

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT
Pursuant to Section 13 or Section 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 12, 2023

Semtech Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

001-06395
(Commission
File Number)

95-2119684
(IRS Employer
Identification No.)

200 Flynn Road
Camarillo, California
(Address of principal executive offices)

93012-8790
(Zip Code)

805-498-2111
Registrant's telephone number, including area code

Not applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbols	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	SMTC	The Nasdaq Global Select Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Explanatory Note

This Current Report on Form 8-K/A amends the Current Report on Form 8-K filed by Semtech Corporation (“Semtech”) with the Securities and Exchange Commission on January 12, 2023 (the “Original 8-K”). This Form 8-K/A is being filed solely for the purpose of providing the financial statements and information required by Item 9.01(a) of Form 8-K and the pro forma financial information required by Item 9.01(b) of Form 8-K in connection with Semtech’s previously reported acquisition of Sierra Wireless, Inc., a corporation existing under the Canada Business Corporations Act (“Sierra Wireless”), pursuant to the Arrangement Agreement, dated as of August 2, 2022, by and among Semtech, 13548597 Canada Inc., a corporation formed under the Canada Business Corporations Act and a wholly-owned subsidiary of Semtech, and Sierra Wireless (the “Acquisition”).

This Form 8-K/A amends and supplements the Original 8-K to include the historical audited and unaudited combined financial statements of Sierra Wireless and the pro forma financial information required by Item 9.01 of Form 8-K that were not included in the Original 8-K in reliance on the instructions to such item. Except as set forth herein, no modifications have been made to information contained in the Original 8-K, and Semtech has not updated any information contained therein to reflect events that have occurred since the date of the Original 8-K.

Item 9.01 Financial Statements and Exhibits.

Semtech is filing: (i) as Exhibit 99.1 to this Form 8-K/A, Sierra Wireless’ audited consolidated financial statements as of and for the years ended December 31, 2021 and 2020; (ii) as Exhibit 99.2 to this Form 8-K/A, Sierra Wireless’ unaudited consolidated financial statements as of September 30, 2022 and for the three months and nine months ended September 30, 2022; and (iii) as Exhibit 99.3 to this Form 8-K/A, the unaudited pro forma condensed combined consolidated financial statements of Semtech and Sierra Wireless, consisting of the unaudited pro forma condensed combined consolidated balance sheet of Semtech and Sierra Wireless as of October 30, 2022 for Semtech and September 30, 2022 for Sierra Wireless, giving effect to the Acquisition as if it had occurred on October 30, 2022, and the unaudited pro forma condensed combined consolidated income statements of Semtech and Sierra Wireless for the year ended January 30, 2022 and nine months ended October 30, 2022, giving effect to the Acquisition as if it had occurred on February 1, 2021.

The pro forma financial information included in this Form 8-K/A has been presented for informational purposes only. It does not purport to represent the actual results of operations that Semtech and Sierra Wireless would have achieved had the businesses been combined during the periods presented in the pro forma financial information and is not intended to project the future results of operations that the combined businesses may achieve after the Acquisition was consummated.

This Form 8-K/A does not modify or update the consolidated financial statements of Semtech included in the Semtech’s Annual Report on Form 10-K for the year ended January 30, 2022, nor does it reflect any subsequent information or events.

(a) Financial Statements of Business Acquired

The audited consolidated financial statements of Sierra Wireless as of and for the years ended December 31, 2021 and 2020, and the unaudited consolidated financial statements of Sierra Wireless as of September 30, 2022 and for the three months and nine months ended September 30, 2022, with the accompanying notes, are filed herewith as Exhibit 99.1 and Exhibit 99.2, respectively, to this Form 8-K/A.

(b) ProForma Financial Information

The unaudited pro forma condensed combined financial information that gives effect to Semtech’s acquisition of Sierra Wireless is filed herewith as Exhibit 99.3 to this Form 8-K/A.

(d) Exhibits.

Exhibit Number	Description
23	Consent of Ernst & Young LLP, independent registered public accounting firm for Sierra Wireless
99.1	Audited consolidated financial statements of Sierra Wireless as of and for the years ended December 31, 2021 and 2020.
99.2	Unaudited consolidated financial statements of Sierra Wireless as of September 30, 2022 and for the three months and nine months ended September 30, 2022.
99.3	Unaudited pro forma condensed combined consolidated financial statements of Semtech and Sierra Wireless, consisting of the unaudited pro forma condensed combined consolidated balance sheet of Semtech and Sierra Wireless as of October 30, 2022 for Semtech and September 30, 2022 for Sierra Wireless, and the unaudited pro forma condensed combined consolidated income statements of Semtech and Sierra Wireless for the year ended January 30, 2022 and nine months ended October 30, 2022.
104	Cover Page Interactive Data File (embedded within the inline XBRL document).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SEMTECH CORPORATION

Date: March 24, 2023

/s/ Emeka N. Chukwu

Name: Emeka N. Chukwu

Title: Chief Financial Officer

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement Nos. 333-80319, 333-50448, 333-60396, 333-118804, 333-163780, 333-192703, 333-221810 and 333-152939 on Form S-8 of Semtech Corporation of our reports dated March 18, 2022 with respect to the consolidated financial statements of Sierra Wireless, Inc. as of and for the years ended December 31, 2021 and December 31, 2020, and with respect to the effectiveness of internal control over financial reporting as of December 31, 2021 included in this Form 8-K/A of Semtech Corporation filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

Chartered Professional Accountants

Vancouver, Canada

March 24, 2023

MANAGEMENT'S STATEMENT OF RESPONSIBILITIES

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of Sierra Wireless, Inc. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States and, where appropriate, reflect management's best estimates and judgments. Where alternative accounting methods exist, management has chosen those methods deemed most appropriate in the circumstances. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality. Financial information provided elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls over financial reporting as described in *Management's Annual Report on Internal Control Over Financial Reporting* on page 38 of Management's Discussion and Analysis.

The Company's Audit Committee is appointed by the Board of Directors annually and is comprised exclusively of outside, independent directors. The Audit Committee meets with management as well as with the independent auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the independent auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The Audit Committee considers, for review by the Board of Directors and approval by the shareholders, the engagement or reappointment of the independent auditors. Ernst & Young LLP has direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been independently audited by Ernst & Young LLP, Chartered Professional Accountants, on behalf of the shareholders, in accordance with the standards of the Public Company Accounting Oversight Board (United States) with respect to the consolidated financial statements for the year ended December 31, 2021. Their report outlines the nature of their audit and expresses their opinion on the consolidated financial statements of the Company.

/s/ Philip Brace
Philip Brace
President and
Chief Executive Officer

/s/ Samuel Cochrane
Samuel Cochrane
Chief Financial Officer

March 18, 2022
Vancouver, Canada

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Sierra Wireless, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Sierra Wireless, Inc. (the Company) as of December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive loss, equity and cash flows for each of the two years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 18, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

<i>Description of the Matter</i>	<p>Valuation of IoT Solutions Goodwill</p> <p>At December 31, 2021, total goodwill recorded amounted to \$167 million, of which \$71 million was recorded in respect of the IoT Solutions reporting unit. As discussed in Note 20 to the consolidated financial statements, goodwill is tested for impairment at least annually at the reporting unit level. The Company's goodwill was initially assigned to its reporting units as of the acquisition date and was reallocated subsequent to a reorganization thereof.</p> <p>Auditing management's annual goodwill impairment test for the IoT Solutions reporting unit involved especially complex and subjective auditor judgment due to the assumptions required by management to estimate the fair value of the reporting unit, and therefore is considered to be a critical audit matter. In particular, the fair value estimate was sensitive to significant assumptions such as the weighted average cost of capital, the revenue growth rates and earnings before interest, taxes, depreciation, and amortization ("EBITDA") margin, which are affected by expectations about future market or economic conditions and management's operating plans.</p>
<i>How We Addressed the Matter in Our Audit</i>	<p>We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's goodwill impairment process, including controls over management's review of the significant assumptions described above.</p> <p>To test the estimated fair value of the IoT Solutions reporting unit, we performed audit procedures that included, among others, assessing methodologies and testing the significant assumptions discussed above and the underlying data used by the Company in its analysis.</p> <p>We involved our valuation specialists to assess the reasonableness of the weighted average cost of capital calculations and to perform sensitivity analyses of certain significant assumptions, such as the weighted average cost of capital, revenue growth rates, and components of EBITDA margin, to evaluate the changes in the fair value of the reporting unit that would result from changes in the assumptions. We compared the revenue growth assumptions used by management to historical performance and current industry trends and other factors.</p> <p>In addition, we tested management's reconciliation of the fair value of the reporting units to the market capitalization of the Company and tested management's market valuation analysis by comparing the fair value implied by market transactions and valuations for comparable companies.</p>
<p>/s/ Ernst & Young LLP Chartered Professional Accountants</p> <p>We have served as the Company's auditor since 2016.</p> <p>Vancouver, Canada March 18, 2022</p>	

To the Shareholders and the Board of Directors of Sierra Wireless, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Sierra Wireless, Inc. internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control —Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Sierra Wireless, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Sierra Wireless, Inc. (the Company) as of December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive loss, equity and cash flows for each of the two years in the period ended December 31, 2021, and the related notes and our report dated March 18, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
Chartered Professional Accountants

Vancouver, Canada
March 18, 2022

SIERRA WIRELESS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands of U.S. dollars, except where otherwise stated)

	Years ended December 31,	
	2021	2020
Revenue (note 6)		
IoT Solutions	\$ 323,075	\$ 306,917
Enterprise Solutions	150,134	141,671
	<u>473,209</u>	<u>448,588</u>
Cost of Sales		
IoT Solutions	239,310	219,771
Enterprise Solutions	77,100	70,066
	<u>316,410</u>	<u>289,837</u>
Gross margin	<u>156,799</u>	<u>158,751</u>
Expenses		
Sales and marketing	75,971	86,481
Research and development (note 7)	68,425	82,029
Administration	50,104	48,513
Restructuring (note 8)	12,255	8,740
Acquisition-related and integration	239	440
Impairment (note 18, 19 and 21)	12,285	—
Amortization	17,066	20,584
	<u>236,345</u>	<u>246,787</u>
Loss from operations	<u>(79,546)</u>	<u>(88,036)</u>
Foreign exchange (loss) gain	(7,480)	8,003
Other expense (note 10)	(1,700)	(2,027)
Loss before income taxes	<u>(88,726)</u>	<u>(82,060)</u>
Income tax expense (recovery) (note 11)	6	(11,909)
Net loss from continuing operations	<u>\$ (88,732)</u>	<u>\$ (70,151)</u>
Net (loss) earnings from discontinued operations (note 5(c))	(285)	20,810
Net loss	<u>\$ (89,017)</u>	<u>\$ (49,341)</u>
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of taxes of \$nil	(3,152)	7,636
Comprehensive loss	<u>\$ (92,169)</u>	<u>\$ (41,705)</u>
Basic and diluted net earnings (loss) per share (in dollars) (note 13)		
Continuing operations	\$ (2.39)	\$ (1.93)
Discontinued operations	(0.01)	0.57
	<u>\$ (2.40)</u>	<u>\$ (1.36)</u>
Weighted average number of shares outstanding (in thousands) (note 13)		
Basic	37,119	36,393
Diluted	37,119	36,393

The accompanying notes are an integral part of the consolidated financial statements.

SIERRA WIRELESS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars, except where otherwise stated)

	As at December 31,	
	2021	2020
Assets		
Current assets		
Cash and cash equivalents	\$ 76,784	\$ 160,560
Restricted cash (note 25)	100	10,864
Accounts receivable (note 14)	85,310	68,575
Inventories (note 16)	82,177	32,815
Prepays and other (note 17)	27,372	11,933
	<u>271,743</u>	<u>284,747</u>
Property and equipment, net (note 18)	31,134	31,412
Operating lease right-of-use assets (note 21)	14,348	20,068
Intangible assets, net (note 19)	54,708	78,081
Goodwill (note 20)	167,379	175,545
Deferred income taxes (note 11)	1,268	1,135
Other assets	6,473	10,383
	<u>\$ 547,053</u>	<u>\$ 601,371</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5(c), 8 and 22)	\$ 183,529	\$ 162,138
Deferred revenue (note 15)	11,770	9,862
Current portion of long-term debt (note 27(b))	494	—
	<u>195,793</u>	<u>172,000</u>
Long-term obligations (note 23)	42,808	45,646
Operating lease liabilities (note 21)	15,033	17,054
Long-term debt (note 27(b))	9,394	—
Deferred income taxes (note 11)	6,371	10,258
	<u>269,399</u>	<u>244,958</u>
Equity		
Shareholders' equity		
Common stock: no par value; unlimited shares authorized; issued and outstanding: 37,774,800 shares (December 31, 2020 — 36,619,439 shares)	460,331	441,999
Preferred stock: no par value; unlimited shares authorized; issued and outstanding: nil shares	—	—
Treasury stock: at cost; 119,761 shares (December 31, 2020 — 46,505 shares)	(2,128)	(542)
Additional paid-in capital	48,747	49,489
Retained deficit	(220,564)	(128,953)
Accumulated other comprehensive loss (note 24)	(8,732)	(5,580)
	<u>277,654</u>	<u>356,413</u>
	<u>\$ 547,053</u>	<u>\$ 601,371</u>

Commitments and contingencies (note 28)

Subsequent event (note 29)

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board:

/s/ Russell N. Jones
 Russell N. Jones
 Director

/s/ Lori M. O'Neill
 Lori M. O'Neill
 Director

SIERRA WIRELESS, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(in thousands of U.S. dollars, except where otherwise stated)

	Common Stock		Treasury Shares		Additional paid-in capital	Retained deficit	Accumulated other comprehensive loss	Total
	# of shares	\$	# of shares	\$				
Balance as at December 31, 2019	36,233,361	\$435,532	44,487	\$ (370)	\$ 38,212	\$ (78,833)	\$ (13,216)	\$381,325
Effects of adoption of ASC 326 (note 3)	—	—	—	—	—	(779)	—	(779)
Balance as at January 1, 2020	36,233,361	\$435,532	44,487	\$ (370)	\$ 38,212	\$ (79,612)	\$ (13,216)	\$380,546
Stock option exercises (note 12)	178,223	2,765	—	—	(801)	—	—	1,964
Stock-based compensation (note 12)	—	—	—	—	19,940	—	—	19,940
Purchase of treasury shares for RSU distribution	—	—	240,800	(2,802)	—	—	—	(2,802)
Distribution of vested RSUs	207,855	3,702	(238,782)	2,630	(7,862)	—	—	(1,530)
Net loss	—	—	—	—	—	(49,341)	—	(49,341)
Foreign currency translation adjustments, net of tax	—	—	—	—	—	—	7,636	7,636
Balance as at December 31, 2020	36,619,439	\$441,999	46,505	\$ (542)	\$ 49,489	\$(128,953)	\$ (5,580)	\$356,413
Stock option exercises (note 12)	390,972	7,715	—	—	(2,309)	—	—	5,406
Stock-based compensation (note 12)	—	—	—	—	19,834	—	—	19,834
Purchase of treasury shares for RSU distribution	—	—	615,122	(10,772)	—	—	—	(10,772)
Distribution of vested RSUs	764,389	10,617	(541,866)	9,186	(18,267)	(2,594)	—	(1,058)
Net loss	—	—	—	—	—	(89,017)	—	(89,017)
Foreign currency translation adjustments, net of tax	—	—	—	—	—	—	(3,152)	(3,152)
Balance as at December 31, 2021	37,774,800	\$460,331	119,761	\$ (2,128)	\$ 48,747	\$(220,564)	\$ (8,732)	\$277,654

The accompanying notes are an integral part of the consolidated financial statements.

SIERRA WIRELESS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars)

	Years ended December 31,	
	2021	2020
Cash flows provided by (used in):		
Operating activities		
Net loss	\$ (89,017)	\$ (49,341)
Items not requiring (providing) cash		
Amortization (note 18 and 19)	28,718	32,345
Stock-based compensation (note 12(a))	19,834	19,940
Deferred income taxes (note 11)	(3,594)	(1,150)
Impairment (note 18, 19 and 21)	12,285	—
Gain on sale of Automotive business (note 5(c))	—	(27,137)
Unrealized foreign exchange loss (gain)	8,833	(8,808)
Other	275	43
Changes in non-cash working capital		
Accounts receivable	(18,610)	1,232
Inventories	(49,660)	10,997
Prepays and other	(11,809)	7,646
Accounts payable and accrued liabilities	24,725	7,771
Deferred revenue	1,486	(1,305)
Cash flows used in operating activities	(76,534)	(7,767)
Investing activities		
Additions to property and equipment	(15,138)	(18,952)
Additions to intangible assets	(4,846)	(3,023)
Proceeds from sale of property and equipment	91	281
Proceeds from sale of Automotive Business, net (note 5(c))	—	144,156
Acquisitions, net of cash acquired:		
M2M Group (note 5(a))	—	(18,391)
M2M New Zealand (note 5(b))	(319)	(3,468)
Cash flows (used in) provided by investing activities	(20,212)	100,603
Financing activities		
Issuance of common shares	5,406	1,964
Purchase of treasury shares for RSU distribution	(10,772)	(2,802)
Taxes paid related to net settlement of equity awards	(1,058)	(1,530)
Proceeds from long-term debt (note 27(b))	9,908	9,383
Repayment of long-term debt (note 27(b))	—	(9,383)
Decrease in other long-term obligations	(118)	(405)
Cash flows provided by (used in) financing activities	3,366	(2,773)
Effect of foreign exchange rate changes on cash and cash equivalents	(1,160)	2,278
Cash, cash equivalents and restricted cash, (decrease) increase in the year	(94,540)	92,341
Cash, cash equivalents and restricted cash, beginning of year	171,424	79,083
Cash, cash equivalents and restricted cash, end of year	\$ 76,884	\$ 171,424

Supplemental cash flow information (note 25)

The accompanying notes are an integral part of the consolidated financial statements.

TABLE OF CONTENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>	
Note 1	Nature of Operations	10
Note 2	Summary of Significant Accounting Policies	11
Note 3	Recently Implemented Accounting Standards	21
Note 4	Changes in Future Accounting Standards	22
Note 5	Acquisitions and Disposals	22
Note 6	Segmented Information	25
Note 7	Research and Development	26
Note 8	Restructuring	26
Note 9	Government Assistance	28
Note 10	Other Expense	28
Note 11	Income Taxes	28
Note 12	Stock-based Compensation Plans	32
Note 13	Earnings (Loss) Per Share	36
Note 14	Accounts Receivable	36
Note 15	Contract Balances	37
Note 16	Inventories	37
Note 17	Prepays and Other	37
Note 18	Property and Equipment	38
Note 19	Intangible Assets	38
Note 20	Goodwill	40
Note 21	Leases	40
Note 22	Accounts Payable and Accrued Liabilities	42
Note 23	Long-term Obligations	42
Note 24	Accumulated Other Comprehensive Loss	42
Note 25	Supplemental Cash Flow Information	43
Note 26	Fair Value Measurement	43
Note 27	Financial Instruments	44
Note 28	Commitments and Contingencies	46
Note 29	Subsequent Event	49

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

I. NATURE OF OPERATIONS

Sierra Wireless, Inc., together with its subsidiaries (collectively, “the Company”, “we”, “our”, “Sierra Wireless”) was incorporated under the Canada Business Corporations Act on May 31, 1993. Sierra Wireless is an Internet of Things (“IoT”) pioneer that empowers businesses and industries to transform and thrive in the connected economy. Sierra Wireless offers a broad portfolio of edge-to-cloud solutions, comprised of embedded and networking devices seamlessly integrated with network connectivity services and cloud software. Original Equipment Manufacturers (“OEMs”), industrial companies, public safety agencies and enterprises worldwide rely on our expertise to deliver these fully integrated solutions to reduce complexity, turn data into intelligence, and get connected products and services quickly to market.

We have sales, engineering, and research and development teams located in offices around the world. The primary markets for our products are North America, Europe and Asia Pacific.

We operate our business under two reportable segments:

IoT Solutions	Cellular wireless IoT module solutions, IoT connectivity services, and embedded broadband solutions.
Enterprise Solutions	Range of Sierra Wireless AirLink routers, IoT gateways, IoT applications and advanced network management, managed connectivity services, and mobility applications

On November 18, 2020, the Company completed the divestiture of its automotive embedded module product line. Substantially all of the assets and operations related to its automotive embedded module product line were sold to Rolling Wireless (H.K.) Limited (“Rolling Wireless”), a consortium led by Fibocom Wireless Inc. of Shenzhen. In accordance with U.S. GAAP, the results of operations of the automotive business have been presented as discontinued operations in its consolidated statements of operations and comprehensive loss for the years ended December 31, 2021 and 2020.

COVID-19 Impact

In March 2020, the World Health Organization declared a global pandemic caused by the outbreak of the novel coronavirus specifically identified as COVID-19. It is not possible to reliably estimate the length or severity of these developments and the impact on the financial results of the Company in the future. There are significant uncertainties with respect to future development and impact to the Company related to COVID-19, including the duration, severity and scope of the outbreak, emergence of new variants of concern, and the measures taken by governments and businesses to contain the pandemic. As COVID-19 continues to significantly impact economies around the world, it creates significant uncertainty regarding the nearer term outlook for the markets where we provide our products and services, as well as significant uncertainties related to global supply chain tightness from key suppliers and manufacturing challenges that could constrain our ability to deliver and meet demand. In future periods, the effects of the pandemic may have material impacts on our financial results and the recoverable amount of our reporting units.

Ransomware Incident

On March 20, 2021, Sierra Wireless was the subject of a ransomware incident on our internal IT systems and corporate website. As a result of the incident, we temporarily halted production at our manufacturing sites. The investigation into the impact of the ransomware incident has been completed.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

(a) **Basis of consolidation**

Our consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned, from their respective dates of acquisition of control. All inter-company transactions and balances have been eliminated on consolidation.

(b) **Use of estimates**

The consolidated financial statements have been prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. On an ongoing basis, management reviews its estimates, including those related to revenue recognition, such as determining the nature and timing of satisfaction of performance obligations, determining the standalone selling price of performance obligations, and variable consideration; inventory obsolescence; estimated useful lives of long-lived assets; valuation of intangible assets and goodwill; royalty and warranty accruals; other liabilities; stock-based compensation; allowance for expected credit losses; income taxes; government assistance; measurement of impairment loss; restructuring costs; contingent consideration and commitments and contingencies, based on currently available information. Actual amounts could differ from estimates.

(c) **Revenue recognition**

Product revenue includes sales from embedded cellular modules, short range and GNSS wireless modules, intelligent routers and gateways, asset tracking and vertical market smart devices, antennas and accessories, and Smart SIMs. Recurring and other services revenue includes sales from cloud services, cellular connectivity services, managed connectivity and application services, software licenses, technical support services, extended warranty services, solution design and consulting services.

We recognize revenues when we satisfy performance obligations by transferring the control of promised products or services to customers. Product revenue is recognized at a point in time when a good is shipped or delivered to the customer. Recurring and other services revenue is recognized over time as the service is rendered or at a point in time upon completion of a service. Our customer contracts can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns and any taxes collected from customers.

Our products are generally highly dependent on, and interrelated with, the underlying firmware and cannot function without the firmware. In these cases, the hardware and the firmware are accounted for as a single performance obligation and revenue is recognized at the point in time when control is transferred to resellers and distributors, OEMs, or directly to end customers.

Certain customers may receive cash-based incentives or credits, which are accounted for as variable consideration. We estimate the amount of incentives or credits to be provided to customers and reduce revenue recognized. The variable consideration is included in the transaction price to the extent that a significant reversal in the amount of cumulative revenue recognized is not expected to occur when the uncertainty associated with the variable consideration is subsequently resolved.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

The expected costs associated with assurance-type warranty are recognized as expense when products are sold. Warranty service that is in addition to the assurance that the product complies with agreed upon specifications is a separate performance obligation; its revenue is recognized ratably over the service period.

Cloud and connectivity services are provided on either a subscription or consumption basis. Revenue related to cloud and connectivity services provided on a subscription basis is recognized ratably over the contract period. Revenue related to cloud and connectivity services provided on a consumption basis is recognized based on the customer utilization of such resources. Revenues from SIM activation and initial application setup are deferred and recognized over the estimated customer life on a straight-line basis.

Licenses for on-premise software provide the customer with a right to use the software as it exists when made available to the customer. Revenue from distinct on-premise licenses are recognized upfront at the point in time when the software is made available to the customer. Revenue from software maintenance, unspecified upgrades and technical support contracts are recognized over the period such items are delivered or services are provided. Technical support contracts extending beyond the current period are deferred and revenue is recognized over the applicable earning period.

Revenue from solution design and consulting services are recognized as services are being provided.

Contract acquisition and fulfillment costs

We recognize an asset for the incremental costs of obtaining or fulfilling a contract with a customer if we expect the benefit of those costs to be longer than one year. We have determined that certain sales incentive bonuses and initial setup costs of managed IoT services meet the requirements to be capitalized. We apply a practical expedient to expense costs as incurred for costs to obtain a contract with a customer when the amortization period would have been one year or less.

The incremental costs of obtaining or fulfilling a contract with a customer are deferred and amortized over the estimated life of the customer relationship. We classify these deferred contract costs as current or non-current based on the timing of when we expect to recognize the expense. The current and non-current portions of deferred contract costs are included in *Prepays and other* current assets and *Other assets* respectively in our consolidated balance sheets.

Significant judgment

We determine the transaction price of a customer contract by multiplying the unit price of a good or service with the committed order volume or service period.

Certain customers may receive cash-based incentives or credits, which are accounted for as variable consideration. We estimate the expected amount to be provided to customers and exclude it from the transaction price. Sales credits are included in *Accounts payable and accrued liabilities* in our consolidated balance sheets.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

Our customer contracts can include various combinations of products and services. When a customer contract includes multiple performance obligations, we allocate the transaction price to each performance obligation on a relative standalone selling price basis. We generally determine standalone selling prices based on the price charged to customers or a combination of expected cost, plus a margin and residual methods.

Product revenue is recognized at a point in time when a good is shipped or delivered to the customer as it represents the transfer of control of the promised good to a customer. Cloud, connectivity, and managed service revenues are recognized over time as the customer simultaneously receives and consumes the benefits provided by our performance as we perform. Other service revenue is recognized at a point in time upon completion of a service.

Contract Balances

Receivables - We recognize a right to consideration as a receivable when only the passage of time is required before payment of that consideration is due.

Contract Assets - We recognize a right to consideration in exchange for goods or service that we have transferred to a customer as contract assets. Contract assets are comprised mainly of accrued revenue related to monthly IoT service subscriptions, which may include connectivity, cloud applications, and managed services. Contract assets are included in *Accounts receivable* in our consolidated balance sheet.

Deferred Revenue - We recognize an obligation to transfer goods or services to a customer for which we have received consideration from the customer as deferred revenue. Deferred revenue consists of advance payments and billings in excess of revenue recognized, which includes support, extended warranty, cloud application services, and activation fees.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 60 days.

(d) Research and development costs

Research and development costs are expensed as they are incurred, including all costs incurred to establish the technological feasibility of a software product to be sold. Once the technological feasibility is reached, certain software development costs principally related to software coding, designing system interfaces and installation, and testing of the software, are capitalized.

We follow the cost reduction method of accounting for certain agreements, including government research and development funding, whereby the benefit of the funding is recognized as a reduction in the cost of the related expenditure when certain criteria stipulated under the terms of those funding agreements have been met, and there is reasonable assurance the research and development funding will be received.

(e) Warranty costs

Warranty costs are accrued upon the recognition of related revenue, based on our best estimates, with reference to past and expected future experience. Warranty obligations are included in *Accounts payable and accrued liabilities* in our consolidated balance sheet.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

(f) Royalty costs

We have intellectual property license agreements which generally require us to make royalty payments based on a combination of fixed fees and percentage of the revenue generated by sales of products incorporating the licensed technology. We recognize royalty obligations in accordance with the terms of the respective royalty agreements. Royalty costs are recorded as a component of cost of goods sold in the period when incurred.

Where agreements are not in place, we recognize our current best estimate of the royalty obligation in cost of goods sold, accrued liabilities and long-term liabilities. We base our estimate on the smallest salable unit ("SSU") principle (i.e., the principle that any royalty obligations should be no more than a portion of the profits for a component within the product that implements the patented technology) as the appropriate methodology for determining FRAND standard essential patent ("SEP") royalties. Using this principle, the royalty accrual on our products is based on the value of the patented technology in the chipset, representing the SSU that implements the technology.

(g) Market development costs

Market development costs are charged to sales and marketing expense to the extent that the benefit is separable from the revenue transaction and the fair value of that benefit is determinable. To the extent that such costs either do not provide a separable benefit, or the fair value of the benefit cannot be reliably estimated, such amounts are recorded as a reduction of revenue.

(h) Income taxes

Income taxes are accounted for using the asset and liability method. Deferred income tax assets and liabilities are based on temporary differences (differences between the accounting basis and the tax basis of the assets and liabilities), non-capital loss, capital loss, and tax credits carry-forwards are measured using the enacted tax rates and laws expected to apply when these differences reverse. Deferred tax benefits, including non-capital loss, capital loss, and tax credits carry-forwards, are recognized to the extent that realization of such benefits is considered more likely than not. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of operations in the period that enactment occurs.

We include interest and penalties related to income taxes, including unrecognized tax benefits, in *Income tax expense (recovery)*.

Liabilities for uncertain tax positions are recorded based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. We regularly assess the potential outcomes of examinations by tax authorities in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, income taxes payable and deferred taxes in the period in which the facts that give rise to a revision become known.

We recognize the tax effects related to share-based payments at settlement or expiration in *Income tax expense (recovery)*.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

(i) **Stock-based compensation and other stock-based payments**

Stock options and restricted share units ("RSUs") granted to the Company's key officers, directors and employees are accounted for using the fair value-based method. Under this method, compensation cost for stock options is measured at fair value at the date of grant using the Black-Scholes valuation model and is expensed over the awards' vesting period using the straight-line method. Any consideration paid by plan participants on the exercise of stock options or the purchase of shares is credited to common stock together with any related stock-based compensation expense. Compensation cost for restricted share units with no market or performance conditions is measured at fair value at the date of grant which is the market price of the underlying security and is expensed over the awards' vesting period using the straight-line method. Compensation cost for market condition restricted share units is measured using a Monte Carlo valuation model. Compensation cost for performance-based internal performance benchmark restricted share units is measured at fair value at the time of grant which is the market price of the underlying security and adjusted for expected attainment with changes to expected attainment recorded in subsequent periods. We account for forfeitures in compensation expense when they occur.

Modification of awards are defined as changes to the terms or conditions of a share-based payment award. Improbable-to-probable modifications result in the reversal of the cumulative compensation costs of the original award incurred at the modification date and recognition of the incremental fair value of the modified award on a straight-line basis over the requisite service period.

(j) **Earnings (loss) per common share**

Basic earnings (loss) per share is computed by dividing net earnings (loss) for the period by the weighted average number of company common shares outstanding during the reporting period. Diluted earnings (loss) per share is computed using the treasury stock method. When the effect of options and other securities convertible into common shares is anti-dilutive, including when the Company has incurred a loss for the period, basic and diluted earnings (loss) per share are the same. We use net loss from continuing operations as the control number in determining whether potential common shares are dilutive.

(k) **Translation of foreign currencies**

Our reporting currency is the U.S. dollar. We determine the functional currency of each of our foreign subsidiaries and their operating divisions based on the primary currency in which they operate.

Revenue and expense items denominated in foreign currencies are translated at exchange rates prevailing during the period. Monetary assets and liabilities denominated in foreign currencies are translated at the period-end exchange rates. Non-monetary assets and liabilities are translated at exchange rates in effect when the assets are acquired or the obligations are incurred. Foreign exchange gains and losses are reflected in *Net loss* for the period.

We have foreign subsidiaries that are considered self-contained within their foreign jurisdiction, and accordingly, use the respective local currency as their functional currency. The assets and liabilities of the foreign subsidiaries, including goodwill and fair value adjustments arising on acquisition, are translated at exchange rates at the balance sheet dates, equity is translated at historical rates, and revenue and expenses are translated at exchange rates prevailing during the period. The foreign exchange gains and losses arising from the translation are reported as a component of other comprehensive loss, as presented in note 24, *Accumulated other comprehensive loss*.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

(l) **Cash and cash equivalents and restricted cash**

Cash and cash equivalents include cash and short-term deposits with original maturities of three months or less from the date of purchase. Cash equivalents are recorded at cost. The carrying amounts approximate fair value due to the short-term maturities of these instruments.

The Company classifies cash and cash equivalents as restricted cash when it is unavailable for withdrawal or use in its general operations. See note 25.

(m) **Allowance for expected credit losses**

We maintain an allowance for lifetime expected credit losses that may result from our customer's inability to pay. Current and future economic conditions, historical information (including credit agency reports, if applicable), credit-worthiness, the line of business from which the customer accounts receivable arose, aging of receivables, known uncollectible accounts and changes in customer payment cycles are all considered when determining the expected credit losses related to accounts receivable. Amounts later determined and specifically identified to be uncollectible are charged against this allowance. If the financial condition of any of our customers deteriorates resulting in an impairment of their ability to make payments, we may increase our allowance.

(n) **Financing receivables**

We lease certain hardware devices to a small number of hardware distributors under sales-type leases which have terms ranging from 10 months to 48 months and bear interest at 5%.

We evaluate the credit quality of our financing receivables on an ongoing basis utilizing an aging of the accounts and write-offs, customer collection experience, the customer's financial condition, known risk characteristics impacting the respective customer base, and other available economic conditions, to determine the appropriate allowance.

(o) **Derivatives**

Derivatives, such as foreign currency forward and options contracts, may be used to economically hedge the foreign exchange risk on cash flows from commitments denominated in a foreign currency. Derivatives are recorded in *Accounts receivable* or *Accounts payable and accrued liabilities* and measured at fair value at each balance sheet date. Any resulting gains and losses from changes in the fair value are recorded in *Foreign exchange gain (loss)*.

(p) **Inventories**

Inventories consist of electronic components and finished goods and are valued at the lower of cost or estimable realizable value, determined on a first-in-first-out basis. Cost is defined as all costs that relate to bringing the inventory to its present condition and location under normal operating conditions.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

We review the components of our inventory and our inventory purchase commitments on a regular basis for excess and obsolete inventory based on estimated future usage and sales. Write-downs in inventory value or losses on inventory purchase commitments depend on various items, including factors related to customer demand, economic and competitive conditions, technological advances and new product introductions that vary from current expectations. We believe that the estimates used in calculating the inventory provision are reasonable and properly reflect the risk of excess and obsolete inventory. If customer demands for our inventory are substantially less than our estimates, additional inventory write-downs may be required.

(q) Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization. We amortize our property and equipment on a straight-line basis over the following estimated economic lives:

Furniture and fixtures	3-5 years
Research and development equipment	3-10 years
Production equipment	2-7 years
Tooling	1.5-3 years
Computer equipment	1-5 years
Software	1-5 years
Office equipment	3-5 years
Monitoring equipment	3-5 years
Network equipment	3-7 years

Research and development equipment related amortization is included in *Research and development* expense. Tooling, production, monitoring and certain network equipment related amortization is included in *Cost of goods sold*. All other amortization is included in *Amortization* expense.

Leasehold improvements and leased vehicles are amortized on a straight-line basis over the lesser of their expected average service life or term of the lease.

When we sell property and equipment, we net the historical cost less accumulated depreciation and amortization against the sale proceeds and include the difference in *Other income (expense)*.

(r) Intangible assets

The estimated useful life of intangible assets with definite lives is the period over which the assets are expected to contribute to our future cash flows. When determining the useful life, we consider the expected use of the asset, useful life of any related intangible asset, any legal, regulatory or contractual provisions that limit the useful life, any legal, regulatory, or contractual renewal or extension provisions without substantial costs or modifications to the existing terms and conditions, the effects of obsolescence, demand, competition and other economic factors, and the expected level of maintenance expenditures relative to the cost of the asset required to obtain future cash flows from the asset.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

We amortize our intangible assets on a straight-line basis over the following specific periods:

Patents and trademarks	—	3-5 years
Licenses	—	over the shorter of the term of the license or an estimate of their useful life, ranging from three to ten years
Intellectual property and customer relationships	—	3-13 years
Brand	—	over the estimated life
Research and development	—	over the estimated life

In-process research and development ("IPRD") is included in research and development and are intangible assets acquired as part of business combinations. Prior to their completion, IPRD are intangible assets with indefinite life and they are not amortized but subject to impairment test on an annual basis.

Research and development intangible asset related amortization is included in *Research and development* expense. All other intangible asset amortization is included in *Amortization* expense.

(s) **Leases**

At inception of a contract, we apply judgment in assessing whether a contract is or contains a lease. This assessment involves determining whether we have control over the identified asset for a period of time in exchange for consideration. Operating leases are included in *Operating lease right-of-use ("ROU") assets, Accounts payable and accrued liabilities, and Operating lease liabilities* in our consolidated balance sheets. Finance leases are included in *Property and equipment, Accounts payable and accrued liabilities, and Long-term obligations* in our consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term. Lease liabilities represent our obligation to make lease payments arising from the lease. We recognize operating lease right-of-use assets and liabilities at commencement date based on the present value of lease payments over the lease term. We use the incremental borrowing rate as the discount rate for leases as the rates implicit in our leases are not readily determinable. Our incremental borrowing rate is estimated to approximate the interest on a collateralized basis with similar terms and payments and in economic environments where the leased asset is located. The operating lease ROU asset also includes any prepaid lease payments, initial direct costs and lease incentives. Our lease terms include non-cancelable periods and include options to renew the lease when it is reasonably certain that we will exercise that option.

Operating lease cost for lease payments is recognized on a straight-line basis over the term of the lease. Our lease agreements have lease and non-lease components, which we have elected to account for as a single lease cost.

We have elected not to record right-of-use assets and lease liabilities for short-term leases with a term of 12 months or less and recognize these short term leases to profit or loss on a straight-line basis over the lease term.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

(t) Goodwill

Goodwill represents the excess of the purchase price of an acquired business over the fair value assigned to assets acquired and liabilities assumed in a business combination. We allocate goodwill to reporting units based on the reporting unit expected to benefit from the business combination. Goodwill has an indefinite life, is not amortized, and is subject to an annual impairment test, on October 1 of every year, at the reporting unit level. Goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value, or when there is a change in reporting units. These events or circumstances could include an adverse change in business climate, legal factors, operating performance indicators, competition or sale or disposition of a significant portion of a reporting unit. The goodwill impairment test compares the fair value of the reporting unit to its carrying amount, which includes the goodwill. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired. If the carrying amount exceeds the implied fair value of the goodwill, an impairment loss is recognized equal to the amount by which the carrying amount of the reporting unit exceeds the reporting unit's fair value.

An evaluation of recoverability of goodwill requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the estimated fair value of each reporting unit. Significant judgments that are required on our part to estimate the fair value of reporting units include estimating future cash flows, determining appropriate discount rates, consideration of appropriate control premium, market conditions, and other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit and may result in impairment charges in future periods.

In March 2020, the World Health Organization declared a global pandemic caused by the outbreak of the novel coronavirus specifically identified as COVID-19. It is not possible to reliably estimate the length or severity of these developments and the impact on the financial results of the Company in the future. There are significant uncertainties with respect to future development and impact to the Company related to COVID-19, including the duration, severity and scope of the outbreak and the measures taken by governments and businesses to contain the pandemic. As COVID-19 continues to significantly impact economies around the world, it creates significant uncertainty regarding the nearer term outlook for the markets where we provide our products and services. In future periods, the effects of the pandemic may have material impacts on our financial results and the recoverable amount of our reporting units. The COVID-19 pandemic and its impact on the economy is constantly evolving and presents many variables and contingencies for modeling.

In future periods, the effects of the pandemic may have material impacts on our anticipated revenue levels and the recoverable amount of our reporting units.

(u) Impairment of long-lived assets

Long-lived assets, including property and equipment, and intangible assets other than goodwill, are assessed for potential impairment when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. An impairment loss is recognized when the carrying amount of the long-lived asset group is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset group. Any required impairment loss is measured as the amount by which the carrying amount of a long-lived asset group exceeds its fair value and is recorded as a reduction in the carrying value of the related assets and a charge to operating results.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

- (v) **Comprehensive income (loss)**
Comprehensive income (loss) includes net earnings (loss) as well as changes in equity from other non-owner sources. The other changes in equity included in comprehensive income (loss) are comprised of foreign currency cumulative translation adjustments.
- (w) **Investment tax credits**
In Canada and the United States, non-refundable investment tax credits are accounted for using the flow-through method whereby such credits are accounted for as a reduction of income tax expense in the period in which the credit arises. In France, the investment tax credits are reported as a reduction of cost as the credits are refundable irrespective of taxable income.
- (x) **Comparative figures**
Certain figures presented in the consolidated financial statements have been reclassified to conform to the current year presentation. We reclassified certain *Accounts Payable and Accrued Liabilities* balances previously presented as of December 31, 2020. From 'Other' we reclassified \$11,073 to 'Trade payables and accruals' and \$8,897 to 'Sales credits' to better reflect the nature of balances (see note 22).
- (y) **Discontinued operations**
We report a disposal of a component or a group of components as discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect of the Company's operations and financial results when the components meet the criteria to be classified as held for sale. At the time an operation qualifies for held-for-sale accounting, the operation is evaluated to determine whether or not its carrying amount exceeds its fair value less cost to sell. Any loss as a result of carrying amounts in excess of fair value less cost to sell is recorded in the period the operation qualifies for held-for-sale accounting. Assets, once classified as held for sale, are not subject to depreciation or amortization, and both the assets and any liabilities directly associated with the assets held for sale are classified as current in the Company's consolidated balance sheets. When a portion of a reporting unit that constitutes a business is disposed of, goodwill associated with that business is included in the carrying amount of the business in determining the gain or loss on disposal. The amount of goodwill is based on the relative fair values of the business to be disposed of and the portion of the reporting unit that will be retained. Management judgment is required to (i) assess the criteria required to qualify for held-for-sale accounting and (ii) estimate fair value.
Our automotive business is presented as discontinued operations for all periods. Following the disposal, we retained certain royalty and warranty obligations related to the automotive business. Reversals of the royalty and warranty obligations are presented in discontinued operations. Our consolidated statements of cash flows include discontinued operations. See note 5c, *Disposition of Automotive Business*. Supplemental cash flow information relating to discontinued operations is disclosed separately in the note disclosure.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

(z) Business combination

We account for our business combinations using the acquisition method. Under this method, estimates we make to determine the fair values of acquired assets and liabilities assumed include judgments in our determinations of acquired intangible assets and assessment of the fair value of existing property and equipment. Assumed liabilities can include litigation and other contingency reserves existing at the time of the acquisition. Goodwill is recognized as of the acquisition date as the excess of the fair value of consideration transferred over the estimated fair values of net identifiable assets acquired and liabilities assumed at their acquisition date. Acquisition related expenses are separately recognized from business combination and are expensed as incurred.

When establishing fair values, we make significant estimates and assumptions, especially with respect to intangible assets. Intangible assets acquired and recorded by us may include patents, intellectual property, customer relationships, brand, backlog and in-process research and development. Estimates include but are not limited to the forecasting of future cash flows and discount rates. From time to time, we may engage third-party firms to assist us in determining the fair value of assets and liabilities assumed. Our estimates of fair values are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. As a result, actual results may differ from estimates impacting our earnings.

(aa) Government assistance

Government grants are recognized when there is reasonable assurance that (a) the Company will comply with eligible requirements attached to the grant and (b) the grant will be received. Government grants are recorded as a reduction in the cost of the related expenditures (see note 9).

3. RECENTLY IMPLEMENTED ACCOUNTING STANDARDS

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses, Measurement of Credit Losses on Financial Instruments* ("ASC 326"), replacing the incurred loss impairment model that recognizes losses when a probable threshold is met with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. The standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The new guidance on the current expected credit loss ("CECL") impairment model requires an estimate of expected credit loss, measured over the contractual life of an asset, that considers reasonable and supportable forecasts of future economic conditions in addition to historical experience and current conditions. The objective is to present the entity's estimate of the net amount expected to be collected on the financial assets. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, net investment in leases recognized by lessor and off-balance sheet credit exposures not accounted for as insurance. In addition, ASC 326 made changes to the accounting for available for sale debt securities.

On January 1, 2020, the Company adopted ASC 326 using the modified retrospective method. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326. The Company recorded a net decrease to retained earnings of \$779 as of January 1, 2020 for the cumulative effect of adopting ASC 326 as a result of measuring expected credit losses on trade accounts receivable.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

The cumulative effect was allocated between continuing and discontinued operations as follows:

<u>Effect of adoption of ASC 326 on January 1, 2020</u>	<u>Amount</u>
Continuing operations	\$ 917
Discontinued operations	(138)
	<u>\$ 779</u>

In December 2019, the FASB issued ASU 2019-12 *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (ASU 2019-12), which simplifies the accounting for income taxes, including the methodology for calculating taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company adopted ASU 2019-12 on January 1, 2021 and applied the new standard in determining tax expense for the year ended December 31, 2021. The adoption of this standard did not have a material impact on our consolidated financial statements and notes thereto and prior periods were not impacted.

4. CHANGES IN FUTURE ACCOUNTING STANDARDS

In March 2020, the FASB issued an update to ASU 2020-04 *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which addresses the effects of reference rate reform on financial reporting. This would apply to companies meeting certain criteria that have contracts, hedging relationships and other transactions that reference London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-04 is effective for the Company beginning January 1, 2022 and a successor rate has been established for our Revolving Facility with CIBC (see note 27(b)). The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In October 2021, FASB issued ASU 2021-08 *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The amendments in this ASU require an entity to recognize and measure contract assets and liabilities acquired in a business combination in accordance with Topic 606. The amendments in this ASU are effective for fiscal years beginning after December 15, 2022 and should be applied prospectively to business combinations occurring on or after the effective date of the amendment. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

In November 2021, the FASB issued ASU 2021-10 *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance* (ASU 2021-10), which aims to provide increased transparency by requiring business entities to disclose information about certain types of government assistance they receive in the notes to the financial statements. ASU 2021-10 is effective for fiscal years beginning after December 15, 2021. The Company is currently assessing the impact of ASU 2021-10 on its consolidated financial statements.

5. ACQUISITIONS AND DISPOSALS

(a) Acquisition of M2M Group

On January 7, 2020, we completed the acquisition of M2M Connectivity Pty Ltd, M2M One Pty Ltd and D-Square Innovation Pty Ltd (collectively, the "M2M Group") in Australia. Total purchase consideration for the acquisition of the M2M Group was \$21,102, comprised of cash consideration to the shareholders of \$19,587 for 100% of the equity of the M2M Group, plus approximately \$1,343 for the retirement of certain obligations and \$172 for normal course working capital adjustments. The purchase consideration has been fully paid and settled during the second quarter of 2020.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

We accounted for the transaction using the acquisition method and accordingly, recorded the tangible and intangible assets acquired and liabilities assumed on the basis of our estimates of their respective preliminary fair values as at January 7, 2020. The excess of the purchase price over the final value assigned to the net assets acquired is recorded as goodwill. The allocation of the purchase price was finalized as of June 30, 2020.

The following table summarizes the final values assigned to the assets acquired at the acquisition date:

	<u>Amount</u>
Assets acquired	
Cash	\$ 2,712
Net working capital	(640)
Deferred revenue	(914)
Identifiable intangible assets	16,064
Goodwill	8,699
Deferred income tax liability	(4,819)
Fair value of net assets acquired	<u>\$21,102</u>

Goodwill of \$8,699 resulting from the acquisition consists largely of the expectation that the acquisition will expand the Company's IoT Solutions business in the Asia-Pacific region. Goodwill is not deductible for tax purposes.

The following table provides the components of the identifiable intangible assets acquired that are subject to amortization:

	<u>Estimated useful life</u>	<u>Amount</u>
Customer relationships	10 years	\$14,646
Brand	5 years	1,418
		<u>\$16,064</u>

There was no significant impact on the Company's revenue and net earnings on a pro forma basis for all periods presented.

(b) Acquisition of M2M New Zealand

On December 15, 2020, we completed the acquisition of M2M One NZ Ltd ("M2M New Zealand") in New Zealand. Total purchase consideration for the acquisition of M2M New Zealand was \$4,005, comprised of cash consideration to the shareholders of \$3,605 for 100% of the equity of M2M New Zealand, of which \$319 related to a tax holdback that we paid to the sellers in June 2021, plus a \$400 cash holdback amount released to the sellers on December 15, 2021 which secured the purchaser's rights of indemnification under the share purchase agreement.

We accounted for the transaction using the acquisition method and accordingly, recorded the tangible and intangible assets acquired and liabilities assumed on the basis of our estimates of their respective preliminary fair values as at December 15, 2020. The excess of the purchase price over the final value assigned to the net assets acquired is recorded as goodwill. The allocation of the purchase price was finalized as of December 15, 2021.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

The following table summarizes the values assigned to the assets acquired at the acquisition date:

	<u>Amount</u>
Assets acquired	
Cash	\$ 218
Net working capital	42
Tangible assets	3
Deferred revenue	(5)
Identifiable intangible assets	1,853
Goodwill	2,377
Deferred income tax liability	(483)
Fair value of net assets acquired	<u>\$4,005</u>

Goodwill of \$2,377 resulting from the acquisition consists largely of the expectation that the acquisition will expand the Company's IoT Solutions business in the Asia-Pacific region. Goodwill is not deductible for tax purposes.

The following table provides the components of the identifiable intangible assets acquired that are subject to amortization:

	<u>Estimated useful life</u>	<u>Amount</u>
Customer relationships	10 years	\$1,542
Brand	5 years	311
		<u>\$1,853</u>

(c) Disposition of Automotive Business

On November 18, 2020, we completed the sale of substantially all of the assets and operations related to our Shenzhen, China-based automotive embedded module product line ("Automotive Business") to Rolling Wireless (H.K.) Limited for total gross proceeds of \$165,000 in cash, subject to adjustments to working capital, including \$10,000 of proceeds held in escrow that we recorded in restricted cash and were released on January 8, 2021.

The gain on sale of the Automotive Business consists of the following:

	<u>Amount</u>
Total gross proceeds	\$ 165,000
Transaction costs	(4,011)
Working capital adjustment	(11,122)
Net proceeds	149,867
Net assets disposed (including cash sold of \$5,711)	(122,730)
Gain on disposal before income taxes	27,137
Income tax expense	(11,914)
Gain on disposal, net of taxes	\$ 15,223

As at December 31, 2021, we retained \$11,165 (2020 — \$12,689) royalty accruals relating to the Automotive Business of which \$1,082 (2020 — \$1,146) is included in *Accounts payable and accrued liabilities* and \$10,083 (2020 — \$11,543) is included in *Long-term obligations*. As at December 31, 2021, we retained product warranties of \$1,528 (2020 — \$1,528) relating to the Automotive Business, which is included in *Accounts Payable and accrued liabilities*.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

The results related to the Automotive business have been presented as discontinued operations in the consolidated statements of operations and comprehensive loss and were as follows:

	2021	2020
Revenue	\$ —	\$196,609
Cost of sales	—	169,108
Gross margin	—	27,501
Expenses	285	19,878
Gain on sale of Automotive Business	—	(27,137)
Earnings before income taxes	(285)	34,760
Income tax expense on gain of sale of Automotive Business	—	(11,914)
Income tax expense	—	(2,036)
Net earnings from discontinued operations	<u>\$(285)</u>	<u>\$ 20,810</u>

The cash flows related to the Automotive business included in the consolidated statements of cash flows were as follows:

	2021	2020
Cash flows used in discontinued operations		
Net cash used in operating activities	\$(860)	\$(2,919)
Net cash used in investing activities ⁽¹⁾	—	(1,277)
Net cash used in discontinued operations	<u>\$(860)</u>	<u>\$(4,196)</u>

⁽¹⁾ Net cash used in investing activities does not include proceeds from sale of the Automotive Business.

6. SEGMENTED INFORMATION

We disaggregate our revenue from contracts with customers into reportable segments (see consolidated statements of operations and comprehensive loss), type and geographical region.

Our segments have changed from those reported at December 31, 2020. Following the sale of our Automotive Business in November 2020, the Company initiated certain strategic, organizational and operational structure changes to better reflect the reduced size of our businesses. We revised our reportable segments to better reflect the way the Company manages its business, operating under two reportable segments: (i) IoT Solutions and (ii) Enterprise Solutions. We have retroactively restated prior period information to align with this new segmentation.

IoT Solutions (New)

Our new IoT Solutions segment includes our cellular wireless IoT module solutions, IoT connectivity services, and embedded broadband solutions.

Enterprise Solutions

Our Enterprise Solutions include our range of Sierra Wireless AirLink routers, IoT gateways, IoT applications and advanced network management, managed connectivity services, and mobility applications.

As our chief operating decision maker does not evaluate the performance of our operating segments based on segment assets, management does not present asset information on a segmented basis.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

REVENUE BY TYPE

	<u>2021</u>	<u>2020</u>
Revenue		
Product	\$332,810	\$332,544
Connectivity, software, and services ⁽¹⁾	140,399	116,044
	<u>\$473,209</u>	<u>\$448,588</u>

⁽¹⁾ Previously called 'Recurring and other services'

REVENUE BY GEOGRAPHICAL REGION

	<u>2021</u>	<u>2020</u>
Americas	\$210,410	\$199,472
Europe, Middle East and Africa	77,509	76,500
Asia-Pacific	185,290	172,616
	<u>\$473,209</u>	<u>\$448,588</u>

PROPERTY AND EQUIPMENT BY GEOGRAPHICAL REGION

	<u>2021</u>	<u>2020</u>
Americas	\$25,519	\$23,357
Europe, Middle East and Africa	3,483	5,237
Asia-Pacific	2,132	2,818
	<u>\$31,134</u>	<u>\$31,412</u>

We sell certain products through resellers, original equipment manufacturers and wireless service providers who sell these products to end-users. In 2021 and 2020, we did not have any customers that accounted for more than 10% of total revenue. As at December 31, 2021 and 2020, we had no customer that accounted for more than 10% of total Trade Accounts Receivable. We had one customer as at December 31, 2021 that accounted for 23% and two customers as at December 31, 2020 that accounted for 22% and 15% of total Contract Assets.

7. RESEARCH AND DEVELOPMENT

The components of research and development costs consist of the following:

	<u>2021</u>	<u>2020</u>
Gross research and development	\$71,592	\$86,506
COVID-19 government assistance (note 9)	(2,941)	(4,186)
Government research tax credits	(226)	(291)
	<u>\$68,425</u>	<u>\$82,029</u>

8. RESTRUCTURING

On April 30, 2019, we announced certain initiatives related to the acceleration of our transformation to a Device-to-Cloud IoT solutions company. During the third quarter of 2020, we initiated actions to reduce our operating expenses, in conjunction with the expected closing of the sale of our automotive business in the fourth quarter of 2020. We implemented organizational changes, including consolidation of our engineering resources resulting in a reduction in our engineering team in Hong Kong. This initiative affected 148 employees in various locations and functions within the Company.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

During the fourth quarter of 2021, we announced changes to the executive leadership team and our global organizational structure to further streamline and improve the overall business performance of the company, impacting 62 employees globally. In addition, we enacted a separate initiative to enhance our administrative function in the year ended December 31, 2021.

The following table provides the activity in the restructuring liability:

	2021	2020
Balance, beginning of period	\$ 5,750	\$ 8,655
Expensed - continuing operations	12,255	8,740
Expensed - discontinued operations	—	1,741
Disbursements	(12,583)	(13,475)
Foreign exchange	8	89
	<u>\$ 5,430</u>	<u>\$ 5,750</u>
Classification:		
Accounts payable and accrued liabilities (note 22)	5,430	5,750
	<u>\$ 5,430</u>	<u>\$ 5,750</u>
By restructuring initiative:		
April 2019	493	1,254
Q3 2020	120	4,496
Q4 2021	4,544	—
Other 2021	273	—
	<u>\$ 5,430</u>	<u>\$ 5,750</u>

The components of continuing operations expense for the years ended December 31 were as follows:

	2021	2020
April 2019	\$ (203)	\$ 369
Q3 2020	3,954	8,371
Q4 2021	7,084	—
Other 2021	1,420	—
	<u>\$12,255</u>	<u>\$8,740</u>

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

9. GOVERNMENT ASSISTANCE

We are eligible for government subsidies from the Government of Canada and the U.S. Government.

The Company recorded government assistance for the years ended December 31 as follows:

	2021	2020
Cost of sales	\$ 800	\$ 180
Sales and marketing	4,242	1,588
Research and development	2,941	4,186
Administration	807	1,298
	<u>\$8,790</u>	<u>\$7,252</u>
Government Assistance by Type		
US Employee Retention Credit	\$5,455	\$ —
Canada Emergency Wage Subsidy	2,888	6,332
Other COVID-19 related subsidies	447	920
	<u>\$8,790</u>	<u>\$7,252</u>

10. OTHER EXPENSE

The components of other expense for the years ended December 31 were as follows:

	2021	2020
Interest income	\$ 94	\$ 131
Interest expense	(315)	(818)
Discount fees (note 26(d))	(107)	(414)
Financing costs	(346)	(695)
Ransomware incident insurance recovery (note 1)	8,668	—
Ransomware incident expense (note 1)	(9,648)	—
Other	(46)	(231)
	<u>\$ (1,700)</u>	<u>\$ (2,027)</u>

11. INCOME TAXES

The components of loss before income taxes consist of the following:

	2021	2020
Continuing operations		
Canadian	\$(40,816)	\$(24,872)
Foreign	(47,910)	(57,188)
	<u>\$(88,726)</u>	<u>\$(82,060)</u>

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

The income tax expense (recovery) consists of:

	2021	2020
Canadian:		
Current	\$ 36	\$ (8,349)
Deferred	—	—
	<u>\$ 36</u>	<u>\$ (8,349)</u>
Foreign:		
Current	\$ 3,564	\$ (2,410)
Deferred	(3,594)	(1,150)
	<u>\$ (30)</u>	<u>\$ (3,560)</u>
Total:		
Current	\$ 3,600	\$ (10,759)
Deferred	(3,594)	(1,150)
	<u>\$ 6</u>	<u>\$ (11,909)</u>

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision for the years ended December 31 was as follows:

	2021	2020
Income tax recovery at Canadian statutory income tax rates of 26.99% (2020 -26.99%)	\$(23,947)	\$(22,148)
Increase (decrease) in income taxes for:		
Permanent and other differences	1,788	1,353
Investment tax credits	(3,623)	(2,396)
Tax rates differential	1,393	(103)
Foreign exchange	5,912	(7,331)
Change in valuation allowance	15,097	20,221
Stock-based compensation expense	(64)	894
Change in estimate	3,450	(2,399)
Income tax expense (recovery)	<u>\$ 6</u>	<u>\$ (11,909)</u>

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

Deferred tax assets and liabilities

The tax effects of temporary differences that give rise to significant deferred tax assets and deferred tax liabilities were as follows at December 31:

	2021	2020
Deferred income tax assets (liabilities)		
Property and equipment	\$ (3,555)	\$ (4,801)
Non capital loss carry-forwards	124,827	114,744
Capital loss carry-forwards	—	2,160
Scientific research and development expenses and credits	38,909	28,932
Reserves and other	22,002	24,533
Investments	(1,519)	(1,309)
Acquired intangibles	(5,804)	(9,468)
Lease liabilities	3,267	4,219
	178,127	159,010
Valuation allowance	183,230	168,133
	<u>\$ (5,103)</u>	<u>\$ (9,123)</u>
	2021	2020
Classification:		
Assets		
Non-current	\$ 1,268	\$ 1,135
Liabilities		
Non-current	(6,371)	(10,258)
	<u>\$ (5,103)</u>	<u>\$ (9,123)</u>

At December 31, 2021, we have provided for a valuation allowance on our deferred tax assets of \$183,230 (2020 — \$168,133).

At December 31, 2021, we have Canadian non-capital loss carry-forwards of \$47,880 that are available to be deducted against future Canadian taxable income. The Canadian non-capital loss carryforwards will expire in 2041. In addition, we have Canadian SR&ED expenditure carry-forwards of \$23,642 that are available, indefinitely, to be deducted against future Canadian taxable income, investment tax credits of \$26,833 and \$12,985 available to offset future Canadian federal and provincial income taxes payable, respectively. The investment tax credits expire between 2025 and 2041. At December 31, 2021, our U.S. subsidiary has \$6,445 of California research & development tax credits which may be carried forward indefinitely.

At December 31, 2021, net operating loss carry-forwards for our foreign subsidiaries were \$83,838 for U.S. income tax purposes, of which, \$27,849 may be carried forward indefinitely, and \$55,989 expires between 2022 and 2037, \$1 for Sweden income tax purposes, \$38 for Norway income tax purposes, \$94,426 for Luxembourg income tax purposes, of which, \$40,240 may be carried forward indefinitely, and \$54,186 expire between 2035 and 2038, and \$259,233 for French income tax purposes. The Sweden, Norway, and French net operating loss carry-forward may be carried forward indefinitely. Our foreign subsidiaries may be limited in their ability to use foreign net operating losses in any single year depending on their ability to generate significant taxable income. In addition, the utilization of the U.S. net operating losses is also subject to ownership change limitations provided by U.S. federal and specific state income tax legislation. The amount of French net operating losses deducted each year is limited to €1.0 million plus 50% of French taxable income in excess of €1.0 million. Our French net operating losses carry-forward is subject to the "continuity of business" requirement. Our French subsidiaries also have research tax credit carried forward of \$2,321 and employment tax credit carried forward of \$56 as at December 31, 2021. The French tax credits may be used to offset against corporate income tax and if any tax credits are not fully utilized within a three-year period following the year the tax credits are earned, it may be refunded by the French tax authorities. Tax loss and tax credits carry-forwards are denominated in the currency of the countries in which the respective subsidiaries are located and operate. Fluctuations in currency exchange rates could reduce the U.S. dollar equivalent value of these tax loss and research tax credit carry forwards in future years.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

In assessing the realizability of our deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which temporary differences become deductible and the loss carry-forwards or tax credits can be utilized. Management considers projected future taxable income and tax planning strategies in making our assessment.

Accounting for uncertainty in income taxes

At December 31, 2021, we had gross unrecognized tax benefits of \$3,627 (2020 — \$4,474). Of this total, \$598 (2020 — \$559) represents the amount of unrecognized tax benefits that, if recognized, would favorably impact our effective tax rate.

Below is a reconciliation of the total amounts of unrecognized tax benefits for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Unrecognized tax benefits, beginning of year	\$4,474	\$4,628
Increases — tax positions taken in prior periods	—	70
Settlements and lapses of statute of limitations	(847)	(224)
Unrecognized tax benefits, end of year	<u>\$3,627</u>	<u>\$4,474</u>

We recognize interest expense and penalties related to unrecognized tax benefits within the provision for income tax expense on the consolidated statement of operations. At December 31, 2021, we had increased \$3 (2020 - increased \$50) for accruals of interest and penalties.

In the normal course of business, we are subject to audit by the Canadian federal and provincial taxing authorities, by the U.S. federal and various state taxing authorities and by the taxing authorities in various foreign jurisdictions. Tax years ranging from 2007 to 2021 remain subject to examination in Canada, the United States, the United Kingdom, France, Germany, Australia, New Zealand, China, Hong Kong, Brazil, South Africa, Japan, Korea, Taiwan, Italy, Sweden, Norway, India, Spain, and Luxembourg.

The Company regularly engages in discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. The Company believes it is reasonably possible that certain tax matters may be concluded in the next 12 months. The Company estimates that the unrecognized tax benefits at December 31, 2021 could reduce by approximately \$38 in the next 12 months.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

Deferred taxes on foreign earnings

No provision for taxes has been provided on undistributed foreign earnings, as it is the Company's intention to indefinitely reinvest undistributed earnings of its foreign subsidiaries. It is not practical to estimate the income tax liability that might be incurred if there is a change in management's intention in the event that a remittance of such earnings occur in the future.

12. STOCK-BASED COMPENSATION PLANS

(a) Stock-based compensation expense:

	2021	2020
Cost of sales	\$ 369	\$ 319
Sales and marketing	4,708	5,241
Research and development	3,990	4,014
Administration	10,180	8,379
Continuing operations	<u>\$19,247</u>	<u>\$17,953</u>
Discontinued operations	587	1,987
	<u>19,834</u>	<u>19,940</u>
Stock option plan	1,359	2,361
Restricted stock plan	<u>18,475</u>	<u>17,579</u>
	<u>\$19,834</u>	<u>\$19,940</u>

During 2021, \$3.2 million of stock-based compensation expense was reversed as a result of changes of estimated achievement of service revenue target relating to PSUs (2020 — \$0.6 million).

In connection with the recent executive leadership team change, certain equity awards were modified, resulting in the reversal of the cumulative compensation costs of the original award incurred at the modification date and recognition of the incremental fair value of the modified award on a straight-line basis over the requisite service period. In 2021, the Company recognized \$1.4 million (2020 — nil) of incremental compensation expense relating to modification of awards and \$3.9 million (2020 — \$0.5 million) of compensation expense related to accelerated vesting of awards resulting from executive leadership changes.

(b) Stock option plan

Under the terms of the Company's Stock Option Plan (the "Plan"), the Board of Directors may authorize the grant of stock options to employees, officers and directors. At the Company's Annual General Meeting of Shareholders on June 2, 2021, shareholders approved a resolution to amend and restate the terms of the Plan. The amendments increased the maximum number of shares issuable pursuant to the Plan to 9.7% (increased from 8.9%) of the number of issued and outstanding common shares from time to time, provided that in no event will more than 7,000,000 common shares be issued as "incentive stock options intended to qualify under Section 422 of the United States Internal Revenue Code". In addition, the maximum number of shares issuable pursuant to the Plan, together with any shares issuable pursuant to other security-based compensation arrangements, shall not exceed 9.7% (increased from 8.9%) of the number of issued and outstanding common shares from time to time.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

The Plan provides that the exercise price of a stock option will be determined on the date of grant and will not be less than the closing market price of the Company's stock at that date. Stock options generally vest over four years, with the first 25% vesting at the first anniversary date of the grant and the balance vesting in equal amounts at the end of each full succeeding month thereafter. The Company determines the expiry date of each stock option at the time it is granted, which cannot be more than five years after the date of the grant.

The fair value of stock options was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2021	2020
Risk-free interest rate	N/A	0.31%
Annual dividends per share	N/A	Nil
Expected stock price volatility	N/A	53%
Expected option life (in years)	N/A	4.0
Average fair value of options granted (in dollars)	N/A	\$5.26

There is no dividend yield as the Company does not pay, and does not plan to pay cash dividends on its common shares. The expected stock price volatility is based on the historical volatility of the Company's daily stock closing prices over a period equal to the expected life of each stock option grant. The risk-free interest rate is based on yields from risk-free instruments with a term equal to the expected term of the stock options being valued. The expected life of options represents the period of time that the options are expected to be outstanding based on historical data of option holder exercise and termination behavior. Forfeitures are accounted for in compensation expense as they occur. We did not issue any stock options in 2021.

The following table presents stock option activity for the years ended December 31:

	Number of Options Outstanding	Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Life In Years	Aggregate Intrinsic Value \$
Outstanding, December 31, 2019	1,588,143	18.14	2.6	30
Granted	289,518	13.01		
Exercised	(178,223)	11.36		497
Forfeited	(338,327)	21.95		
Outstanding, December 31, 2020	1,361,111	17.27	2.4	1,399
Exercised	(390,972)	13.76		1,459
Forfeited	(195,938)	21.37		
Outstanding, December 31, 2021	774,201	18.16	1.5	1,986

The intrinsic value of outstanding and exercised stock options is calculated as the quoted market price of the stock at the balance sheet date, or date of exercise, less the exercise price of the option.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

The following table summarizes the stock options outstanding and exercisable at December 31, 2021:

Range of Exercise Prices	Number of Options Outstanding	Options Outstanding		Options Exercisable	
		Weighted Average Remaining Option Life (years)	Weighted Average Exercise Price \$	Number of Options Exercisable	Weighted Average Exercise Price \$
\$8.46 - \$12.73	110,822	2.5	11.32	51,699	11.55
\$12.74 - \$13.38	165,678	2.8	13.03	69,670	13.07
\$13.39 - \$16.23	160,895	2.1	14.69	83,213	15.59
\$16.24 - \$25.15	119,240	0.5	22.04	115,997	22.19
\$25.16 - \$26.03	217,566	0.2	25.98	217,566	25.97
	<u>774,201</u>	<u>1.5</u>	<u>18.16</u>	<u>538,145</u>	<u>20.50</u>

The options outstanding at December 31, 2021 expire between March 10, 2022 and November 27, 2025.

As at December 31, 2021, the unrecognized stock-based compensation cost related to the non-vested stock options was \$1,211 (2020 — \$2,763), which is expected to be recognized over a weighted average period of 1.9 years (2020 — 2.4 years).

(c) Restricted share plans

We have a market based restricted share unit plan and a treasury based restricted share unit plan with awards outstanding (collectively, the “RSPs”). The RSPs support our growth and profitability objectives by providing long-term incentives to employees and also encourage our objective of employee share ownership through the granting of RSUs. There is no exercise price or monetary payment required from the employees upon the grant of an RSU or upon the subsequent delivery of our common shares (or, in certain jurisdictions, cash in lieu of the option of the Company) to settle vested RSUs. The form and timing of settlement is subject to local laws.

At the Company’s Annual General Meeting of Shareholders on June 2, 2021, shareholders approved a resolution to amend the treasury based restricted share unit plan (the “Treasury Plan”). The amendments increased the maximum number of shares issuable pursuant to outstanding awards under the Treasury Plan to 9.7% (increased from 4.6%) of the number of issued and outstanding shares from time to time. In addition, the maximum number of shares issuable pursuant to all of our security-based compensation arrangements is 9.7% (increased from 8.9%) of the number of issued and outstanding shares. With respect to the market-based RSP, independent trustees purchase Sierra Wireless common shares over the facilities of the Toronto Stock Exchange and Nasdaq, which are used to settle vested RSUs. The existing trust funds are variable interest entities and are included in these consolidated financial statements as treasury shares held for RSU distribution. As at December 31, 2021, there were 1,053,177 market RSUs outstanding (2020 — 2,614,135).

Non-performance based RSUs vest over one to three years. RSUs vesting over one or two years cliff vest in one year or two years, respectively, and RSUs vesting over three years vest in equal amounts on each anniversary date of the grant. RSU grants to employees who are resident in France for French tax purposes will not vest before the second anniversary from the date of grant, and any shares issued are subject to an additional two year tax hold period. In addition, certain grants issued to employees who are resident in France for French tax purposes vest over three years in equal amounts on each anniversary date, with the first tranche subject to a hold period of one year.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

We include a performance-based component to certain grants of units under our RSPs ("PSUs"). We have two types of PSUs, depending on their performance-based metric. PSUs, with a market condition, are measured against an external benchmark index. The fair value of these PSUs at date of grant are determined using the Monte Carlo simulation model. PSUs, with a performance condition, are measured against an internal performance benchmark based on achieving connectivity, software, and service revenue targets or cost savings initiatives or profitability targets. The fair value of these PSUs is based on the Company's stock price on the date of grant adjusted for expected attainment with changes to expected attainment recorded in subsequent periods. Generally, PSUs have a three year cliff-vesting.

In 2021, the Board of Directors approved the issuance of PSUs that are measured against financial metrics that are determined by the Company at the beginning of each fiscal year for the performance period. The determination of the number of awards that will be attained at vesting is based on achieving the financial metric target in each of three individual fiscal years. Each tranche contains an independent annual performance condition and cliff vest on the third anniversary date. Since the financial metric for each tranche is determined at the beginning of each fiscal year in the performance period, each tranche has a separate grant date and the fair value of the PSUs is determined at each grant date using the Company's stock price on grant date adjusted for expected attainment with changes to expected attainment recorded in subsequent periods. As at December 31, 2021, 10,777 PSUs are considered issued but not yet granted and are excluded in the below RSU continuity table.

The aggregate intrinsic value of outstanding RSUs is calculated as the quoted market price of the stock at the balance sheet date. The intrinsic value of vested and settled RSUs is calculated as the quoted market price of the stock at date of vesting.

The following table summarizes the RSU activity for the years ended December 31:

	Number of RSUs	Weighted Average Grant Date Fair Value \$	Weighted Average Remaining Contractual Life		Aggregate Intrinsic Value \$
			In years		
Outstanding, December 31, 2019	1,815,759	15.42	2.3		17,310
Granted	2,865,042	12.80			
Vested / settled	(586,343)	16.30			6,569
Forfeited	(303,175)	12.83			
Outstanding, December 31, 2020	3,791,283	13.61	2.0		55,242
Granted	1,086,115	15.98			
Vested / settled	(1,367,749)	14.32			22,207
Forfeited	(658,865)	15.71			
Added by performance factor	92,231	20.18			
Outstanding, December 31, 2021	2,943,015	13.89	2.7		51,898
Outstanding – vested and not settled	183,117				
Outstanding – unvested	2,759,898				
Outstanding, December 31, 2021	2,943,015				

As at December 31, 2021, the total remaining unrecognized compensation cost associated with the RSUs totaled \$17,984 (2020 — \$30,055), which is expected to be recognized over a weighted average period of 2.0 years (2020 — 1.8 years).

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

13. EARNINGS (LOSS) PER SHARE

The following table provides the reconciliation between basic and diluted earnings (loss) per share:

	2021	2020
Net earnings (loss)		
Net loss from continuing operations	\$(88,732)	\$(70,151)
Net (loss) earnings from discontinued operations	(285)	20,810
	<u>\$(89,017)</u>	<u>\$(49,341)</u>
Weighted average shares used in computation of:		
Basic	37,119	36,393
Diluted	37,119	36,393
Basic and diluted net earnings (loss) per share (in dollars):		
Continuing operations	\$ (2.39)	\$ (1.93)
Discontinued operations	(0.01)	0.57
	<u>\$ (2.40)</u>	<u>\$ (1.36)</u>

As the Company incurred losses for the years ended December 31, 2021 and 2020, all equity awards for these years were anti-dilutive and were excluded from the diluted weighted average shares.

14. ACCOUNTS RECEIVABLE

The components of accounts receivable at December 31 were as follows:

	2021	2020
Trade receivables	\$68,838	\$53,213
Less: allowance for doubtful accounts	(2,581)	(3,631)
	<u>66,257</u>	<u>49,582</u>
Sales taxes receivable	2,425	4,419
R&D tax credits	2,377	3,350
Financing receivables	217	342
Contract assets (note 2(c))	2,290	2,132
US Employee Retention Credit receivable (note 9)	5,456	—
Other receivables	6,288	8,750
	<u>\$85,310</u>	<u>\$68,575</u>

The movement in the allowance for expected credit losses during the years ended December 31 was as follows:

	2021	2020
Balance, beginning of year	\$3,631	\$2,975
Effect of adoption of ASC 326 (note 3)	—	917
	<u>3,631</u>	<u>3,892</u>
Current period provision (recovery) for expected credit losses	(296)	418
Write-offs charged against allowance for credit losses	(817)	(792)
Recoveries of amounts previously written off	140	15
Foreign exchange	(77)	98
	<u>\$2,581</u>	<u>\$3,631</u>

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

15. CONTRACT BALANCES

	2021	2020	Change
Contract assets	\$ 2,290	\$2,132	\$ 158
Deferred revenue - current	11,770	9,862	1,908
Deferred revenue - noncurrent	7,222	7,863	(641)

Contract assets are included in *Accounts receivable* in our consolidated balance sheets.

For the year ended December 31, 2021, \$9,989 of deferred revenue was recognized in revenue that was included in the contract liability balance as of December 31, 2020 — \$8,813).

16. INVENTORIES

The components of inventories at December 31 were as follows:

	2021	2020
Electronic components	\$57,302	\$19,468
Finished goods	24,875	13,347
	<u>\$82,177</u>	<u>\$32,815</u>

17. PREPAIDS AND OTHER

The components of prepaids and other at December 31 were as follows:

	2021	2020
Inventory advances	\$16,631	\$ 1,434
Insurance and licenses	841	873
Deposits	2,821	2,665
Contract acquisition and fulfillment costs	1,746	1,850
Other	5,333	5,111
	<u>\$27,372</u>	<u>\$11,933</u>

In 2021, \$1,750 of deferred contract acquisition and fulfillment costs were expensed to *Sales and marketing and Cost of sales* (2020 — \$1,276).

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

18. PROPERTY AND EQUIPMENT

The components of property and equipment at December 31 were as follows:

	2021		
	Cost	Accumulated amortization	Net book value
Furniture and fixtures	\$ 3,122	\$ 1,989	\$ 1,133
Research and development equipment	35,088	24,448	10,640
Production equipment and tooling	30,292	22,624	7,668
Computer equipment	6,515	5,370	1,145
Software	8,609	7,183	1,426
Leasehold improvements	6,154	4,229	1,925
Leased vehicles	177	177	—
Office equipment	880	696	184
Monitoring equipment	11,261	5,113	6,148
Network equipment	6,644	5,779	865
	<u>\$108,742</u>	<u>\$ 77,608</u>	<u>\$31,134</u>

	2020		
	Cost	Accumulated amortization	Net book value
Furniture and fixtures	\$ 3,467	\$ 2,163	\$ 1,304
Research and development equipment	33,583	21,770	11,813
Production equipment and tooling	31,999	23,466	8,533
Computer equipment	5,608	4,610	998
Software	7,608	5,838	1,770
Leasehold improvements	7,719	5,940	1,779
Leased vehicles	392	390	2
Office equipment	1,172	1,045	127
Monitoring equipment	6,141	2,455	3,686
Network equipment	6,417	5,017	1,400
	<u>\$104,106</u>	<u>\$ 72,694</u>	<u>\$31,412</u>

During the year ended December 31, 2021, the Company recorded a total impairment expense of \$253 on leasehold improvements and furniture and fixtures which related to an office lease that we ceased to use.

Amortization expense relating to property and equipment was \$14,136 for the year ended December 31, 2021 (2020 — \$15,129, including \$1,712 related to discontinued operations).

19. INTANGIBLE ASSETS

During the year ended December 31, 2021, the Company recorded an impairment expense of \$11,544 resulting from the expected sunset of 2G/3G networks in Sweden which will impact the connectivity offering of our Maingate group. Our Maingate group is part of our IoT Solutions reportable segment (see note 6). As the carrying value of the Swedish connectivity asset group was higher than the estimated fair value, which was based on expected future cash flows discounted at 13%, an impairment expense was recognized on the customer relationships, brand, and research and development intangible asset components of our Maingate group. The fair value is a level 3 measurement which required significant judgment. The unobservable inputs include future assumptions about the attrition rate, profit margin, and our weighted-average cost of capital.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

The components of intangible assets at December 31 were as follows:

	2021		
	Cost	Accumulated amortization	Net book value
Patents and trademarks	\$ 15,576	\$ 14,226	\$ 1,350
Licenses	57,382	51,251	6,131
Intellectual property	30,125	27,466	2,659
Customer relationships	125,187	88,659	36,528
Brand	15,069	7,065	8,004
Research and development	9,982	9,946	36
	<u>\$253,321</u>	<u>\$ 198,613</u>	<u>\$54,708</u>

	2020		
	Cost	Accumulated amortization	Net book value
Patents and trademarks	\$ 16,300	\$ 14,649	\$ 1,651
Licenses	57,480	53,153	4,327
Intellectual property	28,916	26,095	2,821
Customer relationships	140,892	83,858	57,034
Brand	17,070	5,631	11,439
Research and development	11,158	10,349	809
	<u>\$271,816</u>	<u>\$ 193,735</u>	<u>\$78,081</u>

Estimated annual amortization expense for the next 5 years ended December 31 is as follows:

	Amount
2022	13,281
2023	11,784
2024	10,418
2025	6,458
2026	5,311

Amortization expense relating to intangible assets was \$14,582 and \$17,216 for the years ended December 31, 2021 and 2020, respectively.

The weighted-average remaining useful lives of intangible assets was 5.3 years as at December 31, 2021.

At December 31, 2021 and 2020, substantially all intangible assets were subject to amortization.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

20. GOODWILL

The changes in the carrying amount of goodwill for the years ended December 31 were as follows:

	2021	2020
Balance at beginning of year	\$175,545	\$154,381
Goodwill acquired (note 5(a) and 5(b))	—	11,076
Foreign currency translation adjustments	(8,166)	10,088
	<u>\$167,379</u>	<u>\$175,545</u>
IoT Solutions	\$ 70,747	\$ 78,418
Enterprise Solutions	96,632	97,127
	<u>\$167,379</u>	<u>\$175,545</u>

Following the Company's reorganization of its reporting structure (see note 6), the composition of our reporting units have changed. The Company has reassigned assets and liabilities to the new reporting units and has reassigned goodwill to the new reporting units using a relative fair value allocation approach. We have reclassified our comparative information.

We performed two interim goodwill impairment tests, one immediately before and one after January 1, 2021, the effective date the Company reorganized its reporting structure. We assessed the recoverability of goodwill as at January 1, 2021 for each of the identified reporting units and determined that the fair value of each of the reporting units exceeded its carrying value under both scenarios.

We performed the annual goodwill impairment test as at October 1, 2021 for each of the identified reporting units and determined that the fair value of each of the two reporting units exceeded its carrying value. There was no impairment of goodwill during the years ended December 31, 2021, and 2020.

21. LEASES

The components of lease expenses were as follows:

	2021	2020
Operating lease cost	\$ 7,397	\$ 8,616
Finance lease cost	68	130
Short-term lease cost	1,972	2,020
ROU asset impairment	488	—
	<u>9,925</u>	<u>10,766</u>
Sublease income	(1,645)	(1,534)
Total lease expenses	<u>\$ 8,280</u>	<u>\$ 9,232</u>

We have operating leases for offices, data centers and certain office equipment. Our leases have remaining lease terms of 0.1 years to 10.0 years (2020 — 0.1 years to 11.0 years). We sublease certain offices to third parties.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

Supplemental Balance Sheet information related to leases was as follows:

	2021	2020
Operating Leases		
Operating lease right-of-use assets	\$14,348	\$20,068
Accounts payable and accrued liabilities	\$ 2,132	\$ 7,376
Operating lease liabilities	15,033	17,054
Total operating lease liabilities	<u>\$17,165</u>	<u>\$24,430</u>
Weighted Average Remaining Lease Term		
Operating leases	7.1	6.9
Weighted Average Discount Rate		
Operating leases	2.6%	2.6%

Supplemental cash flow information related to leases was as follows:

	2021	2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$5,240	\$6,152
New lease assets obtained in exchange for lease liabilities (non-cash):		
Operating leases	\$1,366	\$ 678

Maturities of lease liabilities were as follows:

	Operating Leases
2022	\$ 2,201
2023	3,482
2024	2,055
2025	1,645
2026	1,614
Thereafter	8,314
Total lease payments	19,311
Less: imputed interest	(2,146)
Total lease liabilities	<u>\$ 17,165</u>

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

22. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The components of accounts payable and accrued liabilities at December 31 were as follows:

	2021	2020
Trade payables and accruals	\$108,741	\$ 78,323
Inventory commitment reserve	3,783	475
Accrued royalties	9,456	10,698
Accrued payroll and related liabilities	18,956	21,244
Professional services	8,309	5,329
Taxes payable (including sales taxes)	4,148	4,979
Product warranties (note 28(a)(iii))	4,510	5,804
Sales credits	14,154	19,629
Restructuring liability (note 8)	5,430	5,750
Operating lease liabilities (note 21)	2,132	7,376
Finance lease liabilities	19	171
Other	3,891	2,360
	<u>\$183,529</u>	<u>\$162,138</u>

23. LONG-TERM OBLIGATIONS

The components of long-term obligations at December 31 were as follows:

	2021	2020
Accrued royalties	\$31,575	\$33,218
Deferred revenue (note 15)	7,222	7,863
Finance lease liabilities	49	8
Other	3,962	4,557
	<u>\$42,808</u>	<u>\$45,646</u>

Remaining performance obligations

As at December 31, 2021, we had \$34,217 of remaining performance obligations to be recognized (December 31, 2020 — \$21,608), of which we expect to recognize approximately 37% in 2022, 41% in 2023, and 22% in subsequent years.

We do not disclose the value of remaining performance obligations for: (i) contracts with an original expected length of one year or less, and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

24. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes by component in accumulated other comprehensive loss, net of taxes, were as follows:

	2021	2020
Balance, beginning of period	\$(5,580)	\$(13,216)
Foreign currency translation adjustments	2,046	1,914
(Loss) gain on long term intercompany balances	(5,198)	5,722
Balance, end of period	<u>\$(8,732)</u>	<u>\$(5,580)</u>

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

25. SUPPLEMENTAL CASH FLOW INFORMATION

The following table summarizes supplemental cash flow information and non-cash activities:

	2021	2020
Net income taxes paid	\$3,049	\$3,333
Net Interest paid	86	739
Discount fees paid (note 27 (d))	107	414

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows:

	2021	2020
Cash and cash equivalents	\$76,784	\$160,560
Restricted cash	100	10,864
Total cash, cash equivalents, and restricted cash shown in the statements of cash flows	\$76,884	\$171,424

As at December 31, 2021, nil (2020 — \$10,000) was held in escrow related to the divestiture of the Automotive Business and \$100 (2020 — \$100) was held in escrow related to certain vendor obligations. We collected nil from trade receivables sold to CIBC under our Accounts Receivable Purchase Agreement which have not been remitted to CIBC as at December 31, 2021 (2020 — \$764). See note 27(d).

26. FAIR VALUE MEASUREMENT

Fair value presentation

An established fair value hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. There are three levels of inputs that may be used to measure fair value:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities, such as quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Inputs that are generally unobservable and are supported by little or no market activity and that are significant to the fair value determination of the assets or liabilities.

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the immediate or short-term maturity of these financial instruments. Based on borrowing rates currently available to us for loans with similar terms, the carrying values of our obligations under capital leases, and long-term obligations approximate their fair values.

Long-term debt is carried at amortized cost. Incremental costs and fees that are directly attributable to the long-term debt are initially recognized as a deferred charge (i.e. asset). When debt is recognized as a liability at the initial date, the carrying amount of the deferred charge is re-classified as a reduction of the initial proceeds of the debt and amortized to interest expense over the term of the loan. The carrying value of long-term debt approximates its fair value and the measurement is categorized within Level 3 of the fair value hierarchy.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

Derivatives, such as foreign currency forward and options contracts, may be used to hedge the foreign exchange risk on cash flows from commitments denominated in a foreign currency. Derivatives are recorded in *Accounts receivable* or *Accounts payable and accrued liabilities* and measured at fair value at each balance sheet date. Any resulting gains and losses from changes in the fair value are recorded in *Foreign exchange gain (loss)*.

Fair value of the foreign currency forward and options contracts are based on observable market inputs such as forward rates in active markets, which represents a Level 2 measurement within the fair value hierarchy.

As at December 31, 2021, we were committed to foreign currency forward contracts totaling \$25.5 million Canadian dollars to purchase Canadian dollars with an average forward rate of 1.2740, maturing between January and December 2022. We recorded unrealized loss of \$564 in *Foreign exchange gain (loss)* for those outstanding contracts in the year ended December 31, 2021 (2020 — Foreign exchange gain of \$485).

27. FINANCIAL INSTRUMENTS

(a) Financial Risk Management

Financial instruments consist primarily of cash and cash equivalents, restricted cash, accounts receivable, derivatives such as foreign currency forward and option contracts, accounts payable and accrued liabilities, long-term obligations, and long-term debt.

We have exposure to the following business risks:

We maintain substantially all of our cash and cash equivalents with major financial institutions or invest in government instruments. Our deposits with banks may exceed the amount of insurance provided on such deposits.

We outsource manufacturing of our products to third parties and, accordingly, we are dependent upon the development and deployment by third parties of their manufacturing abilities. The inability of any supplier or manufacturer to fulfill our supply requirements could impact future results. We have supply commitments to our contract manufacturers based on our estimates of customer and market demand. Where actual results vary from our estimates, whether due to execution on our part or market conditions, we are at risk.

Financial instruments that potentially subject us to concentrations of credit risk are primarily accounts receivable. We perform on-going credit evaluations of our customer's financial condition and require letters of credit or other guarantees whenever deemed appropriate.

Although a significant portion of our revenues are in U.S. dollars, we incur operating costs that are denominated in other currencies. Fluctuations in the exchange rates between these currencies could have a material impact on our business, financial condition and results of operations.

To manage our foreign currency risks, we enter into foreign currency forward contracts and options contracts to reduce our exposure to future foreign exchange fluctuations. See note 26.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

We are subject to risks typical of an international business including, but not limited to, differing economic conditions, changes in political climate, differing tax structures other regulations and restrictions and foreign exchange rate volatility. Accordingly, our future results could be materially affected by changes in these or other factors.

(b) Credit Facilities

We have a committed senior secured revolving credit facility (the "Revolving Facility") with the Canadian Imperial Bank of Commerce ("CIBC") as sole lender and as Administrative Agent. On February 17, 2021, we entered into an amending agreement to the Revolving Facility with CIBC, which reduced the total borrowing capacity under the Revolving Facility to \$30 million from \$50 million. The Revolving Facility matures on April 30, 2023 and may be used for general corporate purposes, including, but not limited to, capital expenditures, working capital requirements and/or certain acquisitions permitted under the Revolving Facility. Borrowings under the Revolving Facility may bear interest at US Base Rate or LIBOR plus applicable margin. Effective January 1, 2022, all references to LIBOR are replaced with the Secured Overnight Financing Rate ("SOFR"). The Revolving Facility contains customary affirmative, negative and financial covenants, including restrictions on dividend payments while the Revolving Facility is drawn. As at December 31, 2021, we had availability of up to \$10 million under our Revolving Facility without the waiver of certain financial covenants, which we received a waiver for on January 19, 2022. This waiver is valid through December 31, 2022. Availability under the amended Revolving Facility is subject to a borrowing base effective January 19, 2022. As at December 31, 2021, there were nil outstanding borrowings under the Revolving Facility (2020 — nil). In 2021, we recorded interest expense of nil (2020 — \$578).

On July 22, 2020, we amended the Revolving Facility and added a \$12.5 million Canadian dollar term loan facility with CIBC. During 2020, we borrowed and fully repaid \$9.4 million (Cdn \$12.5 million) under this facility and we recorded interest expense of \$161.

On September 29, 2021, we added a \$12.5 million Canadian dollar term loan facility (the "Loan") with CIBC. The Loan is backed by the Government of Canada under the Business Credit Availability Program ("BCAP"); specifically, 80% of the principal of the Loan is guaranteed by the Business Development Bank of Canada ("BDC"). The Loan bears interest at CIBC's Prime Lending rate plus 2.50% per annum. Repayment is interest only for the first 12 months, followed by regular quarterly payments of principal based on a ten-year amortization schedule plus interest. The outstanding amount owing plus accrued interest and fees are repayable on the maturity date, September 29, 2026. Under the terms, the proceeds from the Loan are to be used to exclusively fund the operational cash flow needs of the Company, including normal scheduled principal and interest payments on the CIBC credit facilities. The Loan also includes restrictions on dividend payments while the Loan is drawn. As at December 31, 2021, we had \$9.9 million (Cdn \$ 12.5 million) outstanding on the Loan of which \$0.5 million is in the current portion. In 2021, we recorded interest expense of \$123.

The table below presents the Company's contractual principal payments as at December 31, 2021 under the Loan:

2022	\$ 494
2023	989
2024	989
2025	989
2026	6,427
	<u>\$9,888</u>

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

(c) **Letters of credit**

We have access to a standby letter of credit facility of \$1.5 million from Toronto Dominion Bank. The credit facility is used for the issuance of letters of credit and guarantees and is guaranteed by Export Development Canada. As of December 31, 2021, letters of credit issued against the revolving standby letter of credit facility were for a total value of \$1.25 million (2020 — \$1.35 million).

(d) **Accounts Receivable Purchase Agreement**

We have an uncommitted Receivables Purchase Agreement (the "RPA") with CIBC, as purchaser, to increase our liquidity. Under the RPA, the Company may offer to sell certain eligible accounts receivable (the "Receivables") to CIBC, which may accept such offer, and purchase the offered Receivables. Under the RPA, up to \$75.0 million of Receivables may be sold and remain outstanding at any time. Receivables are sold at 100% face value less discount with a 10% limited recourse to the Company arising from certain repurchase events. The RPA is on an uncommitted basis with no expiry date and carries a discount rate of CDOR (for purchased receivables in CAD) and SOFR (for purchased receivables in USD) plus an applicable margin. After the sale, the Company does not retain any interests in the Receivables, but continues to service and collect, in an administrative capacity, the outstanding receivables on behalf of CIBC.

The Company accounts for the sold Receivables as a sale in accordance with FASB ASC 860, *Transfers and Servicing*. Proceeds from the sale reflect the face value of the Receivables less discount fees charged by CIBC and one-time legal costs. The discount fees are recorded in *Other expense* in the Company's consolidated statements of operations. Net proceeds are classified under operating activities in the consolidated statements of cash flows.

Pursuant to the RPA, the Company sold and de-recognized \$88,924 Receivables in 2021 (2020 — \$163,354). As at December 31, 2021, \$11,960 remained outstanding to be collected from customers and remitted to CIBC (2020 — \$19,388). Discount fees of \$107 for 2021 are included in *Other expense* in the consolidated statements of operations (2020 — \$414). As at December 31, 2021, we collected nil from Receivables that we previously sold and that have not been remitted to CIBC due to timing of settlement dates (2020 — \$764) which we recorded in *Restricted cash* in the consolidated balance sheets with a corresponding increase in accrued liabilities.

28. COMMITMENTS AND CONTINGENCIES

(a) **Contingent liability on sale of products**

- (i) Under license agreements, we are committed to make royalty payments based on the sales of products using certain technologies. We recognize royalty obligations as determinable in accordance with agreement terms. Where agreements are not in place, we have recognized our current best estimate of the obligation under accrued liabilities and long-term obligations. When agreements are finalized or the obligation becomes statute barred, the estimate will be revised accordingly.
- (ii) We are a party to a variety of agreements in the ordinary course of business under which we may be obligated to indemnify a third party with respect to certain matters. Typically, these obligations arise as a result of contracts for sale of our products to customers where we provide indemnification against losses arising from matters such as potential intellectual property infringements and product liabilities. The impact on our future financial results is not subject to reasonable estimation because considerable uncertainty exists as to whether claims will be made and the final outcome of potential claims. To date, we have not incurred material costs related to these types of indemnifications.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

- (iii) We accrue product warranty costs to provide for the repair or replacement of defective products. Our accrual is based on an assessment of historical experience and on management's estimates. Changes in the liability for product warranties were as follows:

	<u>2021</u>	<u>2020</u>
Balance, beginning of year	\$ 5,804	\$ 6,743
Provisions	1,069	4,834
Expenditures	<u>(2,363)</u>	<u>(5,773)</u>
Balance, end of year	<u>\$ 4,510</u>	<u>\$ 5,804</u>

(b) **Other commitments**

We have purchase commitments totaling approximately \$179,573 (December 31, 2020 — \$93,865), with certain contract manufacturers and suppliers under which we have committed to buy a minimum amount of designated products between January 2022 and December 2022. In certain of these agreements, we are required to acquire and pay for such products up to the prescribed minimum or forecasted purchases.

We also have purchase commitments totaling approximately \$9,639 (December 31, 2020 — \$2,836) with certain mobile network operators, under which we have committed to buy a minimum amount of wireless data and wireless data services between January 2022 and August 2024.

We have a purchase commitment totaling approximately \$1,487 (December 31, 2020 — \$2,478) with a supplier under which we have committed to buy a minimum amount of cloud computing services between January 2022 and May 2022.

(c) **Legal proceedings**

We are from time to time involved in litigation, certain other claims and arbitration matters arising in the ordinary course of our business. We accrue for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. These accruals are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and technical experts and other information and events pertaining to a particular matter. To the extent there is a reasonable possibility (within the meaning of ASC 450, Contingencies) that the losses could exceed the amounts already accrued for those cases for which an estimate can be made, management believes that the amount of any such additional loss would not be material to our results of operations or financial condition.

In some instances, we are unable to reasonably estimate any potential loss or range of loss. The nature and progression of litigation can make it difficult to predict the impact a particular lawsuit will have on the Company. For instance, in the case of patent litigation, there are many reasons why we cannot make these assessments, including, among others, one or more of the following: in the early stage of a proceeding, the claimant is not required to specifically identify the manner in which the patent has allegedly been infringed; damages sought that are unspecified, unsupported, unexplained or uncertain; discovery not having been started or being incomplete; the complexity of the facts that are in dispute (e.g., the analysis of the patent and a comparison to the activities of the Company is a labor-intensive and highly technical process); the difficulty of assessing novel claims; the parties not having engaged in any meaningful settlement discussions; the possibility that other parties may share in any ultimate liability; and the often slow pace of patent litigation.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

We are required to apply judgment with respect to any potential loss or range of loss in connection with litigation. While we believe we have meritorious defenses to the claims asserted against us in our currently outstanding litigation, and intend to defend ourselves vigorously in all cases, in light of the inherent uncertainties in litigation there can be no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by us for those cases for which an estimate can be made. Losses in connection with any litigation for which we are not presently able to reasonably estimate any potential loss or range of loss could be material to our results of operations and financial condition.

In June 2021, American Patents LLC filed a patent infringement lawsuit in the United States District Court for the Western District of Texas asserting patent infringement by us in respect of four patents allegedly related to interactions between smart devices and communications networks. The lawsuit was dismissed with prejudice in September 2021.

In January 2017, Koninklijke KPN N.V. filed a patent infringement lawsuit in the United States District Court for the District of Delaware asserting patent infringement by us and our U.S. subsidiary. The lawsuit made certain allegations concerning the alleged use of data transmission error checking technology in our wireless products. The lawsuit was dismissed with prejudice in April 2021.

In August 2014, M2M Solutions LLC filed a patent infringement lawsuit against us in District Court for the District of Delaware asserting patent infringement by us and our US subsidiary. The lawsuit makes certain allegations concerning our wireless products with respect to US Patent No. 8,648,717. In April 2017, M2M Solutions assigned the patent-in-suit to Blackbird Tech LLC, and they became a plaintiff in the lawsuit in June of that year. In May 2021, the Court entered final judgement in favor of Sierra Wireless, which judgment was not appealed by the plaintiff. In January 2022, Sierra Wireless's motion for attorneys' fees was granted by the Court, which decision is in the process of being appealed by Blackbird Tech LLC.

Intellectual Property Indemnification Claims

We have been notified by certain of our customers in the following matter that we may have an obligation to indemnify them in respect of the products we supply to them:

In June 2019, Sisvel International S.A. and 3G Licensing S.A. (together, "First Suit Plaintiffs"), filed patent infringement lawsuits (the "First Suits") in the United States District Court for the District of Delaware against one or more of our customers alleging patent infringement with respect to a portfolio of 12 patents allegedly related to technology for 2G, 3G and 4G cellular communications networks. In May 2020, the First Suit Plaintiffs together with Sisvel S.p.A. (collectively, the "Second Suit Plaintiffs") filed patent infringement lawsuits (the "Second Suits") in the United States District Court for the District of Delaware, against one or more of our customers alleging patent infringement with respect to a portfolio of 9 patents allegedly related to technology for 3G and 4G cellular communications networks. The allegations in both lawsuits have been made in relation to certain of our customers' products, which may include products which utilize modules sold to them by us. Inter Partes Review ("IPR") petitions filed by us and others with the United States Patent and Trademark Office have been instituted with respect to 11 of the patents involved in the First Suits and 8 of the patents involved in the Second Suits. The Patent Trial and Appeal Board (PTAB) has issued written decisions invalidating or partially invalidating the challenged claims of 5 patents involved in the First Suits (the remaining 6 instituted petitions filed by others with respect to patents in the First Suits were dismissed). Decisions with respect to the 8 instituted petitions involving patents in the Second Suits are pending. Sisvel has stipulated to a stay of both the First Suits and the Second Suits pending the results of the IPR procedure. We do not admit that Sierra Wireless owes indemnity in response to any of the customer requests with respect to the above matters.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)

Although there can be no assurance that an unfavorable outcome would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims made in the foregoing legal proceedings are without merit and intend to defend ourselves and our products vigorously in all cases.

We are engaged in certain other claims, legal actions and arbitration matters, all in the ordinary course of business, and believe that the ultimate outcome of these claims, legal actions and arbitration matters will not have a material adverse effect on our operating results, liquidity or financial position.

29. SUBSEQUENT EVENT

Subordinate Facility

On January 19, 2022, the Company entered into a credit agreement for a new subordinate credit facility (the "Subordinate Facility") with CIBC and BDC (the "Subordinate Lenders"), pursuant to which the Subordinate Lenders agreed to make available to the Company a non-revolving term facility in the principal amount of up to Cdn \$60 million. This facility was fully drawn on January 21, 2022 and has a four year term, maturing on January 19, 2026. The facility bears an interest rate of 5.00% per annum for the first year which increases annually thereafter. In the second year the rate is the greater of (i) the interest rate applicable to the operating loans under the Revolving Facility plus 1.00% (see note 27(b)), and (ii) 6.00% per annum. In the third year the rate is the greater of (i) the interest rate applicable to the operating loans under the Revolving Facility plus 2.00% (see note 27(b)), and (ii) 7.00% per annum. In the fourth year the rate is equal to the greater of (i) the interest rate applicable to the operating loans under the Revolving Facility plus 3.00% (see note 27(b)), and (ii) 8.00% per annum. The facility is also subject to an upfront fee of 1.25% and an annual fee on outstanding borrowings in the amount of 1.00% on the first anniversary, 1.25% on the second anniversary and 1.50% on the third anniversary. The facility also contains a mandatory prepayment clause stating that for the quarter ending December 31, 2022 and quarters thereafter, 50% of ending cash for the quarter in excess of the cash threshold of \$75 million must be repaid against the outstanding principal, up to an annual cap of \$25 million. Excluding this cash sweep, pre-payments on this facility may be made without penalty beginning July 19, 2023. The Subordinate Facility contains customary affirmative, negative and financial covenants, including restrictions on dividend payments while the Subordinate Facility is drawn, and is secured under a general security agreement over our significant entities. On January 19, 2022, the Company received a waiver of certain financial covenants, which will remain in place through December 31, 2022.

SIERRA WIRELESS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Revenue (note 5)				
IoT Solutions	\$ 120,287	\$ 53,657	\$ 393,673	\$ 218,544
Enterprise Solutions	45,769	28,793	133,291	104,753
	<u>166,056</u>	<u>82,450</u>	<u>526,964</u>	<u>323,297</u>
Cost of sales (note 5)				
IoT Solutions	85,299	42,981	276,147	161,357
Enterprise Solutions	24,138	15,320	75,953	53,833
	<u>109,437</u>	<u>58,301</u>	<u>352,100</u>	<u>215,190</u>
Gross margin	<u>56,619</u>	<u>24,149</u>	<u>174,864</u>	<u>108,107</u>
Expenses				
Sales and marketing	19,454	18,574	55,586	59,818
Research and development	15,988	16,238	51,619	50,652
Administration	10,906	10,384	32,241	37,789
Restructuring (note 6)	2,140	369	9,859	4,663
Impairment (notes 3 and 16)	—	11,544	10,299	11,544
Gain on sale of Omnilink (note 4(b))	—	—	(9,179)	—
Transaction costs (note 1)	10,070	—	10,584	—
Amortization	2,632	4,294	9,352	13,307
	<u>61,190</u>	<u>61,403</u>	<u>170,361</u>	<u>177,773</u>
Earnings (loss) from operations	(4,571)	(37,254)	4,503	(69,666)
Foreign exchange loss	(3,065)	(2,601)	(10,698)	(5,717)
Other expense (note 8)	(1,839)	(463)	(3,572)	(2,352)
Loss before income taxes	(9,475)	(40,318)	(9,767)	(77,735)
Income tax expense (recovery) (note 9)	869	(1,912)	3,581	(755)
Net loss from continuing operations	\$ (10,344)	\$ (38,406)	\$ (13,348)	\$ (76,980)
Net earnings (loss) from discontinued operations (note 4(a))	1,014	459	3,038	(778)
Net loss	\$ (9,330)	\$ (37,947)	\$ (10,310)	\$ (77,758)
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of taxes of \$nil	(1,299)	(960)	(3,639)	(2,627)
Comprehensive loss	\$ (10,629)	\$ (38,907)	\$ (13,949)	\$ (80,385)
Basic and diluted net earnings (loss) per share (in dollars)(note 11)				
Continuing operations	\$ (0.26)	\$ (1.03)	\$ (0.35)	\$ (2.08)
Discontinued operations	0.03	0.01	0.08	(0.02)
	<u>\$ (0.24)</u>	<u>\$ (1.02)</u>	<u>\$ (0.27)</u>	<u>\$ (2.10)</u>
Weighted average number of shares outstanding (in thousands) (note 11)				
Basic	39,196	37,196	38,679	36,976
Diluted	39,196	37,196	38,679	36,976

The accompanying notes are an integral part of the consolidated financial statements.

SIERRA WIRELESS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

	<i>September 30, 2022</i>	<i>December 31, 2021</i>
Assets		
Current assets		
Cash and cash equivalents	\$ 126,042	\$ 76,784
Restricted cash		100
Accounts receivable (notes 12)	100,828	85,310
Inventories (note 14)	107,964	82,177
Prepays and other (note 15)	53,491	27,372
Assets held for sale (note 4(c))	2,427	—
	<u>390,752</u>	<u>271,743</u>
Property and equipment, net	26,314	31,134
Operating lease right-of-use assets	13,620	14,348
Intangible assets, net (note 16)	30,796	54,708
Goodwill	139,471	167,379
Deferred income taxes	1,097	1,268
Other assets	2,155	6,473
	<u>\$ 604,205</u>	<u>\$ 547,053</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (notes 4(a), 6, and 17)	192,017	183,529
Deferred revenue (note 13)	13,756	11,770
Secured borrowing (note 21(d))	14,556	—
Current portion of long-term debt (note 21(b))	1,130	494
Liabilities held for sale (note 4(c))	284	—
	<u>221,743</u>	<u>195,793</u>
Long-term obligations (notes 4(a) and 18)	35,699	42,808
Operating lease liabilities	14,055	15,033
Long-term debt (note 21(b))	52,287	9,394
Deferred income taxes	5,632	6,371
	<u>329,416</u>	<u>269,399</u>
Equity		
Shareholders' equity		
Common stock: no par value; unlimited shares authorized; issued and outstanding: 39,065,069 shares (December 31, 2021 - 37,774,800 shares)	478,280	460,331
Preferred stock: no par value; unlimited shares authorized; issued and outstanding: nil shares	—	—
Treasury stock: at cost; 171 shares (December 31, 2021 - 119,761 shares)	(4)	(2,128)
Additional paid-in capital	41,673	48,747
Retained deficit	(232,789)	(220,564)
Accumulated other comprehensive loss (note 19)	(12,371)	(8,732)
	<u>274,789</u>	<u>277,654</u>
	<u>\$ 604,205</u>	<u>\$ 547,053</u>

Commitments and contingencies (note 22)

The accompanying notes are an integral part of the consolidated financial statements.

SIERRA WIRELESS, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(in thousands of U.S. dollars, except where otherwise stated)
(unaudited)

Three and nine months ended September 30, 2022

	Common Stock		Treasury Stock		Additional paid-in capital	Retained deficit	Accumulated other comprehensive income/(loss)	Total
	# of shares	\$	# of shares	\$				
Balance as at December 31, 2021	37,774,800	\$460,331	119,761	\$(2,128)	\$ 48,747	\$(220,564)	\$ (8,732)	\$277,654
Stock option exercises (note 10)	61,538	1,262	—	—	(383)	—	—	879
Stock-based compensation (note 10)	—	—	—	—	3,066	—	—	3,066
Distribution of vested RSUs	486,199	5,481	(112,687)	2,002	(6,578)	(905)	—	—
Net loss	—	—	—	—	—	(12,679)	—	(12,679)
Foreign currency translation adjustments, net of tax	—	—	—	—	—	—	(426)	(426)
Balance as at March 31, 2022	38,322,537	\$467,074	7,074	\$(126)	\$ 44,852	\$(234,148)	\$ (9,158)	\$268,494
Stock option exercises (note 10)	122,497	2,415	—	—	(728)	—	—	1,687
Stock-based compensation (note 10)	—	—	—	—	3,753	—	—	3,753
Purchase of treasury shares for RSU distribution	—	—	113,000	(2,443)	—	—	—	(2,443)
Distribution of vested RSUs	495,719	6,522	(119,048)	2,547	(8,199)	(870)	—	—
Net earnings	—	—	—	—	—	11,699	—	11,699
Foreign currency translation adjustments, net of tax	—	—	—	—	—	—	(1,914)	(1,914)
Balance as at June 30, 2022	38,940,753	\$476,011	1,026	\$(22)	\$ 39,678	\$(223,319)	\$ (11,072)	\$281,276
Stock option exercises (note 10)	67,010	1,536	—	—	(466)	—	—	1,070
Stock-based compensation (note 10)	—	—	—	—	3,317	—	—	3,317
Purchase of treasury shares for RSU distribution	—	—	7,950	(245)	—	—	—	(245)
Distribution of vested RSUs	57,306	733	(8,805)	263	(856)	(140)	—	—
Net loss	—	—	—	—	—	(9,330)	—	(9,330)
Foreign currency translation adjustments, net of tax	—	—	—	—	—	—	(1,299)	(1,299)
Balance as at September 30, 2022	39,065,069	\$478,280	171	\$(4)	\$ 41,673	\$(232,789)	\$ (12,371)	\$274,789

The accompanying notes are an integral part of the consolidated financial statements.

SIERRA WIRELESS, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(in thousands of U.S. dollars, except where otherwise stated)
(unaudited)

Three and nine months ended September 30, 2021

	Common Stock		Treasury Stock		Additional paid-in capital	Retained deficit	Accumulated other comprehensive income/(loss)	Total
	# of shares	\$	# of shares	\$				
Balance as at December 31, 2020	36,619,439	\$441,999	46,505	\$ (542)	\$ 49,489	\$(128,953)	\$(5,580)	\$356,413
Stock option exercises (note 10)	205,554	3,997	—	—	(1,195)	—	—	2,802
Stock-based compensation (note 10)	—	—	—	—	8,515	—	—	8,515
Purchase of treasury shares for RSU distribution	—	—	201,000	(3,933)	—	—	—	(3,933)
Distribution of vested RSUs	66,292	1,019	(132,659)	2,420	(3,428)	(957)	—	(946)
Net loss	—	—	—	—	—	(29,860)	—	(29,860)
Foreign currency translation adjustments, net of tax	—	—	—	—	—	—	(2,900)	(2,900)
Balance as at March 31, 2021	36,891,285	\$447,015	114,846	\$(2,055)	\$ 53,381	\$(159,770)	\$(8,480)	\$330,091
Stock option exercises (note 10)	58,064	1,134	—	—	(336)	—	—	798
Stock-based compensation (note 10)	—	—	—	—	3,722	—	—	3,722
Purchase of treasury shares for RSU distribution	—	—	228,500	(3,530)	—	—	—	(3,530)
Distribution of vested RSUs	214,393	2,970	(301,581)	5,073	(6,943)	(1,219)	—	(119)
Net loss	—	—	—	—	—	(9,951)	—	(9,951)
Foreign currency translation adjustments, net of tax	—	—	—	—	—	—	1,233	1,233
Balance as at June 30, 2021	37,163,742	\$451,119	41,765	\$(512)	\$ 49,824	\$(170,940)	\$(7,247)	\$322,244
Stock option exercises (note 10)	34,589	686	—	—	(206)	—	—	480
Stock-based compensation (note 10)	—	—	—	—	1,767	—	—	1,767
Purchase of treasury shares for RSU distribution	—	—	7,000	(111)	—	—	—	(111)
Distribution of vested RSUs	39,846	545	(40,223)	487	(828)	(204)	—	—
Net loss	—	—	—	—	—	(37,947)	—	(37,947)
Foreign currency translation adjustments, net of tax	—	—	—	—	—	—	(960)	(960)
Balance as at September 30, 2021	37,238,177	\$452,350	8,542	\$(136)	\$ 50,557	\$(209,091)	\$(8,207)	\$285,473

The accompanying notes are an integral part of the consolidated financial statements.

SIERRA WIRELESS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars)
(unaudited)

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30,</i>	<i>2021</i>	<i>September 30,</i>	<i>2021</i>
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Cash flows provided by (used in):				
Operating activities				
Net loss	\$ (9,330)	\$(37,947)	\$ (10,310)	\$(77,758)
Items not requiring (providing) cash				
Amortization	4,432	7,208	15,857	21,783
Stock-based compensation (note 10)	3,317	1,767	10,136	14,004
Capitalized interest expense (note 21(b))	964	—	2,548	—
Deferred income tax (recovery) expense	—	(2,378)	1	(2,381)
Impairment (notes 3 and 16)	—	11,544	10,299	11,544
Gain on sale of Omnilink (note 4(b))	—	—	(9,179)	—
Unrealized foreign exchange loss	5,882	2,841	13,127	7,002
Recognition of cumulative translation adjustments on dissolution of subsidiaries (notes 8 and 19)	754	—	1,571	—
Other	(71)	(45)	374	292
Changes in non-cash working capital				
Accounts receivable	1,551	22,049	(22,403)	14,853
Inventories	(15,956)	(24,375)	(26,808)	(38,610)
Prepays and other	615	(928)	(22,663)	(12,012)
Accounts payable and accrued liabilities	(180)	(28,532)	10,619	(23,037)
Deferred revenue and other	(1,454)	348	(3,777)	744
Cash flows used in operating activities	(9,476)	(48,448)	(30,608)	(83,576)
Investing activities				
Additions to property and equipment	(2,987)	(3,187)	(10,716)	(11,868)
Additions to intangible assets	(277)	(1,139)	(1,152)	(4,061)
Proceeds from sale of property and equipment	55	51	78	90
Proceeds from sale of Omnilink, net of transaction costs and cash sold (note 4(b))	206	—	35,165	—
Acquisition of M2M New Zealand, net of cash acquired	—	—	—	(319)
Cash flows (used in) provided by investing activities	(3,003)	(4,275)	23,375	(16,158)
Financing activities				
Issuance of common shares, net of issuance cost	1,070	481	3,635	4,082
Purchase of treasury shares for RSU distribution	(245)	(111)	(2,688)	(7,574)
Taxes paid related to net settlement of equity awards	—	—	—	(1,057)
Decrease in other long-term obligations	(3)	(73)	(43)	(175)
Proceeds from long-term debt, net of issuance cost (note 21(b))	—	9,908	45,732	9,908
Proceeds from secured borrowing (note 21(d))	14,556	—	14,556	—
Cash flows provided by financing activities	15,378	10,205	61,192	5,184
Effect of foreign exchange rate changes on cash and cash equivalents	(4,277)	(429)	(4,801)	(1,335)
Cash, cash equivalents and restricted cash, (decrease) increase in the period	(1,378)	(42,947)	49,158	(95,885)
Cash, cash equivalents and restricted cash, beginning of period	127,420	118,486	76,884	171,424
Cash, cash equivalents and restricted cash, end of period	\$126,042	\$ 75,539	\$126,042	\$ 75,539

The accompanying notes are an integral part of the consolidated financial statements.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"), on a basis consistent with those followed in the December 31, 2021 audited annual consolidated financial statements, except as indicated in note 2. These unaudited interim consolidated financial statements do not include all information and note disclosures required by U.S. GAAP for annual financial statements, and therefore should be read in conjunction with the December 31, 2021 audited consolidated financial statements and the notes thereto. The accompanying interim financial information reflects all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of results for the interim period.

The unaudited interim consolidated financial statements include the accounts of Sierra Wireless, Inc. and its subsidiaries, all of which are wholly-owned, from their respective dates of acquisition of control. All intercompany transactions and balances have been eliminated on consolidation. In these notes to the unaudited interim consolidated financial statements, unless the context otherwise requires, references to the "Company", "Sierra Wireless", "we", "us" and "our" refer to Sierra Wireless, Inc. and its subsidiaries.

On October 21, 2022, we signed a definitive agreement and closed the sale of our home security business for gross proceeds of \$7.6 million in cash. In accordance with U.S. GAAP, assets and liabilities associated with the business have been recorded as held for sale in our consolidated balance sheet as at September 30, 2022. See note 4(c).

On August 2, 2022, we entered into a definitive agreement (the "Arrangement Agreement") with Semtech Corporation and a subsidiary of Semtech Corporation (the "Purchaser") pursuant to which the Purchaser will acquire all of the issued and outstanding shares of Sierra Wireless (the "Transaction"). Under the terms of the Transaction, Sierra Wireless shareholders will receive \$31 in cash per share (in U.S. dollars).

The Transaction, which is not subject to any financing conditions, is to be carried out by way of a court-approved plan of arrangement under the Canada Business Corporations Act. On September 27, 2022, at a special meeting, Sierra Wireless securityholders approved the Transaction. On September 29, 2022, the Supreme Court of British Columbia approved the plan of arrangement. On October 3, 2022, the Purchaser received a no action letter from the Canadian Competition Bureau, satisfying the Canadian Competition Act approval condition to closing the Transaction. The Transaction remains subject to regulatory approval under the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. On October 18, 2022, we announced that the Company and the Purchaser each received a request for additional information and documentary material (commonly known as a "second request") from the U.S. Department of Justice in connection with the Transaction. The second requests were issued under notification requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. The outside date for closing the Transaction provided under the Arrangement Agreement, inclusive of extensions, is March 3, 2023, unless extended further by mutual agreement of the parties. If the Transaction is not completed, we may, in certain circumstances and in accordance with the terms of the Arrangement Agreement, be required to pay a termination fee of \$45 million to the Purchaser.

Costs related to the closing of the Transaction are recorded within *Transaction costs* in our consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2022. In addition, a success fee will be payable to a financial advisor of the Company contingent on the closing of the Transaction. The contingent liability is estimated at \$25 million and has not been recognized in our consolidated balance sheets as at September 30, 2022.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

On April 15, 2022, we signed a definitive agreement and closed the sale of our Omnilink offender monitoring business for \$37.6 million in cash, subject to customary working capital adjustments. The assets and operations related to the Omnilink business were sold to Sentinel Advantage LLC which is wholly owned by Bison Capital Asset Management LLC (see note 4(b)).

On November 18, 2020, the Company completed the divestiture of its automotive embedded module product line. Substantially all of the assets and operations related to its automotive embedded module product line were sold to Rolling Wireless (H.K.) Limited, a consortium led by Fibocom Wireless Inc. of Shenzhen. In accordance with U.S. GAAP, the results of operations of the automotive business have been presented as discontinued operations in the Company's consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2022 and 2021.

In these unaudited interim consolidated financial statements, unless otherwise indicated, all dollar amounts are expressed in United States dollars (U.S. dollars). The term dollars and the symbol "\$" refer to U.S. dollars.

COVID-19 Impact

In March 2020, the World Health Organization declared a global pandemic caused by the outbreak of the novel coronavirus specifically identified as COVID-19. It is not possible to reliably estimate the impact on the financial results of the Company in the future. There are significant uncertainties with respect to future development and impact to the Company related to COVID-19, including the emergence of new variants of concern, and the measures taken by governments and businesses to contain the pandemic. In future periods, the effects of the pandemic may have material impacts on our financial results and the recoverable amount of our reporting units.

2. ACCOUNTING STANDARDS

Recently implemented accounting standards

In March 2020, the Financial Accounting Standards Board ("FASB") issued an update to ASU 2020-04 *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which addresses the effects of reference rate reform on financial reporting. This would apply to companies meeting certain criteria that have contracts, hedging relationships and other transactions that reference London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-04 is effective for the Company beginning January 1, 2022 and a successor rate has been established for our Revolving Facility with CIBC (see note 21(a)). The Company adopted ASU 2020-04 on January 1, 2022. The adoption of this standard did not have a material impact on our consolidated financial statements and notes thereto.

In November 2021, the FASB issued ASU 2021-10 *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance* (ASU 2021-10), which aims to provide increased transparency by requiring business entities to disclose information about certain types of government assistance they receive in the notes to the financial statements. ASU 2021-10 is effective for fiscal years beginning after December 15, 2021. The Company adopted ASU 2021-10 and will reflect the new disclosure requirements on its annual consolidated financial statements for the year ended December 31, 2022.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

Changes in future accounting standards

In October 2021, FASB issued ASU 2021-08 *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. The amendments in this ASU require an entity to recognize and measure contract assets and liabilities acquired in a business combination in accordance with Topic 606. The amendments in this ASU are effective for fiscal years beginning after December 15, 2022 and should be applied prospectively to business combinations occurring on or after the effective date of the amendment. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Goodwill

Goodwill represents the excess of the purchase price of an acquired business over the fair value assigned to assets acquired and liabilities assumed in a business combination.

Goodwill has an indefinite life, is not amortized, and is subject to an annual impairment test, on October 1 of every year, at the reporting unit level. Goodwill is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The goodwill impairment test compares the fair value of the reporting unit to its carrying amount, which includes the goodwill. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired. If the carrying amount exceeds the implied fair value of the goodwill, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the reporting unit's fair value.

As at September 30, 2022, the Company determined that the assets and liabilities relating to our home security business (see note 4(e)) met all of the asset held-for-sale criteria and the sale closed on October 21, 2022. Therefore, the assets and liabilities associated with the home security business have been recorded as held for sale in our consolidated balance sheet as at September 30, 2022. The goodwill associated with the home security business is included in assets held for sale, and the amount of goodwill was determined based on the relative fair values of the asset group to be disposed of and the Enterprise Solutions reporting unit that will be retained. Following the allocation, we performed an impairment test of our remaining Enterprise Solutions reporting unit. We assessed the recoverability of the remaining Enterprise Solutions goodwill as at September 30, 2022 and determined that the fair value of the remaining Enterprise Solutions reporting unit exceeds its carrying value.

As at March 31, 2022, the Company determined that the assets and liabilities relating to our Omnilink offender monitoring business (see note 4(b)) met all of the asset held-for-sale criteria and the sale closed on April 15, 2022. The goodwill associated with the Omnilink offender monitoring business was included in net assets disposed, and the amount of goodwill was determined based on the relative fair values of the asset group to be disposed of and the Enterprise Solutions reporting unit that will be retained. Following the allocation, we performed an impairment test of our remaining Enterprise Solutions reporting unit. We assessed the recoverability of the remaining Enterprise Solutions goodwill as at March 31, 2022 and determined that the fair value of the remaining Enterprise Solutions reporting unit exceeds its carrying value.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

Impairment of long-lived assets

Long-lived assets, including property and equipment, and intangible assets other than goodwill, are assessed for potential impairment when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. An impairment loss is recognized when the carrying amount of the long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. Any required impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value and is recorded as a reduction in the carrying value of the related asset and a charge to operating results.

During the nine months ended September 30, 2022, due to the decision to not develop additional products for our home security business in light of the shutdown of 2G/3G networks in the United States, we performed a recoverability test and recorded an impairment expense of \$9,385 (note 16). In addition, we recorded further impairment expense of \$914 on an operating lease right-of-use asset and related assets as a result of entering into a sublease agreement of an office lease.

Comparative Figures

Certain comparative figures presented in the interim consolidated financial statements have been reclassified to conform with current period presentation. We reclassified certain *Acquisition related and Integration and Net Earnings (Loss) from Discontinued Operations* balances previously presented for the three and nine months ended September 30, 2021. From *Acquisition-related and integration expense* we reclassified a recovery of \$26 and an expense of \$255 for the three and nine months ended September 30, 2021, respectively, to *Administration expense* to better reflect the nature of balances. Within *Net Earnings (Loss) from Discontinued Operations (note 4(a))*, we reclassified recoveries of \$303 and \$414 for the three and nine months ended September 30, 2021, respectively, from *Expenses to Cost of Sales* to better reflect the nature of the expenses.

We also reclassified certain *Administration expense* balances previously presented for the nine months ended September 30, 2022. From *Administration expense*, we reclassified an expense of \$514 for the nine months ended September 30, 2022 to *Transaction costs* to better reflect the nature of the balances.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

4. ACQUISITIONS AND DISPOSALS

(a) **Disposition of Automotive Business**

On November 18, 2020, we completed the sale of substantially all of the assets and operations related to our Shenzhen, China-based automotive embedded module product line ("Automotive Business") to Rolling Wireless (H.K.) Limited for total gross proceeds of \$165,000 in cash.

As at September 30, 2022, we retained \$8,008 (December 31, 2021 — \$11,165) royalty accruals relating to the Automotive Business of which \$1,124 (December 31, 2021 — \$1,082) is included in *Accounts payable and accrued liabilities* and \$6,884 (December 31, 2021 — \$10,083) is included in *Long-term obligations*. As at September 30, 2022, we retained product warranties of \$627 (December 31, 2021 — \$1,528) relating to the Automotive Business, which is included in *Accounts Payable and accrued liabilities*.

The results related to the Automotive Business have been presented as discontinued operations in the consolidated statements of operations and comprehensive loss and were as follows:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Revenue	\$ —	\$ —	\$ —	\$ —
Cost of sales	(1,015)	(303)	(2,853)	(414)
Gross margin	1,015	303	2,853	414
Expenses (Recovery)	1	(156)	(185)	1,192
Earnings (loss) before income taxes	1,014	459	3,038	(778)
Income tax expense	—	—	—	—
Net earnings (loss) from discontinued operations	\$ 1,014	\$ 459	\$ 3,038	\$ (778)

The cash flows related to the Automotive business included in the consolidated statements of cash flows were as follows:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Cash flows provided by (used in) discontinued operations				
Net cash (used in) provided by operating activities	\$(1,152)	\$ 161	\$ (963)	\$(1,067)
Net cash (used in) provided by discontinued operations	\$(1,152)	\$ 161	\$ (963)	\$(1,067)

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

(b) Disposition of Omnalink Business

On April 15, 2022, we signed a definitive agreement with Sentinel Advantage LLC and closed the sale of our Omnalink offender monitoring business for \$37.6 million in cash, subject to normal working capital adjustments. The Omnalink offender monitoring business was part of our Enterprise Solutions reportable segment. Pursuant to the transaction, 27 employees, who are all located in the United States, became employees of Sentinel Advantage LLC.

The financial results of the Omnalink offender monitoring business are included in the Company's consolidated financial statements through April 14, 2022.

The gain on sale of the Omnalink offender monitoring business consists of the following:

	<u>Amount</u>
Total gross proceeds	\$ 37,600
Transaction costs	(2,541)
Working capital adjustment	1,109
Net proceeds	36,168
Net assets disposed	(26,989)
Gain on sale	\$ 9,179

The net assets and liabilities disposed of were as follows:

	<u>April 15, 2022</u>
Cash and cash equivalents	\$ 903
Restricted cash	100
Accounts receivable	2,967
Inventories	359
Prepays and other	364
Property and equipment, net	6,385
Intangible assets, net	5,040
Goodwill	10,996
Current assets disposed	\$ 27,114
Accounts payable and accrued liabilities	\$ 125
Current liabilities disposed	\$ 125

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

(c) **Disposition of Home Security Business**

On October 21, 2022, we signed a definitive agreement and closed the sale of our home security business for gross proceeds of \$7.6 million in cash. The home security business is part of our Enterprise Solutions reportable segment. Pursuant to the transaction, 9 employees, who are all located in the United States, will become employees of the purchaser.

The assets and liabilities held for sale were as follows:

	September 30, 2022
Accounts receivable	\$ 285
Goodwill	2,142
Current assets held for sale	\$ 2,427
Accounts payable and accrued liabilities	\$ 175
Deferred revenue	109
Current liabilities held for sale	\$ 284

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

5. SEGMENTED INFORMATION

We disaggregate our revenue from contracts with customers into reportable segments (see consolidated statements of operations and comprehensive loss), type and geographical region.

IoT Solutions

Our IoT Solutions segment includes our cellular wireless IoT module solutions, IoT connectivity services, and embedded broadband solutions.

Enterprise Solutions

Our Enterprise Solutions include our range of Sierra Wireless AirLink routers, IoT gateways, IoT applications and advanced network management, managed connectivity services, and mobility applications.

As our chief operating decision maker does not evaluate the performance of our operating segments based on segment assets, management does not present asset information on a segmented basis.

REVENUE BY TYPE

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
Product	\$137,099	\$47,207	\$431,689	\$219,191
Connectivity, software, and services	28,957	35,243	95,275	104,106
	<u>\$166,056</u>	<u>\$82,450</u>	<u>\$526,964</u>	<u>\$323,297</u>

REVENUE BY GEOGRAPHICAL REGION

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
Americas	\$ 65,400	\$39,900	\$ 211,111	\$145,205
Europe, Middle East and Africa	30,917	13,332	83,282	55,235
Asia-Pacific	69,739	29,218	232,571	122,857
	<u>\$166,056</u>	<u>\$82,450</u>	<u>\$526,964</u>	<u>\$323,297</u>

We sell certain products through resellers, original equipment manufacturers and wireless service providers, who sell these products to end-users. We did not have any customers during the three and nine months ended September 30, 2022 or 2021 that accounted for more than 10% of total revenue. We had one customer as at September 30, 2022 that accounted for 19% of total Trade Accounts Receivable and no customers as at December 31, 2021 that accounted for more than 10% of total Trade Accounts Receivable. We had no customers as at September 30, 2022 that accounted for more than 10% of total Contract Assets and one customer as at December 31, 2021 that accounted for 23% of total Contract Assets.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

6. RESTRUCTURING

On April 30, 2019, we announced certain initiatives related to the acceleration of our transformation to a Device-to-Cloud IoT solutions company. During the third quarter of 2020, we initiated actions to reduce our operating expenses, in conjunction with the expected closing of the sale of our Automotive Business in the fourth quarter of 2020. We implemented organizational changes, including consolidation of our engineering resources resulting in a reduction in our engineering team in Hong Kong. This initiative affected 148 employees in various locations and functions within the Company.

During the fourth quarter of 2021, we initiated changes to the executive leadership team and our global organizational structure to further streamline and improve the overall business performance of the company, impacting 80 employees globally. In addition, we enacted separate initiatives to enhance our efficiency, including our administrative function, in the year ended December 31, 2021 and the nine months ended September 30, 2022.

The following table provides the activity in the restructuring liability:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Balance, beginning of period	\$ 2,909	\$ 2,433	\$ 5,430	\$ 5,750
Expensed- continuing operations	2,140	369	9,859	4,663
Disbursements	(3,297)	(1,378)	(13,363)	(8,985)
Foreign exchange	(105)	(4)	(279)	(8)
	<u>\$ 1,647</u>	<u>\$ 1,420</u>	<u>\$ 1,647</u>	<u>\$ 1,420</u>
Classification:				
Accounts payable and accrued liabilities			1,647	1,420
			<u>\$ 1,647</u>	<u>\$ 1,420</u>
By restructuring initiative:				
April 2019			200	677
Q3 2020			16	320
Q4 2021			1,213	—
Other 2021			—	423
Other 2022			218	—
			<u>\$ 1,647</u>	<u>\$ 1,420</u>

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

The components of continuing operations expense for the three and nine months ended September 30 were as follows:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30,</i>	<i>2021</i>	<i>September 30,</i>	<i>2021</i>
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
April 2019	\$ 110	\$ (235)	\$ 582	\$ (235)
Q3 2020	—	433	—	3,893
Q4 2021	592	—	7,396	—
Other 2021	—	171	101	1,005
Other 2022	1,438	—	1,780	—
	<u>\$ 2,140</u>	<u>\$ 369</u>	<u>\$ 9,859</u>	<u>\$ 4,663</u>

7. **GOVERNMENT ASSISTANCE**

We are eligible for government subsidies from the Government of Canada and the U.S. Government.

In the three and nine months ended September 30, the Company recorded government assistance as follows:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30,</i>	<i>2021</i>	<i>September 30,</i>	<i>2021</i>
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Cost of sales	\$ —	\$ 2	\$ —	\$ 59
Sales and marketing	—	34	—	765
Research and development	—	113	—	1,859
Administration	33	19	66	550
	<u>\$ 33</u>	<u>\$ 168</u>	<u>\$ 66</u>	<u>\$ 3,233</u>
Government Assistance by Type				
Canada Emergency Wage Subsidy	\$ —	\$ 65	\$ —	\$ 2,888
Canada Emergency Rent Subsidy	—	103	—	260
Other COVID-19 related subsidies	33	—	66	85
	<u>\$ 33</u>	<u>\$ 168</u>	<u>\$ 66</u>	<u>\$ 3,233</u>

In the nine months ended September 30, the Company repaid \$2,658 of government subsidies received in 2021, which was recorded in *Accounts payable and accrued liabilities* in our consolidated balance sheets as at December 31, 2021.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

8. OTHER EXPENSE

The components of other expense for the three and nine months ended September 30, 2022 were as follows:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
Interest income	\$ (236)	\$ (8)	\$ (395)	\$ (71)
Interest expense	1,200	27	3,099	133
Discount fees (note 21(d))	40	38	88	96
Financing costs	80	168	292	225
Ransomware incident insurance recovery	2	(410)	(1,146)	(7,090)
Ransomware incident expense	—	681	—	9,029
Recognition of cumulative translation adjustments on dissolution of subsidiaries	754	—	1,571	—
Other	(1)	(33)	63	30
	<u>\$ 1,839</u>	<u>\$ 463</u>	<u>\$ 3,572</u>	<u>\$ 2,352</u>

9. INCOME TAXES

Income tax expense of \$869 and \$3,581 in the three and nine months ended September 30, 2022, respectively, relate to corporate income tax resulting from ordinary business in various jurisdictions, and includes corporate income tax expense of \$568 resulting from the sale of Omnalink in the nine months ended September 30, 2022. Income tax recovery of \$1,912 and \$755 for the three and nine months ended September 30, 2021, respectively, included a tax recovery of \$2,378 from the impairment of the Swedish connectivity asset group.

10. STOCK-BASED PAYMENTS

Stock-based compensation expense:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
Cost of sales	\$ 39	\$ 60	\$ 98	\$ 245
Sales and marketing	927	337	3,185	2,646
Research and development	821	403	2,491	2,271
Administration	1,530	967	4,362	8,255
Continuing operations	<u>\$ 3,317</u>	<u>\$ 1,767</u>	<u>\$ 10,136</u>	<u>\$ 13,417</u>
Discontinued operations	—	—	—	587
	<u>\$ 3,317</u>	<u>\$ 1,767</u>	<u>\$ 10,136</u>	<u>\$ 14,004</u>
Stock option plan	\$ 120	\$ 299	\$ 588	\$ 1,096
Restricted stock plan	3,197	1,468	9,548	12,908
	<u>\$ 3,317</u>	<u>\$ 1,767</u>	<u>\$ 10,136</u>	<u>\$ 14,004</u>

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

As at September 30, 2022, the unrecognized compensation expense related to non-vested stock options and restricted share units was \$458 and \$21,177 (December 31, 2021 – \$1,211 and \$17,984), respectively, which is expected to be recognized over weighted average periods of 1.4 and 2.1 years (December 31, 2021 – 1.9 and 2.0 years), respectively.

Contingent upon close of the Transaction, each outstanding option will be deemed to be vested, assigned and surrendered by the holder to the Company in exchange for an amount in cash equal to \$31 (in U.S. dollars) less the applicable exercise price in respect of such option. Each outstanding restricted share unit shall be deemed vested and transferred to the Company for an amount in cash equal to \$31 (in U.S. dollars). The unrecognized compensation expense related to non-vested stock options and restricted share units will be accelerated contingent upon close of the Transaction.

Stock option plan

The following table presents stock option activity for the period:

<i>Number of Options</i>	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
Outstanding, beginning of period	284,066	950,116	774,201	1,361,111
Exercised	(67,010)	(34,589)	(251,045)	(298,207)
Forfeited/expired	(1,911)	(28,014)	(308,011)	(175,391)
Outstanding, end of period	215,145	887,513	215,145	887,513
Exercisable, beginning of period	162,357	600,535	538,145	826,756
Exercisable, end of period	117,316	598,235	117,316	598,235

Under the terms of the Company's Stock Option Plan (the "Plan"), the Board of Directors (the "Board") may authorize the grant of stock options to employees, officers and directors. The maximum number of shares issuable pursuant to the Plan is 9.7% of the number of issued and outstanding common shares from time to time, provided that in no event will more than 7,000,000 common shares be issued as "incentive stock options intended to qualify under Section 422 of the United States Internal Revenue Code". In addition, the maximum number of shares issuable pursuant to the Plan, together with any shares issuable pursuant to other security-based compensation arrangements, shall not exceed 9.7% of the number of issued and outstanding common shares from time to time.

The Plan provides that the exercise price of a stock option will be determined on the date of grant and will not be less than the closing market price of the Company's stock at that date. Stock options generally vest over four years, with the first 25% vesting at the first anniversary date of the grant and the balance vesting in equal amounts at the end of each full succeeding month thereafter. The Company determines the expiry date of each stock option at the time it is granted, which cannot be more than five years after the date of the grant.

The intrinsic value of outstanding and exercisable stock options is calculated as the stock market price of the stock at the balance sheet date, or date of exercise, less the exercise price of the stock option. The aggregate intrinsic value of stock options exercised in the three and nine months ended September 30, 2022 was \$901 and \$1,995, respectively (three and nine months ended September 30, 2021 - \$123 and \$1,046).

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

We did not issue any stock options in the three and nine months ended September 30, 2022 and 2021.

Restricted share plans

The following table summarizes the restricted share units ("RSUs") activity for the period:

<i>Number of RSUs</i>	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30,</i>	<i>2021</i>	<i>September 30,</i>	<i>2021</i>
Outstanding, beginning of period	1,781,240	3,553,053	2,943,015	3,791,283
Granted	—	169,509	665,849	952,273
Vested / settled	(66,111)	(80,069)	(1,279,764)	(856,488)
Forfeited	(29,862)	(292,508)	(666,921)	(538,653)
Added by performance factor	—	78,365	23,088	79,935
Outstanding, end of period	1,685,267	3,428,350	1,685,267	3,428,350
Outstanding – vested and not settled	200,631	565,936	200,631	565,936
Outstanding – unvested	1,484,636	2,862,414	1,484,636	2,862,414
Outstanding, end of period	1,685,267	3,428,350	1,685,267	3,428,350

We have a market based restricted share unit plan (the "RSU Plan") and a treasury based restricted share unit plan (the "Treasury Plan", and together with the RSU Plan, the "RSPs") with awards outstanding. The RSPs support our growth and profitability objectives by providing long-term incentives to employees and also encourage our objective of employee share ownership through the granting of RSUs. There is no exercise price or monetary payment required from the employees upon the grant of an RSU or upon the subsequent delivery of our common shares (or, in certain jurisdictions, cash in lieu at the option of the Company) to settle vested RSUs. The form and timing of settlement is subject to local laws.

At the Company's Annual General Meeting of Shareholders on June 2, 2022, shareholders approved a resolution to amend the Treasury Plan. The amendments permit the Board to accelerate the vesting of outstanding RSUs to U.S. Participants in certain circumstances. These amendments align the ability of the Board to accelerate the vesting of outstanding awards granted to US Participants with the existing ability of the Board to accelerate the vesting of awards for non-U.S. Participants.

The maximum number of shares issuable pursuant to outstanding awards under the Treasury Plan is 9.7% of the number of issued and outstanding shares from time to time. In addition, the maximum number of shares issuable pursuant to all of our security-based compensation arrangements is 9.7% of the number of issued and outstanding shares. With respect to the market-based RSP, independent trustees purchase Sierra Wireless common shares over the facilities of the Toronto Stock Exchange and Nasdaq, which are used to settle vested RSUs. The existing trust funds are variable interest entities and are included in these consolidated financial statements as treasury shares held for RSU distribution. As at September 30, 2022, there were 59,726 market RSUs outstanding.

Non-performance based RSUs vest over one to three years. RSUs vesting over one or two years cliff vest in one year or two years, respectively, and RSUs vesting over three years vest in equal amounts on each anniversary date of the grant. RSU grants to employees who are resident in France for French tax purposes vest over three years in equal amounts on each anniversary date, with the first tranche subject to a hold period of one year. In addition, certain grants issued to employees who are resident in France for French tax purposes will not vest before the second anniversary from the date of grant, and any shares issued are subject to an additional two year tax hold period.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

We include a performance-based component to certain grants of units under our RSPs ("PSUs"). We have two types of PSUs, depending on their performance-based metric. The first type of PSUs have a market condition and are measured against an external benchmark index, and cliff vest after three years. The fair value of these PSUs at date of grant are determined using the Monte Carlo simulation model. The second type of PSUs are measured against financial metrics that are determined by the Company in each fiscal year for the performance period. The determination of the number of awards that will be attained at vesting is based on achieving the financial metric target in each of three individual fiscal years. Each tranche contains an independent annual performance condition and cliff vest on the third anniversary date. Since the financial metric for each tranche is determined separately for each fiscal year in the performance period, each tranche has a separate grant date and the fair value of the PSUs is determined at each grant date using the Company's stock price on grant date adjusted for expected attainment with changes to expected attainment recorded in subsequent periods. As at September 30, 2022, 72,177 PSUs are considered issued but not yet granted and are excluded in the above RSU continuity table.

The aggregate intrinsic value of RSUs that vested and settled in the three and nine months ended September 30, 2022 was \$1,941 and \$24,699, respectively (three and nine months ended September 30, 2021 – \$1,257 and \$13,629).

II. EARNINGS (LOSS) PER SHARE

The following table provides the reconciliation between basic and diluted earnings (loss) per share:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30,</i>		<i>September 30,</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
Net earnings (loss)				
Net loss from continuing operations	\$ (10,344)	\$(38,406)	\$ (13,348)	\$(76,980)
Net earnings (loss) from discontinued operations	1,014	459	3,038	(778)
	\$ (9,330)	\$(37,947)	\$ (10,310)	\$(77,758)
Weighted average shares used in computation of:				
Basic	39,196	37,196	38,679	36,976
Diluted	39,196	37,196	38,679	36,976
Basic and diluted net earnings (loss) per share (in dollars):				
Continuing operations	\$ (0.26)	\$ (1.03)	\$ (0.35)	\$ (2.08)
Discontinued operations	0.03	0.01	0.08	(0.02)
	\$ (0.24)	\$ (1.02)	\$ (0.27)	\$ (2.10)

As the Company incurred losses for the three and nine months ended September 30, 2022 and 2021, all equity awards for these periods were anti-dilutive and were excluded from the diluted weighted average shares.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

12. ACCOUNTS RECEIVABLE

The movement in the allowance for expected credit losses during the nine months ended September 30, 2022 was as follows:

	<i>Nine months ended</i> <i>September 30, 2022</i>
Balance, beginning of period	\$ 2,581
Current-period provision for expected credit losses	833
Write-offs charged against allowance for credit losses	(44)
Recoveries of amounts previously written off	2
Disposed of in sale of Omnalink (note 4(b))	(88)
Reclassified to assets held for sale (note 4(c))	(282)
Foreign exchange	(104)
Balance, end of period	<u>\$ 2,898</u>

13. CONTRACT BALANCES

The following table provides the changes in contract balances:

	<i>September 30, 2022</i>	<i>December 31, 2021</i>	<i>Change</i>
Contract assets	\$ 1,603	\$ 2,290	\$ (687)
Deferred revenue - current	13,756	11,770	1,986
Deferred revenue - noncurrent	7,220	7,222	(2)

Contract assets are included in *Accounts receivable* in our consolidated balance sheets.

During the three and nine months ended September 30, 2022, \$2,467 and \$9,580, respectively, of deferred revenue was recognized in revenue that was included in the deferred revenue balance as at December 31, 2021 (three and nine months ended September 30, 2021 - \$2,069 and \$8,308).

14. INVENTORIES

The components of inventories were as follows:

	<i>September 30, 2022</i>	<i>December 31, 2021</i>
Electronic components	\$ 81,884	\$ 57,302
Finished goods	26,080	24,875
	<u>\$ 107,964</u>	<u>\$ 82,177</u>

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

15. PREPAIDS AND OTHER

The components of prepaids and other were as follows:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Inventory advances	\$ 43,111	\$ 16,631
Insurance and licenses	580	841
Deposits	2,907	2,821
Contract acquisition and fulfillment costs	650	1,746
Other	6,243	5,333
	<u>\$ 53,491</u>	<u>\$ 27,372</u>

In the three and nine months ended September 30, 2022, \$2,947 and \$3,831, respectively, of deferred contract acquisition and fulfillment costs were expensed to *Sales and marketing* and *Cost of sales* (three and nine months ended September 30, 2021 - \$435 and \$1,313).

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

16. INTANGIBLE ASSETS

During the three and nine months ended September 30, 2022, the Company recorded an impairment expense of nil and \$9,385, respectively, resulting from the decision to not develop additional products for our home security business in light of the shutdown of 2G/3G networks in the United States. Our home security asset group is part of our Enterprise Solutions reportable segment (see note 5). As the carrying value of the home security asset group was higher than the estimated fair value, which was based on expected future cash flows at the time the impairment calculation was performed, an impairment expense was recognized on the related patents and trademarks, customer relationships, brand, and research and development intangible assets. The fair value is a level 3 measurement which required significant judgment. The unobservable inputs include future assumptions about the revenue attrition rate and gross margin.

The components of intangible assets are as follows:

	As at September 30, 2022		
	Cost	Accumulated amortization	Net book value
Patents and trademarks	\$ 14,447	\$ 13,208	\$ 1,239
Licenses	51,344	46,872	4,472
Intellectual property	22,255	21,447	808
Customer relationships	102,883	79,565	23,318
Brand	5,271	4,343	928
Research and development	8,696	8,665	31
	<u>\$204,896</u>	<u>\$ 174,100</u>	<u>\$30,796</u>

	As at December 31, 2021		
	Cost	Accumulated amortization	Net book value
Patents and trademarks	\$ 15,576	\$ 14,226	\$ 1,350
Licenses	57,382	51,251	6,131
Intellectual property	30,125	27,466	2,659
Customer relationships	125,187	88,659	36,528
Brand	15,069	7,065	8,004
Research and development	9,982	9,946	36
	<u>\$253,321</u>	<u>\$ 198,613</u>	<u>\$54,708</u>

Estimated annual amortization expense for the next 5 years ended December 31 is as follows:

Remaining 2022	\$2,484
2023	7,363
2024	6,227
2025	4,278
2026	3,965

The weighted-average remaining useful lives of intangible assets was 4.0 years as at September 30, 2022.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The components of accounts payable and accrued liabilities were as follows:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Trade payables and accruals	\$ 99,965	\$ 108,741
Inventory commitment reserve	6,656	3,783
Accrued royalties	12,885	9,456
Accrued payroll and related liabilities	20,667	18,956
Professional services	13,838	8,309
Taxes payable (including sales taxes)	6,860	4,148
Product warranties (note 22 (a)(iii))	4,749	4,510
Sales credits	22,153	14,154
Restructuring liability (note 6)	1,647	5,430
Operating lease liabilities	1,745	2,132
Finance lease liabilities	9	19
Other	843	3,891
	<u>\$ 192,017</u>	<u>\$ 183,529</u>

18. LONG-TERM OBLIGATIONS

The components of long-term obligations were as follows:

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Accrued royalties	\$ 25,018	\$ 31,575
Deferred revenue	7,220	7,222
Finance lease liabilities	16	49
Other	3,445	3,962
	<u>\$ 35,699</u>	<u>\$ 42,808</u>

Remaining performance obligations

As at September 30, 2022, we had \$51,244 of remaining performance obligations to be recognized (December 31, 2021 - \$34,217), of which we expect to recognize approximately 7% in 2022 and 60% in 2023, and 33% in subsequent years.

We do not disclose the value of remaining performance obligations for: (i) contracts with an original expected length of one year or less, and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

19. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes by component in accumulated other comprehensive loss, net of taxes, were as follows:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	<i>September 30,</i>	<i>2021</i>	<i>September 30,</i>	<i>2021</i>
Balance, beginning of period	\$(11,072)	\$(7,247)	\$ (8,732)	\$(5,580)
Foreign currency translation adjustments	1,461	717	3,469	1,179
Recognition of cumulative translation adjustments on dissolution of subsidiaries	754	—	1,571	—
Loss on long term intercompany balances	(3,514)	(1,677)	(8,679)	(3,806)
Balance, end of period	<u>\$(12,371)</u>	<u>\$(8,207)</u>	<u>\$(12,371)</u>	<u>\$(8,207)</u>

20. FAIR VALUE MEASUREMENT

Fair value presentation

An established fair value hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. There are three levels of inputs that may be used to measure fair value:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities, such as quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Inputs that are generally unobservable and are supported by little or no market activity and that are significant to the fair value determination of the assets or liabilities.

The carrying value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, and secured borrowing approximate their fair value due to the immediate or short-term maturity of these financial instruments. Based on borrowing rates currently available to us for loans with similar terms, the carrying values of our obligations under capital leases, and long-term obligations approximate their fair values.

Long-term debt is carried at amortized cost. Incremental costs and fees that are directly attributable to the long-term debt are initially recognized as a deferred charge (i.e. asset). When debt is recognized as a liability at the initial date, the carrying amount of the deferred charge is re-classified as a reduction of the initial proceeds of the debt and amortized to interest expense over the term of the loan. The carrying value of our Loan approximates its fair value and the fair value of our Subordinate Facility is \$42,941 as at September 30, 2022 (see note 21(b)). The measurement is categorized within Level 3 of the fair value hierarchy.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

Derivatives, such as foreign currency forward and options contracts, may be used to economically hedge the foreign exchange risk on cash flows from commitments denominated in a foreign currency. Derivatives are recorded in *Accounts receivable* or *Accounts payable and accrued liabilities* and measured at fair value at each balance sheet date. Any resulting gains and losses from changes in the fair value are recorded in *Foreign exchange gain (loss)*.

Fair value of the foreign currency forward and options contracts are based on observable market inputs such as forward rates in active markets, which represents a Level 2 measurement within the fair value hierarchy.

As at September 30, 2022, we were committed to foreign currency forward contracts totaling \$13.5 million (December 31, 2021 - \$25.5 million) Canadian dollars to purchase Canadian dollars with an average forward rate of 1.2722 maturing between October and December 2022. We recorded unrealized loss of \$584 and \$993 in *Foreign exchange gain (loss)* for those outstanding contracts in the three and nine months ended September 30, 2022, respectively (three and nine months ended September 30, 2021 - unrealized loss of \$233 and \$530).

21. FINANCIAL INSTRUMENTS

(a) Revolving Facility

We have a committed senior secured revolving credit facility (the "Revolving Facility") with the Canadian Imperial Bank of Commerce ("CIBC") as sole lender and as Administrative Agent. The total borrowing capacity under the Revolving Facility is \$30 million. The Revolving Facility matures on April 30, 2023 and may be used for general corporate purposes, including, but not limited to, capital expenditures, working capital requirements and/or certain acquisitions permitted under the Revolving Facility. Borrowings under the Revolving Facility may bear interest at US Base Rate or LIBOR plus applicable margin. Effective January 1, 2022, all references to LIBOR are replaced with the Secured Overnight Financing Rate ("SOFR"). The Revolving Facility contains customary affirmative, negative and financial covenants, including restrictions on dividend payments while the Revolving Facility is drawn. A waiver of certain financial covenants was received on January 19, 2022 and is valid through December 31, 2022. Availability under the amended Revolving Facility is subject to a borrowing base effective January 19, 2022. As at September 30, 2022, there were \$nil outstanding borrowings under the Revolving Facility (December 31, 2021 - \$nil).

Contingent upon close of the Transaction, all outstanding commitments under the Revolving Facility will be terminated.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

(b) Long-Term Debt

The movement in long-term debt during the nine months ended September 30, 2022 was as follows:

	Subordinate Facility	Loan	Total
Balance, beginning of period	\$ —	\$9,888	\$ 9,888
Proceeds, net of debt issuance costs	45,732	—	45,732
Capitalized interest expense	2,548	—	2,548
Foreign exchange	(3,899)	(852)	(4,751)
Balance, end of period	<u>\$ 44,381</u>	<u>\$9,036</u>	<u>\$53,417</u>
Classification:			
Current portion of long-term debt	\$ —	\$1,130	\$ 1,130
Long-term debt	44,381	7,906	52,287
	<u>\$ 44,381</u>	<u>\$9,036</u>	<u>\$53,417</u>

The table below presents the Company's contractual principal payments as at September 30, 2022 under the long-term debt:

Remaining 2022	\$ 452
2023	904
2024	904
2025	904
2026	50,714
	<u>\$53,878</u>

On September 29, 2021, we added a \$12.5 million Canadian dollar term loan facility (the "Loan") with CIBC. The Loan is backed by the Government of Canada under the Business Credit Availability Program; specifically, 80% of the principal of the Loan is guaranteed by the Business Development Bank of Canada ("BDC"). The Loan bears interest at CIBC's Prime Lending rate plus 2.50% per annum. Repayment is interest only for the first 12 months, followed by regular quarterly payments of principal based on a ten-year amortization schedule plus interest. The outstanding amount owing plus accrued interest and fees are repayable on the maturity date, September 29, 2026. Under the terms, the proceeds from the Loan are to be used to exclusively fund the operational cash flow needs of the Company, including normal scheduled principal and interest payments on the CIBC credit facilities. The Loan also includes restrictions on dividend payments while the Loan is drawn. In the three and nine months ended September 30, 2022, we recorded interest expense of \$173 and \$415, respectively.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

On January 19, 2022, the Company entered into a credit agreement for a new subordinate credit facility (the "Subordinate Facility") with CIBC and BDC (the "Subordinate Lenders"), pursuant to which the Subordinate Lenders agreed to make available to the Company a non-revolving term facility in the principal amount of up to Cdn \$60 million. This Subordinate Facility was fully drawn on January 21, 2022 and has a four year term, maturing on January 19, 2026. The Subordinate Facility bears an interest rate of 5.00% per annum for the first year which increases annually thereafter. In the second year the rate is the greater of, (i) the interest rate applicable to the operating loans under the Revolving Facility plus 1.00%; and (ii) 6.00% per annum. In the third year the rate is the greater of (i) the interest rate applicable to the operating loans under the Revolving Facility plus 2.00%; and (ii) 7.00% per annum. In the fourth year the rate is equal to the greater of (i) the interest rate applicable to the operating loans under the Revolving Facility plus 3.00%; and (ii) 8.00% per annum. During the first year, interest will be added to the principal amount and will be due and payable on the maturity date of the Subordinate Facility. After the first year, interest will be payable monthly. The Subordinate Facility is also subject to an upfront fee of 1.25% and an annual fee on outstanding borrowings in the amount of 1.00% on the first anniversary, 1.25% on the second anniversary and 1.50% on the third anniversary. The Subordinate Facility also contains a mandatory repayment clause (the "Cash Sweep") stating that for the quarter ending December 31, 2022 and quarters thereafter, 50% of excess cash for the quarter including all cash and cash equivalents disclosed in the Company's quarterly consolidated financial statements, plus the unused portion of any availability under the Revolving Facility, less \$75 million, must be repaid against the outstanding principal, up to an annual cap of \$25 million. At each reporting date where the Cash Sweep provision is triggered, the portion of the debt repayable in accordance with the cash sweep provision will be classified as current. Excluding this Cash Sweep, pre-payments on this facility may be made without penalty beginning July 19, 2023. The Subordinate Facility contains customary affirmative, negative and financial covenants, including restrictions on dividend payments while the Subordinate Facility is drawn, and is secured under a general security agreement over our significant entities. On January 19, 2022, the Company received a waiver of certain financial covenants, which will remain in place through December 31, 2022.

On January 21, 2022, the Subordinate Facility was fully drawn for \$47,214 (Cdn\$60,000). Upon issuance, we paid an upfront fee to the lenders of \$590 and incurred other debt issuance costs of \$892. The debt issuance costs are being amortized using the interest method over the term of the Subordinate Facility and reported in interest expense. We initially recorded interest expense based on an effective interest rate on the Subordinate Facility of 7.7%. The effective interest rate was based on the minimum contractual interest rates and is subject to changes in the interest rates applicable as described above. Due to increases in the interest rates applicable to the Subordinate Facility, the effective interest rate at September 30, 2022 is 8.9%.

Contingent upon close of the Transaction, all outstanding commitments under the Loan and the Subordinate Facility will be terminated and all outstanding obligations repaid in full.

(c) Letters of credit

We have access to a standby letter of credit facility of \$1.5 million from Toronto Dominion Bank. The credit facility is used for the issuance of letters of credit and guarantees and is guaranteed by Export Development Canada. As of September 30, 2022, letters of credit issued against the revolving standby letter of credit facility were for a total value of \$1.25 million (December 31, 2021 - \$1.25 million).

(d) Accounts Receivables Purchase Agreement

We have an uncommitted Receivables Purchase Agreement (the "RPA") with CIBC, as purchaser, to increase our liquidity. Under the RPA, the Company may offer to sell certain eligible accounts receivable (the "Receivables") to CIBC, which may accept such offer, and purchase the offered Receivables. Under the RPA, up to \$75.0 million of Receivables may be sold and remain outstanding at any time. Receivables are sold at 100% face value less discount with a 10% limited recourse to the Company arising from certain repurchase events. The RPA is on an uncommitted basis with no expiry date and carries a discount rate of Canadian Dollar Offered Rate (for purchased Receivables in CAD) and SOFR (for purchased Receivables in USD) plus an applicable margin. For sales prior to those outstanding at September 30, 2022, the Company did not retain any interests in the Receivables, but continued to service and collect, in an administrative capacity, the Receivables on behalf of CIBC.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

Prior to September 30, 2022, the Company accounted for the sold Receivables as a sale in accordance with FASB ASC 860, *Transfers and Servicing*. Proceeds from the sale reflect the face value of the Receivables less discount fees charged by CIBC and one-time legal costs. The discount fees are recorded in *Other expense* in the Company's consolidated statements of operations. Net proceeds are classified under operating activities in the consolidated statements of cash flows.

Pursuant to the RPA, the Company sold and de-recognized \$nil and \$26,810 Receivables in the three and nine months ended September 30, 2022, respectively (three and nine months ended September 30, 2021 - \$32,114 and \$76,964). As at September 30, 2022, \$nil de-recognized Receivables remained outstanding to be remitted to CIBC (December 31, 2021 - \$11,960).

On September 30, 2022, due to the Transaction, the Company entered into a termination and repurchase agreement with CIBC to sell \$14,596 Receivables and repurchase on October 11, 2022 or such other date as the parties may agree ("Repurchase Date"). As at September 30, 2022, due to the termination and repurchase agreement, the Company maintained effective control over the sold \$14,596 Receivables, and the proceeds received from the sale, net of discount fees, of \$14,556 were recognized in our consolidated balance sheets as a secured borrowing. Subsequent to September 30, 2022, the Company has extended the Repurchase Date beyond the settlement dates of the Receivables and \$nil Receivables were repurchased from CIBC on October 11, 2022. Net proceeds are classified as financing activities in the consolidated statements of cash flows.

Discount fees, which are included in *Other expense* in the consolidated statements of operations, were \$40 and \$88 for the three and nine months ended September 30, 2022, respectively (three and nine months ended September 30, 2021 - \$38 and \$96).

22. COMMITMENTS AND CONTINGENCIES

(a) Contingent liability on sale of products

- (i) Under license agreements, we are committed to make royalty payments based on the sales of products using certain technologies. We recognize royalty obligations as determinable in accordance with agreement terms. Where agreements are not in place, we have recognized our current best estimate of the obligation under accrued liabilities and long-term obligations. When agreements are finalized or the obligation becomes statute barred, the estimate is revised accordingly.
- (ii) We are a party to a variety of agreements in the ordinary course of business under which we may be obligated to indemnify a third party with respect to certain matters. Typically, these obligations arise as a result of contracts for sale of our products to customers where we provide indemnification against losses arising from matters such as potential intellectual property infringements and product liabilities. The impact on our future financial results is not subject to reasonable estimation because considerable uncertainty exists as to the final outcome of any claims and whether claims will be made. To date, we have not incurred material costs related to these types of indemnifications.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

(iii) We accrue product warranty costs to provide for the repair or replacement of defective products. Our accrual is based on an assessment of historical experience and on management's estimates. Changes in the liability for product warranties were as follows:

	<i>Three months ended</i> <i>September 30, 2022</i>	<i>Nine months ended</i> <i>September 30, 2022</i>
Balance, beginning of period	\$ 6,202	\$ 4,510
Provisions	625	3,818
Expenditures	(2,034)	(3,483)
Reclassified to liabilities held for sale (notes 4(b) and 4(c))	(44)	(96)
Balance, end of period	<u>\$ 4,749</u>	<u>\$ 4,749</u>

(b) Other commitments

We have purchase commitments totaling approximately \$119,196 (December 31, 2021 - \$179,573), with certain contract manufacturers and suppliers under which we have committed to buy a minimum amount of designated products between October 2022 and March 2023. In certain of these agreements, we are required to acquire and pay for such products up to the prescribed minimum or forecasted purchases.

We have purchase commitments totaling approximately \$22,007 (December 31, 2021 - \$9,639) with certain mobile network operators under which we have committed to buy a minimum amount of wireless data and wireless data services between October 2022 and December 2024.

(c) Legal proceedings

We are from time to time involved in litigation, certain other claims and arbitration matters arising in the ordinary course of our business. We accrue for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. These accruals are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and technical experts and other information and events pertaining to a particular matter. To the extent there is a reasonable possibility (within the meaning of ASC 450, Contingencies) that the losses could exceed the amounts already accrued for those cases for which an estimate can be made, management believes that the amount of any such additional loss would not be material to our results of operations or financial condition.

In some instances, we are unable to reasonably estimate any potential loss or range of loss. The nature and progression of litigation can make it difficult to predict the impact a particular lawsuit will have on the Company. For instance, in the case of patent litigation, there are many reasons why we cannot make these assessments, including, among others, one or more of the following: in the early stage of a proceeding, the claimant is not required to specifically identify the manner in which the patent has allegedly been infringed; damages sought that are unspecified, unsupported, unexplained or uncertain; discovery not having been started or being incomplete; the complexity of the facts that are in dispute (e.g., the analysis of the patent and a comparison to the activities of the Company is a labor-intensive and highly technical process); the difficulty of assessing novel claims; the parties not having engaged in any meaningful settlement discussions; the possibility that other parties may share in any ultimate liability; and the often slow pace of patent litigation.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

We are required to apply judgment with respect to any potential loss or range of loss in connection with litigation. While we believe we have meritorious defenses to the claims asserted against us in our currently outstanding litigation, and intend to defend ourselves vigorously in all cases, in light of the inherent uncertainties in litigation there can be no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by us for those cases for which an estimate can be made. Losses in connection with any litigation for which we are not presently able to reasonably estimate any potential loss or range of loss could be material to our results of operations and financial condition.

On June 14, 2022, Denso Corporation, and several of its affiliates (collectively "Denso"), filed suit against us and several of our affiliates in Superior Court in San Diego County, California. Denso asserts eight claims, including claims for breach of express and implied warranties, equitable indemnification, negligent and intentional misrepresentation, unjust enrichment, promissory estoppel, and declaratory judgment, based on an alleged defect related to the GPS week number rollover date. Denso alleges that it incurred approximately \$84 million in damages and costs to implement a firmware update provided by our supplier in late 2018, before we disposed of the Automotive Business, to address the alleged product defect. Denso filed an amended complaint on September 23, 2022, asserting essentially the same eight claims. On October 24, 2022, we filed a motion (demurrer) seeking to dismiss certain claims alleged by Denso in their amended complaint. The case is at an early stage, and we intend to defend the claim vigorously.

We have been advised that Harman Becker Automotive Systems GmbH, and several of its affiliates (collectively "Harman"), filed suit against us in the District Court of Munich, Germany in June 2022. While we have not been served with any complaint, we understand that Harman is asserting claims based on an alleged defect related to the GPS week number rollover date. Harman alleges that it incurred approximately \$16 million in damages and costs to implement a firmware update provided by our supplier in late 2018, before we disposed of the Automotive Business, to address the alleged product defect. In the event we are served with a complaint in this matter, we intend to defend the claim vigorously.

Intellectual Property Indemnification Claims

We have been notified by certain of our customers in the following matter that we may have an obligation to indemnify them in respect of the products we supply to them:

In June 2019, Sisvel International S.A. and 3G Licensing S.A. (together, "First Suit Plaintiffs"), filed patent infringement lawsuits (the "First Suits") in the United States District Court for the District of Delaware against one or more of our customers alleging patent infringement with respect to a portfolio of 12 patents allegedly related to technology for 2G, 3G and 4G cellular communications networks. The Delaware court dismissed claims based on 6 of those 12 patents in February 2020 for at least one of our customers. In May 2020, the First Suit Plaintiffs together with Sisvel S.p.A. (collectively, the "Second Suit Plaintiffs") filed patent infringement lawsuits (the "Second Suits") in the United States District Court for the District of Delaware, against one or more of our customers alleging patent infringement with respect to an additional 9 patents allegedly related to technology for 3G and 4G cellular communications networks. The allegations in both lawsuits have been made in relation to certain of our customers' products, which may include products which utilize modules sold to them by us. Inter Partes Review ("IPR") petitions filed by us and others with the United States Patent and Trademark Office have been instituted with respect to 5 of the 6 remaining patents involved in the First Suits and 8 of the patents involved in the Second Suits. The Patent Trial and Appeal Board (the "PTAB") has issued written decisions invalidating or partially invalidating the challenged claims of 5 patents involved in the First Suits, which decisions are being appealed by the First Suit Plaintiffs. The PTAB has likewise so far issued decisions on 5 of the 8 patents involved in the Second Suits, invalidating all challenged claims of 4 of those patents and some of the challenged claims in the 5th patent. We have appealed the outcome of that 5th decision. Decisions with respect to the final 3 instituted petitions involving patents in the Second Suits are anticipated later this year or early 2023. Sisvel has stipulated to a stay of both the First Suits and the Second Suits pending the results of the IPR procedure. We do not admit that Sierra Wireless owes indemnity in response to any of the customer requests with respect to the above matters.

SIERRA WIRELESS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

Although there can be no assurance that an unfavorable outcome would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims made in the foregoing legal proceedings are without merit and intend to defend ourselves and our products vigorously in all cases.

We are engaged in certain other claims, legal actions and arbitration matters, all in the ordinary course of business, and believe that the ultimate outcome of these claims, legal actions and arbitration matters will not have a material adverse effect on our operating results, liquidity or financial position.

SEMTECH CORPORATION
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The unaudited pro forma condensed combined financial information is presented to illustrate the estimated pro forma effects of the acquisition of Sierra Wireless, Inc. (the "Seller" or "Sierra Wireless") by Semtech Corporation (the "Buyer", "Semtech", "Parent", or "Company") (the "Acquisition") and the related financing transactions which includes the amendment of our existing revolving credit facility under the Third Amendment and Restated Agreement (the "Restatement Agreement") entered into on September 26, 2022 (the "Revolving Credit Facility"), the borrowing under our term loan commitments provided for under the Credit Agreement (the "New Term Loan Facility") and proceeds from the issuance of the Convertible Senior Notes due 2027 which were issued on October 6, 2022 (the "Notes") (the "Financing", collectively with the Acquisition, the "Transactions").

The financial information for Semtech is based on a 52 or 53-week fiscal year ending on the last Sunday in January, while the financial information for Sierra Wireless is based on a 12-month fiscal year ending on December 31 of each year. The unaudited pro forma condensed combined balance sheet gives effect to the Transactions as if they had been completed as of October 30, 2022, and combines the condensed consolidated balance sheet of Semtech as of October 30, 2022 with the consolidated balance sheet of Sierra Wireless as of September 30, 2022.

The unaudited pro forma condensed combined statements of income give effect to the Transactions as if they had occurred on February 1, 2021, the beginning of Semtech's prior fiscal year. The unaudited pro forma condensed combined statement of income for the year ended January 30, 2022 combines the consolidated statement of income of Semtech for its fiscal year ended January 30, 2022 and the consolidated statement of operations of Sierra Wireless for its fiscal year ended December 31, 2021. The unaudited pro forma condensed combined statement of income for the nine months ended October 30, 2022 combines the condensed consolidated statement of income of Semtech for its nine month period ended October 30, 2022 and the consolidated statement of operations of Sierra Wireless for its nine month period ended September 30, 2022.

The historical financial statements of Semtech and Sierra Wireless have been adjusted in the accompanying unaudited pro forma condensed combined financial information to give estimated pro forma effect to the Transactions through the transaction accounting adjustments. Specifically, the unaudited pro forma condensed combined financial information classifies the Financing and other material transactions related to the Acquisition as "Transaction Accounting Adjustments – Other" and material transactions as described in the Arrangement Agreement (the "Purchase Agreement") as "Transaction Accounting Adjustments – Acquisition". The unaudited pro forma adjustments are based upon available information and certain assumptions that the Company's management believes are reasonable. The unaudited pro forma condensed combined financial information have been prepared in accordance with Article 11 of Regulation S-X as amended by the final rule, Release 33-10786, "Amendments to Financial Disclosures about Acquired and Disposed Businesses."

The unaudited pro forma condensed combined financial information and the accompanying notes are provided for informational and illustrative purposes only and should be read in conjunction with the following:

- The audited consolidated financial statements of Semtech as of and for the year ended January 30, 2022, and the related notes, included in Semtech's Annual Report on Form 10-K for the fiscal year ended January 30, 2022.
- The unaudited condensed consolidated financial statements of Semtech as of and for the nine months ended October 30, 2022, and the related notes, included in Semtech's Quarterly Report on Form 10-Q for the quarter ended October 30, 2022;
- The audited consolidated financial statements of Sierra Wireless as of and for the fiscal year ended December 31, 2021, and the related notes, included in Sierra Wireless's Annual Report on Form 40-F for the fiscal year ended December 31, 2021.
- The unaudited consolidated financial statements of Sierra Wireless as of and for the nine months ended September 30, 2022, and the related notes. Included in Sierra Wireless's Quarterly Report on Form 6-K for the nine months ended September 30, 2022.

Information regarding these pro forma adjustments is subject to risks and uncertainties that could cause actual results to differ materially from our unaudited pro forma condensed combined financial information. As a result, the unaudited pro forma condensed combined financial information is not indicative of what the combined company financial condition or results of operations would have been had the Transactions occurred at an earlier date or on the dates assumed. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial condition and results of operations of the Company. The actual results of the Company may differ significantly from those reflected in the unaudited pro forma condensed combined financial information.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
As of October 30, 2022 for Semtech and September 30, 2022 for Sierra Wireless
(\$ in thousands)

	Semtech as of October 30, 2022 <u>Historical</u>	Sierra Wireless as of September 30, 2022 (Note 3) <u>Reclassified</u>	Transaction Accounting Adjustments— Other (Note 6)	Transaction Accounting Adjustments— Acquisition (Note 6)	Pro Forma Combined
Assets					
Current assets:					
Cash and cash equivalents	\$ 617,801	\$ 126,042	\$ 1,159,986	(a) \$(1,400,779)	(a) \$ 503,050
Accounts receivable, less allowances	80,539	83,170	—	—	163,709
Inventories	111,083	107,964	—	—	219,047
Prepaid taxes	2,758	—	—	—	2,758
Assets held for sale	—	2,427	—	—	2,427
Other current assets	23,051	71,149	—	(650)	(j) 93,550
Total current assets	<u>835,232</u>	<u>390,752</u>	<u>1,159,986</u>	<u>(1,401,429)</u>	<u>984,541</u>
Non-current assets:					
Property, plant and equipment, net of accumulated depreciation	135,571	26,314	—	—	161,885
Deferred tax assets	24,898	1,097	—	20,219	(d) 46,214
Goodwill	350,306	139,471	—	802,747	(c) 1,292,524
Other intangible assets, net	3,708	30,796	—	183,984	(b) 218,488
Other assets	117,136	15,775	—	(908)	(j) 132,003
Total assets	<u>\$1,466,851</u>	<u>\$ 604,205</u>	<u>\$ 1,159,986</u>	<u>\$ (395,387)</u>	<u>\$ 2,835,655</u>
Liabilities and Equity					
Current liabilities:					
Accounts payable	\$ 45,072	\$ 99,965	\$ —	\$ —	\$ 145,037
Secured borrowing	—	14,556	—	—	14,556
Current portion of long-term debt, net	—	1,130	44,750	(e) (1,130)	(f) 44,750
Liabilities held for sale	—	284	—	—	284
Accrued liabilities	95,021	105,808	—	11,246	(h) 212,075
Total current liabilities	<u>140,093</u>	<u>221,743</u>	<u>44,750</u>	<u>10,116</u>	<u>416,702</u>

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
As of October 30, 2022 for Semtech and September 30, 2022 for Sierra Wireless
(\$ in thousands)

Non-current liabilities:							
Deferred tax liabilities	1,075	5,632	—	(5,871)	(d)	836	
Long term debt	455,113	52,287	1,149,011	(e)	(52,287)	(f)	1,604,124
Other long-term liabilities	77,973	49,754	—	—	—	—	127,727
Stockholders' equity:							
Common stock	785	478,280	—	(478,280)	(g)	785	
Treasury stock	(579,268)	(4)	—	4	(g)	(579,268)	
Additional paid-in capital	462,213	41,673	(27,840)	(i)	(41,673)	(g)	434,373
Retained earnings	909,253	(232,789)	(5,935)	(g)	160,233	(g)	830,762
Accumulated other comprehensive loss	(571)	(12,371)	—	—	12,371	(g)	(571)
Total stockholders' equity	792,412	274,789	(33,775)	(347,345)	—	—	686,081
Noncontrolling interest	185	—	—	—	—	—	185
Total equity	792,597	274,789	(33,775)	(347,345)	—	—	686,266
Total liabilities and equity	\$1,466,851	\$ 604,205	\$1,159,986	\$(395,387)			\$2,835,655

See the accompanying notes to the unaudited pro forma condensed combined financial information.

	Sierra Wireless Nine Months						
	Semtech Nine Months Ended October 30, 2022	Ended September 30, 2022 (Note 3)	Transaction Accounting Adjustments - Other	(Note 7)	Transaction Accounting Adjustments - Acquisition	(Note 7)	Pro Forma Combined
	Historical	Reclassified					
Net sales	\$ 589,021	\$ 526,964	\$ —		\$ —		\$1,115,985
Cost of sales	207,380	352,100	—		—		559,480
Amortization of acquired technology	—	—	—		29,650	(a)	29,650
Total cost of sales	207,380	352,100	—		29,650		589,130
Gross Profit	381,641	174,864	—		(29,650)		526,855
Operating costs and expenses:							
Selling, general and administrative	133,849	108,270	—		—		242,119
Impairment	—	10,299	—		—		10,299
Product development and engineering	114,551	51,619	—		—		166,170
Intangible amortization	3,096	9,352	—		248	(d)	12,696
Gain on sale of business	(18,313)	(9,179)	—		—		(27,492)
Total operating cost and expenses, net	233,183	170,361	—		248		403,792
Operating income (loss)	148,458	4,503	—		(29,898)		123,063
Interest expense	(11,465)	(3,099)	(60,327)	(e)	3,391	(e)	(71,500)
Non-operating income (loss), net	1,162	(11,171)	—		—		(10,009)
Investment impairments and credit loss reserves	376	—	—		—		376
Income (loss) before taxes and equity in net gains of equity method investments	138,531	(9,767)	(60,327)		(26,507)		41,930

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
For the Nine Months Ended October 30, 2022 for Semtech and September 30, 2022 for Sierra Wireless
(\$ in thousands, except share and per share amounts)

	Semtech Nine Months Ended October 30, 2022	Sierra Wireless Nine Months Ended September 30, 2022 (Note 3)	Transaction Accounting Adjustments – Other (Note 7)	Transaction Accounting Adjustments – Acquisition (Note 7)	Pro Forma Combined
	Historical	Reclassified			
Provision (benefit) for income taxes	26,415	3,581	(12,970)	(f)	(6,720) (f)
Net income (loss) before equity in net gains of equity method investments	112,116	(13,348)	(47,357)		(19,787)
Equity in net gains of equity method investments	271	—	—		—
Net income (loss)	\$ 112,387	\$ (13,348)	\$ (47,357)		\$ (19,787)
Net loss attributable to noncontrolling interest	(6)	—	—		—
Net income (loss) attributable to common stockholders	\$ 112,393	\$ (13,348)	\$ (47,357)		\$ (19,787)
Earnings (loss) per share:					
Basic	\$ 1.76				(g) \$ 0.50
Diluted	\$ 1.76				(g) \$ 0.50
Weighted average number of shares used in computing earnings per share:					
Basic	63,738				63,738
Diluted	64,040				64,040

See the accompanying notes to the unaudited pro forma condensed combined financial information.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
For the Year Ended January 30, 2022 for Semtech and December 31, 2021 for Sierra Wireless
(\$ in thousands, except share and per share amounts)

	Semtech Year Ended January 30, 2022	Sierra Wireless Year Ended December 31, 2021 (Note 3)	Transaction Accounting Adjustments - Other	Transaction Accounting Adjustments - Acquisition (Note 7)	Pro Forma Combined
	Historical	Reclassified			
Net sales	\$ 740,858	\$ 473,209	\$ —	\$ —	\$1,214,067
Cost of sales	274,777	316,410	—	790	(a) 591,977
Amortization of acquired technology	—	—	—	39,813	(a) 39,813
Total cost of sales	274,777	316,410	—	40,603	631,790
Gross profit	466,081	156,799	—	(40,603)	582,277
Operating costs and expenses:					
Selling, general and administrative	168,210	138,569	5,935	(c) 90,345	(c) 403,059
Impairment	—	12,285	—	—	12,285
Product development and engineering	147,925	68,425	—	8,560	(b) 224,910
Intangible amortization	4,942	17,066	—	(4,266)	(d) 17,742
Changes in the fair value of contingent earn-out obligations	(13)	—	—	—	(13)
Total operating cost and expenses, net	321,064	236,345	5,935	94,639	657,983
Operating income (loss)	145,017	(79,546)	(5,935)	(135,242)	(75,706)
Interest expense	(5,091)	(315)	(82,836)	(e) 661	(c) (87,581)
Non-operating income (loss), net	480	(8,865)	—	—	(8,385)
Investment impairments and credit loss reserves	(1,337)	—	—	—	(1,337)

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
For the Year Ended January 30, 2022 for Semtech and December 31, 2021 for Sierra Wireless
(\$ in thousands, except share and per share amounts)

	Semtech Year Ended January 30, 2022	Sierra Wireless Year Ended December 31, 2021 (Note 3)	Transaction Accounting Adjustments - Other	Transaction Accounting Adjustments - Acquisition	Pro Forma Combined
	Historical	Reclassified	(Note 7)	(Note 7)	
Income (loss) before taxes and equity in net gains of equity method investments	139,069	(88,726)	(88,771)	(134,581)	(173,009)
Provision (benefit) for income taxes	15,539	6	—	(14,296)	1,249
Net income (loss) before equity in net gains of equity method investments	123,530	(88,732)	(88,771)	(120,285)	(174,258)
Equity in net gains of equity method investments	2,115	—	—	—	2,115
Net income (loss)	\$ 125,645	\$ (88,732)	\$ (88,771)	\$ (120,285)	\$(172,143)
Net loss attributable to noncontrolling interest	(19)	—	—	—	(19)
Net income (loss) attributable to common stockholders	\$ 125,664	\$ (88,732)	\$ (88,771)	\$ (120,285)	\$(172,124)
Earnings (loss) per share:					
Basic	\$ 1.94				(g) \$ (2.66)
Diluted	\$ 1.92				(g) \$ (2.66)
Weighted average number of shares used in computing earnings per share:					
Basic	64,662				64,662
Diluted	65,565				64,662

Note 1 – Description of the Transactions***The Acquisition***

On August 2, 2022, Semtech, a Delaware corporation, Sierra Wireless, a corporation formed under the Canada Business Corporations Act, and 13548597 Canada Inc., a corporation formed under the Canada Business Corporations Act and wholly owned subsidiary of Semtech (the “Acquirer”), entered into an Arrangement Agreement (the “Purchase Agreement”). On January 12, 2023 (“Closing” or the “Closing Date”), pursuant to the Arrangement Agreement, Semtech acquired all of the issued and outstanding common shares of Sierra Wireless. Each common share of Sierra Wireless that was issued and outstanding as of the Closing was transferred to the Acquirer in consideration for the right to receive \$31.00 in cash per common share without interest (the “Per Share Consideration”). Additionally, in connection with the Acquisition, each Sierra Wireless equity award granted under Sierra Wireless’ historical equity compensation plans was converted into the right to receive the Per Share Consideration in an amount in which the equity awards convert into common shares.

In accordance with Generally Accepted Accounting Principles in the U.S. (“GAAP”), the purchase consideration is \$1,309.6 million as provided for in the Purchase Agreement. In connection with the Acquisition, the Company entered into certain financing transactions, including issuing the Notes, borrowing under a New Term Loan Facility and amendment of its existing Revolving Credit Facility.

The Financing

To fund a portion of the Acquisition, Semtech issued Notes for estimated gross proceeds of \$319.5 million. Concurrent with the pricing of the Notes, Semtech entered into convertible note hedge and warrant transactions, in which Semtech used \$27.8 million of the proceeds from the Notes to pay for the cost of the convertible note hedge transactions (after the cost is partially offset by the proceeds to Semtech from the sale of the warrant transactions). The convertible note hedge and warrant transactions have been accounted for as equity instruments. Separately and substantially concurrent with the consummation of the Acquisition, Semtech extended the maturity date of \$405.0 million of the total \$600.0 million commitment under the Revolving Credit Facility and borrowed a gross \$895.0 million under its New Term Loan Facility. Semtech used the remaining proceeds from the Notes, proceeds from borrowings under the New Term Loan Facility and available cash and cash equivalents to fund the settlement of Sierra Wireless’ existing debt, pay the Purchase Consideration, and pay related fees and expenses.

The unaudited pro forma condensed combined financial information give effect to the settlement of Sierra Wireless’ existing debt and issuances of new Semtech debt under the Financing.

Treatment of Sierra Wireless’ Historical Share-Based Compensation as a result of the Acquisition

Per the terms of the Purchase Agreement, equity awards granted under Sierra Wireless’ historical equity compensation plans were accelerated, became fully vested and were converted into the right to receive the Purchase Consideration for each share of Sierra Wireless common stock subject to such award (and in the case of stock options, less the applicable per share exercise price of such option). The fair value of the awards settled in cash associated with pre-acquisition services of Sierra Wireless’ employees represent a component of the preliminary total purchase consideration, whereas the remaining fair value of the awards settled in cash are excluded from the purchase consideration and is expensed in the post combination financial statements.

Note 2 – Basis of Presentation

Semtech and Sierra Wireless’ historical financial statements were prepared in accordance with U.S. GAAP and are presented in U.S. dollars. As discussed in Note 3, certain reclassifications were made to align the presentation of Sierra Wireless’ financial statements with those of Semtech. Semtech has determined that no material adjustments are necessary to conform Sierra Wireless’ accounting policies to the accounting policies used by Semtech.

The Acquisition will be accounted for as a business combination using the acquisition method of accounting under the provisions of ASC 805, *Business Combinations* (“ASC 805”), and using the fair value concepts defined in ASC 820, *Fair Value Measurements* (“ASC 820”). Under ASC 805, all assets acquired and liabilities assumed are recorded at their acquisition date fair value, while transaction costs associated with the business combination are expensed as incurred. The excess of acquisition consideration over the estimated fair value of assets acquired and liabilities assumed, if any, is allocated to goodwill. The determination of the fair values of the assets acquired and liabilities assumed (and the related determination of estimated useful lives of amortizable identifiable intangible assets) requires significant judgment and estimates. The estimates and assumptions used include the projected timing and amount of future cash flows and discount rates reflecting risk inherent in the future cash flows related to the business acquired. The allocation of the purchase price as reflected in the unaudited pro forma condensed combined financial information is based upon management’s preliminary estimates

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

of the fair market value of the assets acquired and liabilities assumed. This allocation of the purchase price depends upon certain estimates and assumptions, all of which are preliminary and, in some instances, are incomplete and have been made solely for the purpose of developing the unaudited pro forma condensed combined financial information. Any adjustments to the preliminary estimated fair value amounts could have a significant impact on the unaudited pro forma condensed combined financial information contained herein, and our future results of operations and financial position.

The unaudited pro forma condensed combined financial information does not include the realization of any cost savings from operating efficiencies, synergies or other restructuring activities which might result from the Acquisition.

Note 3 – Semtech and Sierra Wireless Reclassification Adjustments

Certain reclassification adjustments have been made to conform Sierra Wireless' historical financial statement presentation to Semtech's financial statement presentation. These reclassifications have no effect on previously reported total assets, total liabilities, stockholders' equity or income from operations of Semtech or Sierra Wireless.

(a) Refer to the table below for a summary of reclassification adjustments made to conform the presentation of Sierra Wireless' consolidated balance sheet as of September 30, 2022 with the presentation of Semtech's condensed combined balance sheet as of October 30, 2022.

Sierra Wireless' Historical Balance Sheet Line Items <i>(In thousands)</i>	Sierra Wireless Balances as of September 30, 2022	Reclassification	Sierra Wireless Balances as of September 30, 2022 Reclassified
Accounts receivable	\$ 100,828	\$ (17,658)	\$ 83,170
	Other current assets	53,491	71,149
Operating lease right-of-use assets	13,620	(13,620)	—
	Other assets	2,155	15,775
Accounts payable and accrued liabilities	192,017	(92,052)	99,965
Deferred revenue	13,756	(13,756)	—
	Accrued liabilities	—	105,808
Long-term obligations	35,699	(35,699)	—
Operating lease liabilities	14,055	(14,055)	—
	Other long-term liabilities	—	49,754

(b) Refer to the table below for a summary of adjustments made to conform the presentation of Sierra Wireless' consolidated statement of operations for the nine months ended September 30, 2022 with that of the presentation of Semtech's condensed combined statement of income for the nine months ended October 30, 2022.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Sierra Wireless' Historical Statements of Operations Line Items (In thousands)	Semtech's Historical Statements of Income Line Items	Sierra Wireless Nine Months Ended September 30, 2022	Reclassification	Sierra Wireless Nine Months Ended September 30, 2022 Reclassified
Revenue	Net sales	\$ —	\$ 526,964	\$ 526,964
IoT Solutions (revenue)		393,673	(393,673)	—
Enterprise Solutions (revenue)		133,291	(133,291)	—
Cost of sales	Cost of sales	—	352,100	352,100
IoT Solutions (cost of sales)		276,147	(276,147)	—
Enterprise Solutions (cost of sales)		75,953	(75,953)	—
Sales and marketing		55,586	(55,586)	—
Administration	Selling, general and administrative	32,241	76,029	108,270
Restructuring		9,859	(9,859)	—
Transaction costs		10,584	(10,584)	—
Foreign exchange (loss) gain		(10,698)	10,698	—
Other expense	Non-operating income, net	(3,572)	(7,599)	(11,171)
	Interest expense	—	(3,099)	(3,099)

(c) Refer to the table below for a summary of adjustments made to conform the presentation of Sierra Wireless' consolidated statement of operations for the fiscal year ended December 31, 2021 with the presentation of Semtech's consolidated statement of income for the year ended January 30, 2022.

Sierra Wireless' Historical Statements of Operations Line Items (In thousands)	Semtech's Historical Statements of Income Line Items	Sierra Wireless Year Ended December 31, 2021	Reclassification	Sierra Wireless Year Ended December 31, 2021 Reclassified
Revenue	Net sales	\$ —	\$ 473,209	\$ 473,209
IoT Solutions (revenue)		323,075	(323,075)	—
Enterprise Solutions (revenue)		150,134	(150,134)	—
Cost of sales	Cost of sales	—	316,410	316,410
IoT Solutions (cost of sales)		239,310	(239,310)	—
Enterprise Solutions (cost of sales)		77,100	(77,100)	—
Sales and marketing		75,971	(75,971)	—
Administration	Selling, general and administrative	50,104	88,465	138,569
Restructuring		12,255	(12,255)	—
Acquisition-related and integration		239	(239)	—
Foreign exchange (loss) gain		(7,480)	7,480	—
Other expense	Non-operating income, net	(1,700)	(7,165)	(8,865)
	Interest expense	—	(315)	(315)

Note 4 - Conforming Accounting Policies

Upon consummation of the Acquisition, Semtech performed a comprehensive review of the two companies' accounting policies. As a result of the review, Semtech did not identify any differences between the accounting policies of the two companies that would have a material impact on the unaudited pro forma condensed combined financial information. As a result, except for as discussed in Note 3 to reclassify certain balances presented in the historical financial statements of Sierra Wireless to conform their presentation to that of Semtech, the unaudited pro forma condensed combined financial information does not assume any adjustments to conform accounting policies.

Note 5 – Preliminary Purchase Price Allocation

(a) *GAAP Purchase Consideration*

The GAAP purchase consideration is as follows:

<i>GAAP Purchase Consideration (In thousands)</i>	<u>Amount</u>
Cash consideration paid to common shareholders	\$1,213,092
Cash consideration paid to holders of Sierra Wireless' equity compensation awards (1)	37,668
Total cash consideration paid to selling equity holders	\$1,250,760
Sierra Wireless debt settled at close (2)	58,791
GAAP purchase consideration	<u>\$1,309,551</u>

- (1) Represents the fair value of the awards settled in cash of \$2.2 million for the vested options and \$35.5 million for the portion of the unvested equity awards and related employer costs attributable to pre-acquisition services of Sierra Wireless' employees that are subject to acceleration per the terms of the Purchase Agreement. The remaining fair value of the awards settled in cash of \$45.7 million relates to the unvested portion of the equity awards and related employer costs attributable to the post-combination period and is included in share-based compensation expense in the unaudited pro forma condensed combined statement of income for the year ended January 30, 2022.
- (2) Represents the settlement of Sierra Wireless' existing debt on the Closing Date by Semtech. Refer to Note 6(f) for additional information related to the adjustment for the settlement of Sierra Wireless' existing debt as of September 30, 2022.

(b) *Preliminary Allocation of GAAP Purchase Consideration*

The preliminary allocation of the GAAP purchase consideration for assets to be acquired and liabilities assumed is provided throughout the notes of the unaudited pro forma condensed combined financial statements and is reflected in the pro forma balance sheet as of October 30, 2022 and the statements of operations for the year ended January 30, 2022 and the nine months ended October 30, 2022. The final valuation of such assets and liabilities is expected to be completed as soon as practicable subsequent to the Closing Date. Any necessary adjustments will be finalized within one year from the Closing Date. The following table provides a summary of the preliminary GAAP purchase consideration allocation by major categories of assets acquired and liabilities assumed based on Semtech management's preliminary estimate of their respective fair values:

<i>Preliminary Allocation of GAAP Purchase Consideration (In thousands)</i>	<u>Amount</u>
Total GAAP purchase consideration	\$1,309,551
Assets:	
Cash and cash equivalents	126,042
Accounts receivable	83,170
Inventories	107,964
Assets held for sale	2,427
Other current assets	70,499
Property, plant and equipment	26,314
Intangible assets	214,780
Deferred tax assets	21,555
Other assets	14,867

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Liabilities:	
Accounts payable	99,965
Secured borrowing	14,556
Liabilities held for sale	284
Accrued liabilities	135,726
Other long-term liabilities	49,754
Net assets acquired, excluding goodwill	<u>\$367,333</u>
Goodwill	<u>\$942,218</u>

Note 6 – Adjustments to the Unaudited Pro Forma Condensed Combined Balance Sheet

Pro forma adjustments to the accompanying unaudited pro forma condensed combined balance sheet as of October 30, 2022 are as follows:

(a) Reflects adjustment to cash and cash equivalents for the Financing, cash paid to acquire Sierra Wireless (refer to Note 5(a)—*Preliminary GAAP Purchase Consideration*), settlement of equity awards subject to accelerated vesting and cash bonus awards that were not a component of purchase consideration, and transaction costs that were paid in connection with the Acquisition by Semtech. The pro forma adjustment is calculated as follows:

<i>Cash and cash equivalents</i>	Amount
<i>(in thousands)</i>	
<i>Pro forma transaction accounting adjustments – other:</i>	
Cash from the Financing, net of issuance costs	\$ 1,193,761
Net cash paid for the convertible note hedge, less proceeds received for the related warrant transactions (1)	(27,840)
Cash payment related to Sierra Wireless' employees for severance upon the Closing (2)	(5,935)
Pro forma adjustment to cash and cash equivalents	<u>\$ 1,159,986</u>
<i>Pro forma transaction accounting adjustments – acquisition:</i>	
Transaction costs related to the Acquisition (3)	\$ (14,094)
Cash paid for the preliminary GAAP purchase consideration	(1,309,551)
Cash paid for Sierra Wireless awards subject to accelerated vesting that were excluded from the preliminary GAAP purchase consideration and a cash bonus paid at Acquisition close (4)	(47,311)
Settlement of Seller transaction costs	(29,823)
Pro forma adjustment to cash and cash equivalents	<u>\$(1,400,779)</u>

- (1) Refer to Note 6(i) for additional information related to the convertible note hedge and warrant transactions.
- (2) Includes cash paid for employer payroll taxes related to Severance payment
- (3) These costs consist of legal advisory, financial advisory, accounting, consulting costs, and other one-time costs incurred by Semtech and associated with the Acquisition with a corresponding decrease to accrued liabilities and retained earnings, see Note 6(g) and Note 6(h).
- (4) Adjustment includes the fair value of the unvested awards attributable to the post-combination period that are subject to acceleration per the terms of the Purchase Agreement and were settled in cash as well as the payment of a cash bonus paid to certain Sierra Wireless employees for post-acquisition services performed with a corresponding decrease to retained earnings.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

(b) Reflects the adjustment to step-up acquired intangible assets to their estimated acquisition-date fair values based upon a preliminary valuation. The pro forma adjustment is calculated as follows:

Intangible assets	Amount
<i>(In thousands)</i>	
<i>Pro forma transaction accounting adjustments – acquisition:</i>	
Intangible assets remeasured at fair value:	
Developed technology	\$152,780
Customer relationships	53,000
Trade name	9,000
Preliminary fair value of acquired intangibles	214,780
Elimination of Sierra Wireless' historical net book value of intangible assets	<u>(30,796)</u>
Pro forma adjustment to intangible assets	<u>\$183,984</u>

(1) The estimated useful lives for the Developed technology, Customer relationships, and Trade name range from 1-6, 2-10, and 2-10 years, respectively.

(c) Preliminary goodwill adjustment represents the elimination of historical goodwill and excess of the GAAP purchase consideration over the preliminary fair value of the underlying assets acquired and liabilities assumed. The actual amount of goodwill to be recorded in connection with the Acquisition is subject to change once the valuation of the fair value of tangible and intangible assets acquired and liabilities assumed has been completed.

Goodwill	Amount
<i>(In thousands)</i>	
<i>Pro forma transaction accounting adjustments – acquisition:</i>	
Goodwill per preliminary GAAP purchase consideration allocation (Note 5(b))	\$ 942,218
Elimination of Sierra Wireless' historical goodwill	<u>(139,471)</u>
Pro forma adjustment to goodwill	<u>\$ 802,747</u>

(d) Reflects deferred taxes resulting from the release of valuation allowance in certain jurisdictions, pro forma fair value adjustments primarily related to the acquired intangibles, and transaction costs based on the applicable statutory tax rate, net of valuation allowance. Because the tax rates used for the pro forma financial information are estimated, the blended rate will likely vary from the actual effective rate in periods subsequent to completion of the Acquisition. Additionally, the effective tax rate of the combined company could be significantly different (either higher or lower) depending on post-acquisition activities, including cash needs, the geographical mix of income and changes in tax law. This determination is preliminary and subject to change based upon the final determination of the valuation allowance, the fair value of the acquired assets and assumed liabilities and transaction costs.

(e) Reflects the issuance of the Notes and the New Term Loan Facility, net of unamortized issuance costs, to fund the Acquisition. The pro forma adjustment is calculated as follows:

Proceeds from the Financing	Amount
<i>(In thousands)</i>	
<i>Pro forma transaction accounting adjustments – other:</i>	
Net proceeds from Financing:	
New Term Loan Facility	\$ 895,000
Notes	319,500
Debt issuance costs related to the Financing (1)	<u>(20,739)</u>
Pro forma adjustment to debt	<u>\$1,193,761</u>
Pro forma transaction accounting adjustments – other to debt:	
Current portion of long-term debt, net	\$ 44,750
Long-term debt, net	<u>\$1,149,011</u>

(1) Reflects non-recurring costs that were incurred by Semtech and are directly attributable to the Financing. Refer to Note 6(a) that reflects the cash outflow of the costs incurred to obtain the borrowings under the New Term Loan Facility and the Revolving Credit Facility and proceeds from the Notes.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

(f) Reflects the settlement of historical Sierra Wireless' existing debt at Closing. The pro forma adjustment is calculated as follows:

Settlement of Historical Sierra Wireless' Debt	Amount
<i>(In thousands)</i>	
Pro forma transaction accounting adjustments – acquisition:	
To eliminate the current portion of long-term debt, net	\$ (1,130)
To eliminate the non-current portion of long-term debt, net	\$ (52,287)

(g) Reflects the elimination of Sierra Wireless' historical equity and other Buyer transaction accounting adjustments. The pro forma adjustments are calculated as follows:

Retained earnings	Amount
<i>(In thousands)</i>	
Pro forma transaction accounting adjustment – other:	
Severance payout in the form of a cash bonus paid upon the Closing (See Note 6(a))	\$ (5,935)
Pro forma adjustment to retained earnings	\$ (5,935)
Pro forma transaction accounting adjustments – acquisition:	
Elimination Sierra Wireless accumulated deficit	\$232,789
Cash paid for Sierra Wireless awards subject to accelerated vesting that were excluded from the GAAP purchase consideration (See Note 6(a))	(45,747)
Cash paid for a cash bonus settled upon the Closing (See Note 6(a))	(1,564)
Buyer transaction costs not paid or accrued for as of October 30, 2022	(21,584)
Employer payroll taxes related to accelerated vesting of awards excluded from the preliminary GAAP purchase consideration	(1,522)
D&O policy not accrued for as of October 30, 2022	(2,139)
Pro forma adjustment to retained earnings	\$160,233

(h) Reflects the impact to accrued liabilities for the settlement of Buyer transaction costs incurred prior to October 30, 2022 and settled in cash as of the Closing. The adjustment to accrued liabilities is net of the accrued Seller transaction costs assumed by Semtech and settled with cash as of the Closing, refer to Note 6(a). The pro forma adjustment is calculated as follows:

Adjustment to Accrued Liabilities	Amount
<i>(In thousands)</i>	
Pro forma transaction accounting adjustment – acquisition:	
Accrual of Buyer transaction costs	\$ 7,490
Payment of accrued Seller transaction costs	\$ (1,158)
Employer payroll taxes related to accelerated vesting of awards included in the preliminary GAAP purchase consideration	1,253
Employer payroll taxes related to accelerated vesting of awards included not in the preliminary GAAP purchase consideration	1,522
Accrual of costs related to directors' and officer's liability insurance	2,139
Pro forma adjustment to accrued liabilities	\$11,246

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

(i) Reflects the net impact to additional paid-in capital relating to the convertible note hedge and warrant transactions entered into in connection with the Notes. The convertible note hedge and warrant transactions have been accounted for as equity instruments.

(j) Reflects the elimination of Sierra Wireless' contract acquisition and fulfillment costs and other capitalized costs as a result of purchase accounting.

Note 7 – Pro Forma Adjustments to the Unaudited Condensed Combined Statements of Income

Adjustments included in the accompanying unaudited pro forma condensed combined statements of income for the nine months ended October 30, 2022 and the year ended January 30, 2022 are as follows:

(a) Reflects the adjustments to cost of sales to include (i) the estimated incremental amortization related to the step-up of developed technology intangibles, (ii) non-recurring incremental share-based compensation expense attributable to post-acquisition services for equity awards due to accelerated vesting as a result of the Acquisition, and (iii) non-recurring cash bonus awards paid attributable to post-acquisition services.

<i>Cost of sales</i> <i>(In thousands)</i>	For the Nine Months Ended October 30, 2022	For the Year Ended January 30, 2022
<i>Pro forma transaction accounting adjustments – acquisition:</i>		
Intangibles step-up (1)	\$ 29,650	\$ 39,813
Share-based compensation expense due to accelerated vesting attributable to post-acquisition services	—	761
Cash bonus awards attributable to post-acquisition services	—	29
Pro forma adjustment to cost of sales	<u>\$ 29,650</u>	<u>\$ 40,603</u>

(1) Reflects the adjustments to intangible amortization to record the anticipated amortization of developed technology based on the preliminary fair value.

(b) Reflects the adjustments to product development and engineering to include (i) non-recurring incremental share-based compensation expense attributable to post-acquisition services for equity awards due to accelerated vesting as a result of the Acquisition and (ii) non-recurring cash bonus awards paid attributable to post-acquisition services.

<i>Product development and engineering</i> <i>(In thousands)</i>	For the Nine Months Ended October 30, 2022	For the Year Ended January 30, 2022
<i>Pro forma transaction accounting adjustments – acquisition:</i>		
Share-based compensation expense due to accelerated vesting attributable to post-acquisition services	\$ —	\$ 8,236
Cash bonus awards attributable to post-acquisition services	—	324
Pro forma adjustment to product development and engineering	<u>\$ —</u>	<u>\$ 8,560</u>

(c) Reflects the adjustments to selling, general and administrative to include (i) non-recurring cash bonus awards paid attributable to post-acquisition services, (ii) non-recurring additional transaction costs incurred subsequent to the third fiscal quarter associated with the Acquisition, (iii) non-recurring incremental share-based compensation expense attributable to post-acquisition services for equity awards due to accelerated vesting as a result of the Acquisition, (iv) non-recurring employer payroll taxes related to accelerated vesting of awards excluded from the GAAP purchase consideration, and (v) non-recurring D&O policy expense

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

<i>(In thousands)</i>	For the Nine Months Ended October 30, 2022	For the Year Ended January 30, 2022
Selling, general and administrative		
<i>Pro forma transaction accounting adjustments – other:</i>		
Expense related to Sierra Wireless' employees receiving a severance payout in the form of a cash bonus	\$ —	\$ 5,935
Pro forma adjustment to selling, general and administrative	\$ —	\$ 5,935
<i>Pro forma transaction accounting adjustments – acquisition:</i>		
Transaction costs (1)	\$ —	\$ 50,249
Share-based compensation expense due to accelerated vesting attributable to post-acquisition services	—	30,733
Cash bonus awards attributable to post-acquisition services	—	1,209
Employer payroll taxes incurred as a result of accelerated vesting of share-based compensation expense and cash bonus awards attributable to post-acquisition services	—	6,015
D&O policy expense	—	2,139
Pro forma adjustment to selling, general and administrative	\$ —	\$ 90,345

(1) Represents transaction costs incurred by both Semtech and Sierra Wireless related to the Acquisition. These costs consist of legal advisory, financial advisory, accounting, consulting costs, and other one-time costs associated with the Acquisition.

(d) Reflects the adjustments to intangible amortization for the removal of historical amortization of intangibles and to record the anticipated amortization of the customer relationships and trade name intangibles based on their preliminary fair value. A sensitivity analysis on amortization expense for the year ended January 30, 2022 and the nine months ended October 30, 2022 has been performed to assess the effects a hypothetical 10% increase/(decrease) in the assumed fair value of the amortizable intangible assets, including the completed technology intangibles reflected in cost of sales, which would increase/(decrease) the assumed annual amortization expense by \$3.9 million for the nine months ended October 30, 2022 and \$5.3 million for the year ended January 30, 2022.

(e) Reflects the adjustments to record the estimated interest expense and amortization of the deferred financing costs related to the Financing as well as the removal of historical interest expense related to Sierra Wireless' existing debt to be settled at the Closing Date. The adjustment was calculated as follows:

<i>(In thousands)</i>	For the Nine Months Ended October 30, 2022	For the Year Ended January 30, 2022
Interest expense		
<i>Pro forma transaction accounting adjustments – other:</i>		
New interest expense related to the Financing (1)	\$ (55,092)	\$ (75,948)
Amortization of deferred financing costs related to the Financing (1)	(5,235)	(6,888)
Pro forma adjustments to interest expense	\$ (60,327)	\$ (82,836)
<i>Pro forma transaction accounting adjustments – acquisition:</i>		
Removal of interest expense related to the historical Sierra Wireless debt	\$ 3,391	\$ 661
Pro forma adjustments to interest expense	\$ 3,391	\$ 661

(1) Reflects the aggregate interest expense and amortization of debt issuance costs associated with the Financing. The estimated interest expense recognized in the unaudited pro forma condensed combined statement of operations reflects a weighted-average variable interest rate of 5.52% for the New Term Loan Facility, Notes, and Revolving Credit Facility. Actual interest may vary significantly from the estimated pro forma adjustments.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

(f) Reflects the non-recurring income tax impact of the pro forma adjustments utilizing the applicable statutory income tax rate for the relevant jurisdictions for which the pro forma adjustments relate. The effective tax rate of the combined company could be significantly different (either higher or lower) depending on activities following the consummation of the Acquisition, including cash needs, the geographical mix of income and changes in tax law.

(g) Reflects Semtech's pro forma combined basic and diluted earnings (loss) per share, which is adjusted to reflect the pro forma net income for the year ended January 30, 2022 and for the nine months ended October 30, 2022 as presented on the unaudited pro forma condensed combined statement of operations. The Notes and related warrants are assumed to be issued at or below the money and as a result they are not included in pro forma diluted earnings (loss) per share on an "if converted" basis