OPTIVA INC. (Formerly Redknee Solutions Inc.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED SEPTEMBER 30, 2018

DATED: December 12, 2018

SCOPE OF ANALYSIS

This Management's Discussion and Analysis ("MD&A") covers the results of operations, financial condition and cash flows of Optiva Inc. (formerly Redknee Solutions Inc.) (the "Company" or "Optiva") for the fourth quarter and year ended September 30, 2018. This document is intended to assist the reader in better understanding operations and key financial results as they are, in our opinion, at the date of this report.

The MD&A should be read in conjunction with the audited consolidated financial statements for the fiscal year ended September 30, 2018, which we prepared in accordance with International Financial Reporting Standards ("IFRS").

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

On December 12, 2018, the Board of Directors approved a change in the Company's fiscal year end from September 30, to December 31. The change is to conform the Company's fiscal year end with the majority of other companies in our industry. The change in the year end is subject to regulatory approval. If approved, the Company's next fiscal reporting period would be for the fifteen months ending December 31, 2019.

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

FORWARD-LOOKING STATEMENTS

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

RISKS AND UNCERTAINTIES

- The Company's strategy depends its ability to realize the benefits of its Restructuring and Strategic Plan. The Company may continue to generate losses while it executes on its strategy of investing all of its expected earnings otherwise generated in cloud innovation. Unanticipated declines in revenue or increases in expenses or liabilities in the near term, and lack of customer adoption of cloud products in the longer term, may result in the Company not being able to satisfy its financial obligations without further financing.
- Failure of our solutions could expose the Company to significant liabilities. The Company's solutions are critical to our customers' ability to deliver and monetize services on their networks. If the Company fails to successfully deploy its solutions or if customers experience system outages caused by our software, the Company may be exposed to significant liabilities associated with unplanned remediation costs, penalties and claims for damages.
- The Company faces intense competition from several competitors and if it does not compete effectively with these competitors, its revenue may not grow and could decline. Many of the Company's competitors and potential competitors have significantly greater financial, technical, marketing or service resources than the Company. The Company's relatively small size and recent operating history may be considered negatively by prospective end-users.
- The Company's ability to recruit and retain personnel is crucial to its ability to develop market, sell and support its products and services.
- The Company's quarterly revenue and operating results can be difficult to predict and can fluctuate substantially, which may harm its results of operations.
- The Company is exposed to credit risk related to accounts receivable from customers and unbilled revenue related to on-going customer projects fail. If customers fail to make payment in respect of amounts owing to the Company to an extent that is in excess of the Company's estimated default rates, the Company's business, financial condition and results of operation could be materially adversely affected.
- A substantial portion of the Company's revenue and expenses are transacted in currencies other than the Company's functional currency of U.S. dollars. Fluctuations in the exchange rate between the U.S. dollar and these currencies may have a material adverse effect on the Company's business, financial condition and operating results.
- The Company has entered into long term contracts with related parties, and will be purchasing significant development services and accessing skilled resources from these parties that are critical to the future success of the Company. The Company may not be able to fulfill its contractual obligations with its customers or may be exposed to significant operational and financial risks should these related parties experience disruption in their operations, go out of business or choose not to work with the Company.

OVERVIEW

Established in 1999, Optiva is an innovative software provider of mission-critical, cloud-native, monetization solutions to leading communication service providers (CSPs) globally. We are leading the telco industry and its innovative customers by offering next-generation software solutions to help them leverage today's digital technologies. Our portfolio of monetization products enables real-time billing, charging, policy management and user experience that are critical to our customers' growth and performance. When deployed in the cloud, Optiva™ solutions deliver the most impact for the best value. Our vision, market knowledge, analytical insights and unparalleled Customer Success Program ensure our customers are equipped to achieve their strategic business goals today and into the future.

The Company's product and services, empower CSPs to monetize their various customers segments, including consumer, enterprise, wholesale and IOT. The Company's solutions allow the introduction of new, innovative tariffs and marketing offerings, coupled with payment solutions, customer care and subscriber self-service applications, to allow its customers to achieve their objectives and address their challenges, including monetization of their assets, better customer experience and reduced costs.

Optiva Inc. (TSX: OPT (formerly RKN)) can be found on the Toronto Stock Exchange ("TSX"). On January 16, 2018, the Company announced its corporate name change to Optiva Inc. Renaming the Company was finalized upon completion of all requisite shareholder and regulatory approvals, and the official effective date for the name change was March 29, 2018. A stock ticker symbol change was finalized with an effective date of April 5, 2018.

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

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

Optiva's award-winning cloud-enabled real-time converged charging, billing, and customer care platform delivers the benefits of a flexible, end-to-end software platform, including real-time charging, billing, product catalog, order management, policy management and customer care for any digital services of a CSP. Optiva's product family supports any type of CSP from tier 1 to tier 4, in the cloud or on-premise. It enables a digital customer journey delivering innovative end user services from real-time offering towards digital guide self-management of customer interaction.

Optiva supports the telecommunication industry with the following market solutions:

- **Highly Scalable Convergent Charging** – Optiva's Charging solution is a full cloud-enabled platform for private and public cloud. It monetizes any type of transaction and enables a smooth transition from traditional telco business to Digital CSP as single monetization platform. The solution runs most efficiently with Google Cloud Platform ("GCP") and scales with Spanner above 500k TPS. Kubernetes and the customization framework enables fast adaptation to the market and new use cases, with the shortest time to market and lowest TCO in the world. Today, Optiva's scalable solution is supporting more than 200 million subscribers at a single customer and enables operators to launch and monetize their 4G and 5G networks and deliver advanced data services, including Voice over LTE (VoLTE), M2M, IoT, cloud services and Over the Top ("OTT") offerings

- **Policy Management** – Optiva's Policy Management solution provides a single solution that enables service providers to take control of network resource usage, assure quality of experience for users, and offer personalized services and differentiated, service-specific charging. Optiva's Policy Management solution is key to supporting operator data monetization strategies for real-time applications, such as video streaming, interactive gaming and VoLTE.

- **Revenue Management Suite** – Optiva's Revenue Management Suite provides a cloud-based end-to-end converged billing solution for Tier 2, 3 and 4 CSPs, Mobile Network Operators ("MNOs"), Mobile Virtual Network Enablers ("MVNEs"), and Mobile Virtual Network Operators ("MVNOs") to launch quickly to the market. Optiva offers a low risk business model that enables MNOs to launch a second brand, MVNEs to accelerate their growth strategies, and MVNOs to improve their differentiation in the market. The solution includes a product catalog and order management capabilities enabling customers to maximize their sales strategies while centrally managing the order management process, products and product offerings. The solution offers fast and flexible modeling of any commercial offering and supports omni-channel and any-play sales strategies by offering client products and services across multiple lines of business. The Revenue Management Suite is available as both a private and public cloud solution. The public cloud solution leverages the GCP to bring best in class infrastructure, networking, and security for maximum TCO reduction.

- **Wholesale Settlement** – Optiva's Wholesale Settlement is a cloud-based solution that provides operators with greater visibility into network transactions to achieve converged settlement and accurate interconnect billing. Optiva's solution helps service providers maximize the value of their network with a comprehensive and cost-effective interconnect, wholesale, roaming, MVNO, franchise management, and content settlement software solution.

- **E-Payments –** Optiva's e-payment solutions strengthens a customer's ability to monetize services with the provision of different payment methods, including voucher and voucher-less payment and top-up solutions. Optiva's solution allows service providers to offer end users the most convenient payment solutions in their market.

Investment in Cloud Innovation Initiatives

The Company spent approximately $14.0 million in 2018 (2017 – nil) on Cloud Innovation initiatives recorded as research and development expense in the statement of comprehensive loss. The Company plans to spend up to another $86 million on Cloud Innovation, including the Company's move to public cloud-based solutions and its partnership with Google, for a total investment of $100 million. The Company expects to fund this investment with its earnings otherwise generated over the next two to three fiscal years.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

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

Q4 and Fiscal 2018 Highlights	**Three Months Ended**		**Twelve Months Ended**	
($ US Thousands, except per share and headcount information)		**Sep 30,**		**Sep 30,**
(Unaudited)	**2018**	**2017**	**2018**	**2017**
Revenue	27,298	33,772	121,627	137,924
Net Loss	(14,369)	(10,407)	(92,592)	(58,773)
Loss Per Share	$(2.75)	$(3.36)	$(17.69)	$(24.47)
Cash flow from operating activities	(14,156)	(10,830)	(61,011)	(28,969)
Total cash, including restricted cash	39,683	115,445	39,683	115,445
Headcount	522	1,289	522	1,289

Consolidated Statements of Comprehensive Loss (all amounts in thousands of US$, except per share amounts) (unaudited)	Three Months Ended Sep 30, 2018	Three Months Ended Sep 30, 2017	Twelve Months Ended Sep 30, 2018	Twelve Months Ended Sep 30, 2017	Twelve Months Ended Sep 30, 2016
Revenue					
Support and subscription	19,795	24,044	84,747	88,340	94,974
Software, services and other	7,503	9,728	36,880	49,584	76,116
Total Revenue	**27,298**	**33,772**	**121,627**	**137,924**	**171,090**
Cost of revenue	8,878	13,733	50,712	58,028	78,495
Gross profit	**18,420**	**20,039**	**70,915**	**79,896**	**92,595**
Operating expenses					
Sales and marketing	2,374	5,274	11,332	19,222	29,513
General and administrative	6,523	8,943	31,076	36,028	30,862
Research and development	14,105	12,834	61,515	41,944	45,496
Restructuring costs	992	413	51,775	18,771	35,185
Acquisition and related costs	-	-	-	-	4,838
Total Operating Expenses	**23,994**	**27,464**	**155,698**	**115,965**	**145,894**
Loss from operations	**(5,574)**	**(7,425)**	**(84,783)**	**(36,069)**	**(53,299)**
Foreign exchange gain (loss)	(1,975)	41	(318)	(3,074)	(4,217)
Other expense	-	-	-	(1,451)	6,363
Financing income	253	17	524	247	83
Financing (costs) recovery	(4,925)	(2,227)	(2,572)	(13,139)	(6,260)
Loss before income taxes	**(12,221)**	**(9,594)**	**(87,149)**	**(53,486)**	**(57,330)**
Income tax expense	2,148	813	5,443	5,288	9,537
Loss for the period	**(14,369)**	**(10,407)**	**(92,592)**	**(58,774)**	**(66,867)**
Loss per common share *					
Basic	$ (2.75)	$ (3.36)	$ (17.69)	$ (24.47)	$ (30.89)
Diluted	$ (2.75)	$ (3.36)	$ (17.69)	$ (24.47)	$ (30.89)
Weighted average number of common shares (thousands) *					
Basic	5,233	3,096	5,233	2,402	2,165
Diluted	5,233	3,096	5,233	2,402	2,165

* Note – During the quarter ended June 30, 2018 the Company completed the Share Consolidation (see note on share consolidation below). 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.

Statement of Financial Position Data *$US Thousands (unaudited)*	As at September 30, 2018	As at September 30, 2017	$ Change	% Change
Cash, Cash Equivalents and Restricted Cash	39,683	115,445	(75,762)	(66%)
Trade Accounts, Other Receivables and Unbilled Revenue	27,863	44,258	(16,395)	(37%)
Goodwill and Intangible Assets	50,316	57,777	(7,461)	(13%)
Total Assets	130,762	232,631	(101,869)	(44%)
Trade Payable and Accrued Liabilities	34,401	28,082	6,319	23%
Deferred Revenue	14,959	16,467	(1,508)	(9%)
Provisions	13,317	19,478	(6,161)	(32%)
Other long-term liabilities	18,293	18,814	(521)	(3%)
Preferred Shares and Series A Warrant	79,617	89,294	(9,677)	(11%)
Total Liabilities	161,087	172,458	(11,371)	(7%)
Shareholders' Equity (Deficit)	(30,326)	60,174	(90,500)	(150%)

CURRENT PERIOD OPERATING RESULTS

Revenue

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

$US Thousands	**Three Months Ended Sep 30,**		**Twelve Months Ended Sep 30,**	
(unaudited)	**2018**	**2017**	**2018**	**2017**
Support and Subscription	19,795	24,044	84,747	88,340
Software and Services	7,200	9,592	33,553	46,594
Third Party Software and Hardware	303	136	3,327	2,990
Total	**27,298**	**33,772**	**121,627**	**137,924**

Percentage of Total Revenue	**Three Months Ended Sep 30,**		**Twelve Months Ended Sep 30,**	
(unaudited)	**2018**	**2017**	**2018**	**2017**
Support and Subscription	73%	72%	70%	64%
Software and Services	26%	28%	27%	34%
Third Party Software and Hardware	1%	0%	3%	2%
Total	**100%**	**100%**	**100%**	**100%**

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

For the three-month period ended September 30, 2018, the Company's revenues have declined by $6.5 million from the previous year's comparative period to $27.3 million. The change by revenue type for the quarter ended September 30, 2018 is as follows: $4.3 million decrease in support and subscription revenue, $2.4 million decrease in software and services revenue and $0.2 million increase in third party software and hardware revenue.

For the year ended September 30, 2018, the Company's revenues have declined by $16.3 million from the previous year's comparative period to $121.6 million. The change by revenue type for the year ended September 30, 2018 is as follows: $3.6 million decrease in support and subscription revenue, $12.7 million decrease in software and services revenue and $0.4 million increase in third party software and hardware revenue.

Support and Subscription Revenue

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

Support and subscription revenue for the three-month period ended September 30, 2018 was $19.8 million, or 73% of total revenue, compared to $24.0 million, or 72% of total revenue, for the same period last year. For the year ended September 30, 2018, the Company's support and subscription revenue decreased to $84.7 million, or 70% of total revenue, compared to $88.3 million, or 64% of total revenue for the same period last year.

The decrease is mainly due to timing of renewal or extension of certain support contracts and fewer software implementations, compared to the same period last year.

Software and Services Revenue

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

Software and services revenue for the three-month period ended September 30, 2018 decreased to $7.2 million, or 26% of total revenue, compared to $9.6 million, or 28% of total revenue for the same period last year. For the year ended September 30, 2018, the Company's software and services revenue decreased to $33.5 million, or 27% of total revenue, compared to $46.6 million or 34% of total revenue for the same period last year.

The decrease in the three and twelve months ended September 30, 2018 is mainly a result of lower software and services revenue in Americas and EMEA regions due to fewer orders from customers and loss of certain customers.

Third Party Software and Hardware Revenue

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

Third party software and hardware revenue for the three-month period ended September 30, 2018 increased to $0.3 million, or 1% of total revenue, compared to $0.1 million, for the same period last year. For the year ended September 30, 2018, the Company's third party software and hardware revenue increased to $3.3 million, or 3% of total revenue, compared to $3.0 million, or 2% of total revenue, for the same period last year. Management continues its initiative to minimize the sale of third party software and hardware components, which have minimal contribution to overall profitability.

Revenue by Geography

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

$US Thousands (unaudited)	Three Months Ended Sep 30, 2018	2017	Twelve Months Ended Sep 30, 2018	2017
Asia and Pacific Rim	8,536	9,591	37,203	33,263
North America, Latin America and Caribbean	6,055	8,646	25,706	35,607
Europe, Middle East and Africa	12,707	15,535	58,718	69,054
Total	**27,298**	**33,772**	**121,627**	**137,924**

Percentage of Total Revenue (unaudited)	Three Months Ended Sep 30, 2018	2017	Twelve Months Ended Sep 30, 2018	2017
Asia and Pacific Rim	31%	28%	31%	24%
North America, Latin America and Caribbean	22%	25%	21%	26%
Europe, Middle East and Africa	47%	47%	48%	50%
Total	**100%**	**100%**	**100%**	**100%**

For the three-month period ended September 30, 2018, revenue from the APAC region was $8.5 million, or 31% of total revenue, compared to $9.6 million, or 28% of total revenue, for the same comparable period in fiscal 2017. This decrease is mainly a result of higher support revenue from late contract renewals occurring in the fourth quarter of 2017. For the year ended September 30, 2018, revenue from the APAC region was $37.2 million, or 30% of total revenue, compared to $33.3 million, or 24% of total revenue, for the same comparable period in fiscal 2017. This increase is mainly a result of higher software and services and third party software and hardware revenue slightly offset by lower support revenue in the region.

For the three-month period ended September 30, 2018, revenue from the Americas region decreased to $6.1 million, or 22% of total revenue, compared to $8.6 million, or 25% of total revenue, for the same comparable period in fiscal 2017. For the year ended September 30, 2018, revenue from the Americas region decreased to $25.7 million, or 22% of total revenue, compared to $35.6 million, or 26% of total revenue, for the same comparable period in fiscal 2017. The decrease in revenue is mainly attributable to lower software and services revenue and lower support and subscription revenue.

For the three-month period ended September 30, 2018, revenue from the EMEA region decreased to $12.7 million, or 47%, compared to $15.5 million, or 47% of total revenue, for the same comparable period in fiscal 2017. The decrease in revenue in three months ended September 30, 2018 is mainly a result of lower software and services revenue in the region due to fewer orders from customers for implementation of software contracts and lower support revenue due to late renewals of certain support contracts occurring in fiscal 2017. For the year ended September 30, 2018, revenue from the EMEA region decreased to $58.7 million, or 48% of total revenue, compared to $69.1 million, or 50% of total revenue, for the same comparable period in fiscal 2017. The decrease in revenue is mainly a result of lower software and services revenue in the region due to fewer orders from customers for implementation of software contracts and loss of certain customers slightly offset by higher support revenue due to timing of renewal of certain support contracts.

Cost of Revenue and Gross Margin

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

For the three months ended September 30, 2018, cost of revenue decreased to $8.9 million from $13.7 million incurred for the same comparable period in 2017. The gross margin for the quarter has increased to 67% in the three months ended September 30, 2018 compared to 59% in the three months ended September 30, 2017.

For the year ended September 30, 2018, cost of revenue decreased to $50.7 million from $58.0 million incurred for the same comparable period in 2017 and the gross margin as a percentage of revenue remained consistent at 58%. During the year ended September 30, 2018, the Company identified certain customer contracts where it is probable that the total cost to complete these contracts will exceed the contract revenue. As a result, the Company recorded a provision of $7.6 million and included the expected loss in cost of revenue. Excluding the impact of the provision for these expected losses, the gross margin as a percentage of revenue in fiscal 2018 would have been 65% compared to 58% in the year ended September 30, 2017.

The increase in gross margin as a percentage of revenue, excluding the contract loss provisions, for the three and twelve months ended September 30, 2018 was mainly due to lower headcount and related costs incurred as a result of the Company's cost structure optimization plan.

Depreciation and amortization and stock-based compensation included in cost of revenue for the three and twelve month periods ended September 30, 2018 were $0.1 million and $0.8 million (2017 - $0.1 million and $0.6 million) respectively.

Operating Expenses

Total operating expenses in the three months ended September 30, 2018 decreased to $24.0 million as compared to $27.5 million in the same period last year. Excluding depreciation, amortization and restructuring costs, total operating costs in the quarter ending September 30, 2018 decreased to $21.5 million, or 79% of total revenue, compared to $23.9 million, or 71% of total revenue, for the same period last year. The decrease in overall operating expenses (excluding depreciation, amortization and restructuring costs) is mainly attributable to lower sales and marketing and lower general and administrative costs, as further explained below by function.

Total operating expenses in the year ended September 30, 2018 increased to $155.7 million from $116.0 million for the comparable period last year. This includes restructuring costs of $51.8 million and $18.8 million for the year ended September 30, 2018 and September 30, 2017, respectively. Excluding depreciation, amortization and restructuring costs, total operating costs in the year ending September 30, 2018 increased to $93.9 million, or 77% of total revenue, compared to $85.2 million, or 62% of total revenue, for the same period last year. The increase in overall operating expenses (excluding depreciation, amortization and restructuring costs) is mainly attributable to higher research and development costs offset by lower sales and marketing costs and lower general and administrative, as further explained below by function.

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

$US Thousands (unaudited)	Three Months Ended Sep 30, 2018	Three Months Ended Sep 30, 2017	Twelve Months Ended Sep 30, 2018	Twelve Months Ended Sep 30, 2017
Sales and Marketing	2,374	5,274	11,332	19,222
General and Administrative	6,523	8,943	31,076	36,028
Research and Development	14,105	12,834	61,515	41,944
Restructuring Costs	992	413	51,775	18,771
Total Operating Expenses	**23,994**	**27,464**	**155,698**	**115,965**
Excluding Amortization and Depreciation	*22,487*	*24,362*	*145,706*	*103,965*

Percentage of Total Revenue (unaudited)	Three Months Ended Sep 30, 2018	Three Months Ended Sep 30, 2017	Twelve Months Ended Sep 30, 2018	Twelve Months Ended Sep 30, 2017
Sales and Marketing	9%	16%	9%	14%
General and Administrative	24%	26%	26%	26%
Research and Development	51%	38%	50%	30%
Restructuring Costs	4%	1%	43%	14%
Total Operating Expenses	**88%**	**81%**	**128%**	**84%**
Excluding Amortization and Depreciation	*82%*	*72%*	*120%*	*75%*

Depreciation and amortization and stock-based compensation by function included in operating expenses for the three and twelve month periods ended September 30, 2018 and 2017 were as follows:

$US Thousands (unaudited)	Three Months Ended Sep 30, 2018	Three Months Ended Sep 30, 2017	Twelve Months Ended Sep 30, 2018	Twelve Months Ended Sep 30, 2017
Sales and Marketing	5	438	(180)	453
General and Administrative	1,788	3,595	11,326	10,621
Research and Development	134	599	827	1,955
Total Operating Expenses	**1,926**	**4,633**	**11,973**	**13,029**

Sales and Marketing Expenses

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

For the three-month period ended September 30, 2018, S&M expenditures decreased to $2.4 million, or 9% of total revenue, compared to $5.3 million, or 16% of total revenue, for the comparable period last year. For the year ended September 30, 2018, S&M expenditures decreased to $11.3 million, or 9% of total revenue, compared to $19.2 million, or 14% of total revenue, for the comparable period last year. The decrease is mainly due to lower headcount, lower sales commissions and the impact of other cost optimization initiatives.

General and Administrative Expenses

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

For the three-month period ended September 30, 2018, G&A expenditures decreased to $6.5 million, or 24% of total revenue, from $8.9 million, or 26% of total revenue, in fiscal 2017. The decrease was mainly due to lower headcount costs, lower facilities related expenditure and lower depreciation due to closure of various office locations.

For the year ended September 30, 2018, G&A expenditures decreased to $31.1 million, or 26% of total revenue, from $36.0 million, or 26% of total revenue, in fiscal 2017. The decrease was mainly due to lower headcount costs, lower allowance of doubtful accounts made for certain customers compared to last year and lower depreciation, offset by higher stock compensation expense, higher expense related to various new computer software applications and higher professional fees incurred in various initiatives supporting the Company's strategic plan.

As part of the strategic plan, as of July 1, 2018, the Company's wholly owned subsidiary Optiva Canada Inc. sold business assets, including intellectual property, to Optiva Software Limited, a wholly owned subsidiary located in Malta. The transaction was undertaken as part of the rationalization of the group's legal and tax structure. Expected benefits include a greater proximity to Optiva's customers in the EMEA region and possible reduction in the effective rate of corporate income tax.

Research and Development Expenses

Research and development ("R&D") expenses consist primarily of personnel costs associated with product management and the development and testing of new products. R&D includes cost of technical services provided by DevFactory, a related party, as explained in the Related Party Transactions section below.

For the three-month period ended September 30, 2018, R&D expenditures slightly increased to $14.1 million, or 51% of total revenue, from $12.8 million, or 38% of total revenue, in the same prior year quarter. For the year ended September 30, 2018, R&D expenditures increased to $61.5 million, or 50%

of total revenue, from $41.9 million, or 30% of total revenue in the prior year. The increase is primarily due to higher spend with DevFactory (which increased from $2.3 million to $7.9 million and from $3.5 million to $31.7 million in three and twelve-month periods ended September 30 2018 relative to the same periods ended September 30, 2017. The increased spending is related to programs related to Cloud innovation, including SAAS based solutions, and to improve code quality on existing products. The Company commenced its planned spend of $100 million on research and development activities associated with Cloud innovation in 2018 and spent $2.8 million and $14.0 million in the fourth quarter and fiscal year ended September 30, 2018, respectively.

Restructuring Costs

In February 2017, under the new strategic plan, the Company announced a corporate restructuring plan that is expected to be completed in fiscal 2019. The restructuring involves significant reduction in headcount, location reorganization including closure of certain facilities and entity simplification.

In November 2017, the Company finalized the restructuring plan and commenced implementing a reduction in workforce of approximately 530 employees globally and vacating premises in 18 locations. The Company has completed the workforce reduction associated with this plan and has reduced its personnel levels (including contractors) by 767 people since September 30, 2017 to 522 people as at September 30, 2018.

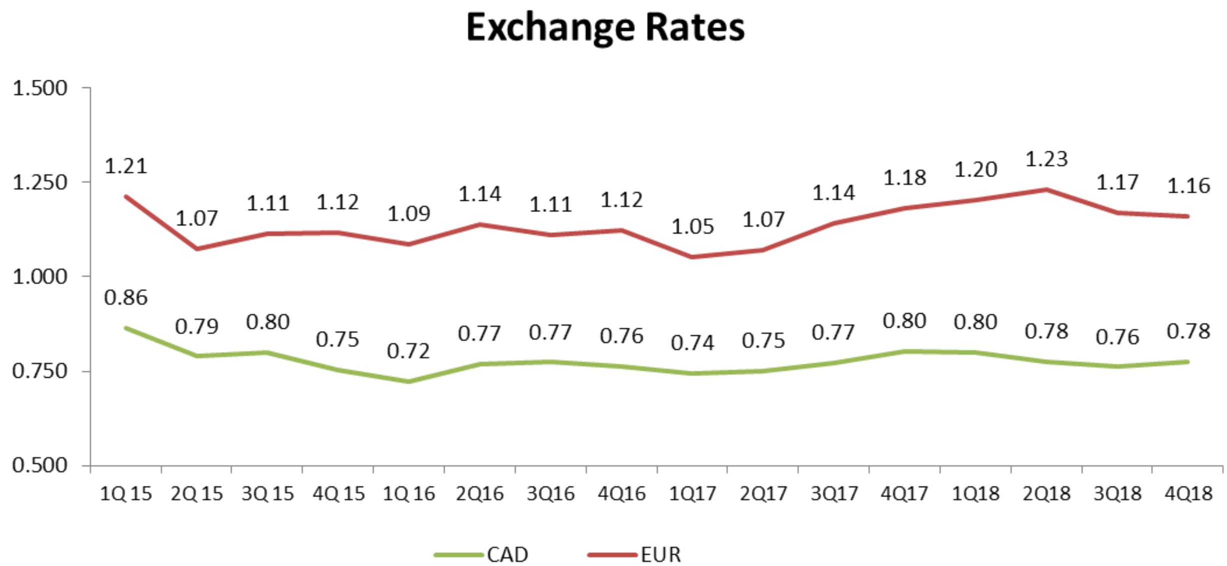
During the three months ended September 30, 2018, restructuring charges related to employee and lease terminations was $1.0 million (2017 – $0.4 million). During the year ended September 30, 2018, restructuring charges related to employee and lease terminations of $51.8 million (2017 - $18.8 million) were recorded.

As at September 30, 2018, the Company has a restructuring provision of $9.4 million. For the year ended September 30, 2018, an amount of $60.3 million has been paid and an additional amount of $3.7 million 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 $5.7 million and has been discounted to its present value.

The Company has closed 4 of its entities as of September 30, 2018. The Company's remaining restructuring activities under this plan primarily involve the winding up of 32 of subsidiary entities which will result bring the total number of entities down to 9 from 45 at the outset of this restructuring.

Foreign Exchange Gain/Loss

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



Source: Bank of Canada

The Company has monetary assets and liabilities in a number of currencies, the most significant of which are denominated in Euro and the Canadian Dollar. For the three months ended September 30, 2018, the Company had a foreign currency exchange loss of $2.0 million, compared to a foreign currency exchange loss of $0.1 million in the comparable period last year. The U.S. Dollar weakened against the Euro during the three month ended September 30, 2018. The foreign exchange loss during the quarter was mainly due to the higher Euro denominated liabilities in comparison to the assets. For the year ended September 30, 2018, the Company had a foreign currency exchange loss of $0.3 million compared to a foreign currency exchange loss of $3.1 million in the comparable period last year. On average, the U.S. Dollar during the year almost stayed the same as compared to rate at end of last year.

A change in foreign exchange rates as at September 30, 2018 of 10% would result in a gain or loss of approximately $1.7 million arising from the translation of the Company’s foreign currency denominated monetary assets and liabilities as at September 30, 2018. This foreign currency gain or loss arising from translation would be recorded in the condensed consolidated interim statements of comprehensive loss.

Income Taxes

The Company’s operations are global, and the income tax provision is determined in each of the jurisdictions in which the Company conducts its business. The Company's current income tax expense for the year ended September, 2018 mainly includes $2.2 million (2017 - $2.2 million) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and $3.2 million (2017 - $4.0 million) of foreign withholding taxes. The Company's deferred tax expense of less than $0.1 million (2017 – recovery of $0.9 million) consists primarily of changes in temporary differences recognized during the current period.

As a result of Optiva Canada Inc. selling its business assets, including intellectual property, to Optiva Software Limited, a wholly owned subsidiary located in Malta, Optiva Canada Inc. used up approximately $69 million of its carryforward tax losses for the period ending September 30, 2018.

SUMMARY OF EARNINGS RESULTS

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

$US Thousands, except share and per share amounts (Unaudited)	4Q 18 (1)	3Q 18 (1)	2Q 18 (1)	1Q 18 (1) (2)	4Q 17 (1)	3Q 17 (2)	2Q17	1Q17
Revenue	$27,298	$32,034	$27,895	$34,400	$33,772	$32,577	$34,365	$37,210
Net Loss	$(14,369)	$(3,540)	$(10,228)	$(64,454)	$(10,407)	$(26,749)	$(15,263)	$(6,354)
Loss per Share	$(2.75)	$(0.68)	$(1.95)	$(12.32)	$(3.36)	$(12.32)	$(7.04)	$(2.94)
Diluted Loss per Share	$(2.75)	$(0.68)	$(1.95)	$(12.32)	$(3.36)	$(12.32)	$(7.04)	$(2.94)
Weighted average shares outstanding – Basic (thousands) (3)	5,233	5,233	5,233	5,233	3,096	2,170	2,167	2,165
Weighted average shares outstanding - Diluted (thousands) (3)	5,233	5,233	5,233	5,233	3,096	2,170	2,167	2,165

(1) Increase in weighted average shares outstanding (basic and diluted) after 3Q 17 is a result of completion of the rights offering.

(2) Increase in net loss due to significant charge taken for restructuring

(3) Note – During the quarter ended June 30, 2018 the Company completed the Share Consolidation (see note on share consolidation below). All share and per share numbers, including comparatives, have been adjusted to reflect the effect of the Share Consolidation

LIQUIDITY AND CAPITAL RESOURCES

The Company’s objective in managing capital resources is to ensure sufficient liquidity to drive its organic growth, fund operations and implement its strategic plan, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company currently funds its operations and capital expenditure requirements cash flows generated by operating activities, the sale of equity instruments (including common shares, warrants and preferred shares) and cash on hand. The Company’s working capital deteriorated significantly in fiscal 2018 relative to fiscal 2017 primarily due to cash outflows associated with the Company’s restructuring activities. The Company believes its restructuring activities are mostly completed as at September 30, 2018 and expects to be able to generate enough cashflow from operations to fund its operations, including its investment in revitalizing its product line, without sourcing additional capital provided that cash collected from revenue on a quarterly basis is greater than or equal to the level of revenue generated in the quarter.

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.

Key Balance Sheet Amounts and Liquidity Ratios *$US Thousands, except ratios and metrics (unaudited)*	As at September 30, 2018	As at September 30, 2017	$ Change	% Change
Cash, Cash Equivalents and Restricted Cash	39,683	115,445	(75,762)	(66%)
Trade Accounts Receivable	13,094	22,374	(9,280)	(41%)
Working capital	16,407	100,156	(83,749)	(84%)
Working capital ratio (:1)	1.29 x	2.60 x		
Days sales outstanding in trade accounts receivable (days)	53	74	(20)	(28%)
Days sales outstanding in unbilled revenue (days)	49	60	(11)	(19%)

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

Days sales outstanding ("DSO") - The Company has calculated DSO based on annualized year to date revenue and the average of the beginning and ending accounts receivable balance for the year to date period being reported.

Days sales outstanding in unbilled revenue - The Company has calculated days sales in unbilled revenue based on annualized year to date revenue and the average of the beginning and ending unbilled revenue balance for the year to date period being reported.

Cash and restricted cash

Cash and restricted cash declined by $75.8 million to $39.7 million at September 30, 2018 primarily as a result of $60.3 million in restructuring related payments, payment of dividends of $11.6 million and a $16.3 million decline in revenue in fiscal 2018 relative to fiscal 2017 as fiscal 2018 spending declines in cost of revenue, sales and marketing and general and administrative costs relative to fiscal 2017 were offset by increased investment in research and development.

Working capital

Working capital represents the Company's current assets less its current liabilities and working capital ratio represents the Company's current assets divided by its current liabilities. The Company's working capital balance decreased by $83.7 million to $16.4 million at September 30, 2018 from $100.2 million at the end of fiscal 2017. The decrease is primarily due to the Company's net loss of $92.6 million for the fiscal year ended September 30, 2018 which is primarily reflected in the reduced levels of cash and accounts receivable.

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

Statement of Cash Flows Summary	Three months ended		Twelve months ended	
($ US Thousands)		Sep 30,		Sep 30,
(Unaudited)	2018	2017	2018	2017
Cash inflows and (outflows) by activity:				
Operating activities	(14,156)	(10,830)	(61,011)	(28,969)
Investing activities	70	(438)	1,030	(486)
Financing activities	(2,000)	76,919	(11,641)	101,902
Effect of foreign currency exchange rate changes on cash and cash equivalents	(2,354)	565	(3,095)	1,364
Net cash inflows (outflows)	(18,440)	66,216	(74,717)	73,811
Cash and cash equivalents, beginning of period	54,615	44,676	110,892	37,081
Cash and cash equivalents, end of period	36,175	110,892	36,175	110,892
Cash (including Restricted Cash), end of period	39,683	115,445	39,683	115,445

Cash from Operating Activities

Net cash consumed by operating activities was $14.2 million in the three months ended September 30, 2018, compared to $10.8 million in the same period last year due mainly due to restructuring payments and lower collections associated with the decline in revenue. In the year ended September 30, 2018, net cash consumed by operating activities was $61.0 million, compared to $29.0 million in the same period last year due mainly to lower cash collected associated with the decline in revenue and restructuring payments, partially offset by the impact of increase in trade payables.

Cash used for Investing Activities

In the three months ended September 30, 2018, there was $0.1 million of cash generated by investing activities, compared to cash used of $0.4 million during the same period in fiscal 2017. Cash provided by investing activities during the year ended September 30, 2018 was $1.0 million, compared to cash used of $0.5 million during the same period in fiscal 2017. The source of cash mainly relates to the release of restricted cash.

Cash from Financing Activities

In the three months ended September 30, 2018, net cash consumed by financing activities was $2.0 million, compared to $76.9 million of net cash generated during the same period in fiscal 2017. For the year ended September 30, 2018, net cash consumed by financing activities was $11.6 million compared to net cash generated of $101.9 million during the same period in fiscal 2017.

The use of cash in the three and twelve months ended September 30, 2018 relates to the dividends paid on the preferred shares. The net generation of cash from financing activities during the comparative periods relate to net proceeds from the Financing Transaction and the proceeds from issue of shares under the rights offering, as described in the Share Capital section below, net of the repayment of previously outstanding loans and borrowings.

TRADE ACCOUNTS AND OTHER RECEIVABLES

The Company's Days Sales Outstanding in Trade Accounts Receivable ("DSO") is at 53 days as of September 30, 2018 compared to 74 days as of September 30, 2017. In order to minimize the risk of loss for trade receivables, the Company's extension of credit to customers involves review and approval by senior management, as well as progress payments as contracts are performed. Credit reviews take into account the counterparty's financial position, past experience and other factors. Management regularly monitors customer credit limits. The Company also maintains credit insurance in certain jurisdictions. The Company believes that the concentration of credit risk from trade receivables is limited, as they are widely distributed among customers in various countries.

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

The allowance for doubtful accounts as at September 30, 2018 was $2.1 million, compared to $2.2 million as at September 30, 2017. Estimates for allowance for doubtful accounts are determined based on an evaluation of collectability by customer and project at each consolidated statement of financial position reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity and ability to pay.

The Company's other receivables mainly include amounts relating to indirect taxes receivable.

UNBILLED REVENUE

Unbilled revenue represents revenue that has been earned but not billed. Optiva operates in an industry where contract prices are fixed and payments are often based on billing milestones. All services provided from inception of the contracted arrangement are recoverable under the contract terms. Differences between the timing of billings, based upon billing milestones or other contractual terms, collection of cash and the recognition of revenue result in either unbilled revenue or deferred revenue.

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

Unbilled revenue decreased by $3.5 million to $14.4 million at September 30, 2018, as compared to $17.9 million as at September 30, 2017. The decrease was a factor of some unbilled moving to AR and reduction in new software implementations.

DEFERRED REVENUE

Deferred revenue represents amounts that have been billed and collected in accordance with the terms of the contract but where the criteria for revenue recognition has not been met. Optiva operates in an industry where contract prices are fixed and payments are based on billing milestones. All services provided from inception are recoverable under the contract terms. Differences between the timing of billings, based upon billing milestones or other contractual terms, and the recognition of revenue are recognized as either unbilled revenue or deferred revenue. Deferred revenue decreased to $15.0 million at September 30, 2018, as compared to $16.5 million at September 30, 2017. The decrease in deferred revenue is consistent with the overall decrease in revenue in the year ended September 30, 2018.

CONTRACT LOSS PROVISION

During the three months and twelve months ended September 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 $7.6 million respectively. The expected loss was recorded in cost of revenue in the consolidated 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 defending a claim against the other. During the year ended September 30, 2018 cash payments in the amount of $2.6 million were made towards the settlement of the claims. During the year ended September 30, 2018, $2.4 million of the provision was utilized on delivery of projects that were not terminated. Although liability is not admitted, if a defense against these matters is unsuccessful, the Company may incur additional costs associated with the claims that may exceed the Company’s best estimate of the provision at September 30, 2018.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Lease Commitments

The Company leases certain property and equipment under operating leases. Operating lease payments are expensed on a straight-line basis over the term of the relevant lease agreements. Lease inducements received upon entry into an operating lease are recognized on a straight-line basis over the lease term. Operating lease payments for the year ended September 30, 2018, were $2.3 million (2017 - $6.1 million). The Company is obligated to make future annual lease payments under operating leases for office equipment and premises.

Future minimum lease payments under non-cancellable operating leases as at September 30, 2018 are as follows:

	$ (thousands)
2019	729
2020	158
2021 and thereafter	–
	887

MANAGEMENT OF CAPITAL

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its strategy of 100% customer success, fund research and development leading to innovative and market leading products and implement its strategic plan that will help towards increasing shareholder value, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company's capital is currently composed of Preferred Shares and Series A Warrant (classified as liability), Subordinated Voting Shares and Standby Warrant (classified as equity). The Company's primary uses of capital are financing its operations including restructuring, increases in working capital, capital expenditures, payment of preferred share dividends and acquisitions, when approved by the Board of Directors. The Company currently funds these requirements from cash flows from operations and cash raised through past share issuances.

OUTSTANDING SHARE DATA

The number of common shares outstanding as at September 30, 2018 is 5,233,047 (September 30, 2017 – 5,233,047). In addition, there were 51,775 (September 30, 2017 – 103,708) stock options outstanding with exercise prices ranging from CAD $55.00 to CAD $315.00 per share. During the quarter ended June 30, 2018, the Company completed the Share Consolidation (see note below on share consolidation). All share and per share numbers, including comparatives, have been adjusted to reflect the effect of the Share Consolidation.

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 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 $80.0 million plus accrued cumulative dividends over the 10-year maturity period using the effective interest rate method. During the three months ended September 30, 2018, accretion expense, amortization of transaction costs and accrued dividends on the Preferred Shares amounted to $2.4 million (2017 - $2.4 million). During the year ended September 30, 2018, accretion expense, amortization of transaction costs and accrued dividends on the Preferred Shares amounted to $9.8 million (2017 - $6.3 million). These charges are included in finance costs in the consolidated statements of comprehensive loss. During the three months ended September 30, 2018, cumulative dividends in amount of $2.0 million (2017 - nil) were paid. During the year ended September 30, 2018, cumulative dividends in amount of $11.6 million (2017 - nil) were paid. The amount of accrued dividends has been included in the Preferred Shares on the consolidated 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 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$68.4 million ($54.2 million).

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$28.1 million ($23.2 million). Transaction costs directly associated with the Rights Offering of $0.5 million were recognized as costs of issuance and reduced the gross proceeds. 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 if the Company issues subordinate voting 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 increase in fair value of the warrant liability of $2.3 million during the three months ended September 30, 2018 (2017 – reduction of $0.7 million) is recorded in finance costs in the consolidated statements of comprehensive loss. The decrease in fair value of the warrant liability of $7.9 million during the year ended September 30, 2018 (2017 – increase of $2.0 million) is recorded in finance costs in the consolidated statements of comprehensive loss. Any unexercised Series A Warrant expires on January 25, 2027. No Series A Warrant was exercised as at September 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 $1.0 million. The Standby Warrant expires on September 5, 2027. No warrants were exercised as at September 30, 2018 (September 30, 2017 – none).

(e) Share-based Compensation

The share-based compensation relating to the Company's stock options, deferred share unit plan and restricted and performance share unit plans during the three and twelve months ended September 30, 2018 was an expense of $0.5 million and $2.8 million (2017 – $1.7 million and $1.6 million), respectively.

As a result of the Company's Share Consolidation, 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.

RELATED PARTY TRANSACTIONS

Key Management Personnel

Key management personnel comprise the Company's directors and executive officers. The aggregate remuneration of key management personnel during the year ended September 30 is as follows:

$US Thousands	2018	2017
Salaries and employee benefits	$ 1,753	$ 2,883
Share-based compensation (a)	2,928	2,143
	$ 4,681	$ 5,026

(a) Share-based compensation includes cash-settled and equity-settled awards

Related Party Service Agreements

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, respectively, until the termination of the Standby Purchase Agreement with ESW Capital. Based on the closing of the Rights Offering, the Company has entered into longer term service agreements with Crossover and DevFactory, which can be terminated by either party with 30 days written notice.

The Service Agreements have been 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 personnel. 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 twelve months ended September 30, 2018, the Company has incurred $6.7 million and $28.0 million, respectively, of costs associated with services provided by Crossover (2017 – $4.5 million and $5.9 million). The costs have been recorded in cost of goods sold or operating expenses in accordance with the department of the contract resource in the consolidated statements of comprehensive loss.

DevFactory provides certain technology services to Optiva as per agreed statements of work. The technology services include writing new source code, analyzing and cleaning up the Company's legacy source code and various other technical services related to Optiva's software solutions. The Company expects to spend the majority of its $100 million investment in Cloud innovation with DevFactory.

During the three and twelve months ended September 30, 2018, the Company incurred expenses of $7.9 million and $31.7 million respectively, associated with services provided by DevFactory (2017 – $2.3 million and $3.5 million). The costs have been recorded in research and development expense in the consolidated statements of comprehensive loss.

Amounts owing to Crossover and DevFactory as of September 30, 2018 aggregated to $18.8 million (September 30, 2017 - $4.5 million) and are included in trade payables and accrued liabilities in the consolidated statement of financial position at the respective period ends.

In the normal course of business, the Company retained certain contractors with specialized skills and knowledge to assist the Company in its operations. These contractors are retained from other entities controlled by ESW Capital. The costs of these contractors are $nil and $0.3 million for the three and twelve months ended September 30, 2018 respectively (2017 – less than $0.1 million and $0.1 million) and have been recorded in general and administrative expense in the consolidated statements of comprehensive loss. Amounts owing to these entities as of September 30, 2018 aggregated to $0.3 million (September 30, 2017 - $0.1 million) and are included in accrued liabilities in the consolidated statement of financial position.

FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

Fair values

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

- Level 1 - quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities;

- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly (i.e. prices) or indirectly (i.e. derived from prices); and

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

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

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

	2018		2017	
$US Thousands	Carrying amount	Fair value	Carrying amount	Fair value
Warrant classified as liability (Level 2)	21,754	21,754	29,623	29,623
Preferred Shares (Level 2)	57,862	57,862	59,671	59,671

There were no transfers of financial assets between levels during the years ended September 30, 2018 and 2017.

Financial instruments are classified into one of the following categories: financial assets and financial liabilities at FVTPL, loans and receivables, and other financial liabilities.

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

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

Financial Risk Management

The Board of Directors has the overall responsibility and oversight of the Company's risk management practices. The Company does not follow a specific risk model, but rather includes risk management analysis in all levels of strategic and operational planning. The Company's management, specifically the Senior Leadership Team, is responsible for developing and monitoring the Company's risk strategy. The Company's management reports regularly to the Board of Directors on its activities.

The Company's management identifies and analyzes the risks faced by the Company. Risk management strategy and risk limits are reviewed regularly to reflect changes in the market conditions and Company's activities. The Company's management aims to develop and implement a risk strategy that is consistent with the Company's corporate objectives.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Credit risk:

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company is exposed to credit risk from banks and customers.

The Company has credit risk relating to cash and cash equivalents and restricted cash, which it manages by dealing with large chartered Canadian and international banks and investing in highly liquid investments of a rating of no less than R1, the credit rating assigned to those who pay on time.

The Company's exposure to credit risk geographically for cash and cash equivalents and restricted cash as at September 30 was as follows:

	2018	2017
Europe, Middle East and Africa	47%	27%
North America, Latin America and Caribbean	43%	71%
Asia and Pacific Rim	10%	2%
	100%	100%

For the year ended September 30, 2018, the Company had one customer (2017 – none) that accounted for greater than 10% of revenue. In order to minimize the risk of loss for trade receivables, the Company's extension of credit to customers involves review and approval by senior management, as well as, progress payments as contracts are performed. The Company also insures accounts receivable balances in certain countries.

Credit reviews take into account the counterparty's financial position, past experience and other factors. Management regularly monitors customer credit limits. The Company believes that the concentration of credit risk from trade receivables is limited, as they are widely distributed among customers in various countries.

The Company reviews its trade receivable accounts regularly and reduces amounts to their expected realizable values by making an allowance for doubtful accounts as soon as the account is assessed as not fully collectible.

The Company's trade receivables had a carrying value of $15.2 million as at September 30, 2018 (2017 - $24.6 million), representing the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. Normal credit terms for amounts due from customers varies based upon the size of the customer, type of revenue and geographic region, and generally call for payment within 30 to 120 days. At September 30, 2018, approximately 16.9% of gross trade receivables, or $3.4 million was outstanding for more than 120 days (2017 – 7.7% or $2.5 million).

The activity of the allowance for doubtful accounts for the years ended September 30 is as follows:

$US Thousands	September 30, 2018	September 30, 2017
Allowance for doubtful accounts, beginning of year	$ 2,213	$ 748
Bad debt expense (recovery)	(110)	3,392
Write-off of bad debts	(10)	(1,927)
	$ 2,093	$ 2,213

Allowance for doubtful accounts is charged to general and administrative expense. Estimates for allowance for doubtful accounts are determined on a customer-by-customer evaluation of collectability at each consolidated statement of financial position reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity and going concern risks.

The Company's exposure to credit risk for trade receivables by geographic area as at September 30 was as follows:

	2018	2017
Europe, Middle East and Africa	66%	48%
North America, Latin America and Caribbean	18%	13%
Asia and Pacific Rim	16%	39%
	100%	100%

Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's financial liabilities as at September 30, 2018 will mature as follows:

US$ Thousands	Less than 1 year	1 to 2 years	2 years and thereafter
Trade payables	$ 21,568	$ –	$ –
Accrued liabilities	12,833	–	–
Provisions	7,655	5,609	53
Other liabilities	–	–	1,273
Preferred shares	–	–	57,862
	$ 42,056	$ 5,609	$ 59,188

Management believes the Company's existing cash and cash equivalents, restricted cash and cash from operating and financing activities will be adequate to support all of its financial liabilities and contractual commitments as they become due.

The Company operates in a number of 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.

Market risk:

Market risk is the risk that the value of the Company's financial instruments will fluctuate due to changes in the market risk factors. The market risk factors which affect the Company are foreign currency and interest rates.

(a) Foreign currency risk:

The Company conducts a significant portion of its business activities in foreign countries. Foreign currency risk arises because of fluctuations in foreign currency exchange rates. The Company's objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows by converting foreign-denominated cash balances into U.S. dollars to the extent practical to match U.S. dollar obligations. The monetary assets and liabilities that are denominated in foreign currencies are affected by changes in the exchange rate between the U.S. dollar and these foreign currencies. The Company recognized a foreign currency exchange loss of $0.3 million during the year ended September 30, 2018 (2017 – loss of $3.1 million).

If a shift in foreign currency exchange rates of 10% were to occur, the foreign currency exchange gain or loss on the Company's net monetary assets could change by approximately $1.7 million (2017 - $1.2 million) due to the fluctuation and this would be recorded in the consolidated statements of comprehensive loss.

(b) Interest rate risk:

Interest rate risk arises because of the fluctuation in interest rates. The Company is subject to interest rate risk on its cash and cash equivalents and restricted. If a shift in interest rates of 10% were to occur, the impact on cash and cash equivalents and restricted cash and the related income for the years ended September 30, 2018 and 2017 would not be material.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

Changes in Internal Controls over Financial Reporting

There have been no changes to the Company’s internal controls over financial reporting during the three and twelve months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

ACCOUNTING CHANGES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements

The IASB has issued new standards and amendments to existing standards. These changes in accounting are not yet effective at September 30, 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 core principle of the new revenue standard requires an entity to recognize revenue based on the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard introduces a five-step process to be followed in determining the amount and timing of revenue recognition. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. It also provides guidance on accounting for costs incurred to obtain or fulfill contracts with customers, and establishes disclosure requirements which are more extensive than those required under prior IFRS. The standard will be applicable for the Company effective October 1, 2018. The Company plans to adopt the new standard using the modified retrospective (cumulative effect) method by recording the impact of the adoption of the new standard as at the date of initial application, without restatement of the comparative period amounts.

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 arrangements with multiple performance obligations, in particular those with multi-year on-premise licenses with extended payment terms. New and expanded disclosure requirements on revenue, performance obligations, and contract balances are also expected to be significant and require changes to processes to accumulate and report aggregated data requirements.

The Company has certain license arrangements where the customer has the right to increase their licensed capacity within stated capacity thresholds over a fixed time period, subject to a contractual minimum license requirement. Under the Company’s current revenue recognition policies for these arrangements, revenue is recognized based on customer usage and billed as such incremental capacity is delivered. Under IFRS 15, the Company considered the perpetual nature and minimum committed fees for the license. The performance obligation containing the license is fully transferred by the time of customer acceptance of the license, and therefore the transaction price allocated to the minimum license commitment is recognized by that time. In addition, where payment terms related to these licenses extend beyond a period of one year, the Company will assess whether a significant financing component exists using an appropriate interest rate and best estimate of the value and timing of the remaining payments over the expected term of the agreement. The Company will need to apply significant judgment in making such estimates.

As a result of these changes, certain revenues will be recognized earlier than in prior periods. The revenue amount that would have been recognized in future periods under the current accounting standard will be accounted for and disclosed under IFRS 15 as though the revenue had been recognized in prior periods, resulting in a cumulative effect adjustment to reduce accumulated deficit on the date of adoption. This transition adjustment will be shown as a decrease to accumulated deficit and an increase in contract assets (presented as current and long-term unbilled revenue). The transition adjustment amount is currently estimated to be between $4 million and $5 million as of October 1, 2018, of which between $2 million and $3 million was expected to be recognized as revenue under the current accounting standard in fiscal year 2019, and the remainder in later periods. Between $0.9 million and $1.1 million will be re-allocated from the license revenue and will be recognized as interest income over the period of future payments for the affected contracts which will not exceed five years.

Currently, the Company reports unbilled revenue and deferred revenue balances in its consolidated balance sheet on the basis of the individual performance obligations within each customer arrangement. Under IFRS 15, the status of the contract must be presented on a net basis as either unbilled or deferred revenue to reflect the nature of the net underlying rights and performance obligations at the contract level on the statement of financial position. Where a contract is combined for accounting purposes with one or more other contracts, the net contract balance position must be determined and reported at the aggregate level for all combined contracts. As a result of this change, the Company anticipates that it will record a reduction between $1.6 million and $1.8 million as an adjustment to the opening balances of its unbilled and deferred revenue for the year beginning on October 1, 2018.

Under the Company's existing accounting policies, employee commission costs for obtaining contracts are expensed when earned, in accordance with the Company's Sales Compensation Plan. Under IFRS 15, where such costs are incremental to obtaining a contract, they must be capitalized and amortized over the reasonable life of the associated performance obligations within the contracts (in some cases this includes expected renewals). The Company reviewed its Sales Compensation Plan and determined that these costs do not meet the criteria necessary to be considered incremental to obtaining contracts, as defined in the guidance, and therefore requires no adjustment.

The Company reviewed the tax implications of its proposed adjustments and determined that there is likely to be an increase in deferred tax liabilities as a result of transferring revenue to the prior period. This will be offset by recognition of previously unrecorded deferred tax assets. The Company believes that the difference will be insignificant. No adjustment will be required upon adoption of IFRS 15. Future notes to the Company's financial statements will reflect any impacts in the detailed composition of tax assets and liabilities.

(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:

(a) The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;

(b) Share-based payment transactions with a net settlement feature for withholding tax obligations; and,

(c) 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 consolidated financial statements for the annual period beginning on October 1, 2018. The impact of adoption of the standard is not expected to be material.

(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 will adopt the standard effective October 1, 2018. The impact of adoption of the standard is not expected to be material.

(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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue Recognition

General

The Company's revenue is derived primarily from licensing of software products under non-cancellable license agreements, the provision of related professional services (including installation, integration and training) and post-contract customer support ("PCS"). In certain cases, the Company also provides customers with hardware in conjunction with its software offerings.

Revenue comprises the fair value of consideration received or receivable from the sale or license of products or the provision of services in the ordinary course of business, net of discounts and sales taxes. Out-of-pocket expenditures that are contractually reimbursable from customers are recorded as gross revenue and expenditures.

Arrangements with multiple components

The Company enters into arrangements that contain separately identifiable components, which may include any combination of software, services, PCS and/or hardware.

Where multiple transactions or contracts are linked, such that the individual transactions have no commercial effect on their own, the transactions are evaluated as a combined customer arrangement for purposes of revenue recognition. When two or more revenue-generating activities or deliverables are sold under an arrangement, each deliverable that is considered a separate component is accounted for separately. A deliverable is separately accounted for when a delivered item has standalone value from undelivered items based on the substance of the arrangement. When services are essential to the functionality of the software, the software does not have standalone value and is combined with the essential services as a single component.

Where an arrangement includes multiple components, revenue is allocated to the different components based on their relative fair values or the residual method, as applicable. The Company generally uses optional stated renewal rates to evidence fair value of undelivered term-license/PCS services when the renewal fees and terms are substantive. When stated renewal rates do not exist for an arrangement, the Company considers fees charged on standalone PCS renewals in other similar arrangements to establish fair value. The Company typically evidences fair value for other products and services based on the pricing when those deliverables are sold separately. Where reasonable vendor-specific or third party inputs do not exist to reliably establish fair value, the Company allocates revenue based on its best estimate of selling price that the Company would transact at if the deliverable were sold on a standalone basis. For services, this includes the expected cost of delivery plus an estimated profit margin. Under the residual method, revenue is allocated to undelivered components of the arrangement based on their fair values and the residual amount of the arrangement revenue is allocated to delivered components.

The revenue policies below are applied to each separately identifiable component. Revenue associated with each component is deferred until the criteria required to recognize revenue have been met.

The Company recognizes revenue once persuasive evidence exists, generally in the form of an executed agreement, it is probable the economic benefits of the transaction will flow to the Company and revenue and costs can be measured reliably. If collection is not considered probable, revenue is recognized only once fees are collected.

Software licenses

Revenue for combined licensed software and essential services is recognized using contract accounting, following the percentage-of-completion method. The Company uses either the ratio of hours to estimated total hours or the completion of applicable milestones, as appropriate, as the measure of its progress to completion on each contract. If a loss on a contract is considered probable, the loss is recognized at the date determinable.

Perpetual software licenses, when not combined with services for accounting purposes, are recognized upon delivery and commencement of the license term. Term licenses and software subscriptions are generally recognized rateably over the term of the subscription license.

Other services

Revenue for installation, implementation, training and other services, where not essential to the functionality of the software, is recognized as the services are delivered to the customer. Fixed fee service arrangements are recognized using the percentage-of-completion method based on labour input measures.

Post-contract customer support ("PCS")

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

Hardware

Hardware revenue is recognized when delivery has occurred and risks and rewards have transferred to the customer.

Trade receivables

The Company monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual trade receivable balances will be paid. Credit risks for outstanding customer receivables are regularly assessed and allowances are recorded for estimated losses.

Unbilled and deferred revenue

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

Deferred taxes

Deferred tax assets and liabilities are recognized for temporary differences and for tax loss carryforwards. The valuation of deferred tax assets is based on management's estimates of future taxable profits in different tax jurisdictions against which the temporary differences and loss carryforwards may be utilized.

Estimate of useful lives of property and equipment and intangible assets

Useful lives over which assets are depreciated or amortized are based on management's judgment of future use and performance. Expected useful lives are reviewed annually for any change to estimates and assumptions.

Income Taxes

Income taxes comprise current and deferred tax. Current tax represents the expected tax payable on taxable income for the year using enacted or substantively enacted tax rates at the end of the reporting year, and any adjustments to tax payable related to prior years. Deferred tax assets and liabilities are determined based on differences between the carrying amounts of assets and liabilities for financial reporting purposes and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax assets are recognized to the extent that realization is considered probable. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income during the years in which those temporary differences become deductible. Management considers projected future taxable income, uncertainties related to the industry in which the Company operates and income tax planning strategies in making this assessment. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same authority on the same taxable entity, or on different tax entities where these entities intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Fair value estimates of share-based compensation

Fair value of stock options is determined using the Black-Scholes option pricing model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the stock options issued. Fair value inputs are subject to market factors, as well as internal estimates. In addition to the fair value calculation, the Company estimates the expected forfeiture rate with respect to equity-settled share-based payments based on historical experience.

Pension and non-pension post-employment benefit plans

The actuarial valuation of defined benefit obligation and fair value of plan assets require estimates, including discount rates applied to the Company's pension plan and non-pension post-employment benefit liabilities.

Goodwill valuation

We use estimates in determining the recoverable amount of our cash-generating unit ("CGU") in performing annual impairment testing of goodwill. The determination of the recoverable amount for the purpose of impairment testing requires the use of significant estimates, such as future cash flows, terminal growth rate and discount rate.

We estimate value in use for impairment tests by discounting estimated future cash flows for periods up to five years to their present value. The future cash flows are based on our estimates of expected future operating results of the cash generating unit ("CGU") after considering economic conditions and a general outlook for the CGU's industry. Our discount rates consider market rates of return, debt to equity ratios and certain risk premiums, among other things. The terminal value is the value attributed to the CGU's operations beyond the projected time period of the cash flows using a perpetuity rate based on expected economic conditions and a general outlook for the industry.

We make certain assumptions when deriving expected future cash flows, which may include assumptions pertaining to discount and terminal growth rates. These assumptions may differ or change quickly depending on economic conditions or other events. It is therefore possible that future changes in assumptions may negatively affect future valuations of the CGU and goodwill, which could result in impairment losses.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the estimated future cash flows required to settle the present obligation, based on the most reliable evidence available at the reporting date. The estimated cash flows are discounted at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. We are currently involved in various claims and legal proceedings. Quarterly, we review the status of each significant matter and assess our potential financial exposure. Because of the uncertainties related to these matters, provisions are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and, if necessary, revise our provisions. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position.

PATENT PORTFOLIO

As part of Optiva's commitment to R&D to maintain its position as a key industry innovator in the real-time BSS software space, the Company currently has a portfolio of 27 filed and 150 granted patents. To date Optiva has not initiated any action with respect to assertions and/or claims of patent infringement.

ADDITIONAL INFORMATION

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