

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

OPTIVA INC.

Three and twelve months ended September 30, 2019 and 2018
(Unaudited)

OPTIVA INC.

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

	September 30, 2019	September 30, 2018
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 36,592,926	\$ 36,174,863
Trade accounts and other receivables (note 4)	10,684,310	14,954,291
Unbilled revenue (note 2(a)(i))	7,688,534	12,908,847
Prepaid expenses	1,865,394	1,833,105
Income taxes receivable	4,697,622	5,173,450
Other assets	201,996	253,517
Inventories	748,314	1,111,782
Total current assets	62,479,096	72,409,855
Restricted cash (note 10(a))	1,084,205	3,507,759
Long-term unbilled revenue (note 2(a)(i))	4,635,765	1,531,062
Property and equipment	–	541,861
Deferred income taxes	1,910,935	2,093,716
Investment tax credits	352,427	361,810
Intangible assets	13,378,794	18,044,530
Goodwill	32,271,078	32,271,078
Total assets	\$ 116,112,300	\$ 130,761,671
Liabilities and Shareholders' Deficit		
Current liabilities:		
Trade payables (note 13)	\$ 10,146,718	\$ 21,568,158
Accrued liabilities (note 13)	11,420,207	12,832,812
Provisions (note 11)	4,531,044	7,655,199
Income taxes payable	1,551,973	500,489
Deferred revenue (note 2(a)(i))	10,383,490	13,445,746
Total current liabilities	38,033,432	56,002,404
Deferred revenue (note 2(a)(i))	852,373	1,512,863
Other liabilities	2,317,200	1,272,488
Pension and other long-term employment benefit plans (note 12)	14,671,564	16,900,821
Provisions (note 11)	206,956	5,662,009
Preferred shares (note 5(a))	65,931,132	57,862,418
Series A Warrant (note 5(b))	15,274,241	21,754,223
Deferred income taxes	120,000	120,000
Total liabilities	137,406,898	161,087,226
Shareholders' deficit:		
Share capital	250,893,223	248,680,325
Standby Warrant (note 5(b))	997,500	997,500
Contributed surplus	11,300,925	13,386,978
Deficit (note 2(a)(i))	(277,448,183)	(285,318,990)
Accumulated other comprehensive loss	(7,038,063)	(8,071,368)
Total shareholders' deficit	(21,294,598)	(30,325,555)
Total liabilities and shareholders' deficit	\$ 116,112,300	\$ 130,761,671

Guarantees and contingent liabilities (note 10(b))
Related party transactions (note 13)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.
The Company adopted IFRS 15 as described in Note 2(a)(i). Under this adoption, the comparative information is not restated.

OPTIVA INC.

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

	Three months ended September 30,		Twelve months ended September 30,	
	2019	2018	2019	2018
Revenue (note 9):				
Support and subscription	\$ 16,595,067	\$ 19,794,586	\$ 72,874,763	\$ 84,747,291
Software licenses, services and other	6,528,991	7,503,006	27,478,324	36,879,413
	23,124,058	27,297,592	100,353,087	121,626,704
Cost of revenue (notes 11(b) and 13)	8,065,009	8,877,689	33,687,238	50,711,612
Gross profit	15,059,049	18,419,903	66,665,849	70,915,092
Operating expenses:				
Sales and marketing	2,256,818	2,374,202	10,826,636	11,331,769
General and administrative	4,646,796	6,523,349	18,825,473	31,076,334
Research and development (note 13)	8,155,351	14,104,345	26,986,751	61,515,108
Restructuring costs (recovery)(note 11(a))	(3,709,732)	991,769	(1,818,775)	51,775,138
	11,349,233	23,993,665	54,820,085	155,698,349
Income (loss) from operations	3,709,816	(5,573,762)	11,845,764	(84,783,257)
Foreign exchange gain (loss)	(384,747)	(1,974,718)	122,171	(317,823)
Finance income	119,245	252,851	479,315	523,718
Finance costs (note 5)	(1,795,206)	(4,924,931)	(4,037,555)	(2,572,010)
Income (loss) before income taxes	1,649,108	(12,220,560)	8,409,695	(87,149,372)
Income taxes (recovery) (note 6):				
Current	2,565,101	2,089,097	5,186,867	5,391,880
Deferred	46,824	59,465	100,078	50,404
	2,611,925	2,148,562	5,286,945	5,442,284
Net income (loss)	\$ (962,817)	\$ (14,369,122)	\$ 3,122,750	\$ (92,591,656)
Other comprehensive income:				
Items that will not be reclassified to net income:				
Actuarial gain on pension and non-pension post-employment benefit plans, net of income tax expense of nil (note 12):	1,033,305	390,055	1,033,305	390,055
Total comprehensive income (loss)	\$ 70,488	\$ (13,979,067)	\$ 4,156,055	\$ (92,201,601)
Income (loss) per subordinate voting share (note 5(c)):				
Basic	\$ (0.18)	\$ (2.75)	\$ 0.59	\$ (17.69)
Diluted	(0.18)	(2.75)	0.55	(17.69)
Weighted average number of subordinate voting shares (note 5(c)):				
Basic	5,315,757	5,233,047	5,271,889	5,233,047
Diluted	5,315,757	5,233,047	5,642,069	5,233,047

The accompanying notes are an integral part of these condensed consolidated interim financial statements.
The Company adopted IFRS 15 as described in Note 2(a)(i). Under this adoption, the comparative information is not restated.

OPTIVA INC.

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

Twelve months ended September 30, 2019 and 2018
(Unaudited)

	Share capital		Standby Warrant	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity (deficit)
	Number Outstanding (note 5)	Amount					
Balance, September 30, 2018	5,233,047	\$ 248,680,325	\$ 997,500	\$ 13,386,978	\$ (285,318,990)	\$ (8,071,368)	\$ (30,325,555)
Impact of IFRS 15 Adoption (note 2(a)(i))	–	–	–	–	4,748,057	–	4,748,057
Income for the period	–	–	–	–	3,122,750	–	3,122,750
Defined benefit plan actuarial gain (note 12)	–	–	–	–	–	1,033,305	1,033,305
Issue of shares under RSU (note 5(d)(ii))	82,710	2,212,898	–	(2,212,898)	–	–	–
Equity-settled share-based compensation (note 5(d))	–	–	–	126,845	–	–	126,845
Balance, September 30, 2019	5,315,757	\$ 250,893,223	\$ 997,500	\$ 11,300,925	\$ (277,448,183)	\$ (7,038,063)	\$ (21,294,598)
Balance, September 30, 2017	5,233,047	\$ 248,680,325	\$ 997,500	\$ 11,684,537	\$ (192,727,334)	\$ (8,461,423)	\$ 60,173,605
Loss for the period	–	–	–	–	(92,591,656)	–	(92,591,656)
Defined benefit plan actuarial gain (note 12)	–	–	–	–	–	390,055	390,055
Equity-settled share-based compensation (note 5(d))	–	–	–	1,702,441	–	–	1,702,441
Balance, September 30, 2018	5,233,047	\$ 248,680,325	\$ 997,500	\$ 13,386,978	\$ (285,318,990)	\$ (8,071,368)	\$ (30,325,555)

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

The Company adopted IFRS 15 as described in Note 2(a)(i). Under this adoption, the comparative information is not restated.

OPTIVA INC.

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

	Three months ended September 30,		Twelve months ended September 30,	
	2019	2018	2019	2018
Cash provided by (used in):				
Operating activities:				
Income (loss) for the period	\$ (962,817)	\$ (14,369,122)	\$ 3,122,750	\$ (92,591,656)
Adjustments for:				
Depreciation of property and equipment	8,271	176,169	166,698	2,505,018
Amortization of intangible assets	1,200,761	1,330,559	4,665,736	7,487,034
Finance income	(119,245)	(252,851)	(479,315)	(523,718)
Finance costs (recovery)	1,795,206	4,924,931	4,037,555	2,572,010
Pension	(211,122)	5,584	(164,555)	(595,754)
Income tax expense (note 6)	2,611,925	2,148,562	5,286,945	5,442,284
Unrealized foreign exchange loss (gain)	227,392	2,374,860	(528,510)	3,073,740
Share-based compensation (note 5(d))	450,154	482,849	1,538,558	2,776,008
Change in provisions (note 11)	(4,614,128)	(11,443,067)	(8,579,208)	(6,161,235)
Loss on disposal of property and equipment	15,391	4,815	307,707	421,610
Change in non-cash operating working capital (note 7)	624,852	1,749,060	(5,655,864)	20,708,948
	1,026,640	(12,867,651)	3,718,497	(54,885,711)
Interest paid	(17,281)	(76,573)	(64,789)	(185,333)
Interest received	55,813	294,018	247,985	512,379
Income taxes recovery (paid)	166,375	(1,505,677)	(3,194,711)	(6,452,848)
	1,231,547	(14,155,883)	706,982	(61,011,513)
Financing activities:				
Payment of dividends (note 5(a))	–	(2,000,000)	(2,000,000)	(11,640,670)
		(2,000,000)	(2,000,000)	(11,640,670)
Investing activities:				
Purchase of property and equipment	67,456	–	67,456	(5,538)
Purchase of intangible assets	–	–	–	(9,985)
Decrease in restricted cash (note 10(a))	298,412	70,375	2,423,554	1,045,864
	365,868	70,375	2,491,010	1,030,341
Effect of foreign exchange rate changes on cash and cash equivalents	(497,829)	(2,354,467)	(779,929)	(3,095,039)
Increase (decrease) in cash and cash equivalents	1,099,586	(18,439,975)	418,063	(74,716,881)
Cash and cash equivalents, beginning of period	35,493,340	54,614,838	36,174,863	110,891,744
Cash and cash equivalents, end of period	\$ 36,592,926	\$ 36,174,863	\$ 36,592,926	\$ 36,174,863

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

The Company adopted IFRS 15 as described in Note 2(a)(i). Under this adoption, the comparative information is not restated.

OPTIVA INC.

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

Three and twelve months ended September 30, 2019 and 2018
(Unaudited)

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 155 Wellington Street West, 40th Floor, 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 market-leading portfolio of monetization and subscriber management solutions includes real-time billing, charging, policy, and customer care modules and is available on premise, cloud-based, or as Software-as-a-Service ("SaaS"). With a central focus on driving customer success, Optiva's products power growth and innovation for operators globally. The Company's software products allow communication service providers to monetize various markets, including consumer, enterprise, wholesale, and the expanding SaaS and cloud ecosystems. Optiva's software supports the introduction of new revenue streams and innovative tariffs, payment solutions, data services, and advanced customer care and subscriber self-care functionality. Optiva is the parent of the wholly owned operating subsidiary, 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. On December 12, 2018, the Board of Directors approved a change in the Company's fiscal year end from September 30, to December 31. The Company's next fiscal reporting period will be for the fifteen months ending December 31, 2019. These condensed consolidated interim financial statements for the three and twelve months ended September 30, 2019 were authorized for issuance by the Board of Directors of the Company on November 6, 2019.

(b) Judgments and estimates:

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

OPTIVA INC.

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

Three and twelve months ended September 30, 2019 and 2018
(Unaudited)

1. Basis of preparation (continued):

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended September 30, 2018 (the "2018 annual financial statements"), except as described in note 2(a)(i).

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 2018 annual financial statements, including the notes thereto. Except as discussed below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the 2018 annual financial statements.

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

The Company's accounting policy under IFRS 15, adopted effective October 1, 2018, is as follows:

Revenue Recognition

(a) General:

The Company's revenue is derived primarily from licensing of software products under non-cancellable license agreements, the provision of related professional services (including installation, customization, integration and training) and post-contract customer support ("PCS"). In certain cases, the Company also provides customers with hardware in conjunction with its software offerings. Revenue comprises the amount the Company expects to receive for the sale or license of products or the provision of services in the ordinary course of business, net of discounts and sales taxes. Revenue is recognized upon transfer of control of the promised products or services to the customer. Out-of-pocket expenses that are contractually reimbursable from customers are recorded as gross revenue and expenses.

OPTIVA INC.

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

Three and twelve months ended September 30, 2019 and 2018
(Unaudited)

2. Significant accounting policies (continued):

(b) Arrangements with multiple goods or services:

The Company enters into arrangements that contain separately identifiable components, which may include any combination of software, services, PCS and/or hardware. Where multiple transactions or contracts are linked, such that the individual transactions have no commercial effect on their own, the transactions are evaluated as a combined customer contract for purposes of revenue recognition.

When two or more revenue-generating activities are promised under an arrangement, the arrangement is evaluated to determine the performance obligations for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Where products or services are non-distinct, they are combined with other goods and services until they are distinct and form a single performance obligation.

Where a contract with a customer includes multiple performance obligations, revenue is allocated to each obligation based on its estimated standalone selling price ("SSP").

(c) Software:

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

(d) Software-as-a-service (SaaS):

SaaS allows a customer access to the Company's software on a platform hosted by a third party without taking possession of the software. SaaS is typically offered on a fixed-term basis. Where fees are fixed for the term, revenue is recognized ratably over the term commencing when the customer has the right to

OPTIVA INC.

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

Three and twelve months ended September 30, 2019 and 2018
(Unaudited)

2. Significant accounting policies (continued):

access the platform. Where the fees are based on periodic activity, revenue is recognized as invoiced to the customer at each period.

(e) Services:

Revenue for installation, implementation, training and other services, when not combined with software as a combined performance obligation, is recognized as the services are delivered to the customer. Fixed fee service arrangements are recognized using the percentage-of-completion method based on labour input measures.

(f) Post-contract support:

PCS revenue is recognized ratably over the term of the PCS agreement.

(g) Third party software and hardware:

Third party software and hardware revenue is recognized when control of the product transfers to the customer. When the products are distinct, control typically transfers upon delivery to the customer. Where such products are related to professional services as a combined performance obligation, the percentage-of-completion method is applied.

(h) Unbilled and deferred revenue:

Amounts are generally billable on reaching certain performance milestones, as defined by individual contracts. Revenue in excess of contract billings is recorded as unbilled revenue. Cash proceeds received in advance of performance under contracts are recorded as deferred revenue. Deferred and unbilled revenue is classified as long-term if it relates to performance obligations that are expected to be fulfilled greater than 12 months from period end.

Key sources of estimation uncertainty

In its determination of the amount and timing of revenue to be recognized, management relies on assumptions and estimates supporting its revenue recognition policy. Estimates of the percentage-of-completion for customer projects are based upon current actual and forecasted information and contractual terms.

Under IFRS 15, the Company must estimate the SSP for each distinct performance obligation in order to allocate revenue within a contract. In general, SSP for maintenance and support

OPTIVA INC.

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

Three and twelve months ended September 30, 2019 and 2018
(Unaudited)

2. Significant accounting policies (continued):

bundled in perpetual license and on-premise subscription arrangements is established as a percentage of the license fee as supported by internal analysis of similar vendor contracts and third-party evidence when and if available. SSP for hosting and professional services is established based on observable prices for the same or similar services when sold separately or estimated using a cost-plus margin approach.

Critical judgments in applying accounting policies

A significant portion of the Company's revenue is generated from large and complex customer contracts. Management's judgment is applied regarding, among other aspects, the evaluation of multiple products and services within these arrangements to assess whether deliverables are i) distinct performance obligations capable of being recognized separately or ii) non-distinct and must be combined with other goods and/or services as a combined performance obligation for revenue recognition purposes. In evaluating whether software is separable from services, the Company's judgments include, among other things, assessing the nature and complexity of the services, the degree to which they involve significant customization of the licensed software, and whether other vendors could provide the services.

Impact of Transition to IFRS 15

Effective October 1, 2018 the Company adopted IFRS 15 using the cumulative effect method which requires the Company to recognize the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity as at October 1, 2018. Therefore, the comparative information has not been restated.

Adoption of IFRS 15 has had no impact on the accounting for the Company's professional services, third party goods and services and legacy post-contract support contracts on previously delivered perpetual licenses. Adoption has impacted certain customer arrangements containing software licenses for which the customer has the right to pay for the software as it increases its capacity usage over a fixed term.

The Company has certain license arrangements where the customer has the right to increase its licensed capacity within stated capacity thresholds over a fixed time period, subject to a contractual minimum license requirement. Prior to adopting IFRS 15, revenue was recognized based on customer usage and billed as such incremental capacity was delivered. Under IFRS 15, the Company considers these licenses to be perpetual in nature. The performance obligation containing the license is fully transferred at the time of customer acceptance of the license, and therefore the transaction price allocated to the minimum license commitment is recognized at that time. For these contracts, this results in earlier recognition of license revenue. In addition, where payment terms related to these licenses

OPTIVA INC.

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

Three and twelve months ended September 30, 2019 and 2018
(Unaudited)

2. Significant accounting policies (continued):

extend beyond a period of one year, the Company has determined that a significant financing component exists. The value of these financing components was assessed using an appropriate interest rate and best estimate of the value and timing of the remaining payments over the expected term of the agreement.

Prior to adopting IFRS 15, the Company reported unbilled revenue and deferred revenue balances in its consolidated balance sheet on the basis of the individual performance obligations within each customer arrangement. Under IFRS 15, the status of the contract must be presented on a net basis as either unbilled or deferred revenue to reflect the nature of the net underlying rights and performance obligations at the contract level on the statement of financial position. Where a contract is combined for accounting purposes with one or more other contracts, the net contract balance position must be determined and reported at the aggregate level for all combined contracts.

The Company reviewed the tax implications of adjustments made at adoption and determined that these resulted in an increase in deferred tax liabilities as a result of transferring revenue to the prior period. This increase is fully offset by recognition of previously unrecorded deferred tax assets of equal value and therefore no adjustment is required.

New and expanded annual disclosure requirements on revenue, performance obligations, and contract balances are also expected to be significant and require changes to processes to accumulate and report aggregated data requirements.

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

Three and twelve months ended September 30, 2019 and 2018
(Unaudited)

2. Significant accounting policies (continued):

The following table summarizes the impact on the Company's statement of financial position at October 1, 2018 as a result of adopting IFRS 15:

	As at October 1, 2018		
	Pre-IFRS 15 Adoption	Adjustments	Post-IFRS 15 Adoption
Assets			
Current assets			
Unbilled revenue	\$ 12,908,847	\$ (1,320,995)	\$ 11,587,852
Other assets	59,501,008	(190,934)	59,310,074
Non-current assets			
Long-term unbilled revenue	1,531,062	4,558,431	6,089,493
Deferred income taxes	2,093,716	–	2,093,716
Other assets	54,727,038	–	54,727,038
Total assets	\$ 130,761,671	\$ 3,046,502	\$ 133,808,173
Liabilities and Shareholders' Deficit			
Current liabilities			
Deferred revenue	\$ 13,445,746	\$ (1,701,555)	\$ 11,744,191
Other liabilities	42,556,658	–	42,556,658
Non-current liabilities			
Deferred revenue	1,512,863	–	1,512,863
Deferred income taxes	120,000	–	120,000
Other liabilities	103,451,959	–	103,451,959
Total liabilities	161,087,226	(1,701,555)	159,385,671
Shareholders' deficit			
Other equity	254,993,435	–	254,993,435
Deficit	(285,318,990)	4,748,057	(280,570,933)
Total liabilities and shareholders' deficit	\$ 130,761,671	\$ 3,046,502	\$ 133,808,173

OPTIVA INC.

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

Three and twelve months ended September 30, 2019 and 2018
(Unaudited)

2. Significant accounting policies (continued):

The following table summarizes the impact of adopting IFRS 15 on the Company's condensed consolidated interim financial statements for the three and twelve months ended September 30, 2019:

As at September 30, 2019			
	As reported	Adjustments	Without IFRS 15 Adoption
Assets			
Current assets			
Unbilled revenue	\$ 7,688,534	\$ 7,798,127	\$ 15,486,661
Other assets	54,790,562	(936,208)	53,854,354
Non-current assets			
Long-term unbilled revenue	4,635,765	(4,291,016)	344,749
Deferred income taxes	1,910,935	–	1,910,935
Other assets	47,086,504	–	47,086,504
Total assets	\$ 116,112,300	\$ 2,570,903	\$ 118,683,203
Liabilities and Shareholders' Deficit			
Current liabilities			
Deferred revenue	\$ 10,383,490	\$ 6,877,530	\$ 17,261,020
Other liabilities	27,649,942	–	27,649,942
Non-current liabilities			
Deferred revenue	852,373	267,415	1,119,788
Deferred income taxes	120,000	–	120,000
Other liabilities	98,401,093	–	98,401,093
Total liabilities	137,406,898	7,144,945	144,551,843
Shareholders' deficit			
Other equity	256,153,585	–	256,153,585
Deficit	(277,448,183)	(4,574,042)	(282,022,225)
Total liabilities and shareholders' deficit	\$ 116,112,300	\$ 2,570,903	\$ 118,683,203

OPTIVA INC.

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

Three and twelve months ended September 30, 2019 and 2018
(Unaudited)

2. Significant accounting policies (continued):

	Three Months ended September 30, 2019		
	As reported	Adjustments	Without IFRS 15 Adoption
Revenue			
Support and subscription	\$ 16,595,067	\$ 22,655	\$ 16,617,722
Software licenses, services and other	6,528,991	325,882	6,854,873
	<u>23,124,058</u>	<u>348,537</u>	<u>23,472,595</u>
Expenses	<u>21,474,950</u>	<u>61,365</u>	<u>21,536,315</u>
Income before income taxes	1,649,108	287,172	1,936,280
Income tax expense			
Current	2,565,101	–	2,565,101
Deferred	46,824	–	46,824
Income (loss) for the period	<u>\$ (962,817)</u>	<u>\$ 287,172</u>	<u>\$ (675,645)</u>
Earnings (loss) per share			
Basic	(0.18)	0.05	(0.13)
Diluted	(0.18)	0.05	(0.13)

OPTIVA INC.

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

Three and twelve months ended September 30, 2019 and 2018
(Unaudited)

2. Significant accounting policies (continued):

	Twelve Months ended September 30, 2019		
	As reported	Adjustments	Without IFRS 15 Adoption
Revenue			
Support and subscription	\$ 72,874,763	\$ 37,205	\$ 72,911,968
Software licenses, services and other	27,478,324	338,761	27,817,085
	<u>100,353,087</u>	<u>375,966</u>	<u>100,729,053</u>
Expenses	<u>91,943,392</u>	<u>201,951</u>	<u>92,145,343</u>
Income before income taxes	8,409,695	174,015	8,583,710
Income tax expense			
Current	5,186,867	–	5,186,867
Deferred	100,078	–	100,078
Income for the period	<u>\$ 3,122,750</u>	<u>\$ 174,015</u>	<u>\$ 3,296,765</u>
Earnings per share			
Basic	0.59	0.03	0.62
Diluted	0.55	0.03	0.58

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

Effective October 1, 2018, the Company adopted IFRS 9, which sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This standard simplifies the classification of financial assets as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39, Financial Instruments: recognition and measurement ("IAS 39"). This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39.

All financial assets that are within the scope of IFRS 9 are required to be measured at amortized cost or fair value on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The new standard also includes a new expected credit loss model for calculating impairment on financial assets, replacing the incurred loss model under IAS 39. The new impairment model applies to financial assets at amortized cost and contract assets. Furthermore, IFRS 9 also

OPTIVA INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)
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Three and twelve months ended September 30, 2019 and 2018
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2. Significant accounting policies (continued):

introduces new hedge accounting requirements aligning more closely with an entity's risk management objectives and strategies.

Cash and cash equivalents, restricted cash, trade and other receivables that were classified as loans and receivables under IAS 39, respectively, are now classified as financial assets measured at amortized cost. Trade payables, accrued liabilities provisions, long-term liabilities and preferred shares were classified as other financial liabilities under IAS 39, respectively, are now classified as financial liabilities measured at amortized cost. Series A warrant that was classified as financial liability at fair value through profit or loss under IAS 39, continues to be recognized as a financial liability at fair value through profit or loss under IFRS 9. There is no change to the initial measurement of the Company's financial assets. The adoption of IFRS 9 did not have any material impact on the condensed consolidated interim financial statements.

(b) Basis of consolidation:

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

(c) Functional currency:

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

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

(d) New accounting pronouncements:

The IASB has issued new standards and amendments to existing standards. These changes in accounting are not yet effective at September 30, 2019 and could have an impact on future periods.

OPTIVA INC.

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

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

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

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

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company will adopt the standard effective January 1, 2020. However, management has assessed the extent of the impact of adoption of this standard and interpretations on the consolidated financial statements of the Company and does not expect them to have any significant impacts.

3. Cash and cash equivalents:

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

OPTIVA INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)
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4. Trade accounts and other receivables:

	September 30, 2019	September 30, 2018
Trade receivables, net of allowance for doubtful accounts	\$ 8,680,353	\$ 13,093,578
Other receivables (a)	2,003,957	1,860,713
	<u>\$ 10,684,310</u>	<u>\$ 14,954,291</u>

(a) At September 30, 2019 and September 30, 2018, the other receivables balance mainly includes amounts relating to indirect taxes receivable.

5. Share Capital:

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

On January 26, 2017, the Company issued 800,000 Series A Preferred Shares (the "Preferred Shares") of the Company and a warrant ("the "Series A Warrant") (collectively the "Financing Transaction") to ESW Holdings, Inc. (formerly known as Wave Systems Corp.) (the "Investor"), an affiliate of ESW Capital LLC ("ESW Capital"). The Investor, as the holder of the Preferred Shares, is entitled to elect a number of directors that will be a majority of the Board of Directors, with the holders of the Subordinate Voting Shares being entitled to elect the balance of the directors, which resulted in the Subordinate Voting Shares becoming "restricted securities" under applicable securities laws and the TSX Company Manual, on January 26, 2017. The Preferred Shares are redeemable any time at the option of the Company and redeemable at the option of the Investor any time after 10 years of issuance. The holders of the Preferred Shares are entitled to dividends, payable quarterly at the rate of 10% per annum of the issue price. Provided that to the extent such dividends are not declared and paid, dividends shall accrue and compound monthly at the rate of 10%.

The Preferred Shares will be accreted to their face amount of \$80,000,000 plus accrued cumulative dividends over the 10-year maturity period using the effective interest rate method. During the three months ended September 30, 2019, accretion expense, amortization of transaction costs and accrued dividends on the Preferred Shares amounted to \$2,609,306 (2018 - \$2,429,079). During the twelve months ended September 30, 2019, accretion expense, amortization of transaction costs and accrued dividends on the Preferred Shares

OPTIVA INC.

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

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5. Share Capital (continued):

amounted to \$10,068,714 (2018 - \$9,832,175). These charges are included in finance costs in the condensed consolidated interim statements of comprehensive income (loss). During the three months ended September 30, 2019, there were no dividends paid (2018 – cumulative dividends of \$2,000,000 were paid). During the twelve months ended September 30, 2019, cumulative dividends in amount of \$2,000,000 were paid (2018 - \$11,640,670). The amount of accrued dividends have been included in the Preferred Shares on the condensed consolidated interim statements of financial position.

(b) Series A Warrant and Standby Warrant:

As part of the Financing Transaction, the Company issued a Series A Warrant that entitles the Investor to subscribe for 925,712 Subordinate Voting Shares at \$34.00 per share. The Series A Warrant is being classified as a liability because it contains an adjustment provision if the Company issues Subordinate Voting Shares or securities exchangeable for or convertible into Subordinate Voting Shares at a price per share less than the Series A Warrant exercise price. The decrease in fair value of the warrant liability of \$925,712 during the three months ended September 30, 2019 (2018 – increase of \$2,314,279) is recorded in finance costs (recovery) in the condensed consolidated interim statements of comprehensive income (loss). The decrease in fair value of the warrant liability of \$6,479,983 during the twelve months ended September 30, 2019 (2018 – \$7,868,549) is recorded in finance costs (recovery) in the condensed consolidated interim statements of comprehensive income (loss). Any unexercised Series A Warrant expires on January 25, 2027. No Series A Warrant was exercised as at September 30, 2019 (September 30, 2018 – none).

Upon closing of a rights offering of its Subordinate Voting Shares on September 6, 2017, the Company issued a warrant to the Investor that entitles the Investor to subscribe for 50,000 Subordinate Voting Shares at \$25.00 per share (the “Standby Warrant”). The fair value of the Standby Warrant, classified as equity upon issuance at September 6, 2017, was \$997,500. The Standby Warrant expires on September 5, 2027. No warrants were exercised as at September 30, 2019 (September 30, 2018 – none).

OPTIVA INC.

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

Three and twelve months ended September 30, 2019 and 2018
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5. Share Capital (continued):

(c) Income (Loss) per share:

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

	Three months ended September 30, 2019		Twelve months ended September 30, 2018	
Basic weighted average number of common shares outstanding	5,315,757	5,233,047	5,271,889	5,233,047
Effect of dilutive securities	–	–	370,180	–
Diluted weighted average number of common shares outstanding	5,315,757	5,233,047	5,642,069	5,233,047

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

Due to the losses for the three and twelve months ended September 30, 2018, 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 twelve months ended September 30, 2018 were 51,775. The Series A Warrant and the Standby Warrant are equivalent to 925,712 and 50,000 Subordinate Voting Shares respectively, all of which were excluded from the calculation for the three and twelve months ended September 30, 2018.

OPTIVA INC.

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

Three and twelve months ended September 30, 2019 and 2018
(Unaudited)

5. Share Capital (continued):

(d) Share-based compensation:

The share-based compensation relating to the Company's stock options, deferred share unit plan and under the share unit plan during the three and twelve months ended September 30, 2019 was an expense of \$450,154 and \$1,538,558 (2018 – \$482,849 and \$2,776,008), respectively.

(i) Stock options:

The table below is a summary of the stock option plans for the twelve months ended September 30, 2019:

	CAD options	
	Number of stock options	Weighted average exercise price per share (CAD)
Outstanding, September 30, 2018	51,775	\$ 147.94
Forfeited	(23,884)	93.71
Outstanding, September 30, 2019	27,891	\$ 194.37

The share-based compensation relating to the Company's stock options during the twelve months ended September 30, 2019 was a recovery of \$40,977 (2018 – recovery of \$250,095).

OPTIVA INC.

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

Three and twelve months ended September 30, 2019 and 2018
(Unaudited)

5. 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 twelve months ended September 30, 2019:

RSU & PSU	
Outstanding, September 30, 2018	108,418
Settled in cash	(18,930)
Settled in shares	(82,710)
Forfeited	(5,845)
Granted	65,971
Outstanding, September 30, 2019	66,904

There were 82,710 shares issued from the treasury during the twelve months ended September 30, 2019 (2018 – nil). The share-based compensation relating to the Company's equity-settled share unit plan during the twelve months ended September 30, 2019 was an expense of \$756,116 (2018 - \$2,335,336). There were 65,971 shares granted under the share unit plan in the twelve months ended September 30, 2019 that were accounted as cash-settled compensation. The share-based compensation relating to the Company's cash-settled share unit plan during the twelve months ended September 30, 2019 was an expense of \$335,646 (2018 - \$nil). Cash paid on vesting of the share units granted prior to October 1, 2018 was in amount of \$588,294 (2018 - \$382,800), reducing the contributed surplus.

(iii) Deferred share unit plan:

During the twelve months ended September 30, 2019, there were 16,805 deferred share units ("DSUs") granted (September 30, 2018 – 14,200), 4,252 DSUs were exercised and no DSUs were cancelled or forfeited (September 30, 2018 – 1,522 exercised, and nil cancelled or forfeited). The number of DSUs outstanding at September 30, 2019 is 45,937 (September 30, 2018 – 33,385). During the twelve months ended September 30, 2019, the Company recorded compensation cost of \$487,773 (2018 - \$690,767).

OPTIVA INC.

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

Three and twelve months ended September 30, 2019 and 2018
(Unaudited)

6. Income tax expense:

The Company's current income tax expense for the twelve months ended September 30, 2019 mainly includes \$2,394,567 (2018 - \$2,210,779) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$2,792,300 (2018 - \$3,181,101) of foreign withholding taxes. The Company's deferred tax expense of \$100,078 (2018 – expense of \$50,404) consists primarily of changes in temporary differences recognized during the current period.

7. Change in non-cash operating working capital:

The change in non-cash working capital for the three and twelve months ended September 30, 2019 and 2018 is as follows:

	Three months ended September 30,		Twelve months ended September 30,	
	2019	2018	2019	2018
Trade accounts and other receivables	\$ 2,318,705	\$ 6,236,110	\$ 4,310,377	\$ 11,386,553
Unbilled revenue	2,475,183	1,173,928	5,353,046	3,488,496
Prepaid expenses	533,536	43,176	(32,289)	372,782
Other assets	20,057	140,513	51,521	1,100,451
Inventories	92,923	(16,419)	363,468	(9,853)
Trade payables	(5,375,677)	8,557,320	(11,421,440)	10,339,067
Accrued liabilities and other liabilities	2,837,407	(10,243,264)	(1,794,512)	(5,051,898)
Income taxes receivable/payable	(320,204)	177,201	(464,844)	591,770
Deferred revenue	(1,957,078)	(4,319,505)	(2,021,191)	(1,508,420)
	\$ 624,852	\$ 1,749,060	\$ (5,655,864)	\$ 20,708,948

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

OPTIVA INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)
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8. Financial instruments and capital management (continued):

- Level 3 - inputs for the financial asset or financial liability that are not based on observable market data (i.e., unobservable inputs that represent the Company's own judgments about what assumptions market place participants would use in pricing the asset or liability developed, based on the best information available in the circumstances).

In the table below, the Company has segregated all financial assets and financial liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy, based on the inputs used to determine the fair value at the measurement date.

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

	September 30, 2019		September 30, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Warrant classified as liability (Level 2)	15,274,241	15,274,241	21,754,223	21,754,223
Preferred Shares (Level 2)	65,931,132	65,931,132	57,862,418	57,862,418

There were no transfers of financial assets between levels during the twelve months ended September 30, 2019 and 2018.

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, as described in note 2(a)(ii).

The carrying values of cash and cash equivalents, trade accounts and other receivables, trade payables, accrued liabilities, provisions and other liabilities approximate fair values because of the short-term nature of these financial instruments.

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

OPTIVA INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)
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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 twelve months ended September 30 is as follows:

	Three months ended September 30,		Twelve months ended September 30,	
	2019	2018	2019	2018
Europe, Middle East and Africa	\$ 13,723,325	\$ 12,707,066	\$ 52,956,433	\$ 58,717,785
North America, Latin America and Caribbean	4,817,181	6,054,956	23,116,164	25,705,626
Asia and Pacific Rim	4,583,552	8,535,570	24,280,490	37,203,293
	\$ 23,124,058	\$ 27,297,592	\$ 100,353,087	\$ 121,626,704

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

	Three months ended September 30,		Twelve months ended September 30,	
	2019	2018	2019	2018
Revenue by type:				
Support and subscription	\$ 16,595,067	\$ 19,794,586	\$ 72,874,763	\$ 84,747,291
Software and services	6,483,442	7,199,712	26,494,771	33,552,241
Third-party software and hardware	45,549	303,294	983,553	3,327,172
	\$ 23,124,058	\$ 27,297,592	\$ 100,353,087	\$ 121,626,704

OPTIVA INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)
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Three and twelve months ended September 30, 2019 and 2018
(Unaudited)

10. Restricted cash, guarantees and contingent liabilities:

(a) Restricted cash:

As at September 30, 2019, the Company had \$1,084,205 (September 30, 2018 - \$3,507,759) cash allocated for planned payments to early retirees and lease guarantees, which are secured by restricted cash. The restricted cash is shown separately in the condensed consolidated interim statements of financial position.

(b) Guarantees and contingent liabilities:

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

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 at September 30, 2018 and September 30, 2019 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.

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

11. Provisions:

	Restructuring (a)	Other (b)	Total
Balance, September 30, 2018	\$ 9,356,680	\$ 3,960,528	\$ 13,317,208
Additions	1,962,724	740,000	2,702,724
Cash payments	(5,017,842)	(294,102)	(5,311,944)
Release of provision	(3,781,499)	(1,965,418)	(5,746,917)
Foreign exchange	(223,071)	–	(223,071)
Balance, September 30, 2019	\$ 2,296,992	2,441,008	\$ 4,738,000
Current			\$ 4,531,044
Non-current			206,956
Balance, September 30, 2019			\$ 4,738,000
Current			\$ 7,655,199
Non-current			5,662,009
Balance, September 30, 2018			\$ 13,317,208

- (a) In February 2017, under the new strategic plan, the Company announced a corporate restructuring plan that is expected to be completed in fiscal 2019. The restructuring involves further reduction in headcount, location reorganization including closure of certain facilities and entity simplification. In November 2017, the Company finalized a restructuring plan to reduce approximately 530 employees globally and vacate premises in 18 locations.

During the three months and twelve months ended September 30, 2019, restructuring charges related to employee and lease terminations of \$71,767 and \$1,962,724 respectively (2018 - \$991,769 and \$51,775,138) were recorded. During the twelve months ended September 30, 2019, \$3,781,499 (2018 – nil) of restructuring provision was released, as full and final settlements with claimants were made.

For the twelve months ended September 30, 2019, an amount of \$5,017,842 has been paid and an additional amount of \$2,090,036 is estimated as payable within one year. The balance of the restructuring provision of \$206,956, classified as long-term, is payable over two years and has been discounted to its present value.

The recognition of restructuring charges requires management to make certain judgments and estimates regarding the nature, timing and amounts associated with the restructuring actions.

OPTIVA INC.

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

Management's significant assumptions included the timing and number of employees to be terminated and the measurement of termination costs. The Company developed a detailed plan and has recorded termination costs for employees informed of their termination and costs related to closure of certain facilities and entity simplification. At the end of each reporting period, management evaluates the appropriateness of the restructuring charges and provision balances. Further adjustments may be required to reflect actual experience, terminated employee claims as described in note 10(b) or changes in estimates.

- (b) The balance at September 30, 2019 in other provision includes an intellectual property claim, terminated contracts and loss provisions related to certain customer contracts where it was probable that the total costs to complete these contracts will exceed the contract revenue.

During the twelve months ended September 30, 2019, the Company amended one of its existing customer loss contracts and settled a disputed contract termination. On review of the estimated costs to complete the revised scope of the customer contract, the Company determined the contract revenue was expected to exceed the contract costs and hence the provision was reversed. The reversal of the contract loss provision, and the subsequent settlement of a disputed contract termination, aggregating to \$1,965,418, has been recorded as a recovery in the condensed consolidated interim statements of comprehensive income (loss) where the provision was initially recorded.

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 exceed the Company's best estimate of the provision at September 30, 2019.

12. Pension and other long-term employment benefit plans

In Germany, there are a number of pensions and post-employment benefit plans, including a cash balance plan that provides benefits on retirement, disability and death, a salary sacrifice plan, as well as, other post-employment benefit schemes. The plan assets are held in a separate Contractual Trust Arrangement with Deutsche Pensions Treuhand GmbH. The German pension plans operate under the legal framework of the German Company Pension Law and under the German Labour Law.

The Company has assessed the valuation for pension and non-pension post-employment benefits. Pension fund assets are invested primarily in fixed income and equity securities. The Company's pension funds do not invest directly in the Company's shares, but may invest indirectly, as a result of the inclusion of the Company's shares in certain market investment funds. These

OPTIVA INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)
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12. Pension and other long-term employment benefit plans (continued):

plan assets are maintained in segregated accounts by a custodian that is independent from the fund managers. The Company believes that the counterparty credit risk is low.

During the quarter ended September 30, 2019, the German pension plan were remeasured under the projected unit credit method. The resulting remeasurement resulted in a gain to other comprehensive income of \$1,033,305 (2018 - \$390,055). The determination of the value of the liabilities for defined benefit plans is based upon statistical and actuarial valuations. In particular, the present value of the defined benefit obligation is driven by financial variables (such as, the discount rates or future increases in salaries) and demographic variables (such as, mortality and employee turnover). The actuarial assumptions may differ significantly from the actual circumstances and could lead to different cash flows. The following are the principal actuarial assumptions:

	2019	2018
	Germany	Germany
Discount rate	0.90%	2.10%
Future salary increases	0.00%	2.75%
Future pension increases	0.00%	2.00%

Assumptions regarding future mortality are based on published statistics and mortality tables based on statistical information available in the various countries. In Germany, the Heubeck RT 2018G mortality tables were used. The calculation of the pension liabilities at September 30, 2019 and 2018 in Germany is based on a discount rate determined using the Mercer Yield Curve approach for an average duration of 15 years.

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

In September 2017, the Company entered into long term service agreements with Crossover Markets Inc. ("Crossover") and DevFactory FZ-LLC ("DevFactory"), (collectively the "Service Agreements") who provide cross functional and specialized technical services. Each of Crossover and DevFactory is an affiliate of ESW Capital. The Service Agreements can be terminated by either party with 30 days written notice. The Service Agreements were negotiated and approved by the Special Committee of the Board of Directors. The contracted rates with these related parties are priced as agreed to by the parties and are to be settled in cash on normal payment terms upon receipt of invoices. The Company has not offered any security to these vendors.

Crossover provides Optiva with access to skilled temporary employees. These resources provide a variety of services, including HR, operations, finance, and support functions, at any global location for pricing agreed to in the Crossover service agreement. During the three and twelve months ended September 30, 2019, the Company has incurred \$5,025,075 and \$22,834,961 of costs associated with services provided by Crossover (2018 – \$6,699,486 and \$27,965,903). The costs have been recorded in cost of revenue or operating expenses in accordance with the department of the contract resource in the condensed consolidated interim statements of comprehensive income (loss).

DevFactory provides certain technology services to Optiva as per agreed statements of work. Effective June 30, 2019, the Service Agreement between Optiva and DevFactory was assigned to GTeam FZ-LLC as part of 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 twelve months ended September 30, 2019, the Company has incurred \$6,261,787 and \$19,476,354 of costs associated with services provided by DevFactory (2018 – \$7,818,999 and \$31,667,593). 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).

Amounts owing to Crossover and DevFactory as of September 30, 2019 aggregated to \$13,617,228 (September 30, 2018 - \$18,755,628) and are included in both trade payables and accrued liabilities in the condensed consolidated interim statement of financial position at the respective period ends.

In the normal course of business, the Company retained certain contractors with specialized skills and knowledge to assist the Company in its operations. These contractors are retained from other entities controlled by ESW Capital. The costs of these contractors are nil and \$138,773 for the three and twelve months ended September 30, 2019 respectively (2018 – recovery of \$6,731 and

OPTIVA INC.

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

Three and twelve months ended September 30, 2019 and 2018
(Unaudited)

13. Related Party Transactions (continued):

expense of \$247,672) and have been recorded in general and administrative expense in the condensed consolidated interim statements of comprehensive income (loss). Amounts owing to these entities as of September 30, 2019 aggregated to nil (September 30, 2018 - \$340,699). They are included in accrued liabilities in the condensed consolidated interim statement of financial position at September 30, 2018.