

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

OPTIVA INC.

Three and six months ended March 31, 2018 and 2017
(Unaudited)

OPTIVA INC.

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

	March 31, 2018	September 30, 2017
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 74,554,582	\$ 110,891,744
Trade accounts and other receivables (note 4)	28,093,482	26,329,505
Unbilled revenue	15,854,655	17,928,405
Prepaid expenses	2,284,610	2,205,887
Income taxes receivable	5,346,866	4,329,580
Other assets	1,405,549	–
Inventories	771,639	1,101,929
Total current assets	128,311,383	162,787,050
Restricted cash (note 10(a))	3,666,951	4,553,623
Property and equipment	980,364	3,457,611
Deferred income taxes	2,358,368	2,328,129
Investment tax credits	361,950	374,387
Other assets	–	1,353,968
Intangible assets	20,749,360	25,505,620
Goodwill	32,271,078	32,271,078
Total assets	\$ 188,699,454	\$ 232,631,466
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Trade payables	\$ 9,877,397	\$ 11,229,091
Accrued liabilities	23,736,438	16,853,190
Provisions (note 11)	45,373,852	18,653,817
Income taxes payable	209,492	322,403
Deferred revenue	20,898,168	15,572,620
Total current liabilities	100,095,347	62,631,121
Deferred revenue	1,244,602	894,409
Other liabilities	996,037	807,390
Pension and other long-term employment benefit plans	18,225,829	17,886,630
Provisions (note 11)	596,061	824,626
Preferred shares (note 5(a))	57,018,016	59,670,913
Warrant (note 5(c))	23,142,791	29,622,772
Deferred income taxes	120,000	120,000
Total liabilities	201,438,683	172,457,861
Shareholders' equity (deficit):		
Share capital	248,680,325	248,680,325
Standby Warrant (note 5(c))	997,500	997,500
Treasury stock	(141,917)	(141,917)
Contributed surplus	13,596,043	11,826,454
Deficit	(267,409,757)	(192,727,334)
Accumulated other comprehensive loss	(8,461,423)	(8,461,423)
Total shareholders' equity (deficit)	(12,739,229)	60,173,605
Total liabilities and shareholders' equity	\$ 188,699,454	\$ 232,631,466

Commitments, guarantees and contingent liabilities (note 10)
Related party transactions (note 12)

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

OPTIVA INC.

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

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Revenue:				
Software, services and other	\$ 6,032,735	\$ 13,464,121	\$ 19,018,318	\$ 27,468,225
Support and subscription	21,861,774	20,900,514	43,276,627	44,106,616
	27,894,509	34,364,635	62,294,945	71,574,841
Cost of revenue	12,060,742	14,199,295	32,157,450	30,330,824
Gross profit	15,833,767	20,165,340	30,137,495	41,244,017
Operating expenses:				
Sales and marketing	2,334,535	5,421,303	5,841,366	10,456,440
General and administrative	8,871,699	7,726,710	18,624,441	15,448,655
Research and development	13,355,150	9,337,205	30,065,841	18,487,518
Restructuring costs (note 11(a))	2,263,207	3,875,173	49,230,545	4,080,474
	26,824,591	26,360,391	103,762,193	48,473,087
Loss from operations	(10,990,824)	(6,195,051)	(73,624,698)	(7,229,070)
Foreign exchange loss	(241,413)	(1,078,585)	(861,573)	(665,869)
Other (expense) income	–	1,749,072	–	(1,450,928)
Finance income	111,304	45,278	154,202	230,205
Finance (cost) recovery	1,054,194	(8,693,398)	1,203,096	(9,381,845)
Loss before income taxes	(10,066,739)	(14,172,684)	(73,128,973)	(18,497,507)
Income taxes (recovery):				
Current	202,107	1,379,996	1,576,745	3,398,646
Deferred	(40,602)	(289,375)	(23,295)	(278,405)
	161,505	1,090,621	1,553,450	3,120,241
Net Loss and comprehensive loss	\$ (10,228,244)	\$ (15,263,305)	\$ (74,682,423)	\$ (21,617,748)
Loss per subordinate voting share (note 5(d)):				
Basic	\$ (0.04)	\$ (0.14)	\$ (0.29)	\$ (0.20)
Diluted	(0.04)	(0.14)	(0.29)	(0.20)
Weighted average number of subordinate voting shares (note 5(d)):				
Basic	261,652,353	108,338,825	261,652,353	108,297,726
Diluted	261,652,353	108,338,825	261,652,353	108,297,726

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

OPTIVA INC.

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

Six months ended March 31, 2018 and 2017
(Unaudited)

	Share capital		Standby Warrant	Treasury stock	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity (deficit)
	Number outstanding	Amount						
Balance, September 30, 2017	261,652,353	\$ 248,680,325	\$ 997,500	\$ (141,917)	\$ 11,826,454	\$ (192,727,334)	\$ (8,461,423)	\$ 60,173,605
Loss for the period	-	-	-	-	-	(74,682,423)	-	(74,682,423)
Share-based compensation	-	-	-	-	1,769,589	-	-	1,769,589
Balance, March 31, 2018	261,652,353	\$ 248,680,325	\$ 997,500	\$ (141,917)	\$ 13,596,043	\$ (267,409,757)	\$ (8,461,423)	\$(12,739,229)
Balance, September 30, 2016	108,252,436	\$ 172,436,385	\$ -	\$ (141,917)	\$ 9,812,545	\$ (133,954,043)	\$ (11,445,750)	\$ 36,707,220
Loss for the period	-	-	-	-	-	(21,617,748)	-	(21,617,748)
Share-based compensation	-	-	-	-	167,054	-	-	167,054
Stock options exercised	262,500	201,690	-	-	-	-	-	201,690
Balance, March 31, 2017	108,514,936	\$ 172,638,075	\$ -	\$ (141,917)	\$ 9,979,599	\$ (155,571,791)	\$ (11,445,750)	\$ 15,458,216

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 March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Cash provided by (used in):				
Operating activities:				
Loss for the period	\$ (10,228,244)	\$ (15,263,305)	\$ (74,682,423)	\$ (21,617,748)
Adjustments for:				
Depreciation of property and equipment	786,808	802,290	2,304,505	1,581,754
Amortization of intangible assets	2,336,506	2,173,365	4,630,322	4,434,541
Finance income	(111,304)	(45,278)	(154,202)	(230,205)
Finance costs	(1,054,194)	8,693,398	(1,203,096)	9,381,845
Pension	267,257	826,729	339,199	(42,672)
Income tax expense	161,505	1,090,621	1,553,450	3,120,241
Unrealized foreign exchange loss (gain)	184,892	209,596	67,913	1,396,611
Share-based compensation	750,348	(682,951)	1,988,827	(738,927)
Change in provisions	(15,105,017)	(2,781,453)	26,491,470	(11,654,874)
Loss on disposal of property	–	–	110,632	–
Change in non-cash operating working capital (note 7)	9,531,567	(5,391,204)	11,546,864	(530,052)
	(12,479,876)	(10,368,192)	(27,006,539)	(14,899,486)
Interest paid	(42,877)	(62,413)	(76,820)	(166,502)
Interest received	111,288	26,391	157,290	212,197
Income taxes paid	(505,570)	(1,669,346)	(2,777,230)	(4,243,774)
	(12,917,035)	(12,073,560)	(29,703,299)	(19,097,565)
Financing activities:				
Proceeds from exercise of stock options	–	201,690	–	201,690
Interest paid on loans and borrowings	–	(1,245,961)	–	(2,330,904)
Repayment of loans and borrowings	–	(52,000,000)	–	(52,750,000)
Payment of dividends (note 5(a))	(7,640,670)	–	(7,640,670)	–
Issue of preferred shares and warrant net of transaction costs (note 5 (c))	–	79,861,542	–	79,861,542
	(7,640,670)	26,817,271	(7,640,670)	24,982,328
Investing activities:				
Purchase of property and equipment	(1,337)	(18,809)	(5,538)	(309,154)
Purchase of intangible assets	–	–	(9,985)	–
Decrease in restricted cash	899,087	195,642	886,672	1,055,759
	897,750	176,833	871,149	746,605
Effect of foreign exchange rate changes on cash and cash equivalents	(183,118)	291,287	135,658	(443,928)
Increase (decrease) in cash and cash equivalents	(19,843,073)	15,211,831	(36,337,162)	6,187,440
Cash and cash equivalents, beginning of period	94,397,655	28,056,119	110,891,744	37,080,510
Cash and cash equivalents, end of period	\$ 74,554,582	\$ 43,267,950	\$ 74,554,582	\$ 43,267,950

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

OPTIVA INC.

Notes to Condensed Consolidated Interim Financial Statements
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Three and six months ended March 31, 2018 and 2017
(Unaudited)

Optiva Inc. (formerly Redknee Solutions Inc.) (the "Company" or "Optiva"), through its predecessors, commenced operations on March 29, 1999. The Company was incorporated under the Canada Business Corporations Act on November 1, 2006. The Company's registered head office is located at 155 Wellington Street West, 40th Floor, Toronto, Ontario, Canada. The Company is publicly traded on the Toronto Stock Exchange (TSX: OPT) (formerly RKN). On January 16, 2018, the Company announced its corporate name change to Optiva Inc. The name change was approved on March 28th at the company's Annual and Special Meeting. Shareholders passed a resolution to amend the company's articles, completing the shareholder and regulatory processes. The official effective date for the name change was March 29, 2018. Effective April 5, 2018, the company now trades on the Toronto Stock Exchange under a new ticker symbol — TSX: OPT.

Optiva monetizes today's digital world for communications service providers. The Company's market-leading portfolio of monetization and subscriber management solutions includes real-time billing, charging, policy, and customer care modules and is available on premise, cloud-based, or as Software-as-a-Service ("SaaS"). With a central focus on driving customer success, Optiva's products power growth and innovation for operators globally. The Company's software products allow communication service providers to monetize various markets, including consumer, enterprise, wholesale, and the expanding SaaS and cloud ecosystems. Optiva's software supports the introduction of new revenue streams and innovative tariffs, payment solutions, data services, and advanced customer care and subscriber self-care functionality. Optiva is the parent of the wholly owned operating subsidiary, Redknee 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 March 31, 2018 were authorized for issuance by the Board of Directors of the Company on May 9, 2018.

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

Three and six months ended March 31, 2018 and 2017
(Unaudited)

1. Basis of preparation (continued):

(b) Judgments and estimates:

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

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended September 30, 2017 (the "2017 annual financial statements").

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 2017 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 2017 annual financial statements.

(b) Basis of consolidation:

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

(c) Functional currency:

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

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities not denominated in the functional currency are translated at the period-

OPTIVA INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)
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Three and six months ended March 31, 2018 and 2017
(Unaudited)

2. Significant accounting policies (continued):

end exchange rates. Foreign exchange gains and losses are recognized in the condensed consolidated interim statements of comprehensive loss.

(d) New accounting pronouncements:

The IASB has issued new standards and amendments to existing standards. These changes in accounting are not yet effective for the Company's fiscal period ending March 31, 2018 and could have an impact on future periods.

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

The IASB issued IFRS 15, which is effective for annual periods beginning on or after January 1, 2018. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue, at a point in time and over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The standard will be applicable for the Company effective October 1, 2018. The Company is currently in the scoping phase of the project. This phase focuses on identifying the Company's major revenue streams, determining how and when revenue is currently recognized and determination of whether any changes are expected upon adoption. The Company is in the process of assessing the impact of this standard on its consolidated financial statements.

(ii) Amendments to IFRS 2 - Classification and measurement of Share-based payment transactions ("IFRS 2"):

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

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;

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

Three and six months ended March 31, 2018 and 2017
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2. Significant accounting policies (continued):

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

The Company will adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on October 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

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

The IASB issued IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, and which establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with certain exemptions. The Company is in the process of assessing the impact of this standard on its consolidated financial statements and will adopt the standard effective October 1, 2018.

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

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

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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2. Significant accounting policies (continued):

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

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company will adopt the standard effective October 1, 2019 and is in the process of assessing the impact on its consolidated financial statements.

3. Cash and cash equivalents:

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

4. Trade accounts and other receivables:

	March 31, 2018	September 30, 2017
Trade receivables, net of allowance for doubtful accounts	\$ 23,480,645	\$ 22,373,704
Other receivables (a)	4,274,833	3,223,304
Employee receivables (b)	338,004	732,497
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	\$ 28,093,482	\$ 26,329,505

(a) At March 31, 2018, the other receivables balance mainly includes amounts relating to indirect taxes receivable. At September 30, 2017, the other receivables balance mainly included amounts relating to indirect taxes receivable.

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

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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(Unaudited)

5. Share Capital:

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

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

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 March 31, 2018, accretion expense, amortization of transaction costs and accrued dividends on the Preferred Shares amounted to \$2,494,935 (2017 - \$1,541,132). During the six months ended March 31, 2018, accretion expense, amortization of transaction costs and accrued dividends on the Preferred Shares amounted to \$4,987,773 (2017 - \$1,541,132). These charges are included in finance costs in the condensed consolidated interim statements of comprehensive loss. During the quarter ended March 31, 2018, cumulative dividends in amount of \$7,640,670 (cumulative as of December 31, 2017) were paid. The amount of accrued dividends have been included in the Preferred Shares on the condensed consolidated interim statements of financial position.

On March 29, 2017, at its annual and special meeting, the shareholders passed a resolution to amend and restate Optiva's articles to re-designate the Common Shares of the Company as Subordinate Voting Shares. The Company has filed amended and restated articles with Industry Canada and the TSX in order to give effect to the re-designation of the Common Shares as Subordinate Voting Shares.

On March 28, 2018, at its annual shareholders meeting, the shareholders passed a resolution to consolidate the issued and outstanding Subordinate Voting Shares on the basis of one post-consolidation share for every fifty (50) pre-consolidation shares. Effective April 5, 2018, the Company received an approval from TSX for this share consolidation.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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5. Share capital (continued):

Had this consolidation been effective March 31, 2018, basic and diluted weighted average number of subordinate voting shares would have been 5,233,047 shares. Basic and diluted earnings per share would have been a loss of \$1.95 per share for three months ended March 31, 2018 and loss of \$14.27 per share for six months ended March 31, 2018

(b) Rights offering:

On September 6, 2017, the Company closed a rights offering to the holders of its Subordinate Voting Shares (the "Rights Offering"). Under the Rights Offering, an aggregate of 108,519,936 Subordinate Voting Shares were issued at a subscription price of CAD\$0.63 (\$0.50) per share for gross proceeds to the Company of CAD\$68,367,560 (\$54,240,771).

Pursuant to the Rights previously granted to ESW Capital to maintain its pro rata interest in the Company, ESW Capital subscribed for an additional 44,604,981 Subordinate Voting Shares at a price of CAD\$0.63 per share for additional aggregate gross proceeds to the Company of CAD\$28,101,138 (\$23,185,756). This issuance was closed on September 12, 2017.

(c) 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 of 46,285,582 Subordinate Voting Shares at \$0.68 per share. The Series A Warrant is being classified as a liability because it contains an adjustment provision if the Company issues common shares ("Common Shares") or securities exchangeable for or convertible into Common Shares at a price per share less than the Series A Warrant exercise price of \$1.2963. The decrease in fair value of the warrant liability of \$3,702,847 during the three months ended March 31, 2018 (2017 – 3,651,546) is recorded in finance costs in the condensed consolidated interim statements of comprehensive loss. The decrease in fair value of the warrant liability of \$6,479,981 during the six months ended March 31, 2018 (2017 – 3,651,546) is recorded in finance costs in the condensed consolidated interim statements of comprehensive loss. Any unexercised Series A Warrant expires on January 25, 2027. No Series A Warrant was exercised as at March 31, 2018 (September 30, 2017 – none).

Upon closing of the Rights Offering on September 6, 2017, the Company issued a warrant to the Investor that entitles the Investor to subscribe for 2,500,000 Subordinate Voting Shares at \$0.50 per share (the "Standby Warrant"). The fair value of the Standby Warrant, classified

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5. Share capital (continued):

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 March 31, 2018 (September 30, 2017 – none).

(d) Loss per share:

A reconciliation of the number of common shares used for purposes of calculating basic and diluted loss per common share for the three and six months ended March 31 is as follows:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Basic weighted average number of common shares outstanding	261,652,353	108,338,825	261,652,353	108,297,726
Effect of dilutive securities	–	–	–	–
Diluted weighted average number of common shares outstanding	261,652,353	108,338,825	261,652,353	108,297,726

Due to the losses for the three and six months ended March 31, 2018 and 2017, all stock options, the Series A Warrant and the Standby Warrant, are excluded from the calculation of diluted loss per common share as their inclusion would be anti-dilutive. The total number of stock options that were excluded from the calculation for the three and six months ended March 31, 2018 were 4,008,753. (2017 – 6,808,291). The Series A Warrant and the Standby Warrant are equivalent to 46,285,582 and 2,500,000 Subordinate Voting Shares respectively.

(e) Share-based compensation:

The share-based compensation relating to the Company's stock options, deferred share unit plan and under the share unit plan during the three and six months ended March 31, 2018 was an expense of \$750,348 and \$1,988,827 (2017 – recovery of \$654,511 and \$710,487), respectively.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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5. Share capital (continued):

(i) Stock options:

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

	CAD options	
	Number of stock options	Weighted average exercise price per share (CAD)
Outstanding, September 30, 2017	5,185,397	\$ 3.04
Forfeited	(1,177,644)	2.66
Outstanding, March 31, 2018	4,007,753	\$ 3.15

(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 March 31, 2018:

RSU & PSU	
Outstanding, September 30, 2017	8,285,612
Exercised	(1,055,036)
Forfeited	(1,124,881)
Outstanding, March 31, 2018	6,105,695

There were no shares issued from the treasury stock during the three and six months ended March 31, 2018.

(iii) Deferred share unit plan:

During the six months ended March 31, 2018, there were no deferred share units ("DSUs") granted (March 31, 2017 – nil), no DSUs were exercised and no DSUs were cancelled or forfeited (March 31, 2017 - nil). The number of DSUs outstanding at March 31, 2018 was 1,035,340 (September 30, 2017: 1,035,340).

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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(Unaudited)

6. Income tax expense:

The Company's current income tax expense for the six months ended March 31, 2018 mainly includes \$936,556 (2017 - \$1,161,894) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$640,189 (2017 - \$2,236,752) of foreign withholding taxes. The Company's deferred tax recovery of \$23,295 (2017 – recovery of \$278,405) 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 six months ended March 31 is as follows:

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Trade accounts and other receivables	\$ (4,584,559)	\$ 9,666,872	\$ (1,767,065)	\$ 14,010,185
Unbilled revenue	2,514,532	(558,581)	2,073,750	1,485,932
Prepaid expenses	(645,439)	909,037	(78,723)	1,198,329
Other assets	182,465	150,160	(51,581)	552,220
Inventories	188,285	(306,299)	330,290	(435,123)
Trade payables	(4,710,799)	(5,153,859)	(1,351,694)	(6,763,743)
Accrued liabilities and other liabilities	6,057,049	(8,984,557)	6,640,365	(5,735,724)
Income taxes receivable/payable	158,283	(274,102)	75,781	(183,629)
Deferred revenue	10,371,750	(839,875)	5,675,741	(4,658,499)
	\$ 9,531,567	\$ (5,391,204)	\$ 11,546,864	\$ (530,052)

8. Financial instruments and capital management:

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

- Level 1 - quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly (i.e., prices) or indirectly (i.e., derived from prices); and

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8. Financial instruments and capital management (continued):

- 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:

	March 31, 2018		September 30, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (Level 1)	\$ 74,554,582	\$ 74,554,582	\$ 110,891,744	\$ 110,891,744
Restricted cash (Level 1)	3,666,951	3,666,951	4,553,623	4,553,623
Warrant classified as liability (Level 2)	23,142,791	23,142,791	29,622,772	29,622,772
Preferred Shares (Level 2)	57,018,016	57,018,016	59,670,913	59,670,913

There were no transfers of financial assets between levels during the six months ended March 31, 2018.

Financial instruments are classified into one of the following categories: financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, other financial liabilities and financial liabilities at FVTPL. The following table summarizes information regarding the carrying values of the Company's financial instruments:

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8. Financial instruments and capital management (continued):

	March 31, 2018	September 30, 2017
Financial assets at FVTPL ^(a)	\$ 78,221,533	\$ 115,445,367
Loans and receivables ^(b)	28,093,482	26,329,505
Other financial liabilities ^(c)	137,597,801	108,039,027
Financial liabilities at FVTPL ^(d)	23,142,791	29,622,772

(a) Includes cash and cash equivalents and restricted cash;

(b) Includes trade accounts and other receivables;

(c) Includes trade payables, accrued liabilities, provisions, other long-term liabilities, and preferred shares; and

(d) Includes the Series A Warrant.

The carrying values of trade accounts and other receivables, trade payables, accrued liabilities and provisions approximate fair values because of the short-term nature of these financial instruments. The preferred shares are carried at amortized cost and are 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.

The Series A Warrant is carried at fair value and is adjusted based on the Company's share price at end of the period. Changes in fair value are recorded in finance costs in the consolidated statements of comprehensive loss.

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.

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 six months ended March 31 is as follows:

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9. Segment Reporting (continued):

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Europe, Middle East and Africa	\$ 13,750,117	\$ 17,857,901	\$ 29,457,566	\$ 35,977,627
North America, Latin America and Caribbean	5,244,279	8,425,596	12,314,486	18,027,807
Asia and Pacific Rim	8,900,113	8,081,138	20,522,893	17,569,407
	<u>\$ 27,894,509</u>	<u>\$ 34,364,635</u>	<u>\$ 62,294,945</u>	<u>\$ 71,574,841</u>

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

	Three months ended March 31,		Six months ended March 31,	
	2018	2017	2018	2017
Revenue by type:				
Software and services	\$ 5,861,179	\$ 12,991,423	\$ 16,362,068	\$ 25,398,313
Support and subscription	21,861,774	20,900,514	43,276,627	44,106,616
Third-party software and hardware	171,556	472,698	2,656,250	2,069,912
	<u>\$ 27,894,509</u>	<u>\$ 34,364,635</u>	<u>\$ 62,294,945</u>	<u>\$ 71,574,841</u>

10. Restricted cash, guarantees and contingent liabilities:

(a) Restricted cash:

As at March 31, 2018, the Company had \$3,666,951 (September 30, 2017 - \$4,553,623) in cash allocated for planned payments to early retirees, lease guarantee and performance bonds issued to customers, which are secured by restricted cash. The restricted cash is shown separately in the condensed consolidated interim statements of financial position.

(b) Guarantees and contingent liabilities:

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

OPTIVA INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)
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10. Restricted cash, guarantees and contingent liabilities (continued):

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. In 2017, the Company recorded a provision for the best estimate of its obligation to settle certain claims made by terminated employees. This liability is included in provisions in the condensed consolidated interim statements of financial position as at September 30, 2017 and March 31, 2018. The charge was recorded as restructuring costs in the consolidated statement of comprehensive loss during the year ended September 30, 2017 and six months ended March 31, 2018.

The Company is defending a claim made by a party pertaining to an intellectual property matter. A provision has been recognized in the year ended September 30, 2017 as the best estimate of the costs that the Company will incur associated with the claim. This liability is included in provisions in the condensed consolidated interim statements of financial position as at September 30, 2017 and March 31, 2018. The charge was recorded in general and administrative expense on the consolidated statement of comprehensive loss during the year ended September 30, 2017. Although liability is not admitted, if a defense against this matter is unsuccessful, the Company may incur the costs associated with this claim that will likely be settled within twelve months from March 31, 2018.

OPTIVA INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)
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11. Provisions:

	Restructuring (a)	Other (b)	Total
Balance, September 30, 2017	\$ 18,164,718	\$ 1,313,725	\$ 19,478,443
Additions	49,230,545	7,624,863	56,855,408
Cash payments	(29,160,661)	(892,821)	(30,053,482)
Utilization	–	(1,543,316)	(1,543,316)
Foreign exchange	1,232,860	–	1,232,860
Balance, March 31, 2018	\$ 39,467,462	\$ 6,502,451	\$ 45,969,913
Current			\$ 18,653,817
Non-current			824,626
Balance, September 30, 2017			\$ 19,478,443
Current			\$ 45,373,852
Non-current			596,061
Balance, March 31, 2018			\$ 45,969,913

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

In February 2017, under the new strategic plan, the Company announced a corporate restructuring plan that is expected to be complete in 2018. The restructuring would involve further reduction in headcount, location reorganization including closure of certain facilities and entity simplification.

In November 2017, the Company finalized a restructuring plan to reduce approximately 530 employees globally and vacate premises in 18 locations.

During the three and six months ended March 31, 2018, restructuring charges related to employee and lease terminations of \$2,263,207 and \$49,230,545 respectively (2017 - \$3,875,173 and \$4,080,474) were recorded.

For the six months ended March 31, 2018, an amount of \$29,160,661 has been paid and an additional amount of \$38,871,401 is estimated as payable within one year. The balance of

OPTIVA INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)
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11. Provisions (continued):

the restructuring provision, classified as long-term, payable over three years, amounts to \$596,061 and has been discounted to its present value.

The recognition of restructuring charges requires management to make certain judgments and estimates regarding the nature, timing and amounts associated with the restructuring actions. Management's significant assumptions included the timing and number of employees to be terminated and the measurement of termination costs. The Company developed a detailed plan and has recorded termination costs for employees informed of their termination. At the end of each reporting period, management evaluates the appropriateness of the restructuring charges and provision balances. Further adjustments may be required to reflect actual experience or changes in estimates.

- (b) The balance at September 30, 2017 in other provision includes the intellectual property claim described above in note 10(b). There was no change to this provision as a result of this claim during the six months ended March 31, 2018.

During the three and six months ended March 31, 2018, the Company identified certain customer contracts where it is probable that the total costs to complete these contracts will exceed the contract revenue. As a result, the Company recorded a provision of \$2,267,304 and \$7,624,863 respectively. The expected loss was recorded in cost of revenue in the condensed consolidated interim statements of comprehensive loss. In March 2018, two of these contracts were terminated, and the Company is in the process of negotiating a settlement with the parties. During the three months ended March 31, 2018 cash payments in the amount of \$892,821 were made towards the settlement of a contract. During the three months ended March 31, 2018, \$1,543,316 of the provision was utilized on delivery of these projects. Although liability is not admitted, if a defense against these matters is unsuccessful, the Company may incur additional costs associated with these claims that may exceed the Company's best estimate of the provision at March 31, 2018.

12. Related Party Transactions:

On May 8, 2017, the Company entered into short term service agreements with Crossover Markets Inc. ("Crossover") and DevFactory FZ-LLC ("DevFactory"), (collectively the "Service Agreements") to provide cross functional and specialized technical services. Each of Crossover and DevFactory is an affiliate of ESW Capital. On June 9, 2017, the Company extended the short term Services Agreements with Crossover and DevFactory until the termination of the Standby Purchase Agreement with ESW Capital. Based on the closing of the Rights Offering and termination of the Standby Purchase Agreement (Note 5(b)), the Company has entered into long

OPTIVA INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)
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12. Related Party Transactions (continued):

term service agreements with Crossover and DevFactory, which can be terminated by either party with 30 days written notice.

The Service Agreements were negotiated and approved by the Special Committee of the Board of Directors. The contracted rates with these related parties are priced as agreed to by the parties and are to be settled in cash on normal payment terms upon receipt of invoices. The Company has not offered any security to these vendors.

Crossover provides Optiva with access to skilled temporary employees. Crossover leverages its network of global resources to hire, and assign resources on behalf of Optiva. These resources provide a variety of services, including HR, operations, finance, and support functions, at any global location for pricing agreed to in the Crossover service agreement. During the three and six months ended March 31, 2018, the Company has incurred \$7,355,256 and \$13,416,161, respectively, of costs associated with services provided by Crossover (2017 – nil and nil). The costs have been recorded in cost of goods sold or operating expenses in accordance with the department of the contract resource in the condensed consolidated interim statements of comprehensive loss.

DevFactory provides certain technology services to Optiva as per agreed statements of work. The technology services include source code analysis, code cleanup service and various other technical services related to Optiva's software solutions. During the three and six months ended March 31, 2018, the Company has incurred \$5,687,001 and \$12,485,239 respectively, of costs associated with services provided by DevFactory (2017 – nil and nil). The costs have been recorded in research and development expense in the condensed consolidated interim statements of comprehensive loss.

Amounts owing to Crossover and DevFactory as of March 31, 2018 aggregated to \$12,510,770 (September 30, 2017 - \$4,535,173) and are included in both trade payables and accrued liabilities in the condensed consolidated interim statement of financial position at the respective period ends.

In the normal course of business, the Company retained certain contractors with specialized skills and knowledge to assist the Company in its operations. These contractors are retained from other entities controlled by ESW Capital. The costs of these contractors are \$87,546 and \$163,278 for the three and six months ended March 31, 2018 respectively (2017 – nil and nil) and have been recorded in general and administrative expense in the condensed consolidated interim statements of comprehensive loss. Amounts owing to these entities as of March 31, 2018 aggregated to \$256,305 (September 30, 2017 - \$122,618) and are included in accrued liabilities in the condensed consolidated interim statement of financial position.