# OPTIVA INC.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

# THIRD QUARTER ENDED SEPTEMBER 30, 2020

**DATED: November 13, 2020**

## SCOPE OF ANALYSIS

This Management's Discussion and Analysis ("MD&A") covers the results of operations, financial condition and cash flows of Optiva Inc. (the "Company" or "Optiva") for the third quarter ended September 30, 2020. This document is intended to assist the reader in better understanding operations and key financial results as they are, in our opinion, at the date of this report.

The MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2020 and the audited consolidated financial statements for the fiscal year ended December 31, 2019, which we prepared in accordance with International Financial Reporting Standards ("IFRS"). In 2019, the Board of Directors approved a change in the Company's fiscal year end from September 30 to December 31.

Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward-Looking Statements" and "Risks and Uncertainties." The consolidated financial statements and the MD&A have been reviewed by Optiva's Audit Committee and approved by its Board of Directors of the Company on November 13, 2020.

Unless otherwise indicated, all dollar amounts are expressed in U.S. Dollars. In this document, "we," "us," "our," "Company" and "Optiva" all refer to Optiva Inc. collectively with its subsidiaries.

## FORWARD-LOOKING STATEMENTS

Certain statements in this document may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements use such words as "may", "will", "expect", "continue", "believe", "plan", "intend", "would", "could", "should", "anticipate" and other similar terminology. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date of this document. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results or performance to differ materially from the results or performance discussed in the forward-looking statements and could have a material adverse effect on the Company, its business, results from operations and financial condition, including, but not limited to, the risk factors discussed under the "Risks and Uncertainties" section of this MD&A, and those described in the "Risk Factors" section of the Company's most recently filed Annual Information Form. Although the forward-looking statements contained in this document are based upon what we believe are reasonable assumptions, we cannot assure investors that our actual results will be consistent with these forward-looking statements. We assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances, except as required by securities law.

## RISKS AND UNCERTAINTIES

- As previously disclosed, on July 20, 2020, the Company completed the redemption of its outstanding preferred shares and completed a concurrent $90 million debenture offering, the proceeds of which were used to fund the preferred share redemption. In connection with and following these transactions, almost all of the Company's board of directors was refreshed with new directors. In addition, the Company is currently in the process of recruiting and hiring a new Chief Executive Officer. The Company's strategy may change as a result of these changes in its capital structure and related changes to the composition of the Company's board of directors and management and shareholder base.

- The Company and its subsidiaries are subject to various litigation claims in the normal course of business. On July 13, 2020, an application was commenced in the Ontario Superior Court of Justice (Commercial List) against the Company by ESW Capital, LLC ("ESW"), a significant shareholder of the Company and the former holder of the Company's preferred shares, which carried the right to elect a majority of the Company's Board of Directors. On July 15, 2020, a separate application seeking substantially similar to the relief sought in the above-noted ESW application was commenced against Optiva by Scott Brighton, a former member of the Company's Board of Directors appointed by ESW. Mr. Brighton's subsequently abandoned his application. In its application, ESW seeks to set aside the redemption of the Company's preferred shares and the Company's USD $90 million debenture offering, the proceeds of which were used to fund the preferred share redemption. ESW also seeks a declaration that it is entitled to nominate for election two individuals to the Company's board. The application was heard by the Court on October 1 and October 2, 2020. The Court has not yet issued a decision on the application. While the Company believes this claim is without merit, responding to this claim has and may continue to require significant time and effort from management of the Company. If the preferred share redemption is set aside by the Court, ESW would regain control of the Company. In addition, if the claim is successful, the Company and its operations could be materially adversely affected.

- The Company's strategy depends on its ability to realize the benefits of its investment in its product roadmap. The Company may continue to generate losses while it executes on its strategy of investing in innovating and modernizing its BSS solutions and application, specifically around cloud. Unanticipated declines in revenue or increases in expenses or liabilities in the near term, and slow adoption of Optiva cloud-based products by customers in the longer term, may result in the Company not being able to satisfy its financial obligations without further financing.

- Failure of the Company's solutions could expose the Company to significant liabilities. The Company's solutions are critical for its customers to deliver and monetize services on their networks. If the Company does not successfully deploy its solutions or if customers experience system outages caused by the Company's software, the Company may be exposed to significant liabilities associated with unplanned remediation costs, penalties and claims for damages.

- The Company faces intense competition and many of the Company’s competitors and potential competitors have significantly greater financial, technical, marketing or service resources. The Company’s relatively small size and recent operating history may be considered negatively by prospective end-users. If the Company does not compete effectively, the Company's revenue may not grow and could decline.

- The Company’s ability to recruit and retain personnel is crucial to its ability to develop, market, sell and support its products and services.

- The Company’s quarterly revenue and operating results can be difficult to predict and can fluctuate substantially, which may materially adversely impact its results of operations.

- The Company is exposed to credit risk related to accounts receivable from customers and unbilled revenue related to on-going customer projects. If customers fail to make payment in respect of amounts owing to the Company to an extent that is in excess of the Company’s estimated default rates, the Company’s business, financial condition and results of operation could be materially adversely affected.

- A substantial portion of the Company’s revenue and expenses are transacted in currencies other than the Company’s functional currency of U.S. dollars. Fluctuations in the exchange rate between the U.S. dollar and these currencies may have a material adverse effect on the Company’s business, financial condition and operating results.

- The Company has entered into contracts in the past with related parties, including affiliates of ESW, and has been purchasing significant development services from these parties. As previously announced, ESW has requested that the Company engage in a renegotiation of all related party agreements between the Company and ESW's affiliates. As a result, Optiva is going through the process of re-building its development services in-house and partnering with strategic partners to augment its development services. By the end of Q3 2020, the output of Optiva in-house development services was similar to those previously provided by ESW-related parties.

- The market for the Company’s products depends on economic and geopolitical conditions affecting the broader market. Economic conditions globally are beyond the Company’s control. In addition, acts of terrorism and the outbreak of a global health crisis or hostilities and armed conflicts between countries can create geopolitical uncertainties that may affect the global economy. Downturns in the economy or geopolitical uncertainties, including uncertainties caused by the pandemic COVID-19, may cause end-users to delay or cancel projects, reduce their overall security or IT budgets or reduce or cancel orders for the Company’s products, which could have a material adverse effect on its business, results of operations and financial condition.

## OVERVIEW

Optiva Inc. is a leader in providing communication service providers (“CSPs”) worldwide with cloud-native revenue management software on the private and public cloud in various models, including software-as-a-service (“SaaS”). Operators worldwide from different tiers and business lines can select the best-of-breed, converged Optiva Charging Engine and integrate it into their existing Business Support System (“BSS”) ecosystem or choose an end-to-end, best-of-suite billing and charging product. Optiva solutions offer unmatched speed, scale, security, and savings and help operators unlock business opportunities such as 5G and IoT.

Established in 1999, Optiva Inc. is listed on the Toronto Stock Exchange (TSX: OPT). For more information, visit www.optiva.com.

The Company derives its revenue from three main geographic areas, namely:

1. APAC – Asia and Pacific Rim
2. Americas – North America, Latin America, and Caribbean
3. EMEA – Europe, Middle East, and Africa

Optiva’s award-winning, cloud-enabled, real-time converged charging, billing, and customer care platform delivers the benefits of a flexible, end-to-end software platform, including real-time charging, billing, product catalog, order management, policy management, and customer care for any digital services of a CSP. Optiva’s product family supports any type of CSP from tier 1 to tier 4, on the cloud or on-premise. It enables a digital customer journey delivering innovative end-user services from real-time offerings to digital self-management of customer interactions.

Optiva supports the telecommunication industry with the following market solutions:

- **Optiva Charging Engine** – Optiva’s highly scalable, convergent charging solution is a full cloud-enabled platform for private and public cloud. It monetizes any type of transaction and enables a smooth transition from a traditional telco business to digital CSP as a single monetization platform. Today, Optiva’s scalable solution is supporting more than 200 million subscribers at a single customer and enables operators to launch and monetize their 4G and 5G networks and deliver advanced data services, including Voice over LTE (“VoLTE”), M2M, IoT, cloud services, and Over the Top offerings.

- **Optiva BSS Platform** – Optiva BSS Platform provides a fully managed, end-to-end, cloud-native converged charging and billing solution on the cloud. For CSPs, including Mobile Network Operators, Mobile Virtual Network Enablers, and MVNOs, Optiva BSS Platform, re-architected to be cloud-native and made available on the public cloud, is Optiva’s new entry into the SaaS market. The platform allows customers the freedom to focus on their business, not on deploying and managing enterprise software. Customers can design marketing plans, load subscribers, and deploy their services — without having to install software on premise. With the Optiva BSS Platform, customers can run on the public cloud: customer care, product catalog, unified rating and charging, customer self-care, payments and voucher management, billing and collections, order handling, policy control, dealer care, and wholesale settlement. Public cloud offers rapid, unlimited scale with capability for worldwide reach without the costs and complexities of bare metal or virtualized enterprise software deployments.

- **Policy Management Solution** – Optiva's Policy Management solution provides a single solution that enables service providers to take control of network resource usage, assure quality of experience for users, and offer personalized services and differentiated, service-specific charging. Optiva's Policy Management solution is key to supporting operator data monetization strategies for real-time applications, such as video streaming, interactive gaming, and VoLTE.

- **Optiva Wholesale Solution** – Optiva's Wholesale Solution is a cloud-based solution that provides operators with greater visibility into network transactions to achieve converged settlement and accurate interconnect billing. Optiva's solution helps service providers maximize the value of their network with a comprehensive and cost-effective interconnect, wholesale, roaming, MVNO, franchise management, and content settlement software solution.

- **Optiva Payments Solution –** Optiva's Payment Solution strengthens a customer's ability to monetize services with the provision of different payment methods, including voucher and voucher-less payment and top-up solutions. Optiva's solution allows service providers to offer end users the most convenient payment solutions in their market.

## PRIVATE PLACEMENT

Subsequent to the quarter, on November 10, 2020, OceanLink Management Ltd. ("OceanLink"), for and on behalf of certain managed funds, agreed to make a CDN$30M investment in Optiva through the purchase of subordinate voting shares of the Company (the "Shares") on a private placement basis (the "Investment")..

Optiva intends to use the proceeds from the Investment to fund strategic roadmap investments and to further transform its BSS products to be cloud native and work on private and public cloud. The funds will allow Optiva to address market needs and meet its customers' demands for its modernized solutions.

Key terms of the Investment include:

- OceanLink has agreed to purchase 750,000 Shares at a purchase price of CDN$40.00 per Share for gross proceeds to Optiva of CDN$30M.

- Immediately following completion of the Investment (the "Closing"), OceanLink will exercise control or direction over approximately 12.4% of the issued and outstanding Shares.

In connection with the Investment, the Company and OceanLink will enter into an investor rights agreement, providing for, among other things, participation rights in certain future securities offerings for a period of 12 months following Closing and the right to nominate one director to the Board of Directors of Optiva, in each case, for so long as OceanLink beneficially owns, or exercises control or direction over, at least 9% of the issued and outstanding Shares. Immediately prior to the Investment, OceanLink did not have beneficial ownership of, or control or direction over, any securities of the Company.

The Closing of the Investment is subject to the satisfaction of customary closing conditions, including the receipt of Toronto Stock Exchange approval. Until December 15, 2020, the Closing is also conditional upon the pending Court decision in the previously announced legal proceedings that were brought by ESW Capital, LLC ("ESW") challenging the Company's July 2020 preferred share redemption and debenture financing not reversing those transactions.

## REDEMPTION OF PREFERRED SHARES AND DEBENTURE FINANCING

On July 20, 2020, the Company fully redeemed all of the Series A Preferred Shares of the Company (the “Preferred Shares“), including all accrued and unpaid dividends thereon, beneficially owned or controlled by ESW Capital, LLC and its affiliates, in accordance with the terms of the Preferred Shares. The aggregate redemption price in respect of the Preferred Shares was $91.4 million (the “Redemption Amount“). This included the face amount of $80.0 million and accrued dividends of $11.4 million.

On July 20, 2020, the Company closed a $90.0 million financing (the “Debenture Financing“) of 9.75% secured PIK toggle debentures due 2025 (the “Debentures“). The Debentures are guaranteed by certain of the Company’s subsidiaries, and constitute senior secured obligations of the Company. The net proceeds from the Debenture Financing were used to redeem all of the Series A Preferred shares of the Company (plus all accrued dividends). The Debenture Financing was completed on a private placement basis pursuant to certain prospectus exemptions, and consisted of a non-brokered private placement and a marketed brokered private placement led by CIBC Capital Markets (“CIBC“) as agent for the Debenture Financing.

As at September 30, 2020, $90.0 million (2019 - $nil) aggregate principal amount of Debentures is outstanding and interest computed on a 365-day (or 366-day, as applicable) basis is payable semi-annually on July 20 and January 20 of each year commencing on January 20, 2021. As of September 30, 2020, the Company incurred $3.3 million of transaction costs and has recorded these costs as deferred financing costs that are being amortized over the expected five-year term of the Debentures. During the nine months ended September 30, 2020, $0.1 million of deferred financing fees was amortized (2019 - $nil).

For the three and nine months ended September 30, 2020, interest expense of $1.7 million (2019 - $nil) in connection with the Debenture Financing has been recognized in the condensed consolidated interim statements of comprehensive income (loss).

## OUTLOOK

### Management Changes

The Company has been actively engaged with an executive search firm to conduct a search for a new Chief Executive Officer whose vision aligns with the board and the shareholders.

### Investment in Cloud Innovation Initiatives

The Company believes the telecom industry will continue to shift its BSS products and applications to the cloud and, specifically public cloud, and demand solutions from its vendors that can offer a cloud-native architecture. Accordingly, Management is investing aggressively in upgrading Optiva’s product offering to become fully cloud-native. Management believes this transition is ongoing and continuous and will take a few years to fully materialize due to the complicated technology, regulatory, and security structures faced by the telecom industry.

The Company continues to invest in cloud innovation, including the Company's use of public cloud solutions, to be integrated into Optiva cloud-native products. The Company is in the process of strengthening and building an in-house R&D team and working with other strategic partners to enhance its R&D activities. The Company continues to evaluate the need and timing of additional funding and any evolution of our strategy.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets out selected consolidated financial information of Optiva for the periods indicated. Each investor should read the following information in conjunction with those financial statements and related notes. The operating results for any past period are not necessarily indicative of results for any future period. The selected financial information set out below has been derived from the Company's unaudited condensed consolidated interim financial statements.

| **Q3 Fiscal 2020 Highlights**<br>*($ US Thousands, except per share information)*<br>*(Unaudited)* | **Three Months Ended September 30, 2020** | **2019** | **Nine Months Ended September 30, 2020** | **2019** |
|---|---|---|---|---|
| Revenue | 18,804 | 23,124 | 57,774 | 72,736 |
| Net income (loss) | (29,221) | (963) | (43,190) | 2,584 |
| Earnings (loss) Per Share | $(5.50) | $(0.18) | $(8.12) | $ 0.49 |
| Cash generated from (used in) operating activities | (1,398) | 1,232 | (5,279) | 2,624 |
| Total cash, including restricted cash | 21,306 | 37,677 | 21,306 | 37,677 |

| **Consolidated Statements of Comprehensive Income (Loss)** (all amounts in thousands of US$, except per share amounts) | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| **(unaudited)** | **2020** | **2019** | **2020** | **2019** |
| **Revenue** | | | | |
| Support and subscription | 14,077 | 16,595 | 44,031 | 51,603 |
| Software, services and other | 4,727 | 6,529 | 13,743 | 21,133 |
| **Total Revenue** | **18,804** | **23,124** | **57,774** | **72,736** |
| Cost of revenue | 4,649 | 8,065 | 15,125 | 25,063 |
| **Gross profit** | **14,155** | **15,059** | **42,649** | **47,673** |
| **Operating expenses** | | | | |
| Sales and marketing | 1,581 | 2,257 | 6,273 | 8,119 |
| General and administrative | 8,288 | 4,647 | 23,893 | 13,186 |
| Research and development | 2,255 | 8,155 | 22,863 | 18,271 |
| Restructuring costs (recovery) | 59 | (3,710) | 202 | (2,415) |
| **Total Operating Expenses** | **12,184** | **11,349** | **53,231** | **37,161** |
| **Income (loss) from operations** | **1,971** | **3,710** | **(10,582)** | **10,512** |
| Foreign exchange gain (loss) | 283 | (385) | (1,899) | 866 |
| Finance income | 173 | 119 | 250 | 391 |
| Finance costs | (29,661) | (1,795) | (28,283) | (5,198) |
| **Income (loss) before income taxes** | **(27,234)** | **1,649** | **(40,514)** | **6,571** |
| Income tax expense | 1,987 | 2,612 | 2,676 | 3,987 |
| **Net Income (loss) for the period** | **(29,221)** | **(963)** | **(43,190)** | **2,584** |
| **Earnings (loss) per common share** | | | | |
| Basic | $ (5.50) | $ (0.18) | $ (8.12) | $ 0.49 |
| Diluted | $ (5.50) | $ (0.18) | $ (8.12) | $ 0.46 |
| **Weighted average number of common shares (thousands)** | | | | |
| Basic | 5,316 | 5,316 | 5,316 | 5,257 |
| Diluted | 5,316 | 5,316 | 5,316 | 5,612 |

| **Statement of Financial Position Data** *$US Thousands (unaudited)* | **As at September 30, 2020** | **As at December 31, 2019** | $ Change | % Change |
|---|---|---|---|---|
| Cash, Cash Equivalents and Restricted Cash | 21,306 | 32,699 | (11,393) | (35%) |
| Trade Accounts, Other Receivables and Unbilled Revenue | 18,108 | 16,953 | 1,155 | 7% |
| Goodwill and Intangible Assets | 37,360 | 44,487 | (7,127) | (16%) |
| Total Assets | 84,242 | 101,520 | (17,278) | (17%) |
| Trade Payable and Accrued Liabilities | 22,589 | 17,869 | 4,720 | 26% |
| Deferred Revenue | 6,866 | 7,066 | (200) | (3%) |
| Provisions | 5,765 | 3,667 | 2,098 | 57% |
| Other long-term liabilities | 19,910 | 15,868 | 4,042 | 25% |
| Debentures | 86,812 | - | 86,812 | |
| Preferred Shares and Series A Warrant | 21,291 | 89,025 | (67,734) | (76%) |
| Total Liabilities | 166,613 | 137,140 | 29,473 | 21% |
| Shareholders' Deficit | (82,371) | (35,621) | (46,750) | 131% |

## CURRENT PERIOD OPERATING RESULTS

### Revenue

The following tables set forth the Company's revenues by type and as a percentage of total revenue for the periods indicated:

| **$US Thousands (unaudited)** | **Three Months Ended September 30, 2020** | **2019** | **Nine Months Ended September 30, 2020** | **2019** |
|---|---|---|---|---|
| Support and Subscription | 14,077 | 16,595 | 44,031 | 51,603 |
| Software and Services | 4,602 | 6,483 | 13,095 | 20,446 |
| Third Party Software and Hardware | 125 | 46 | 648 | 687 |
| **Total** | **18,804** | **23,124** | **57,774** | **72,736** |

| **Percentage of Total Revenue (unaudited)** | **Three Months Ended September 30, 2020** | **2019** | **Nine Months Ended September 30, 2020** | **2019** |
|---|---|---|---|---|
| Support and Subscription | 75% | 72% | 76% | 71% |
| Software and Services | 24% | 28% | 23% | 28% |
| Third Party Software and Hardware | 1% | 0% | 1% | 1% |
| **Total** | **100%** | **100%** | **100%** | **100%** |

The Company recognizes revenue from the sale of software licenses, including initial perpetual licenses, term licenses, capacity increases and/or upgrades; professional services; third-party hardware and software components and customer support contracts.

For the three-month period ended September 30, 2020, the Company's revenues have declined by $4.3 million from the previous year's comparative period to $18.8 million. The change by revenue type for the quarter ended September 30, 2020, is as follows: $2.5 million decrease in support and subscription revenue, $1.9 million decrease in software and services revenue and $0.1 million increase in third-party software and hardware revenue.

For the nine-month period ended September 30, 2020, the Company's revenues have declined by $15.0 million from the previous year's comparative period to $57.8 million. The change by revenue type for the nine months ended September 30, 2020, is as follows: $7.6 million decrease in support and subscription revenue, $7.3 million decrease in software and services revenue and $0.1 million decrease in third party software and hardware revenue.

### *Support and Subscription Revenue*

Support and subscription revenue consists of revenue from our customer support and maintenance contracts and term-based software licensing. The term of these agreements typically commences on successful completion of acceptance testing of the software deployment, with customers initially entering into these contracts for a period of one or more years and then renewing for similar periods thereafter.

Support and subscription revenue for the three-month period ended September 30, 2020, was $14.1 million, or 75% of total revenue, compared to $16.6 million, or 72% of total revenue, for the same period last year. For the nine-month period ended September 30, 2020, the Company's support and subscription decreased to $44.0 million, or 76% of total revenue, compared to $51.6 million or 71% of total revenue for the same period last year. The support and subscription revenue has continued to decline mainly due to the discontinuation of support to customers who had previously notified us of their exit, slightly offset by price increases in the case of certain customers.

### *Software and Services Revenue*

Software and services revenue consists of fees earned from the on-premise licensing, except for term-based licenses, which are recorded as subscription and deployment of software products to our customers as well as the revenues resulting from consulting and training service contracts related to the software products.

Software and services revenue for the three-month period ended September 30, 2020, decreased to $4.6 million, or 24% of total revenue, compared to $6.5 million, or 28% of total revenue for the same period last year. For the nine-month period ended September 30, 2020, the Company's software and services revenue decreased to $13.1 million, or 23% of total revenue, compared to $20.4 million, or 28% of total revenue for the same period last year. The decline is mainly due to fewer software implementations compared to the prior period. We are expecting that our software and services revenue may be negatively impacted in the next two fiscal quarters by the COVID-19 pandemic, as projects that require travel to customer sites have been suspended and service deliveries delayed indefinitely.

### *Third-Party Software and Hardware Revenue*

Third-party software and hardware revenue consist of revenue from the sale of other vendors' software and hardware components as part of Optiva's solutions, including server platforms, database software and other ancillary components.

Third-party software and hardware revenue for the three-month period ended September 30, 2020, increased marginally to $0.1 million, compared to less than $0.1 million, for the same period last year. For the nine-month period ended September 30, 2020, the Company's third-party software and hardware revenue decreased to $0.6 million, or 1% of total revenue, compared to $0.7 million, or 1% of total revenue, for the same period last year. Management continues its initiative to minimize the sale of third-party software and hardware components, which have minimal contribution to overall profitability.

### *Revenue by Geography*

Revenue is attributed to geographic locations based on the location of the customer. The following tables set forth revenues by main geographic area and as a percentage of total revenue for the periods indicated:

| $US Thousands (unaudited) | Three Months Ended September 30, 2020 | 2019 | Nine Months Ended September 30, 2020 | 2019 |
|---|---|---|---|---|
| Asia and Pacific Rim | 4,769 | 4,584 | 14,227 | 18,335 |
| North America, Latin America and Caribbean | 5,690 | 4,817 | 18,326 | 15,965 |
| Europe, Middle East and Africa | 8,345 | 13,723 | 25,221 | 38,436 |
| **Total** | **18,804** | **23,124** | **57,774** | **72,736** |

| Percentage of Total Revenue (unaudited) | Three Months Ended September 30, 2020 | 2019 | Nine Months Ended September 30, 2020 | 2019 |
|---|---|---|---|---|
| Asia and Pacific Rim | 25% | 20% | 25% | 25% |
| North America, Latin America and Caribbean | 30% | 21% | 32% | 22% |
| Europe, Middle East and Africa | 45% | 59% | 43% | 53% |
| **Total** | **100%** | **100%** | **100%** | **100%** |

For the three-month period ended September 30, 2020, revenue from the APAC region was $4.8 million, or 25% of total revenue, compared to $4.6 million, or 20% of total revenue, for the same comparable period. For the nine-month period ended September 30, 2020, revenue from the APAC region was $14.2 million, or 25% of total revenue, compared to $18.3 million, or 25% of total revenue, for the same comparable period in fiscal 2019. This decrease is mainly a result of lower support and subscriptions revenue and lower revenue from software implementation in the region.

For the three-month period ended September 30, 2020, revenue from the Americas region increased to $5.6 million, or 30% of total revenue, compared to $4.8 million, or 21% of total revenue, for the same comparable period. For the nine-month period ended September 30, 2020, revenue from the Americas region increased to $18.3 million, or 32% of total revenue, compared to $16.0 million, or 22% of total revenue, for the same comparable period in fiscal 2019. The increase in the quarter compared to the last fiscal year is mainly due to higher support and subscription revenue in the region. The increase for the nine months ended September 30, 2020, is mainly due to higher software revenue and higher support and subscriptions revenue in the region.

For the three-month period ended September 30, 2020, revenue from the EMEA region decreased to $8.3 million, or 45% of total revenue, compared to $13.7 million, or 59% of total revenue, for the same comparable period. For the nine-month period ended September 30, 2020, revenue from the EMEA region decreased to $25.2 million, or 43% of total revenue, compared to $38.4 million, or 53% of total revenue, for the same comparable period in fiscal 2019. The decrease in revenue during the three and nine months ended September 30, 2020, is mainly a result of lower support revenue due to the loss of certain customers, compared to the same period last year and lower software and services revenue.

## Cost of Revenue and Gross Margin

Cost of revenue consists of cross-functional personnel costs providing professional services to implement and provide post-sales technical support for our solutions, and the costs of third party hardware and software components sold as part of Optiva's solutions. In addition, cost of revenue includes an allocation of certain direct and indirect costs attributable to these activities and expected losses on any contracts when it is probable that the total contract costs will exceed contract revenues. Personnel levels are determined based on expected revenue and support demand levels; therefore, gross margin as a percentage of revenue can vary significantly from quarter to quarter.

For the three months ended September 30, 2020, cost of revenue decreased to $4.0 million from $8.1 million incurred for the same comparable period. The gross margin for the quarter has increased to 75% in the three months ended September 30, 2020, compared to 65% in the three months ended September 30, 2019. For the nine months ended September 30, 2020, cost of revenue decreased to $14.5 million from $25.1 million incurred for the same comparable period. The gross margin has increased to 74% in the nine months ended September 30, 2020, compared to 66% in the nine months ended September 30, 2019. The gross margins this year are higher due to fewer customizations with lower margins were ordered by customers that required fulfillment, as compared to the previous period, and there was a higher percentage of revenue from support and subscription revenue that has a higher margin. We expect our gross margins may decline initially and may fluctuate as we prove our cloud-native model and product capability to new and existing customers when they onboard to the public or private cloud in future periods.

## Operating Expenses

Total operating expenses in the three months ended September 30, 2020, increased to $12.2 million as compared to $11.3 million in the same period last year. Excluding depreciation, amortization and restructuring costs, total operating costs in the quarter ended September 30, 2020, decreased to $9.9 million, or 53% of total revenue, compared to $13.8 million, or 60% of total revenue, for the same period last year. The increase in overall operating expenses (excluding depreciation, amortization and restructuring costs) is mainly attributable to higher general and administrative costs, offset by lower research and development costs and lower sales and marketing costs, as further explained below by function.

Total operating expenses in the nine months ended September 30, 2020, increased to $53.2 million as compared to $37.2 million in the same period last year. Excluding depreciation, amortization and restructuring costs, total operating costs in the nine months ended September 30, 2020, increased to $45.9 million, or 79% of total revenue, compared to $36.0 million, or 49% of total revenue, for the same period last year. The increase in overall operating expenses (excluding depreciation, amortization and restructuring costs) is mainly attributable to higher general and administrative costs, higher research and development costs and slightly offset by lower sales and marketing costs, as further explained below by function.

The following tables set forth total operating expenses by function and as a percentage of total revenue for the periods indicated:

| **$US Thousands (unaudited)** | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Sales and Marketing | 1,581 | 2,257 | 6,273 | 8,119 |
| General and Administrative | 8,288 | 4,647 | 23,893 | 13,186 |
| Research and Development | 2,255 | 8,155 | 22,863 | 18,271 |
| Restructuring Costs | 59 | (3,710) | 202 | (2,415) |
| **Total Operating Expenses** | **12,183** | **11,349** | **53,231** | **37,161** |
| *Excluding Amortization and Depreciation* | *9,996* | *10,140* | *46,090* | *33,577* |

| **Percentage of Total Revenue (unaudited)** | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| Sales and Marketing | 9% | 10% | 11% | 11% |
| General and Administrative | 44% | 20% | 41% | 18% |
| Research and Development | 12% | 35% | 40% | 25% |
| Restructuring Costs | 0% | -16% | 0% | -3% |
| **Total Operating Expenses** | **65%** | **49%** | **92%** | **51%** |
| *Excluding Amortization and Depreciation* | *53%* | *44%* | *80%* | *46%* |

Depreciation and amortization and stock-based compensation by function included in operating expenses were as follows:

| **$US Thousands** | **Three Months Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| *(unaudited)* | **2020** | **2019** | **2020** | **2019** |
| Cost of Revenue | - | 2 | - | 4 |
| Sales and Marketing | - | - | - | (18) |
| General and Administrative | 3,609 | 1,612 | 7,676 | 4,817 |
| Research and Development | - | 45 | - | 86 |
| **Total** | **3,609** | **1,659** | **7,676** | **4,888** |

## *Sales and Marketing Expenses*

Sales and Marketing ("S&M") expenses consist primarily of salaries, variable compensation costs and other personnel costs, travel, advertising, marketing and conference costs, plus the allocation of certain overhead costs to support the Company's sales and marketing activities.

For the three-month period ended September 30, 2020, S&M expenditures decreased to $1.6 million, or 9% of total revenue, compared to $2.3 million, or 10% of total revenue, compared to the same comparable period. For the nine-month period ended September 30, 2020, S&M expenditures decreased to $6.3 million, or 11% of total revenue, compared to $8.1 million, or 11% of total revenue, for the comparable period. The decrease is mainly due to the impact of cost optimization initiatives and lower cloud-related marketing spend.

## *General and Administrative Expenses*

General and administrative ("G&A") expenses include personnel costs, professional fees, depreciation and share-based compensation costs associated with the Company's corporate leadership, compliance and support activities such as finance, human resources, information technology, legal and tax.

For the three-month period ended September 30, 2020, G&A expenditures increased to $8.3 million, or 44% of total revenue, from $4.6 million, or 20% of total revenue, compared to the same comparative period. For the nine-month period ended September 30, 2020, G&A expenditures increased to $23.9 million, or 41% of total revenue, from $13.2 million, or 25% of total revenue, to the same comparative period. The increase was mainly due to an increase in legal and advisory costs related to the activities of the special committee of the board of directors, increase in provision estimate to reflect changes in the status of certain claims and costs to settle, increased amortization costs resulting from a revision to the estimated useful life of intangible assets associated with certain non-core business and higher stock-based compensation due to the increase in share price and additional director stock units ("DSUs") granted. Certain directors on the board have opted to take DSUs in lieu of quarterly cash compensation.

### *Research and Development Expenses*

Research and development ("R&D") expenses consist primarily of personnel costs associated with product management, improvement of code quality and the development and testing of new products and features.

For the three-month period ended September 30, 2020, R&D expenditures decreased to $2.3 million, or 12% of total revenue, from $8.2 million, or 35% of total revenue, as compared to the same comparative period. The decrease is due to lower DevFactory and Crossover spend on overall R&D activities, including no cloud-related spend. For the nine-month period ended September 30, 2020, R&D expenditures increased to $22.9 million, or 40% of total revenue, from $18.3 million, or 25% of total revenue, in the comparative period. The increase is primarily due to higher DevFactory and Crossover spend mainly on cloud-related R&D activities. The Company's spend on R&D activities, including those on account of cloud innovation, is discretionary in nature. Consequently, the R&D spend is generally expected to vary by quarter, and sometimes this can be significant.

The Company is in the process of building an in-house R&D team and did not place any orders with DevFactory in the quarter ended September 30, 2020. The Company is also working with other strategic partners to enhance its R&D activities.

### *Restructuring Costs*

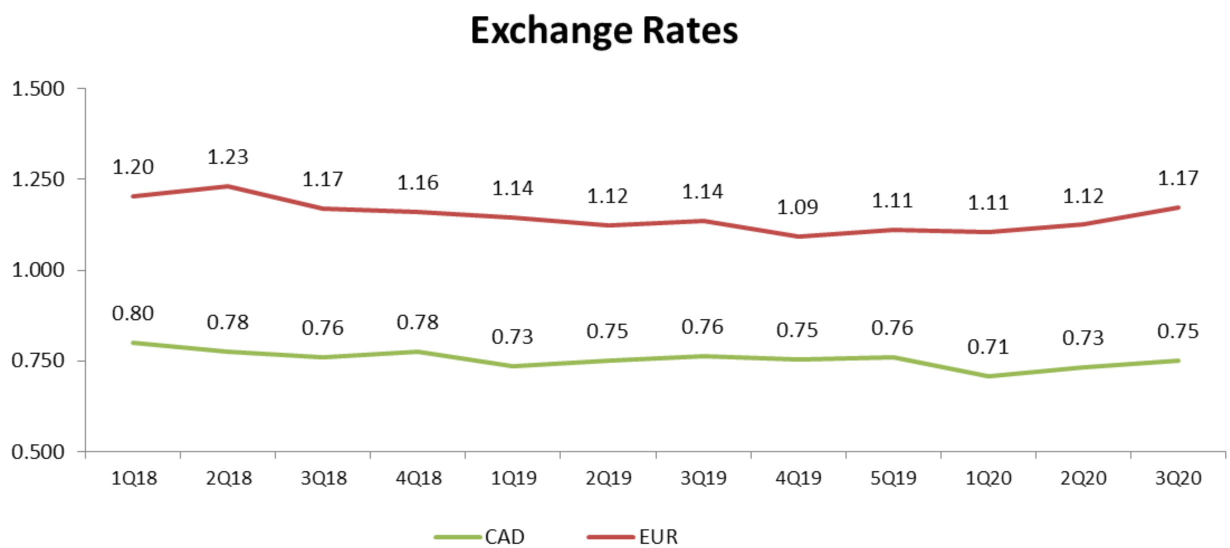
In November 2017, the Company implemented a restructuring plan and commenced implementing a reduction in workforce globally and vacating premises in multiple locations. The Company has completed the workforce reduction associated with this plan. The Company has also vacated its office premises in almost all jurisdictions and maintains offices only in those jurisdictions where it is required by statute. During the three and nine months ended September 30, 2020, $0.1 million and $0.2 million of restructuring charges related to closure of facilities and entity simplification were recorded (three and nine months ended September 30, 2019 - $0.1 million and $1.4 million, respectively, related to headcount, closure of facilities and entity simplification).

For the nine months ended September 30, 2020, an amount of $1.1 million has been paid and an additional amount of $0.3 million is estimated as payable within one year.

The Company has closed 12 of its subsidiaries as of September 30, 2020 as part of the legal entity reorganization of the Company's corporate structure. The Company's remaining restructuring activities under this plan primarily involve the winding up of 34 subsidiaries, which will bring the total number of legal entities, including Optiva Inc., down to nine from 43 at the outset of this restructuring. The legal entity reorganization is dependent upon completion of local statutory requirements including obtaining tax clearance prior to wind up and may take several years to complete. The cost of the legal entity reorganization may exceed the Company's estimates due to uncertainties associated with tax and other statutory audits in multiple jurisdictions. The legal entity reorganization plan is expected to make our operations and back-office more cost efficient and reduce risks associated with operating in multiple jurisdictions.

### *Foreign Exchange Gain/Loss*

We operate internationally and have foreign currency risks related to our revenue, operating expenses, monetary assets, monetary liabilities and cash denominated in currencies other than the U.S. Dollar, which is our functional currency. Consequently, movements in the foreign currencies in which we transact have and could significantly affect current and future net earnings. Currently, we do not use derivative instruments to hedge such currency risks. The graph below displays the change in rates of our significant currencies relative to the U.S. Dollar.




Source: Bank of Canada

The Company has monetary assets and liabilities in a number of currencies, the most significant of which are denominated in Euro and the Canadian Dollar. For the three months ended September 30, 2020, the Company had a foreign currency exchange gain of $0.3 million, compared to a foreign currency exchange loss of $0.4 million in the comparable period. For the nine months ended September 30, 2020, the Company had a foreign currency exchange loss of $1.9 million, compared to a foreign currency exchange gain of $0.9 million in the comparable period. The U.S. Dollar weakened against the Canadian dollar and the Euro during the three and nine months ended September 30, 2020.

A change in foreign exchange rates as at September 30, 2020, of 10% would result in a gain or loss of approximately $1.0 million arising from the translation of the Company’s foreign currency-denominated monetary assets and liabilities as at September 30, 2020. This foreign currency gain or loss arising from translation would be recorded in the consolidated statements of comprehensive income.

### Income Taxes

The Company’s operations are global, and the income tax provision is determined in each of the jurisdictions in which the Company conducts its business. The Company's current income tax expense for the nine months ended September 30, 2020, mainly includes $1.5 million (nine months ended September 30, 2019 - $2.1 million) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and $1.3 million (nine months ended September 30, 2019 - $1.8 million) of foreign withholding taxes. The Company's deferred tax recovery of $0.1 million (nine months ended September 30, 2019 - expense of less than $0.1 million) consists primarily of changes in temporary differences recognized during the current period.

## SUMMARY OF EARNINGS RESULTS

All financial results are in thousands, unless otherwise stated, with the exception of per share amounts. The table below provides summarized information for our eight most recently completed quarters:

| $US Thousands, except share and per share amounts (Unaudited) | 3Q 20 | 2Q 20 | 1Q 20 | 5Q 19 | 4Q 19 | 3Q 19 | 2Q 19 | 1Q 19 |
|---|---|---|---|---|---|---|---|---|
| Revenue | $18,804 | $19,933 | $19,037 | $20,530 | $23,124 | $24,670 | $24,942 | $27,617 |
| Net Income (loss) | $(29,221) | $(14,777) | $ 808 | $(16,874) | $(963) | $ 3,069 | $ 479 | $ 538 |
| Earnings (loss) per Share | $(5.50) | $(2.78) | $ 0.15 | $(3.17) | $(0.18) | $ 0.58 | $ 0.09 | $ 0.10 |
| Diluted Earnings (loss) per Share | $(5.50) | $(2.78) | $ 0.14 | $(3.17) | $(0.18) | $ 0.54 | $ 0.08 | $ 0.10 |
| Weighted average shares outstanding – Basic (thousands) | 5,316 | 5,316 | 5,316 | 5,316 | 5,316 | 5,305 | 5,243 | 5,233 |
| Weighted average shares outstanding - Diluted (thousands) | 5,316 | 5,316 | 5,632 | 5,316 | 5,316 | 5,636 | 5,633 | 5,646 |

(1) Company's fiscal year end changed to December from September, effective 2019, therefore has 5 quarters

## LIQUIDITY AND CAPITAL RESOURCES

The Company’s objective in managing capital resources is to ensure sufficient liquidity to drive its organic growth, fund operations, complete its restructuring actions and implement its strategic plan, while managing financial risk. The Company currently funds its operations and capital expenditure requirements through cash flows generated by operating activities, proceeds from the issuance of equity instruments (including common shares, warrants and preferred shares) and cash on hand. The Company believes its restructuring activities as it relates to workforce and facility optimisation are substantially complete and expects cash flow from operations to fund its future operations, including its investment in the Cloud strategy.

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. Approximately 43% (December 31, 2019 – 60%) of our cash is in foreign subsidiaries, where repatriation to the parent Company in Canada could take longer than 30 days.

| **Key Balance Sheet Amounts and Liquidity Ratios** *$US Thousands, except ratios and metrics (unaudited)* | As at September 30, 2020 | As at December 31, 2019 | $ Change | % Change |
|---|---|---|---|---|
| Cash, Cash Equivalents and Restricted Cash | 21,306 | 32,699 | (11,393) | (35%) |
| Trade Accounts Receivable | 5,941 | 6,795 | (854) | (13%) |
| Working capital | 3,266 | 19,321 | (16,055) | (83%) |
| Days sales outstanding in trade accounts receivable (days) | 30 | 38 | (8) | (21%) |
| Days sales outstanding in unbilled revenue (days) | 41 | 45 | (4) | (9%) |

The Company uses working capital, days sales outstanding (DSO) in trade accounts receivable and DSO in unbilled revenue as measures to enhance comparisons between periods. Management believes these DSO measures to be important indicators of the Company’s ability to convert trade receivables and unbilled revenue into cash. A lower DSO indicates a more efficient cash collection process and delivery and customer acceptance process. These terms do not have a standardized meaning under IFRS and are unlikely to be comparable to similarly titled measures reported by other issuers. The calculation of each of these items is more fully described below.

Days sales outstanding (“DSO”) - The Company has calculated DSO based on annualized revenue and the average of the beginning and ending accounts receivable balance for three month period (2019: full year) being reported.

DSO in unbilled revenue - The Company has calculated DSO in unbilled revenue based on annualized revenue and the average of the beginning and ending unbilled revenue balance for the three month period (2019: full year) being reported.

Cash and restricted cash declined by $11.4 million to $21.3 million at September 30, 2020, compared to December 31, 2019.

Working capital represents the Company’s current assets less its current liabilities. The Company’s working capital balance decreased by $16.1 million to $4.8 million at September 30, 2020, from $19.3 million at December 31, 2019.   This is mostly related to decrease in cash, increase in accounts payable and increase in provisions.

The table below outlines a summary of cash inflows (outflows) by activity.

| **Statement of Cash Flows Summary**<br>*($ US Thousands)*<br>*(Unaudited)* | **Three months ended September 30,**<br>**2020** | **2019** | **Nine months ended September 30,**<br>**2020** | **2019** |
|---|---|---|---|---|
| Cash inflows and (outflows) by activity: | | | | |
| Operating activities | (1,398) | 1,232 | (5,279) | 2,624 |
| Investing activities | 58 | 366 | 261 | 2,009 |
| Financing activities | (4,694) | - | (6,904) | - |
| Effect of foreign currency exchange rate changes on cash and cash equivalents | 223 | (498) | 790 | (399) |
| Net cash inflows (outflows) | (5,811) | 1,100 | (11,132) | 4,234 |
| Cash and cash equivalents, beginning of period | 26,427 | 35,493 | 31,748 | 32,359 |
| Cash and cash equivalents, end of period | 20,616 | 36,593 | 20,616 | 36,593 |
| Cash (including Restricted Cash), end of period | 21,306 | 37,677 | 21,306 | 37,677 |

## Cash From Operating Activities

Net cash used by operating activities was $1.4 million in the three months ended September 30, 2020, compared to source of cash of $1.2 million in the same period last year. Cash used by operating activities in the three months ended September 30, 2020, mainly relates to cash taxes paid during the quarter. For the quarter ended September 30, 2019, net cash generated by operating activities was $1.2 million mainly related operating income and cash generated working capital.

Net cash used by operating activities was $5.3 million in the nine months ended September 30, 2020, compared to source of cash of $2.6 million in the same period last year. Cash used by operating activities in the nine months ended September 30, 2020, mainly relates to the cash taxes paid during the period. For the nine months ended September 30, 2019, net cash generated by operating activities was $2.6 million, mainly related operating income mostly offset by cash used in working capital and cash taxes paid.

## Cash Used for Investing Activities

In the three months ended September 30, 2020, there was $0.1 million of cash generated by investing activities, compared to cash generated of $0.4 million during the same period in fiscal 2019. Cash generated by investing activities during the nine months ended September 30, 2020, was $0.8 million, compared to cash generated of $2.0 million during the same period last year. The source of cash mainly relates to the release of restricted cash.

## Cash Used for Financing Activities

In the three months ended September 30, 2020, net cash used by financing activities was $4.7 million, compared to cash used of $nil during the same period last year. For the nine months ended September 30, 2020, cash used by financing activities was $6.9 million compared to cash used of $nil during the nine months ended September 30, 2019. The use of cash during three and nine months ended

September 30, 2020, relates to the net cash used between the proceeds from new debenture financing and the payment for redemption of preferred shares and accrued dividends. The use of cash also relates to the transaction costs incurred for the new debenture financing.

## 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 managing financial risk. As of September 30, 2020, the Company's share capital currently consists of Subordinated Voting Shares. The Company also has outstanding a Series A Warrant (classified as liability) and a Standby Warrant (classified as equity). The Company's primary use of capital is to finance its operations and includes increases in working capital and investment in Cloud R&D. The Company currently funds these requirements from operating cash flows. See also the events described on page 6 related to the redemption of the Series A Preferred Shares and the Debenture Financing.

## TRADE ACCOUNTS AND OTHER RECEIVABLES

The Company's DSO in Trade Accounts Receivable ("DSO") is at 30 days as of September 30, 2020, compared to 38 days as of December 31, 2019. 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. Credit reviews take into account the counterparty's financial position, past experience and other factors. Management regularly monitors customer credit limits. The Company also maintains credit insurance in certain jurisdictions. The Company believes that the concentration of credit risk from trade receivables is limited, as they are widely distributed among customers in various countries.

While the Company's credit controls and processes have been effective in mitigating credit risk, these controls cannot eliminate credit risk, and there can be no assurance that these controls will continue to be effective or that the Company's low credit loss experience will continue. Most sales are invoiced with payment terms in the range of 30 to 120 days. 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 determined not to be fully collectible.

The allowance for doubtful accounts as at September 30, 2020, was $0.6 million, compared to $1.6 million as at December 31, 2019. Estimates for allowance for doubtful accounts are determined based on an evaluation of collectability by customer and project 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 ability to pay.

## UNBILLED AND DEFERRED REVENUE

Unbilled revenue represents revenue that has been earned but not billed. Deferred revenue represents amounts that have been billed and collected in accordance with the terms of the contract but where the criteria for revenue recognition have not yet been met. All services provided from inception of the contracted arrangement are recoverable under the contract terms. Differences between the timing of billings, based upon contractual terms, collection of cash and the recognition of revenue result in either unbilled revenue or deferred revenue.

Revenue in a typical implementation project is earned as progress is made in project delivery. This earned revenue results in unbilled revenue until the customer is invoiced upon reaching a contractual term. Delays in the completion of a billing milestone do not indicate that the contract is on hold or that the customer is unwilling to pay its contracted fee. Most billing milestones are set at completion of a major phase of the project or when the projects are complete and in production.

Unbilled revenue decreased by $0.8 million to $8.4 million at September 30, 2020, as compared to $9.1 million as at December 31, 2019.

Deferred revenue decreased to $6.9 million at September 30, 2020, as compared to $7.1 million at December 31, 2019. The decrease in deferred revenue is mainly revenue recognized during the nine months ending September 30, 2020.

## OTHER PROVISIONS

Other provisions at September 30, 2020, includes an intellectual property claim and estimated costs to settle contractual disputes. Management's provision reflects changes in the status of the claims, expected outcomes and costs to settle if any. Estimates are preliminary and subject to adjustment based on changes in facts and circumstances; such changes could be material.

Although liability is not admitted, if a defense against any of these matters is unsuccessful, the Company may incur additional costs associated with the claims that may significantly exceed the Company's estimate of the provision at September 30, 2020.

## OUTSTANDING SHARE DATA

The number of subordinate voting shares outstanding as at November 11, 2020, is 5,316,057 (December 31, 2019 - 5,315,757). In addition, at September 30, 2020, there were 25,588 (December 31, 2019 – 26,889) stock options outstanding with exercise prices ranging from CAD $149.50 to CAD $315.00 per share.

## SHARE CAPITAL

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

On January 26, 2017, the Company issued 800,000 Series A Preferred Shares (the “Preferred Shares”) and a warrant (“the “Series A Warrant”) (collectively the “Financing Transaction”) to ESW Holdings, Inc. (the “Investor”), an affiliate of ESW Capital LLC (“ESW Capital”). The Investor, as the holder of the Preferred Shares, is entitled to elect a number of directors that will be a majority of the Board of Directors, with the holders of the 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%.

On July 20, 2020, the Company fully redeemed all of the issued and outstanding Preferred Shares, including all accrued and unpaid dividends thereon, in accordance with the terms of the Preferred Shares. The aggregate redemption price in respect of the Preferred Shares was $91.4 million. This included the face amount of $80.0 million and accrued dividends of $11.4 million.

During the three months ended September 30, 2020, accretion expense to face value, amortization of transaction costs and accrued dividends on the Preferred Shares amounted to $21.9 million (three months ended September 30, 2019 - $2.6 million). During the nine months ended September 30, 2020, accretion expense, amortization of transaction costs and accrued dividends on the Preferred Shares amounted to $27.2 million (nine months ended September 30, 2019 - accretion expense, amortization of transaction costs and cumulative dividends of $7.6 million).

These charges are included in finance costs in the condensed consolidated interim statements of comprehensive income (loss). During the three months ended September 30, 2020, there were $11.4 million of outstanding dividends paid (three months ended September 30, 2019 – dividends of $nil were paid). During the nine months ended September 30, 2020, cumulative dividends in amount of $13.6 million were paid (nine months ended 2019 - $nil dividends were paid).

(b) Series A Warrant and Standby Warrant :

As part of the Financing Transaction, the Company issued a Series A Warrant that entitles the Investor to purchase 925,712 Subordinate Voting Shares at $34.00 per share. The Series A Warrant is being classified as a liability because it contains an adjustment provision if the Company issues Subordinate Voting Shares or securities exchangeable for or convertible into Subordinate Voting Shares at a price per share less than the Series A Warrant exercise price. The increase in fair value of the warrant liability of $5.6 million during the three months ended September 30, 2020 (three months ended September 30, 2019 – decrease of $0.9 million) is recorded in finance costs (recovery) in the condensed consolidated interim statements of comprehensive income (loss). The decrease in fair value of the warrant liability of $1.4 million during the nine months ended September 30, 2020 (2019 – $2.8 million) is recorded in finance costs (recovery) in the condensed consolidated interim statements of comprehensive income (loss). Any unexercised Series A Warrant expires on January 25, 2027. No Series A Warrant was exercised as at September 30, 2020 (nine months ended September 30, 2019 – none).

Upon closing of a rights offering of its Subordinate Voting Shares on September 6, 2017, the Company issued a warrant to the Investor that entitles the Investor to purchase 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 $1.0 million. The

Standby Warrant expires on September 5, 2027. No warrants were exercised as at September 30, 2020 (September 30, 2019 – none).

(c) Share-based Compensation

The share-based compensation relating to the Company's stock options, deferred share unit plan and share unit plan during the three and nine months ended September 30, 2020, was an expense of $1.4 million and $0.5 million (three and nine months ended September 30, 2019 – expense of $0.5 million and $1.3 million). During the nine months ended September 30, 2020, there were 26,100 DSUs granted (nine months ended September 30, 2019 - 16,805).

## RELATED PARTY TRANSACTIONS

*Related Party Service Agreements*

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

Crossover provides Optiva with access to skilled temporary employees. These resources provide a variety of services, including HR, operations, finance, and support functions, at any global location for pricing agreed to in the Crossover service agreement. During the three and nine months ended September 30, 2020, the Company has incurred $3.3 million and $11.6 million of costs associated with services provided by Crossover (three and nine months ended September 30, 2019 - $5.0 million and $16.4 million). The costs have been recorded in cost of revenue or operating expenses in accordance with the department of the contract resource in the condensed consolidated interim statements of comprehensive income (loss).

DevFactory provides certain technology services to Optiva as per agreed statements of work. Effective June 30, 2019, the Service Agreement between Optiva and DevFactory was assigned to GTeam FZ-LLC as part of an internal reorganization by DevFactory. GTeam FZ-LLC is also fully owned by ESW Capital. On September 1, 2019, GTeam FZ-LLC changed its name to DevFactory Innovations FZ-LLC. During the three and nine months ended September 30, 2020, the Company has incurred $nil million and $16.4 million of costs associated with services provided by DevFactory (three and nine months ended September 30, 2019 - $6.3 million and $12.5 million). The costs have been recorded in cost of revenue and research and development expenses in accordance with the nature of the expenditure in the condensed consolidated interim statements of comprehensive income (loss).

Amounts owing to Crossover and DevFactory as of September 30, 2020, aggregated to $10.3 million (December 31, 2019 - $8.9 million) and are included in both trade payables and accrued liabilities in the condensed consolidated interim statement of financial position at the respective period ends.

The Company is in the process of building an in-house R&D team and did not place any orders with DevFactory in the quarter ended September 30, 2020. The Company is also working with other strategic partners to enhance its R&D activities.

In the normal course of business, during 2019, the Company retained certain contractors with specialized skills and knowledge to assist the Company in its operations. These contractors were retained from other entities controlled by ESW Capital. The costs of these contractors are $nil for the three and nine months ended September 30, 2020 (three and nine months ended September 30, 2019 - expense of $nil and $0.1 million) and have been recorded in general and administrative expense in the condensed consolidated interim statements of comprehensive income (loss). Amounts owing to these entities as of September 30, 2020, aggregated to $0.1 million (December 31, 2019 - $0.1 million). They are included in accrued liabilities in the condensed consolidated interim statement of financial position.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures within the Company have been designed to provide reasonable assurance that all relevant information is identified and passed to its Disclosure Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS. The control framework used to design the Company's internal control over financial reporting is the "Internal Control – Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

### Changes in Internal Controls over Financial Reporting

Effective January 1, 2020, the Company has outsourced certain bookkeeping and financial analysis responsibilities of its finance function to an independent third party service organization. As a result, the Company has implemented material changes to its internal controls over financial reporting. The key areas impacted include the accounting systems and processes that support the Company's general ledger, back-office transaction processing, preparation of monthly financial statements and processes supporting budgetary control activities. Substantive changes have been made to the processes relating to the submission of approved data for processing and the review of financial information generated by the third party. Management continues to retain responsibility over preparation, review and authorization of the Company's external financial reporting. The Company will also require the third party to provide customary assurances over its internal controls and transaction processing as a service organization during the year.

## ACCOUNTING CHANGES

### Accounting Changes

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

On January 13, 2016, the IASB issued IFRS 16. IFRS 16 replaced 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 has adopted the standard effective January 1, 2020. Management assessed the extent of the impact of adoption of this standard and interpretations on the consolidated financial statements of the Company and found them not to have a material impact. The Company has applied the practical expedient not to recognize right-of-use asset and lease liability for short-term leases that have a lease term of 12 months or less and leases of low-value assets. All of the existing leases in the Company at September 30, 2020 would fall under the category of short-term leases or leases of low-value assets. The lease payments associated with these leases will be recognized as an expense on a straight-line basis over the lease term.

## PATENT PORTFOLIO

As part of Optiva's commitment to R&D to maintain its position as a key industry innovator in the real-time BSS software space, the Company currently has a portfolio with several pending patent applications and over 50 patents. These numbers do not include all of the patents which were acquired as a result of the acquisition of Orga Systems. To date, Optiva has not initiated any action with respect to assertions and/or claims of patent infringement.

## ADDITIONAL INFORMATION

Additional information, including the quarterly and annual consolidated financial statements, annual information form, management proxy circular and other disclosure documents may be examined by accessing the SEDAR website at www.sedar.com.