Condensed Consolidated Interim Financial Statements
(Expressed in U.S. dollars)

OPTIVA INC.

Three months ended December 31, 2018 and 2017
(Unaudited)

OPTIVA INC.

Condensed Consolidated Interim Statements of Financial Position
(Expressed in U.S. dollars)
(Unaudited)

	December 31, 2018	September 30, 2018
Assets		
Current assets:		
Cash and cash equivalents (note 3)	$ 32,359,266	$ 36,174,863
Trade accounts and other receivables (note 4)	14,326,817	14,954,291
Unbilled revenue (note 2(a)(i))	7,542,256	12,908,847
Prepaid expenses	1,873,117	1,833,105
Income taxes receivable	5,220,842	5,173,450
Other assets	358,384	253,517
Inventories	1,101,752	1,111,782
Total current assets	62,782,434	72,409,855
Restricted cash (note 10(a))	3,026,118	3,507,759
Long-term unbilled revenue (note 2(a)(i))	5,647,957	1,531,062
Property and equipment	417,866	541,861
Deferred income taxes	2,013,177	2,093,716
Investment tax credits	342,856	361,810
Intangible assets	16,879,443	18,044,530
Goodwill	32,271,078	32,271,078
Total assets	$ 123,380,929	$ 130,761,671
Liabilities and Shareholders' Deficit		
Current liabilities:		
Trade payables (note 12)	$ 22,049,178	$ 21,568,158
Accrued liabilities (note 12)	11,000,467	12,832,812
Provisions (note 11)	5,748,003	7,655,199
Income taxes payable	638,001	500,489
Deferred revenue (note 2(a)(i))	7,600,674	13,445,746
Total current liabilities	47,036,323	56,002,404
Deferred revenue	1,730,822	1,512,863
Other liabilities	1,011,363	1,272,488
Pension and other long-term employment benefit plans	16,654,169	16,900,821
Provisions (note 11)	5,261,050	5,662,009
Preferred shares (note 5(a))	58,305,787	57,862,418
Series A Warrant (note 5(b))	18,051,376	21,754,223
Deferred income taxes	120,000	120,000
Total liabilities	148,170,890	161,087,226
Shareholders' deficit:		
Share capital	248,680,325	248,680,325
Standby Warrant (note 5(b))	997,500	997,500
Contributed surplus	13,636,142	13,386,978
Deficit (note 2(a)(i))	(280,032,560)	(285,318,990)
Accumulated other comprehensive loss	(8,071,368)	(8,071,368)
Total shareholders' deficit	(24,789,961)	(30,325,555)
Total liabilities and shareholders' deficit	$ 123,380,929	$ 130,761,671

Guarantees and contingent liabilities (note 10(b))
Related party transactions (note 12)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

The Company adopted IFRS 15 as described in Note 2(a)(i). Under this adoption, the comparative information is not restated.

OPTIVA INC.

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)
(Expressed in U.S. dollars, except per share and share amounts)
(Unaudited)

	Three months ended December 31, 2018	2017
Revenue (note 9):		
Support and subscription	$ 21,271,783	$ 21,414,853
Software licenses, services and other	6,344,979	12,985,583
	27,616,762	34,400,436
Cost of revenue (note 11(b))	8,623,911	20,096,708
Gross profit	18,992,851	14,303,728
Operating expenses:		
Sales and marketing	2,707,508	3,506,831
General and administrative	5,639,767	9,752,742
Research and development (note 12)	8,716,201	16,710,691
Restructuring costs (note 11(a))	595,963	46,967,338
	17,659,439	76,937,602
Income (loss) from operations	1,333,412	(62,633,874)
Foreign exchange loss	(743,730)	(620,160)
Finance income	88,129	42,898
Finance recovery (note 5)	1,160,419	148,902
Income (loss) before income taxes	1,838,230	(63,062,234)
Income tax expense (note 6):		
Current	1,227,884	1,374,638
Deferred	71,973	17,307
	1,299,857	1,391,945
Total comprehensive income (loss)	$ 538,373	$ (64,454,179)
Income (loss) per subordinate voting share (note 5(c)):		
Basic	$ 0.10	$ (12.32)
Diluted	0.10	(12.32)
Weighted average number of subordinate voting shares (note 5(c)):		
Basic	5,233,047	5,233,047
Diluted	5,646,352	5,233,047

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

The Company adopted IFRS 15 as described in Note 2(a)(i). Under this adoption, the comparative information is not restated.

OPTIVA INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficit)
(Expressed in U.S. dollars)

Three months ended December 31, 2018 and 2017
(Unaudited)

	Share capital						
	Number Outstanding (note 12(b))	Amount	Standby Warrant	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity (deficit)
Balance, September 30, 2018	5,233,047	$ 248,680,325	$ 997,500	$ 13,386,978	$ (285,318,990)	$ (8,071,368)	$ (30,325,555)
Impact of IFRS 15 Adoption (note 2(a)(i))	–	–	–	–	4,748,057	–	4,748,057
Income for the period	–	–	–	–	538,373	–	538,373
Equity-settled share-based compensation (note 5(d))	–	–	–	249,164	–	–	249,164
Balance, December 31, 2018	5,233,047	$ 248,680,325	$ 997,500	$ 13,636,142	$ (280,032,560)	$ (8,071,368)	$ (24,789,961)
Balance, September 30, 2017	5,233,047	$ 248,680,325	$ 997,500	$ 11,684,537	$ (192,727,334)	$ (8,461,423)	$ 60,173,605
Loss for the period	–	–	–	–	(64,454,179)	–	(64,454,179)
Equity-settled share-based compensation (note 5(d))	–	–	–	987,133	–	–	987,133
Balance, December 31, 2017	5,233,047	$ 248,680,325	$ 997,500	$ 12,671,670	$ (257,181,513)	$ (8,461,423)	$ (3,293,441)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

The Company adopted IFRS 15 as described in Note 2(a)(i). Under this adoption, the comparative information is not restated.

OPTIVA INC.

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in U.S. dollars)
(Unaudited)

	Three months ended December 31, 2018	2017
Cash provided by (used in):		
Operating activities:		
Income (loss) for the period	$ 538,373	$ (64,454,179)
Adjustments for:		
Depreciation of property and equipment	109,461	1,517,697
Amortization of intangible assets	1,138,613	2,293,816
Finance income	(88,129)	(42,898)
Finance recovery	(1,160,419)	(148,902)
Pension	16,559	71,942
Income tax expense	1,299,857	1,391,945
Unrealized foreign exchange loss (gain)	116,842	(116,979)
Share-based compensation (note 5(d))	234,425	1,238,479
Change in provisions	(2,308,155)	41,596,487
Loss on disposal of property and equipment	41,008	110,632
Change in non-cash operating working capital (note 7)	(962,944)	2,015,297
	(1,024,509)	(14,526,663)
Interest paid	(8,663)	(33,943)
Interest received	87,127	46,002
Income taxes paid	(971,140)	(2,271,660)
	(1,917,185)	(16,786,264)
Financing activities:		
Payment of dividends (note 5(a))	(2,000,000)	–
	(2,000,000)	–
Investing activities:		
Purchase of property and equipment	–	(4,201)
Purchase of intangible assets	–	(9,985)
Decrease (increase) in restricted cash	481,641	(12,415)
	481,641	(26,601)
Effect of foreign exchange rate changes on cash and cash equivalents	(380,053)	318,776
Decrease in cash and cash equivalents	(3,815,597)	(16,494,089)
Cash and cash equivalents, beginning of period	36,174,863	110,891,744
Cash and cash equivalents, end of period	$ 32,359,266	$ 94,397,655

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

The Company adopted IFRS 15 as described in Note 2(a)(i). Under this adoption, the comparative information is not restated.

Reporting Entity

Optiva Inc. (the "Company" or "Optiva"), through its predecessors, commenced operations on March 29, 1999. The Company was incorporated under the Canada Business Corporations Act on November 1, 2006. The Company's registered head office is located at 155 Wellington Street West, 40th Floor, Toronto, Ontario, Canada. The Company is publicly traded on the Toronto Stock Exchange under ticker symbol — TSX: OPT.

Optiva monetizes today's digital world for communications service providers. The Company's market-leading portfolio of monetization and subscriber management solutions includes real-time billing, charging, policy, and customer care modules and is available on premise, cloud-based, or as Software-as-a-Service ("SaaS"). With a central focus on driving customer success, Optiva's products power growth and innovation for operators globally. The Company's software products allow communication service providers to monetize various markets, including consumer, enterprise, wholesale, and the expanding SaaS and cloud ecosystems. Optiva's software supports the introduction of new revenue streams and innovative tariffs, payment solutions, data services, and advanced customer care and subscriber self-care functionality. Optiva is the parent of the wholly owned operating subsidiary, Optiva Canada Inc., and its various subsidiaries.

1. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and do not include all the information required for full annual consolidated financial statements. These condensed consolidated interim financial statements for the three months ended December 31, 2018 were authorized for issuance by the Board of Directors of the Company on February 6, 2019.

(b) Judgments and estimates:

In preparing these condensed consolidated interim financial statements, management makes judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenue and expenses. Actual results may differ from these estimates.

1. Basis of preparation (continued):

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended September 30, 2018 (the "2018 annual financial statements"), except as described in note 2(a)(i).

2. Significant accounting policies:

(a) Basis of measurement and presentation:

The notes presented in these condensed consolidated interim financial statements include, in general, only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the 2018 annual financial statements, including the notes thereto. Except as discussed below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the 2018 annual financial statements.

(i) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

The Company’s accounting policy under IFRS 15, adopted effective October 1, 2018, is as follows:

Revenue Recognition

(a) General:

The Company's revenue is derived primarily from licensing of software products under non-cancellable license agreements, the provision of related professional services (including installation, customization, integration and training) and post-contract customer support ("PCS"). In certain cases, the Company also provides customers with hardware in conjunction with its software offerings. Revenue comprises the amount the Company expects to receive for the sale or license of products or the provision of services in the ordinary course of business, net of discounts and sales taxes. Revenue is recognized upon transfer of control of the promised products or services to the customer. Out-of-pocket expenses that are contractually reimbursable from customers are recorded as gross revenue and expenses.

2. Significant accounting policies (continued):

(b) Arrangements with multiple goods or services:

The Company enters into arrangements that contain separately identifiable components, which may include any combination of software, services, PCS and/or hardware. Where multiple transactions or contracts are linked, such that the individual transactions have no commercial effect on their own, the transactions are evaluated as a combined customer contract for purposes of revenue recognition.

When two or more revenue-generating activities are promised under an arrangement, the arrangement is evaluated to determine the performance obligations for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Where products or services are non-distinct, they are combined with other goods and services until they are distinct and form a single performance obligation.

Where a contract with a customer includes multiple performance obligations, revenue is allocated to each obligation based on its estimated standalone selling price ("SSP").

(c) Software:

The Company sells on-premise software licenses primarily on a perpetual basis. Where licensed software is combined with non-distinct services as a combined performance obligation, revenue is recognized according to the percentage-of-completion method. The Company uses either the ratio of hours to estimated total hours or the completion of applicable milestones, as appropriate, as the measure of its progress to completion on each contract. If a loss on a contract is considered probable, the loss is recognized at the date determinable. Distinct software licenses, when not combined with services for accounting purposes, are recognized upon delivery and commencement of the customer's right to use the software.

(d) Software-as-a-service (SaaS):

Software-as-a-service ("SaaS") allows a customer access to the Company's software on a platform hosted by a third party without taking possession of the software. SaaS is typically offered on a fixed-term basis. Where fees are fixed for the term, revenue is recognized ratably over the term commencing when the customer has the right to

2. Significant accounting policies (continued):

access the platform. Where the fees are based on periodic activity, revenue is recognized as invoiced to the customer at each period.

(e) Services:

Revenue for installation, implementation, training and other services, when not combined with software as a combined performance obligation, is recognized as the services are delivered to the customer. Fixed fee service arrangements are recognized using the percentage-of-completion method based on labour input measures.

(f) Post-contract support (PCS):

PCS revenue is recognized ratably over the term of the PCS agreement.

(g) Third party software and hardware:

Third party software and hardware revenue is recognized when control of the product transfers to the customer. When the products are distinct, control typically transfers upon delivery to the customer. Where such products are related to professional services as a combined performance obligation, the percentage-of-completion method is applied.

(h) Unbilled and deferred revenue:

Amounts are generally billable on reaching certain performance milestones, as defined by individual contracts. Revenue in excess of contract billings is recorded as unbilled revenue. Cash proceeds received in advance of performance under contracts are recorded as deferred revenue. Deferred and unbilled revenue is classified as long-term if it relates to performance obligations that are expected to be fulfilled greater than 12 months from period end.

Key sources of estimation uncertainty

In its determination of the amount and timing of revenue to be recognized, management relies on assumptions and estimates supporting its revenue recognition policy. Estimates of the percentage-of-completion for customer projects are based upon current actual and forecasted information and contractual terms.

Under IFRS 15, the Company must estimate the SSP for each distinct performance obligation in order to allocate revenue within a contract. In general, SSP for maintenance and support

2. Significant accounting policies (continued):

bundled in perpetual license and on-premise subscription arrangements is established as a percentage of the license fee as supported by internal analysis of similar vendor contracts and third party evidence when and if available. SSP for hosting and professional services is established based on observable prices for the same or similar services when sold separately, or estimated using a cost plus margin approach.

Critical judgments in applying accounting policies

A significant portion of the Company's revenue is generated from large and complex customer contracts. Management's judgment is applied regarding, among other aspects, the evaluation of multiple products and services within these arrangements to assess whether deliverables are i) distinct performance obligations capable of being recognized separately or ii) non-distinct and must be combined with other goods and/or services as a combined performance obligation for revenue recognition purposes. In evaluating whether software is separable from services, the Company's judgments include, among other things, assessing the nature and complexity of the services, the degree to which they involve significant customization of the licensed software, and whether other vendors could provide the services.

Impact of Transition to IFRS 15

Effective October 1, 2018 the Company adopted IFRS 15 using the cumulative effect method which requires the Company to recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity as at October 1, 2018. Therefore, the comparative information has not been restated.

Adoption of IFRS 15 has had no impact on the accounting for the Company’s professional services, third party goods and services and legacy post-contract support contracts on previously delivered perpetual licenses. Adoption has impacted certain customer arrangements containing software licenses for which the customer has the right to pay for the software as it increases its capacity usage over a fixed term.

The Company has certain license arrangements where the customer has the right to increase its licensed capacity within stated capacity thresholds over a fixed time period, subject to a contractual minimum license requirement. Prior to adopting IFRS 15, revenue was recognized based on customer usage and billed as such incremental capacity was delivered. Under IFRS 15, the Company considers these license to be perpetual in nature. The performance obligation containing the license is fully transferred at the time of customer acceptance of the license, and therefore the transaction price allocated to the minimum license commitment is recognized at that time. For these contracts, this results in earlier recognition of license revenue. In addition, where payment terms related to these licenses

2. Significant accounting policies (continued):

extend beyond a period of one year, the Company has determined that a significant financing component exists. The value of these financing components was assessed using an appropriate interest rate and best estimate of the value and timing of the remaining payments over the expected term of the agreement.

Prior to adopting IFRS 15, the Company reported unbilled revenue and deferred revenue balances in its consolidated balance sheet on the basis of the individual performance obligations within each customer arrangement. Under IFRS 15, the status of the contract must be presented on a net basis as either unbilled or deferred revenue to reflect the nature of the net underlying rights and performance obligations at the contract level on the statement of financial position. Where a contract is combined for accounting purposes with one or more other contracts, the net contract balance position must be determined and reported at the aggregate level for all combined contracts.

The Company reviewed the tax implications of adjustments made at adoption and determined that these resulted in an increase in deferred tax liabilities as a result of transferring revenue to the prior period. This increase is fully offset by recognition of previously unrecorded deferred tax assets of equal value and therefore no adjustment is required.

New and expanded annual disclosure requirements on revenue, performance obligations, and contract balances are also expected to be significant and require changes to processes to accumulate and report aggregated data requirements.

(Expressed in U.S. dollars)

2. Significant accounting policies (continued):

The following table summarizes the impact on the Company's statement of financial position at October 1, 2018 as a result of adopting IFRS 15:

	As at October 1, 2018		
	Pre-IFRS 15 Adoption	Adjustments	Post-IFRS 15 Adoption
Assets			
Current assets			
Unbilled revenue	$ 12,908,847	$ (1,320,995)	$ 11,587,852
Other assets	59,501,008	(190,934)	59,310,074
Non-current assets			
Long-term unbilled revenue	1,531,062	4,558,431	6,089,493
Deferred income taxes	2,093,716	–	2,093,716
Other assets	54,727,038	–	54,727,038
Total assets	$ 130,761,671	$ 3,046,502	$ 133,808,173
Liabilities & Shareholders' Deficit			
Current liabilities			
Deferred revenue	$ 13,445,746	$ (1,701,555)	$ 11,744,191
Other liabilities	42,556,658	–	42,556,658
Non-current liabilities			
Deferred revenue	1,512,863	–	1,512,863
Deferred income taxes	120,000	–	120,000
Other liabilities	103,451,959	–	103,451,959
Total liabilities	161,087,226	(1,701,555)	159,385,671
Shareholders' deficit			
Other equity	254,993,435	–	254,993,435
Deficit	(285,318,990)	4,748,057	(280,570,933)
Total liabilities and shareholders' deficit	$ 130,761,671	$ 3,046,502	$ 133,808,173

(Expressed in U.S. dollars)

2. Significant accounting policies (continued):

The following table summarizes the impact of adopting IFRS 15 on the Company's condensed consolidated interim financial statements for the three months ended December 31, 2018:

	As at December 31, 2018		
	As reported	Adjustments	Without IFRS 15 Adoption
Assets			
Current assets			
Unbilled revenue	$ 7,542,256	$ 1,208,738	$ 8,750,994
Other assets	55,240,178	497,148	55,737,326
Non-current assets			
Long-term unbilled revenue	5,647,957	(4,291,016)	1,356,941
Deferred income taxes	2,013,177	–	2,013,177
Other assets	52,937,361	–	52,937,361
Total assets	$ 123,380,929	$ (2,585,130)	$ 120,795,799
Liabilities & Shareholders' Deficit			
Current liabilities			
Deferred revenue	$ 7,600,674	$ 2,182,648	$ 9,783,322
Other liabilities	39,435,649	–	39,435,649
Non-current liabilities			
Deferred revenue	1,730,822	267,415	1,998,237
Deferred income taxes	120,000	–	120,000
Other liabilities	99,283,745	–	99,283,745
Total liabilities	148,170,890	2,450,063	150,620,953
Shareholders' deficit			
Other equity	255,242,599	–	255,242,599
Deficit	(280,032,560)	(5,035,193)	(285,067,753)
Total liabilities and shareholders' deficit	$ 123,380,929	$ (2,585,130)	$120,795,799

(Expressed in U.S. dollars)

2. Significant accounting policies (continued):

	Three Months ended December 31, 2018		
	As reported	Adjustments	Without IFRS 15 Adoption
Revenue			
Support and subscription	$ 21,271,783	$ 4,134	$ 21,275,917
Software licenses, services and other	6,344,979	(291,270)	6,053,709
	27,616,762	(287,136)	27,329,626
Expenses	25,778,532	–	25,778,532
Income before income taxes	1,838,230	(287,136)	1,551,094
Income tax expense			
Current	1,227,884	–	1,227,884
Deferred	71,973	–	71,973
Income for the period	$ 538,373	$ (287,136)	$ 251,237
Earnings per share			
Basic	0.10	(0.05)	0.05
Diluted	0.10	(0.05)	0.05

(ii) IFRS 9, Financial Instruments ("IFRS 9"):

Effective October 1, 2018, the Company adopted IFRS 9, which sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This standard simplifies the classification of financial assets as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39, Financial Instruments: recognition and measurement (“IAS 39”). This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39.

All financial assets that are within the scope of IFRS 9 are required to be measured at amortized cost or fair value on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The new standard also includes a new expected credit loss model for calculating impairment on financial assets, replacing the incurred loss model under IAS 39. The new impairment model applies to financial assets at amortized cost and contract assets. Furthermore, IFRS 9 also

2. Significant accounting policies (continued):

introduces new hedge accounting requirements aligning more closely with an entity's risk management objectives and strategies.

Cash and cash equivalents, restricted cash, trade and other receivables that were classified as loans and receivables under IAS 39, respectively, are now classified as financial assets measured at amortized cost. Trade payables, accrued liabilities provisions, long-term liabilities and preferred shares were classified as other financial liabilities under IAS 39, respectively, are now classified as financial liabilities measured at amortized cost. Series A warrant that was classified as financial liability at fair value through profit or loss under IAS 39, continues to be recognized as a financial liability at fair value through profit or loss under IFRS 9. There is no change to the initial measurement of the Company's financial assets. The adoption of IFRS 9 did not have any material impact on the condensed consolidated interim financial statements.

(b) Basis of consolidation:

The condensed consolidated interim financial statements include the financial statements of the Company, Optiva Inc. and its wholly-owned subsidiary companies. All significant intercompany balances and transactions have been eliminated upon consolidation.

(c) Functional currency:

The condensed consolidated interim financial statements are presented in U.S. dollars, which is the Company's functional currency.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities not denominated in the functional currency are translated at the period-end exchange rates. Foreign exchange gains and losses are recognized in the condensed consolidated interim statements of comprehensive income (loss).

(d) New accounting pronouncements:

The IASB has issued new standards and amendments to existing standards. These changes in accounting are not yet effective at December 31, 2018 and could have an impact on future periods.

2. Significant accounting policies (continued):

(i) IFRS 16, Leases ("IFRS 16"):

On January 13, 2016, the IASB issued IFRS 16. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, Leases ("IAS 17"). This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company will adopt the standard effective January 1, 2020 and is in the process of assessing the impact on its consolidated financial statements.

3. Cash and cash equivalents:

The Company maintains its cash balances with reputable banks with high credit ratings. The Company operates in several jurisdictions, some of which impose currency remittance restrictions and income tax withholdings, which impacts the timing and amount of cash which can be repatriated from these countries.

(Expressed in U.S. dollars)

4. Trade accounts and other receivables:

	December 31, 2018	September 30, 2018
Trade receivables, net of allowance for doubtful accounts	$ 12,400,566	$ 13,093,578
Other receivables (a)	1,839,614	1,756,843
Employee receivables (b)	86,637	103,870
	$ 14,326,817	$ 14,954,291

(a) At December 31, 2018 and September 30, 2018, the other receivables balance mainly includes amounts relating to indirect taxes receivable.

(b) Employee receivables represent advances for business travel and are adjusted as travel is completed and an expense reimbursement is claimed by the employees.

5. Share Capital:

(a) Series A Preferred Shares and Subordinate Voting Shares:

On January 26, 2017, the Company issued 800,000 Series A Preferred Shares (the “Preferred Shares”) of the Company and a warrant (“the “Series A Warrant”) (collectively the “Financing Transaction”) to ESW Holdings, Inc. (formerly known as Wave Systems Corp.) (the “Investor”), an affiliate of ESW Capital LLC (“ESW Capital”). The Investor, as the holder of the Preferred Shares, is entitled to elect a number of directors that will be a majority of the Board of Directors, with the holders of the Subordinate Voting Shares being entitled to elect the balance of the directors, which resulted in the Subordinate Voting Shares becoming "restricted securities" under applicable securities laws and the TSX Company Manual, on January 26, 2017. The Preferred Shares are redeemable any time at the option of the Company and redeemable at the option of the Investor any time after 10 years of issuance. The holders of the Preferred Shares are entitled to dividends, payable quarterly at the rate of 10% per annum of the issue price. Provided that to the extent such dividends are not declared and paid, dividends shall accrue and compound monthly at the rate of 10%.

The Preferred Shares will be accreted to their face amount of $80,000,000 plus accrued cumulative dividends over the 10-year maturity period using the effective interest rate method. During the three months ended December 31, 2018, accretion expense, amortization of transaction costs and accrued dividends on the Preferred Shares amounted to $2,443,369 (2017 - $2,492,838). These charges are included in finance costs in the condensed consolidated interim statements of comprehensive income (loss). During the three months ended December 31, 2018, cumulative dividends in amount of $2,000,000 were

(Expressed in U.S. dollars)

5. Share Capital (continued):

paid (2017 - nil). The amount of accrued dividends have been included in the Preferred Shares on the condensed consolidated interim statements of financial position.

(b) Series A Warrant and Standby Warrant:

As part of the Financing Transaction, the Company issued a Series A Warrant that entitles the Investor to subscribe for 925,712 Subordinate Voting Shares at $34.00 per share. The Series A Warrant is being classified as a liability because it contains an adjustment provision if the Company issues Subordinated Voting Shares or securities exchangeable for or convertible into Subordinated Voting Shares at a price per share less than the Series A Warrant exercise price of $64.81. The decrease in fair value of the warrant liability of $3,702,847 during the three months ended December 31, 2018 (December 31, 2017 – $2,777,134) is recorded in finance costs/income in the condensed consolidated interim statements of comprehensive income (loss). Any unexercised Series A Warrant expires on January 25, 2027. No Series A Warrant was exercised as at December 31, 2018 (September 30, 2018 – none).

Upon closing of a rights offering of its Subordinate Voting Shares on September 6, 2017, the Company issued a warrant to the Investor that entitles the Investor to subscribe for 50,000 Subordinate Voting Shares at $25.00 per share (the “Standby Warrant”). The fair value of the Standby Warrant, classified as equity upon issuance at September 6, 2017, was $997,500. The Standby Warrant expires on September 5, 2027. No warrants were exercised as at December 31, 2018 (September 30, 2018 – none).

(c) Income / (Loss) per share:

A reconciliation of the number of common shares used for purposes of calculating basic and diluted income (loss) per common share for the three months ended December 31, 2018 is as follows:

	Three months ended December 31, 2018	Three months ended December 31, 2017
Basic weighted average number of common shares outstanding	5,233,047	5,233,047
Effect of dilutive securities	413,305	–
Diluted weighted average number of common shares outstanding	5,646,352	5,233,047

(Expressed in U.S. dollars)

5. Share Capital (continued):

The total number of stock options that were excluded from the calculation for the three months ended December 31, 2018 was 49,853 as their inclusion would be anti-dilutive.

Due to the losses for the three months ended December 31, 2017, all stock options, the Series A Warrant and the Standby Warrant, were excluded from the calculation of diluted loss per common share as their inclusion would be anti-dilutive. The total number of stock options that were excluded from the calculation for the three months ended December 31, 2017 were 88,787. The Series A Warrant and the Standby Warrant are equivalent to 925,712 and 50,000 Subordinate Voting Shares respectively, all of which were excluded from the calculation for the three months ended December 31, 2017.

(d) Share-based compensation:

The share-based compensation relating to the Company's stock options, deferred share unit plan and under the share unit plan during the three months ended December 31, 2018 was an expense of $234,425 (2017 – expense of $1,238,479).

(i) Stock options:

The table below is a summary of the stock option plans for the three months ended December 31, 2018:

	CAD options	
	Number of stock options	Weighted average exercise price per share (CAD)
Outstanding, September 30, 2018	51,775	$ 147.94
Forfeited	(1,922)	191.28
Outstanding, December 31, 2018	49,853	$ 146.27

(Expressed in U.S. dollars)

5. Share Capital (continued):

(ii) Share unit plan:

The table below is a summary of the restricted share units ("RSU") and performance share units ("PSU") for the three months ended December 31, 2018:

RSU & PSU	
Outstanding, September 30, 2018	108,418
Exercised	(690)
Forfeited	(4,366)
Outstanding, December 31, 2018	103,362

There were no shares issued from the treasury stock during the months ended December 31, 2018 and December 31, 2017.

(iii) Deferred share unit plan:

During the three months ended December 31, 2018, there were no deferred share units ("DSUs") granted (December 31, 2017 – nil), 4,252 DSUs were exercised and no DSUs were cancelled or forfeited (December 31, 2017 – nil exercised and nil cancelled or forfeited). The number of DSUs outstanding at December 31, 2018 was 29,132 (September 30, 2018 – 33,384).

6. Income tax expense:

The Company's current income tax expense for the three months ended December 31, 2018 mainly includes $265,915 (2017 - $964,334) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and $961,969 (2017 - $410,304) of foreign withholding taxes. The Company's deferred tax expense of $71,973 (2017 – expense of $17,307) consists primarily of changes in temporary differences recognized during the current period.

(Expressed in U.S. dollars)

7. Change in non-cash operating working capital:

The change in non-cash working capital for the three months ended December 31, 2018 is as follows:

	Three months ended December 31, 2018	Three months ended December 31, 2017
Trade accounts and other receivables	$ 437,542	$ 2,817,494
Unbilled revenue	4,487,132	(440,782)
Prepaid expenses	(40,012)	566,716
Other assets	(104,867)	(234,046)
Inventories	10,030	142,005
Trade payables	481,020	3,359,105
Accrued liabilities and other liabilities	(2,169,127)	583,316
Income taxes receivable/payable	(139,104)	(82,502)
Deferred revenue	(3,925,558)	(4,696,009)
	$ (962,944)	$ 2,015,297

8. Financial instruments and capital management:

The Company has adopted a three-level fair value hierarchy that reflects the significance of the inputs used to measure fair value. The three levels of the fair value hierarchy based on the reliability of inputs are as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly (i.e., prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the financial asset or financial liability that are not based on observable market data (i.e., unobservable inputs that represent the Company's own judgments about what assumptions market place participants would use in pricing the asset or liability developed, based on the best information available in the circumstances).

(Expressed in U.S. dollars)

8. Financial instruments and capital management (continued):

In the table below, the Company has segregated all financial assets and financial liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy, based on the inputs used to determine the fair value at the measurement date.

Financial assets and liabilities measured at fair value are summarized below:

	December 31, 2018		September 30, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Warrant classified as liability (Level 2)	18,051,376	18,051,376	21,754,223	21,754,223
Preferred Shares (Level 2)	58,305,787	58,305,787	57,862,418	57,862,418

There were no transfers of financial assets between levels during the three months ended December 31, 2018 and 2017.

The Company's financial instruments are classified as financial assets and financial liabilities at FVTPL or as financial assets and financial liabilities measured at amortized cost, as described in note 2(a).

The carrying values of cash, restricted cash, trade accounts and other receivables, trade payables, accrued liabilities, provisions and other liabilities approximate fair values because of the short-term nature of these financial instruments.

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. The estimates are subjective in nature and involve uncertainties and matters of judgment.

(Expressed in U.S. dollars)

9. Segment Reporting:

The Company has determined that it operates in a single reportable operating segment, the telecommunications software market. The single reportable operating segment derives its revenue from the sale of software products and related services and hardware.

Revenue is attributed to geographic locations, based on the location of the external customer. The Company's revenue by geographic area for the three months ended December 31 is as follows:

	Three months ended December 31, 2018	Three months ended December 31, 2017
Europe, Middle East and Africa	$ 14,520,035	$ 15,707,449
North America, Latin America and Caribbean	7,151,580	7,070,207
Asia and Pacific Rim	5,945,147	11,622,780
	$ 27,616,762	$ 34,400,436

The Company's revenue by type for the three months ended December 31 is as follows:

	Three months ended December 31, 2018	Three months ended December 31, 2017
Revenue by type:		
Software and services	$ 6,048,195	$ 10,500,889
Support and subscription	21,271,783	21,414,853
Third-party software and hardware	296,784	2,484,694
	$ 27,616,762	$ 34,400,436

10. Restricted cash, guarantees and contingent liabilities:

(a) Restricted cash:

As at December 31, 2018, the Company had $3,026,118 (September 30, 2018 - $3,507,759) cash allocated for planned payments to early retirees and lease guarantees, which are secured by restricted cash. The restricted cash is shown separately in the condensed consolidated interim statements of financial position.

10. Restricted cash, guarantees and contingent liabilities (continued):

(b) Guarantees and contingent liabilities:

The Company has provided routine indemnifications to its customers against liability if the Company's products infringe on a third party's intellectual property rights. The maximum exposure from these indemnifications cannot be reasonably estimated. In some cases, the Company has recourse against other parties to mitigate its risk of loss from these guarantees.

In the normal course of operations, the Company is subject to claims from time to time, relating to labour, customers and other. The Company vigorously defends itself against such claims and reviews the probability of outcome that may result in an outflow of its cash or other resources as at each consolidated statement of financial position date. Although it is not always possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse impact on the results of operations, financial position or liquidity of the Company.

The Company is defending certain claims related to terminated employees, customer and other contract terminations and intellectual property matters. Where an outflow of resources is considered probable, a provision has been recognized in the condensed consolidated interim statements of financial position at September 30, 2018 and December 31, 2018 as the best estimate of the probable costs that the Company will incur associated with the claims. The charges are recorded in restructuring costs where employee related and in general and administrative expense on the consolidated statement of comprehensive income (loss) for other claims. Although liability is not admitted, if a defense against these matters are unsuccessful, the Company may incur the costs associated with the claims that will likely be settled within twelve months from December 31, 2018.

(Expressed in U.S. dollars)

11. Provisions:

	Restructuring (a)	Other (b)	Total
Balance, September 30, 2018	$ 9,356,680	$ 3,960,528	$ 13,317,208
Additions	595,963	740,000	1,335,963
Cash payments	(1,829,096)	–	(1,829,096)
Release of provision	–	(1,519,520)	(1,519,520)
Foreign exchange	(295,502)	–	(295,502)
Balance, December 31, 2018	$ 7,828,045	3,181,008	$ 11,009,053
Current			$ 5,748,003
Non-current			5,261,050
Balance, December 31, 2018			$ 11,009,053
Current			$ 7,655,199
Non-current			5,662,009
Balance, September 30, 2018			$ 13,317,208

(a) In February 2017, under the new strategic plan, the Company announced a corporate restructuring plan that is expected to be completed in fiscal 2019. The restructuring involves further reduction in headcount, location reorganization including closure of certain facilities and entity simplification. In November 2017, the Company finalized a restructuring plan to reduce approximately 530 employees globally and vacate premises in 18 locations.

During the three months ended December 31, 2018, restructuring charges related to employee and lease terminations of $595,963 (2017 - $46,967,338) were recorded.

For the three months ended December 31, 2018, an amount of $1,829,096 has been paid and an additional amount of $2,566,995 is estimated as payable within one year. The balance of the restructuring provision of $5,261,050, classified as long-term, is payable over three years and has been discounted to its present value.

The recognition of restructuring charges requires management to make certain judgments and estimates regarding the nature, timing and amounts associated with the restructuring actions. Management's significant assumptions included the timing and number of employees to be terminated and the measurement of termination costs. The Company

11. Provisions (continued):

developed a detailed plan and has recorded termination costs for employees informed of their termination. At the end of each reporting period, management evaluates the appropriateness of the restructuring charges and provision balances. Further adjustments may be required to reflect actual experience, terminated employee claims as described in note 10(b) or changes in estimates.

(b) The balance at September 30, 2018 in other provision includes the intellectual property claim and terminated contracts as described above in note 10(b) and loss provisions related to certain customer contracts where it was probable that the total costs to complete these contracts will exceed the contract revenue.

During the three months ended December 31, 2018, the Company amended one of its existing loss contracts. On review of the estimated costs to complete the revised scope of the contract, the Company determined the contract revenue was expected to exceed the contract costs and hence the provision was reversed. The reversal, amounting to $1,519,520, has been recorded as a recovery in cost of revenue in the condensed consolidated interim statements of comprehensive income (loss) where the provision was initially recorded.

Although liability is not admitted, if a defense against these matters is unsuccessful, the Company may incur additional costs associated with the claims that may exceed the Company's best estimate of the provision at December 31, 2018.

12. Related Party Transactions:

In September 2017, the Company entered into long term service agreements with Crossover Markets Inc. ("Crossover") and DevFactory FZ-LLC ("DevFactory"), (collectively the "Service Agreements") who provide cross functional and specialized technical services. The Service Agreements can be terminated by either party with 30 days written notice. The Service Agreements were negotiated and approved by the Special Committee of the Board of Directors. The contracted rates with these related parties are priced as agreed to by the parties and are to be settled in cash on normal payment terms upon receipt of invoices. The Company has not offered any security to these vendors.

Crossover provides Optiva with access to skilled temporary employees. These resources provide a variety of services, including HR, operations, finance, and support functions, at any global location for pricing agreed to in the Crossover service agreement. During the three months ended December 31, 2018, the Company has incurred $6,385,649 of costs associated with services provided by Crossover (December 31, 2017 – $6,060,905). The costs have been recorded in

12. Related Party Transactions (continued):

cost of revenue or operating expenses in accordance with the department of the contract resource in the condensed consolidated interim statements of comprehensive income (loss).

DevFactory provides certain technology services to Optiva as per agreed statements of work. The technology services include source code analysis, code cleanup service and various other technical services related to Optiva's software solutions. During the three months ended December 31, 2018, the Company has incurred $6,927,640 of costs associated with services provided by DevFactory (December 31, 2017 – $6,798,238). The costs have been recorded in cost of revenue and research and development expenses in accordance with the nature of the expenditure in the condensed consolidated interim statements of comprehensive income (loss)..

Amounts owing to Crossover and DevFactory as of December 31, 2018 aggregated to $20,785,228 (September 30, 2018 - $18,755,628) and are included in both trade payables and accrued liabilities in the condensed consolidated interim statement of financial position at the respective period ends.

In the normal course of business, the Company retained certain contractors with specialized skills and knowledge to assist the Company in its operations. These contractors are retained from other entities controlled by ESW Capital. The costs of these contractors are $35,834 for the three months ended December 31, 2018 (2017 – $75,732) and have been recorded in general and administrative expense in the condensed consolidated interim statements of comprehensive income (loss). Amounts owing to these entities as of December 31, 2018 aggregated to $376,533 (September 30, 2018 - $340,699) and are included in accrued liabilities in the condensed consolidated interim statement of financial position.