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

OPTIVA INC.

Three and six months ended June 30, 2020 and 2019
(Unaudited)

OPTIVA INC.

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

	June 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 26,426,859	$ 31,747,993
Trade accounts and other receivables (note 3)	7,360,120	7,808,293
Unbilled revenue	4,331,698	4,468,014
Prepaid expenses	1,762,627	1,983,391
Income taxes receivable	4,667,127	4,105,144
Other assets	147,091	243,199
Inventories	6,917	473,201
Total current assets	44,702,439	50,829,235
Restricted cash	747,773	951,291
Long-term unbilled revenue	3,925,977	4,676,597
Deferred income taxes	215,583	217,423
Other assets	1,597,955	–
Investment tax credits	341,596	358,309
Intangible assets	7,264,098	12,215,598
Goodwill	32,271,078	32,271,078
Total assets	$ 91,066,499	$ 101,519,531
Liabilities and Shareholders' Deficit		
Current liabilities:		
Trade payables	$ 8,468,381	$ 7,350,942
Accrued liabilities	11,170,051	10,518,015
Provisions (note 10)	6,024,301	3,630,550
Income taxes payable	3,267,146	3,644,752
Deferred revenue	11,273,753	6,363,724
Total current liabilities	40,203,632	31,507,983
Deferred revenue	663,761	702,143
Other liabilities	1,728,113	2,628,408
Pension and other long-term employment benefit plans	12,065,511	12,486,732
Provisions (note 10)	–	36,611
Preferred shares (note 4(a)) / note 7)	69,504,033	66,345,563
Series A Warrant (note 4(b)) / note 7)	15,737,096	22,679,934
Deferred income taxes	754,128	753,036
Total liabilities	140,656,274	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	(308,290,934)	(294,322,038)
Accumulated other comprehensive loss	(4,481,196)	(4,481,196)
Total shareholders' deficit	(49,589,775)	(35,620,879)
Total liabilities and shareholders' deficit	$ 91,066,499	$ 101,519,531

Guarantees and contingent liabilities (note 9)
Related party transactions (note 11)
Subsequent events (note 12)

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 June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Revenue (note 8):				
Support and subscription	$14,837,554	$ 17,905,010	$ 29,953,365	$ 35,007,913
Software licenses, services and other	5,095,169	6,765,005	9,016,104	14,604,354
	19,932,723	24,670,015	38,969,469	49,612,267
Cost of revenue	5,121,466	8,093,255	10,475,642	16,998,318
Gross profit	14,811,257	16,576,760	28,493,827	32,613,949
Operating expenses:				
Sales and marketing	1,668,226	2,276,621	4,691,688	5,862,310
General and administrative	10,141,137	4,538,587	15,605,317	8,538,910
Research and development	8,683,791	3,810,322	20,607,915	10,115,199
Restructuring costs (note 10(a))	26,438	209,366	142,722	1,294,994
	20,519,592	10,834,896	41,047,642	25,811,413
Income (loss) from operations	(5,708,335)	5,741,864	(12,553,815)	6,802,536
Foreign exchange gain / (loss)	(298,367)	97,210	(2,181,707)	1,250,648
Finance income / (loss)	(8,913)	212,883	76,823	271,941
Finance (cost) recovery (note 4)	(8,384,828)	(2,184,689)	1,378,110	(3,402,768)
Income (loss) before income taxes	(14,400,443)	3,867,268	(13,280,589)	4,922,357
Income taxes (recovery) (note 5):				
Current	386,571	824,223	695,758	1,393,882
Deferred	(10,469)	(25,642)	(7,451)	(18,719)
	376,102	798,581	688,307	1,375,163
Total comprehensive income (loss)	$ (14,776,545)	$ 3,068,687	$ (13,968,896)	$ 3,547,194
Income (loss) per subordinate voting share (note 4(c)):				
Basic	$ (2.78)	$ 0.58	$ (2.63)	$ 0.67
Diluted	(2.78)	0.54	(2.63)	0.63
Weighted average number of subordinate voting shares (note 4(c)):				
Basic	5,315,890	5,305,386	5,315,825	5,269,631
Diluted	5,315,890	5,635,914	5,315,825	5,649,721

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)

Six months ended June 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	–	–	–	–	(13,968,896)	–	(13,968,896)
Issue of shares under RSU (note 4(d)(ii))	300	10,790	–	(10,790)	–	–	–
Balance, June 30, 2020	5,316,057	$ 250,904,013	$ 997,500	$ 11,280,842	$ (308,290,934)	$ (4,481,196)	$ (49,589,775)
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	–	–	–	–	3,547,194	–	3,547,194
Issue of shares under RSU (note 4(d)(ii))	82,710	2,212,898	–	(2,212,898)	–	–	–
Equity-settled share-based compensation (note 4(d))	–	–	–	(130,793)	–	–	(130,793)
Balance, June 30, 2019	5,315,757	$ 250,893,223	$ 997,500	$ 11,292,451	$ (276,485,366)	$ (8,071,368)	$ (21,373,560)

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 June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Cash provided by (used in):				
Operating activities:				
Income (loss) for the period	$ (14,776,545)	$ 3,068,687	$ (13,968,896)	$ 3,547,194
Adjustments for:				
Depreciation of property and equipment	–	33,077	–	48,966
Amortization of intangible assets	2,464,192	1,163,192	4,952,521	2,326,362
Finance (income) / loss	8,913	(212,883)	(76,823)	(271,941)
Finance costs (recovery)	8,384,828	2,184,689	(1,378,110)	3,402,768
Pension	4,169	15,004	8,391	30,008
Income tax expense (note 5)	376,101	798,581	688,306	1,375,163
Unrealized foreign exchange (gain)	(249,508)	(393,196)	(1,044,041)	(872,744)
Share-based compensation (note 4(d))	358,916	662,805	(885,132)	853,979
Change in provisions (note 10)	2,807,641	(1,171,058)	2,357,140	(1,656,925)
Loss on disposal of property and equipment	–	–	–	251,308
Change in non-cash operating working capital (note 6)	(2,352,191)	(5,187,179)	7,067,452	(5,317,772)
	(2,973,484)	961,719	(2,279,192)	3,716,366
Interest paid	(3,997)	(18,992)	(26,414)	(38,845)
Interest received	15,135	53,549	69,914	105,045
Income taxes paid	(678,759)	(656,066)	(1,645,167)	(2,389,946)
	(3,641,105)	340,210	(3,880,859)	1,392,620
Financing activities:				
Payment of dividends (note 4(a))	–	–	(2,209,426)	–
	–	–	(2,209,426)	–
Investing activities:				
Decrease in restricted cash	172,824	1,123,117	203,518	1,643,501
	172,824	1,123,117	203,518	1,643,501
Effect of foreign exchange rate changes on cash and cash equivalents	529,847	235,831	565,633	97,953
Increase (decrease) in cash and cash equivalents	(2,938,434)	1,699,158	(5,321,134)	3,134,074
Cash and cash equivalents, beginning of period	29,365,293	33,794,182	31,747,993	32,359,266
Cash and cash equivalents, end of period	$ 26,426,859	$ 35,493,340	$ 26,426,859	$ 35,493,340

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 six months ended June 30, 2020 were authorized for issuance by the Board of Directors of the Company on August 10, 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.

(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

2. Significant accounting policies (continued):

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 June 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 six months ended June 30, 2020 amounted to $2,648,222.

(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.

(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).

(Expressed in U.S. dollars)

3. Trade accounts and other receivables:

	June 30, 2020	December 31, 2019
Trade receivables, net of allowance for doubtful accounts	$ 5,489,901	$ 6,795,164
Other receivables (a)	1,870,219	1,013,129
	$ 7,360,120	$ 7,808,293

(a) At June 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, payable quarterly at the rate of 10% per annum of the issue price. Provided that to the extent such dividends are not declared and paid, dividends shall accrue and compound monthly at the rate of 10%.

The Preferred Shares will be accreted to their face amount of $80,000,000 plus accrued cumulative dividends over the 10-year maturity period using the effective interest rate method. During the three months ended June 30, 2020, accretion expense, amortization of transaction costs and accrued dividends on the Preferred Shares amounted to $2,710,478 (three months ended June 30, 2019 - $2,541,153). During the six months ended June 30, 2020, accretion expense, amortization of transaction costs and accrued dividends on the Preferred Shares amounted to $5,367,896 (six months ended June 30, 2019 – accretion expense, amortization of transaction costs and cumulative dividends of $5,016,039).

4. Share Capital (continued):

These charges are included in finance costs in the condensed consolidated interim statements of comprehensive income (loss). During the three months ended June 30, 2020, there were $nil dividends paid (three months ended June 30, 2019 – dividends of $nil were paid). During the six months ended June 30, 2020, cumulative dividends in amount of $2,209,426 were paid (six months ended 2019 - $nil dividends were paid). $10,890,063 of accrued dividends are included in the Preferred Shares on the condensed consolidated interim statement of financial position (December 31, 2019 - $8,666,383).

(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 $5,554,269 during the three months ended June 30, 2020 (three months ended June 30, 2019 – decrease of $462,856) 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 $6,942,838 during the six months ended June 30, 2020 (2019 – $1,851,424) 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 June 30, 2020 (six months ended June 30, 2019 – none).

(Expressed in U.S. dollars)

4. Share Capital (continued):

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 June 30, 2020 (six months ended June 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 six months ended June 30, 2020 and 2019, is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Basic weighted average number of common shares outstanding	5,315,890	5,305,386	5,315,825	5,257,696
Effect of dilutive securities	–	330,528	–	380,090
Diluted weighted average number of common shares outstanding	5,315,890	5,635,914	5,315,825	5,637,786

Due to the loss for the three and six months ended June 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 six months ended June 30, 2020 were 26,650. 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 six months ended June 30, 2020.

The total number of stock options that were excluded from the calculation for the three and six months ended June 30, 2019 were 42,628, as their inclusion would be anti-dilutive. The total number of Series A Warrant and the Standby Warrant, that were excluded from the calculation for the three and six months ended June 30, 2019 were 645,183 and 595,622, respectively, as their inclusion would be anti-dilutive.

(Expressed in U.S. dollars)

4. Share Capital (continued):

(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 six months ended June 30, 2020 was an expense of $358,916 and recovery of $885,132 (three and six months ended June 30, 2019 – expense of $662,805 and $853,980).

(i) Stock options:

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

	CAD options	
	Number of stock options	Weighted average exercise price per share (CAD)
Outstanding, December 31, 2019	26,889	$ 195.23
Forfeited	(239)	175.00
Outstanding, June 30, 2020	26,650	$ 195.41

The share-based compensation relating to the Company's stock options during the three and six months ended June 30, 2020 was $nil and $nil, respectively (three and six months ended June 30, 2019 – recovery of $5,398 and recovery of $18,386, 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 six months ended June 30, 2020:

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

There were 300 shares issued from treasury during the six months ended June 30, 2020 (six months ended June 30, 2019 – 82,710). The share-based compensation relating to the Company's share unit plan during the six months ended June 30, 2020 was a recovery of $150,132 (six months ended June 30, 2019 – expense of $502,284). During the quarter, all share based compensation was related to the cash and equity-settled share unit plan (three months ended June 30, 2019 – $50,016).

(iii) Deferred share unit plan:

During the six months ended June 30, 2020, there were 2,839 deferred share units ("DSUs") granted (six months ended June 30, 2019 – 16,805), no DSUs were exercised and no DSUs were cancelled or forfeited (six months ended June 30, 2019 – nil exercised, and nil cancelled or forfeited). The number of DSUs outstanding at June 30, 2020 is 48,776 (six months ended June 30, 2019 – 45,937). During the six months ended June 30, 2020, the Company recorded compensation cost recovery of $735,000 (six months ended June 30, 2019 – expense of $370,082).

(Expressed in U.S. dollars)

5. Income tax expense:

The Company's current income tax expense for the six months ended June 30, 2020 mainly includes $525,517 (six months ended June 30, 2019 - $186,406) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and $170,241 (six months ended June 30, 2019 - $1,207,476) of foreign withholding taxes. The Company's deferred tax recovery of $7,451 (six months ended June 30, 2019 – recovery of $18,719) consists primarily of changes in temporary differences recognized during the current period.

6. Change in non-cash operating working capital:

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Trade accounts and other receivables	$ (284,557)	$ (435,385)	$ 455,082	$ 1,554,130
Unbilled revenue	1,247,288	(933,998)	886,936	(1,609,269)
Prepaid expenses	(538,155)	(426,718)	220,764	(525,813)
Other assets	(1,275,179)	17,377	(1,501,847)	136,331
Inventories	355,603	195,603	466,284	260,515
Trade payables	(4,021,865)	(3,198,075)	1,117,439	(6,526,783)
Accrued liabilities and other liabilities	2,460,088	(1,085,941)	533,876	(2,462,792)
Income taxes receivable/payable	(47,457)	(73,285)	17,271	(5,536)
Deferred revenue	(247,957)	753,243	4,871,647	3,861,445
	$ (2,352,191)	$ (5,187,179)	$ 7,067,452	$ (5,317,772)

7. 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)

7. 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:

	June 30, 2020		December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Warrant classified as liability (Level 2)	$ 15,737,096	$ 15,737,096	$ 22,679,934	$ 22,679,934
Preferred Shares (Level 2)	69,504,033	69,504,033	66,345,563	66,345,563

There were no transfers of financial assets between levels during the six months ended June 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.

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)

8. 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 six months ended June 30 is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Europe, Middle East and Africa	$ 8,614,787	$ 12,002,904	$ 16,875,393	$ 24,713,074
North America, Latin America and Caribbean	6,498,126	5,705,059	12,635,930	11,147,402
Asia and Pacific Rim	4,819,810	6,962,052	9,458,146	13,751,791
	$ 19,932,723	$ 24,670,015	$ 38,969,469	$ 49,612,267

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Revenue by type:				
Support and subscription	$ 14,837,554	$ 17,905,010	$ 29,953,365	$ 35,007,913
Software and services	4,913,664	6,197,814	8,493,770	13,963,135
Third-party software and hardware	181,505	567,191	522,334	641,219
	$ 19,932,723	$ 24,670,015	$ 38,969,469	$ 49,612,267

9. 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)

10. Provisions:

	Restructuring (a)	Other (b)	Total
Balance, December 31, 2019	$ 1,226,153	$ 2,441,008	$ 3,667,161
Additions	142,722	3,072,717	3,215,439
Cash payments	(814,354)	–	(814,354)
Foreign exchange	(43,945)	–	(43,945)
Balance, June 30, 2020	$ 510,576	5,513,725	$ 6,024,301
Current			$ 6,024,301
Non-current			–
Balance, June 30, 2020			$ 6,024,301
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 six months ended June 30, 2020, $26,438 and $142,722 of restructuring charges related to closure of facilities and entity simplification were recorded (three and six months ended June 30, 2019 - $209,366 and $1,294,994 related to headcount, closure of facilities and entity simplification).

For the six months ended June 30, 2020, an amount of $814,354 has been paid and an additional amount of $510,576 is estimated as payable within one year.

(b) The balance at June 30, 2020 in other provision includes an intellectual property claim, and estimated costs to settle contractual disputes. Management revised its provision estimate in the period to reflect 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.

10. 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 best estimate of the provision at June 30, 2020.

11. 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 six months ended June 30, 2020, the Company has incurred $4,321,398 and $8,343,785 of costs associated with services provided by Crossover (three and six months ended June 30, 2019 – $5,134,831 and $11,424,237). 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. The technology services include source code analysis, code cleanup service and various other technical services related to Optiva's software solutions. During the three and six months ended June 30, 2020, the Company has incurred $6,369,703 and $16,407,620 of costs associated with services provided by DevFactory (three and six months ended June 30, 2019 – $2,309,111 and $6,286,927). 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).

11. Related Party Transactions (continued):

Amounts owing to Crossover and DevFactory as of June 30, 2020 aggregated to $10,006,414 (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 six months ended June 30, 2020 (three and six months ended June 30, 2019 – expense of $67,107 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 June 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.

12. Subsequent Events:

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 $91,378,719 (the “Redemption Amount“).

In July 2020, the Company closed a US$90 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 finance the Redemption Amount. 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.