

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

COUNTERPATH CORP

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **January 31, 2019**

OR

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

For the transition period from _____ to _____

Commission file number **001-35592**

COUNTERPATH CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or
organization)

20-0004161

(IRS Employer Identification No.)

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

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

(604) 320-3344

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer ☐

Non-accelerated filer ☐

Accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 5,949,504 shares of common stock issued and outstanding as of March 12, 2019.

COUNTERPATH CORPORATION
JANUARY 31, 2019 QUARTERLY REPORT ON FORM 10-Q

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Item 1. Financial Statements.

It is the opinion of management that the interim consolidated financial statements for the quarter ended January 31, 2019 include all adjustments necessary in order to ensure that the interim consolidated financial statements are not misleading.

In the interim consolidated financial statements for the quarter ended January 31, 2019, all amounts are expressed in United States dollars, unless otherwise indicated. The interim consolidated financial statements for the quarter ended January 31, 2019 are prepared in accordance with generally accepted accounting principles in the United States of America.

COUNTERPATH CORPORATION
INDEX TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2019
(Unaudited)
(Stated in U.S. Dollars)

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COUNTERPATH CORPORATION
INTERIM CONSOLIDATED BALANCE SHEETS
(Stated in U.S. Dollars)
(Unaudited)

	January 31, 2019	April 30, 2018
Assets		
Current assets:		
Cash	\$ 1,744,859	\$ 2,348,883
Accounts receivable (net of allowance for doubtful accounts of \$1,124,161 (2018 - \$322,638))	2,230,742	3,509,010
Deferred sales commission costs – current – Note 4	110,561	–
Derivative assets	12,007	–
Prepaid expenses and other current assets	271,687	191,245
Total current assets	4,369,856	6,049,138
Deposits	96,701	98,633
Deferred sales commission costs – non-current – Note 4	61,812	–
Equipment	80,644	121,819
Goodwill	6,690,043	6,843,575
Intangibles and other assets	225,656	221,062
Total Assets	\$ 11,524,712	\$ 13,334,227
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,411,854	\$ 2,437,733
Derivative liability	18,052	–
Unearned revenue	2,680,073	2,565,876
Customer deposits	3,137	2,200
Accrued warranty	49,305	63,130
Total current liabilities	5,162,421	5,068,939
Deferred lease inducements	6,596	14,339
Loan payable – Note 7	2,000,000	–
Unrecognized tax liability	9,763	9,763
Total liabilities	7,178,780	5,093,041
Stockholders' equity:		
Preferred stock, \$0.001 par value		
Authorized: 100,000,000		
Issued and outstanding: January 31, 2019 – nil; April 30, 2018 – nil	–	–
Common stock, \$0.001 par value – Note 8		
Authorized: 100,000,000		
Issued:		
January 31, 2019 – 5,946,832; April 30, 2018 – 5,930,468	5,947	5,931
Additional paid-in capital	75,591,318	75,170,181
Accumulated deficit – Note 4	(67,701,736)	(63,701,685)
Accumulated other comprehensive loss – currency translation adjustment	(3,549,597)	(3,233,241)
Total stockholders' equity	4,345,932	8,241,186
Liabilities and Stockholders' Equity	\$ 11,524,712	\$ 13,334,227
Commitments – Note 11		
Contingencies – Note 12		
Going concern – Note 2		

See accompanying notes to the interim consolidated financial statements

COUNTERPATH CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
(Stated in U.S. Dollars)
(Unaudited)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2019	2018	2019	2018
Revenue – Note 10:				
Software	\$ 1,119,311	\$ 1,791,165	\$ 3,398,729	\$ 5,306,925
Subscription, support and maintenance	1,367,387	1,120,690	3,938,247	3,069,371
Professional services and other	101,060	172,048	579,873	1,230,978
Total revenue	<u>2,587,758</u>	<u>3,083,903</u>	<u>7,916,849</u>	<u>9,607,274</u>
Operating expenses:				
Cost of sales (includes depreciation of \$528 (2018 – \$4,753))	563,236	362,057	1,782,603	1,131,122
Sales and marketing	983,290	996,470	2,945,939	3,031,981
Research and development	1,369,196	1,361,219	4,163,889	4,052,129
General and administrative	699,428	800,049	3,241,167	2,407,234
Total operating expenses	<u>3,615,150</u>	<u>3,519,795</u>	<u>12,133,598</u>	<u>10,622,466</u>
Loss from operations	(1,027,392)	(435,892)	(4,216,749)	(1,015,192)
Interest and other income (expense), net:				
Interest and other income	2,145	–	2,145	–
Interest expense	(22,122)	(123)	(26,788)	(338)
Foreign exchange gain (loss)	(16,266)	(342,328)	108,205	(756,512)
Change in fair value of derivative instruments	4,255	–	(897)	–
Total interest and other income (expense), net	<u>(31,988)</u>	<u>(342,451)</u>	<u>82,665</u>	<u>(756,850)</u>
Net loss for the period	<u>\$ (1,059,380)</u>	<u>\$ (778,343)</u>	<u>\$ (4,134,084)</u>	<u>\$ (1,772,042)</u>
Net loss per share – Note 13:				
Basic and diluted	\$ (0.18)	\$ (0.14)	\$ (0.70)	\$ (0.33)
Weighted average common shares outstanding:				
Basic and diluted	5,945,181	5,539,352	5,939,803	5,354,690

See accompanying notes to the interim consolidated financial statements

COUNTERPATH CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Stated in U.S. Dollars)
(Unaudited)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2019	2018	2019	2018
Net loss for the period	\$ (1,059,380)	\$ (778,343)	\$ (4,134,084)	\$ (1,772,042)
Other comprehensive loss:				
Foreign currency translation adjustments	(1,096)	633,751	(316,356)	1,404,362
Comprehensive loss	<u>\$ (1,060,476)</u>	<u>\$ (144,592)</u>	<u>\$ (4,450,440)</u>	<u>\$ (367,680)</u>

See accompanying notes to the interim consolidated financial statements

COUNTERPATH CORPORATION
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in U.S. Dollars)
(Unaudited)

	Nine Months Ended January 31,	
	2019	2018
Cash flows from operating activities:		
Net loss for the period	\$ (4,134,084)	\$ (1,772,042)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	817,331	197,870
Deferred lease inducements	(7,421)	(7,626)
Depreciation and amortization	73,323	85,153
Unrealized foreign exchange (gain) loss	(172,503)	707,942
Stock-based compensation – Note 8	404,414	494,883
Issuance of common stock for services	–	11,105
Change in fair value of derivative instruments	6,045	–
Changes in assets and liabilities:		
Accounts payable and accrued liabilities	(3,901)	166,680
Accounts receivable	460,929	(1,997,358)
Deferred sales commission costs – Note 4	(38,340)	–
Accrued warranty	(13,825)	10,965
Customer deposits	937	(5,730)
Prepaid expenses and other current assets	(81,217)	(46,973)
Unearned revenue – Note 4	114,197	286,724
Net cash used in operating activities	<u>(2,574,115)</u>	<u>(1,868,407)</u>
Cash flows from investing activities:		
Purchases of equipment	(29,147)	(73,415)
Purchases of intangibles	(9,395)	(13,864)
Net cash used in investing activities	<u>(38,542)</u>	<u>(87,279)</u>
Cash flows from financing activities:		
Net proceeds from issuance of common stock	16,739	2,895,655
Repurchases of common stock	–	(32,059)
Proceeds received from loan payable – Note 7	2,000,000	–
Net cash provided by financing activities	<u>2,016,739</u>	<u>2,863,596</u>
Foreign exchange effect on cash	<u>(8,106)</u>	<u>69,489</u>
Decrease in cash	(604,024)	977,399
Cash, beginning of the period	2,348,883	2,071,019
Cash, end of the period	<u>\$ 1,744,859</u>	<u>\$ 3,048,418</u>
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	\$ 26,740	\$ 341
Taxes	\$ –	\$ –
Non cash transactions – Note 8		

See accompanying notes to the interim consolidated financial statements

COUNTERPATH CORPORATION
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
for the Six Months Ended January 31, 2019
(Stated in U.S. Dollars)
(Unaudited)

	Common Shares		Treasury Shares		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Number of Shares	Par Value	Number of Shares	Par Value				
Balance, April 30, 2017	5,005,245	\$ 5,005	(59,900)	\$ (60)	\$ 71,680,575	\$ (60,481,015)	\$ (4,025,196)	\$ 7,179,309
Shares issued – Note 8:								
Private placement, net of share issuance costs	966,740	967	–	–	2,831,479	–	–	2,832,446
Issuance of common stock for services	14,000	14	–	–	33,303	–	–	33,317
Share repurchase plan	–	–	(13,600)	(14)	(33,807)	–	–	(33,821)
Cancellation of shares	(73,500)	(74)	73,500	74	1,762	–	–	1,762
Stock-based compensation	–	–	–	–	494,883	–	–	494,883
Employee share purchase program	22,226	22	–	–	61,970	–	–	61,992
Exercise of stock options	495	1	–	–	1,217	–	–	1,218
Net loss for the period	–	–	–	–	–	(1,772,042)	–	(1,772,042)
Foreign currency translation adjustment	–	–	–	–	–	–	1,404,362	1,404,362
Balance, January 31, 2018	<u>5,935,206</u>	<u>\$ 5,935</u>	<u>–</u>	<u>\$ –</u>	<u>\$ 75,071,382</u>	<u>\$ (62,253,057)</u>	<u>\$ (2,620,834)</u>	<u>\$ 10,203,426</u>
Balance, April 30, 2018								
Balance, April 30, 2018	5,930,468	\$ 5,931	–	\$ –	\$ 75,170,181	\$ (63,701,685)	\$ (3,233,241)	\$ 8,241,186
Adoption of ASC 606 – Note 4	–	–	–	–	–	134,033	–	134,033
Balance, May 1, 2018	<u>5,930,468</u>	<u>\$ 5,931</u>	<u>–</u>	<u>\$ –</u>	<u>\$ 75,170,181</u>	<u>\$ (63,567,652)</u>	<u>\$ (3,233,241)</u>	<u>\$ 8,375,219</u>
Shares issued – Note 8:								
Stock-based compensation	–	–	–	–	404,414	–	–	404,414
Employee share purchase program	9,406	9	–	–	19,109	–	–	19,118
Exercise of stock options	6,958	7	–	–	(2,386)	–	–	(2,379)
Net loss for the period	–	–	–	–	–	(4,134,084)	–	(4,134,084)
Foreign currency translation adjustment	–	–	–	–	–	–	(316,356)	(316,356)
Balance, January 31, 2019	<u>5,946,832</u>	<u>\$ 5,947</u>	<u>–</u>	<u>\$ –</u>	<u>\$ 75,591,318</u>	<u>\$ (67,701,736)</u>	<u>\$ (3,549,597)</u>	<u>\$ 4,345,932</u>

See accompanying notes to the interim consolidated financial statements

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2019
(Unaudited)

Note 1 **Nature of Operations**

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

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

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

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

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

Going Concern

The Company has experienced recurring losses and has an accumulated deficit of \$67,701,736 as of January 31, 2019, as a result of flat to declining revenues resulting from a number of factors including its buildout of a cloud based subscription platform concurrent with the change of its licensing model to subscription based licensing and has not reached profitable operations which raises substantial doubt about its ability to continue operating as a going concern within one year of the date of issuance of the financial statements.

To alleviate this situation, the Company has plans in place to improve its financial position and liquidity, while executing on its growth strategy, by managing and or reducing costs that are not expected to have an adverse impact on the ability to generate cash flows, as the transition to its software as a service platform and subscription licensing continues.

The Company has historically been able to manage liquidity requirements through cost management and cost reduction measures, supplemented with raising additional financing. On October 10, 2018, the Company entered into a loan agreement for an aggregate principal amount of up to \$3,000,000. See *Note 7 – Loan Payable* for further detail. As of January 31, 2019, the Company has no other commitments to raise funds.

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2019
(Unaudited)

Interim Reporting

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

These statements reflect all adjustments, which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in accordance with generally accepted accounting principles in the United States of America. Except where noted, these interim financial statements follow the same accounting policies and methods of their application as the Company's April 30, 2018 annual audited consolidated financial statements. All adjustments are of a normal recurring nature. It is suggested that these interim financial statements be read in conjunction with the Company's April 30, 2018 annual audited consolidated financial statements.

Operating results for the three and nine months ended January 31, 2019 are not necessarily indicative of the results that can be expected for the year ending April 30, 2019.

Reclassification

Certain prior period balances have been reclassified to conform to the current period presentation in the Company's consolidated interim financial statements and the accompanying notes.

Note 3

Summary of Significant Accounting Policies

The significant accounting policies used in preparation of these interim consolidated financial statements are disclosed in our Annual Report on Form 10-K for the fiscal year ended April 30, 2018 filed with the Securities Exchange Commission on July 25, 2018, and there have been no changes to the Company's significant accounting policies during the three and nine months ended January 31, 2019, except for the revenue recognition policy, described in *Note 4 – Revenue Recognition under ASC 606*, that was updated as a result of adopting Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers: Topic 606* ("ASU 2014-09" or "ASC 606"). ASU 2014-09 also included Subtopic 340-40, *Other Assets and Deferred Costs - Contracts with Customers*. All amounts and disclosures set forth herein are in compliance with these standards.

Concentrations of Credit Risk

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

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2019
(Unaudited)

Revenue from significant customers for the three and nine months ended January 31, 2019 and 2018 is summarized below:

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2019	2018	2019	2018
Customer A	—%	17%	—%	6%

The table below presents significant customers who accounted for greater than 10% of total accounts receivable as of January 31, 2019 and April 30, 2018:

	January 31,	April 30,
	2019	2018
Customer A	—%	18%
Customer B	—%	13%

Accounts Receivable and Allowance for Doubtful Accounts

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

	January 31,	April 30,
	2019	2018
Balance of allowance for doubtful accounts, beginning of period	\$ 322,638	\$ 80,232
Bad debt provision	801,523	578,024
Write-off of receivables	—	(335,618)
Balance of allowance for doubtful accounts, end of period	\$ 1,124,161	\$ 322,638

The Company determines the allowance for doubtful accounts by considering a number of factors, including the length of time the accounts receivable are beyond the contractual payment terms, previous loss history, and the customer's current ability to pay its obligation. When the Company becomes aware of a specific customer's inability to meet its financial obligations to the Company, the Company records a charge to the allowance to reduce the customer's related accounts.

Derivative Instruments

The Company accounts for derivative instruments, consisting of foreign currency forward contracts, pursuant to the provisions of ASC 815, Derivatives and Hedging ("ASC 815"). ASC 815 requires the Company to measure derivative instruments at fair value and record them in the balance sheet as either an asset or liability and expands financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, results of operations and cash flows. The Company does not use derivative instruments for trading purposes. ASC 815 also requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements.

The Company also routinely enters into foreign currency forward contracts, not designated as hedging instruments, to protect the Company from fluctuations in exchange rates. Gains or losses arising out of marked to market fair value valuation of non-designated forward contracts are recognized in net income.

The Company records foreign currency option and forward contracts on its Consolidated Balance Sheets as derivative assets or liabilities depending on whether the fair value of such contracts is a net asset or net liability, respectively. See Note 5 - *Derivative Instruments* for further detail. The Company did not enter any foreign currency derivatives designated as cash flow hedges in the three and nine months ended January 31, 2019.

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2019
(Unaudited)

Recently Adopted Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, *Revenue From Contracts With Customers* ("Topic 606") which supersedes the revenue recognition requirements in Topic 605 "Revenue Recognition" ("Topic 605") and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services. The Company adopted ASU 2014-09 as of May 1, 2018 using the modified retrospective transition method. See *Note 4 – Revenue Recognition* under ASC 606 for further details.

Recently Issued Accounting Pronouncements

In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities, which amends the presentation and disclosure requirements and changes how companies assess effectiveness. The amendments are intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. This amendment is effective for annual periods beginning after December 15, 2018, including interim periods within those periods. Early application is permitted. The Company is currently assessing the future impact of this update on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment, which amends the guidance to eliminate Step 2 from the goodwill impairment test. Instead, under the amendments in the new guidance, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The amendments will be effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is evaluating the impact of this amendment on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments: Measurement of Credit Losses on Financial Instruments which amends the guidance on measuring credit losses on financial assets held at amortized cost. The amendment is intended to address the issue that the previous "incurred loss" methodology was restrictive for a company's ability to record credit losses based on not yet meeting the "probable" threshold. The new language will require these assets to be valued at amortized cost presented at the net amount expected to be collected with a valuation provision. The amendments will be effective for fiscal years beginning after December 15, 2019. The Company is evaluating the impact of this amendment on our consolidated financial statements and related disclosures.

In February 2016, FASB issued ASU 2016-02, *Leases*. The guidance would require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. The guidance is effective for annual and interim reporting periods beginning on or after December 15, 2018. The Company is currently evaluating the impact of its pending adoption of ASU 2016-02 on its consolidated financial statements.

Note 4

Revenue Recognition under ASC 606

On May 1, 2018, the Company adopted the new accounting standard, ASC 606 "*Revenue from Contracts with Customers*" and all related amendments to the new accounting standard to contracts using the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue recognition standard to contracts with open performance obligations as of May 1, 2018, as an adjustment to the opening balance of retained earnings. Results of the reporting period beginning May 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Company's historic accounting under ASC 605.

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2019
(Unaudited)

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

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

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

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

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

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

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

Software Revenue

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

COUNTERPATH CORPORATION
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
January 31, 2019
(Unaudited)

Subscription, support and maintenance

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

Professional services and other

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

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

Unearned Revenue

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

During the three and nine months ended January 31, 2019, the Company recognized \$473,272 and \$2,129,124 in revenue, respectively, in its consolidated statements of operations that was previously recognized as unearned revenue in the consolidated balance sheets at May 1, 2018.

Costs to Obtain a Customer Contract

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

During the three and nine months ended January 31, 2019, the Company capitalized approximately \$79,926 and \$399,058, respectively, of costs to obtain revenue contracts and amortized approximately \$73,127 and \$186,822 of commissions during those same periods to sales and marketing expense.

COUNTERPATH CORPORATION
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(Unaudited)

Capitalized costs to obtain a revenue contract on the Company's condensed consolidated balance sheets totaled approximately \$172,373 at January 31, 2019.

Costs to Fulfill a Customer Contract

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

Adoption Impact of ASC 606

The Company recognized the cumulative effect of initially applying ASC 606 as an adjustment to retained earnings in the condensed consolidated balance sheet as of May 1, 2018:

	Balance at April 30, 2018	ASC 606 Adjustments	Balance at May 1, 2018
Current assets:			
Deferred sales commissions costs	\$ —	\$ 70,248	\$ 70,248
Non-current assets:			
Deferred sales commissions costs	\$ —	\$ 63,785	\$ 63,785
Stockholders' equity:			
Accumulated deficit	\$ (63,701,685)	\$ 134,033	\$ (63,567,652)

The following tables summarize the adoption impact of ASC 606 on the Company's condensed consolidated financial statements for the three and nine months ended January 31, 2019.

Selected Condensed Consolidated Income Statement Line Items:

	Three Months Ended January 31, 2019		
	ASC 605	ASC 606 Adjustments	(As Reported) ASC 606
Revenue:			
Software	\$ 1,104,256	\$ 15,055	\$ 1,119,311
Subscription, support and maintenance	1,369,457	(2,070)	1,367,387
Professional services and other	118,206	(17,146)	101,060
Total revenue	<u>\$ 2,591,919</u>	<u>\$ (4,161)</u>	<u>\$ 2,587,758</u>
Operating expenses:			
Sales and marketing	\$ 990,089	\$ (6,799)	\$ 983,290
Loss from operations	\$ (1,030,030)	\$ 2,638	\$ (1,027,392)
Net loss per share:			
Basic and diluted	\$ (0.18)	\$ —	\$ (0.18)

COUNTERPATH CORPORATION
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(Unaudited)

	Nine Months Ended January 31, 2019		
	ASC 605	ASC 606 Adjustments	(As Reported) ASC 606
Revenue:			
Software	\$ 3,415,716	\$ (16,987)	\$ 3,398,729
Subscription, support and maintenance	3,941,904	(3,657)	3,938,247
Professional services and other	556,698	23,175	579,873
Total revenue	<u>\$ 7,914,318</u>	<u>\$ 2,531</u>	<u>\$ 7,916,849</u>
Operating expenses:			
Sales and marketing	\$ 2,982,294	\$ (36,355)	\$ 2,945,939
Loss from operations	\$ (4,255,635)	\$ 38,886	\$ (4,216,749)
Net loss per share:			
Basic and diluted	\$ (0.71)	\$ 0.01	\$ (0.70)

Selected Condensed Consolidated Balance Line Items:

	January 31, 2019		
	ASC 605	ASC 606 Adjustments	(As Reported) ASC 606
Current assets:			
Deferred sales commissions costs	\$ –	\$ 110,561	\$ 110,561
Current liabilities:			
Unearned revenue	\$ 2,682,604	\$ (2,531)	\$ 2,680,073
Non-current assets:			
Deferred sales commissions costs	\$ –	\$ 61,812	\$ 61,812
Stockholders' equity:			
Accumulated deficit	\$ (67,871,578)	\$ 169,842	\$ (67,701,736)

Selected Condensed Consolidated Statement of Cash Flows Line Items:

	Nine Months Ended January 31, 2019		
	ASC 605	ASC 606 Adjustments	(As Reported) ASC 606
Net loss	\$ (4,172,970)	\$ 38,886	\$ (4,134,084)
Deferred sales commissions costs	\$ –	\$ (38,340)	\$ (38,340)
Unearned revenue	\$ 116,728	\$ (2,531)	\$ 114,197
Unrealized foreign exchange (gain) loss	\$ (174,488)	\$ 1,985	\$ (172,503)
Net cash provided by operating activities	<u>\$ (2,574,115)</u>	<u>\$ –</u>	<u>\$ (2,574,115)</u>

Disaggregation of Revenue

The Company disaggregates its revenue by geographic region. See *Note 10 – Segmented Information* for more information.

Derivative Instruments

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

Foreign Currency Exchange Rate Risk

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

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

During the three and nine months ended January 31, 2019 and 2018, the Company did not enter into any designated cash flow hedge contracts.

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

Fair value of Undesignated Derivatives	January 31, 2019	April 30, 2018
Foreign currency option contracts	\$ 2,000,000	\$ —

The following table presents the fair values of the Company's derivative instruments on a gross basis as reflected on the Company's consolidated balance sheets. The Company did not have any outstanding derivative contracts as of April 30, 2018.

Fair value of Undesignated Derivatives	January 31, 2019	
	Derivative Assets	Derivative Liabilities
Foreign currency option contracts	\$ 12,007	\$ 18,052

During the three and nine months ended January 31, 2019, the Company recorded a gain of \$4,255 and a loss of \$897, respectively, resulting from the change in fair value of derivative instruments. No such gains or losses were recorded in the prior year as the Company did not enter into any forward and option contracts.

Fair Value Measurements

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

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

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

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

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

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

Financial Instruments Measured at Fair value

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis as of January 31, 2019 and April 30, 2018.

As at January 31, 2019	Carrying Amount	Fair Value	Fair Value Levels	Reference
Assets				
Cash	\$ 1,744,859	\$ 1,744,859	1	N/A
Foreign currency option contracts	12,007	12,007	2	Note 5
	<u>\$ 1,756,866</u>	<u>\$ 1,756,866</u>		
Liabilities				
Foreign currency option contracts	\$ 18,052	\$ 18,052	2	Note 5
As at April 30, 2018	Carrying Amount	Fair Value	Fair Value Levels	Reference
Cash	\$ 2,348,883	\$ 2,348,883	1	N/A

Financial Instruments Not Measured at Fair Value

The following table presents the Company's liability that is not measured at fair value as of January 31, 2019, but for which fair value is available:

As at January 31, 2019	Carrying Amount	Fair Value	Fair Value Levels	Reference
Loan payable	\$ 2,000,000	\$ 2,118,677	2	Note 7

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

Note 7

Loan Payable

On October 10, 2018, the Company entered into a loan agreement (the "Loan Agreement") with Wesley Clover International Corporation and KMB Trac Two Holdings Ltd for an aggregate principal amount of up to \$3,000,000. Pursuant to the terms of the Loan Agreement, the loan is unsecured and will be made available in multiple advances at the discretion of the Company and will bear interest at a rate of 8% per year, payable monthly. The outstanding principal and any accrued interest may be prepaid without penalty and is to be fully repaid on the second anniversary of the first advance.

As of January 31, 2019, the principal balance of the loan payable was \$2,000,000. This balance is to be repaid on or before October 11, 2020. During the three and nine months ended January 31, 2019, the Company recognized \$22,137 and \$26,740, respectively, in interest expense in the consolidated statement of operations. See Note 9 – *Related Party Transactions*.

Note 8

Common Stock

Private Placement

On January 24, 2018, the Company issued an aggregate of 427,500 shares of common stock under a non-brokered private placement at a price of \$4.01 per share for total gross proceeds of \$1,714,275 less issuance costs of \$48,325.

On July 20, 2017, the Company issued an aggregate of 539,240 shares of common stock under a non-brokered private placement at a price of \$2.20 per share for total gross proceeds of \$1,186,328 less issuance costs of \$19,832. There were no private placements during the nine months ended January 31, 2019.

Shares Issued for Services

On October 16, 2017, the Company entered into an agreement to issue 14,000 shares of the Company's common stock in exchange for investor relation services. The agreement was terminated on April 8, 2018 as the services were no longer required. Pursuant to the terms of the agreement, upon termination, 7,211 shares of common stock were returned to the Company.

Stock Options

During the nine months ended January 31, 2019, the Company granted 221,000 stock options to certain employees of the Company. No stock options were granted during the same period in the prior year. The weighted-average fair value of options granted during the nine months ended January 31, 2019 was \$0.82. The weighted-average assumptions utilized to determine such value is presented in the following table:

	Nine Months Ended January 31, 2019
Risk-free interest rate	2.7%
Expected volatility	77.2%
Expected term	3.7 years
Dividend yield	–%

During the nine months ended January 31, 2019, the Company issued 6,958 shares pursuant to cashless exercises of 35,500 stock options and remitted employee tax withholdings of approximately \$2,386 on the behalf of its employees. No stock options were exercised in the same periods in the prior year. The following is a summary of the status of the Company's stock options as of January 31, 2019 and the stock option activity during the nine months ended January 31, 2019:

	Weighted Average	
	Number of Options	Exercise Price per Share
Outstanding at April 30, 2018	675,042	\$ 2.66
Granted	221,000	\$ 1.45
Forfeited/Cancelled	(151,635)	\$ 2.74
Expired	(71,000)	\$ 2.50
Exercised	(35,500)	\$ 2.50
Outstanding at January 31, 2019	637,907	\$ 2.25
Exercisable at January 31, 2019	217,493	\$ 2.57
Exercisable at April 30, 2018	256,555	\$ 2.47

Employee and non-employee stock-based compensation amounts classified in the Company's consolidated statements of operations for the three and nine months ended January 31, 2019 and 2018 are as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2019	2018	2019	2018
Cost of sales	\$ 11,528	\$ 11,583	\$ 37,098	\$ 39,439
Sales and marketing	16,333	17,141	55,093	58,814
Research and development	11,478	11,006	37,491	42,933
General and administrative	10,455	25,630	55,178	97,978
Total stock-option based compensation	\$ 49,794	\$ 65,360	\$ 184,860	\$ 239,164

Employee Stock Purchase Plan

Under the terms of the Employee Stock Purchase Plan (the "ESPP") all regular salaried (non-probationary) employees can purchase up to 6% of their base salary in shares of the Company's common stock at market price. The Company matches 50% of the shares purchased by issuing or purchasing in the market up to 3% of the respective employee's base salary in shares. During the nine months ended January 31, 2019, the Company matched \$19,118 (2018 - \$36,210) in shares purchased by employees under the ESPP. During the nine months ended January 31, 2019, 19,724 shares (2018 - 12,832 shares) were purchased on the open market and 9,406 shares (2018 - 22,226) were issued from treasury under the ESPP.

A total of 220,000 shares have been reserved for issuance under the ESPP. As of January 31, 2019, a total of 152,098 shares were available for issuance under the ESPP.

Deferred Share Unit Plan

During the nine months ended January 31, 2019, 236,981 (2018 - 119,998) deferred stock units ("DSUs") were issued under the Deferred Stock Unit Plan ("DSUP"), of which 45,661 DSUs have been cancelled. Of the outstanding DSUs granted this year, 122,830 were granted to officers and employees and 68,490 were granted to non-employee directors. As of January 31, 2019, a total of 42,495 shares were available for issuance under the DSUP.

The following table summarizes the Company's outstanding DSU awards as of January 31, 2019, and changes during the period then ended:

	Number of DSUs	Weighted Average Grant Date Fair Value Per DSU
DSUs outstanding at April 30, 2018	465,390	\$ 6.40
Granted	236,981	\$ 2.05
Cancelled	(68,880)	\$ 2.42
DSUs outstanding at January 31, 2019	633,491	\$ 5.20

Employee and non-employee DSU based compensation amounts classified in the Company's consolidated statements of operations for the three and nine months ended January 31, 2019 and 2018 are as follows:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2019	2018	2019	2018
General and administrative	\$ 15,024	\$ 22,564	\$ 219,554	\$ 255,719

Normal Course Issuer Bid Plan

Pursuant to a normal course issuer bid ("NCIB") commencing on March 29, 2017 and expired March 28, 2018, the Company was authorized to purchase 258,613 shares of the Company's common stock through the facilities of the Toronto Stock Exchange (the "TSX") and other Canadian marketplaces or U.S. marketplaces. During the period March 29, 2017 to January 31, 2018, the Company repurchased 73,500 common shares at an average price of \$2.18 (CDN\$2.81) for a total of \$160,230. As of January 31, 2018, a total of 73,500 shares had been cancelled.

On March 27, 2018, the Company filed another normal course issuer bid commencing on March 29, 2018 and expiring March 28, 2019. Under this normal course issuer bid, the Company is authorized to purchase up to 284,278 shares of its common stock through the facilities of the TSX and other Canadian marketplaces or U.S. marketplaces. During the three and nine months ended January 31, 2019, no shares were repurchased under the NCIB.

Note 9

Related Party Transactions

On October 10, 2018, the Company entered into a loan agreement (the "Loan Agreement") with Wesley Clover International Corporation, a company controlled by the Chairman of the Company, and KMB

Trac Two Holdings Ltd., a company owned by the spouse of a director of the Company. As of January 31, 2019, the principal balance of the loan payable was \$2,000,000. During the three and nine months ended January 31, 2019, the Company recognized \$22,137 and \$26,740, respectively, in interest expense in the consolidated statement of operations. See Note 7 – *Loan Payable* for more information.

During the three and nine months ended January 31, 2019, the Company through its wholly owned subsidiary, CounterPath Technologies Inc., paid \$20,946 and \$63,012 (2018 - \$21,911 and \$65,277), respectively, to KRP Properties ("KRP") (previously known as Kanata Research Park Corporation) for leased office space. KRP is controlled by the Chairman of the Company.

On November 21, 2013, the Company, through its wholly owned subsidiary, CounterPath Technologies Inc., entered into an agreement with 8007004 (Canada) Inc. ("8007004") to lease office space. 8007004 is controlled by a member of the board of directors of the Company. CounterPath Technologies Inc., paid \$7,733 and \$23,263 (2018 - \$8,258 and \$24,820) for the three and nine months ended January 31, 2019, respectively.

On January 24, 2018, the Company issued an aggregate of 427,500 shares of common stock under a non-brokered private placement at a price of \$4.01 per share for total gross proceeds of \$1,714,275 less issuance costs of \$48,325. In connection with this private placement, KRP, a company controlled by the Chairman of the Company, purchased 125,000 shares and KMB Trac Two Holdings Ltd., a company owned by the spouse of a director of our Company, purchased 125,000 shares.

On July 20, 2017, our Company issued an aggregate of 539,240 shares of common stock under a non-brokered private placement at a price of \$2.20 per share for total gross proceeds of \$1,186,328 less issuance costs of \$19,832. In connection with this private placement, Wesley Clover International Corporation purchased 144,357 shares, KMB Trac Two Holdings Ltd., purchased 180,446 shares, the chief financial officer of the Company, purchased 4,511 shares, and the executive vice president, sales and marketing of the Company, purchased 4,545 shares.

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

Note 10 **Segmented Information**

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

Revenues are categorized based on the country in which the customer is located. The following is a summary of total revenues by geographic area for the three and nine months ended January 31, 2019 and 2018:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2019	2018	2019	2018
North America	\$ 1,682,944	\$ 1,648,430	\$ 5,063,949	\$ 5,158,026
EMEA	501,404	1,127,537	1,713,885	3,304,887
Asia Pacific	278,440	216,479	830,100	744,693
Latin America	124,970	91,457	308,915	399,668
	<u>\$ 2,587,758</u>	<u>\$ 3,083,903</u>	<u>\$ 7,916,849</u>	<u>\$ 9,607,274</u>

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

	January 31, 2019	April 30, 2018
Canada	6,965,438	7,150,537
United States	30,905	35,919
	<u>\$ 6,996,343</u>	<u>\$ 7,186,456</u>

Note 11 **Commitments**

Total payable over the term of the agreements for the period ended are as follows:

	Office Leases – Related Party	Office Leases – Unrelated Party	Total Office Leases	Voice Platform Service Contract	Total Commitments
2019	\$ 28,038	\$ 145,282	\$ 173,320	\$ 60,000	\$ 233,320
2020	5,156	305,167	310,323	240,000	550,323
2021	–	41,331	41,331	220,000	261,331
2022	–	24,110	24,110	–	24,110
	<u>\$ 33,194</u>	<u>\$ 515,890</u>	<u>\$ 549,084</u>	<u>\$ 520,000</u>	<u>\$ 1,069,084</u>

Note 12 **Contingencies**

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

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2019	2018	2019	2018
Numerator				
Net loss	\$ (1,059,380)	\$ (778,343)	\$ (4,134,084)	\$ (1,772,042)
Denominator				
Weighted average shares outstanding	5,945,181	5,539,352	5,939,803	5,354,690
Effect of dilutive securities	—	—	—	—
	<u>5,945,181</u>	<u>5,539,352</u>	<u>5,939,803</u>	<u>5,354,690</u>
Basic and diluted loss per share	\$ (0.18)	\$ (0.14)	\$ (0.70)	\$ (0.33)

For the three and nine months ended January 31, 2019, common share equivalents consisting of stock options and DSUs totaling 1,271,398 for both periods were not included in the computation of diluted EPS because the effect was anti-dilutive. For the three and nine months ended January 31, 2018, common share equivalents consisting of stock options and DSUs totaling 1,144,172 for both periods were not included in the computation of diluted EPS because the effect was anti-dilutive.

Forward-Looking Statements

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

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

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

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

References

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

Background

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

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

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

Business of CounterPath

We design, develop and sell software and services that enable enterprises and telecommunication service providers to deliver Unified Communications (UC) services, including voice, video, messaging and collaboration functionality, over their Internet Protocol, or IP, based networks. We are capitalizing upon numerous industry trends, including the rapid adoption of mobile technology, the proliferation of bring-your-own-device to work programs, the need for secure business communications, the need for centralized provisioning, the migration towards cloud-based services and the migration towards all IP networks. We are also capitalizing on a trend where communication services such as Skype and WhatsApp are becoming more available over-the-top (OTT) of the incumbent operators' networks or enterprise networks (a.k.a. Internet OTT providers). We offer our solutions under perpetual license agreements that generate one-time license revenue and under subscription license agreements that generate recurring license revenue. We sell our solutions through our own online store, through third-party online stores, directly using our in-house sales team and through channel partners. Our channel partners include original equipment manufacturers, value added distributors and value added resellers. Enterprises typically leverage our Enterprise OTT solutions to increase employee productivity and to reduce certain costs. Telecommunication service providers typically deploy our Operator OTT solutions as part of a broad strategy to defend their subscriber base from competitive threats by offering innovative new services. Our original equipment manufacturers and value added resellers typically integrate our solutions into their products and then sell a bundled solution to their end customers, which include both telecommunication service providers and enterprises.

Revenue

Our total revenue consists of the following:

- *Software*

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

- *Subscription, support and maintenance*

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

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

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

Operating Expenses

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

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

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

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

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

Application of Critical Accounting Policies and Use of Estimates

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

There have been no significant changes to our critical accounting policies and estimates previously disclosed in our Form 10-K for the fiscal year ended April 30, 2018, during the nine months ended January 31, 2019 except for our adoption of ASC 606 as described below:

On May 1, 2018, we adopted the new accounting standard, ASC 606 "Revenue from Contracts with Customers" and all related amendments to the new accounting standard to contracts using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue recognition standard to contracts with open performance obligations as of May 1, 2018, as an adjustment to the opening balance of retained earnings. Results of the reporting period beginning May 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC 605.

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

We recognize revenue using the five-step model as prescribed by ASC 606:

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

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

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

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

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

We recognize software revenue for perpetual licenses when control has transferred to the customer, which is generally at the time of delivery when the customer has the ability to deploy the licenses, provided all revenue recognition criteria have been met. If the revenue recognition criteria has not been met, the revenue is deferred or not recognized.

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

We recognize revenue from professional services and other revenue when control has transferred to the customer, which is generally at the time of delivery, and all other revenue recognition criteria have been met. For contracts with elements related to customized network solutions and certain network build-outs or software systems that require significant modification or customization, we will recognize revenue using the percentage-of-completion method. In using the percentage-of-completion method, revenues are generally recorded based on completion of milestones as described in the agreement. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognized in the period that such losses become known. Depending on the services to be provided, revenue from professional services and other is generally recognized at the time of delivery when the services have been completed and control has been transferred to the customer.

Unearned Revenue

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

Costs to Obtain a Customer Contract

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

Costs to Fulfill a Customer Contract

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

Results of Operations

Our operating activities during the three and nine months ended January 31, 2019 consisted primarily of selling our IP telephony software and related services to telecom service providers, enterprises and channel partners serving the telecom and enterprise segments, and the continued development of our IP telephony software products.

We generate our revenue primarily in U.S. dollars and incur a majority of our expenses in Canadian dollars. As a result of the fluctuation in the Canadian dollar against the U.S. dollar over the three and nine months ended January 31, 2019, we recorded decreased operating costs on translation of Canadian dollar costs as compared to the three and nine months ended January 31, 2018 of approximately \$103,700 and \$163,000, respectively.

Selected Consolidated Financial Information

The following tables set out selected consolidated unaudited financial information for the periods indicated. The selected consolidated financial information set out below for the three and nine months ended January 31, 2019 and 2018 has been derived from the consolidated unaudited financial statements and accompanying notes for the three and nine months ended January 31, 2019 and 2018 and the audited consolidated financial statements for the fiscal year ended April 30, 2018. Each investor should read the following information in conjunction with those statements and the related notes thereto.

Selected Consolidated Statements of Operations Data

	Three Months Ended January 31,			
	2019		2018	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue
Revenue	\$ 2,587,758	100%	\$ 3,083,903	100%
Operating expenses	3,615,150	140%	3,519,795	114%
Loss from operations	\$ (1,027,392)	(40%)	\$ (435,892)	(14%)
Interest and other income (expense), net	(19,977)	(1%)	(123)	–%
Foreign exchange gain (loss)	(16,266)	–%	(342,328)	(11%)
Loss on change in fair value of derivative instruments	4,255	–%	–	–%
Net loss	\$ (1,059,380)	(41%)	\$ (778,343)	(25%)
Net loss per share				
-Basic and diluted	\$ (0.18)		\$ (0.14)	
Weighted average common shares outstanding				
-Basic and diluted	5,945,181		5,539,352	

Selected Consolidated Statements of Operations Data

	Nine Months Ended January 31,			
	2019		2018	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue
Revenue	\$ 7,916,849	100%	\$ 9,607,274	100%
Operating expenses	12,133,598	153%	10,622,466	111%
Loss from operations	\$ (4,216,749)	(53%)	\$ (1,015,192)	(11%)
Interest and other income (expense), net	(24,643)	–%	(338)	–%
Foreign exchange gain (loss)	108,205	1%	(756,512)	(8%)
Loss on change in fair value of derivative instruments	(897)	–%	–	–%
Net loss	\$ (4,134,084)	(52%)	\$ (1,772,042)	(18%)
Net loss per share				
-Basic and diluted	(\$0.70)		(\$0.33)	
Weighted average common shares outstanding				
-Basic and diluted	5,939,803		5,354,690	

Revenue

Three Months Ended January 31,

	2019		2018		Period-to-Period Change	
		Percent of Total Revenue		Percent of Total Revenue		Percent Increase / (Decrease)
	Amount		Amount		Amount	
Revenue by Type						
Software	\$ 1,119,311	43%	\$ 1,791,165	58%	\$ (671,854)	(38%)
Subscription, support and maintenance	1,367,387	53%	1,120,690	36%	246,697	22%
Professional services and other	101,060	4%	172,048	6%	(70,988)	(41%)
Total revenue	\$ 2,587,758	100%	\$ 3,083,903	100%	\$ (496,145)	(16%)

Revenue by Region

North America	\$ 1,682,944	65%	\$ 1,648,430	53%	\$ 34,514	2%
International	904,814	35%	1,435,473	47%	(530,659)	(37%)
Total revenue	\$ 2,587,758	100%	\$ 3,083,903	100%	\$ (496,145)	(16%)

For the three months ended January 31, 2019, we generated \$2,587,758 in revenue compared to \$3,083,903 for the three months ended January 31, 2018, representing a decrease of \$496,145 or 16%.

Software revenue decreased by \$671,854 or 38% to \$1,119,311 for the three months ended January 31, 2019 compared to \$1,791,165 for the three months ended January 31, 2018. The decrease in software revenue was a result of decreased sales to service providers, channel partners, and enterprises.

Subscription, support and maintenance revenue increased by \$246,697 or 22% to \$1,367,387 for the three months ended January 31, 2019 compared to \$1,120,690 for the three months ended January 31, 2018. The increase in subscription, support and maintenance revenue was a result of increased sales to channel partners, and service providers.

Professional services and other revenue decreased by \$70,988 or 41% to \$101,060 for the three months ended January 31, 2019 compared to \$172,048 for the three months ended January 31, 2018. The decrease in professional services and other revenue was a result of decreased sales to service providers and channel partners.

North American revenue increased by \$34,514 or 2% to \$1,682,944 for the three months ended January 31, 2019 compared to \$1,648,430 for the three months ended January 31, 2018, as a result of increased sales of software and service to service providers and channel partners partially offset by lower sales of software and service to enterprises. International revenue outside of North America decreased by \$530,659 or 37% to \$904,814 for the three months ended January 31, 2019 compared to \$1,435,473 for the three months ended January 31, 2018, as a result of lower sales of software and service to international service providers, channel partners, and enterprises.

Nine Months Ended January 31,

	2019		2018		Period-to-Period Change	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent Increase / (Decrease)
Revenue by Type						
Software	\$ 3,398,729	43%	5,306,925	55%	\$ (1,908,196)	(36%)
Subscription, support and maintenance	3,938,247	50%	3,069,371	32%	868,876	28%
Professional services and other	579,873	7%	1,230,978	13%	(651,105)	(53%)
Total revenue	\$ 7,916,849	100%	\$ 9,607,274	100%	\$ (1,690,425)	(18%)

Revenue by Region

North America	\$ 5,063,949	64%	\$ 5,158,026	54%	\$ (94,077)	(2%)
International	2,852,900	36%	4,449,248	46%	(1,596,348)	(36%)
Total revenue	\$ 7,916,849	100%	\$ 9,607,274	100%	\$ (1,690,425)	(18%)

For the nine months ended January 31, 2019, we generated \$7,916,849 in revenue compared to \$9,607,274 for the nine months ended January 31, 2018, representing a decrease of \$1,690,425 or 18%.

Software revenue decreased by \$1,908,196 or 36% to \$3,398,729 for the nine months ended January 31, 2019 compared to \$5,306,925 for the nine months ended January 31, 2018. The decrease in software revenue was a result of decreased sales to service providers, channel partners and enterprises.

Subscription, support and maintenance revenue increased by \$868,876 or 28% to \$3,938,247 for the nine months ended January 31, 2019 compared to \$3,069,371 for the nine months ended January 31, 2018. The increase in subscription, support and maintenance revenue was a result of increased sales to channel partners and service providers.

Professional services and other revenue decreased by \$651,105 or 53% to \$579,873 for the nine months ended January 31, 2019 compared to \$1,230,978 for the nine months ended January 31, 2018. The decrease in professional services and other revenue was a result of decreased sales to service providers and channel partners and enterprises.

North American revenue decreased by \$94,077 or 2% to \$5,063,949 for the nine months ended January 31, 2019 compared to \$5,158,026 for the nine months ended January 31, 2018 as a result of lower sales of software to enterprises, service providers, and channel partners. International revenue outside of North America decreased by \$1,596,348 or 36% to \$2,852,900 for the nine months ended January 31, 2019 compared to \$4,449,248 for the nine months ended January 31, 2018, as a result of lower sales of software and service to European service providers and channel partners.

Operating Expenses*Cost of Sales*

Cost of sales for the three and nine months ended January 31, 2019 and 2018 were as follows:

	January 31, 2019		January 31, 2018		Period-to-Period Change	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent Increase / (Decrease)
Three months ended	\$ 563,236	22%	\$ 362,057	12%	\$ 201,179	56%
Nine months ended	\$ 1,782,603	23%	\$ 1,131,122	12%	\$ 651,481	58%

Cost of sales was \$563,236 for the three months ended January 31, 2019 compared to \$362,057 for the three months ended January 31, 2018. The increase of \$201,179 or 56% was primarily attributable to an increase in third-party service fees of approximately \$51,500, wages and benefits expenses of approximately \$49,700, an increase in licenses and software expense of approximately \$71,500 and an increase in other expenses of approximately \$28,500.

Cost of sales was \$1,782,603 for the nine months ended January 31, 2019 compared to \$1,131,122 for the nine months ended January 31, 2018. The increase of \$651,481 or 58% was primarily attributable to an increase in third-party service fees of approximately \$325,500, wages and benefits expenses of approximately \$142,800, an increase in licenses and software expense of approximately \$165,100 and an increase in other expenses of approximately \$18,100.

Sales and marketing expenses for the three and nine months ended January 31, 2019 and 2018 were as follows:

	January 31, 2019		January 31, 2018		Period-to-Period Change	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent Increase / (Decrease)
Three months ended	\$ 983,290	38%	\$ 996,470	32%	\$ (13,180)	(1%)
Nine months ended	\$ 2,945,939	37%	\$ 3,031,981	32%	\$ (86,042)	(3%)

Sales and marketing expenses were \$983,290 for the three months ended January 31, 2019 compared to \$996,470 for the three months ended January 31, 2018. The decrease of \$13,180 or 1% was primarily attributable to a decrease in marketing, travel and trade show expenses of approximately \$31,000, offset by an increase in other expenses of approximately \$18,000.

Sales and marketing expenses were \$2,945,939 for the nine months ended January 31, 2019 compared to \$3,031,981 for the nine months ended January 31, 2018. The decrease of \$86,042 or 3% was primarily attributable to a decrease wages, benefits and consulting fees of approximately \$76,800 and a decrease in marketing expenses of approximately \$56,200. This decrease was offset by an increase in other expenses of approximately \$47,300.

Research and Development

Research and development expenses for the three and nine months ended January 31, 2019 and 2018 were as follows:

	January 31, 2019		January 31, 2018		Period-to-Period Change	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent Increase / (Decrease)
Three months ended	\$ 1,369,196	53%	\$ 1,361,219	44%	\$ 7,977	1%
Nine months ended	\$ 4,163,889	53%	\$ 4,052,129	42%	\$ 111,760	3%

Research and development expenses were \$1,369,196 for the three months ended January 31, 2019 compared to \$1,361,219 for the three months ended January 31, 2018. The increase of \$7,977 or 1% was primarily attributable to a decrease in wages, benefits and consulting fees of approximately \$6,300, offset by an increase in other expenses of approximately \$14,300.

Research and development expenses were \$4,163,889 for the nine months ended January 31, 2019 compared to \$4,052,129 for the nine months ended January 31, 2018. The increase of \$111,760 or 3% was primarily attributable to increases in wages, benefits and consulting fees of approximately \$51,400, dues and subscriptions of approximately \$36,500 and other expenses of approximately \$23,900.

General and Administrative

General and administrative expenses for the three and nine months ended January 31, 2019 and 2018 were as follows:

	January 31, 2019		January 31, 2018		Period-to-Period Change	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue	Amount	Percent Increase / (Decrease)
Three months ended	\$ 699,428	27%	\$ 800,049	26%	\$ (100,621)	(13%)
Nine months ended	\$ 3,241,167	41%	\$ 2,407,234	25%	\$ 833,933	35%

General and administrative expenses were \$699,428 for the three months ended January 31, 2019 compared to \$800,049 for the three months ended January 31, 2018. The decrease of \$100,621 or 13% in general and administrative expenses was primarily attributable to decreases in wages, benefits and consulting fees of approximately \$119,200 and bad debts expense of approximately \$27,700, offset by increases in professional fees of approximately \$28,700 and other expenses of approximately \$17,600.

General and administrative expenses were \$3,241,167 for the nine months ended January 31, 2019 compared to \$2,407,234 for the nine months ended January 31, 2018. The increase of \$833,933 or 35% in general and administrative expenses was primarily attributable to increases in bad debts expense of approximately \$623,500, license and permit fees of approximately \$102,900 which was primarily due to a one time reversal of approximately \$115,600 in October 2017, professional fees of approximately \$92,200 and other expenses of approximately \$71,800. This increase was offset by a decrease in wages, benefits and consulting fees of approximately \$56,500.

Interest and Other Income (Expense), Net

Interest and other income (expense), net was (\$31,988) and \$82,665, for the three and nine months ended January 31, 2019, respectively, compared to (\$342,451) and (\$756,850) for the same periods in the prior year and is primarily comprised of foreign exchange gains and losses realized during the period. Foreign exchange gain (loss) for the three and nine months ended January 31, 2019 was (\$16,266) and \$108,205, respectively, compared to a (\$342,328) and (\$756,512) for the three months and nine months ended January 31, 2019, respectively. The foreign exchange gain (loss) represents the gain (loss) on account of translation of the intercompany accounts of our subsidiary which maintains their records in Canadian dollars and transactional gains and losses. The foreign exchange gain (loss) includes the translation of quarterly intercompany transfer pricing invoices from our Canadian subsidiary to us.

Liquidity and Capital Resources

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

Selected Consolidated Balance Sheet Data	January 31, 2019	April 30, 2018
Cash	\$ 1,744,859	\$ 2,348,883
Current assets	\$ 4,369,856	\$ 6,049,138
Total assets	\$ 11,524,712	\$ 13,334,227
Current liabilities	\$ 5,162,421	\$ 5,068,939
Total liabilities	\$ 7,178,780	\$ 5,093,041

As of January 31, 2019, we had \$1,744,859 in cash compared to \$2,348,883 as of April 30, 2018, representing a decrease of \$604,024. Our working capital deficit was \$792,565 at January 31, 2019 compared to working capital of \$980,199 at April 30, 2018, representing a decrease of \$1,772,764.

We have experienced recurring losses and an accumulated deficit of \$67,701,736 as of January 31, 2019, as a result of flat to declining revenues resulting from a number of factors including our buildout of a cloud based subscription platform concurrent with the change of our licensing model to subscription based licensing and has not reached profitable operations which raises substantial doubt about its ability to continue operating as a going concern within one year of the date of issuance of the consolidated financial statements.

To alleviate this situation, we have plans in place to improve our financial position and liquidity, while executing on our growth strategy, by managing and or reducing costs that are not expected to have an adverse impact on the ability to generate cash flows, as the transition to our software as a service platform and subscription licensing continues.

We have historically been able to manage liquidity requirements through cost management and cost reduction measures, supplemented with raising additional financing. In October 2018, we entered into a loan agreement for an aggregate principal amount of up to \$3,000,000. As of January 31, 2019, the principal balance of the loan payable was \$2,000,000. We do not have any other commitments to raise funds as of the date of this quarterly report on Form 10-Q.

Our company has \$1,422,768 in cash held outside of the United States, and there is no intent to repatriate such cash at this time. Should we decide to repatriate such cash in the future, taxes would need to be accrued and paid.

Cash Flows

Our cash flows for the nine months ended January 31, 2019 and 2018 are as follows:

	Nine months ended January 31, 2019	Nine months ended January 31, 2018
Net cash used in operating activities	\$ (2,574,115)	\$ (1,868,407)
Net cash used in investing activities	\$ (38,542)	\$ (87,279)
Net cash provided by financing activities	\$ 2,016,739	\$ 2,863,596
Net (decrease) increase in cash	\$ (604,024)	\$ 977,399

Operating Activities

Our operating activities resulted in a net cash outflow of \$2,574,115 for the nine months ended January 31, 2019 compared to a net cash outflow of \$1,868,407 for the same period in the prior year, representing an increase in net cash used in operating activities of \$705,708. The increase in net cash used in operating activities for the nine months ended January 31, 2019 was primarily due to increases in net loss of approximately \$2,362,000, non-cash foreign exchange loss of approximately \$880,400, bad debt expense of approximately \$619,500, deferred sales commissions costs of approximately \$38,300 and a decrease in stock-based compensation expense of approximately \$90,500. The increase in net cash used in operating activities was also attributed to decreases in the change in accounts payable and accrued liabilities of approximately \$170,600 and unearned revenue of approximately \$172,500, offset by an increase in the change in accounts receivable by approximately \$2,458,300.

Investing Activities

Investing activities resulted in a net cash outflow of \$38,542 for the nine months ended January 31, 2019, compared to \$87,279 for the same period in the prior year. The decrease in net cash outflow from investing activities was primarily a result of a decrease in investments in computer equipment and intangible assets. At January 31, 2019, we did not have any material commitments for future capital expenditures.

Financing Activities

Financing activities resulted in a net cash inflow of \$2,016,739 for the nine months ended January 31, 2019 compared to a net cash inflow of \$2,863,596 for the nine months ended January 31, 2018. The decrease in net cash inflow from financing activities was primarily due to the completion of two non-brokered private placements in the prior year. On January 24, 2018, we issued an aggregate of 427,500 shares of common stock at a price of \$4.01 per share for total gross proceeds of \$1,714,275 less issuance costs of \$48,325. On July 20, 2017, we issued an aggregate of 539,240 shares of common stock at a price of \$2.20 per share for total gross proceeds of \$1,186,328 less issuance costs of \$19,832. During the nine months ended January 31, 2019, we received proceeds of \$2,000,000 under a loan agreement, in addition to proceeds received related shares issued pursuant to our employee stock purchase plan of approximately \$16,700.

Off-Balance Sheet Arrangements

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

Recently Adopted Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, *Revenue From Contracts With Customers* ("Topic 606") which supersedes the revenue recognition requirements in Topic 605 "Revenue Recognition" ("Topic 605") and requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods and services. The Company adopted ASU 2014-09 as of May 1, 2018 using the modified retrospective transition method. See *Note 4 – Revenue Recognition under ASC 606* in our notes to consolidated financial statements for further details.

Recently Issued Accounting Pronouncements

In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities, which amends the presentation and disclosure requirements and changes how companies assess effectiveness. The amendments are intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. This amendment is effective for annual periods beginning after December 15, 2018, including interim periods within those periods. Early application is permitted. We are currently assessing the future impact of this update on its consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment, which amends the guidance to eliminate Step 2 from the goodwill impairment test. Instead, under the amendments in the new guidance, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The amendments will be effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. We are evaluating the impact of this amendment on our consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments: Measurement of Credit Losses on Financial Instruments, which amends the guidance on measuring credit losses on financial assets held at amortized cost. The amendment is intended to address the issue that the previous "incurred loss" methodology was restrictive of our ability to record credit losses based on not yet meeting the "probable" threshold. The new language will require these assets to be valued at amortized cost presented at the net amount expected to be collected with a valuation provision. The amendments will be effective for fiscal years beginning after December 15, 2019. We are evaluating the impact of this amendment on our consolidated financial statements and related disclosures.

In February 2016, FASB issued ASU 2016-02, "Leases" which would require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use assets. The guidance is effective for annual and interim reporting periods beginning on or after December 15, 2018. We are currently evaluating the impact of its pending adoption of ASU 2016-02 on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not Applicable.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management including our Interim Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In connection with this quarterly report, as required by Rule 13a-15 under the Securities Exchange Act of 1934, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's Interim Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our company's Interim Chief Executive Officer and Chief Financial Officer concluded that as of January 31, 2019, our disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended January 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

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

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

Risks Associated with our Business and Industry

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

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

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

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

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

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

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

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

- demand for our products and the timing and size of customer orders;
- length of sales cycles, which may be extended by selling our products through channel partners;
- length of time of deployment of our products by our customers;
- customers' budgetary constraints;
- competitive pressures; and
- general economic conditions.

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

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

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

Operating expenses of \$3,615,150 and \$12,133,598 exceeded revenue by \$1,027,392 and \$4,216,749 for the three and nine months ended January 31, 2019, respectively. Our ability to reach and maintain profitability is conditional upon our ability to manage our operating expenses. There is a risk that we will have to increase our operating expenses in the future. Factors that could cause our operating expenses to increase include our determination to spend more on sales and marketing in order to increase product sales or our determination that more research and development expenditures are required in order to keep our current software products competitive or in order to develop new products for the market. To the extent that our operating expenses increase without a corresponding increase in revenue, our financial condition would be adversely impacted.

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

On October 10, 2018, our company entered into a loan agreement (the "Loan Agreement") with Wesley Clover International Corporation and KMB Trac Two Holdings Ltd. (collectively, the "Lenders"), pursuant to which the Lenders agreed to loan to our company an aggregate principal amount of up to \$3,000,000. Wesley Clover International Corporation owns approximately 25.3% of our common shares and is controlled by the Chairman of our company, Terence Matthews and KMB Trac Two Holdings Ltd. owns approximately 17.6% of our common shares and is represented by Steven Bruk, a director of our company. Pursuant to the terms of the Loan Agreement, the loan is unsecured and will be made available in multiple advances at the discretion of our company and will bear interest at a rate of 8% per year, payable monthly. The outstanding principal and any accrued interest may be prepaid without penalty and is to be fully repaid on the second anniversary of the first advance. The loan is intended to be used for general working capital purposes. As of January 31, 2019, the principal balance of the loan payable was \$2,000,000. This balance is to be repaid on or before October 11, 2020.

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

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

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

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

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

- emphasizing their own size and perceived stability against our smaller size and narrower recognition;

- providing customers “one -stop shopping” options for the purchase of network equipment and application software;
- offering customers financing assistance;
- making early announcements of competing products and employing extensive marketing efforts; and
- asserting infringement of their intellectual property rights.

Such competition may potentially adversely affect our profitability.

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

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

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

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

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

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

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

- cause our stock price to decline significantly; and
- lead to the bankruptcy or liquidation of our company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A majority of our revenue activities are transacted in U.S. dollars. However, we are exposed to foreign currency exchange rate risk inherent in conducting business globally in numerous currencies, of which the most significant to our operations for the three months ended January 31, 2019 is the Canadian dollar. We are primarily exposed to a fluctuating Canadian dollar as our operating expenses are primarily denominated in Canadian dollars while our revenues are primarily denominated in U.S. dollars. We address certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. Our company's foreign currency risk management program includes foreign currency derivatives with cash flow hedge accounting designation that utilizes foreign currency forward contracts to hedge exposures to the variability in the U.S. dollar equivalent of anticipated non-U.S. dollar-denominated cash flows. These instruments generally have a maturity of less than one year. For these derivatives, our company reports the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive income (loss) in stockholders' equity and reclassifies it into earnings in the same period in which the hedged transaction affects earnings, and within the same line item on the consolidated statements of operations as the impact of the hedged transaction. There can be no assurance that our hedging program will not result in a negative impact on our earnings and earnings per share. We did not enter into any forward contracts for hedging purposes during the three months ended January 31, 2019 (2018 - none).

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

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

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

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

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

Risks Associated with our Common Stock

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

Based on the 5,946,832 shares of common stock that were issued and outstanding as of January 31, 2019, our directors owned approximately 50% of our outstanding common stock. As a result, our directors as a group could have a significant influence in delaying, deferring or preventing any potential change in control of our company; they will be able to strongly influence the actions of our board of directors even if they were to cease being directors of our company and can effectively control the outcome of actions brought to our stockholders for approval. Such a high level of ownership may adversely affect the exercise of your voting and other stockholder rights.

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

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

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

If the holders of outstanding stock options and deferred share units exercise or settle all of their vested stock options and deferred share units as at January 31, 2019, then we would be required to issue an additional 1,271,398 shares of our common stock, which would represent approximately 21% of our issued and outstanding common stock after such issuances. The exercise of any or all outstanding stock options that are exercisable below market price will result in dilution to the interests of other holders of our common stock.

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

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

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

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

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

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

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

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

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

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

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities				
Period	Total number of shares purchased	Average price paid per share (Canadian dollars)	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs ⁽¹⁾
11/1/2018 – 11/30/2018	–	–	–	284,278
12/1/2018 – 12/31/2018	–	–	–	284,278
1/1/2019 – 1/31/2019	–	–	–	284,278
Total	–	–	–	284,278

(1) Pursuant to a normal course issuer bid announced on March 27, 2018, which commenced on March 29, 2018 and expires on March 28, 2019 to purchase up to 284,278 shares of our common stock.

On March 27, 2018, we announced our intention to purchase, by way of a normal course issuer bid, for cancellation purposes, up to 284,278 shares of our common stock, representing approximately 10% of our then outstanding public float. We believe that our shares trade in a price range that does not adequately reflect their underlying value based on our business prospects.

Purchases will be made on the open market through the facilities of the TSX, NASDAQ Capital Market or such other stock exchange or quotation system upon which our shares are then listed or quoted, including other Canadian marketplaces, at market prices prevailing at the time of purchase and may take place over a 12-month period beginning on March 29, 2018 and expiring on March 28, 2019. We are permitted to make block purchases once per calendar week in accordance with the rules of the TSX. The daily purchase restriction is 1,199 shares, subject to certain prescribed exemptions. All shares purchased by our company under the normal course issuer bid will be returned to treasury and cancelled.

In connection with the normal course issuer bid, we renewed our automatic share purchase plan with National Bank Financial Inc., in order to facilitate purchases of our shares. Under the purchase plan, National Bank may purchase shares on our behalf at times when we would ordinarily not be permitted to purchase shares due to internal trading blackout periods, insider trading rules or otherwise. The purchase plan has been approved by the TSX and was implemented as of March 28, 2018. Purchases will be made by National Bank on the open market based upon the parameters prescribed by the TSX, applicable laws and the terms and conditions of the purchase plan.

To our knowledge, none of our directors, senior officers or other insiders (as defined in the TSX Company Manual) intends to sell any shares under the normal course issuer bid. However, sales by such persons through the facilities of the TSX may occur if the personal circumstances of any such person change or if any such person makes a decision unrelated to these normal course purchases. The benefits to any such person whose shares are purchased would be the same as the benefits available to all other holders whose shares are purchased.

Stockholders may obtain a copy of the notice submitted to the TSX with respect to the normal course issuer bid, without charge, by contacting our Chief Financial Officer.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibits required by Item 601 of Regulation S-K

(3) Articles of Incorporation and By-laws

[3.1 Articles of Incorporation \(incorporated by reference from our Registration Statement on Form SB-2 filed on July 16, 2003\)](#)

[3.2 Certificate of Designation \(incorporated by reference from our Registration Statement on Form S-8 filed on January 31, 2017\)](#)

[3.3 Articles of Merger \(incorporated by reference from our Current Report on Form 8-K filed on September 15, 2005\)](#)

[3.4 Articles of Merger \(incorporated by reference from our Registration Statement on Form S-8 filed on January 31, 2017\)](#)

[3.5 Certificate of Amendment \(incorporated by reference from our Quarterly Report in the Form 10-Q filed on December 12, 2013\)](#)

[3.6 Certificate of Change \(incorporated by reference from our Registration Statement on Form S-8 filed on January 31, 2017\)](#)

[3.7 Amended Bylaws \(incorporated by reference from our Current Report on Form 8-K filed on July 2, 2012\)](#)

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

[4.1 Employee Share Purchase Plan \(incorporated by reference from our Registration Statement on Form S-8 filed on January 31, 2019\)](#)

[4.2 Amended 2010 Stock Option Plan \(incorporated by reference from our Registration Statement on Form S-8 filed on January 31, 2019\)](#)

[4.3 Deferred Share Unit Plan \(incorporated by reference from our Quarterly Report on Form 10-Q filed on March 13, 2017\)](#)

(10) Material Contracts

[10.1 Employment Agreement between CounterPath Solutions, Inc. and David Karp dated September 11, 2006 \(incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 14, 2006\)](#)

<u>10.2</u>	<u>Piggyback Registrations Rights Agreement among our company and various shareholders, dated as of August 2, 2007 (incorporated by reference from our Current Report on Form 8-K filed on August 8, 2007)</u>
<u>10.3</u>	<u>Amended Employment Agreement between Donovan Jones and CounterPath Solutions R&D Inc., a wholly owned subsidiary of CounterPath Solutions, Inc. dated September 13, 2007 (incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 14, 2007)</u>
<u>10.4</u>	<u>Form of Subscription Agreement between our company and various investors in connection with the non-brokered private placement completed on September 4, 2015 (incorporated by reference from our Current Report on Form 8-K filed on September 8, 2015)</u>
<u>10.5</u>	<u>Form of Warrant Certificate issued to various investors in connection with the non-brokered private placement completed on September 4, 2015 (incorporated by reference from our Current Report on Form 8-K filed on September 8, 2015)</u>
<u>10.6</u>	<u>Amended Employment Agreement between Donovan Jones and CounterPath Corporation and its wholly owned subsidiary, CounterPath Technologies Inc., dated February 17, 2016 (incorporated by reference from our Quarterly Report on Form 10-Q filed on March 15, 2016)</u>
<u>10.7</u>	<u>Form of Subscription Agreement between our company and various investors in connection with the non-brokered private placement completed on December 15, 2016 (incorporated by reference from our Current Report on Form 8-K filed on December 19, 2016)</u>
<u>10.8</u>	<u>Form of Subscription Agreement between our company and various investors in connection with the non-brokered private placement completed on July 20, 2017 (incorporated by reference from our Current Report on Form 10-Q filed on September 14, 2017)</u>
<u>10.9</u>	<u>Form of Subscription Agreement between our company and various investors in connection with the non-brokered private placement completed on January 24, 2018 (incorporated by reference from our Current Report on Form 8-K filed on January 26, 2018)</u>
<u>10.10</u>	<u>Amended Employment Agreement between David Karp and CounterPath Corporation and its wholly owned subsidiary, CounterPath Technologies Inc., dated March 7, 2018 (incorporated by reference from our Quarterly Report on Form 10-Q filed on March 13, 2018)</u>
<u>10.11</u>	<u>Loan Agreement between Wesley Clover International Corporation, KMB Trac Two Holdings Ltd. and CounterPath Corporation dated October 10, 2018 (incorporated by reference from our Current Report on Form 8-K filed on October 12, 2018)</u>
<u>10.12</u>	<u>Separation Agreement between Donovan Jones and CounterPath Corporation and CounterPath Technologies Inc. dated September 17, 2018 (incorporated by reference from our Quarterly Report on Form 10-Q filed on December 12, 2018)</u>
(14)	Code of Ethics
<u>14.1</u>	<u>Code of Business Conduct and Ethics and Compliance Program (incorporated by reference from our Quarterly Report on Form 10-QSB filed on September 15, 2008)</u>
(21)	Subsidiaries of CounterPath Corporation
	CounterPath Technologies Inc. (incorporated in the Province of British Columbia, Canada)
	BridgePort Networks, Inc. (incorporated in the state of Delaware)

(31)	Section 302 Certifications
31.1	Section 302 Certification of David Karp (filed herewith).
(32)	Section 906 Certifications
32.1	Section 906 Certification of David Karp (filed herewith).

SIGNATURES

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

COUNTERPATH CORPORATION

By: /s/ David Karp
David Karp
Interim Chief Executive Officer
Chief Financial Officer, Treasurer and Secretary
(Principal Executive Officer, Principal Financial Officer and
Principal Accounting Officer)

Date: March 18, 2019

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

I, David Karp, certify that:

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

March 18, 2019

/s/ David Karp

David Karp
Interim Chief Executive Officer, Chief Financial Officer,
Treasurer and Secretary
(Principal Executive Officer, Principal Financial Officer
and Principal Accounting Officer)

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

The undersigned, David Karp, hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that

1. the quarterly report on Form 10-Q of CounterPath Corporation for the period ended January 31, 2019 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of CounterPath Corporation.

March 18, 2019

/s/ David Karp

David Karp

Interim Chief Executive Officer, Chief Financial Officer,
Treasurer and Secretary
(Principal Executive Officer, Principal Financial Officer
and Principal Accounting Officer)
