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

OPTIVA INC.

Three and nine months ended September 30, 2020 and 2019
(Unaudited)

OPTIVA INC.

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

	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 20,615,460	$ 31,747,993
Trade accounts and other receivables (note 3)	9,743,583	7,808,293
Unbilled revenue	4,547,853	4,468,014
Prepaid expenses	1,955,205	1,983,391
Income taxes receivable	4,162,609	4,105,144
Other assets	207,273	243,199
Inventories	–	473,201
Total current assets	41,231,983	50,829,235
Restricted cash	690,126	951,291
Long-term unbilled revenue	3,816,671	4,676,597
Deferred income taxes	222,481	217,423
Other assets	570,370	–
Investment tax credits	350,452	358,309
Intangible assets	5,088,742	12,215,598
Goodwill	32,271,078	32,271,078
Total assets	$ 84,241,903	$ 101,519,531
Liabilities and Shareholders' Deficit		
Current liabilities:		
Trade payables	$ 13,508,017	$ 7,350,942
Accrued liabilities	9,080,924	10,518,015
Provisions (note 11)	5,765,333	3,630,550
Income taxes payable	3,379,804	3,644,752
Deferred revenue	6,231,762	6,363,724
Total current liabilities	37,965,840	31,507,983
Deferred revenue	634,137	702,143
Other liabilities	3,145,629	2,628,408
Pension and other long-term employment benefit plans	16,092,993	12,486,732
Debentures (note 5)	86,812,355	–
Provisions (note 11)	–	36,611
Preferred shares (note 4(a)) / note 8)	–	66,345,563
Series A Warrant (note 4(b)) / note 8)	21,291,366	22,679,934
Deferred income taxes	670,691	753,036
Total liabilities	166,613,011	137,140,410
Shareholders' deficit:		
Share capital	250,904,013	250,893,223
Standby Warrant (note 4(b))	997,500	997,500
Contributed surplus	11,280,842	11,291,632
Deficit	(337,511,917)	(294,322,038)
Accumulated other comprehensive loss	(8,041,546)	(4,481,196)
Total shareholders' deficit	(82,371,108)	(35,620,879)
Total liabilities and shareholders' deficit	$ 84,241,903	$ 101,519,531

Guarantees and contingent liabilities (note 10)
Related party transactions (note 13)
Subsequent events (note 14)

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

OPTIVA INC.

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

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Revenue (note 9):				
Support and subscription	$14,077,343	$ 16,595,067	$ 44,030,708	$ 51,602,980
Software licenses, services and other	4,726,877	6,528,991	13,742,981	21,133,345
	18,804,220	23,124,058	57,773,689	72,736,325
Cost of revenue	4,649,294	8,065,009	15,124,936	25,063,327
Gross profit	14,154,926	15,059,049	42,648,753	47,672,998
Operating expenses:				
Sales and marketing	1,581,100	2,256,818	6,272,788	8,119,128
General and administrative	8,288,092	4,646,796	23,893,409	13,185,706
Research and development	2,255,154	8,155,351	22,863,069	18,270,550
Restructuring costs (recovery) (note 11(a))	59,440	(3,709,732)	202,162	(2,414,738)
	12,183,786	11,349,233	53,231,428	37,160,646
Income (loss) from operations	1,971,140	3,709,816	(10,582,675)	10,512,352
Foreign exchange gain / (loss)	282,702	(384,747)	(1,899,005)	865,901
Finance income	173,251	119,245	250,074	391,186
Finance Cost (note 4 and 5)	(29,660,877)	(1,795,206)	(28,282,767)	(5,197,974)
Income (loss) before income taxes	(27,233,784)	1,649,108	(40,514,373)	6,571,465
Income taxes (recovery) (note 6):				
Current	2,100,108	2,565,101	2,795,866	3,958,983
Deferred	(112,909)	46,824	(120,360)	28,105
	1,987,199	2,611,925	2,675,506	3,987,088
Net income (loss)	$ (29,220,983)	$ (962,817)	$ (43,189,879)	$ 2,584,377
Other comprehensive income:				
Items that will not be reclassified to net income:				
Actuarial gain (loss) on pension and non-pension post-employment benefit plans, net of income tax expense of nil (note 12):	(3,560,350)	1,033,305	(3,560,350)	1,033,305
Total comprehensive income (loss)	$ (32,781,333)	$ 70,488	$ (46,750,229)	$ 3,617,682
Income (loss) per subordinate voting share (note 4(c)):				
Basic	$ (5.50)	$ (0.18)	$ (8.12)	$ 0.49
Diluted	(5.50)	(0.18)	(8.12)	0.46
Weighted average number of subordinate voting shares (note 4(c)):				
Basic	5,315,757	5,315,757	5,315,903	5,257,908
Diluted	5,315,757	5,315,757	5,315,903	5,612,205

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

OPTIVA INC.

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

Nine months ended September 30, 2020 and 2019
(Unaudited)

	Share capital						
	Number Outstanding (note 12(b))	Amount	Standby Warrant	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity (deficit)
Balance, December 31, 2019	5,315,757	$ 250,893,223	$ 997,500	$ 11,291,632	$ (294,322,038)	$ (4,481,196)	$ (35,620,879)
Loss for the period	–	–	–	–	(43,189,879)	–	(43,189,879)
Defined benefit plan actuarial loss (note 12)	–	–	–	–	–	(3,560,350)	(3,560,350)
Issue of shares under RSU (note 4(d)(ii))	300	10,790	–	(10,790)	–	–	–
Balance, September 30, 2020	5,316,057	$ 250,904,013	$ 997,500	$ 11,280,842	$ (337,511,917)	$ (8,041,546)	$ (82,371,108)
Balance, December 31, 2018	5,233,047	$ 248,680,325	$ 997,500	$ 13,636,142	$ (280,032,560)	$ (8,071,368)	$ (24,789,961)
Income for the period	–	–	–	–	2,584,377	–	2,584,377
Issue of shares under RSU	82,710	2,212,898	–	(2,212,898)	–	–	–
Defined benefit plan actuarial gain (note 12)	–	–	–	–	–	1,033,305	1,033,305
Equity-settled share-based compensation	–	–	–	(122,319)	–	–	(122,319)
Balance, September 30, 2019	5,315,757	$ 250,893,223	$ 997,500	$ 11,300,925	$ (277,448,183)	$ (7,038,063)	$ (21,294,598)

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

OPTIVA INC.

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

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Cash provided by (used in):				
Operating activities:				
Income (loss) for the period	$ (29,220,983)	$ (962,817)	$ (43,189,879)	$ 2,584,377
Adjustments for:				
Depreciation of property and equipment	–	8,271	–	57,237
Amortization of intangible assets	2,188,032	1,200,761	7,140,553	3,527,123
Finance (income)	(173,251)	(119,245)	(250,074)	(391,186)
Finance costs	29,660,877	1,795,206	28,282,767	5,197,974
Pension	100,932	(211,122)	109,323	(181,114)
Income tax expense (note 6)	1,987,199	2,611,925	2,675,506	3,987,088
Unrealized foreign exchange (gain)	(11,484)	227,392	(1,055,526)	(645,352)
Share-based compensation (note 4(d))	1,421,022	450,154	535,890	1,304,133
Change in provisions (note 11)	(258,968)	(4,614,128)	2,098,172	(6,271,053)
Loss on disposal of property and equipment	–	15,391	–	266,699
Change in non-cash operating working capital (note 7)	(5,505,549)	624,852	1,561,903	(4,692,920)
	187,827	1,026,640	(2,091,365)	4,743,006
Interest paid	(7,656)	(17,281)	(34,070)	(56,126)
Interest received	6,020	55,813	75,934	160,858
Income taxes paid	(1,584,095)	166,375	(3,229,262)	(2,223,571)
	(1,397,904)	1,231,547	(5,278,763)	2,624,167
Financing activities:				
Redemption of preferred shares (note 4(a))	(80,000,000)	–	(80,000,000)	–
Transaction costs on debentures (note 5)	(3,315,583)	–	(3,315,583)	–
Issuance of debentures (note 5)	90,000,000	–	90,000,000	–
Payment of dividends (note 4(a))	(11,378,719)	–	(13,588,145)	–
	(4,694,302)	–	(6,903,728)	–
Investing activities:				
Increase in restricted cash	57,647	298,412	261,165	1,941,913
Sale of property and equipment	–	67,456	–	67,456
	57,647	365,868	261,165	2,009,369
Effect of foreign exchange rate changes on cash and cash equivalents	223,160	(497,829)	788,793	(399,876)
Increase (decrease) in cash and cash equivalents	(5,811,399)	1,099,586	(11,132,533)	4,233,660
Cash and cash equivalents, beginning of period	26,426,859	35,493,340	31,747,993	32,359,266
Cash and cash equivalents, end of period	$ 20,615,460	$ 36,592,926	$ 20,615,460	$ 36,592,926

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

Reporting Entity

Optiva Inc. (the "Company" or "Optiva"), through its predecessors, commenced operations on March 29, 1999. The Company was incorporated under the Canada Business Corporations Act on November 1, 2006. The Company's registered head office is located at 100 King Street West, Suite 3400, Toronto, Ontario, Canada. The Company is publicly traded on the Toronto Stock Exchange under ticker symbol — TSX: OPT.

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

1. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and do not include all the information required for full annual consolidated financial statements. These condensed consolidated interim financial statements for the three and nine months ended September 30, 2020 were authorized for issuance by the Board of Directors of the Company on November 13, 2020.

(b) Judgments and estimates:

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses, consistent with those disclosed in the 2019 annual consolidated financial statements and described in these condensed consolidated interim financial statements.

1. Basis of preparation (continued):

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Estimates are based on historical experience and other assumptions that are considered reasonable in the circumstances. The actual amount or values may vary in certain instances from the assumptions and estimates made. Changes will be recorded, with corresponding effect in profit or loss, when, and if, better information is obtained.

The Company continues to monitor the evolution of the novel coronavirus (“COVID-19”) situation. The extent to which the COVID-19 pandemic may impact the Company’s business and activities will depend on future developments which remain highly uncertain and cannot be predicted with confidence, such as the spread and severity of the disease, the duration of the outbreak including any possible resurgence, and actions taken by authorities to control the spread of the virus, the impact of the pandemic on spending, and the ability or willingness of suppliers and vendors to provide products and services.

Any of these developments, and others, could have a material adverse effect on the Company’s business, affairs, operations, results of operations, financial condition, liquidity, availability of credit and foreign exchange exposure. In addition, because of the severity and global nature of the COVID-19 pandemic, it is possible that estimates in the Company’s financial statements could change in the near term and the effect of any such changes could be material, which could result in, among other things, an impairment of non-current assets and a change in the expected credit losses on accounts receivable. The Company is constantly evaluating the situation and monitoring any impacts or potential impacts on its business.

2. Significant accounting policies:

(a) Basis of measurement and presentation:

The notes presented in these condensed consolidated interim financial statements include, in general, only significant changes and transactions occurring since the Company's last year end and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the 2019 annual financial statements, including the notes thereto. Except as discussed below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the 2019 annual financial statements.

2. Significant accounting policies (continued):

(i) Revenue Recognition

Software

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

Services

Revenue for installation, implementation, training and other services, when not combined with software as a combined performance obligation, is recognized as the services are delivered to the customer. Fixed fee service arrangements are recognized using the percentage-of-completion method. The Company uses the ratio of labour costs to estimated total labour costs as the input measure of its progress to completion on each contract, as this faithfully depicts the measure of progress of transfer the performance obligation to the customer.

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.

2. Significant accounting policies (continued):

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

On January 13, 2016, the IASB issued IFRS 16. IFRS 16 replaces 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 on the Company's consolidated financial statements. 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 respective lease terms.

(iii) Intangible assets:

The Company has reduced the estimate of useful lives of certain intangible assets related to its non-core business. Additional amortization charged in the nine months ended September 30, 2020 amounted to $3,972,333.

(b) Basis of consolidation:

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

2. Significant accounting policies (continued):

(c) Functional currency:

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

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

3. Trade accounts and other receivables:

	September 30, 2020	December 31, 2019
Trade receivables, net of allowance for doubtful accounts	$ 5,941,271	$ 6,795,164
Other receivables (a)	3,802,312	1,013,129
	$ 9,743,583	$ 7,808,293

(a) At September 30, 2020 and December 31, 2019, the other receivables balance mainly includes amounts relating to indirect taxes receivable.

4. Share Capital:

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

On January 26, 2017, the Company issued 800,000 Series A Preferred Shares (the “Preferred Shares”) of the Company and a warrant (“the “Series A Warrant”) (collectively the “Financing Transaction”) to ESW Holdings, Inc. (the “Investor”), an affiliate of ESW Capital LLC (“ESW Capital”). The Investor, as the holder of the Preferred Shares, is entitled to elect a number of directors that will be a majority of the Board of Directors, with the holders of the Subordinate Voting Shares being entitled to elect the balance of the directors, which resulted in the Subordinate Voting Shares becoming "restricted securities" under applicable securities laws and the TSX Company Manual, on January 26, 2017. The Preferred Shares are redeemable any time at the option of the Company and redeemable at the option of the Investor any time after 10 years of issuance. The holders of the Preferred Shares are entitled to dividends,

4. Share Capital (continued):

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 Preferred Shares including all accrued and unpaid dividends thereon, beneficially owned or controlled by ESW Capital and its affiliates, in accordance with the terms of the Preferred Shares. The aggregate redemption price in respect of the Preferred Shares was $91,378,719. This included the face amount of $80,000,000 and accrued dividends of $11,378,719.

The Preferred Shares were being accreted to their face amount of $80,000,000 plus accrued cumulative dividends over the 10-year maturity period using the effective interest rate method.

During the three months ended September 30, 2020, accretion expense to face value, amortization of transaction costs and accrued dividends on the Preferred Shares amounted to $21,874,686 (three months ended September 30, 2019 - $2,609,306). During the nine months ended September 30, 2020, accretion expense, amortization of transaction costs and accrued dividends on the Preferred Shares amounted to $27,242,582 (nine months ended September 30, 2019 –$7,625,345). 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 $11,378,719 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 $13,588,145 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 subscribe for 925,712 Subordinate Voting Shares at $34.00 per share. The Series A Warrant is being classified as a liability because it contains an adjustment provision if the Company issues 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 $5,554,270 during the three months ended September 30, 2020 (three months ended September 30, 2019 – decrease of $925,712) is recorded in finance costs in the condensed consolidated interim statements of comprehensive income (loss). The decrease in fair value of the warrant liability

(Expressed in U.S. dollars)

4. Share Capital (continued):

of $1,388,568 during the nine months ended September 30, 2020 (2019 – $2,777,136) is recorded in finance costs 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 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, 2020 (nine months ended September 30, 2019 – none).

(c) Income (loss) per share:

A reconciliation of the number of common shares used for purposes of calculating basic and diluted income (loss) per common share for the three and nine months ended September 30, 2020 and 2019, is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Basic weighted average number of common shares outstanding	5,315,757	5,315,757	5,315,903	5,257,908
Effect of dilutive securities	–	–	–	354,297
Diluted weighted average number of common shares outstanding	5,315,757	5,315,757	5,315,903	5,612,205

Due to the loss for the three and nine months ended September 30, 2020, all stock options, the Series A Warrant and the Standby Warrant, were excluded from the calculation of diluted loss per common share as their inclusion would be anti-dilutive. The total number of stock options that were excluded from the calculation for the three and nine months ended September 30, 2020 were 25,588. The Series A Warrant and the Standby Warrant are equivalent to 925,712 and 50,000 Subordinate Voting Shares respectively, all of which were excluded from the calculation for the three and nine months ended September 30, 2020.

(Expressed in U.S. dollars)

4. Share Capital (continued):

Due to the loss for the three months ended September 30, 2019, all stock options, the Series A Warrant and the Standby Warrant, were excluded from the calculation of diluted loss per common share as their inclusion would be anti-dilutive. The total number of stock options that were excluded from the calculation for the three months ended September 30, 2019 were 27,891. The Series A Warrant and the Standby Warrant are equivalent to 925,712 and 50,000 Subordinate Voting Shares respectively, all of which were excluded from the calculation for the three months ended September 30, 2019. The total number of stock options that were excluded from the calculation for the nine months ended September 30, 2019 was 27,891, as their inclusion would be anti-dilutive.

(d) 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 $1,421,022 and $535,890 (three and nine months ended September 30, 2019 – expense of $450,154 and $1,304,134).

(i) Stock options:

The table below is a summary of the stock option plans for the nine months ended September 30, 2020:

	CAD options	
	Number of stock options	Weighted average exercise price per share (CAD)
Outstanding, December 31, 2019	26,889	$ 195.23
Forfeited	(1,301)	179.96
Outstanding, September 30, 2020	25,588	$ 196.05

The share-based expense relating to the Company's stock options during the three and nine months ended September 30, 2020 was $nil and $nil, respectively (three and nine months ended September 30, 2019 – expense of $3,453 and recovery of $14,933, respectively).

(Expressed in U.S. dollars)

4. Share Capital (continued):

(ii) Share unit plan:

The table below is a summary of the restricted share units ("RSU") and performance share units ("PSU") for the nine months ended September 30, 2020:

RSU & PSU	
Outstanding, December 31, 2019	66,271
Exercised	(33,286)
Forfeited	(32,985)
Outstanding, September 30, 2020	–

There were total of 33,286 share units exercised in the nine months ended September 30, 2020 of which 300 shares were issued from treasury and remaining share units settled in cash (nine months ended September 30, 2019 – 82,710 settled in shares and 18,240 settled in cash). The share-based expense relating to the Company's share unit plan during the three months ended September 30, 2020 was an expense of $nil (2019 – expense of $290,650). The share-based compensation relating to the Company's share unit plan during the nine months ended September 30, 2020 was a recovery of $150,132 (nine months ended September 30, 2019 – expense of $792,934).

(iii) Deferred share unit plan:

During the nine months ended September 30, 2020, there were 26,100 deferred share units ("DSUs") granted (nine months ended September 30, 2019 – 16,805), no DSUs were exercised and no DSUs were cancelled or forfeited (nine months ended September 30, 2019 – nil exercised, and nil cancelled or forfeited). The number of DSUs outstanding at September 30, 2020 is 72,037(nine months ended September 30, 2019 – 45,937). During the three months ended September 30, 2020, the Company recorded compensation cost of $1,421,022 (2019 – $156,050). During the nine months ended September 30, 2020, the Company recorded compensation cost of $686,022 (nine months ended September 30, 2019 – expense of $526,132).

(Expressed in U.S. dollars)

5. Debentures:

On July 20, 2020, the Company closed a $90,000,000 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 towards the redemption of all the Series A Preferred shares and 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.

	September 30, 2020	December 31, 2019
Debenture financing, bearing interest at 9.75%, per annum, payable semi-annually, maturing July 20, 2025	$ 90,000,000	$ –
Less unamortized deferred financing costs	(3,187,645)	–
Long-term portion of loans and borrowings	$ 86,812,355	$ –

As at September 30, 2020, $90,000,000 (2019 - $nil) is outstanding and interest computed on a 365-day (or 366-day, as applicable) basis, 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 $3,315,583 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, $127,938 of deferred financing fees was amortized (2019 - $nil).

For the three and nine months ended September 30, 2020, interest expense of $1,706,918 (2019 - $nil) in connection with Debenture Financing has been recognized in the condensed consolidated interim statements of comprehensive income (loss).

(Expressed in U.S. dollars)

6. Income tax expense:

The Company's current income tax expense for the nine months ended September 30, 2020 mainly includes $1,458,337 (nine months ended September 30, 2019 - $2,128,652) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and $1,337,529 (nine months ended September 30, 2019 - $1,830,331) of foreign withholding taxes. The Company's deferred tax recovery of $120,360 (nine months ended September 30, 2019 – expense of $28,105) consists primarily of changes in temporary differences recognized during the current period.

7. Change in non-cash operating working capital:

The change in non-cash working capital for the three and nine months ended September 30, 2020 and 2019 is as follows:

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Trade accounts and other receivables	$ (2,216,232)	$ 2,318,705	$ (1,761,150)	$ 3,872,835
Unbilled revenue	(106,849)	2,475,183	780,087	865,914
Prepaid expenses	(192,578)	533,536	28,186	7,723
Other assets	967,403	20,057	(534,444)	156,388
Inventories	6,917	92,923	473,201	353,438
Trade payables	5,039,636	(5,375,677)	6,157,075	(11,902,460)
Accrued liabilities and other liabilities	(4,146,303)	2,837,407	(3,612,427)	374,615
Income taxes receivable/payable	214,072	(320,204)	231,343	(325,740)
Deferred revenue	(5,071,615)	(1,957,078)	(199,968)	1,904,367
	$ (5,505,549)	$ 624,852	$ 1,561,903	$ (4,692,920)

8. Financial instruments and capital management:

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

- Level 1 - quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities;

(Expressed in U.S. dollars)

8. Financial instruments and capital management (continued):

- 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:

	September 30, 2020		December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Warrant classified as liability (Level 2)	$21,291,366	$21,291,366	$ 22,679,934	$ 22,679,934
Preferred Shares (Level 2)	–	–	66,345,563	66,345,563

There were no transfers of financial assets between levels during the nine months ended September 30, 2020 and 2019.

The Company's financial instruments are classified as financial assets and financial liabilities at fair value through profit or loss or as financial assets and financial liabilities measured at amortized cost.

The carrying values of cash and cash equivalents, trade accounts and other receivables, trade payables, accrued liabilities, provisions and other liabilities approximate fair values because of the short-term nature of these financial instruments. The carrying values of debentures approximate their fair values because the interest rates approximate the market interest rates for similar debts.

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

(Expressed in U.S. dollars)

9. Segment Reporting:

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

Revenue is attributed to geographic locations, based on the location of the external customer. The Company's revenue by geographic area for the three and nine months ended September 30 is as follows:

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Europe, Middle East and Africa	$ 8,344,626	$ 13,723,325	$ 25,220,019	$ 38,436,398
North America, Latin America and Caribbean	5,690,245	4,817,181	18,326,174	15,964,584
Asia and Pacific Rim	4,769,349	4,583,552	14,227,496	18,335,343
	$ 18,804,220	$ 23,124,058	$ 57,773,689	$ 72,736,325

The Company's revenue by type for the three and nine months ended September 30 is as follows:

	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
Revenue by type:				
Support and subscription	$ 14,077,343	$ 16,595,067	$ 44,030,708	$ 51,602,980
Software and services	4,601,464	6,483,442	13,095,233	20,446,576
Third-party software and hardware	125,413	45,549	647,748	686,769
	$ 18,804,220	$ 23,124,058	$ 57,773,689	$ 72,736,325

10. Guarantees and contingent liabilities:

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

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

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

(Expressed in U.S. dollars)

11. Provisions:

	Restructuring (a)	Other (b)	Total
Balance, December 31, 2019	$ 1,226,153	$ 2,441,008	$ 3,667,161
Additions	202,162	3,072,717	3,274,879
Cash payments	(1,149,299)	–	(1,149,299)
Foreign exchange	(27,408)	–	(27,408)
Balance, September 30, 2020	$ 251,608	5,513,725	$ 5,765,333
Current			$ 5,765,333
Non-current			–
Balance, September 30, 2020			$ 5,765,333
Current			$ 3,630,550
Non-current			36,611
Balance, December 31, 2019			$ 3,667,161

(a) In February 2017, the Company announced a corporate restructuring plan that would involve further reduction in headcount, location reorganization including closure of certain facilities and entity simplification. In November 2017, the Company finalized a further restructuring plan to reduce approximately 530 employees globally and vacate premises in 18 locations.

During the three and nine months ended September 30, 2020, $59,440 and $202,162 of restructuring charges related to closure of facilities and entity simplification were recorded (three and nine months ended September 30, 2019 - $71,767 and $1,366,761 related to headcount, closure of facilities and entity simplification).

For the nine months ended September 30, 2020, an amount of $1,149,299 has been paid and remaining amount of $251,608 estimated as payable within one year.

(b) The balance at September 30, 2020 in other provision 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.

(Expressed in U.S. dollars)

11. Provisions (continued):

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.

12. 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, 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 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 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.

During the quarter ended September 30, 2020, the German pension plan were remeasured under the projected unit credit method. The resulting remeasurement resulted in a loss to other comprehensive income of $3,560,350 (2019 – gain of $1,033,305). 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) 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:

	2020	2019
	Germany	Germany
Discount rate	1.10%	0.90%
Future salary increases	0.00%	0.00%
Future pension increases	0.00%	0.00%

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

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 RT 2018G mortality tables were used. The calculation of the pension liabilities at September 30, 2020 and 2019 in Germany is based on a discount rate determined using the Mercer Yield Curve approach for an average duration of 15 years.

13. Related Party Transactions:

In September 2017, the Company entered into long term service agreements with Crossover Markets Inc. ("Crossover") and DevFactory FZ-LLC ("DevFactory"), (collectively the “Service Agreements”) who provide cross functional and specialized technical services. Each of Crossover and DevFactory is an affiliate of ESW Capital. 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 $3,262,723 and $11,606,508 of costs associated with services provided by Crossover (three and nine months ended September 30, 2019 – $5,025,075 and $16,449,312). 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 in 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 and $16,407,620 of costs associated with services provided by DevFactory (three and nine months ended September 30, 2019 – $6,261,787 and $12,548,714). 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).

13. Related Party Transactions (continued):

Amounts owing to Crossover and DevFactory as of September 30, 2020 aggregated to $10,346,171 (December 31, 2019 - $8,919,128) and are included in both trade payables and accrued liabilities in the condensed consolidated interim statement of financial position at the respective period ends.

In the normal course of business, 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 $102,939) 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 $65,692 (December 31, 2019 - $65,692). They are included in accrued liabilities in the condensed consolidated interim statement of financial position.

14. Subsequent Events:

On November 10, 2020, OceanLink Management Ltd. ("OceanLink"), for and on behalf of certain managed funds, agreed to make a CDN$30 million 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 need 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$30 million.

- 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

14. Subsequent Events (continued):

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.