

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

OPTIVA INC.

Three and nine months ended June 30, 2018 and 2017
(Unaudited)

OPTIVA INC.

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

	June 30, 2018	September 30, 2017
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 54,614,838	\$ 110,891,744
Trade accounts and other receivables (note 4)	21,231,568	26,329,505
Unbilled revenue	15,613,837	17,928,405
Prepaid expenses	1,876,281	2,205,887
Income taxes receivable	5,573,290	4,329,580
Other assets	394,030	—
Inventories	1,095,363	1,101,929
Total current assets	100,399,207	162,787,050
Restricted cash (note 10(a))	3,578,134	4,553,623
Property and equipment	728,948	3,457,611
Deferred income taxes	2,215,686	2,328,129
Investment tax credits	355,274	374,387
Other assets	—	1,353,968
Intangible assets	19,389,379	25,505,620
Goodwill	32,271,078	32,271,078
Total assets	\$ 158,937,706	\$ 232,631,466
Liabilities and Shareholders' Equity (Deficit)		
Current liabilities:		
Trade payables (note 12)	\$ 13,010,838	\$ 11,229,091
Accrued liabilities (note 12)	22,868,028	16,853,190
Provisions (note 11)	24,179,144	18,653,817
Income taxes payable	195,677	322,403
Deferred revenue	18,236,192	15,572,620
Total current liabilities	78,489,879	62,631,121
Deferred revenue	1,041,922	894,409
Other liabilities	1,290,155	807,390
Pension and other long-term employment benefit plans	17,285,292	17,886,630
Provisions (note 11)	581,131	824,626
Preferred shares (note 5(b))	57,433,340	59,670,913
Series A Warrant (note 5(d))	19,439,944	29,622,772
Deferred income taxes	120,000	120,000
Total liabilities	175,681,663	172,457,861
Shareholders' equity (deficit):		
Share capital	248,680,325	248,680,325
Standby Warrant (note 5(d))	997,500	997,500
Treasury stock	(141,917)	(141,917)
Contributed surplus	13,131,426	11,826,454
Deficit	(270,949,868)	(192,727,334)
Accumulated other comprehensive loss	(8,461,423)	(8,461,423)
Total shareholders' equity (deficit)	(16,743,957)	60,173,605
Total liabilities and shareholders' equity	\$ 158,937,706	\$ 232,631,466

Guarantees and contingent liabilities (note 10(b))
Related party transactions (note 12)

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

OPTIVA INC.

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

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Revenue:				
Software, services and other	\$ 10,358,089	\$ 12,387,266	\$ 29,376,407	\$ 39,855,491
Support and subscription	21,676,078	20,189,307	64,952,705	64,295,923
	32,034,167	32,576,573	94,329,112	104,151,414
Cost of revenue	9,676,473	13,964,206	41,833,923	44,295,030
Gross profit	22,357,694	18,612,367	52,495,189	59,856,384
Operating expenses:				
Sales and marketing	3,116,201	4,384,291	8,957,567	13,947,590
General and administrative	5,928,544	10,742,398	24,552,985	27,084,194
Research and development	17,344,922	10,622,543	47,410,763	29,110,061
Restructuring costs (note 11(a))	1,552,824	14,278,115	50,783,369	18,358,589
	27,942,491	40,027,347	131,704,684	88,500,434
Loss from operations	(5,584,797)	(21,414,980)	(79,209,495)	(28,644,050)
Foreign exchange gain (loss)	2,518,468	(2,449,022)	1,656,895	(3,114,891)
Other expense	—	—	—	(1,450,928)
Finance income	116,665	—	270,867	230,205
Finance recovery (cost) (note 5)	1,149,825	(1,530,806)	2,352,921	(10,912,651)
Loss before income taxes	(1,799,839)	(25,394,808)	(74,928,812)	(43,892,315)
Income tax expense (recovery):				
Current	1,726,038	1,463,390	3,302,783	4,862,036
Deferred	14,234	(109,199)	(9,061)	(387,604)
	1,740,272	1,354,191	3,293,722	4,474,432
Net Loss and comprehensive loss	\$ (3,540,111)	\$ (26,748,999)	\$ (78,222,534)	\$ (48,366,747)
Loss per subordinate voting share (note 5(e))*:				
Basic	\$ (0.68)	\$ (12.32)	\$ (14.95)	\$ (22.32)
Diluted	(0.68)	(12.32)	(14.95)	(22.32)
Weighted average number of subordinate voting shares (note 5(e))*:				
Basic	5,233,047	2,170,338	5,233,047	2,167,422
Diluted	5,233,047	2,170,338	5,233,047	2,167,422

* Note – During the quarter ended June 30, 2018 the Company completed the Share Consolidation (see note 5(a) Share Consolidation). All share and per share numbers, options, restricted and performance share units and deferred share units, including comparatives, have been adjusted to reflect the effect of the Share Consolidation.

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

OPTIVA INC.

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

Nine months ended June 30, 2018 and 2017
(Unaudited)

	Share capital						Accumulated other comprehensive income (loss)	Total shareholders' equity (deficit)
	Number Outstanding *	Amount	Standby Warrant	Treasury stock	Contributed surplus	Deficit		
Balance, September 30, 2017	5,233,047	\$ 248,680,325	\$ 997,500	\$ (141,917)	\$ 11,826,454	\$ (192,727,334)	\$ (8,461,423)	\$ 60,173,605
Loss for the period	—	—	—	—	—	(78,222,534)	—	(78,222,534)
Share-based compensation	—	—	—	—	1,304,972	—	—	1,304,972
Balance, June 30, 2018	5,233,047	\$ 248,680,325	\$ 997,500	\$ (141,917)	\$ 13,131,426	\$ (270,949,868)	\$ (8,461,423)	\$ (16,743,957)
Balance, September 30, 2016	2,165,049	\$ 172,436,385	\$ —	\$ (141,917)	\$ 9,812,545	\$ (133,954,043)	\$ (11,445,750)	\$ 36,707,220
Loss for the period	—	—	—	—	—	(48,366,747)	—	(48,366,747)
Share-based compensation	—	—	—	—	112,710	—	—	112,710
Stock options exercised	5,350	202,536	—	—	—	—	—	202,536
Balance, June 30, 2017	2,170,399	\$ 172,638,921	\$ —	\$ (141,917)	\$ 9,925,255	\$ (182,320,790)	\$ (11,445,750)	\$ (11,344,281)

* Note – During the quarter ended June 30, 2018 the Company completed the Share Consolidation (see note 5(a) Share Consolidation). All share and per share numbers, options, restricted and performance share units and deferred share units, including comparatives, have been adjusted to reflect the effect of the Share Consolidation.

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

OPTIVA INC.

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

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Cash provided by (used in):				
Operating activities:				
Loss for the period	\$ (3,540,111)	\$ (26,748,999)	\$ (78,222,534)	\$ (48,366,747)
Adjustments for:				
Depreciation of property and equipment	24,344	658,921	2,328,849	2,240,675
Amortization of intangible assets	1,526,153	2,221,673	6,156,475	6,656,214
Finance income	(116,665)	–	(270,867)	(230,205)
Finance costs	(1,149,825)	1,530,806	(2,352,921)	10,912,651
Pension	(940,537)	1,497,408	(601,338)	1,454,736
Income tax expense	1,740,272	1,354,191	3,293,722	4,474,432
Unrealized foreign exchange loss (gain)	630,967	(875,970)	698,880	520,641
Share-based compensation	304,332	666,937	2,293,159	(71,990)
Change in provisions	(21,209,638)	9,268,033	5,281,832	(2,386,841)
Loss on disposal of property and equipment	306,163	–	416,795	–
Change in non-cash operating working capital (note 7)	7,413,024	13,517,929	18,959,888	12,987,877
	(15,011,521)	3,090,929	(42,018,060)	(11,808,557)
Interest paid	(31,940)	(42,745)	(108,760)	(209,247)
Interest received	61,071	48,718	218,361	260,915
Income taxes paid	(2,169,941)	(2,138,455)	(4,947,171)	(6,382,229)
	(17,152,331)	958,447	(46,855,630)	(18,139,118)
Financing activities:				
Proceeds from exercise of stock options	–	846	–	202,536
Interest paid on loans and borrowings	–	–	–	(2,330,904)
Repayment of loans and borrowings	–	–	–	(52,750,000)
Payment of dividends (note 5(b))	(2,000,000)	–	(9,640,670)	–
Issue of preferred shares and warrant net of transaction costs	–	–	–	79,861,542
	(2,000,000)	846	(9,640,670)	24,983,174
Investing activities:				
Purchase of property and equipment	–	–	(5,538)	(309,154)
Purchase of intangible assets	–	–	(9,985)	–
Decrease in restricted cash	88,817	(793,969)	975,489	261,790
	88,817	(793,969)	959,966	(47,364)
Effect of foreign exchange rate changes on cash and cash equivalents	(876,230)	1,242,266	(740,572)	798,338
Increase (decrease) in cash and cash equivalents	(19,939,744)	1,407,590	(56,276,906)	7,595,030
Cash and cash equivalents, beginning of period	74,554,582	43,267,950	110,891,744	37,080,510
Cash and cash equivalents, end of period	\$ 54,614,838	\$ 44,675,540	\$ 54,614,838	\$ 44,675,540

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

OPTIVA INC.

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

Three and nine months ended June 30, 2018 and 2017
(Unaudited)

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

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

1. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and do not include all the information required for full annual consolidated financial statements.

These condensed consolidated interim financial statements for the three and nine months ended June 30, 2018 were authorized for issuance by the Board of Directors of the Company on August 8, 2018.

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

Three and nine months ended June 30, 2018 and 2017
(Unaudited)

1. Basis of preparation (continued):

(b) Judgments and estimates:

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

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

2. Significant accounting policies:

(a) Basis of measurement and presentation:

The notes presented in these condensed consolidated interim financial statements include, in general, only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the 2017 annual financial statements, including the notes thereto. Except as discussed below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the 2017 annual financial statements.

(b) Basis of consolidation:

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

(c) Functional currency:

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

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

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

Three and nine months ended June 30, 2018 and 2017
(Unaudited)

2. Significant accounting policies (continued):

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

(d) New accounting pronouncements:

The IASB has issued new standards and amendments to existing standards. These changes in accounting are not yet effective for the Company's fiscal period ending September 30, 2018 and could have an impact on future periods.

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

The IASB issued IFRS 15, which is effective for annual periods beginning on or after January 1, 2018. The standard will be applicable for the Company effective October 1, 2018. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue, at a point in time and over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The Company has a team focused on the adoption and compliance with IFRS 15. This team is responsible for determining existing policies, differences between existing policies and IFRS 15, ensuring the Company's data collection is appropriate, and communicating the upcoming changes with various stakeholders. In addition, this team is assisting with the development implementation and monitoring of processes and policies that will help ensure an effective transition and the related impacts are reliably assessed.

The Company continues to assess all potential impacts of the new revenue recognition standard. The Company currently believes the most significant impacts will relate to the timing of recognition and allocation of consideration to elements in long-term multi-element arrangements, in particular term license arrangements, expanded disclosure on revenue, performance obligations, and contract balances, and the presentation of contract assets and liabilities at the contract level. Furthermore, the Company anticipates the development of new internal controls to ensure timely and accurate revenue reporting in accordance with the new standard.

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

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(Unaudited)

2. Significant accounting policies (continued):

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

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

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

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

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

The IASB issued IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, and which establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with certain exemptions. The Company is in the process of assessing the impact of this standard on its consolidated financial statements and will adopt the standard effective October 1, 2018.

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

Three and nine months ended June 30, 2018 and 2017
(Unaudited)

2. Significant accounting policies (continued):

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

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

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

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

3. Cash and cash equivalents:

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

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

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(Unaudited)

4. Trade accounts and other receivables:

	June 30, 2018	September 30, 2017
Trade receivables, net of allowance for doubtful accounts	\$ 18,242,573	\$ 22,373,704
Other receivables (a)	2,735,150	3,223,304
Employee receivables (b)	253,845	732,497
	<u>\$ 21,231,568</u>	<u>\$ 26,329,505</u>

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

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

5. Share Capital:

(a) Share Consolidation:

On March 28, 2018, at its annual shareholders meeting, the shareholders passed a resolution to consolidate the issued and outstanding Subordinate Voting Shares on the basis of one post-consolidation share for every fifty (50) pre-consolidation shares. Effective April 5, 2018, the Company received an approval from TSX for this share consolidation. All share and per share information in these condensed interim consolidated financial statements have been restated to reflect the impact of the share consolidation.

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

On January 26, 2017, the Company issued 800,000 Series A Preferred Shares (the "Preferred Shares") of the Company and a warrant ("the "Series A Warrant") (collectively the "Financing Transaction") to the ESW Holdings, Inc. (formerly known as Wave Systems Corp.) (the "Investor"), an affiliate of ESW Capital LLC ("ESW Capital"). The Investor, as the holder of the Preferred Shares, is entitled to elect a number of directors that will be a majority of the Board of Directors, with the holders of the Common Shares being entitled to elect the balance of the directors, which resulted in the Common Shares becoming "restricted securities" under applicable securities laws and the TSX Company Manual, on January 26, 2017. The Preferred Shares are redeemable any time at the option of the Company and redeemable at the option of the Investor any time after 10 years of issuance. The holders of the Preferred Shares are entitled to dividends, payable quarterly at the rate of 10% per annum of the issue

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

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5. Share capital (continued):

price. Provided that to the extent such dividends are not declared and paid, dividends shall accrue and compound monthly at the rate of 10%.

The Preferred Shares will be accreted to their face amount of \$80,000,000 plus accrued cumulative dividends over the 10-year maturity period using the effective interest rate method. During the three months ended June 30, 2018, accretion expense, amortization of transaction costs and accrued dividends on the Preferred Shares amounted to \$2,415,323 (2017 - \$2,366,598). During the nine months ended June 30, 2018, accretion expense, amortization of transaction costs and accrued dividends on the Preferred Shares amounted to \$7,403,096 (2017 - \$3,907,730). These charges are included in finance costs in the condensed consolidated interim statements of comprehensive loss. During the three months ended June 30, 2018, cumulative dividends in amount of \$2,000,000 (2017 - nil) were paid. During the nine months ended June 30, 2018, cumulative dividends in amount of \$9,640,670 (2017 - nil) were paid. The amount of accrued dividends have been included in the Preferred Shares on the condensed consolidated interim statements of financial position.

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

(c) Rights offering:

On September 6, 2017, the Company closed a rights offering to the holders of its Subordinate Voting Shares (the "Rights Offering"). Under the Rights Offering, an aggregate of 2,170,399 Subordinate Voting Shares were issued at a subscription price of CAD\$31.50 (\$25.00) per share for gross proceeds to the Company of CAD\$68,367,560 (\$54,240,771).

Pursuant to the Rights previously granted to ESW Capital to maintain its pro rata interest in the Company, ESW Capital subscribed for an additional 892,100 Subordinate Voting Shares at a price of CAD\$31.50 per share for additional aggregate gross proceeds to the Company of CAD\$28,101,138 (\$23,185,756). This issuance was closed on September 12, 2017.

(d) Series A Warrant and Standby Warrant:

As part of the Financing Transaction, the Company issued a Series A Warrant that entitles the Investor to subscribe of 925,712 Subordinate Voting Shares at \$34.00 per share. The Series A Warrant is being classified as a liability because it contains an adjustment provision

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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Three and nine months ended June 30, 2018 and 2017
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5. Share capital (continued):

if the Company issues common shares ("Common Shares") or securities exchangeable for or convertible into Common Shares at a price per share less than the Series A Warrant exercise price of \$64.81. The decrease in fair value of the warrant liability of \$3,702,847 during the three months ended June 30, 2018 (2017 – \$986,482) is recorded in finance costs in the condensed consolidated interim statements of comprehensive loss. The decrease in fair value of the warrant liability of \$10,182,828 during the nine months ended June 30, 2018 (2017 – increase of \$2,665,064) is recorded in finance costs in the condensed consolidated interim statements of comprehensive loss. Any unexercised Series A Warrant expires on January 25, 2027. No Series A Warrant was exercised as at June 30, 2018 (September 30, 2017 – none).

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

(e) Loss per share:

A reconciliation of the number of common shares used for purposes of calculating basic and diluted loss per common share for the three and nine months ended June 30 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Basic weighted average number of common shares outstanding	5,233,047	2,170,338	5,233,047	2,167,422
Effect of dilutive securities	–	–	–	–
Diluted weighted average number of common shares outstanding	5,233,047	2,170,338	5,233,047	2,167,422

Due to the losses for the three and nine months ended June 30, 2018 and 2017, all stock options, the Series A Warrant and the Standby Warrant, are excluded from the calculation of diluted loss per common share as their inclusion would be anti-dilutive. The total number of stock options that were excluded from the calculation for the three and nine months ended

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

June 30, 2018 were 53,167 (2017 – 113,163). The Series A Warrant and the Standby Warrant are equivalent to 925,712 and 50,000 Subordinate Voting Shares respectively.

(f) Share-based compensation:

The share-based compensation relating to the Company's stock options, deferred share unit plan and under the share unit plan during the three and nine months ended June 30, 2018 was an expense of \$304,332 and \$2,293,159 (2017 – expense of \$666,937 and recovery of \$71,990), respectively.

As a result of the Company's Share Consolidation (note 5(a)), the numbers of options, restricted share units, performance share units and deferred share units outstanding were adjusted, in accordance with existing provisions of the plans for these awards, such that the holders of these awards would be in the same economic position before and after effecting the Share Consolidation. Consequently, these adjustments did not result in a new measurement date for these awards.

All prior period numbers of options, restricted share units, performance share units and deferred share units as well as exercise prices and fair values per individual award have been retroactively adjusted to reflect the share consolidation.

(i) Stock options:

The table below is a summary of the stock option plans for the nine months ended June 30, 2018:

	CAD options	
	Number of stock options	Weighted average exercise price per share (CAD)
Outstanding, September 30, 2017	103,708	\$ 152.00
Forfeited	(50,541)	154.43
Outstanding, June 30, 2018	53,167	\$ 149.02

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

5. Share capital (continued):

(ii) Share unit plan:

The table below is a summary of the restricted share units ("RSU") and performance share units ("PSU") for the nine months ended June 30, 2018:

RSU & PSU	
Outstanding, September 30, 2017	165,712
Exercised	(31,099)
Forfeited	(26,203)
Outstanding, June 30, 2018	108,418

During the quarter ended June 30, 2018, in accordance with the established terms of the Share Unit Plan, the Board authorized, subject to shareholder approval, the settlement of certain RSUs through the issuance of treasury shares. As a result, 36,807 vested RSUs remain unexercised as at June 30, 2018 and will remain outstanding until such time as a resolution can be brought before the shareholders.

There were no shares issued from the treasury stock during the three and nine months ended June 30, 2018.

(iii) Deferred share unit plan:

During the nine months ended June 30, 2018, there were 14,200 deferred share units ("DSUs") granted (June 30, 2017 – 18,667), 1,522 DSUs were exercised and no DSUs were cancelled or forfeited (June 30, 2017 – 4,252 exercised and nil cancelled or forfeited). The number of DSUs outstanding at June 30, 2018 was 33,385 (September 30, 2017 – 20,707).

6. Income tax expense:

The Company's current income tax expense for the nine months ended June 30, 2018 mainly includes \$1,296,098 (2017 - \$1,648,418) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$2,006,685 (2017 - \$3,213,618) of foreign withholding taxes. The Company's deferred tax recovery of \$9,061 (2017 – recovery of \$387,604) consists primarily of changes in temporary differences recognized during the current period.

OPTIVA INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)
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7. Change in non-cash operating working capital:

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

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Trade accounts and other receivables	\$ 6,917,508	\$ 3,523,910	\$ 5,150,443	\$ 17,534,095
Unbilled revenue	240,818	3,411,675	2,314,568	4,897,607
Prepaid expenses	408,329	(838,026)	329,606	360,303
Other assets	1,011,520	56,705	959,938	608,925
Inventories	(323,724)	248,184	6,566	(186,939)
Trade payables	3,133,441	(422,009)	1,781,747	(7,185,752)
Accrued liabilities and other liabilities	(1,448,999)	2,576,878	5,191,366	(3,158,846)
Income taxes receivable/payable	338,788	153,598	414,569	(30,031)
Deferred revenue	(2,864,657)	4,807,014	2,811,085	148,515
	\$ 7,413,024	\$ 13,517,929	\$ 18,959,888	\$ 12,987,877

8. Financial instruments and capital management:

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

- Level 1 - quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly (i.e., prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the financial asset or financial liability that are not based on observable market data (i.e., unobservable inputs that represent the Company's own judgments about what assumptions market place participants would use in pricing the asset or liability developed, based on the best information available in the circumstances).

OPTIVA INC.

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

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

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

	June 30, 2018		September 30, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (Level 1)	\$ 54,614,838	\$ 54,614,838	\$ 110,891,744	\$ 110,891,744
Restricted cash (Level 1)	3,578,134	3,578,134	4,553,623	4,553,623
Warrant classified as liability (Level 2)	19,439,944	19,439,944	29,622,772	29,622,772
Preferred Shares (Level 2)	57,433,340	57,433,340	59,670,913	59,670,913

There were no transfers of financial assets between levels during the nine months ended June 30, 2018 and 2017.

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

	June 30, 2018	September 30, 2017
Financial assets at FVTPL ^(a)	\$ 58,192,972	\$ 115,445,367
Loans and receivables ^(b)	21,231,568	26,329,505
Other financial liabilities ^(c)	119,362,636	108,039,027
Financial liabilities at FVTPL ^(d)	19,439,944	29,622,772

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

^(b) Includes trade accounts and other receivables;

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

^(d) Includes the Series A Warrant.

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

OPTIVA INC.

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

face amount of \$80,000,000 plus accrued cumulative dividends over the 10-year maturity period using the effective interest rate method.

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

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

9. Segment Reporting:

The Company has determined that it operates in a single reportable operating segment, the telecommunications software market. The single reportable operating segment derives its revenue from the sale of software products and related services and hardware.

Revenue is attributed to geographic locations, based on the location of the external customer. The Company's revenue by geographic area for the three and nine months ended June 30 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Europe, Middle East and Africa	\$ 16,553,153	\$ 17,540,388	\$ 46,010,719	\$ 53,518,015
North America, Latin America and Caribbean	7,336,184	8,933,504	19,650,670	26,961,310
Asia and Pacific Rim	8,144,830	6,102,681	28,667,723	23,672,089
	\$ 32,034,167	\$ 32,576,573	\$ 94,329,112	\$ 104,151,414

OPTIVA INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)
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Three and nine months ended June 30, 2018 and 2017
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9. Segment Reporting (continued):

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

	Three months ended June 30,		Nine months ended June 30,	
	2018	2017	2018	2017
Revenue by type:				
Software and services	\$ 9,990,461	\$ 11,602,535	\$ 26,352,529	\$ 37,000,848
Support and subscription	21,676,078	20,189,307	64,952,705	64,295,923
Third-party software and hardware	367,628	784,731	3,023,878	2,854,643
	<u>\$ 32,034,167</u>	<u>\$ 32,576,573</u>	<u>\$ 94,329,112</u>	<u>\$ 104,151,414</u>

10. Restricted cash, guarantees and contingent liabilities:

(a) Restricted cash:

As at June 30, 2018, the Company had \$3,578,134 (September 30, 2017 - \$4,553,623) in cash allocated for planned payments to early retirees, lease guarantee and performance bonds issued to customers, which are secured by restricted cash. The restricted cash is shown separately in the condensed consolidated interim statements of financial position.

(b) Guarantees and contingent liabilities:

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

In the normal course of operations, the Company is subject to claims from time to time, relating to labour, customers and other. The Company vigorously defends itself against such claims and reviews the probability of outcome that may result in an outflow of its cash or other resources as at each consolidated statement of financial position date. Although it is not always possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse impact on the results of operations, financial position or liquidity of the Company. In 2017, the Company recorded a provision for the best estimate of its obligation to settle certain claims made by terminated employees. This liability is included in provisions in the condensed consolidated interim statements of financial position as at September 30, 2017 and June 30, 2018. The

OPTIVA INC.

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

charge was recorded as restructuring costs in the consolidated statement of comprehensive loss during the nine months ended June 30, 2017.

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

11. Provisions:

	Restructuring (a)	Other (b)	Total
Balance, September 30, 2017	\$ 18,164,718	\$ 1,313,725	\$ 19,478,443
Additions	50,783,369	7,624,863	58,408,232
Cash payments	(47,856,413)	(2,592,821)	(50,449,234)
Utilization	—	(2,166,908)	(2,166,908)
Foreign exchange	(510,258)	—	(510,258)
Balance, June 30, 2018	\$ 20,581,416	\$ 4,178,859	\$ 24,760,275
Current			\$ 18,653,817
Non-current			824,626
Balance, September 30, 2017			\$ 19,478,443
Current			\$ 24,179,144
Non-current			581,131
Balance, June 30, 2018			\$ 24,760,275

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

OPTIVA INC.

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

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

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

During the three and nine months ended June 30, 2018, restructuring charges related to employee and lease terminations of \$1,552,824 and \$50,783,369 respectively (2017 - \$14,278,115 and \$18,358,589) were recorded.

For the nine months ended June 30, 2018, an amount of \$47,856,413 has been paid and an additional amount of \$20,000,285 is estimated as payable within one year. The balance of the restructuring provision, classified as long-term, is payable over three years, and amounts to \$581,131 and has been discounted to its present value.

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

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

During the three and nine months ended June 30, 2018, the Company identified certain customer contracts where it is probable that the total costs to complete these contracts will exceed the contract revenue. As a result, the Company recorded a provision of \$nil and \$7,624,863 respectively. The expected loss was recorded in cost of revenue in the condensed consolidated interim statements of comprehensive loss. In March 2018, two of these contracts were terminated, and the Company negotiated a settlement on one of the contracts and is in the process of negotiating the other. During the nine months ended June 30, 2018 cash payments in the amount of \$2,592,821 were made towards the settlement of

OPTIVA INC.

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

the terminated contract. During the nine months ended June 30, 2018, \$2,166,908 of the provision was utilized on delivery of these projects.

12. Related Party Transactions:

On May 8, 2017, the Company entered into short term service agreements with Crossover Markets Inc. ("Crossover") and DevFactory FZ-LLC ("DevFactory"), (collectively the "Service Agreements") to provide cross functional and specialized technical services. Each of Crossover and DevFactory is an affiliate of ESW Capital. On June 9, 2017, the Company extended the short term Services Agreements with Crossover and DevFactory until the termination of the Standby Purchase Agreement with ESW Capital. Based on the closing of the Rights Offering (Note 5(c)), the Company has entered into long term service agreements with Crossover and DevFactory, which can be terminated by either party with 30 days written notice.

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

Crossover provides Optiva with access to skilled temporary employees. Crossover leverages its network of global resources to hire, and assign resources on behalf of Optiva. These resources provide a variety of services, including HR, operations, finance, and support functions, at any global location for pricing agreed to in the Crossover service agreement. During the three and nine months ended June 30, 2018, the Company has incurred \$7,850,256 and \$21,266,417, respectively, of costs associated with services provided by Crossover (2017 – \$1,410,262 and \$1,410,262). The costs have been recorded in cost of goods sold or operating expenses in accordance with the department of the contract resource in the condensed consolidated interim statements of comprehensive loss.

DevFactory provides certain technology services to Optiva as per agreed statements of work. The technology services include source code analysis, code cleanup service and various other technical services related to Optiva's software solutions. During the three and nine months ended June 30, 2018, the Company has incurred \$11,363,355 and \$23,848,594 respectively, of costs associated with services provided by DevFactory (2017 – \$572,461 and \$572,461). The costs have been recorded in research and development expense in the condensed consolidated interim statements of comprehensive loss.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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Three and nine months ended June 30, 2018 and 2017
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12. Related Party Transactions (continued):

Amounts owing to Crossover and DevFactory as of June 30, 2018 aggregated to \$18,102,970 (September 30, 2017 - \$4,535,173) and are included in both trade payables and accrued liabilities in the condensed consolidated interim statement of financial position at the respective period ends.

In the normal course of business, the Company retained certain contractors with specialized skills and knowledge to assist the Company in its operations. These contractors are retained from other entities controlled by ESW Capital. The costs of these contractors are \$90,125 and \$253,403 for the three and nine months ended June 30, 2018 respectively (2017 – \$11,900 and \$11,900) and have been recorded in general and administrative expense in the condensed consolidated interim statements of comprehensive loss. Amounts owing to these entities as of June 30, 2018 aggregated to \$346,430 (September 30, 2017 - \$122,618) and are included in accrued liabilities in the condensed consolidated interim statement of financial position.