Quarterhill Inc.

2026 Second Quarter

Interim Condensed Consolidated Financial Statements

(Unaudited)

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

Quarterhill

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

	Note	Three months ended June 30, 2026	Three months ended June 30, 2025	Six months ended June 30, 2026	Six months ended June 30, 2025
Revenues	6,14	$42,511	$43,075	$81,125	$76,964
Direct cost of revenues		30,356	36,732	58,259	66,690
Gross profit		12,155	6,343	22,866	10,274
Operating expenses					
Selling, general and administrative expenses		10,696	9,675	21,827	17,706
Impairment expense	12	1,031	-	1,031	-
Research and development expenses		271	500	578	781
Depreciation of right-of-use assets		399	217	799	552
Depreciation of property, plant and equipment		366	365	719	734
Amortization of intangible assets		2,145	2,046	4,323	4,020
Other charges	12	2,480	83	2,515	324
		17,388	12,886	31,792	24,117
Results from operations		(5,233)	(6,543)	(8,926)	(13,843)
Finance income		(9)	(65)	(49)	(120)
Finance expense		2,070	1,564	3,530	3,057
Foreign exchange (gain) loss		(2,213)	2,748	(2,484)	3,020
Other income		(181)	(3,292)	(306)	(3,609)
Change in fair value of derivative liability	10	-	(60)	-	(490)
Loss before taxes		(4,900)	(7,438)	(9,617)	(15,701)
Current income tax expense (recovery)		1,035	(66)	1,758	43
Deferred income tax recovery		(368)	(537)	(559)	(539)
Income tax expense (recovery)		667	(603)	1,199	(496)
Net loss		(5,567)	(6,835)	(10,816)	(15,205)
Other comprehensive (loss) income that may be reclassified subsequently to net loss:					
Foreign currency translation adjustment		(1,123)	1,945	(1,966)	2,506
Comprehensive loss		($6,690)	($4,890)	($12,782)	($12,699)
Loss per share - Basic and diluted	13	($0.05)	($0.06)	($0.09)	($0.13)

See accompanying notes to these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Financial Position (Unaudited)

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

As at	Note	June 30, 2026	December 31, 2025
Assets			
Current assets			
Cash and cash equivalents		$26,222	$24,846
Accounts receivable, net		22,796	18,126
Unbilled revenue	6	31,690	38,980
Inventories net of obsolescence		8,098	8,922
Prepaid expenses and deposits		9,646	5,550
		98,452	96,424
Non-current assets			
Accounts and other long-term receivables		5,541	5,274
Right-of-use assets, net		3,690	4,516
Property, plant and equipment, net		3,012	3,157
Intangible assets, net		75,630	76,548
Investment in other entity	7	3,919	3,919
Deferred compensation asset	8	565	1,175
		92,357	94,589
TOTAL ASSETS		$190,809	$191,013
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$30,877	$34,156
Income taxes payable		1,674	254
Current portion of lease liabilities		1,652	2,094
Current portion of deferred revenue	6	8,213	9,435
Current portion of long-term debt	9	563	13,883
Convertible debentures	2,10	39,790	40,395
		82,769	100,217
Non-current liabilities			
Long-term deferred revenue	6	1,505	867
Long-term lease liabilities		2,420	3,389
Long-term debt	9	26,248	-
Deferred compensation liabilities	8	506	464
Deferred income tax liabilities		1,548	2,124
Other long-term liabilities		512	512
		32,739	7,356
TOTAL LIABILITIES		115,508	107,573
Shareholders' equity			
Share Capital	11	319,956	317,395
Contributed surplus		131,615	129,533
Accumulated other comprehensive income		12,057	14,023
Deficit		(388,327)	(377,511)
		75,301	83,440
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$190,809	$191,013

See accompanying notes to these interim condensed consolidated financial statements.

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

	Note	Three months ended June 30, 2026	Three months ended June 30, 2025	Six months ended June 30, 2026	Six months ended June 30, 2025
Operating activities:					
Net loss		($5,567)	($6,835)	($10,816)	($15,205)
Add (deduct) non-cash items:					
Stock-based compensation expense		3,104	1,153	5,583	2,097
Depreciation and amortization		2,910	2,628	5,841	5,306
Foreign exchange (gain) loss		(2,213)	2,748	(2,484)	3,020
Other income		(181)	(3,292)	(306)	(3,402)
Impairment expense	12	1,031	-	1,031	-
Deferred and non-cash income tax recovery		(368)	(537)	(559)	(539)
Change in fair value of embedded derivatives		(10)	(48)	(7)	(45)
Change in fair value of derivative liability	10	-	(60)	-	(490)
Non-cash interest expense		663	560	1,185	1,099
Net change in non-cash working capital balances	16	6,341	(881)	790	(28)
Cash generated (used) in operations		5,710	(4,564)	258	(8,187)
Financing activities:					
Payment of lease liabilities		(706)	(668)	(1,377)	(1,311)
Repayment of long-term debt	9	(13,245)	-	(14,583)	(531)
Net proceeds from secured term loan	9	28,426	-	28,426	-
Common shares issued for cash on the exercise of options		58	-	58	-
Cash generated (used) in financing activities		14,533	(668)	12,524	(1,842)
Investing activities:					
Net proceeds from disposition of a joint venture		-	-	-	319
Proceeds from sale of property, plant and equipment		-	26	-	26
Purchase of property, plant and equipment		(283)	(310)	(739)	(369)
Dividend received from investment in other entity	7, 11	-	3,203	-	3,203
Prepaid acquisition consideration		(3,500)	-	(3,500)	-
Capitalized software costs		(2,770)	(1,231)	(4,161)	(2,147)
Cash (used) generated in investing activities		(6,553)	1,688	(8,400)	1,032
Effect of foreign exchange		(2,184)	79	(3,006)	(238)
Net increase (decrease) in cash and cash equivalents		11,506	(3,465)	1,376	(9,235)
Cash and cash equivalents, beginning of period		14,716	26,123	24,846	31,893
Cash and cash equivalents, end of period		$26,222	$22,658	$26,222	$22,658

See accompanying notes to these interim condensed consolidated financial statements.

Interim Condensed Consolidated Statements of Shareholders' Equity (Unaudited)

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

	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Equity
Balance, January 1, 2025		$314,630	$127,446	$12,148	($323,101)	$131,123
Net loss		-	-	-	(15,205)	(15,205)
Other comprehensive income		-	-	2,506	-	2,506
Stock-based compensation expense		-	2,097	-	-	2,097
Common shares issued from restricted stock units	11	815	(1,156)	-	-	(341)
Common shares issued from deferred stock units	11	345	(741)	-	-	(396)
Balance, June 30, 2025		$315,790	$127,646	$14,654	($338,306)	$119,784
Balance, January 1, 2026		$317,395	$129,533	$14,023	($377,511)	$83,440
Net loss		-	-	-	(10,816)	(10,816)
Other comprehensive loss		-	-	(1,966)	-	(1,966)
Stock-based compensation expense		-	5,583	-	-	5,583
Exercise of stock options		74	(16)	-	-	58
Common shares issued from restricted stock units	11	1,756	(2,754)	-	-	(998)
Common shares issued for retention and performance stocks	11	731	(731)	-	-	-
Balance, June 30, 2026		$319,956	$131,615	$12,057	$(388,327)	$75,301

See accompanying notes to these interim condensed consolidated financial statements.

1. NATURE OF BUSINESS

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

On June 30, 2026, the Company entered into a definitive asset purchase agreement to acquire substantially all of the assets and assume certain liabilities of the tolling solutions business of Conduent Business Services, LLC and certain of its affiliates, for aggregate consideration of $70,000 in cash (subject to customary adjustments) plus common shares representing 7.0% of the Company's issued and outstanding shares upon closing, with the cash portion expected to be funded through debt. A total of $3,500 was prepaid as part of the aggregate consideration and recognized in prepaid expenses and deposits in the balance sheet as at June 30, 2026.

2. MATERIAL ACCOUNTING POLICY INFORMATION

Basis of presentation

Statement of compliance

These interim condensed consolidated financial statements ("financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") and, specifically, International Accounting Standards ("IAS") 34, *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). These financial statements do not include all of the information required in the annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements as at and for the year ended December 31, 2025, which are available on SEDAR+ at www.sedarplus.ca.

The preparation of these financial statements in accordance with IAS 34 requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent assets and liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in adjustment to the carrying amount of an asset or liability or the reported amounts of revenue and expenses in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, were the same as those that applied to the Company's annual consolidated financial statements as at and for the year ended December 31, 2025.

The accounting policies adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements as at and for the year ended December 31, 2025, apart from any listed below. Several amendments apply for the first time in the current fiscal year, but do not have an impact on the financial statements of the Company. The Company has not early-adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. ACCOUNTING STANDARDS

Amendment to current accounting policy

Effective January 1, 2026, the Company adopted *Amendments to the Classification and Measurement of Financial Instruments*, which amended IFRS 9, *Financial Instruments* ("IFRS 9") and IFRS 7, *Financial Instruments: Disclosure* ("IFRS 7"). These amendments updated classification and measurement requirements in IFRS 9 and related disclosure requirements in IFRS 7. The IASB clarified the recognition and derecognition date of certain financial assets and liabilities, and amended the requirements related to settling financial liabilities using an electronic payment system. It also clarified how to assess the contractual cash flow characteristics of financial assets in determining whether they meet the solely payments of principal and interest criterion, including financial assets that have environmental, social and corporate governance (ESG)-linked features and other similar contingent features. The IASB added disclosure requirements for financial instruments with contingent features that do not relate directly to basic lending risks and costs and amended disclosures relating to equity instruments designated at fair value through other comprehensive loss. There was no material impact on the financial statements.

New standard and interpretation not yet adopted

Listed below is the standard that the Company reasonably expects to be applicable at a future date and intends to adopt when it becomes effective.

IFRS 18, Presentation and Disclosure in 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.

Management is currently assessing the impact of the new standard and its requirements.

4. SEASONALITY AND ONE-TIME NATURE OF REVENUES

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

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

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 values of convertible debentures and long-term debt approximate their carrying values 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, approximate their fair values due to the short-term maturity of these items.

Inputs used to calculate the fair value of derivative and convertible debenture financial instruments are classified as Level 2 inputs; and inputs for all other financial instruments for which fair value approximates carrying value are classified as Level 1 inputs.

6. UNBILLED REVENUE AND DEFERRED REVENUE

Significant changes in unbilled revenue and deferred revenue balances during the six months ended June 30, 2026 are as follows:

As at	June 30, 2026	December 31, 2025	$ Change
Unbilled revenue	$31,690	$38,980	($7,290)
Deferred revenue - current	(8,213)	(9,435)	1,222
Deferred revenue - non-current	(1,505)	(867)	(638)
Net contract assets	$21,972	$28,678	($6,706)

Revenue recognized for the three and six months ended June 30, 2026 that was included in deferred revenue at the beginning of the period was $1,918 and $3,090, respectively (2025 - $1,084 and $2,826, respectively).

7. 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 June 30, 2026, the investment in WiLAN was valued at $3,919 (December 31, 2025 - $3,919).

8. 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.

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

9. LONG-TERM DEBT

As at	June 30, 2026	December 31, 2025
Senior term credit facility:		
$50,000 due September 1, 2026	$ -	$13,938
Less: current portion of long-term debt	-	(13,883)
Debt issuance costs, net of amortization	-	(55)
Total long-term debt	$ -	$ -

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.

On May 11, 2026, the Company entered into a new senior secured credit agreement with BTG Pactual Global Alternatives (the "New Credit Facility"), and on May 12, 2026, the Company received initial funding under the New Credit Facility. The New Credit Facility provides for up to $60,000 of committed senior secured financing, consisting of a $5,000 revolving credit facility, a $30,000 term loan and a $25,000 delayed draw term loan. The facilities bear interest at the Secured Overnight Financing Rate plus an applicable margin, subject to the Company's senior leverage ratio, have a five-year term maturing in May 2031, and amortize at 2.5% per annum, payable quarterly. The New Credit Facility also includes an incremental $100,000 uncommitted accordion. The facilities are secured by a general security agreement over the assets of the Company's principal operating subsidiaries and contain customary affirmative, negative and financial covenants, including maximum senior leverage, minimum fixed charge coverage, and minimum liquidity requirements. The Company was in compliance with these covenants as at June 30, 2026.

As at	June 30, 2026	December 31, 2025
Senior term credit facility:		
$30,000 due May 12, 2031	$30,000	$ -
Less: current portion of long-term debt	(563)	-
Debt issuance costs, net of amortization	(3,189)	-
Total long-term debt	$26,248	$ -

On May 12, 2026, the Company drew the $30,000 term loan and used the proceeds to repay in full the outstanding balance of its existing senior secured credit facilities with HSBC Bank Canada and Royal Bank of Canada, which were scheduled to mature on September 1, 2026. The $5,000 revolving credit facility and $25,000 delayed draw term loan remain available, undrawn, with the delayed draw term loan expected to be used to fund the repayment of the Company's outstanding convertible debentures, which mature on October 30, 2026. The financial covenants relating to the term loan are as follows:

- A total senior net leverage ratio of not more than 4.25 to 1.00 as of June 30, 2026, whether or not delayed draw term loans have been drawn. This maximum permissible ratio decreases over time.
- A fixed charge coverage ratio of at least 0.40 to 1.00 as of June 30, 2026 if no delayed draw term loans have been drawn, or at least 0.45 to 1.00 if delayed draw term loans have been drawn. This minimum permissible ratio generally increases over time.

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

9. LONG-TERM DEBT (continued)

- A liquidity covenant requiring at least $10,000 as of the last day of any calendar month, calculated as the sum of the weekly liquidity amounts during such month divided by the number of weeks ending in that month.

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

	Principal
To June 30, 2027	563
To June 30, 2028	750
To June 30, 2029	750
To June 30, 2030	750
To May 12, 2031	27,187
	$30,000

10. CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY

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

As at	June 30, 2026	December 31, 2025
Convertible unsecured subordinated debentures:		
Gross proceeds	$40,391	$41,940
Convertible debentures, host debt component	$39,897	$40,670
Debt issuance costs, net of amortization	(107)	(275)
Convertible debentures	$39,790	$40,395
Convertible debentures, derivative liability component, opening	$ -	$516
Currency loss on financial statement translation	-	4
Change in fair value of derivative liability	-	(520)
Derivative liability, ending	$ -	$ -

On October 27, 2021, the Company completed a brokered financing of C$57,500 by way of the issuance of unsecured subordinated convertible debentures (“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 semiannually, 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,

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

10. CONVERTIBLE DEBENTURES AND DERIVATIVE LIABILITY (continued)

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.

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

As at	June 30, 2026	December 31, 2025
Risk-free rate	2.50%	2.50%
Expected life (in years)	0.33	0.83
Expected volatility	47%	37%
Expected dividend yield	0.0%	0.0%
Share price	C$2.40	C$1.05

11. SHARE CAPITAL

The share capital of the Company consists of the following:

		Issued and Outstanding	
	Authorized	June 30, 2026	December 31, 2025
a) Common shares, with no par value	Unlimited	121,332,724	118,992,746
b) Special preferred shares, redeemable, retractable, non-voting	6,351	Nil	Nil
c) Preferred shares, issuable in series	Unlimited	Nil	Nil

	Number
January 1, 2025	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
Issuance of common shares upon vesting of restricted stock units	1,515,557
Issuance of common shares upon vesting of retention and performance stock	551,942
Exercise of options into common shares	40,000
Conversion of performance stock units to common shares	232,479
June 30, 2026	121,332,724

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

12. OTHER CHARGES

Other charges within the interim condensed consolidated statements of loss and comprehensive loss include impairment loss on disposal of subsidiary, costs that relate to certain cost reduction initiatives that the Company has undertaken from time to time, and other charges.

During the three and six months ended June 30, 2026, the Company recognized impairment loss of $1,031 and $1,031 respectively, (2025 - $nil and $nil, respectively), from the upcoming disposal of its subsidiary for a nominal amount, acquisition costs relating to the Conduent Tolling acquisition of $2,367 and $2,367 respectively, (2025 - $nil and $nil, respectively), and other charges of $114 and $149, respectively (2025 - $83 and $324, respectively). Other charges included severance costs of $114 and $149, respectively (2025 - $83 and $270, respectively) and other costs of $nil and $nil, respectively (2025 - $nil and $54, respectively) for the three and six months ended June 30, 2026.

13. LOSS PER SHARE

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

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
Numerator:				
Net loss	($5,567)	($6,835)	($10,816)	($15,205)
Denominator:				
Weighted average number of common shares outstanding for basic loss per share	120,530,472	116,418,530	119,854,701	116,159,811
Weighted average number of common shares outstanding for diluted loss per share	120,530,472	116,418,530	119,854,701	116,159,811
Basic and diluted loss per share	($0.05)	($0.06)	($0.09)	($0.13)

14. SEGMENT REPORTING

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components, and for which discrete financial information is available. The Company's Chief Operating Decision Maker is the Chief Executive Officer. The Company's interim condensed 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:

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
Revenue recognized at a point in time	$6,775	$5,300	$12,613	$10,490
Revenue recognized over time	35,736	37,775	68,512	66,474
Total revenues	$42,511	$43,075	$81,125	$76,964

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

14. SEGMENT REPORTING (continued)

Revenues by geography based on customer location are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
United States	$37,488	$40,142	$71,538	$70,550
Rest of the world	1,240	1,043	2,367	1,717
Thailand	1,190	184	2,271	1,358
Germany	852	564	1,626	995
Canada	760	339	1,450	708
Korea	525	272	1,001	566
Belgium	237	179	453	420
France	184	293	352	456
Chile	35	59	67	194
Total revenues	$42,511	$43,075	$81,125	$76,964

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

As at	June 30, 2026	December 31, 2025
United States	$74,105	$75,843
Great Britain	3,128	3,201
Germany	-	796
Canada	4,033	4,128
Belgium	247	253
Total	$81,513	$84,221

15. 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, 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.

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.

15. FINANCIAL RISK MANAGEMENT (continued)

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

Liquidity risk

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

Based on the Company's liquidity position as at June 30, 2026, 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. 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 and long-term debt. The Company's objectives of managing its cash and cash equivalents 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 deposits with the Company's banks so that they earn interest. When placing amounts of cash and cash equivalents into short-term deposits, the Company only places deposits with Canadian chartered banks and ensures that access to the amounts placed can be obtained on short notice.

A 1% increase or decrease in interest rates would not have resulted in a material increase or decrease in interest income or expense during the six months ended June 30, 2026.

Currency risk

Portions of the Company's revenues and operating expenses are denominated in Canadian dollars, euros and pounds sterling. 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 14% of the Company's cash and cash equivalents are denominated in Canadian dollars, euros and pounds sterling, and are subject to changes in the exchange rate of the Canadian dollar, euro and pound sterling relative to the US dollar.

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

15. FINANCIAL RISK MANAGEMENT (continued)

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.

As at June 30, 2026, the Company's sensitivity to a 5% strengthening (weakening) of the Canadian dollar and all other currencies relative to the US dollar for which the functional currency of the subsidiary company differs from the Canadian dollar would result in approximately $626 increase (decrease) of pre-tax loss to the interim condensed consolidated statements of loss and comprehensive loss.

16. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
Accounts receivable, net	$6,873	($844)	($4,937)	$417
Unbilled revenue	258	(5,207)	7,290	(8,422)
Income taxes receivable	-	(51)	-	(26)
Inventories	34	281	824	19
Prepaid expenses and deposits	262	(208)	(596)	89
Deferred revenue	(834)	385	(584)	1,720
Deferred compensation asset	(63)	(115)	610	(53)
Deferred compensation liabilities	47	155	42	72
Accounts payable and accrued liabilities	(809)	4,915	(3,279)	6,417
Income taxes payable	573	(192)	1,420	(261)
	$6,341	($881)	$790	($28)

Supplemental cash flow information

	Three months ended June 30,		Six months ended June 30,	
	2026	2025	2026	2025
Net interest paid in cash	$1,397	$939	$2,295	$1,838
Taxes paid	($1,435)	$261	($1,420)	$261

17. SUBSEQUENT EVENT

On July 31, 2026, the Company signed a definitive agreement for the sale of its subsidiary, VDS Verkehrstechnik GmBH with the sale expected to close in Q3 2026.