

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

## **OPTIVA INC.**

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

# OPTIVA INC.

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

	June 30, 2021	December 31, 2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 32,935,144	\$ 17,663,998
Trade accounts and other receivables (note 3)	9,420,819	7,868,501
Unbilled revenue	4,623,371	4,086,395
Prepaid expenses	3,278,571	2,752,304
Income taxes receivable	4,286,292	4,281,673
Other assets	330,086	222,101
<b>Total current assets</b>	<b>54,874,283</b>	<b>36,874,972</b>
Restricted cash	537,487	625,692
Property and equipment	247,042	–
Long-term unbilled revenue	3,553,939	3,520,177
Deferred income taxes	365,606	208,237
Other assets	508,066	624,134
Intangible assets	2,529,956	3,255,482
Goodwill	32,271,078	32,271,078
<b>Total assets</b>	<b>\$ 94,887,457</b>	<b>\$ 77,379,772</b>
<b>Liabilities and Shareholders' Deficit</b>		
Current liabilities:		
Trade payables	\$ 3,142,452	\$ 8,811,407
Accrued liabilities	11,289,333	9,677,245
Provisions (note 11)	4,200,000	5,555,373
Income taxes payable	4,546,033	4,932,157
Deferred revenue	6,304,516	4,894,195
<b>Total current liabilities</b>	<b>29,482,334</b>	<b>33,870,377</b>
Deferred revenue	525,583	661,837
Other liabilities	2,373,122	2,797,836
Pension and other long-term employment benefit plans	14,541,926	15,582,459
Debentures (note 5)	86,652,639	86,338,367
Series A Warrant (note 4(d)) / note 8)	2,286,508	16,662,808
Standby Warrant (note 4(d)) / note 8)	221,100	–
Deferred income taxes	879,351	898,146
<b>Total liabilities</b>	<b>136,962,563</b>	<b>156,811,830</b>
Shareholders' deficit:		
Share capital	269,992,761	250,904,013
Standby Warrant (note 4(d))	–	997,500
Contributed surplus	12,642,608	11,406,814
Deficit	(317,812,339)	(335,842,249)
Accumulated other comprehensive loss	(6,898,136)	(6,898,136)
<b>Total shareholders' deficit</b>	<b>(42,075,106)</b>	<b>(79,432,058)</b>
<b>Total liabilities and shareholders' deficit</b>	<b>\$ 94,887,457</b>	<b>\$ 77,379,772</b>

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 Income (Loss)  
 (Expressed in U.S. dollars, except per share and share amounts)  
 (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Revenue (note 9):				
Support and subscription	\$11,481,945	\$ 14,837,554	\$ 24,269,620	\$ 29,953,365
Software licenses, services and other	4,828,791	5,095,169	8,132,199	9,016,104
	16,310,736	19,932,723	32,401,819	38,969,469
Cost of revenue	3,598,792	5,121,466	7,273,740	10,475,642
Gross profit	12,711,944	14,811,257	25,128,079	28,493,827
Operating expenses:				
Sales and marketing	1,926,474	1,668,226	3,713,642	4,691,688
General and administrative	4,535,704	10,141,137	8,993,793	15,605,317
Research and development	3,241,808	8,683,791	3,758,578	20,607,915
Restructuring costs (note 11(a))	–	26,438	–	142,722
	9,703,986	20,519,592	16,466,013	41,047,642
Income (loss) from operations	3,007,958	(5,708,335)	8,662,066	(12,553,815)
Foreign exchange gain / (loss)	218,307	(298,367)	525,635	(2,181,707)
Finance income / (loss)	70,901	(8,913)	142,595	76,823
Finance (cost) recovery (note 4 and 5)	(888,881)	(8,384,828)	10,304,588	1,378,110
Income (loss) before income taxes	2,408,285	(14,400,443)	19,634,884	(13,280,589)
Income taxes (recovery) (note 6):				
Current	1,203,196	386,571	1,769,118	695,758
Deferred	(126,450)	(10,469)	(164,144)	(7,451)
	1,076,746	376,102	1,604,974	688,307
Total comprehensive income (loss)	\$ 1,331,539	\$ (14,776,545)	\$ 18,029,910	\$ (13,968,896)
Income (loss) per common share (note 4(e)):				
Basic	\$ 0.22	\$ (2.78)	\$ 3.16	\$ (2.63)
Diluted	0.22	(2.78)	3.09	(2.63)
Weighted average number of common shares (note 4(e)):				
Basic	6,076,379	5,315,890	5,698,728	5,315,825
Diluted	6,127,886	5,315,890	5,843,464	5,315,825

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

# OPTIVA INC.

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

Six months ended June 30, 2021 and 2020  
(Unaudited)

	Share capital		Standby Warrant	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity (deficit)
	Number Outstanding (note 4)	Amount					
Balance, December 31, 2020	5,316,057	\$ 250,904,013	\$ 997,500	\$ 11,406,814	\$ (335,842,249)	\$ (6,898,136)	\$ (79,432,058)
Income for the period	–	–	–	–	18,029,910	–	18,029,910
Issue of share capital (private placement) (note 4(b))	834,500	19,088,748	–	–	–	–	19,088,748
Share-based compensation (note 4(f)(i))	–	–	–	1,235,794	–	–	1,235,794
Transfer to liability (note 4(d))	–	–	(997,500)	–	–	–	(997,500)
<b>Balance, June 30, 2021</b>	<b>6,150,557</b>	<b>\$ 269,992,761</b>	<b>\$ –</b>	<b>\$ 12,642,608</b>	<b>\$ (317,812,339)</b>	<b>\$ (6,898,136)</b>	<b>\$ (42,075,106)</b>
Balance, December 31, 2019	5,315,757	\$ 250,893,223	\$ 997,500	\$ 11,291,632	\$ (294,322,038)	\$ (4,481,196)	\$ (35,620,879)
(Loss) for the period	–	–	–	–	(13,968,896)	–	(13,968,896)
Issue of shares under RSU (note 4(f)(ii))	300	10,790	–	(10,790)	–	–	–
<b>Balance, June 30, 2020</b>	<b>5,316,057</b>	<b>\$ 250,904,013</b>	<b>\$ 997,500</b>	<b>\$ 11,280,842</b>	<b>\$ (308,290,934)</b>	<b>\$ (4,481,196)</b>	<b>\$ (49,589,775)</b>

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

# OPTIVA INC.

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Cash provided by (used in):				
Operating activities:				
Income (loss) for the period	\$ 1,331,539	\$ (14,776,545)	\$ 18,029,910	\$ (13,968,896)
Adjustments for:				
Depreciation of property and equipment	18,440	–	18,440	–
Amortization of intangible assets	362,763	2,464,192	725,526	4,952,521
Finance (income) / loss	(70,901)	8,913	(142,595)	(76,823)
Finance costs (recovery)	888,881	8,384,828	(10,304,588)	(1,378,110)
Pension	219,086	4,169	(718,048)	8,391
Income tax expense (note 6)	1,076,746	376,101	1,604,974	688,306
Unrealized foreign exchange (gain)	207,568	(249,508)	(450,042)	(1,044,041)
Share-based compensation (note 4(f))	693,234	358,916	1,415,832	(885,132)
Change in provisions (note 11)	(23,028)	2,807,641	(1,355,373)	2,357,140
Change in non-cash operating working capital (note 7)	(242,745)	(2,352,191)	(5,986,012)	7,067,452
	4,461,583	(2,973,484)	2,838,024	(2,279,192)
Interest paid	(14,438)	(3,997)	(52,757)	(26,414)
Interest received	8,382	15,135	9,969	69,914
Income taxes paid	(372,819)	(678,759)	(2,064,199)	(1,645,167)
	4,082,708	(3,641,105)	731,037	(3,880,859)
Financing activities:				
Payment of dividends	–	–	–	(2,209,426)
Issue of share capital (note 4(b))	19,088,748	–	19,088,748	–
Payment of interest on loans and borrowings	–	–	(4,412,723)	–
	19,088,748	–	14,676,025	(2,209,426)
Investing activities:				
Purchase of property and equipment	(265,482)	–	(265,482)	–
Decrease in restricted cash	135,704	172,824	88,205	203,518
	(129,778)	172,824	(177,277)	203,518
Effect of foreign exchange rate changes on cash and cash equivalents	(70,797)	529,847	41,361	565,633
Increase (decrease) in cash and cash equivalents	22,970,881	(2,938,434)	15,271,146	(5,321,134)
Cash and cash equivalents, beginning of period	9,964,263	29,365,293	17,663,998	31,747,993
Cash and cash equivalents, end of period	\$ 32,935,144	\$ 26,426,859	\$ 32,935,144	\$ 26,426,859

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

# OPTIVA INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## **Reporting Entity**

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

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

### **1. Basis of preparation:**

#### (a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and do not include all the information required for full annual consolidated financial statements. These condensed consolidated interim financial statements for the three and six months ended June 30, 2021 were authorized for issuance by the Board of Directors of the Company on August 10, 2021.

#### (b) Judgments and estimates:

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses, consistent with those disclosed in the 2020 annual consolidated financial statements and described in these condensed consolidated interim financial statements.

# OPTIVA INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## 1. Basis of preparation (continued):

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

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

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

## 2. Significant accounting policies:

### (a) Basis of measurement and presentation:

The notes presented in these condensed consolidated interim financial statements include, in general, only significant changes and transactions occurring since the Company’s last year end and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the 2020 annual financial statements, including the notes thereto.

# OPTIVA INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## 2. Significant accounting policies (continued):

### (b) Basis of consolidation:

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

### (c) Functional currency:

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

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

## 3. Trade accounts and other receivables:

	June 30, 2021	December 31, 2020
Trade receivables, net of allowance for doubtful accounts	\$ 6,072,158	\$ 4,747,743
Other receivables (a)	3,348,661	3,120,758
	<u>\$ 9,420,819</u>	<u>\$ 7,868,501</u>

(a) At June 30, 2021 and December 31, 2020, the other receivables balance mainly includes amounts relating to indirect taxes receivable.



# OPTIVA INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## 4. Share Capital:

### (a) Authorized:

Unlimited Preferred Shares, issuable in series  
Unlimited Common Shares

### (b) Private Placement:

On April 9, 2021, the Company closed a private placement of its common shares (the "Offering"). A total of 834,500 Shares were issued by the Company at a price of CDN\$30.00 per Share for aggregate gross proceeds of \$19,882,797 (CDN\$25,035,000). All Shares issued under the Offering are subject to a hold period of four months and one day from the date of issuance of the Shares. The Offering and listing of the Shares was approved by the Toronto Stock Exchange (the "TSX").

Transaction costs directly associated with this issuance of shares of \$794,049 (CAD \$999,810) have been recognized as a reduction of the proceeds.

### (c) 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. (formerly known as Wave Systems Corp.) (the "Investor"), an affiliate of ESW Capital LLC ("ESW Capital").

On July 20, 2020, the Company fully redeemed all of the Preferred Shares including all accrued and unpaid dividends thereon, beneficially owned or controlled by ESW Capital and its affiliates, in accordance with the terms of the Preferred Shares. The aggregate redemption price in respect of the Preferred Shares was \$91,378,719. This included the face amount of \$80,000,000 and accrued dividends of \$11,378,719.

### (d) 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. The 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 \$1,416,339 during the three months ended June 30, 2021 (three months ended June 30, 2020 – increase of \$5,554,269) 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 \$14,376,301 during the six months ended

# OPTIVA INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## 4. Share Capital (continued):

June 30, 2021 (six months ended June 30, 2020 – decrease of \$6,942,838) 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 \$997,500.

On March 11, 2021, the Company completed a transaction with ESW Capital whereby ESW Capital agreed to sell all of the Optiva common shares it owned in a private sale. ESW Capital also agreed to terminate all of its related party agreements with Optiva and to waive certain provisions of the Series A and Standby Warrants held directly or indirectly by ESW Capital (the “Separation Agreement”). 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 \$96,050 during the three months ended June 30, 2021 (three months ended June 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 \$776,400 during the six months ended June 30, 2021 (six months ended June 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 portion of the Series A Warrant and the Standby Warrant expires on March 1, 2023. No Series A or Standby Warrants have been exercised as at June 30, 2021 (six months ended June 30, 2020 – none).

# OPTIVA INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## 4. Share Capital (continued):

(e) Income (loss) per share:

A reconciliation of the number of common shares used for purposes of calculating basic and diluted income (loss) per common share for the three and six months ended June 30, 2021 and 2020, is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Basic weighted average number of common shares outstanding	6,076,379	5,315,890	5,698,728	5,315,825
Effect of dilutive securities	51,507	–	144,736	–
Diluted weighted average number of common shares outstanding	6,127,886	5,315,890	5,843,464	5,315,825

The total number of stock options that were excluded from the calculation for the three and six months ended June 30, 2021 were 363,726, as their inclusion would be anti-dilutive. The total number of shares issuable under the Series A Warrant and the Standby Warrant, that were excluded from the calculation for the three and six months ended June 30, 2021 were 924,205 and 830,976, respectively, as their inclusion would be anti-dilutive.

Due to the loss for the three and six months ended June 30, 2020, all stock options, the Series A Warrant and the Standby Warrant, were excluded from the calculation of diluted loss per common share as their inclusion would be anti-dilutive. The total number of stock options that were excluded from the calculation for the three and six months ended June 30, 2020 were 26,650. The Series A Warrant and the Standby Warrant are equivalent to 925,712 and 50,000 Common Shares respectively, all of which were excluded from the calculation for the three and six months ended June 30, 2020.

# OPTIVA INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## 4. Share Capital (continued):

(f) Share-based compensation:

The share-based compensation relating to the Company's stock options, deferred share unit plan and share unit plan during the three and six months ended June 30, 2021 was an expense of \$693,234 and \$1,415,832 (three and six months ended June 30, 2020 – expense of \$358,916 and recovery of \$885,132).

(i) Stock options:

The table below is a summary of the stock option plans for the six months ended June 30, 2021:

	CAD options	
	Number of stock options	Weighted average exercise price per share (CAD)
Outstanding, December 31, 2020	270,239	\$ 51.20
Granted	100,000	32.45
Forfeited	(6,513)	165.90
Outstanding, June 30, 2021	363,726	\$ 43.96

The share-based compensation relating to the Company's stock options during the three and six months ended June 30, 2021 was \$716,916 and \$1,235,794 respectively (three and six months ended June 30, 2020 – \$nil and \$nil, respectively).

# OPTIVA INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 4. Share Capital (continued):

### (ii) Share unit plan:

The table below is a summary of the restricted share units ("RSU") and performance share units ("PSU") for the six months ended June 30, 2021:

RSU & PSU	
Outstanding, December 31, 2020	–
Granted	–
Forfeited	–
Outstanding, June 30, 2021	–

There were no shares issued from treasury during the six months ended June 30, 2021 (six months ended June 30, 2020 – 300). The share-based compensation relating to the Company's share unit plan during the six months ended June 30, 2021 was a \$nil (six months ended June 30, 2020 – recovery of \$150,132).

### (iii) Deferred share unit plan:

The table below is a summary of the deferred share units ("DSU") for the six months ended June 30, 2021:

DSU	
Outstanding, December 31, 2020	74,135
Granted	21,401
Exercised	(20,453)
Forfeited	(1,216)
Outstanding, June 30, 2021	73,867

During the three and six months ended June 30, 2021, the Company recorded compensation cost recovery of \$23,682 and expense of \$180,038, respectively (three and six months ended June 30, 2020 – expense of \$243,925 and recovery of \$735,000, respectively).

# OPTIVA INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 5. Debentures:

On July 20, 2020, the Company closed a \$90,000,000 financing (the “Debenture Financing”) of 9.75% secured PIK toggle debentures due 2025 (the “Debentures”). The Debentures are guaranteed by certain of the Company’s subsidiaries and constitute senior secured obligations of the Company. The net proceeds from the Debenture Financing were used towards the redemption of all the Series A Preferred shares and accrued dividends. The Debenture Financing was completed on a private placement basis pursuant to certain prospectus exemptions.

	June 30, 2021	December 31, 2020
Debenture financing, bearing interest at 9.75%, per annum, payable semi-annually, maturing July 20, 2025	\$ 90,000,000	\$ 90,000,000
Less unamortized deferred financing costs	(3,347,361)	(3,661,633)
<b>Long-term portion of loans and borrowings</b>	<b>\$ 86,652,639</b>	<b>\$ 86,338,367</b>

As at June 30, 2021, \$90,000,000 (December 31, 2020 - \$90,000,000) 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. The Company incurred \$3,933,723 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 six months ended June 30, 2021, \$160,123 and \$314,272 of deferred financing fees was amortized (three and six months ended June 30, 2020 - \$nil and \$nil).

For the three and six months ended June 30, 2021, interest expense of \$2,187,739 and \$4,351,438 (three and six months ended June 30, 2020 - \$nil and \$nil) in connection with Debenture Financing has been recognized in the condensed consolidated interim statements of comprehensive income (loss).

## 6. Income tax expense:

The Company's current income tax expense for the six months ended June 30, 2021 mainly includes \$823,902 (six months ended June 30, 2020 - \$525,517) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$945,216 (six months ended June 30, 2020 - \$170,241) of foreign withholding taxes. The Company's deferred tax recovery of \$164,144 (six months ended June 30, 2020 – recovery of \$7,451) consists primarily of changes in temporary differences recognized during the current period.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 7. Change in non-cash operating working capital:

The change in non-cash working capital for the three and six months ended June 30, 2021 and 2020 is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Trade accounts and other receivables	\$ 3,328,711	\$ (284,557)	\$ (1,419,692)	\$ 455,082
Unbilled revenue	(2,371,203)	1,247,288	(570,738)	886,936
Prepaid expenses	(828,920)	(538,155)	(526,267)	220,764
Other assets	483,412	(1,275,179)	8,083	(1,501,847)
Inventories	–	355,603	–	466,284
Trade payables	(3,022,349)	(4,021,865)	(5,668,955)	1,117,439
Accrued liabilities and other liabilities	771,462	2,460,088	1,013,152	533,876
Income taxes receivable/payable	15,463	(47,457)	(95,662)	17,271
Deferred revenue	1,380,679	(247,957)	1,274,067	4,871,647
	\$ (242,745)	\$ (2,352,191)	\$ (5,986,012)	\$ 7,067,452

## 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
- 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.

# OPTIVA INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 8. Financial instruments and capital management (continued):

Financial assets and liabilities measured at fair value are summarized below:

	June 30, 2021		December 31, 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
Series A Warrant classified as liability (Level 2)	\$ 2,286,508	\$ 2,286,508	\$ 16,662,808	\$ 16,662,808
Standby Warrant classified as liability (Level 2)	221,100	221,100	–	–

There were no transfers of financial assets between levels during the six months ended June 30, 2021 and 2020.

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

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

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



# OPTIVA INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 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 June 30 is as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Europe, Middle East and Africa	\$ 6,871,102	\$ 8,614,787	\$ 14,140,051	\$ 16,875,393
North America, Latin America and Caribbean	6,067,932	6,498,126	10,775,425	12,635,930
Asia and Pacific Rim	3,371,702	4,819,810	7,486,343	9,458,146
	\$ 16,310,736	\$ 19,932,723	\$ 32,401,819	\$ 38,969,469

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Revenue by type:				
Support and subscription	\$ 11,481,945	\$ 14,837,555	\$ 24,269,620	\$ 29,953,365
Software and services	4,823,991	4,913,663	8,126,055	8,493,770
Third-party software and hardware	4,800	181,505	6,144	522,334
	\$ 16,310,736	\$ 19,932,723	\$ 32,401,819	\$ 38,969,469

# OPTIVA INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## **10. Guarantees and contingent liabilities:**

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

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

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

# OPTIVA INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

## 11. Provisions:

	Restructuring (a)	Other (b)	Total
Balance, December 31, 2020	\$ 41,648	\$ 5,513,725	\$ 5,555,373
Cash payments	(42,843)	–	(42,843)
Release of provision	–	(1,313,725)	(1,313,725)
Foreign exchange	1,195	–	1,195
Balance, June 30, 2021	\$ –	4,200,000	\$ 4,200,000
Current			\$ 4,200,000
Non-current			–
Balance, June 30, 2021			\$ 4,200,000
Current			\$ 5,555,373
Non-current			–
Balance, December 31, 2020			\$ 5,555,373

- (a) During the three and six months ended June 30, 2021, \$nil of restructuring costs related to closure of facilities and entity simplification were recorded (three and six months ended June 30, 2020 - \$26,438 and \$142,722 related to closure of facilities and entity simplification).

For the six months ended June 30, 2021, an amount of \$42,843 has been paid.

- (b) The balance at June 30, 2021 in other provision includes estimated costs to settle contractual disputes. During the six months ended June 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 best estimate of the provision at June 30, 2021.

# OPTIVA INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## 12. Related Party Transactions:

In September 2017, the Company entered into long term service agreements with Crossover Markets Inc. ("Crossover") and DevFactory FZ-LLC ("DevFactory"), (collectively the "Service Agreements") who provide cross functional and specialized technical services. Each of Crossover and DevFactory is an affiliate of ESW Capital.

On March 11, 2021 the Company completed a transaction with ESW Capital, whereby ESW Capital agreed to sell all of its common shares of Optiva in a private sale. As part of the transaction, ESW Capital also agreed to terminate all of its related party agreements (the "Separation Agreement") with Optiva.

Crossover provided Optiva with access to skilled temporary employees. These resources provided a variety of services, including HR, operations, finance, and support functions, at any global location for pricing agreed to in the Crossover service agreement. During the three and six months ended June 30, 2021, the Company has incurred \$nil and \$585,779 of costs associated with services provided by Crossover (three and six months ended June 30, 2020 – \$4,321,398 and \$8,343,785). The costs have been recorded in cost of revenue or operating expenses in accordance with the department of the contract resource in the condensed consolidated interim statements of comprehensive income (loss).

DevFactory provided certain technology services to Optiva as per agreed statements of work. Effective June 30, 2019, the Service Agreement between Optiva and DevFactory was assigned to GTeam FZ-LLC as part of an internal reorganization by DevFactory. GTeam FZ-LLC is also fully owned by ESW Capital. On September 1, 2019, Gteam FZ-LLC changed its name to DevFactory Innovations FZ-LLC. The technology services include source code analysis, code cleanup service and various other technical services related to Optiva's software solutions. During the three and six months ended June 30, 2021, the Company has incurred \$nil and \$nil of costs associated with services provided by DevFactory (three and six months ended June 30, 2020 – \$6,369,703 and \$16,407,620). 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 \$2,000,000 that was accepted as full and complete satisfaction of the \$4,054,503 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.

# OPTIVA INC.

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

Three and six months ended June 30, 2021 and 2020  
(Unaudited)

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## **12. Related Party Transactions (continued):**

The forgiveness of \$2,054,503 was credited to research and development expenses in the condensed consolidated interim statements of comprehensive income (loss) in the six-month period ended June 30, 2021.

Amounts owing to Crossover and DevFactory as of June 30, 2021 aggregated to \$2,000,000 (December 31, 2020 - \$4,967,164) and are included in both accrued liabilities and trade payables in the condensed consolidated interim statement of financial position at the respective period ends.