



NEWS RELEASE

Quarterhill Announces Second Quarter 2020 Financial Results

2020-08-06

KITCHENER, ON, Aug. 6, 2020 /PRNewswire/ - Quarterhill Inc. ("Quarterhill" or the "Company") (TSX: QTRH) (OTCQX: QTRHF), announces its financial results for the three- and six-month periods ended June 30, 2020. The Company historically prepared its consolidated financial statements in accordance with U.S. GAAP and in U.S. dollars. Effective January 1, 2020, the Company has adopted IFRS and the Canadian dollar as its reporting currency. The Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2019, and throughout all periods presented as if these policies had always been in effect. All financial information in this press release is reported in Canadian dollars, unless otherwise indicated.

Second Quarter 2020 Financial Highlights

- Revenue was \$16.8 million, including recurring revenue of \$5.6 million
- Adjusted EBITDA* was (\$2.0) million
- Net income was \$9.5 million, or \$0.08 per basic and diluted common share, which included a \$17.7 million gain on the sale of VIZIYA
- Cash used in continuing operations was (\$4.3) million
- Cash and equivalents were \$143.1 million at June 30, 2020

Second Quarter 2020 Operational Highlights

- Appointed Mr. Paul Hill as President and CEO of Quarterhill, effective June 1st
- Completed the sale of VIZIYA for total cash proceeds of \$49.4 million
- A Final Judgment was issued in WiLAN's case against Apple for US\$108.98 million
- Announced a Substantial Issuer Bid and subsequently completed it on July 7th, returning \$5.8 million to shareholders via the purchase of 2.7 million common shares
- Appointed Mr. Paul Hill and Dr. Michel Fattouche to Quarterhill's Board of Directors
- Appointed Mr. Rish Malhotra as President and CEO of International Road Dynamics ("IRD"), effective June 1st
- Announced today a Normal Course Issuer Bid to acquire up to 10%, or 11.3 million, of the

Company's common shares in the public float for a twelve-month period ending August 9, 2021

"Q2 had several positive operational developments including the previously announced sale of VIZIYA for a significant gain, the Final Judgment in WiLAN's case versus Apple for US\$108.98 million, and the return of \$5.8 million to shareholders via the Substantial Issuer Bid that was completed in mid-July," said Paul Hill, President & CEO of Quarterhill. "Today we announced the next step in our 'return of capital' commitment to shareholders with the launch of a Normal Course Issuer Bid to purchase up to 11.3 million of our shares over the next twelve months."

"Financial results in the quarter reflect both the steady performance at IRD and the variability in the business model at WiLAN, as well as the impact of COVID-19 on both businesses. At WiLAN, the COVID-19 impact was related to certain court closures in the U.S. as well as the inability to hold face-to-face meetings to conclude agreements. WiLAN's fundamentals remain in place and it continues to advance its pipeline despite the pandemic, although some deals may be delayed as was the case with certain opportunities we had expected to close in Q2 that were pushed out. These are not lost opportunities and they remain in our plan for completion. As we've said in the past, at WiLAN, performance over a longer time frame is a more accurate gauge of its potential compared to its quarterly business results. Case in point, while WiLAN had negative Adjusted EBITDA in Q2, it has had positive Adjusted EBITDA in five of the past seven quarters."

"At IRD, some impact from COVID-19 was felt in the quarter, but overall, the business continues to generate solid margins and results, and its prospects remain strong with both order backlog and order intake high and near record levels. On June 1, we announced Rish Malholtra would be taking over as CEO at IRD in a planned succession. Rish has deep knowledge of the Intelligent Transportation Systems, or ITS, industry and he has led many of the key functions at IRD during his tenure. These are exciting times at IRD and it is expected to play a significant role in our strategy going forward."

"While not a radical departure from Quarterhill's strategy of recent years, our go-forward strategy has a sharper focus. Foremost, the strategy involves executing on a M&A plan. While the M&A strategy was previously on hold, when I joined in June, we began discussions around how we could leverage the strong cash position of the business and the cash flow generating potential of our portfolio companies to drive long-term shareholder value. Ultimately that discussion coalesced around a strategy intended to drive organic growth from our existing businesses and M&A-related growth focused on the IRD business and the opportunities in the ITS market."

"The ITS market has attractive growth and market dynamics with reasonable valuations and IRD is an established and well-respected player in this market, which helps differentiate us as an acquirer. IRD serves as a well-run growth-oriented platform that acquisitions can be integrated into, which also opens up the prospect of greater revenue and cost synergies. As the broader ITS industry becomes more connected, we also believe there is an opportunity to leverage WiLAN's deep technological expertise; in particular in 5G, which may become a critical enabling technology for ITS in the future."

Mr. Hill concluded: "I will discuss our strategy in more detail on our conference call this morning at 10:00 a.m. EDT. The discussion will include accompanying slides that can be viewed via the webcast."

Subsequent Event - Normal Course Issuer Bid

In a separate press release issued today, Quarterhill announced that the Toronto Stock Exchange has accepted a notice filed by the Company of its intention to make a new Normal Course Issuer Bid. The notice provides that Quarterhill may, during the 12-month period commencing August 10, 2020 and ending August 9, 2021, purchase on the Toronto Stock Exchange up to 11.3 million common shares in total, being approximately 10% of the outstanding common shares in the public float. For full details regarding the Normal Course Issuer Bid, please see Quarterhill's related [press release](#) also issued today.

Approval of Eligible Dividend

The Board of Directors has declared an eligible quarterly dividend of \$0.0125 per common share payable on October 9, 2020, to shareholders of record on September 11, 2020.

Q2 2020 and Year-to-date Consolidated Financial Review

Financial statements for the three- and six-month periods ended June 30, 2020 and for the respective comparison periods, have been prepared to reflect continuing operations and therefore exclude results during those periods from VIZIYA, which was sold by Quarterhill on May 15, 2020. The current quarter and year-to-date operating results from VIZIYA, up to the date of sale on May 15, 2020, are reported as net income (loss) from discontinued operations in accordance with IFRS 5.

Consolidated revenues for the three months ended June 30, 2020 ("Q2 2020") were \$16.8 million, compared to \$52.9 million in Q2 2019. Consolidated revenues for the six-month period ended June 30, 2020 ("YTD 2020") were \$38.4 million, compared to \$102.7 million in the same period last year. The majority of WiLAN's licenses are one-time in nature and significant fluctuations in revenue, gross margin, and Adjusted EBITDA can result when the volume or dollar value of licenses changes from one period to the next. Revenue was lower in the Q2 2020 and YTD 2020 periods due primarily to the closure of a greater volume, and value, of licensing contracts in the prior year periods.

Recurring revenue for the Q2 2020 and YTD 2020 periods was \$5.6 million and \$9.5 million, compared to \$6.0 million and \$11.7 million in the same periods last year. Certain revenues characterized as recurring have a timing component to them and are recognized when the related work is completed. As such, the decrease in recurring revenue in 2020 is primarily a timing-based issue and does not reflect lower renewal or retention rates.

Gross margin for the Q2 2020 and YTD 2020 periods was 25% and 30%, compared to 46% and 47% in the same periods last year. Gross margin was lower in the Q2 2020 and YTD 2020 periods due primarily to lower revenue at WiLAN as described above, offset in part by higher gross margin at IRD. IRD and WiLAN's cost of sales benefited by \$0.6 million and \$0.3 million, respectively, via the Government of Canada's Canadian Emergency Wage Subsidy ("CEWS") program.

Operating expenses include selling, general and administrative costs ("SG&A"), research and development costs ("R&D"), depreciation and amortization of intangible assets and special charges. For Q2 2020, Quarterhill had special charges of \$0.7 million compared to \$15.0 million in Q2 2019. YTD 2020, special charges were \$0.9 million compared to \$16.7 million in the same period last year.

Excluding special charges, operating expenses for the Q2 2020 and YTD 2020 periods were \$11.9 million and \$24.3 million, compared to \$14.0 million and \$27.9 million in the same periods last year. Operating expenses were lower in 2020 due primarily to lower SG&A and R&D and a CEWS benefit at IRD of \$0.7 million.

Adjusted EBITDA for the Q2 2020 and YTD 2020 periods was (\$2.0) million and (\$1.8) million, compared to \$17.1 million and \$34.2 million in the same periods last year. The decrease in Adjusted EBITDA reflects the lower revenue at WiLAN, offset in part, by higher Adjusted EBITDA at IRD and lower corporate expenses.

Net income for Q2 2020 was \$9.5 million, or \$0.08 per basic and diluted common share, compared to net loss of (\$5.9) million, or (\$0.05) per basic and diluted common share, in Q2 2019. Net income for the YTD 2020 period was \$4.4 million, or \$0.04 per basic and diluted common share, compared to net loss of (\$6.0) million, or (\$0.05) per basic and diluted common share, in the same period last year. Net income in the Q2 2020 and YTD 2020 periods was driven primarily by net income from discontinued operations of \$14.5 million and \$14.3 million, respectively, which included a \$17.7 million gain on the sale of VIZIYA in Q2 2020.

Cash generated from (used in) continuing operations for the Q2 2020 and YTD 2020 periods was (\$4.3) million and \$5.4 million, compared to \$45.0 million and \$29.2 million in the same periods last year. Cash and cash equivalents and short-term investments increased to \$143.1 million at June 30, 2020, compared to \$89.4 million at December 31, 2019. The Company had debt of \$7.4 million at June 30, 2020, compared to \$4.4 million at December 31, 2019.

Conference Call and Webcast

Quarterhill will host a conference call to discuss its financial results today at 10:00 AM Eastern Time.

Management slides that accompany the conference call can be viewed via the webcast.

Webcast Information

Live webcast: https://produceredition.webcasts.com/starthere.jsp?ei=1348487&tp_key=00592de315

Dial-in Information

- To access the call from Canada and U.S., dial 1.888.231.8191 (Toll Free)
- To access the call from other locations, dial 1.647.427.7450 (International)

Replay Information

Webcast replay will be available for 90 days at: https://produceredition.webcasts.com/starthere.jsp?ei=1348487&tp_key=00592de315

Telephone replay will be available from 1:00 p.m. Eastern Time on August 6, 2020 until 11:59 p.m. Eastern Time on August 20, 2020 at: 1.855.859.2056 (Toll Free) or 1.416.849.0833 (International). The telephone replay requires the passcode 4283448.

The table below highlights financial performance for the Company's Licensing and Intelligent Systems segments. For detailed results and discussion related to these segments, please refer to the Management's Discussion and Analysis document, which will be filed on SEDAR and at www.quarterhill.com in the investor section.

Segmented statements of (loss) income for the three- and six-month periods ended June 30, 2020 and 2019 are included below:

For the Three months ended June 30, 2020

CONTINUING OPERATIONS	Licensing	Intelligent Systems	Corporate	Total
Revenues				
	\$ 68	\$ —	\$ —	\$ 68
License	—	11,138	—	11,138
Systems	252	5,366	—	5,618
Recurring	320	16,504	—	16,824
Direct cost of revenues	3,062	9,594	—	12,656
Gross profit	(2,742)	6,910	—	4,168
Depreciation of right-of-use assets	63	159	15	237
Depreciation of property, plant and equipment	16	225	6	247
Amortization of intangibles	3,588	1,260	—	4,848
Selling, general and administrative expenses	746	2,333	2,747	5,826
Research and development expenses	—	555	—	555
Impairment losses of intangible assets	233	—	—	233
Special charges	—	659	—	659
Results from operations	(7,388)	1,719	(2,768)	(8,437)
Finance income	(22)	(6)	(132)	(160)
Finance expense	38	74	6	118

Foreign exchange loss (gain)	342	(235)	(110)	(3)
Other income	—	(431)	—	(431)
(Loss) income before taxes	(7,746)	2,317	(2,532)	(7,961)
Current income tax expense	56	22	—	78
Deferred income tax (recovery) expense	(4,582)	167	1,363	(3,052)
Income tax (recovery) expense	(4,526)	189	1,363	(2,974)
Net (loss) income from continuing operations	\$ (3,220)	\$ 2,128	\$ (3,895)	\$ (4,987)
Adjusted EBITDA	\$ (3,419)	\$ 4,041	\$ (2,614)	\$ (1,992)

For the Six months ended June 30, 2020

CONTINUING OPERATIONS	Licensing	Intelligent Systems	Corporate	Total
Revenues				
	\$ 9,817	\$ —	\$ —	\$ 9,817
License	—	19,141	—	19,141
Systems	703	8,776	—	9,479
Recurring	10,520	27,917	—	38,437
Direct cost of revenues	8,831	18,012	—	26,843
Gross profit	1,689	9,905	—	11,594
Depreciation of right-of-use assets	124	327	30	481
Depreciation of property, plant and equipment	32	428	11	471
Amortization of intangibles	7,071	2,519	—	9,590
Selling, general and administrative expenses	1,724	5,817	4,580	12,121

Research and development expenses	—	1,424	—	1,424
Impairment losses of intangible assets	233	—	—	233
Special charges	—	659	213	872
Results from operations	(7,495)	(1,269)	(4,834)	(13,598)
Finance income	(122)	(7)	(253)	(382)
Finance expense	78	125	11	214
Foreign exchange loss (gain)	1,596	(929)	(1,252)	(585)
Other income	—	(809)	—	(809)
(Loss) income before taxes	(9,047)	351	(3,340)	(12,036)
Current income tax expense	1,242	102	—	1,344
Deferred income tax (recovery) expense	(5,971)	(608)	3,098	(3,481)
Income tax (recovery) expense	(4,729)	(506)	3,098	(2,137)
Net (loss) income from continuing operations	\$ (4,318)	\$ 857	\$ (6,438)	\$ (9,899)
Adjusted EBITDA	\$ 64	\$ 2,709	\$ (4,528)	\$ (1,755)

For the Three months ended June 30, 2019

CONTINUING OPERATIONS	Licensing	Intelligent Systems	Corporate	Total
Revenues				
	\$ 32,807	\$ —	\$ —	\$ 32,807
License	—	14,035	—	14,035
Systems	292	5,744	—	6,036
Recurring	\$ 33,099	\$ 19,779	\$ —	\$ 52,878
Direct cost of revenues	16,035	12,692	—	28,727

Gross profit	17,064	7,087	—	24,151
Depreciation of right-of-use assets	82	182	15	279
Depreciation of property, plant and equipment	40	391	5	436
Amortization of intangibles	4,703	1,257	—	5,960
Selling, general and administrative expenses	451	3,255	2,869	6,575
Research and development expenses	—	779	—	779
Special charges	711	—	14,244	14,955
Results from operations	11,077	1,223	(17,133)	(4,833)
Finance income	(52)	(5)	(332)	(389)
Finance expense	10	349	5	364
Foreign exchange (gain) loss	(236)	74	249	87
Other income	(4)	(237)	—	(241)
Income (loss) before taxes	11,359	1,042	(17,055)	(4,654)
Current income tax expense (recovery)	54	(19)	—	35
Deferred income tax expense (recovery)	2,564	(489)	(1,132)	943
Income tax expense (recovery)	2,618	(508)	(1,132)	978
Net income (loss) from continuing operations	\$ 8,741	\$ 1,550	\$ (15,923)	\$ (5,632)
Adjusted EBITDA	16,628	3,089	(2,635)	17,082

For the Six months ended June 30, 2019

CONTINUING OPERATIONS	Licensing	Intelligent Systems	Corporate	Total
Revenues				

	\$ 69,527	\$ —	\$ —	\$ 69,527
License	—	21,483	—	21,483
Systems	963	10,711	—	11,674
Recurring	\$ 70,490	\$ 32,194	\$ —	\$ 102,684
Direct cost of revenues	33,038	21,596	—	54,634
Gross profit	37,452	10,598	—	48,050
Depreciation of right-of-use assets	381	355	30	766
Depreciation of property, plant and equipment	95	793	10	898
Amortization of intangibles	9,394	2,515	—	11,909
Selling, general and administrative expenses	983	6,395	5,441	12,819
Research and development expenses	—	1,517	—	1,517
Special charges	2,435	—	14,244	16,679
Results from operations	24,164	(977)	(19,725)	3,462
Finance income	(76)	(8)	(574)	(658)
Finance expense	14	443	8	465
Foreign exchange (gain) loss	(491)	329	527	365
Other income	(4)	(335)	—	(339)
Income (loss) before taxes	24,721	(1,406)	(19,686)	3,629
Current income tax expense	5,248	207	—	5,455
Deferred income tax expense (recovery)	5,129	(1,285)	(777)	3,067
Income tax expense (recovery)	10,377	(1,078)	(777)	8,522
Net income (loss) from continuing operations	\$ 14,344	\$ (328)	\$ (18,909)	\$ (4,893)
Adjusted EBITDA	\$ 36,456	\$ 2,761	\$ (4,996)	\$ 34,221

Non-IFRS Disclosure

Quarterhill has historically used a set of metrics when evaluating our operational and financial performance. We continually monitor, evaluate and update these metrics as required to ensure they provide information considered most useful, in the opinion of our management, to any decision-making based on Quarterhill's performance. This section defines, quantifies and analyzes the key performance indicators used by our management and referred to elsewhere in this press release, which are not recognized under IFRS and have no standardized meaning prescribed by IFRS. These indicators and measures are therefore unlikely to be comparable to similar measures presented by other issuers.

In this press release, we use the Non-IFRS term "Adjusted EBITDA" to mean net income (loss) from continuing operations before: (i) income taxes; (ii) finance expense or income; (iii) amortization and impairment of intangibles; (iv) special charges and other one-time items; (v) depreciation of right-of-use assets and property, plant and equipment; (vi) effects of deleted deferred revenue; (vii) stock-based compensation; (viii) foreign exchange (gain) loss; and (ix) equity in earnings and dividends from joint ventures. Adjusted EBITDA is used by our management to assess our normalized cash generated on a consolidated basis and in our operating segments. Adjusted EBITDA is also a performance measure that may be used by investors to analyze the cash generated by Quarterhill and our operating segments. Adjusted EBITDA should not be interpreted as an alternative to net income and cash flows from operations as determined in accordance with IFRS or as a measure of liquidity.

About Quarterhill

Quarterhill is a growth-oriented company in the Intellectual Property and Intelligent Transportation System (ITS) industries. Our goal is to pursue an investment strategy that capitalizes on attractive market trends in both ITS and its adjacent markets. Quarterhill is listed on the TSX under the symbol QTRH and on the OTCQX Best Market under the symbol QTRHF. For more information: www.quarterhill.com

Forward-looking Information

This news release contains forward-looking statements and forward-looking information within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and other United States and Canadian securities laws. Forward-looking statements and forward-looking information are based on estimates and assumptions made by Quarterhill in light of its experience and its perception of historical trends, current conditions, expected future developments and the expected effects of new business strategies, as well as other factors that Quarterhill believes are appropriate in the circumstances. Many factors could cause Quarterhill's actual performance or achievements to differ materially from those expressed or implied by the forward-looking statements or forward-looking information. Such factors include, without limitation, the risks described in Quarterhill's February 27, 2020 annual information form for the year ended December 31, 2019 (the "AIF"). Copies of the AIF may be obtained at www.sedar.com. Quarterhill recommends that readers review and consider all of these risk factors and notes that readers should not place undue reliance on any of Quarterhill's forward-looking statements. Quarterhill has no intention, and undertakes 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.

All trademarks and brands mentioned in this release are the property of their respective owners.

Quarterhill Inc.

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

(Unaudited)

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Revenues				
	\$ 68	\$ 32,807	\$ 9,817	\$ 69,527
License	11,138	14,035	19,141	21,483
Systems	5,618	6,036	9,479	11,674
Recurring	16,824	52,878	38,437	102,684
Direct cost of revenues				
	3,063	16,035	8,803	33,038
License	6,594	9,181	12,574	14,224
Systems	2,999	3,511	5,466	7,372
Recurring	12,656	28,727	26,843	54,634
Gross profit	4,168	24,151	11,594	48,050
Operating expenses				
	237	279	481	766
Depreciation of right-of-use assets	247	436	471	898
Depreciation of property, plant and equipment	4,848	5,960	9,590	11,909

Amortization of intangibles				
Selling, general and administrative expenses	5,826	6,575	12,121	12,819
	555	779	1,424	1,517
Research and development expenses	233	—	233	—
Impairment losses on intangibles	659	14,955	872	16,679
Special charges				
	12,605	28,984	25,192	44,588
Results from operations	(8,437)	(4,833)	(13,598)	3,462
Finance income	(160)	(389)	(382)	(658)
Finance expense	118	364	214	465
Foreign exchange (gain) loss	(3)	87	(585)	365
Other income	(431)	(241)	(809)	(339)
(Loss) income before taxes	(7,961)	(4,654)	(12,036)	3,629
Current income tax expense	78	35	1,344	5,455
Deferred income tax (recovery) expense	(3,052)	943	(3,481)	3,067
Income tax (recovery) expense	(2,974)	978	(2,137)	8,522
Net loss from continuing operations	\$ (4,987)	\$ (5,632)	(9,899)	(4,893)
Net income (loss) from discontinued operations	\$ 14,455	\$ (306)	14,255	(1,092)
Net income (loss)	\$ 9,468	\$ (5,938)	4,356	(5,985)
Other comprehensive income (loss) that may be reclassified subsequently to net income (loss):				
Foreign currency translation adjustment	\$(11,188)	\$(4,290)	9,875	(8,869)
	\$(1,720)	\$(10,228)	14,231	(14,854)
Comprehensive (loss) income				
Net income (loss) per share				
	\$(0.04)	\$(0.05)	(0.08)	(0.04)
From continuing operations	\$0.12	\$0.00	0.12	(0.01)
From discontinued operations				
Net income (loss) per share - Basic	\$0.08	\$(0.05)	0.04	(0.05)

	\$(0.04)	\$(0.05)	(0.08)	(0.04)
From continuing operations				
	\$0.12	\$0.00	0.12	(0.01)
From discontinued operations				
Net income (loss) per share - Diluted	\$0.08	\$(0.05)	0.04	(0.05)

Quarterhill Inc.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited)

(in thousands of Canadian dollars)

As at	June 30, 2020	December 31, 2019	January 1, 2019
Current assets			
	\$ 141,515	\$ 87,870	\$ 87,029
Cash and cash equivalents	1,551	1,550	1,551
Short-term investments	—	—	2,995
Restricted short-term investments	11,858	42,925	14,719
Accounts receivable (net of allowance for doubtful accounts)	218	108	124
Other current assets	11,260	8,965	5,432
Unbilled revenue	353	137	270
Income taxes receivable	10,242	8,570	8,114
Inventories (net of obsolescence)	3,287	2,242	2,927
Prepaid expenses and deposits	180,284	152,367	123,161
Non-current assets			
	682	3,846	565
Accounts receivable	—	—	—

	3,906	4,502	3,972
Right-of-use assets	2,941	2,826	3,614
Property, plant and equipment	70,760	89,534	119,015
Intangible assets	6,210	5,233	5,203
Investment in joint venture	36,877	33,270	36,948
Deferred income tax assets	17,274	32,977	34,446
Goodwill			
	138,650	172,188	203,763
TOTAL ASSETS	\$ 318,934	\$ 324,555	\$ 326,924
Liabilities			
Current liabilities	\$ 7,036	\$ 4,026	\$ 3,537
Bank indebtedness	12,106	25,755	24,644
Accounts payable and accrued liabilities	1,462	—	—
Dividends payable	285	203	—
Income taxes payable	884	998	1,120
Current portion of lease liabilities	—	—	1,265
Contingent liabilities	4,544	8,638	6,357
Current portion of deferred revenue	41	59	407
Current portion of long-term debt			
	26,358	39,679	37,330
Non-current liabilities			
	1,522	1,513	1,954
Deferred revenue	3,002	3,550	2,604
Long-term lease liabilities	285	271	236
Long-term debt	—	3,297	5,905
Deferred income tax liabilities			
	4,809	8,631	10,699

TOTAL LIABILITIES	\$ 31,167	\$ 48,310	\$ 48,029
Shareholders' equity			
	\$ 570,591	\$ 570,553	\$ 570,553
Capital stock	32,207	32,011	31,252
Contributed surplus	20,811	10,936	22,112
Accumulated other comprehensive income	(335,842)	(337,255)	(345,022)
Deficit	287,767	276,245	278,895
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 318,934	\$ 324,555	\$ 326,924

Quarterhill Inc.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited)

(in thousands of Canadian dollars)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Cash generated from (used in) Operations				
Net loss from continuing operations	\$ (4,987)	\$ (5,632)	\$ (9,899)	\$ (4,893)
Non-cash items	221	285	196	507
Stock-based compensation expense	237	279	481	766
Depreciation of right-of-use assets	56	54	112	103
Interest expense on lease liabilities	5,095	6,396	10,061	12,807
Depreciation and amortization				

	(478)	(45)	(194)	(127)
Foreign exchange (gain) loss	(431)	(241)	(809)	(339)
Equity in earnings from joint venture	233	—	233	—
Impairment losses on intangibles	(6)	785	(10)	785
(Gain) loss on disposal of assets	(3,052)	943	(3,481)	3,067
Deferred income tax (recovery) expense	—	—	—	(85)
Long-term accounts receivable	121	39	(101)	132
Embedded derivatives	—	14,244	—	14,244
Contingent consideration adjustment	—	14,244	—	14,244
Changes in non-cash working capital balances	5,949	36,744	26,559	1,697
Accounts receivable	(2,762)	(3,027)	(2,026)	(3,504)
Unbilled revenue	(252)	(72)	(209)	195
Income taxes receivable	(1,952)	(213)	(1,340)	(185)
Inventories	(1,474)	(278)	(1,296)	(4)
Prepaid expenses and deposits	(539)	(771)	(52)	(331)
Deferred revenue	(282)	(4,423)	(12,911)	4,269
Accounts payable and accrued liabilities	45	(35)	92	49
Income taxes payable				
Cash (used in) generated from continuing operations	(4,258)	45,032	5,406	29,153
Net cash flows attributable to discontinuing operations	(2,478)	928	(3,075)	869
Net cash (used in) generated from operating activities	(6,736)	45,960	2,331	30,022
Financing				
Dividends paid	—	(1,473)	(1,481)	(2,975)
Bank indebtedness	4,796	2,467	2,984	2,566
	(271)	(420)	(586)	(871)

Payment of lease liabilities	(13)	(276)	(120)	(300)
Repayment of long-term debt	14	—	14	—
Exercise of stock options	—	—	24	—
Common shares issued from Performance Stock Units	—	—	24	—
Cash generated from (used in) continuing operations	4,526	298	835	(1,580)
Net cash flows attributable to discontinuing operations	—	(8)	—	(19)
Net cash generated from (used in) financing activities	4,526	290	835	(1,599)
Investing				
Proceeds from disposition of a subsidiary	49,400	—	49,400	—
Cash sold on disposition of a subsidiary	(1,825)	—	(1,825)	—
Proceeds from sale of property, plant and equipment	12	—	16	—
Purchase of property and equipment	(586)	(381)	(887)	(499)
Purchase of intangibles	(8)	(98)	(25)	(125)
Cash generated from (used in) continuing operations	46,993	(479)	46,679	(624)
Net cash flows attributable to discontinuing operations	(11)	(31)	(81)	(123)
Net cash generated from (used in) investing activities	46,982	(510)	46,598	(747)
Foreign exchange gain (loss) on cash held in foreign currency	(4,853)	(1,951)	3,881	(3,622)
Net increase in cash and cash equivalents	39,919	43,789	53,645	24,054
Cash and cash equivalents, beginning of period	101,596	67,294	87,870	87,029
Cash and cash equivalents, end of period	\$ 141,515	\$ 111,083	141,515	111,083

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

For the six months ended June 30, 2020 and 2019

(In thousands of Canadian dollars)

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

Common shares issued from performance stock units	24				24
Dividends declared				(2,943)	(2,943)
June 30, 2020	570,591	32,207	20,811	(335,842)	287,767

Quarterhill Inc.

Reconciliations of Net loss to Adjusted EBITDA

(Unaudited)

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

Three months ended June 30,

	2020		2019	
	\$	Per Share	\$	Per Share
Net loss from continuing operations	\$ (4,987)	\$ (0.04)	\$ (5,632)	\$ (0.05)
Adjusted for:				
Income tax (recovery) expense	(2,974)	(0.03)	978	0.01
Foreign exchange (gain) loss	(3)	—	87	—
Finance expense	118	—	364	—
Finance income	(160)	—	(389)	—
Special charges	659	0.01	14,955	0.13
Impairment losses on intangible assets	233	—	—	—
Amortization of intangibles	4,848	0.04	5,960	0.05

Depreciation of property, plant and equipment	247	—	436	—
	237	—	279	—
Depreciation of right-of-use assets	221	—	285	—
Stock based compensation expense	(431)	—	(241)	—
Other income				
Adjusted EBITDA	\$ (1,992)	\$ (0.02)	\$ 17,082	\$ 0.14

Weighted average number of
Common Shares

	118,861,166	11,817,466
Basic		

Quarterhill Inc.

Reconciliations of Net loss to Adjusted EBITDA

(Unaudited)

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

Six months ended June 30,

	2020		2019	
	\$	Per Share	\$	Per Share
Net loss from continuing operations	\$ (9,899)	\$ (0.08)	\$ (4,893)	\$ (0.04)

Adjusted for:

	(2,137)	(0.02)	8,522	0.07
Income tax (recovery) expense	(585)	—	365	—
Foreign exchange (gain) loss	214	—	465	—
Finance expense	(382)	—	(658)	(0.01)
Finance income	872	0.01	16,679	0.14

Special charges				
Impairment losses on intangible assets	233	—	—	—
	9,590	0.08	11,909	0.10
Amortization of intangibles				
Depreciation of property, plant and equipment	471	—	898	0.01
	481	—	766	0.01
Depreciation of right-of-use assets				
	196	—	507	—
Stock based compensation expense				
	(809)	(0.01)	(339)	—
Other income				
Adjusted EBITDA	\$ (1,755)	\$ (0.02)	\$ 34,221	\$ 0.28

Weighted average number of
Common Shares

	118,861,166	11,817,466
Basic		

View original content: <http://www.prnewswire.com/news-releases/quarterhill-announces-second-quarter-2020-financial-results-301107385.html>

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