of September 1, 2026.

Management is actively engaged in discussions with both current and potential lenders regarding the refinancing of our credit facilities, including long-term debt and convertible debentures. These efforts reflect the Company’s commitment to optimizing its capital structure and enhancing financial flexibility. Based on these discussions we believe that the Company will have sufficient funds available to meet its liquidity requirements for the foreseeable future and our forecasted cash flow requirements.

Due to the nature of our business activities, operating cash flows may vary significantly between periods due to changes and timing in working capital balances. Our cash resources are generally used to fund our operations, provide working capital to any of our subsidiaries if needed and to acquire additional businesses. We may also fund our ongoing cash requirements using additional short-term and long-term debt and, if desirable, based on market conditions, by selling Common Shares and debt securities to the public.

In 2021, to finance the acquisition of Electronic Transaction Consultants, LLC (“ETC”), we 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 facilities replaced all existing credit facilities we had with HSBC Bank Canada. The interest rate as at December 31, 2025 was 6.45% and both facilities have a maturity date of September 1, 2026 with a general security agreement over all the assets in North America of IRD, ETC and its parent holding company, Quarterhill USA, Inc. The carrying value of these assets as at December 31, 2025 was \$199,739. As at and during the year ended December 31, 2025, we repaid \$3,062 of the term loan and had no borrowings or repayments on the revolving credit facility.

On August 6, 2025 (the “Amendment Date”), the Company finalized an amendment to its credit agreement. As of the Amendment Date, the balance of the term loan was \$16,469. The amendment modified certain terms and conditions of the credit agreement to provide the Company with additional flexibility in its covenant and cash management, including a waiver of the Senior Leverage Ratio to September 30, 2025. This waiver has been extended from September 30, 2025 to April 30, 2026.

The amendment required the Company to repay \$2,000 of principal in addition to the previously scheduled repayment amounts of long-term debt and includes the following financial covenants the Company must maintain:

- A Fixed Charge Coverage Ratio of at least 1.20 to 1.00 on a rolling four-quarter basis. The Fixed Charge Coverage Ratio has been waived to September 30, 2025. This waiver has been extended from September 30, 2025 to April 30, 2026.
- 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 Senior Leverage Ratio has been waived to September 30, 2025. This waiver has been extended from September 30, 2025 to April 30, 2026.
- Certain minimum earnings thresholds must be met at each reporting quarter.

The Company was in compliance with the minimum earnings threshold for the three months ended December 31, 2025.

## CONTRACTUAL OBLIGATIONS

Contractual obligations relating to accounts payable and accrued liabilities, long-term debt, convertible debentures and lease liabilities as at December 31, 2025 are due as follows:

	Total	Less than 1 year	1 - 3 years	4 - 5 years	Thereafter
Accounts payable and accrued liabilities	\$34,156	\$34,156	-	-	-
Long-term debt	13,883	13,883	-	-	-
Convertible debentures	41,940	41,940	-	-	-
Lease liabilities	6,069	2,342	2,903	824	-
	\$96,048	\$92,321	\$2,903	\$824	\$-

## OUTSTANDING COMMON SHARE DATA

We are authorized to issue an unlimited number of Common Shares, 6,351 special preferred, redeemable, retractable, non-voting shares and an unlimited number of preferred shares, issuable in series. As at December 31, 2025, there were 118,992,746 Common Shares and no special or preferred shares issued and outstanding. We also maintain the Quarterhill Inc. 2018 Equity Incentive Plan (the "Equity Plan"). Under the Equity Plan, we can issue a maximum of 12% of our issued and outstanding Common Shares from time to time which was, as at December 31, 2025, up to 14,050,544 Common Shares. As at December 31, 2025, we had options granted to purchase up to 3,705,132 Common Shares.

## OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2025, the Company had no off-balance sheet arrangements.

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## RELATED PARTY TRANSACTIONS

### Subsidiaries

The financial statements include the accounts of Quarterhill Inc. and its wholly-owned subsidiaries. Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this section.

## PROPOSED TRANSACTIONS

There are no proposed transactions.

## CRITICAL ACCOUNTING ESTIMATES

Key areas involving estimation, uncertainty and critical judgments include the following:

### Revenue Recognition

Contract revenue, contract costs, contract liabilities and contract assets 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.

### Impairments for Non-financial Assets and Impairment Reversals

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

### Income Taxes and Deferred Taxes

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

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## FUTURE ACCOUNTING PRONOUNCEMENTS

### **IFRS 18, *Presentation and Disclosure in the Financial Statements* (“IFRS 18”)**

In April 2024, the IASB issued IFRS 18, which replaces IAS 1 and 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 Environmental, social and governance (“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.

## RISKS AND UNCERTAINTIES

Quarterhill operates in a dynamic and competitive business environment that exposes it to a number of risks and uncertainties. This MD&A is qualified in its entirety by the risk factors described under the heading “Risk Factors” in the AIF. The risks and uncertainties discussed in greater detail under the heading “Risk Factors” in our AIF are not, however, the only risks we face. We may also be subject to additional risks and uncertainties that are currently unknown or not currently deemed material to our business operations. If any of the risks or uncertainties we face were to occur, they could materially affect our future operating results and could cause actual events and results to differ materially from those which we expect or that we have described in our forward-looking statements.

In addition to the risk factors identified in our AIF, we may be exposed to other risks as follows:

### **Credit Risk**

Credit risk is the risk of financial loss to the Company if a counter-party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and unbilled revenue.

Our cash and cash equivalents consist primarily of deposit investments that are held primarily with Canadian and American chartered banks. Management does not expect any counter-parties to fail to meet their obligations.

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We recognize a loss allowance provision using the simplified approach based on lifetime expected credit losses. Our exposure to credit risk with our accounts receivable from customers is influenced mainly by the individual characteristics of each customer. Our operating subsidiaries' 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 customers. Prior to entering into transactions with new customers, we assess 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. We have had no material bad debts for any periods presented.

None of the amounts outstanding have been challenged by the respective counterparties and we continue to conduct business with them on an ongoing basis.

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

**Liquidity Risk**

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. Our objective in managing liquidity risk is to ensure that we have sufficient liquidity available to meet our liabilities when due. We manage our liquidity needs through various sources including cash generated through operations, cash reserves, various revolving credit facilities, long-term debt, convertible debentures and the issuance of Common Shares.

**Market Risk**

Market risk is the risk that the fair value of future cash flows from our financial instruments will fluctuate due to changes in interest rates and foreign currency exchange rates.

**Interest Rate Risk**

The financial instruments that expose the Company to interest rate risk are its cash and cash equivalents, short-term investments, bank indebtedness and long-term debt. The Company's objectives of managing its cash and cash equivalents and short-term investments are to ensure sufficient funds are maintained on hand at all times to meet day-to-day requirements and to place any amounts that are considered in excess of day-to-day requirements on short-term deposit with the Company's banks so that they earn interest. When placing amounts of cash and cash equivalents into short-term investments, the Company only places investments with Canadian chartered banks and ensures that access to the amounts placed can be obtained on short notice. A one percent increase or decrease in interest rates would not have resulted in a material increase or decrease in interest income or expense during the year ended December 31, 2025.

**Currency Risk**

Portions of the Company's revenues and operating expenses are denominated in Canadian dollars, euros and British pounds. Because these financial statements are reported in U.S. 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 U.S. dollar. For instance, a decrease in the value of the Canadian dollar relative to the U.S. dollar has an unfavourable impact on Canadian dollar denominated revenues and a favourable impact on Canadian dollar denominated direct cost of revenues and operating expenses. Approximately 12% of the Company's cash and cash equivalents are denominated in Canadian dollars and euros, and are subject to changes in the exchange rate of the Canadian dollar and euro relative to the U.S. dollar.

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**U.S. Tariffs**

The recent introduction of new U.S. tariffs on goods imported from Canada, Mexico and China, along with any retaliatory actions by trading partners, could increase the Company's operating and administrative expenses and result in a deterioration of broader economic conditions, which could materially affect our future operating results.

**DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL  
OVER FINANCIAL REPORTING**

Our Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures which provide reasonable assurance that material information regarding Quarterhill is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer in a timely manner.

In addition, our Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. The control framework used to design our ICFR is the "Internal Control - Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission.

As of December 31, 2025, an evaluation was performed on the effectiveness of ICFR to provide reasonable assurance regarding the reliability of financial reporting and financial statement compliance with IFRS. Based on the evaluation, management believes that the Company's ICFR was designed and operating effectively in all material respects as at that date to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There were no changes to our ICFR during the three months and year ended December 31, 2025 that have materially affected, or are reasonably likely to materially affect, our ICFR.

A control system, no matter how well designed, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures and our internal controls over financial reporting are effective in providing reasonable, not absolute, assurance that the objectives of our control systems have been met.

Quarterhill Inc.  
200 Bay Street, North Tower  
Suite 1200  
Toronto, ON Canada  
M5J 2J2  
[www.quarterhill.com](http://www.quarterhill.com)



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Quarterhill Inc.

2025 Annual Consolidated Financial Statements

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

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

March 23, 2026

/s/ Chuck Myers

Chuck Myers  
Chief Executive Officer

/s/ David Charron

David Charron  
Chief Financial Officer

## Independent auditor's report

To the shareholders of Quarterhill Inc.

### Opinion

We have audited the consolidated financial statements of Quarterhill Inc. and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2025 and 2024 and the consolidated statements of loss and comprehensive loss, consolidated statements of shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2025 and 2024, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for opinion

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

## Key audit matters

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

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

## Key audit matters

### *Goodwill impairment*

For the year ended December 31, 2025, the Group has recorded an impairment loss of \$31,412 related to goodwill. The Group performed its annual impairment analysis as at December 31, 2025 and estimated the recoverable amount for its group of cash generating units ("CGUs"), using a discounted cash flow model. The Group discloses significant judgments, estimates and assumptions and the results of their analysis in respect of impairment in Note 13 to the consolidated financial statements.

Auditing the Group's annual goodwill impairment test was complex given the degree of judgement and subjectivity in evaluating the estimates and assumptions used to calculate the recoverable amount for the group of CGUs. Significant assumptions included revenue projections and growth rates, earnings before interest, taxes, and depreciation and amortization ("EBITDA") margins, terminal growth rates and discount rates, which are affected by expectations about future market and economic conditions.

### How our audit addressed the key audit matter

To test the estimated recoverable amount for the group of CGUs, with the assistance of our valuation specialists, we performed the following procedures, among others:

- Evaluated the Group's discounted cash flow model and valuation methodology;
- Assessed the appropriateness of the Group's revenue projections and growth rates and EBITDA margins by comparing past projections to actual and historical performance, and/or current industry, market and economic trends;
- Evaluated the terminal growth rate by comparing assumptions to long-term inflation expectations;
- Evaluated the discount rate by assessing comparable market data and considering specific risk premiums;
- Performed sensitivity analysis on the discounted cash flow analysis to evaluate changes in the recoverable amount of the group of CGUs; and
- Assessed the adequacy of the Group's disclosures included in Note 13 of the consolidated financial statements.

### *Estimate to complete for long-term fixed price contracts*

The Group sells integrated systems with distinct performance obligations which involve the design, manufacturing, installation, maintenance and warranty of long-term projects that can span over periods beyond one year. Revenues for these fixed price contracts are recognized over time based on the progress towards completion of the contract using the percentage of completion method. This method is measured by reference to costs incurred relative to the total estimated costs. The Group's policy for revenue recognition together with the related significant accounting estimates and assumptions is described in Note 2 to the consolidated financial statements. For the year ended December 31, 2025, the Group recorded \$134,002 thousand of revenue recognized over time.

We determined that revenue recognition for open contracts for the Group is a matter of significance to the audit due to the significant judgement made by management in determining the estimated costs to complete for long-term fixed priced contracts and, where applicable, the estimation of any loss on a project. Assessing the appropriateness of the remaining costs to complete for each project is subjective and requires significant auditor judgement.

### Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

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

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

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

### How our audit addressed the key audit matter

To test the estimate to complete, we performed the following procedures, amongst others, for a sample of open, long-term fixed price contracts as at December 31, 2025:

- Inspected and evaluated contractual arrangements including pricing and billing terms, change orders and terms and conditions impacting revenue recognition;
- Inquired and evaluated the consistency of responses obtained from operational and finance personnel regarding risks and uncertainties with respect to fixed price contracts, as well as the nature of the work yet to be completed and estimated costs to complete such work;
- Compared estimated costs to complete, on a sample basis, to vendor quotes, purchase orders, contractual labour rates, or actual costs for similar completed projects;
- Performed a look back analysis comparing the current gross margin for projects to the initial gross margin and/or to other similar completed projects; and
- Considered subsequent events after December 31, 2025 to corroborate estimates made.

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

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

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

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

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

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

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

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

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the work performed for the purposes of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

The logo for Ernst & Young LLP is written in a black, cursive script font.

Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
March 23, 2026

# Consolidated Statements of Loss and Comprehensive Loss



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

	Note	Year ended December 31,	
		2025	2024
Revenues	6, 21	\$155,170	\$153,305
Direct cost of revenues		122,341	125,528
<b>Gross profit</b>		<b>32,829</b>	<b>27,777</b>
Operating expenses			
Selling, general and administrative expenses		38,820	28,486
Impairment of goodwill	13	31,412	-
Research and development expenses		652	1,377
Depreciation of right-of-use assets	8	1,324	1,450
Depreciation of property, plant and equipment	9	1,372	1,538
Amortization of intangible assets	10	8,276	8,473
Other charges	18	1,909	2,391
		<b>83,765</b>	<b>43,715</b>
Results from operations		(50,936)	(15,938)
Finance income		(182)	(535)
Finance expense		6,139	6,470
Foreign exchange (gain) loss		3,095	(3,962)
Other income	19	(5,071)	(6,262)
Change in fair value of derivative liability	16	(520)	(1,674)
Loss before taxes		(54,397)	(9,975)
Current income tax expense	23	605	440
Deferred income tax expense (recovery)	23	(592)	607
Income tax expense (recovery)		13	1,047
<b>Net loss</b>		<b>(54,410)</b>	<b>(11,022)</b>
Other comprehensive income (loss) that may be reclassified subsequently to net loss:			
Foreign currency translation adjustment		1,875	(3,504)
<b>Comprehensive loss</b>		<b>(\$52,535)</b>	<b>(\$14,526)</b>
<b>Loss per share - Basic and Diluted</b>	<b>20</b>	<b>(\$0.47)</b>	<b>(\$0.10)</b>

See accompanying notes to these consolidated financial statements.

# Consolidated Statements of Financial Position



(in thousands and in United States dollars)

As at	Note	December 31, 2025	December 31, 2024
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$24,846	\$31,893
Accounts receivable, net	24	18,126	20,716
Unbilled revenue	6	38,980	34,461
Income taxes receivable		-	231
Inventories (net of obsolescence)	7	8,922	10,143
Prepaid expenses and deposits		5,550	4,588
		<b>96,424</b>	<b>102,032</b>
<b>Non-current assets</b>			
Accounts and other long-term receivables	5, 24	5,274	4,781
Right-of-use assets, net	8	4,516	5,035
Property, plant and equipment, net	9	3,157	3,961
Intangible assets, net	10	76,548	78,370
Investment in other entity	11	3,919	3,919
Deferred compensation asset	12	1,175	1,050
Goodwill	4, 13	-	30,960
		<b>94,589</b>	<b>128,076</b>
<b>TOTAL ASSETS</b>		<b>\$191,013</b>	<b>\$230,108</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	14	\$34,156	\$25,598
Income taxes payable		254	334
Current portion of lease liabilities	8	2,094	2,040
Current portion of deferred revenue	6	9,435	5,708
Current portion of long-term debt	15	13,883	2,125
Convertible debentures	2, 16	40,395	36,825
Derivative liability	2, 16	-	516
		<b>100,217</b>	<b>73,146</b>
<b>Non-current liabilities</b>			
Deferred revenue	6	867	1,574
Long-term lease liabilities	8	3,389	4,803
Long-term debt	15	-	15,273
Deferred compensation liabilities	12	464	1,100
Deferred income tax liabilities	23	2,124	2,577
Other long-term liabilities		512	512
		<b>7,356</b>	<b>25,839</b>
<b>TOTAL LIABILITIES</b>		<b>107,573</b>	<b>98,985</b>
<b>Shareholders' equity</b>			
Capital stock	17	317,395	314,630
Contributed surplus		129,533	127,446
Accumulated other comprehensive income		14,023	12,148
Deficit		(377,511)	(323,101)
		<b>83,440</b>	<b>131,123</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$191,013</b>	<b>\$230,108</b>

See accompanying notes to these consolidated financial statements.

(in thousands and in United States dollars)

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On behalf of the Board of Directors:

/s/ Stephen A. Smith

/s/ Rusty Lewis

Stephen A. Smith

Rusty Lewis

Chair, Audit Committee

Director

# Consolidated Statements of Cash Flows



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

	Note	Year ended December 31,	
		2025	2024
Operating activities:			
Net loss		(\$54,410)	(\$11,022)
Add (deduct) non-cash items:			
Stock-based compensation expense		6,160	2,528
Depreciation and amortization		10,972	11,461
Foreign exchange (gain) loss		3,095	(3,962)
Other income	19	(5,071)	(6,262)
Impairment of goodwill	13	31,412	-
Gain on disposal of joint venture		-	(708)
Deferred and non-cash income tax expense (recovery)		(592)	607
Embedded derivatives		(11)	-
Change in fair value of derivative liability	16	(520)	(1,674)
Non-cash interest expense		2,537	2,202
Net change in non-cash working capital balances	27	8,768	2,408
Cash generated from (used in) operating activities		2,340	(4,422)
Financing activities:			
Payment of lease liabilities		(2,529)	(2,412)
Repayment of long-term debt		(3,593)	(2,125)
Cash used in financing activities		(6,122)	(4,537)
Investing activities:			
Net proceeds from disposition of a joint venture		319	4,386
Acquisition of business, Red Fox	4	-	(7,181)
Cash acquired on acquisition of business, Red Fox	4	-	2,296
Proceeds from sale of property, plant and equipment		43	98
Purchase of property, plant and equipment		(680)	(1,390)
Dividend received from investment in other entity	11	4,551	3,849
Capitalized software costs		(6,045)	(4,045)
Cash used in investing activities		(1,812)	(1,987)
Foreign exchange on cash held in foreign currencies		(1,453)	106
Net increase (decrease) in cash and cash equivalents		(7,047)	(10,840)
Cash and cash equivalents, beginning of period		31,893	42,733
Cash and cash equivalents, end of period		\$24,846	\$31,893

See accompanying notes to these consolidated financial statements.

# Consolidated Statements of Shareholders' Equity



(in thousands and in United States dollars)

	Note	Capital Stock	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity
Balance, January 1, 2024		\$313,738	\$126,129	\$15,652	(\$312,079)	\$143,440
Net loss		-	-	-	(11,022)	(11,022)
Other comprehensive loss		-	-	(3,504)	-	(3,504)
Stock-based compensation expense		-	2,526	-	-	2,526
Exercise of stock options		-	2	-	-	2
Common shares issued from restricted stock units	17	837	(1,156)	-	-	(319)
Common shares issued from deferred stock units	17	55	(55)	-	-	-
Balance, December 31, 2024		\$314,630	\$127,446	\$12,148	(\$323,101)	\$131,123
Net loss		-	-	-	(54,410)	(54,410)
Other comprehensive income		-	-	1,875	-	1,875
Stock-based compensation expense		-	6,160	-	-	6,160
Exercise of stock options		-	-	-	-	-
Common shares issued from restricted stock units	17	2,420	(3,332)	-	-	(912)
Common shares issued from deferred stock units	17	345	(741)	-	-	(396)
Balance, December 31, 2025		\$317,395	\$129,533	\$14,023	(\$377,511)	\$83,440

See accompanying notes to these consolidated financial statements.

# Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

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## 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.

## 2. MATERIAL ACCOUNTING POLICY INFORMATION

### Basis of presentation

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

These consolidated financial statements were authorized for issue by the Board of Directors on March 23, 2026.

### Basis of measurement

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

### Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company ceases to control the subsidiary. All intercompany transactions and balances have been eliminated in these consolidated financial statements.

### Functional and presentation currency

Transactions of the Company’s individual entities are recorded in their own functional currency based on the primary economic environment in which they operate. The consolidated financial statements are presented in United States dollars, rounded to the nearest thousand, except per share amounts and ratios or as otherwise noted.

### Estimates, assumptions and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in adjustments to the carrying amount of an asset or liability or the reported amount of revenues 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.

## 2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Significant judgments and estimates made by management in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements include the following:

### *Business combinations*

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

### *Revenue recognition*

Contract revenue, relating to performance obligations satisfied over time using the percentage-of-completion approach of accounting, contract costs, contract liabilities and contract assets 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 revenues, contract assets and contract liabilities.

### *Impairments for non-financial assets and impairment reversals*

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

### *Income taxes*

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

## 2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

### *Leases*

Leases are recognized at the date the leased asset is available for use. The determination of the present value of the right-of-use ("ROU") lease liability requires the Company to make assumptions, estimates and judgments regarding assessment of contract and discount rate. A lease is recorded 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 discount rate utilized by the Company is the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The incremental borrowing rate is the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value to the ROU asset in a similar economic environment with similar terms, security and conditions. 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 right-of-use asset and lease liability.

### *Stock-based compensation*

The Company operates a stock-based compensation plan for its employees, directors, and key management personnel. The stock-based payment arrangements include Restricted Stock Units ("RSUs") and Deferred Stock Units ("DSUs"). The fair value of stock-based compensation is determined at the grant date using the market price of the Company's common shares.

The determination of the stock-based compensation expense requires the use of estimates and assumptions based on exercise prices, market conditions, vesting criteria, length of employment, and past experiences of the Company. Changes in these estimates and future events could alter the determination of the provision for such compensation.

### *Financial instruments*

Financial assets and liabilities, with the exception of accounts receivable and unbilled revenue that does 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 or loss ("FVTPL"), for which transaction costs are expensed. The determination of fair value requires the Company to make assumptions, estimates and judgments regarding approach, effective interest rate, impairment and foreign exchange rates. As a result, the fair value impacts the Company's reported assets and liabilities.

### *Allowance for doubtful accounts*

The Company carries lifetime expected credit losses for all accounts receivable and contract assets. The determination of the lifetime expected credit losses requires the Company to make assumptions, estimates and judgments regarding 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. As a result, the fair value impacts the Company's reported assets, including accounts receivable, and expenses.

### *Inventories*

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is determined on a weighted average basis, which was a judgment made by management. In addition to the average cost method, the Company maintains a provision for inventory obsolescence to account for slow-moving, obsolete or damaged inventory. The provision requires the Company to make assumptions, estimates and judgments regarding the Company's best estimate of the net realizable value of inventory, which is influenced by factors such as the age of inventory, market trends, customer demand and the condition of the goods. The calculation of this provision requires significant judgment, particularly when estimating the future salability and net realizable value of old or slow-moving items. As a result, the inventory costing method and provision for inventory obsolescence impacts the Company's reported assets, including inventory, and direct cost of revenues.

## 2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

### 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 identifiable net assets acquired at the acquisition date is recorded as goodwill.

### Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into the applicable functional currency of the entity at exchange rates prevailing at the consolidated statements of financial position dates. Transactions carried out in foreign currencies are translated into the functional currency using the exchange rate prevailing at the transaction date. Non-monetary assets and liabilities denominated in a foreign currency are measured at the historical exchange rate prevailing at the transaction date. Revenues and expenses are translated at the average rate for the period. The gains and losses from foreign currency denominated transactions are included in foreign exchange gain/loss in the consolidated statements of loss and comprehensive loss. The assets and liabilities of operations with a functional currency other than United States dollars are translated into United States dollars at period end foreign currency rates. Revenues and expenses of such operations are translated into United States dollars at average rates for the period. Foreign currency translation gains and losses are recognized in other comprehensive income (loss). The relevant amount in cumulative foreign currency translation adjustment is reclassified into earnings upon disposition of a foreign operation.

### 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 three months or less. As at December 31, 2025, cash equivalents were \$nil (2024 - \$nil).

### Unbilled revenue

Unbilled revenue includes contract assets, which are unbilled amounts typically resulting from sales under long-term contracts recognized over time based on the extent of progress towards completion of the performance obligation, based on costs incurred relative to the total expected costs to complete each project, and when revenue recognized exceeds the amount billed to the customer accounted for under IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). At any given period-end, a large portion of the balance in this account represents the accumulation of labour, materials and other costs that have not been billed due to timing, whereby the accumulation of each month's costs and earnings is administratively billed in subsequent months. Also included in the account are amounts that will become billable according to contract terms, which usually require the consideration of the passage of time, achievement of milestones or completion of the project. Contract liabilities consist of advance payments and deferred revenue. Contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. Advance payments are classified as current or non-current based on the timing of when revenue is expected to be recognized.

# Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

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## 2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

### Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories is determined on a weighted average basis. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist, the amount of the write-down previously recorded is reversed.

### Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Cost includes 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 of property, plant and equipment 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 a 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

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

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

# Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

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## 2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

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

Patents	3-15 years
Developed software	3-15 years
Customer relationships and backlog	7-15 years
Trade name	7-12 years
Non-competition agreements	term of agreement

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

### Impairment of non-financial assets

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is determined by the cash flows expected to arise from the CGU discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and asset-specific risk.

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

For non-financial assets that have been previously impaired, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previous impairment losses may no longer exist or may have decreased. If such an indication exists, the Company estimates the recoverable amount of the asset or CGU. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the impairment loss was recognized. The impairment loss to be reversed in the consolidated statements of loss and comprehensive 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.

## 2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

### Deferred compensation asset and liability

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

### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is presented separately on the consolidated statements 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 following paragraphs describe the specific revenue recognition policies for each of the Company's significant types of revenue.

#### *Contracted projects*

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

Payment terms are based on completion of milestones throughout the project life for fixed price contracts and monthly for time and materials projects.

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

#### *Onerous contracts*

The Company assesses its contractual obligations to identify onerous contracts at each reporting date. An onerous contract is one where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. When a contract is identified as onerous, provisions are calculated as the excess of the expected costs of fulfilling the contract over the expected economic benefits to be received.

## 2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

### *Installations*

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

### *Maintenance*

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

### *Warranty*

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

### *Product sales*

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

### Financial instruments

#### *Recognition and initial measurement*

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

## 2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

### *Financial assets*

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

The Company's financial assets consist of cash and cash equivalents, accounts receivable and unbilled revenue.

### *Financial liabilities*

The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities consist of accounts payable and accrued liabilities, convertible debentures and long-term debt.

### *Subsequent measurement*

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

### *Derecognition*

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

### *Derivative instruments*

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

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

### *Fair value measurement of financial instruments*

The Company uses various valuation techniques and assumptions when measuring the 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.

## 2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

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 as follows:

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

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

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

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

### *Derivative financial instruments*

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

### *Contingent consideration*

Contingent considerations are carried at fair value, which is calculated using management's 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, approximates their fair value due to their short-term maturity. The fair value of the bank indebtedness and long-term debt approximates the carrying amount since these debt instruments have floating interest rates. The value of convertible debentures is initially recognized at fair value, and subsequently measured at amortized cost using the effective interest rate method. The carrying amount of the deferred compensation asset and deferred compensation liability are measured at fair value based on the fair value of the underlying investments.

### *Impairment of non-derivative financial assets*

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

### *Research and development*

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

## 2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

### 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 comprise borrowing costs related to short- and long-term debt and the unwinding of the discount on provisions.

### Leases

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

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

## 2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

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 \$5.

### Stock-based compensation

The Company operates a stock-based compensation plan for its employees, directors and key management personnel. The stock-based payment arrangements include RSUs and DSUs, which are granted to eligible individuals as part of their compensation package.

RSUs are granted to certain employees and are settled in common shares issued from treasury on a one-to-one basis in six tranches, with the first tranche having vested on the date of grant and each subsequent tranche vesting every six months. The fair value of RSUs is determined at the grant date using the market price of the Company's common shares. The stock-based compensation expense recognized for RSUs is allocated over the vesting period. The Company recognizes a share-based payment expense with a corresponding increase in contributed surplus. RSUs are subject to service-based vesting conditions and, in some cases, performance conditions. In the event of modifications to vesting conditions or a change in the terms of the RSUs, the Company remeasures the fair value of the awards, adjusting the expense recognition as necessary.

DSUs are available to directors as part of their compensation package. Pursuant to the Equity Plan, these DSUs can be settled in cash or common shares issued from treasury on a one-to-one basis, on the distribution dates at the Board's discretion, which are intended to be settled in common shares. The distribution date for a director is when the individual retires from the Board. The fair value of DSUs is also determined at the grant date using the market price of the Company's common shares. The stock-based compensation expense recognized for DSUs is allocated over the period of service. The Company recognizes a share-based payment expense with a corresponding increase in contributed surplus.

### Income taxes, deferred taxes and investment tax credits

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

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

# Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

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## 2. MATERIAL ACCOUNTING POLICY INFORMATION (continued)

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

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

## 3. ACCOUNTING STANDARDS

### Changes in accounting policy

A number of amendments to existing standards became effective January 1, 2025 but they were not applicable to the Company's consolidated financial statements.

### New standards and interpretations not yet adopted

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.

#### *IFRS 18, Presentation and Disclosure in the Financial Statements ("IFRS 18")*

In April 2024, the IASB issued IFRS 18, which replaces IAS 1, *Presentation of Financial Statements*, and 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. The issuance of IFRS 18 results in consequential amendments to IAS 7, *Statement of Cash Flows*, and IAS 33, *Earnings Per Share*. This standard is effective for annual periods beginning on or after January 1, 2027, with early adoption permitted.

#### *Amendments to IFRS 9, Financial Instruments ("IFRS 9") and IFRS 7, Classification and Measurement of Financial Instruments ("IFRS 7")*

In May 2024, the IASB issued *Amendments to the Classification and Measurement of Financial Instruments* (Amendments to IFRS 9 and IFRS 7), which aim 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, cancelled, 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.

# Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

## 3. ACCOUNTING STANDARDS (continued)

The amendments also clarify how to assess the contractual cash flow characteristics of financial assets with environmental, social, and governance-linked (“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 consolidated 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 (£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:

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

# Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

## 4. BUSINESS COMBINATIONS (continued)

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 \$383. These costs are included within the consolidated statements of loss and comprehensive loss as other charges.

For the year ended December 31, 2024, revenues and net loss relating to Red Fox were \$1,320 and \$827, respectively. 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 \$2,748 and \$19, respectively, for the year ended December 31, 2024.

## 5. FINANCIAL INSTRUMENTS

Derivatives include the embedded derivative portion of the unearned revenue of US-dollar-denominated sales contracts in the Company's Canadian 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, 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.

## 6. UNBILLED REVENUE AND DEFERRED REVENUE

Significant changes in unbilled revenue and deferred revenue balances during the year ended December 31, 2025 are as follows:

As at	December 31, 2025	December 31, 2024	\$ Change
Unbilled revenue	\$38,980	\$34,461	\$4,519
Deferred revenue - current	(9,435)	(5,708)	(3,727)
Deferred revenue - non-current	(867)	(1,574)	707
Net contract assets	\$28,678	\$27,179	\$1,499

Revenue recognized for the year ended December 31, 2025 that was included in deferred revenue at the beginning of the period was \$4,370 (2024 - \$3,821).

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

### 7. INVENTORIES

As at	December 31, 2025	December 31, 2024
Raw materials	\$1,407	\$1,599
Original equipment manufacturer materials	3,128	\$3,557
Work in process	2,511	\$2,854
Finished goods	1,876	\$2,133
	\$8,922	\$10,143

During the year, inventories expensed within direct cost of revenues were \$18,630 (2024 - \$16,367). Write-downs of inventory that were included in direct cost of revenues for the year were \$175 (2024 - \$167). Reversals of write-downs recognized during the year were \$64 (2024 - \$29).

### 8. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company has leases for corporate offices, production facilities, vehicles and equipment used in operations. These leases have remaining lease terms ranging from three months to 10 years, some of which include options to extend the leases for up to 14 years or to terminate the lease with notice periods of 120 days to six months or at predetermined dates as specified within the lease contract. The Company has classified the assets related to these leases as ROU assets and the liabilities associated with the future lease payments under these leases as lease liabilities.

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

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

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

	Buildings	Vehicles and Operations Equipment	Total
Cost			
Balance, January 1, 2024	\$12,540	\$292	\$12,832
Additions	1,315	-	1,315
Disposals	-	(108)	(108)
Foreign currency translation	(341)	(11)	(352)
Balance, December 31, 2024	13,514	173	13,687
Additions	837	-	837
Disposals	-	(108)	(108)
Foreign currency translation	230	(1)	229
Balance, December 31, 2025	\$14,581	\$64	\$14,645
Accumulated Depreciation and Impairment			
Balance, January 1, 2024	\$7,319	\$225	\$7,544
Depreciation	1,403	47	1,450
Disposals	-	(108)	(108)
Impairment	-	-	-
Foreign currency translation	(230)	(4)	(234)
Balance, December 31, 2024	8,492	160	8,652
Depreciation	1,285	39	1,324
Disposals	-	(108)	(108)
Foreign currency translation	288	(27)	261
Balance, December 31, 2025	\$10,065	\$64	\$10,129
Net Book Value			
Balance, December 31, 2024	\$5,022	\$13	\$5,035
Balance, December 31, 2025	\$4,516	\$0	\$4,516

The Company recognized depreciation expense of \$nil in discontinued operations during the year ended December 31, 2025 (2024 - \$72).

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

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

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

Balance, January 1, 2024	\$7,681
Additions	1,295
Disposals	-
Interest	420
Payments	(2,412)
Foreign currency translation	(141)
<b>Balance, December 31, 2024</b>	<b>6,843</b>
Additions	528
Interest	381
Payments	(2,529)
Foreign currency translation	260
<b>Balance, December 31, 2025</b>	<b>\$5,483</b>

As at	December 31,
	2025
Maturities of lease liabilities:	
2026	\$2,342
2027	1,837
2028	1,066
2029	525
2030	262
Thereafter	37
<b>Total lease payments</b>	<b>6,069</b>
Less imputed interest	586
<b>Total</b>	<b>\$5,483</b>

Composed of:	December 31,	December 31,
	2025	2024
Current portion of lease liabilities	\$2,094	\$2,040
Long-term lease liabilities	3,389	4,803
<b>Lease liabilities as at December 31</b>	<b>\$5,483</b>	<b>\$6,843</b>

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

### 9. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvements	Computer Equipment and Software	Furniture and Fixtures	Machinery and Equipment	Land and Building	Total
<b>Cost</b>						
Balance, January 1, 2024	\$326	\$3,357	\$1,251	\$3,598	\$-	\$8,532
Additions	2	143	7	1,238	-	1,390
Acquisitions through business combinations	-	-	31	-	-	31
Disposals	-	(28)	(7)	(444)	-	(479)
Foreign currency translation	(5)	(7)	-	(20)	-	(32)
Balance, December 31, 2024	323	3,465	1,282	4,372	-	9,442
Additions	-	172	88	320	100	680
Acquisitions through business combinations	-	-	-	-	-	-
Disposals	(33)	(145)	(15)	(352)	-	(545)
Foreign currency translation	3	7	1	(41)	-	(30)
Balance, December 31, 2025	293	3,499	1,356	4,299	100	\$9,547
<b>Accumulated Depreciation and Impairment</b>						
Balance, January 1, 2024	\$174	\$1,988	\$832	\$1,402	\$-	\$4,396
Depreciation	27	505	134	872	-	1,538
Impairment	-	-	-	-	-	-
Disposals	-	(28)	(7)	(401)	-	(436)
Foreign currency translation	5	7	1	(30)	-	(17)
Balance, December 31, 2024	206	2,472	960	1,843	-	5,481
Depreciation	24	496	15	827	10	1,372
Disposals	-	-	(125)	(330)	-	(455)
Foreign currency translation	(2)	(8)	(1)	3	-	(8)
Balance, December 31, 2025	228	2,960	849	2,343	10	6,390
<b>Net Book Value</b>						
Balance, December 31, 2024	\$117	\$993	\$322	\$2,529	\$-	\$3,961
Balance, December 31, 2025	\$65	\$539	\$507	\$1,956	\$90	\$3,157

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

### 10. INTANGIBLE ASSETS

	Patents	Developed Software	Customer Relationships, Trade Name, Non-competition Agreements and Backlog	Total
<b>Cost</b>				
Balance, January 1, 2024	\$1,345	\$43,217	\$72,012	\$116,574
Additions	255	3,968	-	4,223
Acquisitions through business combinations	1,440	-	2,185	3,625
Foreign currency translation	(29)	(1)	(24)	(54)
Balance, December 31, 2024	3,011	47,184	74,173	124,368
Additions	294	6,029	-	6,323
Disposals	-	(55)	-	(55)
Foreign currency translation	101	65	24	190
Balance, December 31, 2025	\$3,406	\$53,223	\$74,197	\$130,826
<b>Accumulated Amortization and Impairment</b>				
Balance, January 1, 2024	\$828	\$12,517	\$24,137	\$37,482
Amortization	378	3,179	4,916	8,473
Foreign currency translation	22	1	20	43
Balance, December 31, 2024	1,228	15,697	29,073	45,998
Amortization	290	4,206	3,780	8,276
Foreign currency translation	12	-	(8)	4
Balance, December 31, 2025	\$1,530	\$19,903	\$32,845	\$54,278
<b>Net Book Value</b>				
Balance, December 31, 2024	\$1,783	\$31,487	\$45,100	\$78,370
Balance, December 31, 2025	\$1,876	\$33,320	\$41,352	\$76,548

During the year, the Company capitalized \$6,323 of development expenses.

# Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

## 11. INVESTMENT IN OTHER ENTITY

On June 15, 2023, as part of the consideration for the sale of WiLAN Inc. and its related entities ("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 December 31, 2025, the investment in WiLAN is valued at \$3,919 (December 31, 2024 - \$3,919).

## 12. 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 consolidated statements of financial position.

## 13. GOODWILL

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

	Note	Intelligent Transportation Systems	Total
Balance, January 1, 2024		\$29,019	\$29,019
Acquisitions	4	2,105	2,105
Foreign currency translation		(164)	(164)
Balance, December 31, 2024		30,960	30,960
Impairment		(31,412)	(31,412)
Foreign currency translation		452	452
Balance, December 31, 2025		\$-	\$-

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

The recoverable amount of the CGU to which the goodwill belongs is determined as the greater of fair value less cost of disposal, and value in use ("VIU"). To determine the recoverable amount of the CGU, a VIU approach has been taken. Calculating the VIU involves estimating the future cash inflows and outflows to be derived from the continuing use of an asset and from its ultimate disposal and applying an appropriate discount rate to the future cash flows. The Company uses its internal forecasts to estimate future cash flows and includes an estimate of long-term future growth based on its most recent views of the long-term outlook for each business for a period of five years, and a terminal period in consideration of a long-term growth rate of 2.0%. Actual results may differ from those assumed in these forecasts. The Company derives its discount rates using a capital asset pricing model and by analyzing published rates for industries relevant to its reporting units to estimate the cost of equity financing. The Company uses discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in its internally developed forecasts. The after-tax discount rate range used in valuations as at December 31, 2025 was 14.5% to 16.0% (2024 - 14%).

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

### 13. GOODWILL (continued)

As at December 31, 2025, the Company performed its annual impairment assessment of goodwill and also considered whether events or changes in circumstances indicated that goodwill may be impaired. Based on this assessment, the Company recorded a goodwill impairment charge of \$31,412 during the year ended December 31, 2025 (2024: nil). This impairment charge is non-cash and reflects a reduction in the carrying value of goodwill. Management believes that no reasonable change in significant assumptions would materially change the amount of impairment recorded.

### 14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	December 31, 2025	December 31, 2024
Trade payables	\$25,886	\$17,902
Accrued compensation	5,193	4,352
Accrued project losses	89	670
Other current liabilities	2,988	2,674
	<u>\$34,156</u>	<u>\$25,598</u>

### 15. LONG-TERM DEBT

As at	December 31, 2025	December 31, 2024
Senior term credit facility:		
\$50,000 due September 1, 2026	\$13,938	\$17,531
Less: current portion of long-term debt	(13,883)	(2,125)
Debt issuance costs, net of amortization	(55)	(133)
Total long-term debt	<u>\$ -</u>	<u>\$15,273</u>

During the year ended December 31, 2021, Quarterhill ITS, the parent company of International Road Dynamics Inc. ("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 effective interest rate for the facilities as at December 31, 2025 was 6.45% (December 31, 2024 - 6.54%). 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 December 31, 2025 was \$199,739.

During the year ended December 31, 2025, 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 April 23, 2025, the Company completed an amendment to its existing credit agreement. This amendment modified certain terms and conditions of the credit agreement in its covenants for all reporting periods up to June 30, 2025 (the "Covenant Relief Period"). The financial covenants effective during the Covenant Relief Period are as follows:

- A Fixed Charge Coverage Ratio of at least 1.00 to 1.00 on a rolling four-quarter basis.
- A Senior Leverage Ratio of not more than 3.00 to 1.00.

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

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

On August 6, 2025 (the "Amendment Date"), the Company finalized an amendment to its credit agreement. As of the Amendment Date, the balance of the term loan was \$16,469. The amendment modified certain terms and conditions of the credit agreement to provide the Company with additional flexibility in its covenant and cash management, including a waiver of the Senior Leverage Ratio to September 30, 2025. This waiver has been extended from September 30, 2025 to April 30, 2026.

The amendment required the Company to repay \$2,000 of principal in addition to the previously scheduled repayment amounts of long-term debt and includes the following financial covenants the Company must maintain:

- A Fixed Charge Coverage Ratio of at least 1.20 to 1.00 on a rolling four-quarter basis. The Fixed Charge Coverage Ratio has been waived to September 30, 2025. This waiver has been extended from September 30, 2025 to April 30, 2026.
- 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 Senior Leverage Ratio has been waived to September 30, 2025. This waiver has been extended from September 30, 2025 to April 30, 2026.
- Certain minimum earnings thresholds must be met at each reporting quarter.

The Company was in compliance with the minimum earnings threshold for the three months ended December 31, 2025.

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

	Principal
To December 31, 2026	
To September 1, 2026	13,938
	<u>\$13,938</u>

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

### 16. CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY

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

	December 31, 2025	December 31, 2024
Convertible unsecured subordinated debentures:		
Gross proceeds	\$41,940	\$42,524
Convertible debentures, host debt component	\$40,670	\$37,390
Debt issuance costs, net of amortization	(275)	(565)
Convertible debentures	\$40,395	\$36,825
Convertible debentures, derivative liability component, opening	\$516	\$2,290
Currency loss (gain) on financial statement translation	4	(100)
Change in fair value of derivative liability	(520)	(1,674)
Derivative liability, ending	\$-	\$516

On October 27, 2021, the Company completed a brokered financing of C\$57,500 by way of the issuance of unsecured subordinated convertible debentures (the "Debentures"), which includes the full exercise of a C\$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 (the "Maturity Date") and an initial conversion price into common shares of C\$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 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. 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.

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 C\$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.

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

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

The fair value of the conversion option is calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

As at	December 31, 2025	December 31, 2024
Risk-free rate	2.50%	3.25%
Expected life (in years)	0.83	1.83
Expected volatility	37%	41%
Expected dividend yield	0.0%	0.0%
Share price	\$1.05	\$1.64

### 17. SHARE CAPITAL

The share capital of the Company consists of the following:

	Issued and Outstanding		
	Authorized	December 31, 2025	December 31, 2024
a) Common shares, with no par value	Unlimited	118,992,746	115,786,320
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, 2024	115,076,583
Issuance of common shares upon vesting of restricted stock units	664,348
Conversion of deferred stock units to common shares	45,389
December 31, 2024	115,786,320
Issuance of common shares upon vesting of restricted stock units	2,891,379
Conversion of deferred stock units to common shares	309,962
Conversion of performance stock units to commons shares	5,085
December 31, 2025	118,992,746

#### Stock-based compensation

At the annual and special meeting of shareholders held on April 18, 2018, Quarterhill's shareholders approved the adoption of the Company's 2018 Equity Incentive Plan (the "Equity Plan"). As at December 31, 2025, the Company had options to purchase up to 3,705,132 common shares outstanding.

	Options Outstanding			Exercisable Options	
	Number of Options	Price* Range	Weighted Average Exercise Price*	Number	Weighted Average Exercise Price*
January 1, 2024	5,628,129	\$1.25 - \$2.70	\$2.09	4,682,956	\$2.05
Forfeited	(928,334)	1.81 - 2.70	2.42		
Expired	(528,755)	1.81 - 2.14	2.03		
December 31, 2024	4,171,040	\$1.25 - \$2.70	\$2.02	3,908,101	\$2.01
Expired	(465,908)	1.25 - 2.49	1.80		
December 31, 2025	3,705,132	\$1.25 - \$2.70	\$2.05	3,705,132	\$2.05

\*In Canadian dollars

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

### 17. SHARE CAPITAL (continued)

The intrinsic value of the exercisable options was \$98 as at December 31, 2025 (2024 - \$98). The total fair value of options vested was \$nil for the year ended December 31, 2025 (2024 - \$nil).

As at December 31, 2025, there was \$nil (2024 - \$nil) of total unrecognized stock-based compensation cost, net of expected forfeitures, related to unvested stock-based compensation arrangements granted under the stock option plan. Details of the outstanding options as at December 31, 2025 are as follows:

Range of Exercise Prices*	Outstanding Options at December 31, 2025	Remaining Term of Options in Years	Weighted Average Exercise Price*	Exercisable Options at December 31, 2025	Weighted Average Exercise Price*
\$1.25	250,000	3.46	\$1.25	250,000	\$1.25
1.26 - 1.99	1,751,755	0.22	1.94	1,751,755	1.94
2.00 - 2.49	1,328,377	1.76	2.16	1,328,377	2.16
2.50 - 2.70	375,000	1.64	2.69	375,000	2.69
\$1.25 - \$2.70	3,705,132	1.13	\$2.05	3,705,132	\$2.05

\*In Canadian dollars

#### Restricted stock units

During the year ended December 31, 2025, the Company granted RSUs valued using the most recent TSX closing price for the common shares on the date of grant as follows:

	Number	Price*	Amount
March 18, 2025	645,000	\$1.14	\$514
March 21, 2025	500,000	1.31	\$457
May 16, 2025	1,837,113	1.52	\$1,998
June 17, 2025	103,455	1.40	\$106
September 18, 2025	59,691	1.13	\$49
November 7, 2025	4,000,000	1.03	\$2,930
November 10, 2025	150,000	0.98	\$105
December 8, 2025	150,000	0.89	\$96
	7,445,259		\$6,255

\*In Canadian dollars

RSU activity for the years ended December 31, 2025 and 2024 was as follows:

	Number
January 1, 2024	873,628
Granted	1,368,046
Settled	(922,074)
Forfeited	(223,532)
December 31, 2024	1,096,068
Granted	7,445,259
Settled	(3,956,316)
Forfeited	(566,850)
December 31, 2025	4,018,161

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

### 17 SHARE CAPITAL (continued)

Deferred stock units

The following table provides the dates and number of DSUs granted:

	Number
June 20, 2024	390,163
December 31, 2024	18,109
	408,272
March 18, 2025	7,752
August 14, 2025	487,814
November 10, 2025	20,408
	924,246

For the year ended December 31, 2025, the Company has recognized \$641 (2024 - \$567) in stock-based compensation expense as a result.

DSU activity for the years ended December 31, 2025 and 2024 was as follows:

	Number
January 1, 2024	668,848
Granted	408,272
Settled	(45,389)
December 31, 2024	1,031,731
Granted	515,974
Settled	(667,008)
December 31, 2025	880,697

Performance stock units

The following table provides the dates and number of PSUs granted:

	Number
May 16, 2025	1,837,113
June 17, 2025	103,455
September 18, 2025	59,691
	2,000,259

PSU activity for the year ended December 31, 2025 was as follows:

	Number
January 1, 2025	-
Granted	2,000,259
Settled	(5,085)
Forfeited	(1,560,604)
December 31, 2025	434,570

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

### 18. OTHER CHARGES

Other charges within the 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 years ended December 31, 2025 and 2024, the Company recognized other charges as follows:

	Year ended December 31,	
	2025	2024
Severance costs	\$1,855	2,008
Acquisition related costs	-	383
Other costs	54	-
Other charges	\$1,909	\$2,391

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

### 19. OTHER INCOME

During the years ended December 31, 2025 and 2024, the Company recognized other income as follows:

	Year ended December 31,	
	2025	2024
Dividend received from WILAN	\$4,551	\$3,849
Change in fair value of investment in associated entity (Note 11)	-	1,021
Gain on sale of joint venture	-	708
Equity (loss) earnings from joint venture	-	(220)
Other income	520	904
Other income	\$5,071	\$6,262

### 20. 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.

	Year ended December 31,	
	2025	2024
Numerator:		
Net loss	(\$54,410)	(\$11,022)
Denominator:		
Weighted average number of common shares outstanding for basic loss per share	116,785,826	115,369,947
Weighted average number of common shares outstanding for diluted loss per share	116,785,826	115,369,947
Basic and diluted loss per share	(\$0.47)	(\$0.10)

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

### 21. 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 ("CODM") to make decisions about resources to be allocated to the segment and assess their performance. The Company's CODM is the Chief Executive Officer. The Company's operating segments are organized on the basis of products and services provided and also represent its reportable segments. The Company's consolidated statements of loss and comprehensive loss reflect the sole ITS segment.

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

	Year ended December 31,	
	2025	2024
Revenue recognized at a point in time	\$21,168	\$17,753
Revenue recognized over time	134,002	135,552
<b>Total revenues</b>	<b>\$155,170</b>	<b>\$153,305</b>

Revenues by geography are as follows:

	Year ended December 31,	
	2025	2024
United States	\$136,835	\$136,621
Thailand	3,111	2,880
Germany	2,773	2,568
Canada	4,343	4,021
Korea	1,915	1,773
Belgium	673	623
France	866	802
Chile	127	118
Rest of the world	4,527	3,899
<b>Total revenues</b>	<b>\$155,170</b>	<b>\$153,305</b>

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

As at	December 31, 2025	December 31, 2024
United States	\$75,843	\$106,206
Great Britain	3,201	5,445
Germany	796	3,392
Canada	4,128	3,063
Belgium	253	220
<b>Total</b>	<b>\$84,221</b>	<b>\$118,326</b>

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

### 21. SEGMENT REPORTING (continued)

#### Major customers

A major customer is defined as an external customer whose transactions amount to approximately 10% or greater of the Company's revenue. There was one major customer totaling \$23,214 for the year ended December 31, 2025, whereas for the year ended December 31, 2024, there was one major customer that accounted for \$27,349 of total revenues.

### 22. EXPENSE BY NATURE

	Year ended December 31,	
	2025	2024
Personnel costs	\$59,184	\$55,785
Subcontractor fees	36,457	50,467
Direct and indirect materials costs	31,778	20,534
Communications and information technology	15,126	12,672
Professional and outside services	8,012	6,082
Travel and entertainment	4,529	4,690
Facilities	4,747	3,915
Other administrative expenses	1,312	1,246
Depreciation of right-of-use assets	1,324	1,450
Depreciation of property, plant and equipment	1,372	1,538
Amortization of intangible assets	8,276	8,473
Impairment and other charges	33,321	2,391
<b>Total direct cost of revenues and operating expenses</b>	<b>\$205,438</b>	<b>\$169,243</b>
Salaries and wages	\$40,148	\$41,477
Employee benefits	9,073	8,603
Stock-based compensation	5,492	2,319
Bonuses	3,581	1,980
Other personnel costs	890	1,406
<b>Total personnel costs</b>	<b>\$59,184</b>	<b>\$55,785</b>

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

### 23. TAXES

The reconciliation of the expected provision for income tax expense to the actual provision for income tax expense reported in the consolidated statements of loss and comprehensive loss for the years ended December 31, 2025 and 2024, is as follows:

	Year ended December 31,	
	2025	2024
Loss before taxes	(\$54,397)	(\$9,975)
Canadian statutory income tax rate	26.50%	26.50%
Expected income tax recovery	(\$14,415)	(\$2,643)
Permanent differences	10,462	(312)
Foreign rate differential	526	500
Return to provision	-	(62)
Change in benefit of tax assets not recognized	3,526	3,631
Other	(86)	(67)
Income tax expense	\$13	\$1,047

The income tax expense is as follows:

	Year ended December 31,	
	2025	2024
Current income tax (recovery) expense		
Current period	\$605	\$440
	605	440
Deferred income tax expense		
Current period	(592)	607
	(592)	607
	\$13	\$1,047

The effects of temporary differences, tax losses, and tax credits that give rise to significant components of the Company's deferred income tax assets and liabilities, which have been recognized during the years ended December 31, 2025 and 2024, are as follows:

As at	December 31, 2025	December 31, 2024
Deferred income tax assets		
Tax loss carryforwards	\$70	\$1,511
Capital assets	1,225	1,525
Other temporary differences	3,376	2,082
Deferred income tax assets	4,671	5,118
Deferred income tax liabilities		
Capital assets	(6,544)	(6,036)
Other temporary differences	(251)	(1,659)
Deferred income tax liabilities	(6,795)	(7,695)
Deferred income tax liabilities, net	(\$2,124)	(\$2,577)

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

### 23. TAXES (continued)

The Company is required to assess whether it is probable that it will realize the benefits of its deferred tax assets based on consideration of all available evidence. The factors the Company uses to assess the likelihood of realization are its history of losses, forecasts of future pre-tax income, and tax planning strategies that could be implemented to realize the deferred tax assets. Accordingly, available deferred income tax assets in the amount of \$35,690 were not recognized as it is not probable that future taxable income will be available to the Company to utilize the benefits.

The amount of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognized in the consolidated statements of financial position for the year ended December 31, 2025 is as follows

As at	December 31, 2025	December 31, 2024
Tax loss carryforwards	\$79,391	\$60,775
Capital assets	1,114	1,060
Tax credits	1,041	2,095
Other deductible temporary differences	26,229	23,656
	<u>\$107,775</u>	<u>\$87,586</u>

As at December 31, 2025 the Company had unused non-capital tax losses of approximately \$113,314 (2024 - \$66,278) that are due to expire as follows:

Expiry	SR&ED pool	Canadian Tax Losses	US Tax Losses	Other Jurisdictions	Consolidated Tax Losses
2038	\$ -	\$2,338	\$ -	\$ -	\$2,338
2039	-	219	-	-	219
2040	-	2,076	-	-	2,076
2041	-	-	-	-	-
2042	-	-	-	-	-
2043	-	41	-	-	41
2044	-	903	-	-	903
Indefinite	21,504	-	75,190	1,828	77,018
	<u>\$21,504</u>	<u>\$5,577</u>	<u>\$75,190</u>	<u>\$1,828</u>	<u>\$82,595</u>

The Company has investment tax credits of \$1,287 that expire in various amounts from 2029 to 2042. Investment tax credits, which are earned as a result of qualifying SR&ED expenditures, are recognized and applied to reduce income tax expense in the year in which the expenditures are made and their realization is reasonably assured.

As at December 31, 2025, the Company had temporary differences of \$3,786 (2024 - \$3,651) associated with investments in subsidiaries for which no deferred tax liabilities have been recognized, as the Company is able to control the timing of the reversal of these temporary differences and it is not probable that these differences will reverse in the foreseeable future.

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

### 24. 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.

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

As at	December 31, 2025	December 31, 2024
Current	\$1,081	\$1,185
1-30 days	9,438	8,595
31-60 days	3,235	6,142
61-90 days	1,117	2,011
91 days and over	3,724	3,089
Less expected credit loss	(469)	(306)
Accounts receivable	18,126	20,716
Long-term accounts receivable	5,274	4,781
Total accounts receivable	\$23,400	\$25,497

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 collectible 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.

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

### 24. FINANCIAL RISK MANAGEMENT (continued)

#### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company manages its liquidity needs through various sources including cash generated through operations, cash reserves, various revolving credit facilities, and the issuance of common shares. The Company's cash and cash equivalents, short-term investments, and restricted short-term investments consist primarily of deposit investments that are held primarily with chartered banks in Canada and the United States. Management does not expect any counterparties to fail to meet their obligations.

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

	Total	To December 31, 2026	To December 31, 2027	To December 31, 2028	Thereafter
Accounts payable and accrued liabilities	\$34,156	\$34,156	\$ -	\$ -	\$ -
Long-term debt	13,938	13,938	-	-	-
Convertible debentures	41,940	41,940	-	-	-
Lease liabilities	6,069	2,342	1,837	1,066	824
	\$96,103	\$92,376	\$1,837	\$1,066	\$824

Based on the Company's liquidity position as at December 31, 2025, management has forecasted its cash flow requirements and believes that the Company has sufficient funds available to meet its liquidity requirements for the foreseeable future.

As noted in note 15, the Company has finalized an amendment to its credit agreement to provide the Company with additional flexibility in its covenant and cash management.

The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investment and financing activities. Management's current expectations with respect to future events are based on currently available information and the actual outcomes may differ materially from those current expectations.

#### 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 year ended December 31, 2025.

# Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

## 24. FINANCIAL RISK MANAGEMENT (continued)

### Currency risk

Portions of the Company's revenues and operating expenses are denominated in Canadian dollars, euros and British pounds. Because these consolidated 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 13% 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.

Currency 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.

## 25. RELATED-PARTY TRANSACTIONS

These consolidated financial statements include the accounts of Quarterhill and its wholly owned subsidiaries. Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Key management personnel are Quarterhill's President & Chief Executive Officer; Chief Financial Officer; Executive Vice President, Strategic Initiatives; and Executive Vice President, Project Management Office and the Chief Executive Officers of each of IRD and ETC. Other related parties are close family members of the key management personnel and entities controlled by key management personnel.

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

	Year ended December 31,	
	2025	2024
Salaries and benefits	\$2,520	\$3,197
Stock-based compensation	2,772	586
	<u>\$5,292</u>	<u>\$3,783</u>

## Notes to Consolidated Financial Statements

Years ended December 31, 2025 and 2024

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

### 26. CAPITAL MANAGEMENT

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

	December 31, 2025	December 31, 2024
Current portion of long-term debt	\$13,883	\$2,125
Non-current portion of long-term debt	-	15,273
Convertible debentures	40,395	36,825
Long-term debt and convertible debentures, net of debt issuance costs	54,278	54,223
Less:		
Cash and cash equivalents	(24,846)	(31,893)
Net debt	29,432	22,330
Shareholders' equity	83,440	131,123
Total capital management	112,872	153,453

The Company manages its capital structure in accordance with changes in economic conditions. To maintain or adjust its capital structure, the Company may purchase shares for cancellation pursuant to a normal course issuer bid or substantial issuer bid, issue new shares, or raise or retire debt. The Company is subject to covenants and restrictions related to its credit facilities as further described in Note 15, *Long-term Debt*.

### 27. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	Year ended December 31,	
	2025	2024
Accounts receivable	\$2,060	\$6,177
Unbilled revenue	(4,519)	(214)
Income taxes receivable	231	(231)
Inventories	1,221	617
Prepaid expenses and deposits	(962)	207
Deferred revenue	3,020	855
Deferred compensation asset	(125)	(98)
Deferred compensation liabilities	(636)	155
Accounts payable and accrued liabilities	8,558	(4,732)
Income taxes payable	(80)	(328)
	\$8,768	\$2,408

#### Supplemental cash flow information

	Year ended December 31,	
	2025	2024
Net interest paid in cash	\$3,420	\$3,733
Taxes paid	(\$151)	\$559



## Directors and Leadership Team

### DIRECTORS

Rusty Lewis (2, 3)  
Chair of the Board

Stephen A. Smith (1)  
Chair of the Audit Committee

Pasquale (Pat) Deon Sr. (2,3)  
Chair of the Compensation Committee

Asha Daniere (1,2,3)  
Chair of the ESG & Nominating Committee

Chuck Myers  
Chief Executive Officer

Robin Saunders

Burland East

Member of (1) Audit Committee,  
(2) Compensation Committee,  
(3) ESG & Nominating Committee

### LEADERSHIP TEAM

Chuck Myers  
Chief Executive Officer

David Charron  
Chief Financial Officer

Rick Strobridge  
Chief Revenue Officer

Ana Guerra  
Chief People Officer

Majorie Winters  
General Counsel

Donna Bergan  
VP, Safety and Enforcement

Fred Baker  
VP, Project Operations

Dave Sparks  
Strategic Advisor

# Quarterhill

200 Bay Street, North Tower, Suite 1200  
Toronto, ON M5J 2J2