

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 2020

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-35592

COUNTERPATH CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or
organization)

20-0004161

(IRS Employer Identification No.)

Suite 300, One Bentall Centre, 505 Burrard Street, Vancouver, British Columbia, Canada V7X 1M3

(Address, including zip code, of principal executive offices)

(604) 320-3344

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock, par value \$0.001

Trading Symbol(s)
CPAH

Name of each exchange on which registered
The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Non-accelerated filer ☒

Accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
6,411,828 shares of common stock issued and outstanding as of September 4, 2020.

COUNTERPATH CORPORATION
JULY 31, 2020 QUARTERLY REPORT ON FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

It is the opinion of management that the interim consolidated financial statements for the quarter ended July 31, 2020 include all adjustments necessary in order to ensure that the interim consolidated financial statements are not misleading.

In the interim consolidated financial statements for the quarter ended July 31, 2020, all amounts are expressed in United States dollars, unless otherwise indicated. The interim consolidated financial statements for the quarter ended July 31, 2020 are prepared in accordance with generally accepted accounting principles in the United States of America.

COUNTERPATH CORPORATION
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July 31, 2020
(Unaudited)
(Stated in U.S. Dollars)

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COUNTERPATH CORPORATION
INTERIM CONSOLIDATED BALANCE SHEETS
(Stated in U.S. dollars, except number of shares)
(Unaudited)

	<u>July 31, 2020</u>	<u>April 30, 2020</u>
Assets		
Current assets:		
Cash	\$ 2,674,216	\$ 2,433,266
Accounts receivable (net of allowance for doubtful accounts of \$377,514 (2020 - \$317,230))	1,966,705	2,553,714
Deferred sales commission costs - current - Note 4	128,279	129,946
Prepaid expenses and other current assets	297,561	326,921
Derivative assets - Note 5	26,398	6,381
Total current assets	<u>5,093,159</u>	<u>5,450,228</u>
Deposits	85,623	82,039
Deferred sales commission costs - non-current - Note 4	79,787	92,644
Equipment, net	110,932	111,672
Operating lease right-of-use assets - Note 12	1,337,974	1,370,035
Goodwill	6,552,000	6,323,390
Intangibles and other assets	227,527	225,945
Total Assets	<u>\$ 13,487,002</u>	<u>\$ 13,655,953</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,259,614	\$ 2,231,777
Loan payable - Note 8	209,035	-
Related party loan payable - current - Note 7	2,000,000	4,000,000
Derivative liability - Note 5	-	140,299
Unearned revenue	3,942,399	3,782,400
Operating lease liabilities - current - Note 12	307,185	293,322
Accrued warranty	50,344	51,545
Total current liabilities	<u>8,768,577</u>	<u>10,499,343</u>
Operating lease liabilities - non-current - Note 12	1,061,573	1,102,530
Unrecognized tax liability	9,763	9,763
Total liabilities	<u>9,839,913</u>	<u>11,611,636</u>
Stockholders' equity:		
Preferred stock, \$0.001 par value		
Authorized: 100,000,000		
Issued and outstanding: July 31, 2020 - nil; April 30, 2020 - nil	-	-
Common stock, \$0.001 par value - Note 9		
Authorized: 10,000,000		
Issued:		
July 31, 2020 - 6,411,063; April 30, 2020 - 6,103,612	6,411	6,104
Additional paid-in capital	77,133,268	76,066,930
Accumulated deficit - Note 2	(69,653,042)	(69,677,656)
Accumulated other comprehensive loss - currency translation adjustment	(3,839,548)	(4,351,061)
Total stockholders' equity	<u>3,647,089</u>	<u>2,044,317</u>
Liabilities and Stockholders' Equity	<u>\$ 13,487,002</u>	<u>\$ 13,655,953</u>
Commitments - Note 13		
Contingencies - Note 14		
Going concern - Note 2		

See accompanying notes to the interim consolidated financial statements

COUNTERPATH CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(Stated in U.S. dollars, except number of shares)
(Unaudited)

	Three Months Ended July 31,	
	2020	2019
Revenue - Note 11:		
Software	\$ 829,685	\$ 1,009,824
Subscription, support and maintenance	2,082,799	1,421,862
Professional services and other	516,722	141,982
Total revenue	<u>3,429,206</u>	<u>2,573,668</u>
Operating expenses:		
Cost of sales	555,889	511,360
Sales and marketing	852,974	970,593
Research and development	1,030,136	1,131,848
General and administrative	709,920	644,713
Total operating expenses	<u>3,148,919</u>	<u>3,258,514</u>
Income (loss) from operations	280,287	(684,846)
Interest and other (expense) income, net:		
Interest expense, net	(71,205)	(70,573)
Foreign exchange loss	(346,394)	(174,890)
Change in fair value of derivative instruments	161,926	586
Total interest and other (expense) income, net	<u>(255,673)</u>	<u>(244,877)</u>
Net income (loss) for the period	<u>\$ 24,614</u>	<u>\$ (929,723)</u>
Net income (loss) per share - Note 15:		
Basic	\$ 0.00	\$ (0.16)
Diluted	\$ 0.00	\$ (0.16)
Weighted average common shares outstanding:		
Basic	6,273,833	5,952,122
Diluted	7,224,184	5,952,122

See accompanying notes to the interim consolidated financial statements

COUNTERPATH CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Stated in U.S. dollars, except number of shares)
(Unaudited)

	Three Months Ended July 31,	
	2020	2019
Net income (loss) for the period	\$ 24,614	\$ (929,723)
Other comprehensive income:		
Foreign currency translation adjustments	511,513	302,543
Comprehensive income (loss)	<u>\$ 536,127</u>	<u>\$ (627,180)</u>

See accompanying notes to the interim consolidated financial statements

COUNTERPATH CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in U.S. dollars, except number of shares)
(Unaudited)

	Three Months Ended July 31,	
	2020	2019
Cash flows used in operating activities:		
Net income (loss) for the period	\$ 24,614	\$ (929,723)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Bad debt expense	66,766	39,321
Deferred lease inducements	-	(4,118)
Depreciation and amortization	20,878	19,982
Operating lease expense - Note 12	110,771	138,277
Unrealized foreign exchange loss	270,520	176,916
Stock-based compensation - Note 9	70,183	68,341
Change in fair value of derivative instruments	(165,619)	(643)
Changes in assets and liabilities:		
Accounts payable and accrued liabilities	(1,272)	(172,266)
Accounts receivable	520,243	165,235
Deferred sales commission costs - Note 4	8,734	(12,820)
Prepaid expenses and other current assets	26,946	50,441
Accrued warranty	(1,201)	(3,462)
Operating lease liabilities - Note 12	(106,764)	(127,420)
Operating lease deposits	(912)	-
Unearned revenue - Note 4	159,999	(40,216)
Other current liabilities	-	1,647
Net cash provided by (used in) operating activities	<u>1,003,886</u>	<u>(630,508)</u>
Cash flows used in investing activities:		
Purchases of equipment	(17,038)	(17,140)
Purchases of intangibles	(2,580)	(2,713)
Net cash used in investing activities	<u>(19,618)</u>	<u>(19,853)</u>
Cash flows provided by financing activities:		
Net proceeds from issuance of common stock	996,462	5,263
Proceeds received from loan payable - Note 8	209,035	-
Repayment of related party loan payable - Note 7	(2,000,000)	-
Net cash provided by financing activities	<u>(794,503)</u>	<u>5,263</u>
Foreign exchange effect on cash	<u>51,185</u>	<u>6,593</u>
Increase (decrease) in cash	240,950	(638,505)
Cash, beginning of the period	2,433,266	1,862,458
Cash, end of the period	<u>\$ 2,674,216</u>	<u>\$ 1,223,953</u>
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	\$ -	\$ 40,110
Taxes	\$ -	\$ -

See accompanying notes to the interim consolidated financial statements

COUNTERPATH CORPORATION
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
for the Three Months Ended July 31, 2020
(Stated in U.S. dollars, except number of shares)
(Unaudited)

	Common Shares		Treasury Shares		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Number of Shares	Par Value	Number of Shares	Par Value				
Balance, April 30, 2019	5,950,246	\$ 5,950	-	\$ -	\$ 75,667,533	\$ (68,581,091)	\$ (3,866,495)	\$ 3,225,897
Stock-based compensation - Note 9	-	-	-	-	68,341	-	-	68,341
Shares issued - Note 9:								
Employee share purchase program	3,134	3	-	-	5,260	-	-	5,263
Net loss for the period	-	-	-	-	-	(929,723)	-	(929,723)
Foreign currency translation adjustment	-	-	-	-	-	-	302,543	302,543
Balance, July 31, 2019	<u>5,953,380</u>	<u>\$ 5,953</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 75,741,134</u>	<u>\$ (69,510,814)</u>	<u>\$ (3,563,952)</u>	<u>\$ 2,672,321</u>
Balance, April 30, 2020	6,103,612	\$ 6,104	-	\$ -	\$ 76,066,930	\$ (69,677,656)	\$ (4,351,061)	\$ 2,044,317
Stock-based compensation - Note 9	-	-	-	-	70,183	-	-	70,183
Shares issued - Note 9:								
Private placement - Note 10	284,902	285	-	-	999,721	-	-	1,000,006
Private placement costs	-	-	-	-	(6,692)	-	-	(6,692)
Employee share purchase plan	1,286	1	-	-	4,607	-	-	4,608
Exercise of stock options	21,263	21	-	-	(1,481)	-	-	(1,460)
Net income for the period	-	-	-	-	-	24,614	-	24,614
Foreign currency translation adjustment	-	-	-	-	-	-	511,513	511,513
Balance, July 31, 2020	<u>6,411,063</u>	<u>\$ 6,411</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 77,133,268</u>	<u>\$ (69,653,042)</u>	<u>\$ (3,839,548)</u>	<u>\$ 3,647,089</u>

See accompanying notes to the interim consolidated financial statements

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2020
(Unaudited)

Note 1 **Nature of Operations**

CounterPath Corporation (the "Company") was incorporated in the State of Nevada on April 18, 2003. The Company focuses on the design, development, marketing and sales of software applications and related services, such as pre and post sales technical support and customization services, that enable enterprises and telecommunication service providers to deliver Unified Communications ("UC") services, including voice, video, messaging and collaboration functionality, over their Internet Protocol, or IP, based networks. The Company's products are sold either directly or through channel partners, to small, medium and large businesses ("enterprises") and telecom service providers, in North America, and in Europe, Middle East, Africa (collectively "EMEA"), Asia Pacific and Latin America.

COVID-19 Pandemic

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus, COVID-19 originating in Wuhan, China and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this Quarterly Report on Form 10-Q. As such, it is uncertain as to the full magnitude that the pandemic will have on the Company's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation and its impact on the Company's financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Company is not able to estimate the effects that the COVID-19 outbreak will have on its results of operations, financial condition, or liquidity for fiscal year 2021. As of the date of this Quarterly Report on Form 10-Q the Company has not experienced meaningful delays in securing new customers and related revenues, significant cancellations of existing contracts, or meaningful delays in payments from existing customers, however, the longer this pandemic continues there may be additional impacts. Although the Company cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have a material adverse effect on the Company's results of future operations, financial position, liquidity, and capital resources, and those of the third parties on which Company's relies in fiscal year 2021.

Note 2 **Basis of Presentation and Principles of Consolidation**

The accompanying interim consolidated financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America ("U.S. GAAP") and are stated in U.S. dollars, except where otherwise disclosed.

These interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, CounterPath Technologies Inc., a company existing under the laws of the province of British Columbia, Canada, BridgePort Networks, Inc. ("BridgePort"), a company incorporated under the laws of the state of Delaware and CounterPath LLC, a company formed on August 27, 2018, under the laws of the state of Delaware. The results of NewHeights Software Corporation ("NewHeights"), which subsequently was amalgamated with another subsidiary to become CounterPath Technologies Inc., are included from August 2, 2007, the date of acquisition. The results of FirstHand Technologies Inc. ("FirstHand"), which subsequently was amalgamated with CounterPath Technologies Inc., and BridgePort are included from February 1, 2008, the date of acquisition. All inter-company transactions and balances have been eliminated.

These interim consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to realize its assets and discharge its liabilities and commitments in the normal course of business.

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2020
(Unaudited)

Going Concern

The Company has experienced recurring losses and has an accumulated deficit of \$69,653,042 as of July 31, 2020, as a result of revenues being historically lower than expenses, resulting from a number of factors including its buildout of a cloud based subscription platform concurrent with the change of its licensing model to subscription based licensing and has not reached profitable operations on a consistent basis. However, during the quarter ended July 31, 2020, revenue has increased by approximately 33%, compared to the quarter ended July 31, 2019. It is uncertain whether the Company would have sufficient cash flows to meet its current obligations to repay the related party loan payable of \$2,000,000, which is due on April 11, 2021. Further, due to the recent and ongoing outbreak of COVID-19, the spread of COVID-19 has severely impacted many economies around the world, including those in which the Company's customers operate. Management has taken steps to help mitigate any potential negative impact on operations including having reduced operating costs and obtaining financial assistance made available through the U.S. government through the Paycheck Protection Program. However, the Company is unable to determine the future impact on its financial position and operating results. Together, these factors raise substantial doubt about the Company's ability to continue operating as a going concern within one year of the date of issuance of the interim consolidated financial statements.

To alleviate this situation, the Company has plans in place to improve its financial position and liquidity, while executing on its growth strategy, by managing and or reducing costs that are not expected to have an adverse impact on the ability to generate cash flows, as the transition to its software as a service platform and subscription licensing continues. The Company has historically been able to manage liquidity requirements through cost management and cost reduction measures, supplemented with raising additional financing. If the Company is unable to maintain sufficient cash flows, the Company will not be able to meet its present obligations.

The Company has taken steps to obtain financial assistance made available from the U.S. government to help mitigate the impact of COVID-19 on its operations. On May 1, 2020, the Company, through its subsidiary, CounterPath LLC, entered into a promissory note with Bank of America for a term loan in the amount of \$209,035 (the "Loan"). The Loan is made pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). See *Note 8 - Loan Payable* for more information. In addition, under the existing related party loan agreement, as of July 31, 2020, the unused portion of the loan principal was \$3,000,000. See *Note 7 - Related Party Loan Payable* for more information.

Interim Reporting

The information presented in the accompanying interim consolidated financial statements is without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in accordance with generally accepted accounting principles in the United States of America. Except where noted, these interim consolidated financial statements follow the same accounting policies and methods of their application as the Company's April 30, 2020 annual audited consolidated financial statements. All adjustments are of a normal recurring nature. It is suggested that these interim consolidated financial statements be read in conjunction with the Company's April 30, 2020 annual audited consolidated financial statements.

Operating results for the three months ended July 31, 2020 are not necessarily indicative of the results that can be expected for the year ending April 30, 2021.

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2020
(Unaudited)

Note 3 **Summary of Significant Accounting Policies**

The significant accounting policies used in preparation of these interim consolidated financial statements are disclosed in our Annual Report on Form 10-K for the fiscal year ended April 30, 2020 filed with the Securities Exchange Commission on July 20, 2020, and there have been no changes to the Company's significant accounting policies during the three months ended July 31, 2020. All amounts and disclosures set forth herein are in compliance with these standards.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and accounts receivable. The Company has exposure to credit risk to the extent cash balances exceed amounts covered by federal deposit insurance; however, the Company believes that its credit risk on cash balances is immaterial. The Company is also subject to concentrations of credit risk in its accounts receivable. The Company monitors and actively manages its receivables, and from time to time will insure certain receivables with higher credit risk and may require collateral or other securities to support its accounts receivable.

During the three months ended July 31, 2020 and 2019, there were no significant customers who accounted for more than 10% of total revenues.

The table below presents significant customers who accounted for greater than 10% of total accounts receivable as of July 31, 2020 and April 30, 2020:

	July 31, 2020	April 30, 2020
Customer A	13%	-%
Customer B	-%	10%

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are presented net of an allowance for doubtful accounts.

	July 31, 2020	April 30, 2020
Balance of allowance for doubtful accounts, beginning of period	\$ 317,230	\$ 619,514
Bad debt provision	73,684	266,043
Recoveries	-	(115,997)
Write-off of receivables	(13,400)	(452,330)
Balance of allowance for doubtful accounts, end of period	<u>\$ 377,514</u>	<u>\$ 317,230</u>

The Company determines the allowance for doubtful accounts by considering a number of factors, including the length of time the accounts receivable are beyond the contractual payment terms, previous loss history, and the customer's current ability to pay its obligation. When the Company becomes aware of a specific customer's inability to meet its financial obligations to the Company, the Company records a charge to the allowance to reduce the customer's related accounts. The Company records an allowance for doubtful accounts at the end of each reporting period based on 2% of amounts invoiced or the aggregate specified customer accounts, whichever is higher.

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2020
(Unaudited)

Leases

The Company determines if an arrangement is a lease at contract inception by evaluating if the contract conveys the right to control the use of an identified asset during the period of use. A right-of-use ("ROU") asset represents the Company's right to use an identified asset for the lease term and lease liability represents the Company's obligation to make payments as set forth in the lease arrangement. ROU assets and lease liabilities are included on the Company's consolidated balance sheets beginning May 2019 and are recognized based on the present value of the remaining future lease payments at lease commencement date. The interest rate used to determine the present value of the future lease payments is the Company's incremental borrowing rate as the Company has determined that the interest rate implicit in the leases to which the Company is a party of is not readily determinable. A ROU asset initially equals the lease liability, adjusted for any lease payments made prior to lease commencement and any lease incentives. All leases are recorded on the consolidated balance sheets except for leases with an initial term less of than 12 months. All of the Company's leases are operating leases. Lease expense is recognized on a straight-line basis over the lease term.

The Company has lease agreements with lease and non-lease components. Non-lease components primarily include payments for maintenance. The Company accounts for lease components and non-lease components separately.

Recently Adopted Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-13 Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which eliminates, adds, and modifies certain disclosure requirements for fair value measurements under ASC 820. This ASU is to be applied on a prospective basis for certain modified or new disclosure requirements, and all other amendments in the standard are to be applied on a retrospective basis. The Company adopted the new standard effective May 1, 2020 and concludes that there is no material impact on its consolidated interim financial statements and related disclosures.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued Accounting Standards Update (ASU) 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which modifies and eliminates certain exceptions to the general principles of ASC 740, Income taxes. The new standard is effective for interim and annual periods beginning after December 15, 2020, and early adoption is permitted. The Company is currently evaluating the impact of the adoption to its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment, which amends the guidance to eliminate Step 2 from the goodwill impairment test. Instead, under the amendments in the new guidance, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. As a smaller reporting company, the amendment is effective for interim and annual periods beginning after December 15, 2021, and early adoption is permitted. We are currently evaluating the impact of this amendment on our consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments: Measurement of Credit Losses on Financial Instruments, which amends the guidance on measuring credit losses on financial assets held at amortized cost. The amendment is intended to address the issue that the previous "incurred loss" methodology was restrictive for a company's ability to record credit losses based on not yet meeting the "probable" threshold. The new language will require these assets to be valued at amortized cost presented at the net amount expected to be collected with a valuation provision. As a smaller reporting company, ASU 2016-13 and its subsequent updates are effective for fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact of this amendment on its consolidated interim financial statements and related disclosures.

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2020
(Unaudited)

Note 4 Revenue Recognition

Revenues from contracts with customers are recognized when control of promised goods and services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

The Company recognizes revenue using the five-step model as prescribed by ASC 606:

- 1) Identification of the contract, or contracts, with a customer;
- 2) Identification of the performance obligations in the contract;
- 3) Determination of the transaction price;
- 4) Allocation of the transaction price to the performance obligations in the contract; and
- 5) Recognition of revenue when or as, the Company satisfies a performance obligation.

When a contract with a customer is signed, the Company assesses whether collection of the fees under the arrangement is probable. The Company estimates the amount to reserve for uncollectible amounts at the end of each reporting period based on the aging of the contract balance, current and historical customer trends, and communications with its customers. These reserves are recorded against the related accounts receivable.

The transaction price is the consideration that the Company expects to receive from its customers in exchange for its products or services. In determining the allocation of the transaction price, the Company identifies performance obligations in contracts with customers, which may include products, subscriptions to software and services, support, professional services and training. The Company allocates the transaction price to each performance obligation on a relative standalone selling price basis. The standalone selling price ("SSP") is the price at which the Company would sell a promised product or service separately to a customer. The Company determines the SSP using information that may include market conditions or other observable inputs. In certain cases, the Company is able to establish a SSP based on observable prices for products or services sold separately. In these instances, the Company would use a single amount to estimate a SSP. If a SSP is not directly observable, for example when pricing is variable, the Company will use a range of SSP.

In certain circumstances, the Company may estimate SSP for a product or service by applying the residual approach. This approach has been most commonly used when certain perpetual software licenses are only sold bundled with one year of post-contract support or other services, and a price has not been established for the software.

Significant judgement is used to determine SSP and to determine whether there is a variance that needs to be allocated based on the relative SSP of the various products and services. Estimating SSP is a formal process that includes review and approval by the Company's management.

In practice, the Company generally does not offer extended payment terms beyond six months to customers. As such, the Company does not adjust our consideration for financing arrangements.

Software Revenue

The Company generates software revenue primarily on a single fee per perpetual software license basis. The Company recognizes software revenue for perpetual licenses when control has transferred to the customer, which is generally at the time of delivery when the customer has the ability to deploy the licenses, provided all revenue recognition criteria have been met. If the revenue recognition criteria has not been met, the revenue is deferred or not recognized.

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Subscription, support and maintenance

Revenue from the Company's recurring subscription revenue from subscriptions related to our software as a service offering is recognized ratably over the contractual subscription term as control of the goods or services is transferred to the customer, beginning on the date that the subscription is made available to the customer. Support and maintenance revenue is generated from recurring annual software support and maintenance contracts for our perpetual software licenses and is recognized ratably over the term of the service period, which is generally twelve months. Support and maintenance services include e-mail and telephone support, access to the Company's technical assistance center, unspecified rights to bug fixes and product updates and upgrades and enhancements available on a when-and-if available basis. Both subscription revenue and support and maintenance revenue are typically billed annually in advance based on the terms of the arrangement.

Professional services and other

Professional services and other revenue is generated through services including product configuration and customization, implementation, dedicated engineering and training. The amount of product configuration and customization required by a customer typically increases as the order size increases from a given customer. Services and pricing may vary depending upon a customer's requirements for customization, implementation and training. Depending on the services to be provided, revenue from professional services and other is generally recognized at the time of delivery when the services have been completed and control has been transferred.

For contracts with elements related to customized network solutions and certain network build-outs or software systems that require significant modification or customization, the Company will recognize revenue using the percentage-of-completion method. In using the percentage-of-completion method, revenues are generally recorded based on completion of milestones as described in the agreement. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognized in the period that such losses become known.

Unearned Revenue

Unearned revenue represent billings or payments received in advance of revenue recognition and is recognized upon transfer of control. Balances consist primarily of annual support and subscription services and professional services not yet provided as of the balance sheet date.

During the three months ended July 31, 2020 the Company recognized \$1,564,389 in revenue in its consolidated statements of operations that was previously recognized as unearned revenue in the consolidated balance sheets at April 30, 2020.

Costs to Obtain a Customer Contract

Sales commissions and related expenses are considered incremental and recoverable costs of acquiring customer contracts. These costs are capitalized and amortized on a systematic basis, consistent with the timing of revenue recognition over the anticipated benefit period of up to 3.5 years, depending on the products and services. The anticipated benefit period was estimated using management judgment after reviewing customer contracts from fiscal years 2004 - 2018, and is based on the average length of applicable customer contracts and includes the contract term and any anticipated renewal periods. This amortization expense is recorded in sales and marketing expense within the Company's consolidated statement of operations. The Company has elected to apply a practical expedient that permits the Company to expense costs to obtain a contract as incurred, if the anticipated benefit period is one year or less. From time to time, management will revisit the estimates used in recognizing the costs to obtain customer contracts.

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During the three months ended July 31, 2020 and 2019, the Company capitalized approximately \$19,026 and \$79,045, respectively, of costs to obtain revenue contracts and amortized approximately \$37,810 and \$70,815 respectively, of sales and of commissions to sales and marketing expense. Capitalized costs to obtain revenue contracts on the Company's interim consolidated balance sheets totaled \$208,066 at July 31, 2020.

Costs to Fulfill a Customer Contract

Certain contract costs incurred to fulfill obligations under a contract are capitalized when such costs generate or enhance resources to be used in satisfying future performance obligations and the costs are deemed recoverable. Judgement is used in determining whether certain contract costs can be capitalized. These costs are capitalized and amortized on a systematic basis to match the timing of revenue recognition over the anticipated benefit period of up to 3.5 years, depending on the products and services. The anticipated benefit period was estimated based on the average length of applicable customer contracts and includes the contract term and any anticipated renewal periods. This amortization expense is recorded in cost of sales in the Company's consolidated statement of operations.

From time to time, management will review the capitalized costs for impairment and will also revisit the estimates used in recognizing the costs to fulfill customer contracts (2020 - \$nil; 2019 - \$nil).

Transaction Price Allocated to the Remaining Performance Obligations

The Company expects to recognize approximately \$3,837,758, \$494,050, \$231,526, \$93,950 and \$18,000 in revenue during the years ended April 30, 2021 to April 30, 2025, respectively, under its customer contracts relating to fixed consideration associated with remaining performance obligations.

Disaggregation of Revenue

The Company disaggregates its revenue by geographic region. See *Note 11 - Segmented Information* for more information.

Note 5 **Derivative Instruments**

In the normal course of business, the Company is exposed to fluctuations in the exchange rates associated with foreign currencies. The Company's primary objective for holding derivative financial instruments is to manage foreign currency exchange rate risk.

Foreign Currency Exchange Rate Risk

A majority of the Company's revenue activities are transacted in U.S. dollars. However, the Company is exposed to foreign currency exchange rate risk, inherent in conducting business globally in multiple currencies, primarily from its business operations in Canada.

The Company's foreign currency risk management program includes entering into foreign currency derivatives at various times to mitigate the currency exchange rate risk on Canadian dollar denominated cash flows. These foreign currency forward and option contracts are considered non-designated derivative instruments and are not used for trading or speculative purposes. The changes in fair value and settlements are recorded in change in fair value of derivative instruments, net in the consolidated statement of operations.

During the three months ended July 31, 2020, the Company did not enter into any designated cash flow hedge contracts.

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The following table summarizes the notional amounts of the Company's outstanding derivative instruments:

Notional value of Undesignated Derivatives	July 31, 2020	April 30, 2020
Foreign currency option contracts	\$ —	\$ 1,000,000
Foreign currency forward contracts	\$ 1,700,000	\$ 2,200,667

The following tables present the fair values of the Company's derivative instruments on a gross basis as reflected on the Company's consolidated balance sheets.

Fair value of Undesignated Derivatives	July 31, 2020	
	Derivative Assets	Derivative Liabilities
Foreign currency forward contracts	\$ 26,398	\$ —

Fair value of Undesignated Derivatives	April 30, 2020	
	Derivative Assets	Derivative Liabilities
Foreign currency option contracts	\$ —	\$ 76,617
Foreign currency forward contracts	6,381	63,682
	<u>\$ 6,381</u>	<u>\$ 140,299</u>

During the three months ended July 31, 2020 and 2019, the Company recorded gains of \$161,926 and \$586 respectively, resulting from the change in fair value of derivative instruments.

Note 6 **Fair Value Measurements**

Assets and liabilities recorded at fair value in the consolidated financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to valuation of these assets or liabilities are set forth below. Transfers between levels are recognized at the end of each quarter. The Company did not recognize any transfers between levels during the periods presented.

Level 1—Inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2—Inputs (other than quoted prices included in Level 1) are observable for the asset or liability, either directly or indirectly such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Level 3— unobservable inputs for the asset or liability which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The carrying values of financial instruments classified as current assets and current liabilities approximates their fair values, based on the nature and short maturity of these instruments, and are presented in the Company's financial statements at carrying cost.

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Financial Instruments Measured at Fair value

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis as of July 31, 2020 and April 30, 2020.

As at July 31, 2020	Carrying Amount	Fair Value	Fair Value Levels	Reference
Assets				
Cash	\$ 2,674,216	\$ 2,674,216	1	N/A
Foreign currency forward contracts	26,398	26,398	2	Note 5
	<u>\$ 2,700,614</u>	<u>\$ 2,700,614</u>		
Liabilities				
Foreign currency option contracts	\$ –	\$ –	2	Note 5

As at April 30, 2020	Carrying Amount	Fair Value	Fair Value Levels	Reference
Assets				
Cash	\$ 2,433,266	\$ 2,433,266	1	N/A
Foreign currency option contracts	6,381	6,381	2	Note 5
	<u>\$ 2,439,647</u>	<u>\$ 2,439,647</u>		
Liabilities				
Foreign currency option contracts	\$ 140,299	\$ 140,399	2	Note 5

Financial Instruments Not Measured at Fair Value

The following table presents the Company's liability that is not measured at fair value as of July 31, 2020, but for which fair value is available:

As at July 31, 2020	Carrying Amount	Fair Value	Fair Value Levels	Reference
Related party loan payable (including interest)	\$ 2,140,084	\$ 2,029,029	2	Note 7
Loan payable	\$ 209,035	\$ 209,035	2	Note 8

The related party loan payable (including interest) and loan payable are presented on the consolidated balance sheets at carrying cost. The fair value of the fixed interest rate loan is estimated based on observable market prices or inputs. Where observable prices or inputs are not available, valuation models are applied using the net present value of cash flow streams over the term, using estimated market rates for similar instruments and remaining terms.

Note 7 **Related Party Loan Payable**

On October 10, 2018, the Company entered into a loan agreement (the "Loan Agreement") with Wesley Clover International Corporation and KMB Trac Two Holdings Ltd (collectively referred to as the "Lenders") for an aggregate principal amount of up to \$3,000,000. Pursuant to the terms of the Loan Agreement, the loan is unsecured and is made available in multiple advances at the discretion of the Company and bears interest at a rate of 8% per year, payable monthly. The outstanding principal and any accrued interest may be prepaid without penalty and is to be fully repaid on the second anniversary of the first advance. There are no financial covenants for this loan.

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On July 10, 2019, the Company entered into an amended loan agreement (the "Amendment Agreement") with the Lenders, pursuant to which the Lenders agreed to amend the Loan Agreement, together with the Amendment Agreement, to increase the maximum amount of the loan from \$3,000,000 to \$5,000,000 and to extend the term of the loan such that all outstanding principal and accrued interest is due on April 11, 2021. On January 25, 2020, the Company entered into an amended loan agreement (the "Second Amendment Agreement") with the Lenders such that the interest on the principal amount of the Loan will accrue and be paid at the time of repayment of the outstanding principal. Accrued interest will be calculated at a rate of 8%, compounded daily. The Second Amendment Agreement is effective February 1, 2020.

On June 15, 2020, the Company repaid \$2,000,000 of the principal balance of the related party loan payable to Wesley Clover and KMB Trac Two Holdings, increasing the unused portion of the loan principal to \$3,000,000.

As of July 31, 2020, the principal balance of the related party loan payable was \$2,000,000, and interest payable was \$140,084. During the three months ended July 31, 2020 the Company recognized \$60,625 in interest expense in the consolidated statement of operations. The Company recorded \$60,493 in interest expense during the three months ended July 31, 2019. See *Note 10 - Related Party Transactions* for more information.

Note 8 **Loan Payable**

On May 1, 2020, the Company, through its subsidiary, CounterPath LLC, entered into a promissory note with Bank of America for a term loan in the amount of \$209,035 (the "Loan"). The Loan is made pursuant to the Paycheck Protection Program under the CARES Act. The Loan is forgivable if used to retain workers and maintain payroll or to make lease payments and utility payments as specified under the Paycheck Protection Rule. The remaining loan balance that is not forgiven will bear interest at a rate of 1% per annum after December 31, 2020, with a maturity date of two years from the funding date of the loan.

Note 9 **Common Stock**

Stock Options

During the three months ended July 31, 2020, the Company issued 14,675 shares pursuant to cashless exercises of 38,000 stock options and remitted employee tax withholdings of approximately \$14,424 on behalf of its employees. No stock options were exercised during the same period in the prior year.

No stock options were granted during the three months ended July 31, 2020 and 2019.

The following is a summary of the status of the Company's stock options as of July 31, 2020 and the stock option activity during the three months ended July 31, 2020:

	Weighted Average	
	Number of	Exercise Price
	Options	per Share
Outstanding at April 30, 2020	672,286	\$ 1.90
Granted	—	\$ —
Forfeited/Cancelled	(886)	\$ 1.88
Expired	—	\$ —
Exercised	(44,588)	\$ 2.42
Outstanding at July 31, 2020	<u>626,812</u>	<u>\$ 1.87</u>
Exercisable at July 31, 2020	290,370	\$ 2.27
Exercisable at April 30, 2020	282,358	\$ 2.43

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Employee and non-employee stock-based compensation amounts classified in the Company's consolidated statements of operations for the three months ended July 31, 2020 and 2019 are as follows:

	Three Months Ended July 31,	
	2020	2019
Cost of sales	\$ 8,276	\$ 11,220
Sales and marketing	13,110	15,724
Research and development	9,025	10,303
General and administrative	10,908	10,768
Total stock-option based compensation	<u>\$ 41,319</u>	<u>\$ 48,015</u>

Employee Stock Purchase Plan

Under the terms of the Employee Stock Purchase Plan (the "ESPP") all regular salaried (non-probationary) employees can purchase up to 6% of their base salary in shares of the Company's common stock at market price. The Company matches 50% of the shares purchased by issuing or purchasing in the market up to 3% of the respective employee's base salary in shares. During the three months ended July 31, 2020, the Company matched \$4,642 (2019 - \$5,263) in shares purchased by employees under the ESPP. During the three months ended July 31, 2020, 2,495 shares (2019 - 6,624 shares) were purchased on the open market and 1,286 shares (2019 - 3,134) were issued from treasury under the ESPP.

A total of 220,000 shares have been reserved for issuance under the ESPP. As of July 31, 2020, a total of 133,480 shares were available for issuance under the ESPP.

Deferred Share Unit Plan

During the three months ended July 31, 2020 and 2019, the Company did not issue any deferred stock units ("DSUs") under the Deferred Stock Unit Plan ("DSUP"). As of July 31, 2020, a total of 41,097 shares were available for issuance under the DSUP.

The following table summarizes the Company's outstanding DSU awards as of July 31, 2020, and changes during the period then ended:

	Number of DSUs	Weighted Average Grant Date Fair Value Per DSU
DSUs outstanding at April 30, 2020	699,183	\$ 2.21
Granted	—	\$ —
Cancelled	(2,000)	\$ 1.14
DSUs outstanding at July 31, 2020	<u>697,183</u>	<u>\$ 2.21</u>

Employee and non-employee DSU based compensation amounts classified in the Company's consolidated statements of operations for the three months ended July 31, 2020 and 2019 are as follows:

	Three Months Ended July 31,	
	2020	2019
Cost of sales	\$ 3,368	\$ 1,175
Sales and marketing	8,140	4,700
Research and development	3,368	1,175
General and administrative	13,989	13,276
	<u>\$ 28,865</u>	<u>\$ 20,326</u>

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Note 10 **Related Party Transactions**

On October 10, 2018, the Company entered into a loan agreement (the "Loan Agreement") with Wesley Clover International Corporation ("Wesley Clover"), a company controlled by the Chairman of the Company, and KMB Trac Two Holdings Ltd. ("KMB Trac Two Holdings"), a company owned by the spouse of a director of the Company. As of July 31, 2020, the principal balance of the related party loan payable due to Wesley Clover and KMB Trac Two Holdings was \$1,000,000 and \$1,000,000 (2019 - \$1,500,000 and \$1,500,000), respectively and interest payable to each lender was \$70,042 (2019 - \$10,192). During the three months ended July 31, 2020, the Company recognized \$60,625 (2019 - \$60,493), in interest expense in the consolidated statement of operations. See *Note 7 - Related Party Loan Payable* for more information.

During the three months ended July 31, 2020, the Company through its wholly owned subsidiary, CounterPath Technologies Inc., paid \$Nil (2019 - \$21,195), to KRP Properties ("KRP") (previously known as Kanata Research Park Corporation) for leased office space. KRP is a division of Wesley Clover which is controlled by the Chairman of the Company.

During the three months ended July 31, 2020, the Company sold \$33,463 (2019 - \$8,637), in subscription services to WCS Europe, a company controlled by the Chairman of the Company.

On November 8, 2019, the Company entered into an agreement with WCS Europe to hire a dedicated resource to assist with business development in the EMEA region. The initial term of the agreement is for six months, invoiced quarterly in advance at 3,500 euros per month. The services shall renew for another six months subject to mutual agreement with 30 day notice. For the three months ended July 31, 2020, the Company paid \$11,897 to WCS Europe.

On November 26, 2019, the Company, through its wholly owned subsidiary, CounterPath Technologies Inc., entered into an agreement with ThinkRF Corp. ("ThinkRF") to lease office space beginning January 1, 2020. During the three months ended July 31, 2020, CounterPath Technologies Inc. paid \$7,405 to ThinkRF. ThinkRF is a company controlled by the Chairman of the Company.

On June 10, 2020, the Company issued an aggregate of 284,902 shares of common stock under a non-brokered private placement at a price of \$3.51 per share for total gross proceeds of \$1,000,006. In connection with the private placement, Wesley Clover purchased 142,451 shares and KMB Trac Two Holdings purchased 142,451 shares.

The above transactions are in the normal course of operations and are recorded at amounts established and agreed to between the related parties.

Note 11 **Segmented Information**

The Company's chief operating decision maker reviews financial information presented on a consolidated basis, accompanied by disaggregated information about revenues by geographic region for purposes of making operating decisions and assessing financial performance. Accordingly, the Company has concluded that it has one reportable operating segment.

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Revenues are categorized based on the country in which the customer is located. The following is a summary of total revenues by geographic area for the three months ended July 31, 2020 and 2019:

	Three Months Ended July 31,	
	2020	2019
North America	\$ 2,616,331	\$ 1,744,753
EMEA	548,077	469,520
Asia Pacific	149,208	252,712
Latin America	115,590	106,683
	<u>\$ 3,429,206</u>	<u>\$ 2,573,668</u>

All of the Company's long-lived assets, which include equipment, goodwill and intangible assets and other assets, are located in Canada and the United States as follows:

	July 31, 2020	April 30, 2020
Canada	\$ 8,135,005	\$ 7,785,682
United States	93,428	106,704
	<u>\$ 8,228,433</u>	<u>\$ 7,892,386</u>

Note 12 **Leases**

The Company has operating leases for its corporate offices located in Canada and the United States. The leases have remaining terms of approximately 1.4 to 4.2 years, some of which may include the option to extend the lease for one to five years. For leases with a term greater than 12 months, the Company recognizes a right-of-use asset and a lease liability based on the present value of the minimum lease payments over the lease term. If the Company is reasonably certain that it will exercise the extension option, the extended period will be included in the calculation of the right-of-use asset and lease liability. In the initial calculation of the right-of-use asset and lease liability, the Company included a five-year extension on one of its operating leases, as it was reasonably certain to exercise the extension option. The lease agreements do not contain any variable payments, residual value guarantees or restrictive covenants.

As the Company's leases do not provide a readily determinable implicit rate, the Company uses the incremental borrowing rate at lease commencement, which was determined using a portfolio approach, based on the rate of interest that the Company would have to pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term. The Company uses the implicit rate when a rate is readily determinable. Operating lease expense is recognized on a straight-line basis over the lease term.

Leases with an initial term of 12 months or less are not recognized on the balance sheet and payments are expensed as incurred over the lease term. Common area maintenance fees and other charges associated with these leases are expensed as incurred. Property tax and insurance payments paid to the lessors are included in the calculation of minimum lease payments.

During the three months ended July 31, 2020 and 2019, operating lease expense was approximately \$110,771 and \$138,277, respectively, and the cash paid for amounts included in the measurement of the operating lease liabilities was \$106,764 and \$127,420, respectively.

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The following table presents the Company's operating lease right-of-use assets and liabilities as of July 31, 2020:

	<u>July 31, 2020</u>
Assets	
Operating lease right-of-use assets	\$ 1,337,974
Liabilities	
Operating lease liabilities - current	\$ 307,185
Operating lease liabilities - non-current	1,061,573
Total operating lease liabilities	<u>\$ 1,368,758</u>

As of July 31, 2020 and April 30, 2020, total right-of-use assets and lease liabilities recognized on the consolidated balance sheets attributable to related parties was \$39,591 and \$44,382, respectively.

The following table presents supplemental information for the three months ended July 31, 2020:

Weighted average remaining lease term	4.0 years
Weighted average discount rate	9.8%
Operating cash flow from operating leases	(\$106,764)

As of July 31, 2020, estimated future commitments related to operating leases were as follows:

2021	\$ 315,648
2022	407,943
2023	375,052
2024	386,973
2025	163,642
Thereafter	—
Less: imputed interest	(280,500)
Operating lease liabilities	<u>\$ 1,368,758</u>

Note 13 **Commitments**

Total payable by the Company over the term of two third-party vendor contracts for the fiscal years ended are as follows:

	Voice Platform Service Contract	Marketing Service Contract	Total
2021	\$ 160,000	\$ 33,346	\$ 193,346
2022	—	44,928	44,928
2023	—	33,696	33,696
Thereafter	—	—	—
	<u>\$ 160,000</u>	<u>\$ 111,970</u>	<u>\$ 271,970</u>

Note 14 **Contingencies**

The Company is party to legal claims from time to time which arise in the normal course of business. These claims are not expected to have a material adverse effect on the financial position, results of operations or cash flows of the Company.

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Note 15 **Net income (loss) per share**

The following table shows the computation of basic and diluted loss per share:

	Three Months Ended July 31,	
	2020	2019
Numerator		
Net income (loss)	\$ 24,614	\$ (929,723)
Denominator		
Weighted average shares outstanding	6,273,833	5,952,122
Effect of dilutive securities	950,351	—
	<u>7,224,184</u>	<u>5,952,122</u>
Basic income (loss) per share	\$ 0.00	\$ (0.16)
Diluted income (loss) per share	\$ 0.00	\$ (0.16)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

This quarterly report, including the documents incorporated herein and therein by reference, contains forward-looking statements as that term is defined in Section 27A of the United States Securities Act of 1933 and Section 21E of the United States Securities Exchange Act of 1934. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. Forward-looking statements in this quarterly report may include statements about:

- any potential loss of or reductions in orders from certain significant customers;
- our dependence on our customers to sell our applications or services using our applications;
- our ability to protect our intellectual property;
- competitive factors, including, but not limited to, industry consolidation, entry of new competitors into our market, and new product and marketing initiatives by our competitors;
- our ability to predict our revenue, operating results and gross margin accurately;
- uncertainties relating to the impact of COVID-19 on our business, operations and employees;
- the length and unpredictability of our sales cycles;
- our ability to expand or enhance our product offerings including in response to industry demands or market trends;
- our ability to sell our products in certain markets;
- our ability to manage growth;
- the attraction and retention of qualified employees and key personnel;
- the interoperability of our products with service provider networks; and
- the quality of our products and services, including any undetected errors or bugs in our software.

These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors", that may cause our company's or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including securities laws of the United States of America and Canada, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

References

In this quarterly report, (i) unless the context otherwise requires, references to "we", "our", "us", the "Company" or "CounterPath" mean CounterPath Corporation and its subsidiaries and (ii) all amounts are expressed in United States dollars, unless otherwise indicated.

Background

We were incorporated under the laws of the State of Nevada on April 18, 2003.

On August 2, 2007, we acquired all of the shares of NewHeights Software Corporation through the issuance of 768,017 shares of our common stock and 36,984 preferred shares issued from a subsidiary of our company, which preferred shares were exchangeable into 36,984 shares of common stock.

On February 1, 2008, we acquired all of the shares of FirstHand Technologies Inc. through the issuance of 590,001 shares of our common stock. On February 1, 2008, we acquired all of the issued and outstanding shares of BridgePort Networks, Inc. ("BridgePort Networks") by way of merger in consideration for the assumption of all of the assets and liabilities of BridgePort Networks.

Business of CounterPath

We design, develop and sell software and services that enable enterprises and telecommunication service providers to deliver Unified Communications & Collaborations (UCC) solutions to their end users. Our offerings include softphones that support HD voice/video calling, messaging, and presence from a wide range of call services and VoIP services, as well as hosted services for team voice, messaging, presence, video conferencing and screen sharing functionality, over Internet Protocol (IP) based networks. We are capitalizing upon several industry trends, including the rapid adoption of mobile technology, the proliferation of work-from-home programs, the growth of video conferencing, the increasing requirements for secure business communications, centralized cloud-based provisioning, and the migration towards all IP networks. We are also capitalizing on a trend where communication services such as Google Meet, Slack, Zoom, and WhatsApp are becoming more available over-the-top (OTT) of the incumbent operators' networks or enterprise networks (a.k.a. Internet OTT providers). We consolidate Internet OTT application capabilities into a single application that, we believe, provides more value at less than our competitors' cost. Our solutions are offered under perpetual license agreements that generate one-time license revenue and under subscription license agreements that generate recurring license revenue. Our solutions are available for sale through our online store, directly using our in-house sales team, original equipment manufacturers (OEM) partners, and through traditional value added reseller (VAR) and value added distributor (VAD) channel partners. Enterprises typically leverage our solutions to increase employee productivity and to reduce communication costs while leveraging, leading call servers provided by companies such as Cisco, Avaya, Sangoma, and others. Telecommunication service providers typically deploy our solutions to supplement and add value to their traditional services that compete directly with the Internet OTT providers. Our OEM and VAR customers typically integrate our solutions into their products and then sell a bundled solution to their end customers, which include both telecommunication service providers and enterprises.

COVID-19 Pandemic

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus, COVID-19 originating in Wuhan, China (and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this Quarterly Report on Form 10-Q. As such, it is uncertain as to the full magnitude that the pandemic will have on our financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation and its impact on our financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, we are not able to estimate the effects that the COVID-19 outbreak will have on our results of operations, financial condition, or liquidity for fiscal year 2021. As of the date of this Quarterly Report on Form 10-Q, we have not experienced meaningful delays in securing new customers and related revenues, cancellations of existing contracts, or meaningful delays in payments from existing customers, however, the longer this pandemic continues there may be additional impacts. Although we cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have a material adverse effect on our results of future operations, financial position, liquidity, and capital resources, and those of the third parties on which we rely on in fiscal year 2021.

Revenue

Our total revenue consists of the following:

- *Software*

We generate software revenue primarily on a single fee per perpetual software license basis. We recognize software revenue for perpetual licenses when control has transferred to the customer, which is generally at the time of delivery, provided all revenue recognition criteria have been met. If the revenue recognition criteria have not been met, the revenue is deferred or not recognized. The number of software licenses purchased has a direct impact on the average selling price. Our software revenue may vary significantly from quarter to quarter as a result of long sales and deployment cycles, new product introductions and variations in customer ordering practices.

- *Subscription, support and maintenance*

We generate recurring subscription revenue from subscriptions related to our software as a service offering. Recurring support and maintenance revenue is generated from annual software support and maintenance contracts for our perpetual software licenses. Both subscription revenue and support and maintenance revenue are typically billed annually in advance based on the terms of the arrangement.

Support and maintenance services include e-mail and telephone support, access to our technical assistance center, unspecified rights to bug fixes and product updates and upgrades and enhancements available on a when-and-if available basis, and are recognized rateably over the term of the service period, which is generally twelve months.

Professional services and other

We generate professional services and other revenue through services including product configuration and customization, implementation, dedicated engineering and training. The amount of product configuration and customization required by a customer typically increases as the order size increases from a given customer. Services and pricing may vary depending upon a customer's requirements for customization, implementation and training.

Operating Expenses

Operating expenses consist of cost of sales, sales and marketing, research and development, and general and administrative expenses. Personnel-related costs are the most significant component of each of these expense categories.

Cost of sales primarily consists of: (a) salaries and benefits related to personnel, (b) related overhead, (c) billable and non-billable travel, lodging, and other out-of-pocket expenses, (d) payments to third party vendors for development and hosted communication services and compression/decompression software known as codecs, (e) amortization of capitalized software that is implemented into our products and (f) warranty expense.

Sales and marketing expense consists primarily of: (a) salaries and related personnel costs including stock-based compensation, (b) commissions, (c) travel, lodging and other out-of-pocket expenses, (d) marketing programs such as advertising, promotions and trade shows and (e) other related overhead. Commissions are considered incremental and recoverable costs of acquiring customer contracts. These costs are capitalized and amortized on a systematic basis to sales and marketing expense, over the anticipated benefit period of up to 3.5 years depending on the products or services. Sales commissions on contracts with an anticipated benefit period of one year or less are expensed as incurred. We expect increases in sales and marketing expense for the foreseeable future as we further increase the number of sales professionals and increase our marketing activities with the intent to grow our revenue. We expect sales and marketing expense to decrease as a percentage of total revenue, however, as we leverage our current sales and marketing personnel as well as our distribution partnerships.

Research and development expense consists primarily of: (a) salaries and related personnel costs including stock-based compensation, (b) payments to contractors for design and consulting services, (c) costs relating to the design and development of new products and enhancement of existing products, (d) quality assurance and testing and (e) other related overhead. To date, all of our research and development costs have been expensed as incurred.

General and administrative expense consists primarily of: (a) salaries and personnel costs including stock-based compensation related to our executive, finance, human resource and information technology functions, (b) accounting, legal, tax advisory and regulatory fees and (c) other related overhead.

Application of Critical Accounting Policies and Use of Estimates

Our interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ significantly from these estimates under different assumptions or conditions. There have been no material changes to these estimates for the periods presented in this quarterly report.

There have been no significant changes to our critical accounting policies and estimates previously disclosed in our Form 10-K for the fiscal year ended April 30, 2020.

Results of Operations

Our operating activities during the three months ended July 31, 2020 consisted primarily of selling our IP telephony software and related services to telecom service providers, enterprises and channel partners serving the telecom and enterprise segments, and the continued development of our IP telephony software products.

We generate our revenue primarily in U.S. dollars and incur a majority of our expenses in Canadian dollars. As a result of the fluctuation in the Canadian dollar against the U.S. dollar over the three months ended July 31, 2020, we recorded increased (decreased) operating costs on translation of Canadian dollar costs as compared to the three months ended July 31, 2019 of approximately (\$53,566).

Selected Consolidated Financial Information

The following tables set out selected consolidated unaudited financial information for the periods indicated. The selected consolidated financial information set out below for the three months ended July 31, 2020 and 2019 has been derived from the consolidated unaudited financial statements and accompanying notes for the three months ended July 31, 2020 and 2019 and the audited consolidated financial statements for the fiscal year ended April 30, 2020. Each investor should read the following information in conjunction with those statements and the related notes thereto.

Selected Consolidated Statements of Operations Data

	Three Months Ended July 31,			
	2020		2019	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue
Revenue	\$ 3,429,206	100%	\$ 2,573,668	100%
Operating expenses	(3,148,919)	(92%)	(3,258,314)	(127%)
Income/(loss) from operations	\$ 280,287	8%	(\$684,846)	(27%)
Interest expense, net	(71,205)	(2%)	(70,573)	(2%)
Foreign exchange loss	(346,394)	(10%)	(174,890)	(7%)
Change in fair value of derivative instruments	161,926	5%	586	-%
Net income (loss)	<u>\$ 24,614</u>	<u>1%</u>	<u>(\$929,723)</u>	<u>(36%)</u>

Net income (loss) per share		
-Basic and diluted	\$ 0.00	(\$0.16)
Weighted average common shares outstanding		
-Basic	6,273,833	5,952,122
-Diluted	7,224,184	5,952,122

Revenue

	Three Months Ended July 31,				Period-to-Period Change	
	2020		2019			
		Percent of Total Revenue		Percent of Total Revenue		Percent Increase / (Decrease)
	Amount		Amount		Amount	
Revenue by Type						
Software	\$ 829,685	24%	\$ 1,009,824	39%	(\$180,139)	(18%)
Subscription, support and maintenance	2,082,799	61%	1,421,862	55%	660,937	46%
Professional services and other	516,722	15%	141,982	6%	374,740	264%
Total revenue	\$ 3,429,206	100%	\$ 2,573,668	100%	\$ 855,538	33%
Revenue by Region						
North America	\$ 2,616,331	76%	\$ 1,744,753	68%	\$ 871,578	50%
International	812,875	24%	828,915	32%	(16,040)	(2%)
Total revenue	\$ 3,429,206	100%	\$ 2,573,668	100%	\$ 855,538	33%

For the three months ended July 31, 2020, we generated \$3,429,206 in revenue compared to \$2,573,668 for the three months ended July 31, 2019, representing an increase of \$855,538 or 33%.

Software revenue decreased by \$180,139 or 18% to \$829,685 for the three months ended July 31, 2020 compared to \$1,009,824 for the three months ended July 31, 2019. The decrease in software revenue was a result of decreased sales to enterprises and channel partners purchasing perpetual software licenses.

Subscription, support and maintenance revenue increased by \$660,937 or 46% to \$2,082,799 for the three months ended July 31, 2020 compared to \$1,421,862 for the three months ended July 31, 2019. The increase in subscription, support and maintenance revenue was a result of increased subscription sales to enterprises, channel partners, and service providers as the Company is shifting its licensing model to subscription based licensing.

Professional services and other revenue increased by \$374,740 or 264% to \$516,722 for the three months ended July 31, 2020 compared to \$141,982 for the three months ended July 31, 2019. The increase in professional services and other revenue was a result of increased sales to channel partners primarily related to the customization of software licenses.

North American revenue increased by \$871,578 or 50% to \$2,616,331 for the three months ended July 31, 2020 compared to \$1,744,753 for the three months ended July 31, 2019, as a result of increased sales of service to channel partners, enterprises, and service providers. International revenue outside of North America decreased by \$16,040 or 2% to \$812,875 for the three months ended July 31, 2020 compared to \$828,915 for the three months ended July 31, 2019, as a result of lower sales of software to international enterprises and channel partners.

Operating Expenses

Cost of Sales

Cost of sales for the three months ended July 31, 2020 and 2019 were as follows:

	July 31, 2020		July 31, 2019		Period-to-Period Change	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent Increase / (Decrease)
Three months ended	\$ 555,889	16%	\$ 511,360	20%	\$ 44,529	9%

Cost of sales was \$555,889 for the three months ended July 31, 2020 compared to \$511,360 for the three months ended July 31, 2019. An increase of \$44,529 or 9% was primarily attributable to an increase in costs related to license fees of approximately \$28,000, an increase of wages and benefits expenses of approximately \$13,000 and third-party service fees of approximately \$3,400.

Sales and Marketing

Sales and marketing expenses for the three months ended July 31, 2020 and 2019 were as follows:

	July 31, 2020		July 31, 2019		Period-to-Period Change	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent Increase / (Decrease)
Three months ended	\$ 852,974	25%	\$ 970,593	38%	(\$117,619)	(12%)

Sales and marketing expenses were \$852,974 for the three months ended July 31, 2020 compared to \$970,593 for the three months ended July 31, 2019. The decrease of \$117,619 or 12% was primarily attributable to decreases in travel and trade show expenses of approximately \$83,000, decreases in consulting expenses of approximately \$12,000, and stock based compensation of approximately \$22,000.

Research and Development

Research and development expenses for the three months ended July 31, 2020 and 2019 were as follows:

	July 31, 2020		July 31, 2019		Period-to-Period Change	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent Increase / (Decrease)
Three months ended	\$ 1,030,136	30%	\$ 1,131,848	44%	(\$101,712)	(9%)

Research and development expenses were \$1,030,136 for the three months ended July 31, 2020 compared to \$1,131,848 for the three months ended July 31, 2019. The decrease of \$101,712 or 9% was primarily attributable to the overall reduction in costs which resulted in decreases in third-party service fees of approximately \$33,000, wages and benefits of approximately \$74,000 offset by an increase in other expenses of approximately \$5,000.

General and Administrative

General and administrative expenses for the three months ended July 31, 2020 and 2019 were as follows:

	July 31, 2020		July 31, 2019		Period-to-Period Change	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent Increase / (Decrease)
Three months ended	\$ 709,920	21%	\$ 644,713	25%	\$ 65,207	10%

General and administrative expenses were \$709,920 for the three months ended July 31, 2020 compared to \$644,713 for the three months ended July 31, 2019. The increase of \$65,207 or 10% in general and administrative expenses was primarily attributable to increases in bad debts expense of approximately \$27,000, professional fees of approximately \$19,000, and wages and benefits expense of approximately \$24,000. This increase was offset by a decrease in communication expenses of approximately \$6,000.

Interest and Other (Expense) Income, Net

Interest and other (expense) income, net was (\$255,673) for the three months ended July 31, 2020, compared to (\$244,877) for the same period in the prior year. The change of \$10,796 or 4% is primarily due to increases in the foreign exchange loss of approximately \$171,500, offset by a decrease due to a gain resulting from the change in fair value of derivative instruments of approximately \$161,000.

The foreign exchange gain (loss) represents the gain (loss) on account of translation of the intercompany accounts of our subsidiary which maintains their records in Canadian dollars and transactional gains and losses. The foreign exchange gain (loss) includes the translation of quarterly intercompany transfer pricing invoices from our Canadian subsidiary to us.

Liquidity and Capital Resources

The following is a summary of selected financial information as at the dates indicated:

Selected Consolidated Balance Sheet Data	July 31, 2020	April 30, 2020
Cash	\$ 2,674,216	\$ 2,433,266
Current assets	\$ 5,093,159	\$ 5,450,228
Total assets	\$ 13,487,002	\$ 13,655,953
Current liabilities	\$ 8,768,577	\$ 10,499,343
Total liabilities	\$ 9,839,913	\$ 11,611,636

As of July 31, 2020, we had \$2,674,216 in cash compared to \$2,433,266 as of April 30, 2020, representing an increase of \$240,950. Our working capital deficit was \$3,675,418 at July 31, 2020 compared to working capital deficit of \$5,049,115 at April 30, 2020, representing a decrease of \$1,373,697.

We have experienced recurring losses and have an accumulated deficit of \$69,653,042 as of July 31, 2020, as a result of revenues being historically lower than expenses, resulting from a number of factors including our buildout of a cloud based subscription platform concurrent with the change of our licensing model to subscription based licensing and have not reached profitable operations on a consistent basis. However, during the quarter ended July 31, 2020, revenue has increased by approximately 33% compared to the quarter ended July 31, 2019. It is uncertain whether the Company would have sufficient cash flows to meet its current obligations to repay the related party loan payable of \$2,000,000, which is due on April 11, 2021. Further, due to the recent and ongoing outbreak of COVID-19, the spread of COVID-19 has severely impacted many economies around the world, including those in which our customers operate. Management has taken steps to help mitigate any potential negative impact on operations including having reduced operating costs and obtaining financial assistance made available from the US government under the Paycheck Protection Program; however, we are unable to determine the future impact on our financial position and operating results. Together, these factors raise substantial doubt about our ability to continue operating as a going concern within one year of the date of issuance of the consolidated financial statements.

To alleviate this situation, we have plans in place to improve our financial position and liquidity through additional financing, while executing on our growth strategy, and by managing and or reducing costs that are not expected to have an adverse impact on the ability to generate cash flows, as the transition to our software as a service platform and subscription licensing continues. During the quarter ended July 31, 2020, recurring revenue as a percentage of total revenue increased from 55% in the prior year to 61% of total revenue. We believe that increasing recurring revenue will stabilize the volatility of revenue over time, and enable our company to grow revenue from our extensive customer base. To increase our recurring revenue, we introduced Bria Solo and Bria Teams which are subscription based unified communication services. In addition, we advanced our Channel Partner Program which enables us to leverage our sales force in regions outside of North America. The Channel Partner Program is administered through a partner portal enabling our partners to order and manage their customers and end users in an automated and scalable fashion. Software sold through the Channel Partner Program is extensively licensed on a subscription basis.

We have historically been able to manage liquidity requirements through cost management and cost reduction measures, supplemented with raising additional financing. In October 2018, we entered into a loan agreement for an aggregate principal amount of up to \$3,000,000, which was subsequently increased to \$5,000,000 on July 10, 2019. As of July 31, 2020, the principal balance of the related party loan payable was \$2,000,000 and total interest payable on the loan was \$140,084. The unused portion of the loan principal to \$3,000,000. See *Notes to the Consolidated Financial Statements - Note 7 - Related Party Loan Payable* for more information.

On May 1, 2020, through our subsidiary, CounterPath LLC, we entered into a promissory note with Bank of America for a term loan in the amount of \$209,035 (the "Loan"). The Loan is made pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). The Loan is forgivable if used to retain workers and maintain payroll or to make lease payments and utility payments as specified under the Paycheck Protection Rule. The remaining loan balance that is not forgiven will bear interest at a rate of 1% per annum after a six-month deferment period, with a maturity date of two years from the funding date of the loan. We expect the loan to be fully forgiven during the fiscal year ended April 30, 2021.

In addition, on June 10, 2020, we issued an aggregate of 284,902 shares of common stock under a non-brokered private placement at a price of \$3.51 per share for total gross proceeds of \$1,000,006.

Our company has \$2,119,162 in cash held outside of the United States, and there is no intent to repatriate such cash at this time. Should we decide to repatriate such cash in the future, taxes would need to be accrued and paid.

On August 28, 2020, we entered into a sales agreement with A.G.P./Alliance Global Partners, as sales agent, pursuant to which we may offer and sell, from time to time, through or to A.G.P./Alliance Global Partners, as sales agent and/or principal, up to \$5,000,000 in shares of our common stock. Subject to the terms and conditions of the sales agreement, A.G.P./Alliance Global Partners agreed to use its commercially reasonable efforts to sell the shares from time to time, based upon our instructions. Under the sales agreement, A.G.P./Alliance Global Partners may sell the shares by any method permitted by law deemed to be an "at the market offering" as defined in Rule 415 promulgated under the Securities Act of 1933, as amended. We have no obligation to sell any of the shares, and may at any time suspend offers under the sales agreement. The offering will terminate upon (a) the election of A.G.P./Alliance Global Partners upon the occurrence of certain adverse events, (b) ten business days' advance notice from one party to the other, or (c) the sale of all of the shares. Under the terms of the sales agreement, A.G.P./Alliance Global Partners will be entitled to a commission at a fixed rate of 3.0% of the gross proceeds from each sale of shares under the sales agreement. We will also reimburse A.G.P./Alliance Global Partners for certain expenses incurred in connection with the sales agreement, and agreed to provide indemnification and contribution to A.G.P./Alliance Global Partners with respect to certain liabilities, including liabilities under the Securities Act and the Securities Exchange Act of 1934, as amended.

Cash Flows

Our cash flows for the three months ended July 31, 2020 and 2019 are as follows:

	Three months ended July 31, 2020	Three months ended July 31, 2019
Net cash provided by (used in) operating activities	\$ 1,003,886	(\$630,508)
Net cash used in investing activities	(\$19,618)	(\$19,853)
Net cash (used in) provided by financing activities	(\$794,503)	\$ 5,263
Net increase (decrease) in cash	\$ 240,950	(\$638,505)

Operating Activities

Our operating activities resulted in a net cash inflow of \$1,003,886 for the three months ended July 31, 2020 compared to a net cash outflow of \$630,508 for the same period in the prior year, representing an increase in net cash provided in operating activities of \$1,634,394. The increase in net cash provided in operating activities for the three months ended July 31, 2020 was primarily due to an increase in net income of approximately \$954,300, an increase in the change in accounts receivable of approximately \$355,000, an increase to the change in unearned revenue of approximately \$200,200, a decrease to the change in accounts payable and accrued liabilities of approximately \$171,000, an increase in non-cash foreign exchange losses by approximately \$93,600 and an increase in the provision for bad debts of approximately \$27,400. This increase was primarily offset by the gain resulting from the change in fair value of derivative instruments of approximately \$165,000 and a decrease in operating lease expense, net of accretion of approximately \$27,500.

Investing Activities

Investing activities resulted in a net cash outflow of \$19,618 for the three months ended July 31, 2020, compared to \$19,853 for the same period in the prior year. The increase in net cash outflow from investing activities was primarily a result of an increase in investments in computer equipment. At July 31, 2020, we did not have any material commitments for future capital expenditures.

Financing Activities

Financing activities resulted in a net cash outflow of \$794,503 for the three months ended July 31, 2020 compared to a net cash inflow of \$5,263 for the three months ended July 31, 2019. The decrease in cash inflow from financing activities was primarily due to the repayment of the related party loan of \$2,000,000, offset by cash inflows of approximately \$1,000,000 related to the private placement completed on June 11, 2020 and an increase in the loan payable of \$209,305.

Off-Balance Sheet Arrangements

We do not have, and do not have any present plans to implement, any off-balance sheet arrangements.

Recently Adopted Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement, which eliminates, adds, and modifies certain disclosure requirements for fair value measurements under ASC 820. This ASU is to be applied on a prospective basis for certain modified or new disclosure requirements, and all other amendments in the standard are to be applied on a retrospective basis. We adopted the new standard effective May 1, 2020 and have concluded that there is no material impact on our consolidated interim financial statements and related disclosures.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued Accounting Standards Update (ASU) 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which modifies and eliminates certain exceptions to the general principles of ASC 740, Income taxes. The new standard is effective for interim and annual periods beginning after December 15, 2020, and early adoption is permitted. We are currently evaluating the impact of the adoption on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment, which amends the guidance to eliminate Step 2 from the goodwill impairment test. Instead, under the amendments in the new guidance, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. As a smaller reporting company, the amendment is effective for interim and annual periods beginning after December 15, 2021, and early adoption is permitted. We are currently evaluating the impact of this amendment on our consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments: Measurement of Credit Losses on Financial Instruments, which amends the guidance on measuring credit losses on financial assets held at amortized cost. The amendment is intended to address the issue that the previous "incurred loss" methodology was restrictive for a company's ability to record credit losses based on not yet meeting the "probable" threshold. The new language will require these assets to be valued at amortized cost presented at the net amount expected to be collected with a valuation provision. As a smaller reporting company, ASU 2016-13 and its subsequent updates are effective for fiscal years beginning after December 15, 2022. We are currently evaluating the impact of this amendment on our consolidated financial statements and related disclosures.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not Applicable.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Disclosure controls and procedures, as defined in the Exchange Act Rules 13a-15(e) and 15d-15(e), means controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management including our Chief Executive Officer and our Vice President of Finance, as appropriate, to allow timely decisions regarding required disclosure.

In connection with this quarterly report, as required by Rule 13a-15 under the Securities Exchange Act of 1934, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our company's management, including our Chief Executive Officer and our Vice President of Finance. Based upon that evaluation, our Chief Executive Officer and our Vice President of Finance concluded that as of July 31, 2020, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended July 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

Much of the information included in this quarterly report includes or is based upon estimates, projections or other "forward looking statements". Such forward looking statements include any projections or estimates made by us and our management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumption or other future performance suggested herein.

Such estimates, projections or other "forward looking statements" involve various risks and uncertainties as outlined below. We caution the reader that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other "forward looking statements".

Risks Associated with our Business and Industry

Lack of cash flow which may affect our ability to continue as a going concern.

Presently, our operating cash flows are not sufficient to meet operating and capital expenses. Our business plan calls for continued research and development of our products and expansion of our market share. We may require additional financing to fund working capital and pay for operating expenses and capital requirements until we achieve positive cash flow.

There is no assurance that actual cash requirements will not exceed our estimates. In particular, additional capital may be required in the event that:

- we incur delays and additional expenses as a result of technology failure;
- we are unable to create a substantial market for our products; or
- we incur any significant unanticipated expenses.

The occurrence of any of the aforementioned events could adversely affect our ability to meet our proposed business plans.

We depend on a mix of revenues and outside capital to pay for the continued development of our technology and the marketing of our products. Such outside capital may include the sale of additional stock and/or commercial borrowing. There can be no assurance that capital will continue to be available if necessary to meet these continuing development costs or, if the capital is available, that it will be on terms acceptable to us. Disruptions in financial markets and challenging economic conditions have and may continue to affect our ability to raise capital. The issuance of additional equity securities by us would result in a dilution, possibly a significant dilution, in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

Our auditors have included in their audit report for the fiscal year ended April 30, 2020 a "going concern" explanatory paragraph raising substantial doubt as to our ability to continue as a going concern.

Our ability to meet our current liabilities of \$8,768,577 million as of July 31, 2020, and to continue as a going concern, is dependent on our ability to increase revenue, reduce costs, achieve a satisfactory level of profitable operations, obtain additional sources of suitable and adequate financing and further develop and execute on our business plan. We may never reach sustained profitability. As a result of the going concern uncertainty, there is an increased risk that you could lose the entire amount of your investment in our company, which assumes the realization of our assets and the satisfaction of our liabilities and commitments in the normal course of business.

Our revenue, operating results and gross margin can fluctuate significantly and unpredictably from quarter-to-quarter and from year-to-year, and we expect that they will continue to do so, which could have a material adverse effect on our operating results.

The rate at which our customers order our products, and the size of these orders, are highly variable and difficult to predict. In the past, we have experienced significant variability in our customer purchasing practices on a quarterly and annual basis, and we expect that this variability will continue, as a result of a number of factors, many of which are beyond our control, including:

- demand for our products and the timing and size of customer orders;

- length of sales cycles, which may be extended by selling our products through channel partners;
- length of time of deployment of our products by our customers;
- customers' budgetary constraints;
- competitive pressures;
- health epidemics and other outbreaks, including COVID-19, which could significantly disrupt our operations; and
- general economic conditions.

As a result of this volatility in our customers' purchasing practices, our revenue has historically fluctuated unpredictably on a quarterly and annual basis and we expect this to continue for the foreseeable future. Our budgeted expense levels depend in part on our expectations of future revenue. Because any substantial adjustment to expenses to account for lower levels of revenue is difficult and takes time, if our revenue declines, our operating expenses and general overhead would likely be high relative to revenue, which could have a material adverse effect on our operating margin and operating results.

We may be unable to predict subscription renewal rates and the impact these rates may have on our future revenue and operating results.

Some of our products and services are sold on a subscription basis that is generally month-to-month or one year in length. Our customers have no obligation to renew their subscriptions for our services after the expiration of their initial subscription period, and some customers elect not to renew. We cannot provide assurance that our subscriptions will be renewed at the same or higher level of service, for the same number of licenses or for the same duration of time, if at all. We cannot provide assurance that we will be able to accurately predict future customer renewal rates. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with our services, our ability to continue to regularly add features and functionality, the reliability (including uptime) of our subscription services, the prices of our services, the prices of services offered by our competitors, mergers and acquisitions affecting our customer base, reductions in our customers' spending levels or declines in customer activity as a result of economic downturns or uncertainty in financial markets. If our customers do not renew their subscriptions for our services or if they renew on terms less favorable to us, our revenue may decline.

If we are not able to manage our operating expenses, then our financial condition may be adversely affected.

Our ability to reach and maintain profitability is conditional upon our ability to manage our operating expenses. There is a risk that we will have to increase our operating expenses in the future. Factors that could cause our operating expenses to increase include our determination to spend more on sales and marketing in order to increase product sales or our determination that more research and development expenditures are required in order to keep our current software products competitive or in order to develop new products for the market. To the extent that our operating expenses increase without a corresponding increase in revenue, our financial condition would be adversely impacted.

Our level of indebtedness and debt service obligations could adversely affect our financial condition and may make it more difficult for us to fund our operations.

On October 10, 2018, as amended on July 10, 2019 and February 1, 2020, our company entered into a loan agreement (the "Loan Agreement") with Wesley Clover International Corporation and KMB Trac Two Holdings Ltd. (collectively, the "Lenders"), pursuant to which the Lenders agreed to loan to our company an aggregate principal amount of up to \$5,000,000. As of September 4, 2020, Wesley Clover International Corporation owns approximately 25.7% of our common shares and is controlled by the Chairman of our company, Terence Matthews and KMB Trac Two Holdings Ltd. is represented by Steven Bruk, a director of our company and Karen Bruk, Mr. Bruk's spouse. KMB Trac Two Holdings Ltd., Steven Bruk and Karen Bruk, together, own approximately 21.3% of our common shares. Pursuant to the terms of the Loan Agreement and subsequent amendments, the loan is unsecured and will be made available in multiple advances at the discretion of our company and, effective February 1, 2020, accrues interest at a rate of 8%, compounded daily. The outstanding principal and any accrued interest may be prepaid without penalty and is to be repaid before April 11, 2011. The loan is intended to be used for general working capital purposes. As of July 31, 2020, the principal balance of the related party loan payable, including interest was \$2,140,084.

This indebtedness may create additional financing risk for us, particularly if our business or prevailing financial market conditions are not conducive to paying off or refinancing our outstanding debt obligations at maturity. This indebtedness could also have important negative consequences, including the fact that we will need to repay our indebtedness by making payments of interest and principal, which will reduce the amount of money available to finance our operations, our research and development efforts and other general corporate activities. To the extent additional debt (including without limitation the additional advances) is added to our current debt levels, the risks described above could increase.

We may not have cash available to us in an amount sufficient to enable us to make interest or principal payments on our indebtedness when due.

Failure to satisfy our current and future debt obligations under the Loan Agreement, could result in an event of default and, as a result, the Lenders could accelerate all of the amounts due. In the event of an acceleration of amounts due under the Loan Agreement, as a result of an event of default, we may not have sufficient funds or may be unable to arrange for additional financing to repay our indebtedness.

We face larger and better-financed competitors, which may affect our ability to achieve or maintain profitability.

Management is aware of similar products which compete directly with our products and some of the companies developing these similar products are larger and better-financed than us and may develop products superior to those of our company. In addition to price competition, increased competition may result in other aggressive business tactics from our competitors, such as:

- emphasizing their own size and perceived stability against our smaller size and narrower recognition;
- providing customers "one-stop shopping" options for the purchase of network equipment and application software;
- offering customers financing assistance;
- making early announcements of competing products and employing extensive marketing efforts; and
- asserting infringement of their intellectual property rights.

Such competition may potentially adversely affect our profitability.

A decline in the price of our common stock could affect our ability to raise further working capital and adversely impact our operations.

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital, or a delisting from a stock exchange on which our common stock trades. Because our operations have been partially financed through the sale of equity securities, a decline in the price of our common stock could be especially detrimental to our liquidity and our continued operations. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and would have a significant negative effect on our business plans and operations, including our ability to develop new products and continue our current operations. If our stock price declines, there can be no assurance that we can raise additional capital or generate funds from operations sufficient to meet our obligations.

The majority of our directors and officers are located outside the United States, with the result that it may be difficult for investors to enforce within the United States any judgments obtained against us or some of our directors or officers.

The majority of our directors and officers are nationals and/or residents of countries other than the United States, and all or a substantial portion of such persons' assets are located outside the United States. As a result, it may be difficult for investors to enforce within the United States any judgments obtained against us or our officers or directors, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state thereof. Consequently, investors may be effectively prevented from pursuing remedies under United States federal securities laws against some of our directors or officers.

We may in the future be subject to damaging and disruptive intellectual property litigation that could materially and adversely affect our business, results of operations and financial condition, as well as the continued viability of our company.

We may be unaware of filed patent applications and issued patents that could relate to our products and services. Intellectual property litigation, if determined against us, could:

- result in the loss of a substantial number of existing customers or prohibit the acquisition of new customers;
- cause us to lose access to key distribution channels;
- result in substantial employee layoffs or risk the permanent loss of highly-valued employees;
- materially and adversely affect our brand in the market place and cause a substantial loss of goodwill;
- affect our ability to raise additional capital;
- cause our stock price to decline significantly; and
- lead to the bankruptcy or liquidation of our company.

Parties making claims of infringement may be able to obtain injunctive or other equitable relief that could effectively block our ability to provide our products or services and could cause us to pay substantial royalties, licensing fees or damages. The defense of any lawsuit could result in time-consuming and expensive litigation, regardless of the merits of such claims.

We could lose our competitive advantages if we are not able to protect any proprietary technology and intellectual property rights against infringement, and any related litigation could be time-consuming and costly.

Our success and ability to compete depends to a significant degree on our proprietary technology incorporated in our software. If any of our competitors' copy or otherwise gain access to our proprietary technology or develops similar technologies independently, we would not be able to compete as effectively. We also consider our family of registered and unregistered trademarks including CounterPath, Bria, eyebeam, X-Lite, and Softphone.com invaluable to our ability to continue to develop and maintain the goodwill and recognition associated with our brand. The measures we take to protect the proprietary technology software, and other intellectual property rights, which presently are based upon a combination of patents, patents pending, copyright, trade secret and trademark laws, may not be adequate to prevent their unauthorized use. Further, the laws of foreign countries may provide inadequate protection of such intellectual property rights.

We may need to bring legal claims to enforce or protect such intellectual property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and divert resources from intended uses. In addition, notwithstanding any rights we have secured in our intellectual property, other persons may bring claims against us that we have infringed on their intellectual property rights, including claims based upon the content we license from third parties or claims that our intellectual property right interests are not valid. Any claims against us, with or without merit, could be time consuming and costly to defend or litigate, divert our attention and resources, result in the loss of goodwill associated with our service marks or require us to make changes to our website or other of our technologies.

Our products may become obsolete and unmarketable if we are unable to respond adequately to rapidly changing technology and customer demands.

Our industry is characterized by rapid changes in technology and customer demands. As a result, our products may quickly become obsolete and unmarketable. Our future success will depend on our ability to adapt to technological advances, anticipate customer demands, develop new products and enhance our current products on a timely and cost-effective basis. Further, our products must remain competitive with those of other companies with substantially greater resources. We may experience technical or other difficulties that could delay or prevent the development, introduction or marketing of new products or enhanced versions of existing products. Also, we may not be able to adapt new or enhanced services to emerging industry standards, and our new products may not be favorably received.

Unless we can establish broad market acceptance of our current products, our potential revenues may be significantly reduced.

We expect that a substantial portion of our future revenue will be derived from the sale of our software products. We expect that these product offerings and their extensions and derivatives will account for a majority of our revenue for the foreseeable future. Broad market acceptance of our software products is, therefore, critical to our future success and our ability to continue to generate revenues. Failure to achieve broad market acceptance of our software products as a result of competition, technological change, or otherwise, would significantly harm our business. Our future financial performance will depend primarily on the continued market acceptance of our current software product offerings and on the development, introduction and market acceptance of any future enhancements. There can be no assurance that we will be successful in marketing our current product offerings or any new product offerings, applications or enhancements, and any failure to do so would significantly harm our business.

Our use of open source software could impose limitations on our ability to commercialize our products.

We incorporate open source software into our products. Although we closely monitor our use of open source software, the terms of many open source software licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to sell our products. In such event, we could be required to make our proprietary software generally available to third parties, including competitors, at no cost, to seek licenses from third parties to continue offering our products, to re-engineer our products or to discontinue the sale of our products in the event re-engineering cannot be accomplished on a timely basis or at all, any of which could adversely affect our revenues and operating expenses.

We may not be able to obtain necessary licenses of third-party technology on acceptable terms, or at all, which could delay product sales and development and adversely impact product quality.

We have incorporated third-party licensed technology into our current products. We anticipate that we are also likely to need to license additional technology from third-parties to develop new products or product enhancements in the future. Third-party licenses may not be available or continue to be available to us on commercially reasonable terms. The inability to retain any third-party licenses required in our current products or to obtain any new third-party licenses to develop new products and product enhancements could require us to obtain substitute technology of lower quality or performance standards or at greater cost, and delay or prevent us from making these products or enhancements, any of which could seriously harm the competitive position of our products.

Our products must interoperate with many different networks, software applications and hardware products, and this interoperability will depend on the continued prevalence of open standards.

Our products are designed to interoperate with our customers' existing and planned networks, which have varied and complex specifications, utilize multiple protocol standards, software applications and products from numerous vendors and contain multiple products that have been added over time. As a result, we must attempt to ensure that our products interoperate effectively with these existing and planned networks. To meet these requirements, we have and must continue to undertake development and testing efforts that require significant capital and employee resources. We may not accomplish these development efforts quickly or cost-effectively, or at all. If our products do not interoperate effectively, installations could be delayed or orders for our products could be cancelled, which would harm our revenue, gross margins and our reputation, potentially resulting in the loss of existing and potential customers. The failure of our products to interoperate effectively with our customers' networks may result in significant warranty, support and repair costs, divert the attention of our engineering personnel from our software development efforts and cause significant customer relations problems.

Additionally, the interoperability of our products with multiple different networks is significantly dependent on the continued prevalence of standards for IP multimedia services, such as SIP or Session Initiation Protocol. Some of our existing and potential competitors are network equipment providers who could potentially benefit from the deployment of their own proprietary non-standards-based architectures. If resistance to open standards by network equipment providers becomes prevalent, it could make it more difficult for our products to interoperate with our customers' networks, which would have a material adverse effect on our ability to sell our products to service providers.

We are subject to the credit risk of our customers, which could have a material adverse effect on our financial condition, results of operations and liquidity.

We are subject to the credit risk of our customers. Businesses that are good credit risks at the time of sale may become bad credit risks over time. In times of economic recession, the number of our customers who default on payments owed to us tends to increase. If we fail to adequately assess and monitor our credit risks, we could experience longer payment cycles, increased collection costs and higher bad debt expense.

We are exposed to fluctuations in interest rates and exchange rates associated with foreign currencies.

A majority of our revenue activities are transacted in U.S. dollars. However, we are exposed to foreign currency exchange rate risk inherent in conducting business globally in numerous currencies, of which the most significant to our operations for the three months ended July 31, 2020 is the Canadian dollar. We are primarily exposed to a fluctuating Canadian dollar as our operating expenses are primarily denominated in Canadian dollars while our revenues are primarily denominated in U.S. dollars. We address certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. Our company's foreign currency risk management program includes foreign currency derivatives with cash flow hedge accounting designation that utilizes foreign currency forward contracts to hedge exposures to the variability in the U.S. dollar equivalent of anticipated non-U.S. dollar-denominated cash flows. These instruments generally have a maturity of less than one year. For these derivatives, our company reports the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss) in stockholders' equity and reclassifies it into earnings in the same period in which the hedged transaction affects earnings, and within the same line item on the consolidated statements of operations as the impact of the hedged transaction. There can be no assurance that our hedging program will not result in a negative impact on our earnings and earnings per share. We did not enter into any forward contracts for hedging purposes during the three months ended July 31, 2020 (2019 - none).

Tax matters, including changes in tax rates, disagreements with taxing authorities and imposition of new taxes could impact our results of operations and financial condition.

We are subject to income taxes as well as non-income-based taxes, such as payroll, sales, use, value added, net worth, property, withholding and franchise taxes in both the U.S. and various foreign jurisdictions. From time to time, we are also subject to reviews, examinations and audits by taxing authorities with respect to such income and non-income-based taxes inside and outside of the U.S. When a taxing authority disagrees with our tax positions, we could face additional tax liabilities, including interest and penalties. Payment of such additional amounts upon final settlement or adjudication of any disputes could have a material impact on our results of operations and financial position.

In addition, we are directly and indirectly affected by new tax legislation and regulation and the interpretation of tax laws and regulations worldwide. Changes in legislation, regulation or interpretation of existing laws and regulations in the U.S. and other jurisdictions where we are subject to taxation could increase our taxes and have an adverse effect on our operating results and financial condition.

If a security breach or cyberattack of our IT networks and systems, or any of our products, occurs, our operations could be interrupted, our products and services may be perceived as vulnerable, and our brand and reputation could be damaged, which could reduce revenue, increase expenses, and expose us to legal claims or regulatory actions.

Cybersecurity refers to the combination of technologies, processes, and procedures established to protect information technology systems and data from unauthorized access, attack, or damage. We are subject to cybersecurity risks. Information cybersecurity risks have significantly increased in recent years and, while we have not experienced any material losses relating to cyber-attacks or other information security breaches, we could suffer such losses in the future. Our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize confidential and other information, including nonpublic personal information and sensitive business data, processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations or the operations of our customers or counterparties. This could result in significant losses, reputational damage, litigation, regulatory fines or penalties, or otherwise adversely affect our business, financial condition or results of operations. Privacy and information security laws and regulation changes, and compliance with those changes, may result in cost increases due to system changes and the development of new administrative processes. In the future, we may be required to expend significant additional resources to modify our protective measures and to investigate and remediate vulnerabilities or other exposures arising from operational and security risks. In addition, we may be subject to litigation and financial losses that are not fully insured.

Risks Associated with our Common Stock

If we are unable to comply with the continued listing requirements of the Nasdaq Capital Market, our common stock could be delisted, which could affect our common stock's market price and liquidity and reduce our ability to raise capital.

On December 16, 2019, we received a letter from the listing qualifications department staff of the NASDAQ Stock Market notifying us that the stockholders' equity of \$1,922,675 as reported in our quarterly report on Form 10-Q for the period ended October 31, 2019 was below the minimum stockholders' equity of \$2,500,000. As of January 31, 2020 the stockholders' equity decreased to \$1,777,646. The minimum stockholders' equity of \$2,500,000 is required for continued listing on the NASDAQ Capital Market as set forth in NASDAQ listing rule 5550(b)(1). We were provided 45 calendar days, or until January 30, 2020, to submit a plan to regain compliance with the minimum stockholders' equity standard. On January 28, 2020, we made application for an extension of up to 165 calendar days from the date of the notification letter to regain compliance with the minimum stockholders' equity standard and the extension was granted for 136 calendar days by NASDAQ on February 10, 2020.

On June 10, 2020, we issued an aggregate of 284,902 shares of common stock under a non-brokered private placement for total gross proceeds of \$1,000,006. On June 16, 2020, we received a letter from NASDAQ wherein, based on our current report on Form 8-K dated June 11, 2020 relating to the private placement, NASDAQ has determined that we comply with the NASDAQ listing rule 5550(b)(1). NASDAQ continues to monitor our ongoing compliance with the minimum stockholders' equity requirement and, if at the time of our periodic report for the quarter ended July 31, 2020, we did not evidence compliance with the minimum stockholders' equity requirement, we would have been subject to delisting. As of July 31, 2020, our stockholders' equity increased to \$3,647,089. There can be no assurance that we will be able to maintain compliance with the minimum stockholders' equity requirement.

Because our operations have been partially financed through the sale of equity securities, the delisting from NASDAQ for failure to comply with the continued listing requirements of NASDAQ could be especially detrimental to our ability to raise additional financing through public or private sales of equity securities. Any reduction in our ability to raise equity capital in the future could force us to reallocate funds from other planned uses and could have a significant negative effect on our business plans and operations, including our ability to develop new products and continue our current operations. In addition, delisting could significantly affect the ability of investors to trade our securities and could negatively affect the value and liquidity of our common stock. Delisting could also have other negative results, including the potential loss of confidence by employees, the loss of institutional investor interest and fewer business development opportunities.

Our directors control a substantial number of shares of our common stock, decreasing your influence on stockholder decisions.

Based on the 6,411,063 shares of common stock that were issued and outstanding as of July 31, 2020, our directors owned approximately 51% of our outstanding common stock. As a result, our directors as a group could have a significant influence in delaying, deferring or preventing any potential change in control of our company; they will be able to strongly influence the actions of our board of directors even if they were to cease being directors of our company and can effectively control the outcome of actions brought to our stockholders for approval. Such a high level of ownership may adversely affect the exercise of your voting and other stockholder rights.

We do not expect to pay dividends in the foreseeable future.

We do not intend to declare dividends for the foreseeable future, as we anticipate that we will reinvest any future earnings in the development and growth of our business. Therefore, investors will not receive any funds unless they sell their common stock, and stockholders may be unable to sell their shares on favorable terms. We cannot assure you of a positive return on investment or that you will not lose the entire amount of your investment in our common stock.

The exercise of all or any number of outstanding stock options or the issuance of other stock-based awards or any issuance of shares to raise funds may dilute your holding of shares of our common stock.

If the holders of outstanding stock options and deferred share units exercise or settle all of their vested stock options and deferred share units as at July 31, 2020, then we would be required to issue an additional 1,323,994 shares of our common stock, which would represent approximately 17% of our issued and outstanding common stock after such issuances. The exercise of any or all outstanding stock options that are exercisable below market price will result in dilution to the interests of other holders of our common stock.

We may in the future grant to certain or all of our directors, officers, insiders and key employees stock options to purchase the shares of our common stock, bonus shares and other stock based compensation as non-cash incentives to such persons. Subject to applicable stock exchange rules, if any, we may grant these stock options and other stock based compensation at exercise prices equal to or less than market prices, and we may grant them when the market for our securities is depressed. The issuance of any additional shares of common stock or securities convertible into common stock will cause our existing shareholders to experience dilution of their holding of our common stock.

In addition, shareholders could suffer dilution in their net book value per share depending on the price at which such securities are sold. Such issuance may cause a reduction in the proportionate ownership and voting power of all other shareholders. The dilution may result in a decline in the price of our shares of common stock or a change in the control of our company.

We may be considered a "penny stock." Penny stock rules will limit the ability of our stockholders to sell their shares of common stock.

The SEC has adopted regulations which generally define "penny stock" to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. In addition, since our common stock commenced trading on the NASDAQ Capital Market below the \$4.00 minimum bid price per share requirement, our common stock would be considered a penny stock if we fail to satisfy the net tangible assets and revenue tests in Rule 3a51-1 under the Securities Exchange Act of 1934. Our securities may be covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors". The term "accredited investor" refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation.

In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

The Financial Industry Regulatory Authority, or FINRA, has adopted sales practice requirements, which may limit a stockholder's ability to buy and/or sell shares of our common stock.

The FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for its shares.

Securities analysts may not publish favorable research or reports about our business or may publish no information which could cause our stock price or trading volume to decline.

The trading market for our common stock will be influenced by the research and reports that industry or financial analysts publish about us and our business. We do not control these analyst reports. As a relatively small public company, we may be slow to attract research coverage and the analysts who publish information about our common stock will have had relatively little experience with our company, which could affect their ability to accurately forecast our results and make it more likely that we fail to meet their estimates. If any of the analysts who cover us issue an adverse opinion regarding our stock price, our stock price may decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports covering us, we could lose visibility in the market, which in turn could cause our stock price or trading volume to decline.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.***Recent Sales of Unregistered Securities***

Since the beginning of our quarter ended July 31, 2020, we have not sold any equity securities that were not registered under the Securities Act of 1933 that were not previously reported in a current report on Form 8-K.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.***Exhibits required by Item 601 of Regulation S-K*****(3) Articles of Incorporation and By-laws**

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| 3.1 | <u>Articles of Incorporation (incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003)</u> |
| 3.2 | <u>Certificate of Designation (incorporated by reference from our Registration Statement on Form S-8 filed on January 31, 2017)</u> |
| 3.3 | <u>Articles of Merger (incorporated by reference from our Current Report on Form 8-K filed on September 15, 2005)</u> |
| 3.4 | <u>Articles of Merger (incorporated by reference from our Registration Statement on Form S-8 filed on January 31, 2017)</u> |
| 3.5 | <u>Certificate of Amendment (incorporated by reference from our Quarterly Report in the Form 10-Q filed on December 12, 2013)</u> |
| 3.6 | <u>Certificate of Change (incorporated by reference from our Registration Statement on Form S-8 filed on January 31, 2017)</u> |
| 3.7 | <u>Amended Bylaws (incorporated by reference from our Current Report on Form 8-K filed on July 2, 2012)</u> |

(4) Instruments defining the rights of security holders, including indentures

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| 4.1 | <u>Employee Share Purchase Plan (incorporated by reference from our Registration Statement on Form S-8 filed on January 31, 2019)</u> |
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4.2	<u>Amended 2010 Stock Option Plan (incorporated by reference from our Registration Statement on Form S-8 filed on January 31, 2019)</u>
4.3	<u>Deferred Share Unit Plan (incorporated by reference from our Quarterly Report on Form 10-Q filed on March 13, 2017)</u>
(10)	Material Contracts
10.1	<u>Employment Agreement between CounterPath Solutions, Inc. and David Karp dated September 11, 2006 (incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 14, 2006)</u>
10.2	<u>Piggyback Registrations Rights Agreement among our company and various shareholders, dated as of August 2, 2007 (incorporated by reference from our Current Report on Form 8-K filed on August 8, 2007)</u>
10.3	<u>Form of Subscription Agreement between our company and various investors in connection with the non-brokered private placement completed on September 4, 2015 (incorporated by reference from our Current Report on Form 8-K filed on September 8, 2015)</u>
10.4	<u>Form of Warrant Certificate issued to various investors in connection with the non-brokered private placement completed on September 4, 2015 (incorporated by reference from our Current Report on Form 8-K filed on September 8, 2015)</u>
10.5	<u>Form of Subscription Agreement between our company and various investors in connection with the non-brokered private placement completed on December 15, 2016 (incorporated by reference from our Current Report on Form 8-K filed on December 19, 2016)</u>
10.6	<u>Form of Subscription Agreement between our company and various investors in connection with the non-brokered private placement completed on July 20, 2017 (incorporated by reference from our Current Report on Form 10-Q filed on September 14, 2017)</u>
10.7	<u>Form of Subscription Agreement between our company and various investors in connection with the non-brokered private placement completed on January 24, 2018 (incorporated by reference from our Current Report on Form 8-K filed on January 26, 2018)</u>
10.8	<u>Amended Employment Agreement between David Karp and CounterPath Corporation and its wholly owned subsidiary, CounterPath Technologies Inc., dated March 7, 2018 (incorporated by reference from our Quarterly Report on Form 10-Q filed on March 13, 2018)</u>
10.9	<u>Loan Agreement between Wesley Clover International Corporation, KMB Trac Two Holdings Ltd. and CounterPath Corporation dated October 10, 2018 (incorporated by reference from our Current Report on Form 8-K filed on October 12, 2018)</u>
10.10	<u>Amendment Agreement dated July 10, 2019 to the Loan Agreement dated October 10, 2018 between Wesley Clover International Corporation, KMB Trac Two Holdings Ltd. and CounterPath Corporation (incorporated by reference from our Annual Report on Form 10-K filed on July 11, 2019)</u>
10.11	<u>Amendment Agreement dated February 1, 2020 between Wesley Clover International Corporation, KMB Trac Two Holdings Ltd. and CounterPath Corporation (incorporated by reference from our Quarterly Report on Form 10-Q filed on March 11, 2020)</u>
10.12	<u>Form of Subscription Agreement between our company and investors in connection with the non-brokered private placement completed on June 10, 2020 (incorporated by reference from our Current Report on Form 8-K filed on June 11, 2020)</u>

10.13	Employment Agreement between CounterPath Technologies Inc. and Karen Luk dated May 17, 2018 (incorporated by reference from our Annual Report on Form 10-K filed on July 20, 2020)
10.14	Amendment to Employment Agreement between CounterPath Technologies Inc. and Karen Luk dated September 23, 2019 (incorporated by reference from our Annual Report on Form 10-K filed on July 20, 2020)
10.15	Executive Employment Agreement between David Karp and CounterPath Corporation and CounterPath Technologies Inc. dated April 14, 2020 (incorporated by reference from our Annual Report on Form 10-K filed on July 20, 2020)
10.16	Employment Agreement between Todd Carothers and CounterPath, LLC dated January 1, 2019 (incorporated by reference from our Annual Report on Form 10-K filed on July 20, 2020)
10.17	Amendment to Employment Agreement between Todd Carothers and CounterPath, LLC dated November 15, 2019 (incorporated by reference from our Annual Report on Form 10-K filed on July 20, 2020)
10.18	Amendment to Employment Agreement between Todd Carothers and CounterPath, LLC dated April 14, 2020 (incorporated by reference from our Annual Report on Form 10-K filed on July 20, 2020)
10.19	Sales Agreement, dated as of August 28, 2020, by and between CounterPath Corporation and A.G.P./Alliance Global Partners. (incorporated by reference from our Current Report on Form 8-K filed on August 28, 2020)
(14)	Code of Ethics
14.1	Code of Business Conduct and Ethics and Compliance Program (incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 15, 2008)
(21)	Subsidiaries of CounterPath Corporation
	CounterPath Technologies Inc. (incorporated in the Province of British Columbia, Canada)
	BridgePort Networks, Inc. (incorporated in the State of Delaware)
	CounterPath, LLC (organized in the State of Delaware)
(31)	Section 302 Certifications
31.1*	Section 302 Certification of David Karp
31.2*	Section 302 Certification of Karen Luk
(32)	Section 906 Certifications
32.1*	Section 906 Certification of David Karp
32.2*	Section 906 Certification of Karen Luk
(101)	Interactive Data File
101.INS*	XBRL Instance Document

[101.SCH*](#) [XBRL Taxonomy Extension Schema](#)

[101.CAL*](#) [XBRL Taxonomy Extension Calculation Linkbase](#)

[101.DEF*](#) [XBRL Taxonomy Extension Definition Linkbase](#)

[101.LAB*](#) [XBRL Taxonomy Extension Label Linkbase](#)

[101.PRE*](#) [XBRL Taxonomy Extension Presentation Linkbase](#)

*Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COUNTERPATH CORPORATION

By: /s/ Karen Luk
Karen Luk
Vice President of Finance, Treasurer and Secretary
(Principal Financial Officer and Principal Accounting
Officer, and Duly Authorized Officer)

Date: September 10, 2020

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, David Karp, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CounterPath Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 10, 2020

/s/ David Karp

David Karp
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Karen Luk, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CounterPath Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

September 10, 2020

/s/ Karen Luk

Karen Luk

Vice President of Finance, Treasurer and Secretary

(Principal Financial Officer and Principal Accounting Officer)

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, David Karp, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that

1. the quarterly report on Form 10-Q of CounterPath Corporation for the period ended July 31, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of CounterPath Corporation.

September 10, 2020

/s/ David Karp

David Karp

President and Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Karen Luk, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that

1. the quarterly report on Form 10-Q of CounterPath Corporation for the period ended July 31 31, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of CounterPath Corporation.

September 10, 2020

/s/ Karen Luk

Karen Luk

Vice President of Finance, Treasurer and Secretary

(Principal Financial Officer and Principal Accounting Officer)