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

OPTIVA INC.

Years ended September 30, 2018 and 2017

MANAGEMENT'S RESPONSIBILITY

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of Optiva Inc. (the "Company"). Management is responsible for the information and representations contained in these consolidated financial statements.

We maintain appropriate processes to ensure that we produce relevant and reliable financial information. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The significant accounting policies, which management believes are appropriate for the Company, are described in note 2 to the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. The Board of Directors appoint an Audit Committee of three independent directors to review the consolidated financial statements, as well as the adequacy of its internal controls, audit process and financial reporting with management and with the external auditors. The Audit Committee reports to the Board of Directors prior to the approval of the audited consolidated financial statements for publication.

KPMG LLP, our independent auditors appointed by security holders at the last annual meeting, have audited the consolidated financial statements. Their report is presented below.

/s/ Danielle Royston
Chief Executive Officer

/s/ Ken Taylor
Chief Financial Officer

December 12, 2018
Toronto, Canada

KPMG LLP
100 New Park Place
Suite 1400
Vaughan, ON
L4K 0J3

Telephone (905) 265-5900
Fax (905) 265-6390
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Optiva Inc.

We have audited the accompanying consolidated financial statements of Optiva Inc., which comprise the consolidated statements of financial position as at September 30, 2018 and September 30, 2017, the consolidated statements of comprehensive loss, changes in shareholders' equity (deficit) and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Optiva Inc. as at September 30, 2018 and September 30, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Yours very truly,

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

December 12, 2018
Toronto, Canada

OPTIVA INC.

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

September 30, 2018 and 2017

		2018		2017
Assets				
Current assets:				
Cash and cash equivalents (note 7)	$	36,174,863	$	110,891,744
Trade accounts and other receivables (note 8)		14,954,291		26,329,505
Unbilled revenue		12,908,847		17,928,405
Prepaid expenses		1,833,105		2,205,887
Income taxes receivable		5,173,450		4,329,580
Other assets		253,517		–
Inventories		1,111,782		1,101,929
Total current assets		72,409,855		162,787,050
Restricted cash (note 16(b))		3,507,759		4,553,623
Property and equipment (note 9)		541,861		3,457,611
Deferred income taxes (note 13(d))		2,093,716		2,328,129
Investment tax credits (note 13(c))		361,810		374,387
Long-term unbilled revenue		1,531,062		–
Other assets		–		1,353,968
Intangible assets (note 10(a))		18,044,530		25,505,620
Goodwill (note 10(b))		32,271,078		32,271,078
Total assets	$	130,761,671	$	232,631,466
Liabilities and Shareholders' Equity (Deficit)				
Current liabilities:				
Trade payables	$	21,568,158	$	11,229,091
Accrued liabilities		12,832,812		16,853,190
Provisions (note 17)		7,655,199		18,653,817
Income taxes payable		500,489		322,403
Deferred revenue		13,445,746		15,572,620
Total current liabilities		56,002,404		62,631,121
Deferred revenue		1,512,863		894,409
Other liabilities		1,272,488		807,390
Pension and other long-term employment benefit plans (note 11)		16,900,821		17,886,630
Provisions (note 17)		5,662,009		824,626
Preferred shares (note 12(c))		57,862,418		59,670,913
Series A Warrant (note 12 (c))		21,754,223		29,622,772
Deferred income taxes (note 13(d))		120,000		120,000
Total liabilities		161,087,226		172,457,861
Shareholders' equity (deficit):				
Share capital		248,680,325		248,680,325
Standby Warrant (note 12(d))		997,500		997,500
Contributed surplus		13,386,978		11,684,537
Deficit		(285,318,990)		(192,727,334)
Accumulated other comprehensive loss		(8,071,368)		(8,461,423)
Total shareholders' equity (deficit)		(30,325,555)		60,173,605
Total liabilities and shareholders' equity (deficit)	$	130,761,671	$	232,631,466

Commitments, restricted cash, guarantees and contingent liabilities (note 16)

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

OPTIVA INC.

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

Years ended September 30, 2018 and 2017

	2018	2017
Revenue:		
Support and subscription	$ 84,747,291	$ 88,339,593
Software licenses, services and other	36,879,413	49,584,141
	121,626,704	137,923,734
Cost of revenue (note 5)	50,711,612	58,028,200
Gross profit	70,915,092	79,895,534
Operating expenses (note 5):		
Sales and marketing	11,331,769	19,221,936
General and administrative	31,076,334	36,027,413
Research and development	61,515,108	41,944,025
Restructuring costs (note 17(a))	51,775,138	18,771,333
	155,698,349	115,964,707
Loss from operations	(84,783,257)	(36,069,173)
Foreign exchange loss	(317,823)	(3,073,512)
Other expense	–	(1,450,928)
Finance income (note 6(b))	523,718	247,339
Finance costs (note 6(a))	(2,572,010)	(13,139,496)
Loss before income taxes	(87,149,372)	(53,485,770)
Income tax expense (recovery) (note 13(a)):		
Current	5,391,880	6,166,388
Deferred	50,404	(878,867)
	5,442,284	5,287,521
Loss for the year	(92,591,656)	(58,773,291)
Other comprehensive income:		
Items that will not be reclassified to net income:		
Actuarial gain on pension and non-pension post-employment benefit plans, net of income tax expense of nil (2017 - nil) (note 11)	390,055	2,984,327
Total comprehensive loss	$ (92,201,601)	$ (55,788,964)
Loss per common share (Note 12(b) and 12(e):		
Basic	$ (17,69)	$ (24.47)
Diluted	(17.69)	(24.47)
Weighted average number of common shares (note 12(e)):		
Basic	5,233,047	2,402,132
Diluted	5,233,047	2,402,132

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

OPTIVA INC.

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

Years ended September 30, 2018 and 2017

	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, 2017	5,233,047	$ 248,680,325	$ 997,500	$ 11,684,537	$ (192,727,334)	$ (8,461,423)	$ 60,173,605
Loss for the year	–	–	–	–	(92,591,656)	–	(92,591,656)
Defined benefit plan actuarial gain (note 11)	–	–	–	–	–	390,055	390,055
Share-based compensation (note 12)	–	–	–	1,702,441	–	–	1,702,441
Balance, September 30, 2018	5,233,047	$ 248,680,325	$ 997,500	$ 13,386,978	$ (285,318,990)	$ (8,071,368)	$ (30,325,555)
Balance, September 30, 2016	2,165,049	$ 172,436,385	$ –	$ 9,670,628	$ (133,954,043)	$ (11,445,750)	$ 36,707,220
Loss for the year	–	–	–	–	(58,773,291)	–	(58,773,291)
Defined benefit plan actuarial gain (note 11)	–	–	–	–	–	2,984,327	2,984,327
Issue of shares under Rights Offering (note 12(d))	3,062,498	75,919,263	–	–	–	–	75,919,263
Issue of standby warrant (note 12(d))	–	–	997,500	–	–	–	997,500
Share-based compensation (note 12)	–	–	–	2,133,853	–	–	2,133,853
Stock options exercised (note 12(h))	5,500	324,677	–	(119,944)	–	–	204,733
Balance, September 30, 2017	5,233,047	$ 248,680,325	$ 997,500	$ 11,684,537	$ (192,727,334)	$ (8,461,423)	$ 60,173,605

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

OPTIVA INC.

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

Years ended September 30, 2018 and 2017

	2018	2017
Cash provided by (used in):		
Operating activities:		
Loss for the year	$ (92,591,656)	$ (58,773,291)
Adjustments for:		
Depreciation of property and equipment (note 9)	2,505,018	2,945,947
Amortization of intangible assets (note 10)	7,487,034	9,053,704
Finance income (note 6(b))	(523,718)	(247,339)
Finance costs (note 6(a))	2,572,010	13,139,496
Income tax expense (note 13)	5,442,284	5,287,521
Unrealized foreign exchange loss	3,073,740	171,743
Share-based compensation (note 12)	2,776,008	1,584,208
Pensions	(595,754)	483,373
Provisions	(6,161,235)	(9,186,180)
Loss on disposal of property and equipment (note 9)	421,610	–
Change in non-cash operating working capital (note 14)	20,708,948	14,640,785
	(54,885,711)	(20,900,033)
Interest paid	(185,333)	(422,116)
Interest received	512,379	284,285
Income taxes paid	(6,452,848)	(7,931,044)
	(61,011,513)	(28,968,908)
Financing activities:		
Issue of preferred shares and warrant (note 12(c))	–	79,861,542
Issue of shares under rights offering (note 12(d))	–	76,916,763
Proceeds from exercise of stock options	–	204,733
Interest paid on loans and borrowings	–	(2,330,904)
Repayment of loans and borrowings	–	(52,750,000)
Dividends paid (note 12(c))	(11,640,670)	–
	(11,640,670)	101,902,134
Investing activities:		
Purchase of property and equipment (note 9)	(5,538)	(514,519)
Purchase of intangible assets (note 10)	(9,985)	–
Decrease in restricted cash	1,045,864	28,670
	1,030,341	(485,849)
Effect of foreign exchange rate changes on cash and cash equivalents	(3,095,039)	1,363,857
Increase (decrease) in cash and cash equivalents	(74,716,881)	73,811,234
Cash and cash equivalents, beginning of year	110,891,744	37,080,510
Cash and cash equivalents, end of year	$ 36,174,863	$ 110,891,744

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

Reporting Entity

Optiva Inc. (formerly Redknee Solutions 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. On January 16, 2018, the Company announced its corporate name change to Optiva Inc. The name change was approved on March 28, 2018 at the Company’s Annual and Special Meeting. Shareholders passed a resolution to amend the Company’s articles, completing the shareholder and regulatory processes. The official effective date for the name change was March 29, 2018. Effective April 5, 2018, the Company now trades on the Toronto Stock Exchange under a new ticker symbol — TSX: OPT (formerly RKN).

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. Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements for the year ended September 30, 2018 were authorized for issuance by the Board of Directors of the Company on December 12, 2018.

On December 12, 2018 the Board of Directors approved a change in the Company’s fiscal year end from September 30, to December 31. The change is to conform the Company’s fiscal year end with the majority of other companies in our industry. The change in the year end is subject to regulatory approval. If approved, the Company’s next fiscal reporting period would be for the fifteen months ending December 31, 2019.

2. Significant accounting policies:

(a) Basis of measurement and presentation:

These consolidated financial statements have been prepared on a historical cost basis, except for:

- financial assets classified at fair value through profit and loss or as available-for-sale;
- embedded derivative liability, which is measured at fair value;
- plan assets for defined benefit pension plan is recognized as plan assets, plus unrecognized past service cost, less the present value of the defined benefit obligation and is limited as explained in note 11(c); and
- cash-settled share-based payments, which are measured at fair value.

(b) Basis of consolidation:

These consolidated 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 on consolidation.

(c) Functional currency:

The consolidated 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 year-end rates of exchange. Foreign exchange gains and losses are recognized in the consolidated statements of comprehensive loss.

(d) Use of judgments and estimates:

The preparation of consolidated financial statements and application of IFRS often involve management's judgment and the use of estimates and assumptions deemed to be reasonable at the time they are made. The Company reviews estimates and underlying assumptions on an ongoing basis. Revisions are recognized in the year in which the estimates are revised and may impact future years as well. Other results may be derived

2. Significant accounting policies (continued):

with different judgments or using different assumptions or estimates and events may occur that could require a material adjustment.

The following are critical accounting polices subject to judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported consolidated results and consolidated financial position.

(i) Revenue recognition, deferred revenue and unbilled revenue:

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.

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 components within these arrangements to assess whether deliverables can be recognized separately for revenue recognition purposes. This includes whether software installation and implementation services have standalone value to the customer. In evaluating whether software is separable from services, the Company's judgments include, among other things, assessing the nature and complexity of the services, whether other vendors could provide the services, and the linkage of payments of software to delivery of services.

(ii) Trade receivables:

Key sources of estimation uncertainty
The Company monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual trade receivable balances will be paid. Credit risks for outstanding customer receivables are regularly assessed and allowances are recorded for estimated losses.

2. Significant accounting policies (continued):

(iii) Deferred taxes:

Key sources of estimation uncertainty
Deferred tax assets and liabilities are recognized for temporary differences and for tax loss carryforwards. The valuation of deferred tax assets is based on management's estimates of future taxable profits in different tax jurisdictions against which the temporary differences and loss carryforwards may be utilized.

(iv) Estimate of useful lives of property and equipment and intangible assets:

Key sources of estimation uncertainty

Useful lives over which assets are depreciated or amortized are based on management's judgment of future use and performance. Expected useful lives are reviewed annually for any change to estimates and assumptions.

(v) Fair value estimates of share-based compensation:

Key sources of estimation uncertainty
Fair value of stock options is determined using the Black-Scholes option pricing model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the stock options issued. Fair value inputs are subject to market factors, as well as, internal estimates. In addition to the fair value calculation, management estimates the expected forfeiture rate with respect to equity-settled share-based payments based on historical experience.

(vi) Pension and non-pension post-employment benefit plans:

Key sources of estimation uncertainty:
The actuarial valuation of the defined benefit obligation and the fair value of plan assets require estimates, including discount rates applied to the Company's pension plan and non-pension post-employment benefit liabilities.

2. Significant accounting policies (continued):

(vii) Goodwill valuation:

Key sources of estimation uncertainty:
We use estimates in determining the recoverable amount of our cash-generating unit (“CGU”) in performing annual impairment testing of goodwill. The determination of the recoverable amount for the purpose of impairment testing requires the use of significant estimates, such as future cash flows, terminal growth rate and discount rate.

We estimate value in use for impairment tests by discounting estimated future cash flows for periods up to five years to their present value. The future cash flows are based on our estimates of expected future operating results of the cash generating unit (“CGU”) after considering economic conditions and a general outlook for the CGU’s industry. Our discount rates consider market rates of return, debt to equity ratios and certain risk premiums, among other things. The terminal value is the value attributed to the CGU’s operations beyond the projected time period of the cash flows using a perpetuity rate based on expected economic conditions and a general outlook for the industry.

We make certain assumptions when deriving expected future cash flows, which may include assumptions pertaining to discount and terminal growth rates. These assumptions may differ or change quickly depending on economic conditions or other events. It is therefore possible that future changes in assumptions may negatively affect future valuations of the CGU and goodwill, which could result in impairment losses.

(e) Revenue recognition:

(i) 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, 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 fair value of consideration received or receivable from the sale or license of products or the provision of services in the ordinary course of business, net of discounts and sales taxes. Out-of-pocket expenses that are contractually reimbursable from customers are recorded as gross revenue and expenses.

2. Significant accounting policies (continued):

(ii) Arrangements with multiple components:

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 arrangement for purposes of revenue recognition. When two or more revenue-generating activities or deliverables are sold under an arrangement, each deliverable that is considered a separate component is accounted for separately. A deliverable is separately accounted for when a delivered item has standalone value from undelivered items based on the substance of the arrangement. When services are essential to the functionality of the software, the software does not have standalone value and is combined with the essential services as a single component.

Where an arrangement includes multiple components, revenue is allocated to the different components based on their relative fair values or the residual method, as applicable. The Company generally uses optional stated renewal rates to evidence fair value of undelivered term-license/PCS services when the renewal fees and terms are substantive. When stated renewal rates do not exist for an arrangement, the Company considers fees charged on standalone PCS renewals in other similar arrangements to establish fair value. The Company typically evidences fair value for other products and services based on the pricing when those deliverables are sold separately. Where reasonable vendor-specific or third party inputs do not exist to reliably establish fair value, the Company allocates revenue based on its best estimate of selling price that the Company would transact at if the deliverable were sold on a standalone basis. For services, this includes the expected cost of delivery plus an estimated profit margin. Under the residual method, revenue is allocated to undelivered components of the arrangement based on their fair values and the residual amount of the arrangement revenue is allocated to delivered components.

2. Significant accounting policies (continued):

The revenue policies below are applied to each separately identifiable component. Revenue associated with each component is deferred until the criteria required to recognize revenue have been met.

The Company recognizes revenue once persuasive evidence exists, generally in the form of an executed agreement, it is probable the economic benefits of the transaction will flow to the Company and revenue and costs can be measured reliably. If collection is not considered probable, revenue is recognized only once fees are collected.

(iii) Software licenses:

Revenue for combined licensed software and essential services is recognized using contract accounting, following 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.

Perpetual software licenses, when not combined with services for accounting purposes, are recognized upon delivery and commencement of the license term. Term licenses and software subscriptions are generally recognized ratably over the term of the subscription license.

(iv) Other services:

Revenue for installation, implementation, training and other services, where not essential to the functionality of the software, 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.

(v) Post-contract customer support:

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

2. Significant accounting policies (continued):

(vi) Third party software and hardware:

Third party software and hardware revenue is recognized when delivery has occurred and risks and rewards have transferred to the customer, unless related professional services costs are considered essential to the functionality. In these cases, the percentage-of-completion method is applied.

(vii) 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 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.

(f) Net loss per common share:

Basic net loss per common share is computed by dividing loss for the year by the weighted average number of common shares outstanding during the year. Diluted net loss per share is determined by adjusting the income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. The diluted net loss per share calculation, excludes the impact of employee stock options, treasury shares and other potentially dilutive instruments when their inclusion would be anti-dilutive.

(g) Financial instruments:

The Company recognizes financial assets and financial liabilities at fair value when the Company becomes a party to the contractual provision of the instrument at fair value. Financial assets and financial liabilities, with the exception of financial instruments measured at fair value through profit or loss are measured at fair value plus transaction costs on initial recognition. Financial instruments measured at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

2. Significant accounting policies (continued):

Measurement in subsequent periods depends on the classification of the financial instrument:

(i) Financial assets and financial liabilities measured at fair value through profit or loss ("FVTPL"):

Financial assets and financial liabilities are classified at FVTPL when acquired principally for the purpose of trading, if so designated by management, or if they are derivative assets or liabilities. Financial assets and financial liabilities measured at FVTPL are measured at fair value, with changes recognized in the consolidated statements of comprehensive loss.

Embedded derivative liability and warrant are classified at FVTPL.

(ii) Available-for-sale financial assets:

Available-for-sale financial assets are non-derivative financial assets that are either designated as such by management or not classified in any of the other categories. Available-for-sale financial assets are measured at fair value with subsequent changes in fair value, other than impairment losses, recognized in other comprehensive income (loss). Upon sale, the accumulated fair value adjustments recognized in other comprehensive income (loss) are transferred to profit or loss. There were no sales of available for sale financial assets during the years ended September 30, 2018 and 2017.

(iii) Loans and receivables:

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method. Loans and receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default or other circumstances indicate deteriorating economic conditions.

The effective interest method is a method of calculating the amortized cost of an instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount on initial recognition.

2. Significant accounting policies (continued):

Cash, restricted cash and trade accounts and other receivables are classified as loans and receivables.

(iv) Other financial liabilities:

Other financial liabilities are financial liabilities that are not derivative liabilities or liabilities measured at FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Company's other financial liabilities include trade payables, accrued liabilities, provisions, long-term liabilities, and preferred shares.

(h) Cash and cash equivalents:

Cash and cash equivalents include balances with banks and highly liquid instruments with original maturities of less than 90 days at issuance.

(i) Inventories:

Inventories are recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventories include hardware and software held by the Company for customer use and are also purchased when required by specific customer projects; the Company occasionally makes only minor modifications to the inventories before shipping to the customer.

(j) Property and equipment:

Property and equipment are measured at cost, net of accumulated depreciation and accumulated impairment losses, if any. Cost includes expenses that are directly attributable to the acquisition of the asset. Property and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Computer equipment	3 - 5 years
Furniture, fixtures and lab equipment	3 - 5 years
Leasehold improvements	Shorter of term of lease or estimated useful lives

2. Significant accounting policies (continued):

The estimated useful lives, depreciation method and residual values of each asset are evaluated annually, or more frequently, if required and are adjusted, if appropriate.

(k) Leased assets:

Leases in which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased assets are measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. Minimum lease payments made under finance leases are apportioned between finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining liability.

Other leases are operating leases and the leased assets are not recognized in the Company's consolidated statements of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives are recognized as an integral part of the total lease expense, over the term of the lease.

(l) Intangible assets:

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets acquired through asset acquisitions or business combinations are initially recognized at fair value, based on an allocation of the purchase price. The intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer software	1 - 3 years
Acquired technology	5 - 10 years
Customer relationships	9 - 10 years

The amortization method, estimated useful lives and residual values are reviewed annually, or more frequently, if required and are adjusted, as appropriate.

2. Significant accounting policies (continued):

(m) Business combinations and goodwill:

Acquisitions of businesses are accounted for using the acquisition method. The acquiree's identifiable assets and liabilities are generally recognized at their fair values at the date of acquisition. Acquisition-related transaction costs are expensed as incurred. The fair value of contingent consideration is considered part of the consideration transferred and included in the total purchase price on the acquisition date. Contingent consideration classified as equity is not remeasured subsequent to the acquisition date (other than for measurement period adjustments) and its subsequent settlement is accounted for within equity. Contingent consideration that is liability classified and falls within the scope of International Accounting Standard ("IAS") 39, Financial Instruments - Recognition and Measurement ("IAS 39"), is remeasured to fair value at each reporting date until the contingency is resolved, with changes in fair value recorded in other income.

Goodwill is recognized at the acquisition date as the excess of the fair value of consideration transferred less the net recognized amount (generally fair value) of identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Goodwill is not subject to amortization and is measured at cost less accumulated impairment losses.

The allocation of the purchase price to the net assets acquired may be adjusted to reflect new information obtained about facts and circumstances that exist at the acquisition date, up to a maximum of 12 months following the date of acquisition. Changes to the allocation of the purchase price during this measurement period are recognized retrospectively.

2. Significant accounting policies (continued):

(n) Impairment:

At each reporting date, the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed to determine whether there is an indication that those assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Goodwill is tested annually for impairment. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss. Cash-generating units are the smallest identifiable groups of assets that generate cash inflows from the continuing use that are largely independent of the cash inflows of other assets or cash-generating units. For the purposes of assessing for indications of impairment and impairment testing, assets that do not generate largely independent cash inflows are grouped into cash-generating units. The recoverable amount of a cash generating unit is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of cash generating units that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in profit or loss and allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of cash generating units), and then to reduce the carrying amounts of the other assets in the cash generating unit (group of cash generating units) on a pro rata basis.

An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount, with the exception of impairment losses on goodwill, which are not reversed. When an impairment loss is reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed what the carrying amount would have been had no impairment losses been recognized for the asset in prior years.

2. Significant accounting policies (continued):

(o) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract less the expected benefits to be derived by the Company.

(p) Research and development costs:

Internally generated expenses on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding are recognized in profit or loss as an expense in the period in which they are incurred. Internally generated development costs are capitalized when the costs are expected to provide future benefits with reasonable certainty and the costs meet all the criteria for capitalization. No internal development costs have been capitalized as at and during the years ended September 30, 2018 and September 30, 2017.

2. Significant accounting policies (continued):

(q) Income taxes:

Income taxes comprise current and deferred tax. Current tax represents the expected tax payable on taxable income for the year using enacted or substantively enacted tax rates at the end of the reporting year, and any adjustments to tax payable related to prior years. Deferred tax assets and liabilities are determined based on differences between the carrying amounts of assets and liabilities for financial reporting purposes and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax assets are recognized to the extent that realization is considered probable. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the years in which those temporary differences become deductible. Management considers projected future taxable income, uncertainties related to the industry in which the Company operates and income tax planning strategies in making this assessment. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same authority on the same taxable entity, or on different tax entities where these entities intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

(r) Investment tax credits ("ITCs"):

The Company is entitled to certain Canadian ITCs for qualifying research and development activities performed in Canada. The Company records ITCs when qualifying expenses have been made, provided there is reasonable assurance that the credits will be realized. The amount of ITCs recorded can vary, based on estimates of future taxable income. These credits can be applied against income tax liabilities and are subject to a 20-year carryforward period or, in some cases, are refundable. Accrued ITCs are accounted for as a reduction of the related expenses for items expensed in profit or loss or a reduction of the related asset's cost for items capitalized in the consolidated statements of financial position.

2. Significant accounting policies (continued):

(s) Employee benefits:

(i) Termination benefits:

Termination benefits are recognized at the earlier of recognizing costs for restructuring in the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, that includes the payment of termination benefits and when the Company can no longer withdraw the offer of those benefits. Termination benefits for voluntary redundancies are recognized if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably. If recognized termination benefits are payable more than 12 months after the reporting date, the liability is discounted to its present value.

(ii) Short-term employee benefits:

Employee benefit obligations are short-term in nature and are measured on an undiscounted basis and are recognized as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plan if the Company has a present legal or constructive obligation to pay this amount, as a result of past service provided by the employee and the obligation can be estimated reliably.

(iii) Share-based compensation:

The Company issues stock options, restricted share units ("RSUs") and performance share units ("PSUs") pursuant to several share-based compensation plans. Stock options are settled with common shares of the Company. RSUs and PSUs are settled with either cash or common shares of the Company at discretion of the board. Compensation costs for options, RSUs and PSUs settled in equity are measured based on the grant date fair value of the award and recognized, net of estimated forfeitures, over the vesting period with a corresponding credit to contributed surplus. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. At the end of each reporting period, the Company reassesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the period. Compensation cost for PSUs intended to be settled in cash is measured based on the fair value of the PSUs liability at the reporting date.

2. Significant accounting policies (continued):

The Company also has a deferred share units ("DSUs") plan. The plan allows for settlement of DSUs by cash or other assets. The fair value of the Company's DSUs is recognized using the liability method. Since the DSUs will be settled in cash or other assets, the fair value of the vested DSUs is revalued each period until the settlement date and any changes in the fair value of the liability are recognized in profit or loss. The Company has recognized a liability in the consolidated statements of financial position for the total fair value of the vested DSUs included in other long-term liabilities.

(iv) Other long-term employee benefits:

The Company's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior years. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in profit or loss in the year in which they arise.

(v) Defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are payable more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

2. Significant accounting policies (continued):

(vi) Defined benefit plans:

A defined benefit plan is a post-employment benefit plan. The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in their current and prior years. That benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan's liabilities. When the benefits of a plan are increased, the portion of the increased benefit related to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the consolidated statements of comprehensive loss.

The Company recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in the consolidated statements of comprehensive loss.

(t) Segment reporting:

The Company has one reportable segment, the telecommunications software market. The single reportable operating segment derives its revenue from the sale of software products, related services and hardware.

3. New accounting pronouncements:

The IASB has issued new standards and amendments to existing standards. These changes in accounting are not yet effective at September 30, 2018 and could have an impact on future periods.

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

The IASB issued IFRS 15, which is effective for annual periods beginning on or after January 1, 2018. The core principle of the new revenue standard requires an entity to recognize revenue based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard introduces a five-step process to be followed in determining the amount and timing of revenue recognition. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. It also provides guidance on accounting for costs incurred to obtain or fulfill contracts with customers, and establishes disclosure requirements which are more extensive than those required under prior IFRS. The standard will be applicable for the Company effective October 1, 2018. The Company plans to adopt the new standard using the modified retrospective (cumulative effect) method by recording the impact of the adoption of the new standard as at the date of initial application, without restatement of the comparative period amounts

The Company has a team focused on the adoption and compliance with IFRS 15. This team is responsible for determining existing policies, differences between existing policies and IFRS 15, ensuring the Company's data collection is appropriate, and communicating the upcoming changes with various stakeholders. In addition, this team is assisting with the development, implementation and monitoring of processes and policies that will help ensure an effective transition and the related impacts are reliably assessed.

The Company continues to assess all potential impacts of the new revenue recognition standard. The Company currently believes the most significant impacts will relate to the timing of recognition and allocation of consideration to elements in long-term arrangements with multiple performance obligations, in particular those with multi-year on-premise licenses with extended payment terms. New and expanded 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.

The Company has certain license arrangements where the customer has the right to increase their licensed capacity within stated capacity thresholds over a fixed time period, subject to

3. New accounting pronouncements (continued):

a contractual minimum license requirement. Under the Company's current revenue recognition policies for these arrangements, revenue is recognized based on customer usage and billed as such incremental capacity is delivered. Under IFRS 15, the Company considered the perpetual nature and minimum committed fees for the license. The performance obligation containing the license is fully transferred by the time of customer acceptance of the license, and therefore the transaction price allocated to the minimum license commitment is recognized by that time. In addition, where payment terms related to these licenses extend beyond a period of one year, the Company will assess whether a significant financing component exists using an appropriate interest rate and best estimate of the value and timing of the remaining payments over the expected term of the agreement. The Company will need to apply significant judgment in making such estimates.

As a result of these changes, certain revenues will be recognized earlier than in prior periods. The revenue amount that would have been recognized in future periods under the current accounting standard will be accounted for and disclosed under IFRS 15 as though the revenue had been recognized in prior periods, resulting in a cumulative effect adjustment to reduce accumulated deficit on the date of adoption. This transition adjustment will be shown as a decrease to accumulated deficit and an increase in contract assets (presented as current and long-term unbilled revenue). The transition adjustment amount is currently estimated to be between $4 million and $5 million as of October 1, 2018, of which between $2 million and $3 million was expected to be recognized as revenue under the current accounting standard in fiscal year 2019, and the remainder in later periods. Between $0.9 million and $1.1 million will be re-allocated from the license revenue and will be recognized as interest income over the period of future payments for the affected contracts which will not exceed five years.

Currently, the Company reports 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. As a result of this change, the Company anticipates that it will record a reduction between $1.6 million and $1.8 million as an adjustment to the opening balances of its unbilled and deferred revenue for the year beginning on October 1, 2018.

3. New accounting pronouncements (continued):

Under the Company's existing accounting policies, employee commission costs for obtaining contracts are expensed when earned, in accordance with the Company's Sales Compensation Plan. Under IFRS 15, where such costs are incremental to obtaining a contract, they must be capitalized and amortized over the reasonable life of the associated performance obligations within the contracts (in some cases this includes expected renewals). The Company reviewed its Sales Compensation Plan and determined that these costs do not meet the criteria necessary to be considered incremental to obtaining contracts, as defined in the guidance, and therefore requires no adjustment.

The Company reviewed the tax implications of its proposed adjustments and determined that there is likely to be an increase in deferred tax liabilities as a result of transferring revenue to the prior period. This will be offset by recognition of previously unrecorded deferred tax assets. The Company believes that the difference will be insignificant. No adjustment will be required upon adoption of IFRS 15.

(b) Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions ("IFRS 2"):

On June 20, 2016, the IASB issued amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively, retrospectively, or early application is permitted if information is available without the use of hindsight. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations; and,
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

3. New accounting pronouncements (continued):

The Company will adopt the amendments to IFRS 2 in its consolidated financial statements for the annual period beginning on October 1, 2018. The impact of adoption of the standard is not expected to be material.

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

The IASB issued IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, and which establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with certain exemptions. The Company will adopt the standard effective October 1, 2018. The impact of adoption of the standard is not expected to be material.

(d) 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 October 1, 2019 and is in the process of assessing the impact on its consolidated financial statements.

(Expressed in U.S. dollars)

4. Financial instruments and capital management:

(a) Accounting classifications and fair values:

The Company adopts 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).

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:

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Warrant classified as liability (Level 2)	21,754,223	21,754,223	29,622,772	29,622,772
Preferred Shares (Level 2)	57,862,418	57,862,418	59,670,913	59,670,913

There were no transfers of financial assets between levels during the years ended September 30, 2018 and 2017.

Financial instruments are classified into one of the following categories: financial assets and financial liabilities at FVTPL, loans and receivables, and other financial liabilities.

4. Financial instruments and capital management (continued):

The carrying values of trade accounts and other receivables, trade payables, accrued liabilities, provisions and other long-term 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.

(b) Financial risk management:

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital.

(i) Risk management framework:

The Board of Directors has the overall responsibility and oversight of the Company's risk management practices. The Company does not follow a specific risk model, but rather includes risk management analysis in all levels of strategic and operational planning. The Company's management, specifically the Senior Leadership Team, is responsible for developing and monitoring the Company's risk strategy. The Company's management reports regularly to the Board of Directors on its activities.

The Company's management identifies and analyzes the risks faced by the Company. Risk management strategy and risk limits are reviewed regularly to reflect changes in the market conditions and Company's activities. The Company's management aims to develop and implement a risk strategy that is consistent with the Company's corporate objectives.

(Expressed in U.S. dollars)

4. Financial instruments and capital management (continued):

(ii) Credit risk:

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company is exposed to credit risk from banks and customers.

The Company has credit risk relating to cash and cash equivalents and restricted cash, which it manages by dealing with large chartered Canadian and international banks and investing in highly liquid investments of a rating of no less than R1, the credit rating assigned to those who pay on time.

The Company's exposure to credit risk geographically for cash and cash equivalents and restricted cash as at September 30 was as follows:

	2018	2017
Europe, Middle East and Africa	47%	27%
North America, Latin America and Caribbean	43%	71%
Asia and Pacific Rim	10%	2%
	100%	100%

For the year ended September 30, 2018, the Company had one customer (2017 – none) that accounted for greater than 10% of revenue. In order to minimize the risk of loss for trade receivables, the Company's extension of credit to customers involves review and approval by senior management, as well as progress payments as contracts are performed. The Company also insures certain accounts receivable balances in certain countries.

Credit reviews take into account the counterparty's financial position, past experience and other factors. Management regularly monitors customer credit limits. The Company believes that the concentration of credit risk from trade receivables is limited, as they are widely distributed among customers in various countries.

The Company reviews its trade receivable accounts regularly and reduces amounts to their expected realizable values by making an allowance for doubtful accounts as soon as the account is perceived not to be fully collectible. The Company's trade receivables had a carrying value of $15,186,706 as at September 30, 2018 (2017 - $24,586,938), representing the maximum exposure to credit risk of those financial assets, exclusive of

(Expressed in U.S. dollars)

4. Financial instruments and capital management (continued):

the allowance for doubtful accounts. Normal credit terms for amounts due from customers varies based upon the size of the customer, type of revenue and geographic region, and generally call for payment within 30 to 120 days. At September 30, 2018, approximately 16.9% of gross trade receivables, or $3,431,836 was outstanding for more than 120 days (2017 – 7.7% or $2,545,396). The activity of the allowance for doubtful accounts for the years ended September 30 is as follows:

	2018	2017
Allowance for doubtful accounts, beginning of year	$ 2,213,234	$ 747,563
Bad debt expense (recovery)	(109,972)	3,392,456
Write-off of bad debts	(10,134)	(1,926,785)
Allowance for doubtful accounts, end of year	$ 2,093,128	$ 2,213,234

Allowance for doubtful accounts is charged to general and administrative expense. Estimates for allowance for doubtful accounts are determined on a customer-by-customer evaluation of collectability at each consolidated statement of financial position reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity and going concern risks.

The Company's exposure to credit risk for trade receivables by geographic area as at September 30 was as follows:

	2018	2017
Europe, Middle East and Africa	66%	48%
North America, Latin America and Caribbean	18%	13%
Asia and Pacific Rim	16%	39%
	100%	100%

(Expressed in U.S. dollars)

4. Financial instruments and capital management (continued):

(iii) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's financial liabilities as at September 30, 2018 will mature as follows:

	Less than 1 year	1 - 2 years	2 years and thereafter
Trade payables	$ 21,568,158	$ –	$ –
Accrued liabilities	12,832,812	–	–
Provisions	7,655,199	5,608,882	53,127
Other liabilities	–	–	1,272,488
Preferred shares	–	–	57,862,418
	$ 42,056,169	$ 5,608,882	$ 59,188,033

The Company also has contractual obligations in the form of operating leases (note 17(a)).

Management believes the Company's existing cash and cash equivalents, restricted cash and cash from operating and financing activities will be adequate to support all of its financial liabilities and contractual commitments as they become due.

The Company operates in a number of 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.

(iv) Market risk:

Market risk is the risk that the value of the Company's financial instruments will fluctuate due to changes in the market risk factors. The market risk factors which affect the Company are foreign currency and interest rates.

Foreign currency risk:

The Company conducts a significant portion of its business activities in foreign countries. Foreign currency risk arises because of fluctuations in foreign currency exchange rates. The Company's objective in managing its foreign currency risk is to minimize its net

4. Financial instruments and capital management (continued):

exposures to foreign currency cash flows by converting foreign-denominated cash balances into U.S. dollars to the extent practical to match U.S. dollar obligations. The monetary assets and liabilities that are denominated in foreign currencies are affected by changes in the exchange rate between the U.S. dollar and these foreign currencies. The Company recognized a foreign currency exchange loss of $317,823 during the year ended September 30, 2018 (2017 – loss of $3,073,512).

The following is the Company's exposure to foreign currency risk for significant currencies:

	Currency of exposure in U.S. dollars		
2018	CAD	Euro	British Pound
Cash and cash equivalents	$ 663,962	$ 8,539,297	$ 24,941
Trade accounts and other receivables	788,482	2,777,091	–
Restricted cash	1,382,894	1,911,716	–
Trade payables	(1,158,046)	(1,375,099)	(78,772)
Accrued liabilities	(9,740,088)	(3,767,777)	–
Net exposure	$ (8,062,796)	$ 8,085,228	$ (53,832)

	Currency of exposure in U.S. dollars		
2017	CAD	Euro	British Pound
Cash and cash equivalents	$ 2,381,444	$ 13,841,307	$ 424,263
Trade accounts and other receivables	2,091,069	1,518,743	–
Restricted cash	569,377	3,537,547	119,467
Trade payables	(6,199,805)	(1,186,706)	–
Accrued liabilities	(16,679,992)	(7,398,936)	–
Net exposure	$ (17,837,907)	$ 10,311,955	$ 543,730

If a shift in foreign currency exchange rates of 10% were to occur, the foreign currency exchange gain or loss on the Company's net monetary assets could change by approximately $1,746,751 (2017 - $1,222,103) due to the fluctuation and this would be recorded in the consolidated statements of comprehensive loss.

4. Financial instruments and capital management (continued):

Interest rate risk:

Interest rate risk arises because of the fluctuation in interest rates. The Company is subject to interest rate risk on its cash and cash equivalents, and restricted cash. If a shift in interest rates of 10% were to occur, the impact on cash and cash equivalents and restricted cash and the related income for the years ended September 30, 2018 and 2017 would not be material.

(c) Management of capital:

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its strategy of 100% customer success, fund research and development leading to innovative and market leading products and implement its strategic plan that will help towards increasing shareholder value, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company's capital is currently composed of Preferred Shares and Series A Warrant (classified as liability), Subordinated Voting Shares and Standby Warrant (classified as equity). The Company's primary uses of capital are financing its operations including restructuring, increases in working capital, capital expenditures, payment of preferred share dividends when approved by the Board of Directors and acquisitions. The Company currently funds these requirements from cash flows from operations and cash raised through past share issuances.

(Expressed in U.S. dollars)

5. Costs of revenue and operating expenses, excluding acquisition and related costs and restructuring costs:

The Company presents functional consolidated statements of comprehensive loss in which expenses are aggregated according to the function to which they relate. The Company has identified the major functions as costs of revenue, sales and marketing, general and administrative and research and development activities.

2018	Cost of revenue	Sales and marketing	General and administrative	Research and development
Personnel expenses (a)	$ 27,975,192	$ 9,281,232	$ 2,086,794	$ 16,984,338
Share based compensation	792,751	(182,727)	2,326,985	(161,001)
Third party software support and hardware	14,666,346	–	–	–
Other operating expenses	7,274,897	2,230,907	17,663,237	43,703,819
Depreciation and amortization	2,426	2,357	8,999,318	987,952
	$ 50,711,612	$ 11,331,769	$ 31,076,334	$ 61,515,108

2017	Cost of revenue	Sales and marketing	General and administrative	Research and development
Personnel expenses (a)	$ 32,257,532	$ 13,794,605	$ 9,514,788	$ 24,618,828
Share based compensation	510,038	419,853	478,380	175,938
Third party software support and hardware	11,939,282	–	–	–
Other operating expenses (b)	13,276,470	4,974,741	15,891,784	15,369,680
Depreciation and amortization	44,878	32,737	10,142,461	1,779,579
	$ 58,028,200	$ 19,221,936	$ 36,027,413	$ 41,944,025

(a) Personnel expenses include the cost of services provided by the contractors from Crossover, a related party, as described in note 18.

(b) Other operating expenses include the cost of services provided by DevFactory, a related party, as described in Note 18.

(Expressed in U.S. dollars)

6. Finance costs and finance income:

(a) Finance costs:

	2018	2017
Preferred shares dividend, accretion and amortization of deferred financing costs (note 13(c))	$ 9,832,175	$ 6,336,583
Series A Warrant fair value adjustment (note 13(e))	(7,868,549)	1,984,270
Transaction costs related to Series A Warrant (note 13)	–	1,111,290
Interest and fees on loans and borrowings	–	677,563
Amortization and write-off of deferred financing costs associated with loans and borrowings	–	1,731,647
Embedded derivative and related accretion	–	222,937
Other finance costs	608,384	1,075,206
	$ 2,572,010	$ 13,139,496

(b) Finance income:

Finance income includes interest income on bank accounts and term deposits of $523,718 for the year ended September 30, 2018 (2017 - $247,339).

7. 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.

8. Trade accounts and other receivables:

	2018	2017
Trade receivables, net of allowance for doubtful accounts (note 4(b)(ii))	$ 13,093,578	$ 22,373,704
Other receivables (a)	1,756,843	3,223,304
Employee receivables (b)	103,870	732,497
	$ 14,954,291	$ 26,329,505

(Expressed in U.S. dollars)

8. Trade accounts and other receivables (continued):

(a) At September 30, 2018 and 2017, 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.

9. Property and equipment:

	Computer equipment	Furniture, fixtures and lab equipment	Leasehold improvements	Total
Cost				
Balance, September 30, 2016	$ 3,098,211	$ 18,001,187	$ 4,264,975	$ 25,364,373
Additions	36,314	306,342	171,863	514,519
Disposals	(188,304)	(1,117,054)	(1,386,675)	(2,692,033)
Balance, September 30, 2017	2,946,221	17,190,475	3,050,163	23,186,859
Additions	–	–	5,538	5,538
Disposals	(2,749,479)	(4,392,890)	(3,055,701)	(10,198,070)
Balance, September 30, 2018	$ 196,742	$ 12,797,585	$ –	$ 12,994,327
Accumulated depreciation				
Balance, September 30, 2016	$ 2,487,727	$ 14,475,488	$ 2,138,193	$ 19,101,408
Depreciation	392,744	1,838,413	714,790	2,945,947
Disposals	(188,304)	(1,117,054)	(1,386,675)	(2,692,033)
Foreign exchange impact	50,260	232,194	91,472	373,926
Balance, September 30, 2017	2,742,427	15,429,041	1,557,780	19,729,248
Depreciation	–	1,115,082	1,389,936	2,505,018
Disposals	(2,586,824)	(4,241,920)	(2,947,716)	(9,776,460)
Foreign exchange impact	(67)	(5,273)	–	(5,340)
Balance, September 30, 2018	$ 155,536	$ 12,296,930	$ –	$ 12,452,466
Net book values				
September 30, 2017	$ 203,794	$ 1,761,434	$ 1,492,383	$ 3,457,611
September 30, 2018	41,206	500,655	–	541,861

(Expressed in U.S. dollars)

10. Intangible assets and goodwill:

(a) Intangible assets

	Computer software	Acquired technology	Customer relationships	Total
Cost				
Balance, September 30, 2016	$ 5,977,286	$ 33,766,688	$ 29,565,712	$ 69,309,686
Disposals	(36,449)	–	–	(36,449)
Balance, September 30, 2017	5,940,837	33,766,688	29,565,712	69,273,237
Additions	9,985	–	–	9,985
Balance, September 30, 2018	$ 5,950,822	$ 33,766,688	$ 29,565,712	$ 69,283,222
Accumulated amortization				
Balance, September 30, 2016	$ 4,810,289	$ 20,025,217	$ 8,753,115	$ 33,588,621
Amortization	626,169	5,803,760	2,623,775	9,053,704
Disposals	(33,314)	–	–	(33,314)
Foreign exchange impact	80,131	742,709	335,766	1,158,606
Balance, September 30, 2017	5,483,275	26,571,686	11,712,656	43,767,617
Amortization	456,447	4,145,948	2,884,639	7,487,034
Foreign exchange impact	(1,850)	(9,564)	(4,545)	(15,959)
Balance, September 30, 2018	$ 5,937,872	$ 30,708,070	$ 14,592,750	$ 51,238,692
Net book values				
Balance, September 30, 2017	$ 457,562	$ 7,195,002	$ 17,853,056	$ 25,505,620
Balance, September 30, 2018	12,950	3,058,618	14,972,962	18,044,530

(b) Goodwill:

The carrying value of goodwill at September 30, 2018 was $32,271,078 (September 30, 2017 - $32,271,078).

Goodwill is tested annually for impairment at the CGU level. The annual impairment test of goodwill was performed as at September 30, 2018 and 2017 and did not result in any impairment loss. At the September 30, 2018 impairment testing date, the Company identified a single CGU and performed its testing of the valuation of goodwill at the consolidated level.

10. Intangible assets and Goodwill (continued):

The recoverable amount is the higher of (i) an asset's or CGU's fair value less costs to sell and (ii) its value-in-use. In performing the annual impairment test for the Company's CGU, the Company measured the value-in-use of the single CGU using certain key management assumptions. Cash flow projections, which were made over a five-year period, were based primarily on the financial budget plus a terminal value using a 3% terminal growth rate. The Company discounted these estimates of future cash flows to their present value using a range of 17% to 19% pre-tax discount rate which reflects the entity's weighted average cost of capital. The fair value less costs to sell, primarily based on the Company's market capitalization as at September 30, 2018, also significantly exceeded the net carrying amount of the CGU.

Management performs sensitivity analysis on the key assumptions. Sensitivity analysis indicates reasonable changes to key assumptions will not result in an impairment loss.

11. Pension and other long-term employment benefit plans:

In Germany, there are a number of pensions and post-employment benefit plans, including a cash balance plan that provides benefits on retirement, disability and death, a salary sacrifice plan, as well as, other post-employment benefit schemes. The plan assets are held in a separate Contractual Trust Arrangement with Deutsche Pensions Treuhand GmbH. The German pension plans operate under the legal framework of the German Company Pension Law and under the German Labour Law.

The other post-employment employee benefit plans relate to a number of other countries, including Austria, India, Indonesia, Philippines and UAE. These plans are generally unfunded. The Company's pensions and post-employment benefit plans are subject to risks from changes in the market discount rate, the rate of salary and pension increases and longevity. A lower discount rate results in a higher defined benefit obligation and/or higher benefit costs.

The Company has assessed the valuation for pension and non-pension post-employment benefits. Pension fund assets are invested primarily in fixed income and equity securities. The Company's pension funds do not invest directly in the Company's shares, but may invest

(Expressed in U.S. dollars)

11. Pension and other long-term employment benefit plans (continued):

indirectly, as a result of the inclusion of the Company's shares in certain market investment funds. These plan assets are maintained in segregated accounts by a custodian that is independent from the fund managers. The Company believes that the counterparty credit risk is low.

	2018	2017
German plans		
Fair value of plan assets (a)	$ (24,485,792)	$ (24,303,734)
Present value of obligations (b)	41,111,659	40,452,496
Total German employee benefit liability	16,625,867	16,148,762
Other plans		
Fair value of plan assets (a)	–	(33,778)
Present value of obligations (b)	274,954	1,771,646
Total other employee benefit liability	274,954	1,737,868
Total employee benefit liability	$ 16,900,821	$ 17,886,630

The following tables analyze plan assets, present value of defined benefit obligations, expense recognized in profit or loss, actuarial assumptions and other information for the German plans and other plans.

(Expressed in U.S. dollars)

11. Pension and other long-term employment benefit plans (continued):

(a) Plan assets:

Plan assets comprise:

	2018			2017		
	Germany	Other	Total	Germany	Other	Total
Short-term Eurozone bonds	$ 21,734,381	$ –	$ 21,734,381	$ 22,557,895	$ –	$ 22,557,895
Mixed funds	2,369,876	–	2,369,876	1,619,125	–	1,619,125
Money market funds	–	–	–	–	33,778	33,778
Cash	381,535	–	381,535	126,714	–	126,714
Fair value of plan assets	$ 24,485,792	$ –	$ 24,485,792	$ 24,303,734	$ 33,778	$ 24,337,512
Return on plan assets	$ (160,941)	$ –	$ (160,941)	$ (310,137)	$ –	$ (310,137)

All asset classes in which plan assets are invested are traded freely and have quoted market prices in an active market.

(Expressed in U.S. dollars)

11. Pension and other long-term employment benefit plans (continued):

(b) Movement in the present value of the defined benefit obligations:

	2018			2017		
	Germany	Other	Total	Germany	Other	Total
Defined benefit obligations at October 1	$ 40,452,496	$ 1,771,646	$ 42,224,142	$ 39,803,962	$ 4,002,726	$ 43,806,688
Current service cost	725,554	(5,526)	720,028	1,009,193	473,308	1,482,501
Curtailment loss (gain)	160,992	117,534	278,526	–	(169,664)	(169,664)
Interest costs	860,155	71,825	931,980	584,011	182,074	766,085
Contributions by plan participants	340,479	–	340,479	35,817	19,601	55,418
Benefits paid by the employer	(264,050)	(960,584)	(1,224,634)	(174,684)	(944,214)	(1,118,898)
Benefits paid by the plan	(66,130)	–	(66,130)	–	–	–
Settlements paid by the employer	–	(476,577)	(476,577)	–	(1,104,764)	(1,104,764)
Actuarial gains in other comprehensive income	(349,359)	(201,637)	(550,996)	(2,744,736)	(549,728)	(3,294,464)
Loss (gain) on movement in exchange rates	(748,478)	(33,579)	(782,057)	1,938,933	(137,693)	1,801,240
Defined benefit obligations at September 30	$ 41,111,659	$ 283,102	$ 41,394,761	$ 40,452,496	$ 1,771,646	$ 42,224,142

(Expressed in U.S. dollars)

11. Pension and other long-term employment benefit plans (continued):

(c) Movement in the fair value of plan assets:

	2018			2017		
	Germany	Other	Total	Germany	Other	Total
Fair value of plan assets at October 1	$ 24,303,734	$ 33,778	$ 24,337,512	$ 23,096,609	$ 322,495	$ 23,419,104
Contributions paid by plan participants	340,479	–	340,479	35,817	19,601	55,418
Contributions paid by the employer	264,050	–	–	137,395	635,896	773,291
Contributions paid by the employer – settlement	–	–	–	–	1,104,764	1,104,764
Benefits paid by the employer	(264,050)	–	–	–	–	–
Benefits paid by the plan	(66,130)	(33,778)	(99,908)	(174,684)	(944,214)	(1,118,898)
Benefits paid by the plan – settlement	–	–	–	–	(1,104,764)	(1,104,764)
Interest income from plan assets	512,612	–	512,612	339,552	–	339,552
Return on plan assets	(160,941)	–	(160,941)	(310,137)	–	(310,137)
Gain on movement in exchange rates	(443,962)	–	(443,962)	1,179,182	–	1,179,182
Fair value of plan assets at September 30	$ 24,485,792	$ –	$ 24,485,792	$ 24,303,734	$ 33,778	$ 24,337,512

(Expressed in U.S. dollars)

11. Pension and other long-term employment benefit plans (continued):

(d) Expense recognized in profit or loss:

	2018			2017		
	Germany	Other	Total	Germany	Other	Total
Current service cost (gain)	$ 725,554	$ (5,526)	$ 720,028	$ 1,009,193	$ 473,308	$ 1,482,501
Curtailment loss (gain)	160,992	117,534	278,526	–	(169,664)	(169,664)
Finance costs	347,543	71,825	419,368	244,459	182,074	426,533
	$ 1,234,089	$ 183,833	$ 1,417,922	$ 1,253,652	$ 485,718	$ 1,739,370

The curtailment loss in 2018 and 2017 is primarily attributable to restructuring activities in Germany, and plan improvements in the UAE and India.

The expense is recognized in the following line items in the consolidated statements of comprehensive loss:

	2018	2017
Cost of revenue	$ 235,008	$ 390,219
Research and development	673,153	457,805
General and administrative	72,721	123,157
Sales and marketing	19,393	341,656
Finance costs	419,368	426,533
	$ 1,419,643	$ 1,739,370

(e) Actuarial assumptions:

The determination of the value of the liabilities for defined benefit plans is based upon statistical and actuarial valuations. In particular, the present value of the defined benefit obligation is driven by financial variables (such as, the discount rates or future increases in salaries) and demographic variables (such as, mortality and employee turnover). The actuarial assumptions may differ significantly from the actual circumstances and could lead to different cash flows. The following are the principal actuarial assumptions:

(Expressed in U.S. dollars)

11. Pension and other long-term employment benefit plans (continued):

	2018		2017	
	Germany	Other	Germany	Other
Discount rate	2.10%	7.17%	2.10%	5.29%
Future salary increases	2.75%	7.30%	2.75%	6.49%
Future pension increases	2.00%	n/a	2.00%	n/a

Assumptions regarding future mortality are based on published statistics and mortality tables based on statistical information available in the various countries. In Germany, the Heubeck 2005G mortality tables were used. The calculation of the pension liabilities at September 30, 2018 and 2017 in Germany is based on a discount rate determined using the Mercer Yield Curve approach for an average duration of 16 years.

The following table shows the effects of possible changes in the actuarial assumptions on the present value of the obligation from defined benefit pension plans that are analysed. A change in the discount rate by 50-basis-points, as well as, a change in the pension increase rate by 50-basis-points is considered for German plans. In addition, the average duration of the obligation is shown:

Effect on defined benefit obligation	50-basis-points increase	50-basis-points decrease
On discount rate	$ 38,226,071	$ 44,426,106
On pension rate	43,422,061	39,029,997
Weighted average duration of defined benefit obligation	14.55	15.51

12. Capital stock:

(a) Authorized:

Unlimited Preferred Shares, issuable in series
Unlimited Subordinate Voting Shares

(b) Share Consolidation:

On March 28, 2018, at its annual shareholders meeting, the shareholders passed a resolution to consolidate the issued and outstanding Subordinate Voting Shares on the basis of one post-consolidation share for every fifty (50) pre-consolidation shares. Effective April 5, 2018, the Company received an approval from TSX for this share consolidation. All share and per share information in these consolidated financial statements have been restated to reflect the impact of the share consolidation.

(c) Series A Preferred Shares and Series A Warrant:

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 the ESW Holdings, Inc. (formerly known as Wave Systems Corp.) (the "Investor"), an affiliate of ESW Capital LLC ("ESW Capital") at a price of $79,861,542, net of transaction costs. 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 Common Shares being entitled to elect the balance of the directors, which resulted in the Common 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% per annum. The amount of accrued dividends has been included in the Preferred Shares on the consolidated statements of financial position.

At issuance the Preferred Shares were recorded, net of transaction costs, at $53,334,330. They 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 year ended September 30, 2018, accretion expense, amortization of transaction costs and accrued dividends on the Preferred Shares amounted to $9,832,175 (2017 - $6,336,583).

12. Capital Stock (continued):

These charges are included in finance costs in the consolidated statements of comprehensive loss. During the year ended September 30, 2018, cumulative dividends in amount of $11,640,670 (2017 - nil) were paid. At September 30, 2018, the Preferred Shares, net of transaction costs, are $57,862,418 (2017 - $59,670,913).

The Series A Warrant entitles the Investor to subscribe of 925,712 Subordinate Voting Shares at $34.00 per share. The Series A Warrant is being classified as a liability and marked to market at each reporting date because it contains an adjustment provision if the Company issues subordinate voting shares ("Common Shares") or securities exchangeable for or convertible into Common 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 $7,868,549 during the year ended September 30, 2018 (2017 – increase of $1,984,270) is recorded in finance costs in the consolidated statements of comprehensive loss. Any unexercised Series A Warrant expires on January 25, 2027. No Series A Warrant was exercised as at September 30, 2018 (September 30, 2017 – none).

(d) Rights offering and Standby Warrant:

On September 6, 2017, the Company closed a rights offering to the holders of its Subordinate Voting Shares (the "Rights Offering"). Under the Rights Offering, an aggregate of 2,170,398 Subordinate Voting Shares were issued at a subscription price of CAD$31.50 ($25.00) per share for gross proceeds to the Company of CAD$68,367,560 ($54,240,771).

Pursuant to the rights previously granted to ESW Capital to maintain its pro rata interest in the Company, ESW Capital subscribed for an additional 892,100 Subordinate Voting Shares at a price of CAD$31.50 per share for additional aggregate gross proceeds to the Company of CAD$28,101,138 ($23,185,756). Transaction costs directly associated with the Rights Offering of $509,764 were recognized as costs of issuance and reduced the gross proceeds. This issuance was closed on September 12, 2017.

(Expressed in U.S. dollars)

12. Capital Stock (continued):

Upon closing of the Rights Offering 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 September 30, 2018 (September 30, 2017 – none).

(e) Loss per common share:

A reconciliation of the number of common shares used for purposes of calculating basic and diluted loss per common share for the year ended September 30 is as follows:

	2018	2017
Basic weighted average number of common shares outstanding	5,233,047	2,402,132
Effect of dilutive securities	–	–
Diluted weighted average number of common shares outstanding	5,233,047	2,402,132

Due to the losses for the years ended September 30, 2018 and 2017, all stock options, the Series A Warrant and the Standby Warrant, are 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 year ended September 30, 2018 is 51,775 (2017 – 103,708). The Series A Warrant and the Standby Warrant are equivalent to 925,712 and 50,000 Subordinate Voting Shares respectively (2017 – 925,712 and 50,000).

(f) Share unit plan:

On July 29, 2010, the Company established a share unit plan for the purpose of providing additional compensation for certain employees, officers or consultants. Units granted under the share unit plan may be PSUs or RSUs.

PSUs granted are subject to vesting contingent on the achievement of performance conditions based on certain Company performance metrics. The related compensation expense is recognized over the related service period, which is based on management's best estimate of the outcome of the performance conditions.

(Expressed in U.S. dollars)

12. Capital Stock (continued):

During the year ended September 30, 2018, the Company granted Nil PSUs (2017 – 40,300) under the share unit plan. The weighted average price of 2017 PSU grants was - CAD $49.50 per unit. The total expense booked was recovery of $6,847 (2017 - expense of $737,404).

RSUs are subject to a vesting term at the compensation committee's discretion provided that the vesting term does not exceed three years from the grant date. The associated share-based compensation is measured at fair value and is amortized over the appropriate vesting period using the straight-line method.

During 2018, the Company granted Nil RSUs (2017 – 151,250) under the share unit plan to non-directors. The weighted average price of 2017 RSU grants was CAD $39.00 per unit. The Company recognized compensation cost of $1,959,383 (2017 - $1,319,551) relating to these RSUs. The unvested compensation cost at September 30, 2018 is $886,801.

Performance and restricted share units	2018	2017
Outstanding, beginning of year	165,712	32,392
Settled in cash	(31,099)	(13,309)
Granted	–	191,550
Forfeited	(26,195)	(44,921)
Outstanding, September 30	108,418	165,712

The fair value of RSUs and PSUs granted during the year are established based on the fair value of the underlying stock on the grant date.

(g) DSU plan:

Under the DSU plan, established August 11, 2010, the Company may grant DSUs to eligible members of the Board of Directors. DSU grants and vesting conditions are at the discretion of the Board of Directors. An eligible director may elect to receive their annual cash remuneration in the form of DSUs, cash or any combination thereof. DSUs are classified as cash-settled share-based compensation and are remeasured to fair value at each reporting year.

An eligible director is entitled to receive a cash payment equal to the fair value of the DSUs at the date of redemption.

(Expressed in U.S. dollars)

12. Capital Stock (continued):

During 2018, the Company recorded compensation cost of $690,767 (2017 - $580,814). The value of the liability related to the DSUs as at September 30, 2018 was $1,265,170 (2017 - $647,619) and is included in other long-term liabilities.

Deferred share units	2018	2017
Outstanding, beginning of year	20,706	18,340
Granted	14,200	18,667
Exercised	(1,522)	(16,301)
Outstanding, end of year	33,384	20,706

(h) Employee stock option plan:

The Company's stock option plan was implemented to encourage ownership of the Company by directors, officers, employees and consultants of the Company. The maximum number of common shares that may be issued under the current plan is 10% of the issued and outstanding common shares of the Company on the date of grant. The total number of stock options outstanding under the current plan does not exceed this threshold.

(i) Stock options:

Stock options are non-transferable and vest up to 25% at the end of the first year from date of grant and an additional 25% on each of the second, third and fourth anniversaries of grant. Stock options are priced in CAD.

(Expressed in U.S. dollars)

12. Capital Stock (continued):

	Number of stock options	Weighted average exercise price per share (CAD)
Outstanding, September 30, 2016	203,780	146.00
Exercised	(5,500)	49.50
Forfeited	(94,572)	145.00
Outstanding, September 30, 2017	103,708	151.83
Forfeited	(51,933)	155.38
Outstanding, September 30, 2018	51,775	$ 147.94

Summary information about stock options outstanding and exercisable as at September 30, 2018 is as follows:

	Stock options outstanding		Stock options exercisable	
Exercise Price (CAD)	Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Weighted average remaining contractual life (years)
CAD $55.00	8,600	0.85	8,600	0.85
CAD $62.50	5,500	0.87	5,500	0.87
CAD $95.00	4,550	1.18	4,550	1.18
CAD $149.50	11,621	4.18	9,090	4.18
CAD $175.00	13,733	3.14	12,187	3.14
CAD $186.00	900	3.85	540	3.85
CAD $227.50	708	2.60	708	2.60
CAD $315.00	6,163	2.20	6,163	2.20
	51,775	2.47	47,338	2.35

The common share price of the Company as at September 30, 2018 was CAD $48.90 (2017 - CAD $39.00) per share.

(Expressed in U.S. dollars)

12. Capital Stock (continued):

(ii) Fair values and share-based compensation expense:

There were no options granted during the year ended September 30, 2018. The fair value of stock option grants made to employees and directors during the year ended September 30, 2017 was estimated using the Black-Scholes option pricing model, with the following weighted average assumptions: risk-free interest rate of 0.9%; dividend yield of nil, volatility of 52.5%; and expected lives of stock options of five years. Expected volatility has been based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term. The expected term of the stock options has been based on historical experience and general option holder behaviour. The fair value of the stock options is expensed over the vesting period of the stock options using the straight-line method.

During 2018, the Company recorded a share-based compensation recovery of $250,095 (2017 - $108,067) related to stock options granted under this Plan.

13. Income tax expense:

(a) Income tax expense recognized in profit or loss:

	2018	2017
Current income tax expense:		
Current year	$ 5,166,526	$ 6,826,596
Adjustment for prior years	225,354	(660,208)
	5,391,880	6,166,388
Deferred income tax expense (recovery):		
Origination and reversal of temporary differences	86,544	(1,082,241)
Utilization of previously recognized tax assets	(36,140)	203,374
	50,404	(878,867)
Total income tax expense	$ 5,442,284	$ 5,287,521

(Expressed in U.S. dollars)

13. Income tax expense (continued):

(b) Reconciliation of effective income tax rate:

The Company's effective income tax rate differs from the statutory rate that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to loss before income taxes. These differences result from the following items:

	2018	2017
Loss before income taxes	$ (87,149,372)	$(53,485,770)
Statutory income tax rate	26.50%	26.50%
Expected income tax recovery based on loss before income taxes	$ (23,094,584)	$(14,173,729)
Increase (decrease) in income taxes resulting from:		
Non-taxable/deductible items	(48,989)	1,543,694
Differences due to different income tax rates for foreign subsidiaries	(941,819)	565,367
Withholding taxes	3,181,102	3,973,989
Change in unrecognized temporary differences and prior year losses	19,823,720	20,166,500
Impact of foreign exchange and other items	6,522,854	(6,788,300)
Income tax expense	$ 5,442,284	$ 5,287,521

(Expressed in U.S. dollars)

13. Income tax expense (continued):

(c) Unrecognized deferred tax assets:

The Company has approximately $366,000,000 (2017 - $212,000,000) of unrecognized loss carryforwards and other deductible temporary differences. As of September 30, 2018, management has not recognized these deferred tax assets in certain jurisdictions as it is not probable that the benefit of these assets can be realized in the foreseeable future. Management will continue to monitor the situation and revise its estimates as appropriate.

Included in the above amount is $167,700,000 (2017 - $164,200,000) of Canadian unclaimed scientific research and experimental development ("SR&ED") expenses and non-capital losses, which are available to reduce future years' income for Canadian income tax purposes.

The Company's Canadian unclaimed SR&ED expenses do not expire, while the Canadian non-capital losses available for carryforward of $148,600,000 expire as follows:

2035	$ 39,300,000
2037	40,600,000
2038	68,700,000
	$ 148,600,000

Also included in the above amount is $13,700,000 (2017 - $nil) of Maltese non-capital losses, which are available to reduce future years' income for Maltese income tax purposes, and do not expire.

The Company has approximately $7,100,000 (2017 - $7,400,000) of Canadian ITCs, which can also be used to reduce future federal income taxes. These credits have a life of 20 years and begin to expire in 2023. The Company has previously recorded credits of $361,810 (2017 - $374,387) as it is probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

(Expressed in U.S. dollars)

13. Income tax expense (continued):

(d) Recognized deferred income tax assets and deferred income tax liabilities:

Deferred income tax assets and liabilities are attributable to the following:

	Corporate minimum taxes and other deductions	Unclaimed SR&ED expenses and non-capital losses	Intangible assets	Pensions	Set-off of deferred tax assets and liabilities	Total
Deferred income tax assets:						
Balance, September 30, 2017	$ 962,495	$ 1,875,833	$ –	$ 924,999	$ (1,435,198)	$ 2,328,129
Credited (charged) to loss before income tax expense	(76,986)	(124,162)	–	(16,277)	–	(217,425)
Credited (charged) to income tax expense	(92,388)	(451,076)	–	(100,969)	–	(644,433)
Set-off of deferred tax assets and liabilities	–	–	–	–	627,445	627,445
Balance, September 30, 2018	$ 793,121	$ 1,300,595	$	$ 807,753	$ (807,753)	$ 2,093,716
Deferred income tax liabilities:						
Balance, September 30, 2017	$ (120,000)	$ –	$ (510,199)	$ (924,999)	$ 1,435,198	$ (120,000)
Charged to loss before income tax expense	–	–	17,139	16,277	–	33,416
Credited (charged) to income tax expense	–		493,060	100,969	–	594,029
Set-off of deferred tax assets and liabilities	–	–	–	–	(627,445)	(627,445)
Balance, September 30, 2018	$ (120,000)	$ –	$ –	$ (807,753)	$ 807,753	$ (120,000)

(Expressed in U.S. dollars)

13. Income tax expense (continued):

	Corporate minimum taxes and other deductions	Unclaimed SR&ED expenses and non-capital losses	Intangible assets	Pensions	Set-off of deferred tax assets and liabilities	Total
Deferred income tax assets:						
Balance, September 30, 2016	$ 792,548	$ 3,114,909	–	$ 977,932	$ (2,900,910)	$ 1,984,479
Credited to loss before income tax expense	(205,392)	342,494	–	50,781	–	187,883
Charged to income tax expense	375,339	(1,581,570)	–	(103,714)	–	(1,309,945)
Set-off of deferred tax assets and liabilities	–	–	–	–	1,465,712	1,465,712
Balance, September 30, 2017	$ 962,495	$ 1,875,833	$ –	$ 924,999	$ (1,435,198)	$ 2,328,129
Deferred income tax liabilities:						
Balance, September 30, 2016	$ –	$ –	$ (2,610,925)	$ (977,932)	$ 2,900,910	$ (687,947)
Charged to loss before income tax expense	–	–	(104,372)	(50,781)	–	(155,153)
Credited to income tax expense	(120,000)	–	2,205,098	103,714	–	2,188,812
Set-off of deferred tax assets and liabilities	–	–	–	–	(1,465,712)	(1,465,712)
Balance, September 30, 2017	$ (120,000)	$ –	$ (510,199)	$ (924,999)	$ 1,435,198	$ (120,000)

(Expressed in U.S. dollars)

14. Change in non-cash operating working capital:

The change in non-cash operating working capital for the year ended September 30 is as follows:

	2018	2017
Trade accounts and other receivables	$ 11,386,553	$ 16,842,595
Unbilled revenue	3,488,496	9,362,095
Prepaid expenses	372,782	793,652
Inventories	(9,853)	(391,338)
Other assets	1,100,451	571,932
Trade payables	10,339,067	(2,983,778)
Accrued liabilities and other liabilities	(5,051,898)	(6,110,145)
Deferred revenue	(1,508,420)	(3,088,255)
Income taxes payable	591,770	(355,973)
	$ 20,708,948	$ 14,640,785

15. 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, and is managed on a worldwide distributed basis. The Company's Chief Executive Officer, the chief operating decision maker, reviews internal management financial information on a monthly basis, including revenue, property and equipment and intangible assets.

The Company's revenue by geographic area for the years ended September 30 is as follows:

	2018	2017
Europe, Middle East and Africa	$ 58,717,785	$ 69,053,738
North America, Latin America and Caribbean	25,705,626	35,606,857
Asia and Pacific Rim	37,203,293	33,263,139
	$ 121,626,704	$ 137,923,734

(Expressed in U.S. dollars)

15. Segment reporting (continued):

Revenue is attributed to geographic locations, based on the location of the external customer.

	2018	2017
Revenue by type:		
Support and subscription	$ 84,747,291	$ 88,339,593
Software and services	33,552,241	46,593,704
Third party software and hardware	3,327,172	2,990,437
	$ 121,626,704	$ 137,923,734

The Company's property and equipment by geographic area is as follows:

	2018	2017
Canada	$ 141,363	$ 253,799
Germany	148,913	599,201
India	206,873	2,036,657
Poland	44,534	49,205
Croatia	–	23,589
Other	178	495,160
	$ 541,861	$ 3,457,611

The Company's intangible assets by geographic area are as follows:

	2018	2017
Malta	$ 3,614,722	$ –
Canada	9,745	8,532,744
United Kingdom	6,520,339	7,971,391
Germany	7,896,519	8,915,540
Other	3,205	85,945
	$ 18,044,530	$ 25,505,620

The Company's goodwill is common across all locations. Therefore, management does not classify goodwill on a location basis.

(Expressed in U.S. dollars)

16. Commitments, restricted cash, guarantees and contingent liabilities:

(a) Lease commitments:

The Company leases certain property and equipment under operating leases. Operating lease payments are expensed on a straight-line basis over the term of the relevant lease agreements. Lease inducements received upon entry into an operating lease are recognized on a straight-line basis over the lease term. Operating lease payments for the year ended September 30, 2018, were $2,306,797 (2017 - $6,132,470). The Company is obligated to make future annual lease payments under operating leases for office equipment and premises.

Future minimum lease payments under non-cancellable operating leases as at September 30, 2018 are as follows:

2019	$	728,994
2020		157,595
2021 and thereafter		–
	$	886,589

(b) Restricted cash:

As at September 30, 2018, the Company had $3,507,759 (2017 - $4,553,623) in 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 consolidated statements of financial position.

(c) 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

16. Commitments, restricted cash, guarantees and contingent liabilities (continued):

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. In 2017, the Company recorded a provision for the best estimate of its obligation to settle certain claims made by terminated employees. This liability is included in provisions in the consolidated statements of financial position as at September 30, 2017 and September 30, 2018. The charge was recorded as restructuring costs in the consolidated statement of comprehensive loss during the years ended September 30, 2017 and 2018.

The Company is defending a claim made by a party pertaining to an intellectual property matter. A provision was recognized in the year ended September 30, 2017 as the best estimate of the costs that the Company will incur associated with the claim. This liability is included in provisions in the consolidated statements of financial position as at September 30, 2017 and September 30, 2018. The charge was recorded in general and administrative expense on the consolidated statement of comprehensive loss during the year ended September 30, 2017. Although liability is not admitted, if a defense against this matter is unsuccessful, the Company may incur the costs associated with this claim that will likely be settled within twelve months from September 30, 2018.

(Expressed in U.S. dollars)

17. Provisions:

	Restructuring (a)	Other (b)	Total
Balance, September 30, 2016	24,949,623	3,715,000	28,664,623
Additions	18,771,333	1,313,725	20,085,058
Cash payments	(25,959,901)	–	(25,959,901)
Release of provision	–	(1,157,238)	(1,157,238)
Settlement	–	(2,557,762)	(2,557,762)
Foreign exchange	403,663	–	403,663
Balance, September 30, 2017	$ 18,164,718	$ 1,313,725	$ 19,478,443
Additions	51,775,138	7,624,863	59,400,001
Cash payments	(60,304,052)	(2,592,821)	(62,896,873)
Settlement	–	(2,385,239)	(2,385,239)
Foreign exchange	(279,124)	–	(279,124)
Balance, September 30, 2018	$ 9,356,680	$ 3,960,528	$ 13,317,208
Current			$ 18,653,817
Non-current			824,626
Balance, September 30, 2017			$ 19,478,443
Current			$ 7,655,199
Non-current			5,662,009
Balance, September 30, 2018			$ 13,317,208

(a) In February 2016, the Company announced that it would eliminate certain satellite office locations, concentrate research and development and support staff into existing locations and consolidate activities to lower cost centres. The Company also announced restructuring actions throughout the organization intended to reduce its overall cost structure and improve its margin performance.

In February 2017, under the new strategic plan, the Company announced a corporate restructuring plan that is expected to be complete in fiscal 2019. The restructuring would involve 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.

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 developed a detailed plan and has recorded termination costs for employees informed of

17. Provisions (continued):

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 or changes in estimates.

During the year ended September 30, 2018, restructuring charges related to employee and lease terminations of $51,775,138 (2017 - $18,771,333) were recorded.

For the year ended September 30, 2018, an amount of $60,304,052 (2017– $25,959,901) has been paid and an additional amount of $3,694,671 is estimated as payable within one year. The balance of the restructuring provision, classified as long-term, is payable over three years, and amounts to $5,662,009 and has been discounted to its present value.

(b) The balance at September 30, 2017 in other provision includes the intellectual property claim described in note 17(c). There was no change to this provision as a result of this claim during the year ended September 30, 2018.

During the year ended September 30, 2018, the Company identified certain customer contracts where it is probable that the total costs to complete these contracts will exceed the contract revenue. As a result, the Company recorded a provision of $7,624,863. The expected loss was recorded in cost of revenue in the consolidated statements of comprehensive loss. In March 2018, two of these contracts were terminated, and the Company negotiated a settlement on one of the contracts and is in the process of defending a claim against the other. During the year ended September 30, 2018 cash payments in the amount of $2,592,821 were made towards the settlement of the claims. During the year ended September 30, 2018, $2,385,239 of the provision was utilized on delivery of these projects. 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 September 30, 2018.

(Expressed in U.S. dollars)

18. Related party transactions:

Compensation of key management personnel:

Key management personnel comprise the Company's directors and executive officers.

The aggregate remuneration of key management personnel during the year ended September 30 is as follows:

	2018	2017
Salaries and employee benefits	$ 1,753,166	$ 2,882,789
Share-based compensation (a)	2,927,527	2,143,225
	$ 4,680,693	$ 5,026,014

(a) Share-based compensation includes cash-settled and equity-settled awards, as described in note 2(s)(iii).

Service agreements:

On May 8, 2017, the Company entered into short term service agreements with Crossover Markets Inc. ("Crossover") and DevFactory FZ-LLC ("DevFactory") (collectively the "Service Agreements") to provide cross functional and specialized technical services. Each of Crossover and DevFactory is an affiliate of ESW Capital. On June 9, 2017, the Company extended the short-term Services Agreements with Crossover and DevFactory until the termination of the Standby Purchase Agreement with ESW Capital. Based on the closing of the Rights Offering (Note 13(d)), the Company has entered into long term service agreements with Crossover and DevFactory, which 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 personnel. Crossover leverages its network of global resources to hire, and assign resources on behalf of Optiva. 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 year ended September 30, 2018, the Company has incurred $27,965,903 of costs associated with services provided by Crossover (2017 – $5,919,051). The costs have been recorded in cost of goods sold

18. Related Party Transactions (continued):

or operating expenses in accordance with the department of the contract resource in the consolidated statements of comprehensive 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 year ended September 30, 2018, the Company has incurred $31,667,593 of costs associated with services provided by DevFactory (2017 - $3,477,630). The costs have been recorded in research and development expense in the consolidated statements of comprehensive loss.

Amounts owing to Crossover and DevFactory as of September 30, 2018 aggregated to $18,755,628 (September 30, 2017 - $4,535,173) and are included in both trade payables and accrued liabilities in the consolidated 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 is $247,672 for the year ended September 30, 2018 (2017 – $122,618) and have been recorded in general and administrative expense in the consolidated statements of comprehensive loss. Amounts owing to these entities as at September 30, 2018 aggregated to $340,699 (September 30, 2017 - $122,618) and are included in accrued liabilities in the consolidated statement of financial position.