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

FORM 8-K

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): **October 6, 2022**

SEMTECH CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

001-06395	**95-2119684**
(Commission File Number)	(IRS Employer Identification No.)
200 Flynn Road **Camarillo, California**	**93012-8790**
(Address of principal executive offices)	(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 Symbol(s)	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. ☐

Item 7.01 Regulation FD Disclosure

On October 6, 2022, Semtech Corporation (the "Company") issued a press release announcing its intent to offer (the "Offering"), subject to market conditions and other factors, $250 million in aggregate principal amount of convertible senior notes due 2027 (the "Notes") in a private placement to eligible purchasers under Rule 144A of the Securities Act of 1933, as amended (the "Securities Act"). A copy of the press release is attached hereto as Exhibit 99.1 and is incorporated herein by reference. The Company intends to use a portion of the net proceeds of the Offering, if consummated, to fund a portion of the cash consideration for the acquisition of Sierra Wireless, Inc. ("Sierra Wireless").

In connection with the Offering, the Company is disclosing certain information to prospective investors, including:

(i) the audited consolidated financial statements of Sierra Wireless of and for the years ended December 31, 2021 and 2020, included as Exhibit 99.2 hereto;

(ii) the unaudited interim consolidated financial statements of Sierra Wireless as of June 30, 2022 and for the three and six month periods ended June 30, 2022 and 2021, included as Exhibit 99.3 hereto;

(iii) certain unaudited pro forma condensed combined financial information of the Company (including the unaudited pro forma condensed combined statement of income of and for the six months ended July 31, 2022 for the Company and June 30, 2022 for Sierra Wireless, the unaudited pro forma condensed combined statement of income for the year ended January 30, 2022 for the Company and December 31, 2021 for Sierra Wireless, the unaudited pro forma condensed combined balance sheet as of July 31, 2022 for the Company and June 30, 2022 for Sierra Wireless, and the notes to such unaudited pro forma condensed combined financial statements), included as Exhibit 99.4 hereto; and

(iv) certain excerpts of additional information shared with prospective investors in connection with the Offering, included as Exhibit 99.5 hereto.

The information disclosed under this Item 7.01 (including each of the Exhibits described under this Item 7.01) does not constitute an offer to sell, or a solicitation of an offer to buy, any of the Notes in the Offering or any other securities of the Company, and none of such information shall constitute an offer, solicitation or sale of securities in any state in which the offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of any such state. The Notes have not been registered under the Securities Act or any state securities law and may not be offered or sold in the United States absent registration or an applicable exemption from registration under the Securities Act and applicable state securities laws.

The information disclosed under this Item 7.01 (including each of the Exhibits described under this Item 7.01) is being furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and shall not be deemed incorporated by reference into any filing made under the Securities Act or the Exchange Act, except as expressly set forth by specific reference in such filing. The furnishing of this information pursuant to Item 7.01 shall not be deemed an admission by the Company as to the materiality of such information.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

No.	Document Description
99.1	Press release dated October 6, 2022
99.2	The audited consolidated financial statements of Sierra Wireless as of and for the years ended December 31, 2021 and 2020
99.3	The unaudited interim consolidated financial statements of Sierra Wireless as of June 30, 2022 and for the three and six month periods ended June 30, 2022 and 2021
99.4	Certain unaudited pro forma condensed combined financial information of the Company
99.5	Excerpts of additional information shared with prospective investors in connection with the Offering
104	The cover page from the Company's Current Report on Form 8-K formatted in Inline XBRL

SIGNATURE

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

		SEMTECH CORPORATION
Date: October 6, 2022	By:	/s/ Emeka N. Chukwu
	Name:	Emeka N. Chukwu
	Title:	Chief Financial Officer

Exhibit 99.1

SEMTECH

SEMTECH CORPORATION ANNOUNCES PROPOSED PRIVATE OFFERING OF $250 MILLION OF CONVERTIBLE SENIOR NOTES

CAMARILLO, CALIFORNIA OCTOBER 6, 2022 – Semtech Corporation (Nasdaq: SMTC) (the “Company” or “Semtech”) today announced that, subject to market conditions, it intends to offer $250 million in aggregate principal amount of convertible senior notes due 2027 (the “Notes”) in a private placement (the “Offering”) to eligible purchasers under Rule 144A of the Securities Act of 1933, as amended (the “Securities Act”). Semtech also intends to grant the initial purchaser of the Notes an option to purchase, for settlement within a 13-day period from, and including, the date on which the Notes are first issued, up to an additional $37.5 million aggregate principal amount of Notes. The Offering of the Notes is subject to market and other conditions, and there can be no assurance as to whether or when the Offering may be completed, or as to the actual size or terms of the Offering.

Semtech intends to use a portion of the net proceeds from the Offering to pay the cost of certain convertible note hedge transactions described below (after such cost is partially offset by the proceeds to Semtech from the sale of warrants in certain warrant transactions described below). If the initial purchaser exercises its option to purchase additional Notes, Semtech expects to sell additional warrants to the option counterparties and expects to use a portion of the net proceeds from the sale of additional Notes, together with the proceeds from the additional warrants, to enter into additional convertible note hedge transactions with the option counterparties.

Semtech intends to use the remainder of the net proceeds of the Offering, together with the borrowings under Semtech’s new term loan facility, revolving credit facility and available cash and cash equivalents, to finance the purchase price for Sierra Wireless, Inc. (“Sierra Wireless”) and to pay related fees and expenses in connection with the acquisition of Sierra Wireless (the “Acquisition”).

The Offering will be consummated prior to consummation of the Acquisition. If the Acquisition has not closed as of the close of business on March 3, 2023, or if, before such time, the arrangement agreement (“Arrangement Agreement”) with respect to the Acquisition is terminated or Semtech reasonably determines in good faith that the Acquisition will not be consummated, Semtech may, at its option, redeem all (but not less than all) of the Notes on a redemption date on or prior to July 3, 2023 in cash at a redemption price equal to 101% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date, plus a premium, if any, based on the price of Semtech’s common stock prior to the redemption date.

In the event the Acquisition is not consummated, Semtech will use the remainder of the net proceeds from the Offering (after paying the net cost of the convertible note hedge transactions, after such cost is partially offset by the proceeds to Semtech of the warrants under the warrant transactions) to fund a portion of the redemption price of the Notes (as described above) or for general corporate purposes.

The Notes will be senior, unsecured obligations of Semtech, and will accrue interest payable semiannually in arrears. Semtech will settle conversions by paying cash up to the aggregate principal amount of the Notes to be converted and paying or delivering, as the case may be, cash, shares of Semtech's common stock or a combination of cash and shares of Semtech's common stock, at Semtech's election, in respect of the remainder, if any, of Semtech's conversion obligation in excess of the aggregate principal amount of the Notes being converted, based on the then applicable conversion rate. The interest rate, the initial conversion rate and other terms of the Notes will be determined at the time of pricing of the Offering. The Notes will be jointly and severally and fully and unconditionally guaranteed on a senior unsecured basis by each of Semtech's current and future direct and indirect wholly-owned domestic subsidiaries that guarantee Semtech's borrowings under its senior credit facilities.

In connection with the pricing of the Notes, Semtech expects to enter into convertible note hedge transactions with the initial purchaser of the Notes or its affiliates and/or other financial institutions (the "option counterparties"). Semtech also expects to enter into warrant transactions with the option counterparties. The convertible note hedge transactions are expected generally to reduce potential dilution to Semtech's common stock upon any conversion of Notes and/or offset any cash payments Semtech is required to make in excess of the principal amount of converted Notes, as the case may be. However, the warrant transactions could separately have a dilutive effect on Semtech's common stock to the extent that the market price per share of Semtech's common stock exceeds the strike price of the warrants. If the initial purchaser of the Notes exercises its option to purchase additional Notes, Semtech expects to enter into additional convertible note hedge transactions and additional warrant transactions with the option counterparties.

In connection with establishing their initial hedges of the convertible note hedge and warrant transactions, Semtech is advised by the option counterparties or their respective affiliates that they expect to enter into various derivative transactions with respect to Semtech's common stock and/or purchase shares of Semtech's common stock concurrently with or shortly after the pricing of the Notes. This activity could increase (or reduce the size of any decrease in) the market price of Semtech's common stock or the Notes at that time.

In addition, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to Semtech's common stock and/or purchasing or selling Semtech's common stock or other securities of Semtech in secondary market transactions following the pricing of the Notes and prior to the maturity of the Notes (and are likely to do so in connection with any conversion of the Notes or redemption or repurchase of the Notes). This activity could also cause or avoid an increase or a decrease in the market price of Semtech's common stock or the Notes, which could affect the ability of noteholders to convert the Notes and, to the extent the activity occurs during any observation period related to a conversion of the Notes, it could affect the number of shares and value of the consideration, if any, that noteholders will receive upon conversion of the Notes.

Neither the Notes, the guarantees nor the shares of Semtech's common stock potentially issuable upon conversion of the Notes, if any, have been, or will be, registered under the Securities Act, the securities laws of any other jurisdiction or any state securities laws and, unless so registered, may not be offered or sold in the United States absent registration or an applicable exemption *from the registration requirements of the Securities Act and applicable state laws. The Notes will be offered and sold only to persons reasonably believed to be qualified institutional buyers in the United States pursuant to Rule 144A under the Securities Act. This news release is for informational purposes only and does not constitute an offer to sell, or a solicitation of an offer to buy, the Notes or the guarantees, nor shall there be any sale of the Notes or the guarantees in any state or jurisdiction in which such offer, solicitation or sale is unlawful. No assurance can be made that the Offering will be consummated on its proposed terms or at all.*

Investors & Communications Contacts:

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About Semtech Corporation

Semtech Corporation is a leading global supplier of high performance analog and mixed-signal semiconductors and advanced algorithms for infrastructure, high-end consumer and industrial equipment. Semtech's products are designed to benefit the engineering community as well as the global community. The Company is dedicated to reducing the impact it, and its products, have on the environment. Internal green programs seek to reduce waste through material and manufacturing control, use of green technology and designing for resource reduction. Publicly traded since 1967, Semtech is listed on the Nasdaq Global Select Market under the symbol SMTC.

Cautionary Statements

This press release contains "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, as amended, based on the Company's current expectations, estimates and projections about its operations, industry, financial condition, performance, results of operations, and liquidity. Forward-looking statements are statements other than historical information or statements of current condition and relate to matters such as the anticipated pricing and closing of the proposed Offering, future financial performance, future operational performance, the anticipated impact of specific items on future earnings, and the Company's plans, objectives and expectations. Statements containing words such as "may," "believe," "anticipate," "expect," "intend," "plan," "project," "estimate," "should," "will," "designed to," "projections," or "business outlook," or other similar expressions constitute forward-looking statements. Forward-looking statements involve known and unknown risks and uncertainties that could cause actual results and events to differ materially from those projected. Potential factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to: the failure to obtain regulatory approvals required for the closing of the Acquisition; the failure to satisfy the conditions to the closing of the Acquisition; the effect of the announcement of the Acquisition on the ability of the Company or Sierra Wireless to retain and hire key personnel and maintain business relationships with customers, suppliers and others with whom they each do business, or on the Company's or Sierra Wireless' operating results, the market price of Semtech's common stock and business generally; potential legal proceedings relating to the Acquisition and the outcome of any such legal proceeding; the inherent risks, costs and uncertainties associated with integrating the businesses successfully and risks of not achieving all or any of the anticipated benefits of the Acquisition, or the risk that the anticipated benefits of the Acquisition may not be fully realized or take longer to realize than expected; the occurrence of any event, change or other circumstances that could give rise to the termination of the Arrangement Agreement; the risk that the Acquisition will not be consummated within the expected time period, or at all; the uncertainty surrounding the impact and duration of supply chain constraints and any associated disruptions; the uncertainty surrounding the impact and duration of the COVID-19 pandemic; export restrictions and laws affecting the Company's trade and investments and tariffs or the occurrence of trade wars; worldwide economic and political disruptions, including as a result of inflation and the current conflict between Russia and Ukraine; competitive changes in the marketplace including, but not limited to, the pace of growth or adoption rates of applicable products or technologies; downturns in the business cycle; decreased average selling prices of the Company's products; the Company's reliance on a limited number of suppliers and subcontractors for components and materials; changes in projected or anticipated end-user markets; and the Company's ability to forecast and achieve anticipated net sales and earnings estimates in light of periodic economic uncertainty, including impacts arising from Asian, European and global economic dynamic; potential liabilities from litigation, third party claims, and/or regulatory investigations; operational impacts and/or liabilities from system failures, security breaches, and cyber-attacks; operational or other impacts from new laws and regulations impacting the business; and those factors set forth under "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2022 filed with the Securities and Exchange Commission (the "SEC") on March 16, 2022 and under "Risk Factors" in the Company's Quarterly Report on Form 10-Q for the quarterly period ended July 31, 2022 filed with the SEC on August 31, 2022, as such risk factors may be amended, supplemented or superseded from time to time by other reports the Company files with the SEC. In light of the significant risks and uncertainties inherent in the forward-looking information included herein that may cause actual performance and results to differ materially from those predicted, any such forward-looking information should not be regarded as representations or guarantees by the Company of future performance or results, or that its objectives or plans will be achieved, or that any of its operating expectations or financial forecasts will be realized. Reported results should not be considered an indication of future performance. Investors are cautioned not to place undue reliance on any forward-looking information contained herein, which reflect management's analysis only as of the date hereof. Except as required by law, the Company assumes no obligation to publicly release the results of any update or revision to any forward-looking statement that may be made to reflect new information, events or circumstances after the date hereof or to reflect the occurrence of unanticipated or future events, or otherwise.

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.

Valuation of IoT Solutions Goodwill

Description of the Matter

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.

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.

How We Addressed the Matter in Our Audit

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.

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.

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.

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.

/s/ Ernst & Young LLP
Chartered Professional Accountants

We have served as the Company's auditor since 2016.
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
		473,209		448,588
Cost of Sales				
IoT Solutions		**239,310**		219,771
Enterprise Solutions		**77,100**		70,066
		316,410		289,837
Gross margin		**156,799**		158,751
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
		236,345		246,787
Loss from operations		**(79,546)**		(88,036)
Foreign exchange (loss) gain		**(7,480)**		8,003
Other expense (note 10)		**(1,700)**		(2,027)
Loss before income taxes		**(88,726)**		(82,060)
Income tax expense (recovery) (note 11)		**6**		(11,909)
Net loss from continuing operations	**$**	**(88,732)**	$	(70,151)
Net (loss) earnings from discontinued operations (note 5(c))		**(285)**		20,810
Net loss	**$**	**(89,017)**	$	(49,341)
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of taxes of $nil		**(3,152)**		7,636
Comprehensive loss	**$**	**(92,169)**	$	(41,705)
Basic and diluted net earnings (loss) per share (in dollars) (note 13)				
Continuing operations	**$**	**(2.39)**	$	(1.93)
Discontinued operations		**(0.01)**		0.57
	$	**(2.40)**	$	(1.36)
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
Prepaids and other (note 17)	**27,372**	11,933
	271,743	284,747
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
	$ 547,053	$ 601,371
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**	—
	195,793	172,000
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
	269,399	244,958
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)
	277,654	356,413
	$ 547,053	$ 601,371

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					
	# of shares	$	# of shares	$	Additional paid-in capital	Retained deficit	Accumulated other comprehensive loss	Total
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
Prepaids 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.

SIERRA WIRELESS, INC.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of U.S. dollars, except where otherwise stated)

1. 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.

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.

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 *Prepaids 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.

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.

(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)*.

(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*.

(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.

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.

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.

(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.

(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.

(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.

(In thousands of U.S. dollars, except where otherwise stated)

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

Effect of adoption of ASC 326 on January 1, 2020	**Amount**
Continuing operations	**$ 917**
Discontinued operations	**(138)**
	$ 779

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.

(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:

		Amount
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	$	21,102

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:

	Estimated useful life		Amount
Customer relationships	10 years	$	14,646
Brand	5 years		1,418
		$	16,064

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.

(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:

		Amount
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	**$**	**4,005**

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:

	Estimated useful life		Amount
Customer relationships	**10 years**	**$**	**1,542**
Brand	**5 years**		**311**
		$	**1,853**

(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:

		Amount
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*.

(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	**$**	**(285)**	$	20,810

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	**$**	**(860)**	$	(4,196)

[(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.

(In thousands of U.S. dollars, except where otherwise stated)

REVENUE BY TYPE

		2021		2020
Revenue				
Product	**$**	**332,810**	$	332,544
Connectivity, software, and services[1]		**140,399**		116,044
	$	**473,209**	$	448,588

[1] *Previously called 'Recurring and other services'*

REVENUE BY GEOGRAPHICAL REGION

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

PROPERTY AND EQUIPMENT BY GEOGRAPHICAL REGION

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

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:

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

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.

(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
	$ 5,430	$ 5,750
Classification:		
Accounts payable and accrued liabilities (note 22)	5,430	5,750
	$ 5,430	$ 5,750
By restructuring initiative:		
April 2019	493	1,254
Q3 2020	120	4,496
Q4 2021	4,544	—
Other 2021	273	—
	$ 5,430	$ 5,750

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	—
	$ 12,255	$ 8,740

(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
	$ 8,790	$ 7,252

	2021	2020
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
	$ 8,790	$ 7,252

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)
	$ (1,700)	$ (2,027)

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)
	$ (88,726)	$ (82,060)

(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	**—**	—
	$ 36	$ (8,349)
Foreign:		
Current	**$ 3,564**	$ (2,410)
Deferred	**(3,594)**	(1,150)
	$ (30)	$ (3,560)
Total:		
Current	**$ 3,600**	$ (10,759)
Deferred	**(3,594)**	(1,150)
	$ 6	$ (11,909)

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)	**$ 6**	$ (11,909)

(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
	$ (5,103)	$ (9,123)

	2021	2020
Classification:		
Assets		
Non-current	**$ 1,268**	$ 1,135
Liabilities		
Non-current	**(6,371)**	(10,258)
	$ (5,103)	$ (9,123)

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

(In thousands of U.S. dollars, except where otherwise stated)

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.

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:

	2021	2020
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	**$ 3,627**	$ 4,474

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.

(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	$	19,247	$	17,953
Discontinued operations		587		1,987
		19,834		19,940
Stock option plan		1,359		2,361
Restricted stock plan		18,475		17,579
	$	19,834	$	19,940

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.

(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.

(In thousands of U.S. dollars, except where otherwise stated)

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

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options Outstanding	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**
	774,201	**1.5**	**18.16**	**538,145**	**20.50**

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 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, 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.

(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 In years	Aggregate Intrinsic Value $
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).

(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
	$	**(89,017)**	$	(49,341)
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
	$	**(2.40)**	$	(1.36)

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)
		66,257		49,582
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
	$	**85,310**	$	68,575

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
		3,631		3,892
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
	$	**2,581**	$	3,631

(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 (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
	$ 82,177	$ 32,815

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
	$ 27,372	$ 11,933

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

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**
	$ 108,742	**$ 77,608**	**$ 31,134**

	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
	$ 104,106	$ 72,694	$ 31,412

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.

(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**
	$ 253,321	**$ 198,613**	**$ 54,708**

	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
	$ 271,816	$ 193,735	$ 78,081

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.

(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
	$	**167,379**	$	175,545
IoT Solutions	**$**	**70,747**	$	78,418
Enterprise Solutions		**96,632**		97,127
	$	**167,379**	$	175,545

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**		—
		9,925		10,766
Sublease income		**(1,645)**		(1,534)
Total lease expenses	**$**	**8,280**	$	9,232

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.

(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	**$**	**17,165**	$	24,430
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	**$**	**2,201**
2023		**3,482**
2024		**2,055**
2025		**1,645**
2026		**1,614**
Thereafter		**8,314**
Total lease payments		**19,311**
Less: imputed interest		**(2,146)**
Total lease liabilities	**$**	**17,165**

(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
	$	**183,529**	$	162,138

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
	$	**42,808**	$	45,646

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	**$**	**(8,732)**	$	(5,580)

(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.

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.

(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**
	$	**9,888**

(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.

(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:

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

(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, unsupportable, 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.

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.

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 INCOME (LOSS)
(In thousands of U.S. dollars, except where otherwise stated)
(unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Revenue (note 5)				
IoT Solutions	**$ 139,678**	$ 90,309	**$ 273,386**	$ 164,887
Enterprise Solutions	**48,273**	42,476	**87,522**	75,960
	187,951	132,785	**360,908**	240,847
Cost of sales (note 5)				
IoT Solutions	**97,665**	65,884	**190,848**	118,376
Enterprise Solutions	**27,104**	20,670	**51,815**	38,513
	124,769	86,554	**242,663**	156,889
Gross margin	**63,182**	46,231	**118,245**	83,958
Expenses				
Sales and marketing	**18,115**	21,423	**36,132**	41,244
Research and development	**17,296**	16,930	**35,631**	34,414
Administration	**11,733**	11,097	**21,849**	27,405
Restructuring (note 6)	**3,715**	1,720	**7,719**	4,294
Impairment (notes 3 and 16)	**—**	—	**10,299**	—
Gain on sale of Omnilink (note 4(b))	**(9,179)**	—	**(9,179)**	—
Amortization	**2,900**	4,389	**6,720**	9,013
	44,580	55,559	**109,171**	116,370
Earnings (loss) from operations	**18,602**	(9,328)	**9,074**	(32,412)
Foreign exchange (loss) gain	**(5,355)**	1,143	**(7,633)**	(3,116)
Other expense (note 8)	**(650)**	(1,246)	**(1,733)**	(1,889)
Earnings (loss) before income taxes	**12,597**	(9,431)	**(292)**	(37,417)
Income tax expense (note 9)	**1,691**	605	**2,712**	1,157
Net earnings (loss) from continuing operations	**$ 10,906**	$ (10,036)	**$ (3,004)**	$ (38,574)
Net earnings (loss) from discontinued operations (note 4)	**793**	85	**2,024**	(1,237)
Net earnings (loss)	**$ 11,699**	$ (9,951)	**$ (980)**	$ (39,811)
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of taxes of $nil	**(1,914)**	1,233	**(2,340)**	(1,667)
Comprehensive income (loss)	**$ 9,785**	$ (8,718)	**$ (3,320)**	$ (41,478)
Basic and diluted net earnings (loss) per share (in dollars) (note 11)				
Continuing operations	**$ 0.28**	$ (0.27)	**$ (0.08)**	$ (1.05)
Discontinued operations	**0.02**	—	**0.05**	(0.03)
	$ 0.30	$ (0.27)	**$ (0.03)**	$ (1.08)
Weighted average number of shares outstanding (in thousands) (note 11)				
Basic	**38,770**	36,992	**38,439**	36,865
Diluted	**39,079**	36,992	**38,439**	36,865

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)

		June 30, 2022		*December 31, 2021*
Assets				
Current assets				
Cash and cash equivalents	**$**	**127,343**	$	76,784
Restricted cash		**77**		100
Accounts receivable (note 12)		**104,442**		85,310
Inventories (note 14)		**92,357**		82,177
Prepaids and other (note 15)		**52,252**		27,372
		376,471		271,743
Property and equipment, net		**25,757**		31,134
Operating lease right-of-use assets		**11,163**		14,348
Intangible assets, net (note 16)		**34,064**		54,708
Goodwill		**147,646**		167,379
Deferred income taxes		**1,186**		1,268
Other assets		**4,154**		6,473
	$	**600,441**	$	547,053
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (notes 4(a), 6, and 17)		**192,984**		183,529
Deferred revenue (note 13)		**12,320**		11,770
Current portion of long-term debt (note 21(b))		**971**		494
		206,275		195,793
Long-term obligations (notes 4(a) and 18)		**38,257**		42,808
Operating lease liabilities		**13,159**		15,033
Long-term debt (note 21(b))		**55,452**		9,394
Deferred income taxes		**6,022**		6,371
		319,165		269,399
Equity				
Shareholders' equity				
Common stock: no par value; unlimited shares authorized; issued and outstanding: 38,940,753 shares (December 31, 2021 - 37,774,800 shares)		**476,011**		460,331
Preferred stock: no par value; unlimited shares authorized; issued and outstanding: nil shares		**—**		—
Treasury stock: at cost; 1,026 shares (December 31, 2021 – 119,761 shares)		**(22)**		(2,128)
Additional paid-in capital		**39,678**		48,747
Retained deficit		**(223,319)**		(220,564)
Accumulated other comprehensive loss (note 19)		**(11,072)**		(8,732)
		281,276		277,654
	$	**600,441**	$	547,053

Commitments and contingencies (note 22)
Subsequent event (note 23)
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 six months ended June 30, 2022

	Common Stock		Treasury Stock					
	# of shares	$	# of shares	$	Additional paid-in capital	Retained deficit	Accumulated other comprehensive (loss)	Total
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

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

Three and six months ended June 30, 2021

	Common Stock		Treasury Stock					
	# of shares	$	# of shares	$	Additional paid-in capital	Retained deficit	Accumulated other comprehensive income/(loss)	Total
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

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)

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Cash flows provided by (used in):				
Operating activities				
Net earnings (loss)	**$11,699**	$(9,951)	**$(980)**	$(39,811)
Items not requiring (providing) cash				
Amortization	**4,741**	7,267	**11,425**	14,575
Stock-based compensation (note 10)	**3,753**	3,722	**6,819**	12,237
Capitalized interest expense (note 21(b))	**674**	—	**1,584**	—
Impairment (notes 3 and 16)	**—**	—	**10,299**	—
Gain on sale of Omnilink (note 4(b))	**(9,179)**	—	**(9,179)**	—
Deferred income taxes	**1**	(3)	**1**	(3)
Unrealized foreign exchange loss (gain)	**5,878**	(867)	**7,245**	4,161
Recognition of cumulative translation adjustments on dissolution of subsidiaries	**817**	—	**817**	—
Other	**27**	317	**445**	337
Changes in non-cash working capital				
Accounts receivable	**(18,228)**	3,548	**(23,954)**	(7,196)
Inventories	**(4,357)**	(12,703)	**(10,852)**	(14,235)
Prepaids and other	**(6,338)**	5,150	**(23,278)**	(11,084)
Accounts payable and accrued liabilities	**13,812**	18,541	**10,799**	5,495
Deferred revenue and other	**(687)**	235	**(2,323)**	396
Cash flows provided by (used in) operating activities	**2,613**	15,256	**(21,132)**	(35,128)
Investing activities				
Additions to property and equipment	**(5,280)**	(3,972)	**(7,729)**	(8,681)
Additions to intangible assets	**(202)**	(2,502)	**(875)**	(2,922)
Proceeds from sale of property and equipment	**12**	25	**23**	39
Proceeds from sale of Omnilink, net of transaction costs and cash sold (note 4(b)	**34,959**	—	**34,959**	—
Acquisition of M2M New Zealand, net of cash acquired	**—**	(319)	**—**	(319)
Cash flows provided by (used in) investing activities	**29,489**	(6,768)	**26,378**	(11,883)
Financing activities				
Issuance of common shares, net of issuance cost	**1,687**	799	**2,565**	3,601
Purchase of treasury shares for RSU distribution	**(2,443)**	(3,530)	**(2,443)**	(7,463)
Taxes paid related to net settlement of equity awards	**—**	(111)	**—**	(1,057)
Decrease in other long-term obligations	**(35)**	(66)	**(40)**	(102)
Proceeds from long-term debt, net of issuance cost (note 21(b))	**(50)**	—	**45,732**	—
Cash flows (used in) provided by financing activities	**(841)**	(2,908)	**45,814**	(5,021)
Effect of foreign exchange rate changes on cash and cash equivalents	**(1,282)**	672	**(524)**	(906)
Cash, cash equivalents and restricted cash, increase (decrease) in the period	**29,979**	6,252	**50,536**	(52,938)
Cash, cash equivalents and restricted cash, beginning of period	**97,441**	112,234	**76,884**	171,424
Cash, cash equivalents and restricted cash, end of period	**$ 127,420**	$ 118,486	**$ 127,420**	$ 118,486

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

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 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 outstanding shares of Sierra Wireless for cash of $31 per share (in U.S. dollars), subject to customary closing conditions (see note 23).

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 income (loss) for the three and six months ended June 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 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.

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.

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 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 is 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.

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 six months ended June 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 six months ended June 30, 2021. From *Acquisition-related and integration expense* we reclassified $72 and $281 for the three and six months ended June 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 $335 and $111 for the three and six months ended June 30, 2021, respectively, from *Expenses* to *Cost of Sales* to better reflect the nature of the expenses.

(In thousands of U.S. dollars, except where otherwise stated)

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, 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.

As at June 30, 2022, we retained $9,023 (December 31, 2021 — $11,165) royalty accruals relating to the Automotive Business of which $1,057 (December 31, 2021 — $1,082) is included in *Accounts payable and accrued liabilities* and $7,966 (December 31, 2021 — $10,083) is included in *Long-term obligations.* As at June 30, 2022, we retained product warranties of $1,778 (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 income (loss) and were as follows:

	Three months ended June 30,		*Six months ended June 30,*	
	2022	*2021*	***2022***	*2021*
Revenue	**$ —**	$ —	**$ —**	$ —
Cost of sales	**(788)**	(335)	**(1,838)**	(111)
Gross margin	**788**	335	**1,838**	111
(Recovery) Expenses	**(5)**	250	**(186)**	1,348
Earnings (loss) before income taxes	**793**	85	**2,024**	(1,237)
Income tax expense	**—**	—	**—**	—
Net earnings (loss) from discontinued operations	**$ 793**	$ 85	**$ 2,024**	$ (1,237)

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

	Three months ended June 30,		*Six months ended June 30,*	
	2022	*2021*	***2022***	*2021*
Cash flows provided by (used in) discontinued operations				
Net cash provided by (used in) operating activities	**$ 5**	$ (197)	**$ 189**	$ (1,228)
Net cash provided by (used in) discontinued operations	**$ 5**	$ (197)	**$ 189**	$ (1,228)

(b) Disposition of Omnilink Business

On April 15, 2022, we signed a definitive agreement with Sentinel Advantage LLC and closed the sale of our Omnilink offender monitoring business for $37.6 million in cash, subject to normal working capital adjustments (the "Sale Transaction"). As at June 30, 2022, working capital adjustment of $206 was recorded in *Accounts receivable* in our consolidated balance sheets. The Omnilink offender monitoring business was part of our Enterprise Solutions reportable segment. Pursuant to the Sale Transaction, 27 employees, who are all located in the United States, became employees of Sentinel Advantage LLC.

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

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

		Amount
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:

		April 15, 2022
Cash and cash equivalents	$	903
Restricted cash		100
Accounts receivable		2,967
Inventories		359
Prepaids 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

(In thousands of U.S. dollars, except where otherwise stated)

5. SEGMENTED INFORMATION

We disaggregate our revenue from contracts with customers into reportable segments (see consolidated statements of operations and comprehensive income (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 segment includes 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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Product	**$ 156,538**	$ 97,595	**$ 294,590**	$ 171,984
Connectivity, software, and services	**31,413**	35,190	**66,318**	68,863
	$ 187,951	$ 132,785	**$ 360,908**	$ 240,847

REVENUE BY GEOGRAPHICAL REGION

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Americas	**$ 79,895**	$ 57,863	**$ 145,711**	$ 105,305
Europe, Middle East and Africa	**25,839**	22,684	**52,365**	41,903
Asia-Pacific	**82,217**	52,238	**162,832**	93,639
	$ 187,951	$ 132,785	**$ 360,908**	$ 240,847

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 six months ended June 30, 2022 or 2021 that accounted for more than 10% of total revenue. We did not have any customers as at June 30, 2022 and December 31, 2021 that accounted for more than 10% of total Trade Accounts Receivable. We had one customer as at June 30, 2022 that accounted for 13% and one customer as at December 31, 2021 that accounted for 23% of total Contract Assets.

(In thousands of U.S. dollars, except where otherwise stated)

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 six months ended June 30, 2022.

The following table provides the activity in the restructuring liability:

	Three months ended June 30,		***Six months ended June 30,***	
	2022	*2021*	**2022**	*2021*
Balance, beginning of period	**$ 3,878**	$ 4,188	**$ 5,430**	$ 5,750
Expensed- continuing operations	**3,715**	1,720	**7,719**	4,294
Disbursements	**(4,557)**	(3,527)	**(10,066)**	(7,607)
Foreign exchange	**(127)**	52	**(174)**	(4)
	$ 2,909	$ 2,433	**$ 2,909**	$ 2,433
Classification:				
Accounts payable and accrued liabilities	**2,909**	2,433	**2,909**	2,433
	$ 2,909	$ 2,433	**$ 2,909**	$ 2,433
By restructuring initiative:				
April 2019	**555**	1,004	**555**	1,004
Q3 2020	**22**	1,006	**22**	1,006
Q4 2021	**2,332**	—	**2,332**	—
Other 2021	**—**	423	**—**	423
	$ 2,909	$ 2,433	**$ 2,909**	$ 2,433

(In thousands of U.S. dollars, except where otherwise stated)

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
April 2019	**$ 206**	$ —	**$ 472**	$ —
Q3 2020	**—**	886	**—**	3,460
Q4 2021	**3,167**	—	**6,804**	—
Other 2021	**—**	834	**101**	834
Other 2022	**342**	—	**342**	—
	$ 3,715	$ 1,720	**$ 7,719**	$ 4,294

7. GOVERNMENT ASSISTANCE

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

In the three and six months ended June 30, the Company recorded government assistance as follows:

	Three months ended June 30,		Six months ended June 30,	
	2022	*2021*	**2022**	*2021*
Cost of sales	**$ —**	$ 14	**$ —**	$ 57
Sales and marketing	**—**	249	**—**	731
Research and development	**—**	569	**—**	1,746
Administration	**22**	184	**33**	531
	$ 22	$ 1,016	**$ 33**	$ 3,065
Government Assistance by Type				
Canada Emergency Wage Subsidy	**—**	$ 1,002	**—**	$ 2,823
Canada Emergency Rent Subsidy	**—**	14	**—**	157
Other COVID-19 related subsidies	**22**	—	**33**	85
	$ 22	$ 1,016	**$ 33**	$ 3,065

In the three and six months ended June 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.

(In thousands of U.S. dollars, except where otherwise stated)

8. OTHER EXPENSE

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Interest income	**$ (118)**	$ (11)	**$ (159)**	$ (63)
Interest expense	**867**	64	**1,899**	106
Discount fees (note 21(d))	**33**	38	**48**	58
Financing costs	**70**	(11)	**212**	57
Ransomware incident insurance recovery	**(1,089)**	(2,463)	**(1,148)**	(6,680)
Ransomware incident expense	**—**	3,598	**—**	8,348
Recognition of cumulative translation adjustments on dissolution of subsidiaries	**817**	—	**817**	—
Other	**70**	31	**64**	63
	$ 650	$ 1,246	**$ 1,733**	$ 1,889

9. INCOME TAXES

Income tax expense of $1,691 and $2,712 in the three and six months ended June 30, 2022, respectively, is corporate income tax resulting from ordinary business in various jurisdictions (three and six months ended June 30, 2021 - $605 and $1,157) and includes corporate income tax expense of $568 resulting from the sale of Omnilink in the three months ended June 30, 2022.

10. STOCK-BASED PAYMENTS

Stock-based compensation expense:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Cost of sales	**$ 19**	$ 80	**$ 59**	$ 185
Sales and marketing	**1,317**	945	**2,258**	2,309
Research and development	**939**	809	**1,670**	1,868
Administration	**1,478**	1,888	**2,832**	7,288
Continuing operations	**$ 3,753**	$ 3,722	**$ 6,819**	$ 11,650
Discontinued operations	**—**	—	**—**	587
	$ 3,753	$ 3,722	**$ 6,819**	$ 12,237
Stock option plan	**$ 260**	$ 341	**$ 468**	$ 797
Restricted stock plan	**3,493**	3,381	**6,351**	11,440
	$ 3,753	$ 3,722	**$ 6,819**	$ 12,237

As at June 30, 2022, the unrecognized compensation expense related to non-vested stock options and restricted share units was $606 and $25,449 (December 31, 2021 – $1,211 and $17,984), respectively, which is expected to be recognized over weighted average periods of 1.5 and 2.3 years (December 31, 2021 – 1.9 and 2.0 years), respectively.

(In thousands of U.S. dollars, except where otherwise stated)

Stock option plan

The following table presents stock option activity for the period:

	Three months ended June 30,		Six months ended June 30,	
Number of Options	***2022***	*2021*	***2022***	*2021*
Outstanding, beginning of period	**477,752**	1,091,826	**774,201**	1,361,111
Exercised	**(122,497)**	(58,064)	**(184,035)**	(263,618)
Forfeited/expired	**(71,189)**	(83,646)	**(306,100)**	(147,377)
Outstanding, end of period	**284,066**	950,116	**284,066**	950,116
Exercisable, beginning of period	**284,264**	617,019	**538,145**	826,756
Exercisable, end of period	**162,357**	600,535	**162,357**	600,535

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 six months ended June 30, 2022 was $862 and $1,094 (three and six months ended June 30, 2021 - $181 and $923).

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

(In thousands of U.S. dollars, except where otherwise stated)

Restricted share plans

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

	Three months ended June 30,		Six months ended June 30,	
Number of RSUs	***2022***	*2021*	***2022***	*2021*
Outstanding, beginning of period	**1,811,551**	3,377,407	**2,943,015**	3,791,283
Granted	**665,849**	735,901	**665,849**	782,764
Vested / settled	**(614,767)**	(523,590)	**(1,213,653)**	(776,419)
Forfeited	**(93,636)**	(36,765)	**(637,059)**	(246,145)
Added by performance factor	**12,243**	100	**23,088**	1,570
Outstanding, end of period	**1,781,240**	3,553,053	**1,781,240**	3,553,053
Outstanding – vested and not settled	**233,258**	267,859	**233,258**	267,859
Outstanding – unvested	**1,547,982**	3,285,194	**1,547,982**	3,285,194
Outstanding, end of period	**1,781,240**	3,553,053	**1,781,240**	3,553,053

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 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 based restricted share unit plan (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 based restricted share unit 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 June 30, 2022, there were 250,316 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.

(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. 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 June 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 six months ended June 30, 2022 was $12,791 and $22,758, respectively (three and six months ended June 30, 2021 – $7,847 and $12,372).

11. EARNINGS (LOSS) PER SHARE

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

	Three months ended June 30,		***Six months ended June 30,***	
	2022	*2021*	***2022***	*2021*
Net earnings (loss)				
Net earnings (loss) from continuing operations	**$ 10,906**	$ (10,036)	**$ (3,004)**	$ (38,574)
Net earnings (loss) from discontinued operations	**793**	85	**2,024**	(1,237)
	$ 11,699	$ (9,951)	**$ (980)**	$ (39,811)
Weighted average shares used in computation of:				
Basic	**38,770**	36,992	**38,439**	36,865
Effect of dilutive securities:				
Stock options and RSUs	**309**	—	**—**	—
Diluted	**39,079**	36,992	**38,439**	36,865
Basic net earnings (loss) per share (in dollars):				
Continuing operations	**$ 0.28**	$ (0.27)	**$ (0.08)**	$ (1.05)
Discontinued operations	**0.02**	—	**0.05**	(0.03)
	$ 0.30	$ (0.27)	**$ (0.03)**	$ (1.08)
Diluted net earnings (loss) per share (in dollars):				
Continuing operations	**$ 0.28**	$ (0.27)	**$ (0.08)**	$ (1.05)
Discontinued operations	**0.02**	—	**0.05**	(0.03)
	$ 0.30	$ (0.27)	**$ (0.03)**	$ (1.08)

(In thousands of U.S. dollars, except where otherwise stated)

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

12. ACCOUNTS RECEIVABLE

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

		Six months ended June 30, 2022
Balance, beginning of period	**$**	**2,581**
Current-period provision (recoveries) for expected credit losses		**244**
Write-offs charged against allowance for credit losses		**(27)**
Recoveries of amounts previously written off		**2**
Disposed of in sale of Omnilink (note 4(b))		**(88)**
Foreign exchange		**(58)**
Balance, end of period	**$**	**2,654**

13. CONTRACT BALANCES

The following table provides the changes in contract balances:

		June 30, 2022		*December 31, 2021*		*Change*
Contract assets	**$**	**1,716**	$	2,290	$	(574)
Deferred revenue - current		**12,320**		11,770		550
Deferred revenue - noncurrent		**7,221**		7,222		(1)

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

During the three and six months ended June 30, 2022, $3,026 and $7,113 was recognized in revenue that was included in the deferred revenue as at December 31, 2021, respectively (three and six months ended June 30, 2021 - $2,702 and $6,239).

14. INVENTORIES

The components of inventories were as follows:

		June 30, 2022		*December 31, 2021*
Electronic components	**$**	**72,110**	$	57,302
Finished goods		**20,247**		24,875
	$	**92,357**	$	82,177

(In thousands of U.S. dollars, except where otherwise stated)

15. PREPAIDS AND OTHER

The components of prepaids and other were as follows:

	June 30, 2022	December 31, 2021
Inventory advances	**$ 38,849**	$ 16,631
Insurance and licenses	**946**	841
Deposits	**4,258**	2,821
Contract acquisition and fulfillment costs	**1,655**	1,746
Other	**6,544**	5,333
	$ 52,252	$ 27,372

In the three and six months ended June 30, 2022, $438 and $884, respectively, of deferred contract acquisition and fulfillment costs were expensed to *Sales and marketing* and C*ost of sales* (three and six months ended June 30, 2021 - $436 and $878).

16. INTANGIBLE ASSETS

During the three and six months ended June 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, 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 June 30, 2022		
	Cost	**Accumulated amortization**	**Net book value**
Patents and trademarks	**$ 14,871**	**$ 13,626**	**$ 1,245**
Licenses	**53,725**	**48,679**	**5,046**
Intellectual property	**22,178**	**21,460**	**718**
Customer relationships	**107,079**	**81,280**	**25,799**
Brand	**5,598**	**4,361**	**1,237**
Research and development	**9,201**	**9,182**	**19**
	$ 212,652	**$ 178,588**	**$ 34,064**

(In thousands of U.S. dollars, except where otherwise stated)

	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
	$ 253,321	$ 198,613	$ 54,708

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

Remaining 2022	$ 4,303
2023	7,995
2024	6,812
2025	4,303
2026	3,909

The weighted-average remaining useful lives of intangible assets was 5.1 years as at June 30, 2022.

17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	June 30, 2022	*December 31, 2021*
Trade payables and accruals	**$ 107,067**	$ 108,741
Inventory commitment reserve	**3,495**	3,783
Accrued royalties	**10,734**	9,456
Accrued payroll and related liabilities	**21,124**	18,956
Professional services	**9,137**	8,309
Taxes payable (including sales taxes)	**6,123**	4,148
Product warranties (note 22 (a)*(iii)*)	**6,202**	4,510
Sales credits	**23,702**	14,154
Restructuring liability (note 6)	**2,909**	5,430
Operating lease liabilities	**1,448**	2,132
Finance lease liabilities	**9**	19
Other	**1,034**	3,891
	$ 192,984	$ 183,529

(In thousands of U.S. dollars, except where otherwise stated)

18. LONG-TERM OBLIGATIONS

The components of long-term obligations were as follows:

		June 30, 2022		December 31, 2021
Accrued royalties	**$**	**27,485**	$	31,575
Deferred revenue		**7,221**		7,222
Finance lease liabilities		**18**		49
Other		**3,533**		3,962
	$	**38,257**	$	42,808

Remaining performance obligations

As at June 30, 2022, we had $35,177 of remaining performance obligations to be recognized (December 31, 2021 - $34,217), of which we expect to recognize approximately 19% in 2022 and 60% in 2023, and 21% 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.

19. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Three months ended June 30,				Six months ended June 30,			
		2022		2021		2022		2021
Balance, beginning of period	**$**	**(9,158)**	$	(8,480)	**$**	**(8,732)**	$	(5,580)
Foreign currency translation adjustments		**1,196**		359		**2,008**		462
Recognition of cumulative translation adjustments on dissolution of subsidiaries		**817**		—		**817**		—
(Loss) gain on long term intercompany balances		**(3,927)**		874		**(5,165)**		(2,129)
Balance, end of period	**$**	**(11,072)**	$	(7,247)	**$**	**(11,072)**	$	(7,247)

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 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 $45,343 as at June 30, 2022 (see note 21(b)). The measurement is categorized within Level 3 of the fair value hierarchy.

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 June 30, 2022, we were committed to foreign currency forward contracts totaling $29.5 million (December 31, 2021 - $25.5 million) Canadian dollars to purchase Canadian dollars with an average forward rate of 1.2722 maturing between July and December 2022. We recorded unrealized losses of $504 and $409 in *Foreign exchange gain (loss)* for those outstanding contracts in the three and six months ended June 30, 2022, respectively (three and six months ended June 30, 2021 - unrealized losses of $4 and $297).

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

(In thousands of U.S. dollars, except where otherwise stated)

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 June 30, 2022, there were $nil outstanding borrowings under the Revolving Facility (December 31, 2021 - $nil).

(b) Long-Term Debt

The movement in long-term debt during the six months ended June 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	1,584	—	1,584
Foreign exchange	(604)	(177)	(781)
Balance, end of period	$ 46,712	$ 9,711	$ 56,423
Classification:			
Current portion of long term debt	$ —	$ 971	$ 971
Long term debt	46,712	8,740	55,452
	$ 46,712	$ 9,711	$ 56,423

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

Remaining 2022	**$ 486**
2023	**971**
2024	**971**
2025	**971**
2026	**53,893**
	$ 57,292

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 six months ended June 30 2022, we recorded interest expense of $122 and $242, respectively.

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 prepayment clause (the "Cash Sweep") 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. 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 also recorded interest expense based on an effective interest rate on the Subordinate Facility of 7.7%. The effective interest rate is based on the minimum contractual interest rates and is subject to changes in the interest rates applicable as described above.

(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 June 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 ("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.

(In thousands of U.S. dollars, except where otherwise stated)

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 $15,000 and $26,810 Receivables in the three and six months ended June 30, 2022, respectively (three and six months ended June 30, 2021 - $30,252 and $44,850). As at June 30, 2022, $15,000 remained outstanding to be remitted to CIBC (December 31, 2021 - $11,960), including $77 we collected from Receivables that we previously sold and have not remitted to CIBC due to timing of settlement dates (December 31, 2021 - $nil). We recorded $77 in *Restricted cash* in the consolidated balance sheets with a corresponding increase in accrued liabilities. Discount fees, which are included in *Other expense* in the consolidated statements of operations, were $33 and $48 for the three and six months ended June 30, 2022, respectively (three and six months ended June 30, 2021 - $38 and $58).

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.

(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:

	Three months ended June 30, 2022	***Six months ended June 30, 2022***
Balance, beginning of period	**$ 4,991**	**$ 4,510**
Provisions	**1,965**	**3,193**
Expenditures	**(754)**	**(1,449)**
Reclassified to liabilities held for sale (note 4(b))	**—**	**(52)**
Balance, end of period	**$ 6,202**	**$ 6,202**

(b) Other commitments

We have purchase commitments totaling approximately $168,468 (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 July 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 have purchase commitments totaling approximately $24,092 (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 July 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, unsupportable, 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.

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. 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 (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. Decisions with respect to the 8 instituted petitions involving patents in the Second Suits are anticipated in the second half of 2022. 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.

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.

23. SUBSEQUENT EVENT

On August 2, 2022, we entered into the Arrangement Agreement with Semtech Corporation and the Purchaser pursuant to which the Purchaser will acquire all of the 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, will be carried out by way of a court-approved plan of arrangement under the Canada Business Corporations Act and will require the approval of at least (1) 66⅔% of the votes cast by Sierra Wireless shareholders, and (2) 66⅔% of the votes cast by Sierra Wireless security holders (comprised of shareholders, optionholders, restricted share unit holders and performance share unit holders), at a special meeting expected to be held to consider the Transaction. In addition to such approval by Sierra Wireless shareholders and security holders, the Transaction is also subject to court approval and regulatory approvals, including approval under the Canadian Competition Act and the United States Hard-Scott-Rodino Antitrust Improvements Act of 1976. Subject to the satisfaction of such conditions, the Transaction is expected to be completed by early 2023.

Exhibit 99.4

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 proposed 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 expected draw down of our existing revolving credit facility (the "Revolving Credit Facility"), the borrowing under our term loan commitments (the "New Term Loan") and proceeds from the issuance of the Convertible Senior Notes due 2027 (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 July 31, 2022, and combines the condensed consolidated balance sheet of Semtech as of July 31, 2022 with the consolidated balance sheet of Sierra Wireless as of June 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 six months ended July 31, 2022 combines the condensed consolidated statement of income of Semtech for its six month period ended July 31, 2022 and the consolidated statement of operations of Sierra Wireless for its six month period ended June 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 has not 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 six months ended July 31, 2022, and the related notes, included in Semtech's Quarterly Report on Form 10-Q for the quarter ended July 31, 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 Exhibit 99.2 of Semtech's Current Report on Form 8-K of which this Exhibit 99.4 forms a part; and

- The unaudited consolidated financial statements of Sierra Wireless as of and for the six months ended June 30, 2022, and the related notes, included in Exhibit 99.3 of Semtech's Current Report on Form 8-K of which this Exhibit 99.4 forms a part.

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. The actual amounts recorded as of the completion of the Acquisition may differ materially from the information presented in the unaudited pro forma condensed combined financial statements as the Acquisition and related Financing have yet to close. 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 July 31, 2022 for Semtech and June 30, 2022 for Sierra Wireless
($ in thousands)

	Semtech as of July 31, 2022 Historical	Sierra Wireless as of June 30, 2022 (Note 3) Reclassed	Transaction Accounting Adjustments – Other	(Note 6)	Transaction Accounting Adjustments – Acquisition	(Note 6)	Pro Forma Combined
Assets							
Current assets:							
Cash and cash equivalents	$ 362,150	$ 127,420	$ 1,155,636	(a)	$ (1,405,799)	(a)	$ 239,407
Accounts receivable, less allowances	71,105	104,442	-		-		175,547
Inventories	107,628	92,357	-		6,000	(c)	205,985
Prepaid taxes	2,298	-	-		-		2,298
Other current assets	33,905	52,252	-		(1,655)	(k)	84,502
Total current assets	577,086	376,471	1,155,636		(1,401,454)		707,739
Non-current assets:							
Property, plant and equipment, net of accumulated depreciation	134,015	25,757	-		-		159,772
Deferred tax assets	26,977	1,186	-		33,348	(e)	61,511
Goodwill	350,306	147,646	-		533,691	(d)	1,031,643
Other intangible assets, net	4,708	34,064	-		415,936	(b)	454,708
Other assets	106,740	15,317	-		(2,751)	(k)	119,306
Total assets	$ 1,199,832	$ 600,441	$ 1,155,636		$ (421,230)		$ 2,534,679
Liabilities and Equity							
Current liabilities:							
Accounts payable	$ 53,759	$ 86,680	$ -		$ -		$ 140,439
Current portion of long-term debt, net	-	971	44,750	(f)	(971)	(g)	44,750
Accrued liabilities	86,370	118,624	-		(3,606)	(i)	201,388
Total current liabilities	140,129	206,275	44,750		(4,577)		386,577
Non-current liabilities:							
Deferred tax liabilities	1,159	6,022	-		-		7,181
Long term debt, less current portion	171,917	55,452	1,154,136	(f)	(55,451)	(g)	1,326,054
Other long-term liabilities	87,581	51,416	-		-		138,997
Stockholders' equity:							
Common stock	785	476,011	-		(476,011)	(h)	785
Treasury stock	(594,449)	(22)	-		22	(h)	(594,449)
Additional paid-in capital	506,178	39,678	(21,000)	(j)	(39,678)	(h) (j)	485,178
Retained earnings	886,507	(223,319)	(22,250)	(h)	143,393	(h)	784,331
Accumulated other comprehensive loss	(163)	(11,072)	-		11,072	(h)	(163)
Total stockholders' equity	798,858	281,276	(43,250)		(361,202)		675,682
Noncontrolling interest	188	-	-		-		188
Total equity	799,046	281,276	(43,250)		(361,202)		675,870
Total liabilities and equity	$ 1,199,832	$ 600,441	$ 1,155,636		$ (421,230)		$ 2,534,679

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

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
For the Six Months Ended July 31, 2022 for Semtech and June 30, 2022 for Sierra Wireless
($ in thousands, except share and per share amounts)

	Semtech Six Months Ended July 31, 2022 Historical	Sierra Wireless Six Months Ended June 30, 2022 (Note 3) Reclassed	Transaction Accounting Adjustments – Other	(Note 7)	Transaction Accounting Adjustments - Acquisition	(Note 7)	Pro Forma Combined
Net sales	$ 411,403	$ 360,908	$ -		$ -		$ 772,311
Cost of sales	145,331	242,663	-		-		387,994
Amortization of acquired technology	-	-	-		26,666	(a)	26,666
Total cost of sales	145,331	242,663	-		26,666		414,660
Gross Profit	266,072	118,245	-		(26,666)		357,651
Operating costs and expenses:							
Selling, general and administrative	91,483	65,700	-		(3,457)	(c)	153,726
Impairment	-	10,299	-		-		10,299
Product development and engineering	79,390	35,631	-		-		115,021
Intangible amortization	2,096	6,720	-		(1,942)	(d)	6,874
Gain on sale of business	(17,986)	(9,179)	-		-		(27,165)
Total operating cost and expenses, net	154,983	109,171	-		(5,399)		258,755
Operating income (loss)	111,089	9,074	-		(21,267)		98,896
Interest expense	(2,456)	(1,740)	(34,817)	(e)	2,583	(e)	(36,430)
Non-operating income (loss), net	387	(7,626)	-		-		(7,239)
Investment impairments and credit loss reserves	405	-	-		-		405
Income (loss) before taxes and equity in net gains of equity method investments	109,425	(292)	(34,817)		(18,684)		55,632

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
For the Six Months Ended July 31, 2022 for Semtech and June 30, 2022 for Sierra Wireless
($ in thousands, except share and per share amounts)

	Semtech Six Months Ended July 31, 2022 Historical	Sierra Wireless Six Months Ended June 30, 2022 (Note 3) Reclassed	Transaction Accounting Adjustments – Other	(Note 7)	Transaction Accounting Adjustments - Acquisition	(Note 7)	Pro Forma Combined
Provision (benefit) for income taxes	20,088	2,712	(7,485)	(f)	769	(f)	16,084
Net income (loss) before equity in net gains of equity method investments	89,337	(3,004)	(27,332)		(19,453)		39,548
Equity in net gains of equity method investments	307	-	-		-		307
Net income (loss)	$ 89,644	$ (3,004)	$ (27,332)		$ (19,453)		$ 39,855
Net loss attributable to noncontrolling interest	(3)	-	-		-		(3)
Net income (loss) attributable to common stockholders	$ 89,647	$ (3,004)	$ (27,332)		$ (19,453)		$ 39,858
Earnings (loss) per share:							
Basic	$ 1.41					(g)	$ 0.63
Diluted	$ 1.39					(g)	$ 0.62
Weighted average number of shares used in computing earnings per share:							
Basic	63,725					(g)	63,725
Diluted	64,270					(g)	64,270

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 Historical	Sierra Wireless Year Ended December 31, 2021 (Note 3) Reclassed	Transaction Accounting Adjustments – Other	(Note 7)	Transaction Accounting Adjustments - Acquisition	(Note 7)	Pro Forma Combined
Net sales	$ 740,858	$ 473,209	$ -		$ -		$ 1,214,067
Cost of sales	274,777	316,410	-		7,197	(a)	598,384
Amortization of acquired technology	-	-	-		53,333	(a)	53,333
Total cost of sales	274,777	316,410	-		60,530		651,717
Gross profit	466,081	156,799	-		(60,530)		562,350
Operating costs and expenses:							
Selling, general and administrative	168,210	138,569	15,000	(c)	103,684	(c)	425,463
Impairment	-	12,285	-		-		12,285
Product development and engineering	147,925	68,425	-		12,963	(b)	229,313
Intangible amortization	4,942	17,066	-		(7,510)	(d)	14,498
Changes in the fair value of contingent earn-out obligations	(13)	-	-		-		(13)
Total operating cost and expenses, net	321,064	236,345	15,000		109,137		681,546
Operating income (loss)	145,017	(79,546)	(15,000)		(169,667)		(119,196)
Interest expense	(5,091)	(221)	(77,896)	(e)	1,745	(e)	(81,463)
Non-operating income (loss), net	480	(8,959)	-		-		(8,479)
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 Historical	Sierra Wireless Year Ended December 31, 2021 (Note 3) Reclassed	Transaction Accounting Adjustments – Other	(Note 7)	Transaction Accounting Adjustments - Acquisition	(Note 7)	Pro Forma Combined
Income (loss) before taxes and equity in net gains of equity method investments	139,069	(88,726)	(92,896)		(167,922)		(210,475)
Provision (benefit) for income taxes	15,539	6	(17,392)	(f)	(10,122)	(f)	(11,969)
Net income (loss) before equity in net gains of equity method investments	123,530	(88,732)	(75,504)		(157,800)		(198,506)
Equity in net gains of equity method investments	2,115	-	-		-		2,115
Net income (loss)	$ 125,645	$ (88,732)	$ (75,504)		$ (157,800)		$ (196,391)
Net loss attributable to noncontrolling interest	(19)	-	-		-		(19)
Net income (loss) attributable to common stockholders	$ 125,664	$ (88,732)	$ (75,504)		$ (157,800)		$ (196,372)
Earnings (loss) per share:							
Basic	$ 1.94					(g)	$ (3.04)
Diluted	$ 1.92					(g)	$ (3.04)
Weighted average number of shares used in computing earnings per share:							
Basic	64,662					(g)	64,662
Diluted	65,565					(g)	64,662

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

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"), pursuant to which the Acquirer will acquire all of the issued and outstanding common shares of Sierra Wireless. Upon closing of the Acquisition (the "Closing" or the "Closing Date"), each common share of Sierra Wireless that is issued and outstanding as of the Closing will transfer to the Acquirer in consideration for the right to receive $31.00 in cash per common share without interest (the "Purchase Consideration"). Additionally, in connection with the Acquisition, each Sierra Wireless equity award granted under Sierra Wireless' historical equity compensation plans will be converted into the right to receive the Purchase 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 preliminary purchase consideration will be $1,287.8 million as provided for in the Purchase Agreement. In connection with the Acquisition, the Company intends to enter into certain financing transactions, including issuing the Notes, borrowing under a New Term Loan and drawing on its existing Revolving Credit Facility.

The Financing

To fund a portion of the Acquisition, Semtech is issuing Notes for estimated gross proceeds of $250.0 million. Concurrent with the issuance of the Notes, Semtech plans to enter into convertible note hedge and warrant transactions, in which Semtech estimates that approximately $21.0 million of the proceeds from the Notes will be used 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). Such estimated amount with respect to the cost of the convertible note hedge transactions is included for illustrative purposes only, and the actual amount of net proceeds used to pay the cost of the convertible note hedge transactions may differ. Separately, Semtech plans to draw down a gross $75.0 million on its existing Revolving Credit Facility and borrow a gross $895.0 million under its New Term Loan. Following the issuance of the Notes, Semtech plans to use any remaining proceeds from the Notes, borrowings under the Revolving Credit Facility and New Term Loan and available cash and cash equivalents to fund the settlement of Sierra Wireless' existing debt, pay the Purchase Consideration, and pay any 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 and at the option of the Company, equity awards granted under Sierra Wireless' historical equity compensation plans will be accelerated, will become fully vested and will be 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 preliminary 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 significant 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 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 fair value will be determined and finalized subsequent to the closing of the Acquisition.

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 June 30, 2022 with the presentation of Semtech's condensed combined balance sheet as of July 31, 2022.

Sierra Wireless' Historical Balance Sheet Line Items *(In thousands)*	**Semtech's Historical Balance Sheet Line Items**	**Sierra Wireless Balances as of June 30, 2022**	**Reclassification**	**Sierra Wireless Balances as of June 30, 2022 Reclassed**
Cash and cash equivalents	Cash and cash equivalents	$ 127,343	$ 77	$ 127,420
Restricted cash		77	(77)	-
Operating lease right-of-use assets		11,163	(11,163)	-
Other assets	Other assets	4,154	11,163	15,317
Accounts payable and accrued liabilities	Accounts payable	192,984	(106,304)	86,680
Deferred revenue		12,320	(12,320)	-
	Accrued liabilities	-	118,624	118,624
Long-term obligations		38,257	(38,257)	-
Operating lease liabilities		13,159	(13,159)	-
	Other long-term liabilities	$ -	$ 51,416	$ 51,416

(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 six months ended June 30, 2022 with that of the presentation of Semtech's condensed combined statement of income for the six months ended July 31, 2022.

Sierra Wireless' Historical Statements of Operations Line Items *(In thousands)*	**Semtech's Historical Statements of Income Line Items**	**Sierra Wireless Six Months Ended June 30, 2022**	**Reclassification**	**Sierra Wireless Six Months Ended June 30, 2022 Reclassed**
Revenue	Net sales	$ -	$ 360,908	$ 360,908
IoT Solutions (revenue)		273,386	(273,386)	-
Enterprise Solutions (revenue)		87,522	(87,522)	-
Cost of sales	Cost of sales	-	242,663	242,663
IoT Solutions (cost of sales)		190,848	(190,848)	-
Enterprise Solutions (cost of sales)		51,815	(51,815)	-
Sales and marketing		36,132	(36,132)	-
Administration	Selling, general and administrative	21,849	43,851	65,700
Restructuring		7,719	(7,719)	-
Foreign exchange (loss) gain		(7,633)	7,633	-
Other expense	Non-operating income, net	(1,733)	(5,893)	(7,626)
	Interest expense	$ -	$ (1,740)	$ (1,740)

(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 Reclassed
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)	(7,259)	(8,959)
	Interest expense	$ -	$ (221)	$ (221)

Note 4 - Conforming Accounting Policies

At this time, 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, Semtech is not aware of any material differences between the accounting policies of the two companies that would continue to exist subsequent to the application of acquisition accounting. Following the consummation of the Acquisition, Semtech will conduct a more detailed review of Sierra Wireless' accounting policies in an effort to determine if differences in accounting policies require further adjustment of Sierra Wireless' results of operations or reclassification of assets or liabilities to conform to Semtech's accounting policies and classifications. As a result, Semtech may identify additional differences between the accounting policies that, when conformed, could have a material impact on this unaudited pro forma condensed combined financial information.

Note 5 – Preliminary Purchase Price Allocation

(a) *Preliminary GAAP Purchase Consideration*

The calculation of the estimated purchase consideration is based on the terms of the Purchase Agreement and management's estimates as of the date of this filing. Therefore, the preliminary GAAP purchase consideration used for purposes of the unaudited pro forma condensed combined financial information may differ materially from the actual purchase consideration.

The preliminary GAAP purchase consideration is as follows:

Preliminary GAAP Purchase Consideration *(In thousands)*		**Amount**
Cash consideration to be paid to common shareholders	$	1,208,000
Cash consideration to be paid to holders of Sierra Wireless' equity compensation awards (1)		22,804
Total cash consideration to be paid to selling equity holders	**$**	**1,230,804**
Sierra Wireless debt to be settled at close (2)		57,000
Preliminary GAAP purchase consideration	**$**	**1,287,804**

(1) Represents the fair value of the awards to be settled in cash of $2.7 million for the vested options and $20.1 million for the portion of the unvested equity awards 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 to be settled in cash of $55.1 million relates to the unvested portion of the equity awards 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 estimated settlement of Sierra Wireless' existing debt that will be paid at the Closing Date by Semtech. Refer to Note 6(g) for additional information related to the adjustment for the expected settlement of Sierra Wireless' existing debt as of June 30, 2022.

(b) *Allocation of Preliminary GAAP Purchase Consideration*

The preliminary allocation of the estimated GAAP purchase consideration for assets to be acquired and liabilities to be assumed is provided throughout the notes of the unaudited pro forma condensed combined financial statements and is reflected as if the Closing Date was July 31, 2022. The final valuation of such assets and liabilities is expected to be completed as soon as practicable subsequent to 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:

Allocation of Preliminary GAAP Purchase Consideration *(In thousands)*		**Amount**
Total preliminary GAAP purchase consideration	$	1,287,804
Assets:		
Cash and cash equivalents		127,420
Accounts receivable		104,442
Inventories		98,357
Other current assets		50,597
Property, plant and equipment		25,757
Intangible assets		450,000
Deferred tax assets		34,534
Other assets		12,566
Liabilities:		
Accounts payable		86,680
Accrued liabilities		153,088
Deferred tax liabilities		6,022
Other long-term liabilities		51,416
Net assets acquired, excluding goodwill	**$**	**606,467**
Goodwill	**$**	**681,337**

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 July 31, 2022 are as follows:

(a) Reflects adjustment to cash and cash equivalents for the Financing, cash to be 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:

Cash and cash equivalents

(In thousands)		**Amount**
Pro forma transaction accounting adjustments – other:		
Cash proceeds from the Financing, net of issuance costs	$	1,198,886
Net cash paid for the convertible note hedge, less proceeds received for the related warrant transactions (1)		(21,000)
Commitment fees paid for unused bridge financing		(7,250)
Cash payment related to Sierra Wireless' employees to be entitled to a severance payout in the form of a cash bonus upon the Closing		(15,000)
Pro forma adjustment to cash and cash equivalents	**$**	**1,155,636**
Pro forma transaction accounting adjustments – acquisition:		
Transaction costs related to the Acquisition (2)	$	(21,000)
Cash to be paid for the preliminary GAAP purchase consideration		(1,287,804)
Cash to be paid for Sierra Wireless awards subject to accelerated vesting that were excluded from the preliminary GAAP purchase consideration and a cash bonus to be paid at Acquisition close (3)		(62,532)
Settlement of Seller transaction costs		(34,463)
Pro forma adjustment to cash and cash equivalents	**$**	**(1,405,799)**

(1) Refer to Note 6(j) for additional information related to the convertible note hedge and warrant transactions.

(2) 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(h) and Note 6(i).

(3) 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 are to be settled in cash as well as the payment of a cash bonus to be paid to certain Sierra Wireless employees for post-acquisition services performed with a corresponding decrease to retained earnings.

(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 *(In thousands)*		**Amount**	**Estimated Remaining Useful Life (in years)**
Pro forma transaction accounting adjustments – acquisition:			
Intangible assets remeasured at fair value:			
Developed technology	$	320,000	6
IPR&D		60,000	Not applicable
Customer relationships		50,000	9
Trade name		20,000	5
Preliminary fair value of acquired intangibles		450,000	
Elimination of Sierra Wireless’ historical net book value of intangible assets		(34,064)	
Pro forma adjustment to intangible assets	**$**	**415,936**	

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

Inventories *(In thousands)*		**Amount**
Pro forma transaction accounting adjustments – acquisition:		
Preliminary fair value of acquired inventories	$	98,357
Elimination of Sierra Wireless' historical carrying value of inventories		(92,357)
Pro forma adjustment to inventories	**$**	**6,000**

(d) Preliminary goodwill adjustment represents the elimination of historical goodwill and excess of the preliminary GAAP purchase consideration over the preliminary fair value of the underlying assets to be acquired and liabilities to be 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 *(In thousands)*		**Amount**
Pro forma transaction accounting adjustments – acquisition:		
Goodwill per preliminary GAAP purchase consideration allocation (See Note 5(b))	$	681,337
Elimination of Sierra Wireless’ historical goodwill		(147,646)
Pro forma adjustment to goodwill	**$**	**533,691**

(e) 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.

(f) Reflects the issuance of the Notes, the New Term Loan, and the incremental draw down of the existing Revolving Credit Facility, net of unamortized issuance costs, to fund the Acquisition. The pro forma adjustment is calculated as follows:

Proceeds from the Financing *(In thousands)*		**Amount**
Pro forma transaction accounting adjustments – other:		
Net proceeds from Financing:		
New Term Loan	$	895,000
Notes		250,000
Revolving Credit Facility		75,000
Debt issuance costs related to the Financing (1)		(21,114)
Pro forma adjustment to debt	**$**	**1,198,886**
Pro forma transaction accounting adjustments – other to debt:		
Current portion of long-term debt, net	$	44,750
Long-term debt, net	$	1,154,136

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

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

Settlement of Historical Sierra Wireless' Debt *(In thousands)*		**Amount**
Pro forma transaction accounting adjustments – acquisition:		
To eliminate the current portion of long-term debt, net	$	(971)
To eliminate the non-current portion of long-term debt, net	$	(55,451)

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

Retained earnings *(In thousands)*		**Amount**
Pro forma transaction accounting adjustment - other:		
Severance payout in the form of a cash bonus to be paid upon the Closing (See Note 6(a))	$	(15,000)
Commitment fees paid for unused bridge financing (See Note 6(a))		(7,250)
Pro forma adjustment to retained earnings	**$**	**(22,250)**
Pro forma transaction accounting adjustments – acquisition:		
Elimination Sierra Wireless retained earnings	$	223,319
Cash to be paid for Sierra Wireless awards subject to accelerated vesting that were excluded from the preliminary GAAP purchase consideration (See Note 6(a))		(55,132)
Cash to be paid for a cash bonus to be settled upon the Closing (See Note 6(a))		(7,400)
Buyer transaction costs not accrued for as of July 31, 2022		(17,394)
Pro forma adjustment to retained earnings	**$**	**143,393**

(i) Reflects the impact to accrued liabilities for the settlement of Buyer transaction costs incurred prior to July 31, 2022 and settled 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).

(j) Reflects the estimated net impact to additional paid-in capital relating to the convertible note hedge and warrant transactions to be entered into in connection with the Notes. For purposes of these unaudited pro forma condensed combined financial information, the convertible note hedge and warrant transactions are assumed to be accounted for as equity instruments, however, the accounting for the convertible note hedge and warrants will be determined and finalized subsequent to the closing of the Financing.

(k) 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 six months ended July 31, 2022 and the year ended January 30, 2022 are as follows:

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

Cost of sales *(In thousands)*	**For the Six Months Ended July 31, 2022**	**For the Year Ended January 30, 2022**
Pro forma transaction accounting adjustments – acquisition:		
Inventories step-up	$ -	$ 6,000
Intangibles step-up	26,666	53,333
Share-based compensation expense due to accelerated vesting attributable to post-acquisition services	-	1,056
Cash bonus awards attributable to post-acquisition services	-	141
Pro forma adjustment to cost of sales	**$ 26,666**	**$ 60,530**

(b) Reflects the adjustments to product development and engineering to include (i) 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) cash bonus awards to be paid attributable to post-acquisition services.

Product development and engineering *(In thousands)*	**For the Six Months Ended July 31, 2022**	**For the Year Ended January 30, 2022**
Pro forma transaction accounting adjustments – acquisition:		
Share-based compensation expense due to accelerated vesting attributable to post-acquisition services	$ -	$ 11,429
Cash bonus awards attributable to post-acquisition services	-	1,534
Pro forma adjustment to product development and engineering	**$ -**	**$ 12,963**

(c) Reflects the adjustments to selling, general and administrative to include (i) incremental share-based compensation expense attributable to post-acquisition services for equity awards due to accelerated vesting as a result of the Acquisition, (ii) cash bonus awards to be paid attributable to post-acquisition services, and (iii) additional transaction costs incurred subsequent to the second fiscal quarter associated with the Acquisition.

Selling, general and administrative *(In thousands)*	**For the Six Months Ended July 31, 2022**	**For the Year Ended January 30, 2022**
Pro forma transaction accounting adjustments – other:		
Expense related to Sierra Wireless' employees to be entitled to a severance payout in the form of a cash bonus	$ -	$ 15,000
Pro forma adjustment to selling, general and administrative	**$ -**	**$ 15,000**
Pro forma transaction accounting adjustments – acquisition:		
Transaction costs (1)	$ (3,457)	$ 55,314
Share-based compensation expense due to accelerated vesting attributable to post-acquisition services	-	42,646
Cash bonus awards attributable to post-acquisition services	-	5,724
Pro forma adjustment to selling, general and administrative	**$ (3,457)**	**$ 103,684**

(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. The adjustment also includes the reversal of transaction costs incurred by both Semtech and Sierra Wireless prior to July 31, 2022 that are related to the Acquisition so they could be recorded as a one-time cost associated with the Acquisition during the year ended January 30, 2022.

(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 six months ended July 31, 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 $3.1 million for the six months ended July 31, 2022 and $6.3 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:

Interest expense

(In thousands)	**For the Six Months Ended July 31, 2022**	**For the Year Ended January 30, 2022**
Pro forma transaction accounting adjustments – other:		
New interest expense related to the Financing (1)	$ (32,607)	$ (66,294)
Amortization of deferred financing costs related to the Financing (1)	(2,210)	(4,352)
Commitment fees paid for unused bridge financing	-	(7,250)
Pro forma adjustments to interest expense	**$ (34,817)**	**$ (77,896)**
Pro forma transaction accounting adjustments – acquisition:		
Removal of interest expense related to the historical Sierra Wireless debt	$ 2,583	$ 1,745
Pro forma adjustments to interest expense	**$ 2,583**	**$ 1,745**

(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 blended assumed variable interest rate of 4.71% for the New Term Loan, Notes, and Revolving Credit Facility. Actual interest may vary significantly from the estimated pro forma adjustments.

A sensitivity analysis on the estimated interest expense for the year ended January 30, 2022 and the six months ended July 31, 2022 has been performed to assess the effect of a hypothetical increase or decrease of 12.5 basis points on the New Term Loan, the Notes, as well as the Revolving Credit Facility. The following table shows the change in the interest expense for the aforementioned facilities:

Sensitivity *(In thousands)*	**For the Six Months Ended July 31, 2022**	**For the Year Ended January 30, 2022**
Interest expense assuming:		
Increase of 0.125%	$ 40	$ 81
Decrease of 0.125%	$ (40)	$ (81)

(f) Reflects the income tax impact of the pro forma adjustments utilizing a blended statutory income tax rate in effect of approximately 25.4% for the year ended January 30, 2022 and for the six months ended July 31, 2022. 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 historical weighted-average shares outstanding and the 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 six months ended July 31, 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.

Excerpts of additional information shared with prospective investors in connection with the Offering

Risks related to the Acquisition

The following summarizes risks related to the Company's acquisition of Sierra Wireless (the "Acquisition"), including certain additional risks to which Sierra Wireless is subject and to which Semtech would become subject following the consummation of the Acquisition.

The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and may not be reflective of our operating results or financial condition following completion of the Acquisition.

The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and is not necessarily indicative of what our actual financial position or results of operations would have been had the Acquisition been completed on the dates indicated. Further, our actual results and financial position after the Acquisition may differ materially and adversely from the pro forma information.

The unaudited pro forma condensed combined financial information has been prepared with the assumption that we will be identified as the acquirer under U.S. generally accepted accounting principles and reflects adjustments based upon preliminary estimates of the fair value of assets to be acquired and liabilities to be assumed. The unaudited pro forma condensed combined financial information has not been prepared in accordance with, and does not include all adjustments required by, Article 11 of Regulation S-X.

The Processing of user data (including personal information) could give rise to liabilities or additional costs as a result of laws, governmental regulations and mobile network operator and other customer requirements or differing views of individuals' privacy rights.

Certain of Sierra Wireless's products and services as well as the operation of our businesses involves the collection, use, processing, disclosure, transmission and storage ("Processing") of a large volume of data (including personal information). Numerous state, federal and international laws, rules and regulations govern the Processing of personal information and can expose us to third party claims, enforcement actions and investigations by regulatory authorities, and potentially result in regulatory penalties, significant legal liability and harm to our reputation if our compliance efforts fail or are perceived to fail.

For example, the European Union General Data Protection Regulation ("GDPR") became effective on May 25, 2018. Failure to comply with the GDPR may result in fines of up to the greater of 20 million Euros or 4% of a company's annual global revenue. Canada's Personal Information Protection and Electronic Documents Act ("PIPEDA") also imposes strict requirements for Processing personal information that applies to our business operations. And in the United States, a number of states have enacted or have proposed to enact state privacy laws. For example, the California Consumer Privacy Act ("CCPA") became effective on January 1, 2020. The CCPA gives California residents expanded rights to access and delete their personal information, opt out of certain personal information sharing and receive detailed information about how their personal information is used by requiring covered businesses to provide new disclosures to California residents and provide such individuals ways to opt-out of certain sales of personal information. The CCPA provides for civil penalties for violations, as well as a private right of action for certain data breaches that is expected to increase data breach litigation. Additionally, in November 2020, California voters passed the California Privacy Rights and

Enforcement Act of 2020 ("CPRA"), which goes into effect on January 1, 2023. The CPRA further expands the CCPA with additional data privacy compliance requirements that may impact our business, and establishes a regulatory agency dedicated to enforcing those requirements. A determination that we have violated any of these or other privacy or data protection laws could result in significant damage awards, fines and other penalties that could, individually or in the aggregate, materially harm our business and reputation.

Furthermore, the interpretation of privacy and data protection laws in a number of jurisdictions is unclear and in a state of flux. There is a risk that these laws may be interpreted and applied in conflicting ways from jurisdiction to jurisdiction. Complying with these varying state, federal and international requirements could cause us to incur additional costs and change our business practices. In addition, because our products and services are sold and used worldwide, we may be required to comply with laws and regulations in countries or states where we have no local entity, employees, or infrastructure.

We could also be adversely affected if legislation or regulations are expanded to require changes in our products, services or business practices, if governmental authorities in the jurisdictions in which we do business interpret or implement their legislation or regulations in ways that negatively affect our business or if end users or others allege that their personal information was misappropriated, for example, because of a defect or vulnerability in our products or services or if we experience a data breach. If we are required to allocate significant resources to modify our products, services or our existing security procedures for the personal information that our products and services Process, our business, results of operations and financial condition may be adversely affected.

In addition, despite our efforts to protect our systems and the data (including personal information) Processed thereby, we cannot assure you that we or our service providers will not suffer a data breach or compromise, that hackers or other unauthorized parties will not gain access to personal information or other data, or that any such data compromise or access will be discovered or remediated on a timely basis. Any compromise or breach of our security measures, or those of our third-party service providers, could violate applicable privacy, data security and other laws, and cause significant legal and financial exposure, adverse publicity and a loss of confidence in our security measures, which could have a material adverse effect on our business, financial condition, and results of operations.

We may be subject to class action or derivative action lawsuits, which if decided against us, could require us to pay substantial judgments, settlements or other penalties.

In addition to being subject to litigation in the ordinary course of business, we may be subject to class actions, derivative actions and other securities litigation and investigations, as well as other categories of litigation such as intellectual property infringement-related litigation that could have a material impact on our business. If the Acquisition is consummated, we will also become subject to any such matters involving Sierra Wireless's business. We expect that this type of litigation will be time consuming, expensive and will distract us from the conduct of our daily business. It is possible that we will be required to pay substantial judgments, settlements or other penalties and incur expenses that could have a material adverse effect on our operating results, liquidity or financial position. Expenses incurred in connection with these lawsuits, which include substantial fees of lawyers and other professional advisors and our obligations to indemnify officers and directors who may be parties to such actions, could materially adversely affect our reputation, operating results, liquidity or financial position. Furthermore, we do not know with certainty if any of this type of litigation and resulting expenses will be fully or even partially covered by our insurance. In addition, these lawsuits may cause our insurance premiums to increase in future periods.

If the Acquisition is consummated, we will depend on mobile network operators to promote and offer acceptable wireless data services.

Certain of Sierra Wireless's products and its wireless connectivity services can only be used over wireless data networks operated by third parties. If the Acquisition is consummated, our business and future growth will depend, in part, on the successful deployment by mobile network operators of next generation wireless data networks and appropriate pricing of wireless data services. We will also depend on successful strategic relationships with our mobile network operator partners to provide direct or indirect roaming services onto their networks and our operating results and financial condition could be harmed if they increase the price of their services or experience operational issues with their networks. In certain cases, our mobile network operator partners may also offer services that compete with our Internet of Things ("IoT") services business.

Competition from new or established IoT, cloud services and wireless services companies or from those with greater resources may prevent us from increasing or maintaining our market share following the consummation of the Acquisition and could result in price reductions and/or loss of business with resulting reduced revenues and gross margins.

The market for IoT products and services is highly competitive and rapidly evolving. If the Acquisition is consummated, we expect to experience the impact of intense competition on the businesses we acquire from Sierra Wireless, including:

- competition from more established and larger companies with strong brands and greater financial, technical and marketing resources or companies with different business models;
- business combinations or strategic alliances by our competitors which could weaken our competitive position;
- introduction of new products or services by us that put us in direct competition with major new competitors;
- existing or future competitors who may be able to respond more quickly to technological developments and changes and introduce new products or services before we do; and
- competitors who may independently develop and patent technologies and products that are superior to ours or achieve greater acceptance due to factors such as more favorable pricing, more desired or better-quality features or more efficient sales channels.

If we are unable to compete effectively with our competitors' pricing strategies, technological advances and other initiatives, we may lose customer orders and market share and we may need to reduce the price of our products and services, resulting in reduced revenue and reduced gross margins. In addition, new market entrants or alliances between customers and suppliers could emerge to disrupt the markets in which we operate through disintermediation of our modules business or other means. There can be no assurance that we will be able to compete successfully and withstand competitive pressures.

If the Acquisition is consummated, we would become subject to additional government laws and regulations, which could result in increased costs and inability to sell our products and services.

Sierra Wireless's products and services are subject to laws and regulations in the United States, Canada, the European Union and other regions in which Sierra Wireless operates. Following the consummation of the Acquisition, from time to time in the ordinary course we may be required to obtain regulatory approvals or licenses in order to sell certain products and services.

For example, in the United States the Federal Communications Commission regulates many aspects of communications devices and services. In Canada, similar regulations are administered by the Innovation, Science and Economic Development Canada and the Canadian Radio-television and Telecommunications Commission. European Union directives provide comparable regulatory guidance in Europe. Further, regulatory requirements may change, or we may not be able to receive approvals, registrations or licenses from jurisdictions in which we may desire to sell products and services in the future. In addition, many laws and regulations are still evolving and being tested in courts and by regulatory authorities and could be interpreted in ways that could harm our business.

The application and interpretation of these laws and regulations often are uncertain, particularly in the new and rapidly evolving industry in which we operate. Because laws and regulations have continued to develop and evolve rapidly, it is possible that we or our products or services may not be, or may not have been, compliant with each applicable law or regulation. Compliance with applicable laws and regulations may impose substantial costs on our business, and if we fail to comply we may be subject to regulatory and civil liability, additional costs (including fines), reputational harm, and in severe cases, may be prevented from selling our products and services in certain jurisdictions, all of which could materially and adversely affect our business, financial position, results of operation, and cash flows.

Sources and uses of funds

The following table summarizes the estimated sources and uses of proceeds in connection with the Acquisition, as if all of the transactions to be consummated in connection with the Acquisition had occurred on July 31, 2022. The amounts set forth in the table and in the accompanying footnotes are subject to adjustment and may differ from the actual amounts of such sources and uses depending on several factors, including differences from our estimation of fees and expenses. You should read the following together with the information included in Exhibit 99.4 to the Current Report on Form 8-K of which this Exhibit 99.5 forms a part, under the heading "Unaudited pro forma condensed combined financial information."

Sources of Funds:	(Dollars in millions)	Uses of Funds:	(Dollars in millions)
Notes offered hereby(1)	$ 250	Acquisition purchase price(4)	$ 1,286
New Term Loan(2)	895	Repayment of existing debt of Sierra Wireless(5)	57
Revolving Credit Facility(3)	75	Estimated fees and expenses, including convertible note hedge transactions(6)	105
Cash and cash equivalents of the Company (as of July 31, 2022)	362	Additional Sierra Wireless compensation payments(7)	29
Cash and cash equivalents of Sierra Wireless (as of June 30, 2022)	127	Cash to the Company's balance sheet(8)	232
Totals	$ 1,709		$ 1,709

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(1) Includes the principal amount of the notes offered hereby (without giving effect to the initial purchaser's option to purchase additional notes), without deducting the initial purchaser's discount and commissions.

(2) On September 26, 2022, we obtained commitments for an $895 million term loan facility under our existing senior credit facilities (the "New Term Loan"), and intend to borrow all $895.0 million committed in connection with the consummation of the Acquisition.

(3) The borrowing capacity of the revolving credit facility under our senior credit facilities (the "Revolving Credit Facility") is $600.0 million. As of July 31, 2022, we had $173.0 million outstanding under the Revolving Credit Facility and $427.0 million of undrawn borrowing capacity. In connection with the consummation of the Acquisition, we intend to draw an additional $75.0 million under the Revolving Credit Facility.

(4) Reflects the total consideration to be paid to shareholders and certain equity award holders of Sierra Wireless in the Acquisition at the price per share of $31.00.

(5) Reflects the repayment of $57.0 million outstanding under existing Sierra Wireless debt facilities (including its Senior Credit Agreement, Subordinate Credit Agreement and Standby Letter of Credit Facility Agreement), each of which will be terminated upon consummation of the Acquisition.

(6) Reflects our estimate of fees and expenses associated with the Acquisition, including the initial purchaser's discounts and commissions and fees and expenses related to this offering, fees payable in connection with the New Term Loan, the cost of the convertible note hedge transactions (after such cost is partially offset by the proceeds to us from the sale of the warrants under the warrant transactions), advisory fees, other Acquisition costs and professional fees. For purposes of this estimation, we have estimated that we will use approximately $21 million of the net proceeds from this offering to pay the cost of the convertible note hedge transactions (after such cost is partially offset by the proceeds to us from the sale of the warrants under the warrant transactions), as described under the heading "Description of the convertible note hedge and warrant transactions." Such estimated amount with respect to the cost of the convertible note hedge transactions is included for illustrative purposes only, and the actual amount of net proceeds used to pay the cost of the convertible note hedge transactions may differ. Does not reflect the use of any net proceeds to pay the cost of any additional convertible note hedge transactions if the initial purchaser's option to purchase additional notes is exercised.

(7) Reflects additional change of control and compensation payouts that will be triggered in connection with the Acquisition. Includes approximately $7 million of payments that are expected to be made in March 2023 (assuming the Acquisition has been consummated by such time).

(8) Does not reflect any cash generated by or used in operating activities and/or for working capital requirements after the respective historical balance sheet dates indicated for the Company and Sierra Wireless under the caption "Sources of Funds." As such, the actual amount of cash to the Company's balance sheet at closing of the Acquisition could differ materially from the amount indicated.

Key Milestones Driving LoRa® Revenue Growth

KEY MILESTONES	YEAR-END FY21	YEAR-END FY22	YEAR-END FY23 GOALS[2]
LoRa-enabled Gateways[1]	>1,300,000	>3,200,000	>5,000,000
Capacity	>5.0 billion nodes	>6.9 billion nodes	>10 billion nodes
Connected Nodes	178 million	240 million	300 million
LoRaWAN® Operators	150	166	>180

[1] Includes both macrocell and picocell gateways

Assumes execution of our strategy and are forward-looking statements and subject to uncertainties and risks. Actual results may vary and could be material. Nothing in this presentation should be represented that it will be achieved. The Company undertakes no duty to update its goals or targets.