



**OPTIVA INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**QUARTER ENDED SEPTEMBER 30, 2021**

**DATED: November 10, 2021**

## SCOPE OF ANALYSIS

This Management's Discussion and Analysis ("MD&A") covers the results of operations, financial condition and cash flows of Optiva Inc. (the "Company" or "Optiva") for the three and nine month periods ended September 30, 2021. This document is intended to assist the reader in better understanding operations and key financial results as they are, in our opinion, at the date of this report.

The MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2021, and the audited consolidated financial statements for the fiscal year ended December 31, 2020, which we prepared in accordance with International Financial Reporting Standards ("IFRS").

Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward-Looking Statements" and "Risks and Uncertainties." The consolidated financial statements and the MD&A have been reviewed by Optiva's Audit Committee and were approved by the Board of the Company on November 10, 2021.

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

## FORWARD-LOOKING STATEMENTS

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

## RISKS AND UNCERTAINTIES

- The Company's strategy depends on its ability to realize the benefits of its investment in its product roadmap. The Company may continue to generate losses while it executes on its strategy of investing in innovating and modernizing its Business Support System ("BSS") solutions and application, specifically around cloud based products. Unanticipated declines in revenue or increases in expenses or liabilities in the near term, and slow adoption of Optiva cloud-based products by customers in the longer term, may result in the Company not being able to satisfy its financial obligations without further financing.
- Failure of the Company's solutions could expose the Company to significant liabilities. The Company's solutions are critical for its customers to deliver and monetize services on their networks. If the Company does not successfully deploy its solutions or if customers experience system outages caused by the Company's software, the Company may be exposed to significant liabilities associated with unplanned remediation costs, penalties and claims for damages.
- The Company faces intense competition and many of the Company's competitors and potential competitors have significantly greater financial, technical, marketing or service resources. The Company's relatively small size and recent operating history may be considered negatively by prospective end-users. If the Company does not compete effectively, the Company's revenue may not grow and could decline.
- The Company's ability to recruit and retain personnel is crucial to its ability to develop, market, sell and support its products and services.
- The Company's quarterly revenue and operating results can be difficult to predict and can fluctuate substantially, which may materially adversely impact its results of operations.
- The Company is exposed to credit risk related to accounts receivable from customers and unbilled revenue related to on-going customer projects. If customers fail to make payment in respect of amounts owing to the Company to an extent that is in excess of the Company's estimated default rates, the Company's business, financial condition and results of operation could be materially adversely affected.
- A substantial portion of the Company's revenue and expenses are transacted in currencies other than the Company's functional currency of U.S. dollars. Fluctuations in the exchange rate between the U.S. dollar and these currencies may have a material adverse effect on the Company's business, financial condition and operating results.
- The tax laws of various jurisdictions in which the Company conducts business have detailed transfer pricing rules which require that all transactions with non-resident related parties be priced using arm's length pricing principles and that contemporaneous documentation exists to

support such pricing. If any of the Company's transfer pricing policies are successfully challenged, income tax expenses may be adversely affected and the Company could also be subjected to interest and penalty charges, which could have a significant impact on the Company's future earnings and future cash flows.

- As previously disclosed, on July 20, 2020, the Company completed the redemption of its outstanding preferred shares and completed a concurrent offering of 9.75% senior secured PIK toggle debentures due 2025 ("Debentures") in the principal amount of \$90.0 million, the proceeds of which were used to fund the preferred share redemption. In connection with and following these transactions, almost all of the Company's Board was refreshed with new directors. The Company also recently hired a new Chief Executive Officer. The Company's strategy has and may continue to change as a result of the changes to the capital structure, composition of the board, management team, and shareholder base.
- The Debentures represent a significant amount of indebtedness of the Company, the principal amount of which must be repaid on or before July 20, 2025. The Company's ability to pay principal and cash interest when due on the Debentures will depend on the success of the Company's operations and the Company's financial condition over the long term. If, and to the extent, the Company has insufficient cash to pay its debt obligations, cash from other sources will be required or the Company may be required to pay interest in-kind through the issuance of additional Debentures. The Company might also be required to sell some or all of its assets to meet its obligations, seek an extension to the Debentures, seek alternative debt or pursue an equity financing. The sale of some of the Company's assets and properties to satisfy the amounts owed pursuant to the Debentures could result in the partial or total loss of the Company's assets. If sale, extension or refinancing is not obtained or consummated, the Company could default on its obligations.
- The Company currently does not have a credit facility and relies on its own cash to meet its liquidity needs. The Company collects its cash from customers in various jurisdictions; there is a risk that repatriation of cash from foreign jurisdictions may take longer than anticipated, be subject to withholding taxes or be disrupted due to events outside the control of the Company. This may result in the Company being unable to meet its obligations when they become due.
- The Company is, has been and expects to continue to be dependent on a relatively small number of customers for a large percentage of its revenue. If one or more of the Company's end-users discontinues its relationship with the Company for any reason, reduces or postpones current or expected purchases of the Company's products or services, the Company's business, results of operations and financial condition could be materially adversely affected.
- The Company may be required to defer recognizing revenue from the sale of products until all the conditions necessary for revenue recognition have been satisfied.

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

## OVERVIEW

Optiva is a leading and innovative provider of cloud-native monetization products on the private and public cloud to Communication Service Providers ("CSPs") worldwide.

The Company's products and services empower CSPs to monetize on their various customer segments, including consumer, enterprise, wholesale and IoT. The Company's solutions allow the introduction of new innovative tariffs and marketing offerings, through its rating, charging and billing solutions. Coupled with complementing products such as payment solutions, policy control, wholesales billing, customer care and subscriber self-service applications, Optiva allows its customers to achieve their objectives and address their challenges, including monetization of their communication services, convergence of their service portfolio and diversification of their offering, all through improving customer experience and reduced costs.

The common shares of Optiva Inc. (TSX: OPT) are listed on the Toronto Stock Exchange (the "TSX"). The Debentures (NEO: OPT.DB.U) are listed on the NEO Exchange. For more information, visit [www.optiva.com](http://www.optiva.com).

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

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

Optiva's award-winning, cloud-native, real-time converged charging and billing platform delivers the benefits of a flexible, end-to-end software platform, including real-time charging, rating, billing, product catalog, policy management and customer care for any digital services of a CSP. Optiva's product family supports any type of CSP from tier 1 to tier 5, in the private or public cloud. It enables a digital customer journey delivering innovative end-user services from real-time offering towards digital guide self-management of customer interaction.

Optiva supports the telecommunication industry with the following market solutions:

- **Optiva Charging Engine** – Optiva's highly scalable, convergent charging solution is a fully cloud-enabled platform for private and public cloud. It monetizes any type of transaction and enables a smooth transition from a traditional telco business to digital CSP as a single monetization platform. The solution runs natively on Google Cloud Platform and scales with Google Cloud Spanner, and it is also available on an OpenShift infrastructure on a private cloud. Kubernetes and the customization framework enables fast adaptation to the market and new use cases with the shortest time to market and lowest total cost of ownership (TCO) in the world. Today, Optiva's scalable solution is supporting more than 200 million subscribers at a single customer and enables operators to launch and monetize their 4G and 5G networks and deliver advanced data services, including Voice over LTE ("VoLTE"), machine to machine, IoT, cloud services, and OTT offerings.
- **Optiva BSS Platform** – Optiva BSS Platform™ provides a fully managed, end-to-end, cloud-native converged charging and billing solution on the private and public cloud. For CSPs, including MNOs, MVNEs, and MVNOs, Optiva BSS Platform™, re-architected to be cloud-native and made available on the public cloud, is Optiva's leading proposition in the software-as-a-service ("SaaS") market. The multi-tenant platform allows customers the freedom to focus on their business, not on deploying and managing enterprise software. Customers can design marketing plans, load subscribers, and deploy their services without having to install software on premise. With Optiva BSS Platform™, customers can run an end-to-end BSS stack with all of the mandatory components such as unified rating and charging, billing, customer care and self-care, product catalog, payments and voucher management, collections and settlements, and dealer care.
- **Policy Control** – Optiva's Policy Control solution provides a single solution that enables service providers to take control of network resource usage, assure quality of experience for users, and offer personalized services and differentiated, service-specific charging. Optiva's Policy Control solution is key to supporting operator data monetization strategies for real-time applications, such as video streaming, interactive gaming, and VoLTE, and is a key to Optiva value proposition to 5G.
- **Optiva Wholesale Billing™** – Optiva Wholesale Billing™ is a cloud-based solution that provides operators with greater visibility into network transactions to achieve converged settlement and accurate interconnect billing. Optiva's solution helps service providers maximize the value of their network with a comprehensive and cost-effective interconnect, wholesale, roaming, MVNO, franchise management, and content settlement software solution.
- **Optiva Payment Solution** – Optiva's Payment Solution strengthens a customer's ability to monetize services with the provision of different payment methods, including voucher and voucher-less payment and top-up solutions. Optiva's solution allows service providers to offer end-users the most convenient payment solutions in their market.

## OUTLOOK

### **Investment in Cloud Innovation Initiatives**

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

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

### **COVID-19 OPERATIONAL UPDATE**

COVID-19 continues to significantly impact Canadians and economies around the world as a third wave of the virus appears to be affecting Canada and other countries worldwide. In March, 2020, the Company took swift action by taking measures to ensure the health and safety of our team members, and to mitigate the business impact on the Company caused by the unprecedented global economic disruption. The Company successfully adopted a mandatory work-from-home program which will continue to remain in place until such time the Company has clear guidance from government authorities in various jurisdictions, with respect to this pandemic. As substantially all of the Company's day-to-day activities can be fully performed by personnel working remotely, the Company is able to remain fully operational during this period, and continues to seek new revenue opportunities, execute on its product development roadmap and generate consistent revenue from our existing customer base. The Company is in compliance with all federal, provincial and municipal regulations that have been put in place since the beginning of the pandemic. The Company will continue to closely monitor developments in this regard, with the health and safety of the Company's employees and management as the primary concern. Due to the fluidity of the COVID-19 pandemic and the uncertainty of its magnitude, outcome and duration, the Company is unable to definitively quantify its potential impact. The Company has taken measures to manage costs, including a reduction of operating expenses.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

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

<b>Q3 Fiscal 2021 Highlights</b> <i>(\$ US Thousands, except per share information)</i> <i>(Unaudited)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Revenue	16,666	18,804	49,068	57,774
Net Income (Loss)	3,783	(29,221)	21,813	(43,190)
Earnings (Loss) Per Share	\$ 0.62	\$(5.50)	\$ 3.73	\$(8.12)
Cash provided by (used in) operating activities	5,217	(1,398)	5,948	(5,279)
Total cash, including restricted cash	32,823	21,306	32,823	21,306

Consolidated Statements of Comprehensive Income (loss) (All amounts in thousands of US\$, except share and per share amounts) (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
<b>Revenue</b>				
Support and subscription	11,412	14,077	35,682	44,031
Software, services and other	5,254	4,727	13,386	13,743
<b>Total Revenue</b>	<b>16,666</b>	<b>18,804</b>	<b>49,068</b>	<b>57,774</b>
Cost of revenue	3,492	4,649	10,765	15,125
<b>Gross profit</b>	<b>13,174</b>	<b>14,155</b>	<b>38,303</b>	<b>42,649</b>
<b>Operating expenses</b>				
Sales and marketing	1,789	1,581	5,503	6,273
General and administrative	2,990	8,288	11,984	23,893
Research and development	3,413	2,255	7,171	22,863
Restructuring costs	-	59	-	202
<b>Total Operating Expenses</b>	<b>8,192</b>	<b>12,184</b>	<b>24,658</b>	<b>53,231</b>
<b>Income (loss) from operations</b>	<b>4,982</b>	<b>1,971</b>	<b>13,645</b>	<b>(10,582)</b>
Foreign exchange gain (loss)	110	283	635	(1,899)
Finance income	329	173	471	250
Finance (costs) recovery	(805)	(29,661)	9,500	(28,283)
<b>Income (loss) before income taxes</b>	<b>4,616</b>	<b>(27,234)</b>	<b>24,251</b>	<b>(40,514)</b>
Income tax expense	833	1,987	2,438	2,676
<b>Net Income (loss) for the period</b>	<b>3,783</b>	<b>(29,221)</b>	<b>21,813</b>	<b>(43,190)</b>
<b>Earnings (loss) per common share</b>				
Basic	\$ 0.62	\$ (5.50)	\$ 3.73	\$ (8.12)
Diluted	\$ 0.61	\$ (5.50)	\$ 3.68	\$ (8.12)
<b>Weighted average number of common shares (thousands)</b>				
Basic	6,151	5,316	5,851	5,316
Diluted	6,159	5,316	5,927	5,316

Statement of Financial Position Data	As at September 30,	As at December 31,		
<i>\$US Thousands (unaudited)</i>	2021	2020	\$ Change	% Change
Cash, Cash Equivalents and Restricted Cash	32,823	18,290	14,533	79%
Trade Accounts, Other Receivables and Unbilled Revenue	18,492	15,475	3,017	19%
Goodwill and Intangible Assets	34,811	35,527	(716)	(2%)
<b>Total Assets</b>	<b>95,549</b>	<b>77,380</b>	<b>18,169</b>	<b>23%</b>
Trade Payable and Accrued Liabilities	14,016	18,489	(4,473)	(24%)
Deferred Revenue	4,788	5,556	(768)	(14%)
Provisions	4,200	5,555	(1,355)	(24%)
Other long-term liabilities	13,511	19,278	(5,767)	(30%)
Debentures	86,819	86,338	481	1%
Preferred Shares and Series A Warrant	861	16,663	(15,802)	(95%)
<b>Total Liabilities</b>	<b>129,857</b>	<b>156,812</b>	<b>(26,955)</b>	<b>(17%)</b>
Shareholders' Deficit	(34,308)	(79,432)	45,124	(57%)

## CURRENT PERIOD OPERATING RESULTS

### Revenue

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

\$US Thousands (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Support and Subscription	11,412	14,077	35,682	44,031
Software and Services	4,995	4,602	13,120	13,095
Third Party Software and Hardware	259	125	266	648
<b>Total</b>	<b>16,666</b>	<b>18,804</b>	<b>49,068</b>	<b>57,774</b>

Percentage of Total Revenue (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Support and Subscription	68%	75%	72%	76%
Software and Services	30%	24%	27%	23%
Third Party Software and Hardware	2%	1%	1%	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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

For the three-month period ended September 30, 2021, the Company's revenues have declined by \$2.1 million from the previous year's comparative period to \$16.7 million. The change by revenue type for the quarter ended September 30, 2021, is as follows: \$2.6 million decrease in support and subscription revenue, \$0.4 million increase in software and services revenue and \$0.1 million increase in third-party software and hardware revenue.

For the nine-month period ended September 30, 2021, the Company's revenues have declined by \$8.7 million from the previous year's comparative period to \$49.1 million. The change by revenue type for the nine months ended September 30, 2021, is as follows: \$8.3 million decrease in support and subscription revenue, no change in software and services revenue and \$0.4 million decrease in third-party software and hardware revenue.

### *Support and Subscription Revenue*

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

Support and subscription revenue for the three-month period ended September 30, 2021, was \$11.4 million, or 68% of total revenue, compared to \$14.1 million, or 75% of total revenue, for the same period last year. For the nine-month period ended September 30, 2021, the Company's support and subscription decreased to \$35.7 million, or 72% of total revenue, compared to \$44.0 million or 76% of total revenue for the same period last year. The decrease in support and subscription revenue compared to last period is mainly due to the discontinuation of support to customers who had previously notified us of their exit.

### *Software and Services Revenue*

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

Software and services revenue for the three-month period ended September 30, 2021, increased to \$5.0 million, or 30% of total revenue, compared to \$4.6 million, or 24% of total revenue for the same period last year. The marginal increase in software and services revenue compared to last year is mainly due to higher software implementations compared to the prior period. For the nine-month period ended September 30, 2021, the Company's software and services revenue was \$13.1 million, or 27% of total revenue, compared to \$13.1 million, or 23% of total revenue for the same period last year. We are expecting that our software and services revenue may be negatively impacted in the next few quarters by the COVID-19 pandemic, as projects that require travel to customer sites is limited and service deliveries delayed.

## *Third-Party Software and Hardware Revenue*

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

Third-party software and hardware revenue for the three-month period ended September 30, 2021 marginally increased to \$0.3 million, compared to \$0.1 million, for the same period last year. For the nine-month period ended September 30, 2021, the Company's third party software and hardware revenue decreased to \$0.3 million, compared to \$0.6 million, for the same period last year. Management continues its initiative to minimize the sale of third-party software and hardware components, which have minimal contribution to overall profitability.

## *Revenue by Geography*

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

\$US Thousands (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Asia and Pacific Rim	3,453	4,769	10,940	14,227
North America, Latin America and Caribbean	4,335	5,690	15,110	18,326
Europe, Middle East and Africa	8,878	8,345	23,018	25,221
<b>Total</b>	<b>16,666</b>	<b>18,804</b>	<b>49,068</b>	<b>57,774</b>

Percentage of Total Revenue (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Asia and Pacific Rim	21%	25%	22%	25%
North America, Latin America and Caribbean	26%	30%	31%	32%
Europe, Middle East and Africa	53%	45%	47%	43%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

For the three-month period ended September 30, 2021, revenue from the APAC region was \$3.4 million, or 21% of total revenue, compared to \$4.8 million, or 25% of total revenue, for the same comparable period. For the nine-month period ended September 30, 2021, revenue from the APAC region was \$10.9 million, or 22% of total revenue, compared to \$14.2 million, or 25% of total revenue, for the same comparable period. This decrease is mainly a result of lower support and subscriptions revenue and lower revenue from software implementation in the region.

For the three-month period ended September 30, 2021, revenue from the Americas region decreased to \$4.3 million, or 26% of total revenue, compared to \$5.7 million, or 30% of total revenue, for the same comparable period. For the nine-month period ended September 30, 2021, revenue from the Americas region decreased to \$15.1 million, or 31% of total revenue, compared to \$18.3 million, or 32% of total revenue, for the same comparable period. The decrease is mainly due to lower support revenue in the region.

For the three-month period ended September 30, 2021, revenue from the EMEA region increased to \$8.9 million, or 53% of total revenue, compared to \$8.3 million, or 44% of total revenue, for the same comparable period. The increase in revenue during the three months ended September 30, 2021, is mainly a result of higher revenue from software implementation in the region offset by lower support revenue due to the loss of certain customers, compared to the same period last year. For the nine-month period ended September 30, 2021, revenue from the EMEA region decreased to \$23.0 million, or 47% of total revenue, compared to \$25.2 million, or 45% of total revenue, for the same comparable period. The decrease in revenue during the three and nine months ended September 30, 2021, is mainly a result of lower support revenue due to the loss of certain customers offset by higher revenue from software implementation in the region, compared to the same period last year.

### **Cost of Revenue and Gross Margin**

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

For the three months ended September 30, 2021, cost of revenue decreased to \$3.5 million from \$4.6 million incurred for the same comparable period. The gross margin for the quarter has increased to 79% in the three months ended September 30, 2021, compared to 75% in the three months ended September 30, 2020. For the nine months ended September 30, 2021, cost of revenue decreased to \$10.8 million from \$15.1 million incurred for the same comparable period. The gross margin has increased to 78% in the nine months ended September 30, 2021 compared to 74% in the nine months ended September 30, 2020. The decrease cost of revenue is primarily due to lower headcount and related costs incurred under the Company's cost structure optimization plan and lower third party costs. The gross margin this year is higher as fewer customizations with lower margins were ordered by customers that required fulfillment compared to the previous period, higher license revenue and there was still high percentage of revenue from support and subscription revenue that has a higher margin. We expect our gross margins may fluctuate as we prove our cloud-native model and product capabilities to new and existing customers when they onboard to the public or private cloud in future periods.

### **Operating Expenses**

Total operating expenses in the three months ended September 30, 2021, decreased to \$8.2 million as compared to \$12.2 million in the same period last year. Excluding depreciation, amortization and restructuring costs, total operating costs in the quarter ended September 30, 2021, decreased to \$7.8 million, or 47% of total revenue, compared to \$9.9 million, or 53% of total revenue, for the same period last year. The decrease in overall operating expenses (excluding depreciation, amortization and restructuring costs) is mainly attributable to lower general and administrative costs, slightly offset by higher R&D costs, as further explained below by function.

Total operating expenses in the nine months ended September 30, 2021, decreased to \$24.7 million as compared to \$53.2 million in the nine months ended September 30, 2020. Excluding depreciation, amortization and restructuring costs, total operating costs in the nine months ended September 30, 2021, decreased to \$23.5 million, or 48% of total revenue, compared to \$45.9 million, or 79% of total revenue, for the nine months ended September 30, 2020. The decrease in overall operating expenses (excluding depreciation, amortization and restructuring costs) is mainly attributable to lower R&D cost, lower sales and marketing costs and lower general and administrative costs, as further explained below by function.

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

\$US Thousands (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Sales and Marketing	1,789	1,581	5,502	6,273
General and Administrative	2,990	8,288	11,984	23,893
Research and Development	3,413	2,256	7,171	22,863
Restructuring Costs	-	59	-	202
<b>Total Operating Expenses</b>	<b>8,192</b>	<b>12,184</b>	<b>24,657</b>	<b>53,231</b>
<i>Excluding Amortization and Depreciation</i>	<i>7,763</i>	<i>9,996</i>	<i>23,485</i>	<i>46,090</i>

Percentage of Total Revenue (unaudited)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Sales and Marketing	11%	9%	11%	11%
General and Administrative	18%	44%	24%	41%
Research and Development	20%	12%	15%	40%
Restructuring Costs	0%	0%	0%	0%
<b>Total Operating Expenses</b>	<b>49%</b>	<b>65%</b>	<b>50%</b>	<b>92%</b>
<i>Excluding Amortization and Depreciation</i>	<i>47%</i>	<i>53%</i>	<i>48%</i>	<i>80%</i>

### *Sales and Marketing Expenses*

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

For the three-month period ended September 30, 2021, S&M expenditures increased to \$1.8 million, or 11% of total revenue, compared to \$1.6 million, or 9% of total revenue, compared to the same comparable period. For the nine-month period ended September 30, 2021, S&M expenditures decreased to \$5.5 million, or 11% of total revenue, compared to \$6.3 million, or 11% of total revenue, for the comparable period. The decrease in S&M expenditures for the nine months ended September 30, 2021 is mainly due to significantly lower spend this year on the Mobile World Congress slightly offset by higher headcount costs related to ramp-up of sales efforts to boost the revenue opportunities.

### *General and Administrative Expenses*

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

For the three-month period ended September 30, 2021, G&A expenditures decreased to \$3.0 million, or 18% of total revenue, from \$8.3 million, or 44% of total revenue, compared to the same comparative period. The decrease is mainly due to lower legal and advisory costs related to activities of the special committee of the board of directors incurred last year, reversal of certain bad debt provisions, lower amortization costs and lower stock-based compensation, slightly offset by higher compensation costs.

For the nine-month period ended September 30, 2021, G&A expenditures decreased to \$12.0 million, or 24% of total revenue, from \$23.9 million, or 41% of total revenue, to the same comparative period. The decrease in the period was mainly due to lower legal and advisory costs related to activities of the special committee of the board of directors incurred last year, lower amortization costs, lower stock-based compensation, lower legal costs due to reversal of a provision related to an intellectual property claim of \$1.3 million made this year and due to an additional provision made last year to reflect changes in status of certain claims and costs to settle, slightly offset by higher stock-based compensation. Excluding the impact of provisions, amortization and stock-based compensation, the G&A expenditures decreased by \$2.4 million compared to the same comparative period last year. The decrease was mainly due to decrease in legal and advisory costs related to the activities of the special committee of the board of directors slightly offset by higher compensation costs.

### *Research and Development Expenses*

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

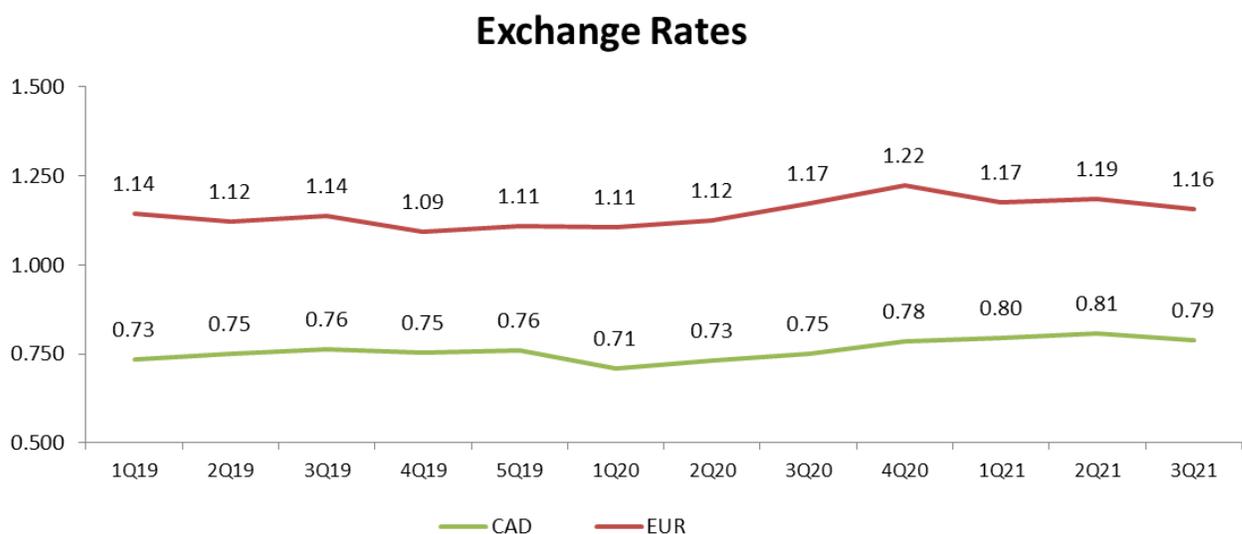
For the three-month period ended September 30, 2021, R&D expenditures increased to \$3.4 million, or 20% of total revenue, from \$2.3 million, or 12% of total revenue, as compared to the same comparative period. The increase is mainly due to ramp up of in-house R&D team as compared to last year when there were lower costs incurred with Crossover Markets Inc. (“Crossover”) and no costs incurred with DevFactory FZ-LLC (“Devfactory”).

For the nine-month period ended September 30, 2021, R&D expenditures decreased to \$7.2 million, or 15% of total revenue, from \$22.9 million, or 40% of total revenue, as compared to the same comparative period. Under the Separation Agreement with ESW, an amount of \$2.1 million owing to DevFactory was forgiven which was credited to R&D expenses in the first quarter of 2021. Excluding the credit, R&D expenditures decreased to \$9.3 million compared to \$22.9 million last year. The decrease is mainly due to lower DevFactory and Crossover spend on overall R&D activities, including significantly lower cloud-related spend. The Company’s spend on R&D activities, including those on account of cloud innovation, is discretionary in nature. Consequently, the R&D spend is generally expected to vary by quarter, and sometimes this variation can be significant.

The Company is in the process of building an in-house R&D team and is also working with other strategic partners to enhance its R&D activities.

### Foreign Exchange Gain/Loss

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



Source: Bank of Canada

The Company has monetary assets and liabilities in a number of currencies, the most significant of which are denominated in Euro and the Canadian Dollar. For the three months ended September 30, 2021, the Company had a foreign currency exchange gain of \$0.1 million, compared to a foreign currency exchange gain of \$0.3 million in the comparable period. The U.S. Dollar strengthened against the Canadian dollar and the Euro during the three months ended September 30, 2021. For the nine months ended September 30, 2021, the Company had a foreign currency exchange gain of \$0.6 million, compared to a foreign currency exchange loss of \$1.9 million in the comparable period. The U.S. Dollar weakened against the Canadian dollar and the Euro during the nine months ended September 30, 2021.

A change in foreign exchange rates as at September 30, 2021, of 10% would result in a gain or loss of approximately \$2.1 million arising from the translation of the Company's foreign currency-denominated monetary assets and liabilities as at September 30, 2021. This foreign currency gain or loss arising from translation would be recorded in the consolidated statements of comprehensive income.

## Income Taxes

The Company's operations are global, and the income tax provision is determined in each of the jurisdictions in which the Company conducts its business. The Company's current income tax expense for the nine months ended September 30, 2021 mainly includes \$1.3 million (nine months ended September 30, 2020 - \$1.5 million) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$1.4 million (nine months ended September 30, 2020 - \$1.3 million) of foreign withholding taxes. The Company's deferred tax recovery of \$0.3 million (nine months ended September 30, 2020 – recovery of \$0.1 million) consists primarily of changes in temporary differences recognized during the current period.

The income tax expense relating to foreign subsidiaries that are virtually inactive may vary in future quarters as tax audits for previous years are brought to their conclusion, and there is a risk that such assessments may exceed the provision that the Company is carrying, resulting in additional income tax charges. It is expected that the effective rate of the income tax expense will decline as the Company fully implements its new legal and operating organization structure, after the completion of pending tax assessments in foreign subsidiaries that are inactive and awaiting voluntary wind-up.

## SUMMARY OF EARNINGS RESULTS

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

<b>\$US Thousands, except share and per share amounts (Unaudited)</b>	<b>3Q 21</b>	<b>2Q 21</b>	<b>1Q 21</b>	<b>4Q 20</b>	<b>3Q 20</b>	<b>2Q 20</b>	<b>1Q 20</b>	<b>5Q 19</b>
Revenue	\$16,666	\$16,311	\$16,091	\$18,142	\$16,311	\$19,933	\$19,037	\$20,530
Net Income (loss)	\$ 3,783	\$ 1,331	\$ 16,698	\$ 1,670	\$ 1,332	\$(14,777)	\$ 808	\$(16,874)
Earnings (loss) per Share	\$ 0.62	\$ 0.22	\$ 3.14	\$ 0.31	\$ 0.22	\$(2.78)	\$ 0.15	\$(3.17)
Diluted Earnings (loss) per Share	\$ 0.61	\$ 0.22	\$ 3.01	\$ 0.29	\$ 0.22	\$(2.78)	\$ 0.14	\$(3.17)
Weighted average shares outstanding – Basic (thousands)	6,151	6,076	5,316	5,316	6,076	5,316	5,316	5,316
Weighted average shares outstanding - Diluted (thousands)	6,159	6,128	5,544	5,698	6,128	5,316	5,632	5,316

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

Revenue this quarter increased sequentially mainly due to increase in Software and Services revenue and revenue from Third Party Software and Hardware. Revenue in first quarter of 2021 has declined sequentially compared to fourth quarter of 2020 was mainly because of lower support and subscription revenue due to discontinuation of support to customers who had previously notified us of the exit and lower software and services revenue due to fewer implementations. The high net income in the first quarter of 2021 is mainly due to the decrease in value of the warrants by \$13.6 million. The net loss in second quarter of 2020 was mainly due to the accretion of preferred shares to the face value and accrued

dividends of \$21.9 million due to redemption of the preferred shares and increase in fair value of warrant liability of \$5.6 million. The net loss in the second quarter of 2020 and fifth quarter of 2019 was mainly due to increases in fair value of the warrant liability and the cloud related spend. There is a significant variability in the net income or loss due to the change in fair value of the warrant liability.

## LIQUIDITY AND CAPITAL RESOURCES

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

The Company operates in several jurisdictions, some of which impose currency remittance restrictions and income tax withholdings, which impacts the timing and amount of cash which can be repatriated from these countries. Approximately 11% (December 31, 2020 – 50%) of our cash is in foreign subsidiaries, where repatriation to the parent Company in Canada could take longer than 30 days.

Key Balance Sheet Amounts and Liquidity Ratios	As at	As at	\$ Change	% Change
	September 30,	December 31,		
<i>\$US Thousands, except ratios and metrics (unaudited)</i>	2021	2020		
Cash, Cash Equivalents and Restricted Cash	32,823	18,290	14,533	79%
Trade Accounts Receivable	5,896	4,748	1,149	24%
Working capital	27,522	3,005	24,518	816%
Days sales outstanding in trade accounts receivable (days)	30	28	2	7%
Days sales outstanding in unbilled revenue (days)	47	40	7	18%

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

DSO - The Company has calculated DSO based on annualized revenue and the average of the beginning and ending accounts receivable balance for the three-month period being reported.

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

Cash and restricted cash increased by \$14.5 million to \$32.8 million at September 30, 2021, compared to December 31, 2020.

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance increased by \$24.5 million to \$27.5 million at September 30, 2021, from \$3.0 million at December 31, 2020. This is mostly related to increase in cash from the private placement, increase in accounts receivable and unbilled revenue, decrease in accounts payable and decrease in provisions.

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

Statement of Cash Flows Summary (\$ US Thousands) (Unaudited)	Three months ended		Nine Months Ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Cash inflows and (outflows) by activity:				
Operating activities	5,217	(1,398)	5,948	(5,279)
Investing activities	(1,292)	58	(1,469)	261
Financing activities	(4,351)	(4,694)	10,325	(6,904)
Effect of FX changes on cash and cash equivalents	(477)	223	(435)	790
Net cash inflows (outflows)	(903)	(5,811)	14,369	(11,132)
Cash and cash equivalents, beginning of period	32,935	26,427	17,664	31,748
Cash and cash equivalents, end of period	32,032	20,616	32,033	20,616
Cash (including Restricted Cash), end of period	32,823	21,306	32,823	21,306

## Cash From (Used for) Operating Activities

Net cash generated by operating activities was \$5.2 million in the three months ended September 30, 2021, compared to use of cash of \$1.4 million in the same period last year. Cash generated by operating activities in the three months ended September 30, 2021, mainly relates to operating income. For the quarter ended September 30, 2020, net cash used by operating activities was \$1.4 million mainly related to cash taxes paid and cash used in working capital.

Net cash generated by operating activities was \$5.9 million in the nine months ended September 30, 2021, compared to use of cash of \$5.3 million in the same period last year. Cash generated by operating activities in the nine months ended September 30, 2021, mainly relates to operating income offset by cash used in working capital and cash taxes paid during the period. For the nine months ended September 30, 2021, net cash used by operating activities was \$5.3 million mainly related to operating loss, cash taxes paid and cash used in working capital.

## Cash From (Used for) Investing Activities

In the three months ended September 30, 2021, there was \$1.3 million of cash used by investing activities, compared to cash generated of \$0.1 million during the same period in fiscal 2020. In the nine months ended September 30, 2021, there was \$1.5 million of cash used by investing activities, compared to cash generated of \$0.3 million during the same period in fiscal 2020. The use of cash in the three and

nine months ending September 30, 2021 mainly relates to purchase of computer hardware and software and increase in restricted cash.

## **Cash From (Used for) Financing Activities**

In the three months ended September 30, 2021, net cash used in financing activities was \$4.4 million. Use in cash relates to the interest paid on loans and borrowings.

For the nine months ending September 30, 2021, net cash generated from financing activities was \$10.3 million compared to cash used of \$6.9 million during the nine months ended September 30, 2020. Cash generated for the nine months ending September 30, 2021 relates to the private placement of common shares slightly offset by interest paid on loans and borrowings. The use of cash in the nine months ended September 30, 2020 relates to payment of dividends on the Company's previously outstanding preferred shares, the redemption of preferred shares offset by issuance of debentures.

## **MANAGEMENT OF CAPITAL**

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its strategy of 100% customer success, fund R&D, leading to innovative and market-leading products, and implement its strategic plan that will help towards increasing shareholder value, while managing financial risk. As of September 30, 2021, the Company's outstanding share capital currently consists of common shares. The Company also has outstanding a Series A Warrant (as defined herein) (classified as liability) and a Standby Warrant (as defined herein) (classified as liability). The Company's primary use of capital is to finance its operations and includes increases in working capital and investment in cloud R&D. The Company currently funds these requirements from operating cash flows.

## **TRADE ACCOUNTS AND OTHER RECEIVABLES**

The Company's DSO in Trade Accounts Receivable is at 30 days as of September 30, 2021, compared to 28 days as of December 31, 2020. In order to minimize the risk of loss for trade receivables, the Company's extension of credit to customers involves review and approval by senior management, as well as progress payments as contracts are performed. Credit reviews take into account the counterparty's financial position, past experience and other factors. Management regularly monitors customer credit limits. The Company also maintains credit insurance in certain jurisdictions. The Company believes that the concentration of credit risk from trade receivables is limited, as they are widely distributed among customers in various countries.

While the Company's credit controls and processes have been effective in mitigating credit risk, these controls cannot eliminate credit risk, and there can be no assurance that these controls will continue to be effective or that the Company's low credit loss experience will continue. Most sales are invoiced with payment terms in the range of 30 to 120 days. The Company reviews its trade receivable accounts regularly and reduces amounts to their expected realizable values by making an allowance for doubtful accounts as soon as the account is determined not to be fully collectible.

The allowance for doubtful accounts as at September 30, 2021, was \$0.3 million, compared to \$0.9 million as at December 31, 2020. Estimates for allowance for doubtful accounts are determined based

on an evaluation of collectability by customer and project at each consolidated statement of financial position reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity and ability to pay.

## **UNBILLED AND DEFERRED REVENUE**

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

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

Unbilled revenue increased by \$1.6 million to \$9.2 million at September 30, 2021, as compared to \$7.6 million as at December 31, 2020.

Deferred revenue decreased by \$0.8 million to \$4.8 million at September 30, 2021, as compared to \$5.6 million at December 31, 2020.

## **OTHER PROVISIONS**

Other provisions at September 30, 2021, include estimated costs to settle contractual disputes. During the nine months ended September 30, 2021, the Company revised its previously recorded provision related to an intellectual property claim. Management's provision reflects changes in the status of the claims, expected outcomes and costs to settle, if any. Estimates are preliminary and subject to adjustment based on changes in facts and circumstances, such changes could be material.

Although liability is not admitted, if a defense against any of these matters is unsuccessful, the Company may incur additional costs associated with the claims that may significantly exceed the Company's estimate of the provision at September 30, 2021.

## **OUTSTANDING SHARE DATA**

The number of common shares outstanding as at November 10, 2021, is 6,150,557 (December 31, 2020 - 5,316,057). In addition, at September 30, 2021, there were 363,726 (December 31, 2020 - 270,239) stock options outstanding with exercise prices ranging from CAD \$32.45 to CAD \$186.00 per share. The Series A Warrant and the Standby Warrant are outstanding and equivalent to 925,712 and 50,000 common shares respectively as at November 10, 2021 (as at December 31, 2020 - 925,712 and 50,000, respectively).

## SHARE CAPITAL

(a) Private Placement:

On April 9, 2021, the Company closed the Offering of its common shares. A total of 834,500 common shares were issued by the Company at a price of CAD \$30.00 per share for aggregate gross proceeds of \$19.9 million (CAD \$25.0 million). All common shares issued under the Offering are subject to a hold period of four months and one day from the date of issuance of the common shares.

Transaction costs directly associated with this issuance of common shares of \$0.8 million (CAD \$1.0 million) have been recognized as a reduction of the proceeds.

(b) Series A Preferred Shares:

On January 26, 2017, the Company issued 800,000 Series A Preferred Shares (the "Preferred Shares") and a warrant (the "Series A Warrant") (collectively the "Financing Transaction") to ESW Holdings, Inc. (the "Investor"), an affiliate of ESW.

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

(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 for 925,712 common shares at \$34.00 per share. Series A Warrant is being classified as a liability and measured at its estimated fair value. The decrease in fair value of the warrant liability of \$1.5 million during the three months ended September 30, 2021 (three months ended September 30, 2020 – increase of \$5.6 million) is recorded in finance costs (recovery) in the condensed consolidated interim statements of comprehensive income (loss). The decrease in fair value of the warrant liability of \$15.9 million during the nine months ended September 30, 2021 (nine months ended September 30, 2020 – decrease of \$1.4 million) is recorded in finance costs (recovery) in the condensed consolidated interim statements of comprehensive income (loss).

Upon closing of a rights offering of its common shares on September 6, 2017, the Company issued a warrant to the Investor that entitles the Investor to subscribe for 50,000 common shares at \$25.00 per share (the "Standby Warrant"). The fair value of the Standby Warrant, classified as equity upon issuance at September 6, 2017, was \$1.0 million.

On March 11, 2021, under the Separation Agreement with ESW, in connection with amendments to certain provisions of the Standby Warrant, this instrument is now classified as a financial liability and measured at its estimated fair value. The decrease in fair value of the warrant

liability of \$0.1 million during the three months ended September 30, 2021 (three months ended September 30, 2020 – \$nil) 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 \$0.9 million during the nine months ended September 30, 2021 (nine months ended September 30, 2020 – \$nil) is recorded in finance costs (recovery) in the condensed consolidated interim statements of comprehensive income (loss).

Under the Separation Agreement, any unexercised Series A Warrant and the Standby Warrant expires on March 1, 2023. No Series A or Standby Warrant was exercised as at September 30, 2021 (three months ended September 30, 2020 – none).

(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, 2021 was an expense of \$0.5 million and \$1.9 million (three and nine months ended September 30, 2020 – expense of \$1.4 million and recovery of \$0.5 million). During the nine months ended September 30, 2021, there were 100,000 options granted (three months ended September 30, 2020 - nil). During the nine months ended September 30, 2021, there were 24,634 deferred share units granted (nine months ended September 30, 2020 – 26,100).

## DEBENTURES

On July 20, 2020, the Company closed a \$90.0 million financing (the “Debenture Financing”) of 9.75% secured PIK toggle Debentures due 2025. The Debentures 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.

As at September 30, 2021, \$90.0 million (December 31, 2020 - \$90.0 million) 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, 2021, the Company incurred \$3.9 million of transaction costs and has recorded these costs as deferred financing costs that are being amortized over the expected five-year term of the Debentures. During the three and nine months ended September 30, 2021, \$0.2 million and \$0.5 million, respectively, of deferred financing fees was amortized, (three and nine months ended September 30, 2020 - \$nil and \$0.1 million, respectively).

For the three and nine months ended September 30, 2021, interest expense of \$2.2 million and \$6.5 million, respectively, (for three and nine months ended September 30, 2020 - \$1.7 million and \$1.7 million, respectively) in connection with Debenture Financing has been recognized in the condensed consolidated interim statements of comprehensive income (loss).

## RELATED PARTY TRANSACTIONS

### *Related Party Service Agreements*

In September 2017, the Company entered into long term service agreements with Crossover and DevFactory (collectively the "Service Agreements") who provide cross-functional and specialized technical services. Each of Crossover and DevFactory are affiliates of ESW.

On March 11, 2021, as a part of the Separation Agreement, ESW also agreed to terminate all of its related party agreements with Optiva.

Crossover provided 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, 2021, the Company has incurred \$nil and \$0.6 million of costs associated with services provided by Crossover (three and nine months ended September 30, 2020 – \$3.3 million and \$11.6 million, respectively). 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). The Crossover agreement was terminated as part of the Separation Agreement with ESW.

DevFactory provided certain technology services to Optiva as per agreed statements of work. Effective September 30, 2019, the Service Agreement between Optiva and DevFactory was assigned to GTeam FZ-LLC as part of an internal reorganization by DevFactory. GTeam FZ-LLC is also fully owned by ESW Capital. On September 1, 2019, Gteam FZ-LLC changed its name to DevFactory Innovations FZ-LLC. 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 nine months ended September 30, 2021, the Company has incurred \$nil and \$nil, respectively, of costs associated with services provided by DevFactory (three and nine months ended September 30, 2020 – \$nil and \$16.4 million, respectively). 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).

In connection with the termination of the DevFactory Agreements, the Company delivered to DevFactory a promissory note in the principal amount of \$2.0 million that was accepted as full and complete satisfaction of the \$4.1 million owing by the Company to DevFactory under the DevFactory Agreements. The maturity date of the promissory note is twelve months from date of the agreement. The forgiveness of \$2.1 million was credited to research and development expenses in the condensed consolidated interim statements of comprehensive income (loss) in the nine-month period ended September 30, 2021.

Amounts owing to Crossover and DevFactory as of September 30, 2021 aggregated to \$2.0 million (December 31, 2020 - \$5.0 million) and are included in both accrued liabilities and trade payables in the condensed consolidated interim statement of financial position at the respective period ends.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING (“ICFR”)**

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

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

### **Changes in Internal Controls over Financial Reporting**

Effective March 31, 2021, the Company has brought all the bookkeeping and financial analysis responsibilities of its finance function back in-house. Previously, the Company had outsourced these activities to an independent third-party service organization. As a result, the Company has implemented material changes to its internal controls over financial reporting. The key areas impacted include the processes that support the Company's general ledger, back-office transaction processing, preparation of monthly internal financial statements and processes supporting budgetary control activities.

## **PATENT PORTFOLIO**

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

## **ADDITIONAL INFORMATION**

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