

Interim Condensed Consolidated Financial Statements of

ABSOLUTE SOFTWARE CORPORATION

Three and nine months ended March 31, 2018 and 2017

(Unaudited)

ABSOLUTE SOFTWARE CORPORATION
Condensed Consolidated Statements of Financial Position
(Expressed in United States dollars) (Unaudited)

	Notes	March 31, 2018	June 30, 2017
ASSETS			
CURRENT			
Cash and cash equivalents		\$ 31,533,090	\$ 32,511,093
Short-term investments	(Note 3)	367,689	366,789
Trade and other receivables	(Note 4)	14,413,307	19,460,872
Income taxes receivable	(Note 10)	1,996,511	83,487
Prepaid expenses and other		2,422,028	2,419,881
		50,732,625	54,842,122
PROPERTY AND EQUIPMENT		5,749,247	6,304,152
DEFERRED INCOME TAX ASSETS	(Note 10)	20,797,411	22,286,804
INTANGIBLE ASSETS AND GOODWILL	(Note 5)	13,530,214	14,894,518
		\$ 90,809,497	\$ 98,327,596
LIABILITIES			
CURRENT			
Trade and other payables	(Note 6)	\$ 11,448,102	\$ 13,079,456
Income taxes payable	(Note 10)	92,048	-
Accrued warranty		340,000	570,000
Deferred revenue – current	(Note 7)	73,232,469	72,361,648
		85,112,619	86,011,104
DEFERRED REVENUE	(Note 7)	63,257,536	66,040,653
		148,370,155	152,051,757
CONTINGENCIES	(Note 13)		
SHAREHOLDERS' DEFICIENCY			
Share capital	(Note 9(b))	68,166,343	64,875,130
Equity reserve		36,270,302	36,254,893
Treasury shares	(Note 9(j))	(458,320)	(499,443)
Deficit		(161,538,983)	(154,354,741)
		(57,560,658)	(53,724,161)
		\$ 90,809,497	\$ 98,327,596

SUBSEQUENT EVENT (Note 14)

See accompanying notes to the Condensed Consolidated Financial Statements.

Approved on behalf of the Board on May 7, 2018:

(signed) "Daniel P. Ryan"
Daniel P. Ryan, Director

(signed) "Josef Vejvoda"
Josef Vejvoda, Director

ABSOLUTE SOFTWARE CORPORATION

Condensed Consolidated Statements of Operations and Comprehensive Income

Three and nine months ended March 31, 2018 and 2017

(Expressed in United States dollars) (Unaudited)

	Notes	Three months ended March 31,		Nine months ended March 31,	
		2018	2017	2018	2017
REVENUE		\$ 23,336,655	\$ 23,091,063	\$ 69,546,664	\$ 68,026,070
COST OF REVENUE		3,798,961	3,376,636	11,014,456	10,838,729
GROSS MARGIN		19,537,694	19,714,427	58,532,208	57,187,341
OPERATING EXPENSES					
Sales and marketing		10,249,816	11,104,476	30,698,594	33,519,393
Research and development		4,904,448	3,922,951	15,236,233	13,176,739
General and administration		2,825,748	3,121,113	8,949,724	9,546,588
Share-based compensation	(Note 9(i))	443,605	1,009,798	1,646,605	3,227,273
		18,423,617	19,158,338	56,531,156	59,469,993
OPERATING INCOME (LOSS)		1,114,077	556,089	2,001,052	(2,282,652)
OTHER INCOME (EXPENSE)					
Interest income, net		39,036	25,761	59,668	73,347
Foreign exchange gain (loss)		68,531	(11,340)	(41,715)	(40,585)
		107,567	14,421	17,953	32,762
NET INCOME (LOSS) BEFORE INCOME TAXES		1,221,644	570,510	2,019,005	(2,249,890)
INCOME TAX EXPENSE	(Note 10)	(169,000)	(797,000)	(1,460,000)	(609,000)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)		\$ 1,052,644	\$ (226,490)	\$ 559,005	\$ (2,858,890)
BASIC AND DILUTED INCOME (LOSS) PER SHARE		\$ 0.03	\$ (0.01)	\$ 0.01	\$ (0.07)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC	(Note 9(k))	40,136,234	39,150,654	39,969,935	39,050,786

See accompanying notes to the Condensed Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Condensed Consolidated Statement of Changes in Shareholders' Deficiency

(Expressed in United States dollars) (Unaudited)

	Share Capital					Total
	Number of Common shares	Amount	Equity reserve	Treasury Shares	Deficit	
BALANCE, JUNE 30, 2016	38,881,307	\$ 58,607,382	\$ 36,732,175	\$ -	\$ (139,049,869)	\$ (43,710,312)
Shares issued on options exercised	583,625	3,535,299	(1,141,589)	-	-	2,393,710
Shares issued under Employee Share Purchase Plan	84,455	361,477	-	-	-	361,477
Shares issued under Phantom Share Unit Plan	327,145	2,281,206	(2,281,206)	-	-	-
Shares repurchased and cancelled under the Normal Course Issuer Bid	(280,100)	(449,848)	-	-	(876,847)	(1,326,695)
Treasury shares repurchased under the Normal Course Issuer Bid	-	-	-	(499,443)	-	(499,443)
Share-based compensation	-	-	2,649,702	-	-	2,649,702
Dividends paid	-	-	-	-	(7,127,606)	(7,127,606)
Net loss and total comprehensive loss	-	-	-	-	(2,858,889)	(2,858,889)
BALANCE, MARCH 31, 2017	39,596,432	\$ 64,335,516	\$ 35,959,082	\$ (499,443)	\$ (149,913,211)	\$ (50,118,056)
Shares issued on options exercised	78,213	504,482	(171,606)	-	-	332,876
Shares issued under Performance and Restricted Share Unit plan	7,104	35,132	(35,132)	-	-	-
Share-based compensation	-	-	502,549	-	-	502,549
Dividends paid	-	-	-	-	(2,349,244)	(2,349,244)
Net loss and total comprehensive loss	-	-	-	-	(2,092,286)	(2,092,286)
BALANCE, JUNE 30, 2017	39,681,749	\$ 64,875,130	\$ 36,254,893	\$ (499,443)	\$ (154,354,741)	\$ (53,724,161)
Shares issued on options exercised	330,500	2,303,329	(674,628)	-	-	1,628,701
Shares issued under Employee Share Purchase Plan	99,477	440,714	-	-	-	440,714
Shares issued under Phantom Share Unit Plan	50,812	297,786	(297,786)	-	-	-
Shares issued under Performance and Restricted Share Unit plan	80,922	322,565	(367,320)	41,123	-	(3,632)
Shares repurchased and cancelled under the Normal Course Issuer Bid	(49,800)	(73,181)	-	-	(172,243)	(245,424)
Share-based compensation	-	-	1,355,143	-	-	1,355,143
Dividends paid	-	-	-	-	(7,571,004)	(7,571,004)
Net income and total comprehensive income	-	-	-	-	559,005	559,005
BALANCE, MARCH 31, 2018	40,193,660	\$ 68,166,343	\$ 36,270,302	\$ (458,320)	\$ (161,538,983)	\$ (57,560,658)

See accompanying notes to the Condensed Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Condensed Consolidated Statements of Cash Flows

Three and nine months ended March 31, 2018 and 2017
(Expressed in United States dollars) (Unaudited)

	Notes	Three months ended March 31,		Nine months ended March 31,	
		2018	2017	2018	2017
OPERATING ACTIVITIES					
Net income (loss)		\$ 1,052,644	\$ (226,490)	\$ 559,005	\$ (2,858,890)
Items not involving cash					
Amortization of property and equipment		852,249	763,475	2,392,400	2,163,244
Amortization of acquired intangible assets	(Note 5)	3,750	11,444	51,250	95,926
Amortization of intangible assets – contract costs and brand	(Note 5)	2,293,139	2,280,904	6,855,904	6,766,589
Share-based compensation	(Note 9(i))	352,032	1,014,285	1,355,144	3,227,273
Deferred income taxes	(Note 10)	1,556,393	(1,408,987)	1,489,393	(1,301,987)
Amortization of investment premium		-	-	-	466,885
Change in non-cash working capital					
Trade and other receivables		(173,085)	2,149,315	5,047,565	9,475,486
Income taxes receivable		(1,976,751)	826,688	(1,820,976)	(3,597,186)
Prepaid expenses and other		(298,612)	(135,020)	(2,147)	(11,453)
Intangible assets – contract costs and brand additions	(Note 5)	(1,518,340)	(1,840,714)	(5,542,850)	(5,873,286)
Trade and other payables		22,056	(2,312,666)	(691,918)	(2,515,933)
Accrued warranty		(20,000)	-	(230,000)	30,000
Deferred revenue		148,351	(1,488,301)	(1,912,296)	(5,739,760)
CASH FROM (USED IN) OPERATING ACTIVITIES		2,293,826	(366,067)	7,550,474	326,908
INVESTING ACTIVITIES					
Purchase of property and equipment		(1,455,192)	(885,262)	(2,720,482)	(3,968,246)
Income taxes paid on disposal of business unit		-	-	-	(2,623,890)
Proceeds from investments		-	268,146	-	23,623,146
CASH (USED IN) FROM INVESTING ACTIVITIES		(1,455,192)	(617,116)	(2,720,482)	17,031,010
FINANCING ACTIVITIES					
Repurchase of common shares for cancellation	(Note 9(b))	(245,423)	(714,653)	(245,423)	(1,326,695)
Dividends paid	(Note 9(h))	(2,548,152)	(2,378,728)	(7,571,004)	(7,127,606)
Purchase of treasury shares	(Note 9(j))	-	(499,443)	-	(499,443)
Issuance of common shares	(Note 9(b))	421,048	1,784,650	2,024,868	2,757,698
CASH USED IN FINANCING ACTIVITIES		(2,372,527)	(1,808,174)	(5,791,559)	(6,196,046)
FOREIGN EXCHANGE EFFECT ON CASH		(497)	(69,699)	(16,436)	(49,711)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(1,534,390)	(2,861,056)	(978,003)	11,112,161
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		33,067,480	37,066,069	32,511,093	23,092,852
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 31,533,090	\$ 34,205,013	\$ 31,533,090	\$ 34,205,013

SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 11)

See accompanying notes to the Condensed Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2018 and 2017

(Expressed in United States dollars) (Unaudited)

1. NATURE OF OPERATIONS

Absolute Software Corporation (the “Company”) was incorporated under the Company Act (British Columbia) on November 24, 1993. The Company’s principal business activities are the development, marketing, and support of endpoint security and data risk management solutions for computing devices such as desktops, laptops, tablets and smartphones. The Company’s solutions include remote data and device security, powered by its proprietary and patented Persistence technology. The Company markets its solutions through computer original equipment manufacturers (“OEMs”), distributors, value added resellers, and directly to its customers, which includes corporations, government entities, educational institutions, and consumers. While the Company’s products are available internationally through resellers in Europe, Australia, South Africa, South America, and the Asia Pacific and Latin American regions, the majority of its sales are generated in North America. The Company’s head office, principal address and registered office is Suite 1400, 1055 Dunsmuir Street, Vancouver, British Columbia, Canada, V7X 1K8. The Company trades on the TSX under the symbol ABT.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of presentation*

These unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards applicable to interim financial information, as outlined in International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, and using the accounting policies consistent with those in the audited consolidated financial statements as at and for the year ended June 30, 2017.

These unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries; however, they do not include all disclosures normally provided in annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements as at and for the year ended June 30, 2017. Interim results are not necessarily indicative of the results expected for the fiscal year.

(b) *Significant accounting judgment*

The critical judgment that the Company’s management has made in the process of applying the Company’s accounting policies, apart from those involving estimations (Note 2(c)), that has the most significant effect on the amounts recognized in the Company’s consolidated financial statements is related to the determination of the functional currency for the Company and its subsidiaries.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2018 and 2017

(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) *Key sources of estimation uncertainty*

The preparation of these interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. The interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the date of the statement of financial position, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, include, but are not limited to, the following:

- the assessment of the carrying values of allowances for unrecoverable accounts receivable and assets;
- the inputs used in accounting for share-based compensation in the statement of operations; and
- the recognition and recoverability of the Company's deferred tax assets.

(d) *Adoption of Future Accounting Standards*

Future Accounting Standards

IFRS 15 – “Revenue from Contracts with Customers” (“IFRS 15”)

In May 2014, the IASB issued IFRS 15 which supersedes IAS 18 – “Revenue”, IAS 11 – “Construction Contracts” and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers to determine how and when an entity should recognize revenue. The standard also provides guidance on whether revenue should be recognized at a point in time or over time as well as requirements for more informative, relevant disclosures. Various clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company has established an implementation plan and intends to adopt IFRS 15 in its financial statements for the annual period beginning on July 1, 2018.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2018 and 2017

(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Based on a preliminary analysis, the Company anticipates that its customer contracts currently accounted for ratably over the term of the subscription will meet the requirements for revenue recognition over time under IFRS 15, and as a result, in general, the Company will continue to recognize subscription term revenues ratably over their term. The Company is executing its implementation plan and is in the process of determining whether any other adjustments may be required relating to the application of other aspects of IFRS 15. The Company will provide further updates as it continues to execute its implementation plan, and anticipates its analysis will be complete during the fourth quarter of fiscal 2018.

3. SHORT-TERM INVESTMENTS

At March 31, 2018 and June 30, 2017, the Company's short-term investments are comprised entirely of term deposits. All short-term investments are classified as held to maturity.

4. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables are comprised of the following:

	<u>March 31, 2018</u>	<u>June 30, 2017</u>
Trade receivables	\$ 14,322,123	\$ 19,570,190
Other receivables	373,420	185,837
Allowance for doubtful accounts	<u>(282,236)</u>	<u>(295,155)</u>
	<u>\$ 14,413,307</u>	<u>\$ 19,460,872</u>

At March 31, 2018, 8% of the Company's accounts receivable balance is over 90 days past due (June 30, 2017 – 2%). As at March 31, 2018, 38%, 21%, and 16% (June 30, 2017 - 21%, 33%, and 12%) of the receivable balances are owing from three OEM and distributor partners. At June 30, 2017, a fourth partner represented 14%.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2018 and 2017

(Expressed in United States dollars) (Unaudited)

5. INTANGIBLE ASSETS AND GOODWILL

The following tables summarize intangible asset activity for the nine months ended March 31, 2018 and 2017:

	Nine months ended March 31, 2018			
	Carrying amount - opening	Additions	Amortization	Carrying amount - ending
Contract costs	\$ 13,488,531	\$ 5,317,850	\$ (6,655,738)	\$ 12,150,643
Patents and other	51,250	-	(51,250)	-
Brand rights – LoJack	254,737	225,000	(200,166)	279,571
Goodwill	1,100,000	-	-	1,100,000
	\$ 14,894,518	\$ 5,542,850	\$ (6,907,154)	\$ 13,530,214

	Nine months ended March 31, 2017			
	Carrying amount - opening	Additions	Amortization	Carrying amount - ending
Contract costs	\$ 13,923,735	\$ 5,685,540	\$ (6,611,950)	\$ 12,997,325
Patents and other	164,327	-	(164,327)	-
Brand rights – LoJack	194,200	187,746	(154,639)	227,307
Goodwill	1,100,000	-	-	1,100,000
	\$ 15,382,262	\$ 5,873,286	\$ (6,930,916)	\$ 14,324,632

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2018 and 2017

(Expressed in United States dollars) (Unaudited)

6. TRADE AND OTHER PAYABLES

The Company's trade and other payables are comprised of the following:

	<u>March 31, 2018</u>	<u>June 30, 2017</u>
Trade payables	\$ 4,249,553	\$ 3,968,295
Payroll and employee benefits	3,941,030	5,297,262
Deferred share units	1,273,648	982,187
Lease inducements	936,362	1,115,480
Accrued liabilities	756,495	1,382,801
Sales taxes payable	291,014	333,431
	<u>\$ 11,448,102</u>	<u>\$ 13,079,456</u>

7. DEFERRED REVENUE

The following table provides a reconciliation of deferred revenue balances on billings to invoiced billings, revenue, and other adjustments:

	<u>Nine months ended March 31,</u>	
	<u>2018</u>	<u>2017</u>
Balance, beginning of period	\$ 138,402,301	\$ 137,974,162
Billings	67,638,800	62,283,221
Revenue recognized	(69,546,664)	(68,026,070)
Other adjustments	(4,432)	3,089
Balance, end of period	<u>136,490,005</u>	<u>132,234,402</u>
Less: current portion	<u>(73,232,469)</u>	<u>(71,286,837)</u>
	<u>\$ 63,257,536</u>	<u>\$ 60,947,565</u>

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

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(Expressed in United States dollars) (Unaudited)

8. POST-RETIREMENT BENEFITS AND REORGANIZATION CHARGES

During the nine months ended March 31, 2017, under the terms of an agreement with a former senior officer, the Company incurred post-retirement benefits in the amount of \$638,000. In addition, the Company reorganized certain functional departments to optimize internal resources. Pursuant to the reorganization, the Company incurred termination benefits amounting to \$2,121,148.

These post-retirement benefits and reorganization charges were attributable to the following areas for the nine months ended March 31, 2017:

	Nine months ended March 31, 2017
Research and development	\$ 1,058,774
Sales and marketing	773,780
Cost of revenue	535,240
General and administration	391,354
	<u>\$ 2,759,148</u>

9. SHARE CAPITAL

(a) *Authorized*

100,000,000 common shares, no par value

(b) *Issued and outstanding*

During the nine months ended March 31, 2018, the Company issued 330,500 common shares on exercise of employee stock options for total proceeds of \$1,628,701. An amount of \$674,628 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

During the nine months ended March 31, 2018, the Company issued 99,477 common shares pursuant to its employee share purchase plan for total proceeds of \$440,714.

During the nine months ended March 31, 2018, the Company issued 50,812 common shares pursuant to its Phantom Share Unit Plan with a value of \$297,786.

During the nine months ended March 31, 2018 the Company issued 80,922 common shares pursuant to its Performance and Restricted Share Unit ("PRSU") Plan with a value of \$322,565.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2018 and 2017

(Expressed in United States dollars) (Unaudited)

9. SHARE CAPITAL (Continued)

During the nine months ended March 31, 2018 the Company released 8,698 common shares pursuant to its Market-based Performance and Restricted Share Unit ("Market PRSU") Plan with a value of \$41,123. These units were settled using treasury shares.

During the nine months ended March 31, 2017, the Company issued 583,625 common shares on exercise of employee stock options for total proceeds of \$2,393,710. An amount of \$1,141,589 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

During the nine months ended March 31, 2017, the Company issued 84,455 common shares pursuant to its employee share purchase plan for total proceeds of \$361,477.

During the nine months ended March 31, 2017, the Company issued 327,145 common shares pursuant to its Phantom Share Unit Plan with a value of \$2,281,206.

On September 6, 2017, the Company received approval from the TSX to commence a Normal Course Issuer Bid (the "Bid") on September 11, 2017 that enables the Company to purchase and cancel up to 2,538,721 of its common shares or return such shares to treasury. The Bid allows for the purchase of up to 17,635 common shares on a daily basis until September 10, 2018, except where purchases are made in accordance with "block purchases" exemptions under applicable TSX policies. Prior to September 11, 2017, the Company purchased and cancelled shares under previously approved Normal Course Issuer Bids (together, the "Bids").

Under the Bids, during the nine months ended March 31, 2018, the Company repurchased and cancelled 49,800 common shares for a total cost of \$245,424 (2017 – 280,100 common shares for \$1,326,695). On cancellation of the common shares, the difference between the purchase price and the average book value of the common shares is recorded in deficit, which amounted to \$172,243 (2017 - \$876,847).

(c) *Stock Option Plan*

The Company's share-based compensation plans include an Employee Stock Option Plan ("Option Plan").

In 2001, the Company's Board of Directors adopted the Option Plan (as amended in 2007, 2009, and 2015). Under the Option Plan, the maximum number of common shares reserved for issuance is limited to 12% of the number of common shares outstanding, less the amount that are issuable under the Phantom Share Unit Plan and Performance and Restricted Share Unit Plan. On this basis, at March 31, 2018, the maximum number of common shares available under the Option Plan was 4,823,239 (June 30, 2017 – 3,992,558), of which 1,260,191 remained available for grant thereunder.

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Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2018 and 2017

(Expressed in United States dollars) (Unaudited)

9. SHARE CAPITAL (Continued)

Terms and conditions of options granted under the Option Plan are determined solely by the Board of Directors. Under the Option Plan, the exercise price of each option equals the last closing market price of the Company's common shares before the grant date. The term of option grants may not exceed 7 years from the date of grant of the option, and are generally granted with a four year vesting period (25% vesting on each anniversary date).

The following table summarizes activity under the Option Plan for the nine months ended March 31, 2018 and 2017:

	Nine months ended March 31,			
	2018		2017	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Outstanding, beginning of period	2,961,057	\$ 7.46	3,718,950	\$ 7.13
Granted	905,002	7.11	122,720	7.31
Exercised	(330,500)	6.10	(583,625)	5.40
Forfeited	(1,033,308)	8.12	(159,950)	7.79
Expired	(129,750)	7.84	(61,850)	7.32
Outstanding, end of period	2,372,501	\$ 7.21	3,036,245	\$ 7.42

Fair values – Option Plan

The total fair value of options granted under the Option Plan in the nine months ended March 31, 2018 was \$766,014 (2017 - \$111,057). The weighted average grant date fair value of options granted during the nine months ended March 31, 2018 was \$0.85 (2017 - \$0.90).

The estimated fair value of each option granted under the Option Plan was estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	Nine months ended March 31,	
	2018	2017
Risk-free interest rate	1.7%	0.6%
Dividend yield	4.4%	4.4%
Expected life (in years)	3.8	4.0
Volatility	29%	31%

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Notes to the Condensed Consolidated Financial Statements

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(Expressed in United States dollars) (Unaudited)

9. SHARE CAPITAL (Continued)

(d) Phantom Share Unit Plan

The Company's share-based compensation plans also include a Phantom Share Unit ("PhSU") Plan.

In 2015, the Company's shareholders ratified the PhSU Plan. Under the PhSU Plan, the maximum number of common shares reserved for issuance is limited to 12% of the number of common shares outstanding, less the amount that are issuable under the Option Plan, the Performance and Restricted Share Unit Plan, and the Employee Share Purchase Plan. On this basis, at March 31, 2018, 1,096,914 (June 30, 2017 – 867,496) common shares were eligible for grant under the PRSU Plan, of which 1,077,838 remained available for grant thereunder.

Terms and conditions of PhSUs granted are determined pursuant to the PhSU Plan. Under the PhSU Plan, PhSUs are issued to eligible persons and generally vest over a two or three year period (50% or 33.3%, respectively, vesting on each anniversary date). PhSUs may be settled, at the Company's sole discretion, in common shares, cash, or a combination thereof. If settled in cash, the amount paid is based on the volume weighted average daily price for the five days preceding the payment.

The following table summarizes activity under the PhSU Plan for the nine months ended March 31, 2018 and 2017:

	Nine months ended March 31,	
	2018	2017
	Number of units	Number of units
Outstanding, beginning of period	118,275	439,558
Granted	2,901	14,863
Released	(50,812)	(330,919)
Forfeited	(51,289)	(5,090)
Outstanding, end of period	19,075	118,412

The total fair value of PhSUs granted under the PhSU Plan in the nine months ended March 31, 2018 was \$20,725 (2017 - \$111,913). The weighted average grant date fair value of PhSUs granted during the nine months ended March 31, 2018 was \$7.14 (2017 - \$7.53). At March 31, 2018, none of the outstanding PhSUs had vested.

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9. SHARE CAPITAL (Continued)

(e) Performance and Restricted Share Unit Plan

The Company's share-based compensation plans also include a Performance and Restricted Share Unit ("PRSU") Plan. Under the PRSU Plan, the Company may issue Performance Share Units ("PSU"s) and Restricted Share Units ("RSU"s).

In 2016, the Company's shareholders ratified the PRSU Plan. Under the PRSU Plan, the maximum number of common shares reserved for issuance is limited to 12% of the number of common shares outstanding, less the amount that are issuable under the Option Plan and the PhSU Plan. On this basis, at March 31, 2018, 2,431,663 (June 30, 2017 – 1,682,477) common shares were eligible for grant under the PRSU Plan, of which 1,260,191 remained available for grant thereunder.

In addition, in the nine months ended March 31, 2017, the Company instituted a Market-based PRSU Plan ("Market PRSU Plan"). Shares issued pursuant to the Market PRSU Plan will be acquired, at the Company's election, under the terms of permissible share buyback mechanisms, including the Company's Normal Course Issuer Bid, and will not be issued from treasury.

Terms and conditions of PSUs and RSUs granted are determined by the Board of Directors.

Performance Share Units

Under the PRSU Plan, PSUs are issued to eligible persons and generally vest after a three year period (100% cliff vesting on the third anniversary date). The number of PSUs that ultimately vest is based on an Adjustment Factor, as determined by criteria set by the Board of Directors at the date of grant, and can range from 0% to 200% of the number of units initially granted. The expiry date of the RSU grants is generally December 31 of the tenth year from the date of grant.

The following table summarizes PSU activity under the PRSU Plan for the nine months ended March 31, 2018 and 2017:

	Nine months ended March 31,	
	2018	2017
	Number of units	Number of units
Outstanding, beginning of period	122,263	49,811
Granted	86,975	71,217
Forfeited	(149,614)	-
Outstanding, end of period	59,624	121,028

The outstanding PSUs at March 31, 2018 include 10,495 units that were issued pursuant to the Market PRSU Plan.

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9. SHARE CAPITAL (Continued)

Fair values – Performance Share Units

The total fair value of PSUs granted under the PRSU Plan in the nine months ended March 31, 2018 was \$735,890 (2017 - \$611,072). The weighted average grant date fair value of PSUs granted during the nine months ended March 31, 2018 was \$8.77 (2017 - \$8.80). At March 31, 2018, 10,495 of the outstanding PSUs had vested.

The Adjustment Factor related to the PSUs granted was related to a market-based performance condition. The fair value of the PSUs granted was estimated on the grant date using a Monte Carlo simulation model, taking into account the fair value of the Company's common shares on the date of grant, potential future dividends accruing to the PSU holder's benefit, and encompassing a wide range of possible future market conditions.

Restricted Share Units

Under the PRSU Plan, RSUs are issued to eligible persons and generally vest over a three year period (33.3% vesting on each anniversary date). The expiry date of the RSU grants is generally December 31 of the year in which the last tranche vests.

The following table summarizes RSU activity under the PRSU Plan for the nine months ended March 31, 2018 and 2017:

	Nine months ended March 31,	
	2018	2017
	Number of	Number of
	units	units
Outstanding, beginning of period	636,732	271,856
Granted	770,401	404,500
Released	(89,620)	(851)
Forfeited	(167,746)	(9,039)
Expired	(3,969)	-
Outstanding, end of period	1,145,798	666,466

The outstanding RSUs at March 31, 2018 include 23,455 units that were issued pursuant to the Market PRSU Plan. In the nine months ended March 31, 2018, 8,698 released units were related to the Market PSU Plan, and were settled using treasury shares.

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9. SHARE CAPITAL (Continued)

Fair values – Restricted Share Units

The total fair value of RSUs granted under the PRSU Plan in the nine months ended March 31, 2018 was \$4,319,355 (2017 - \$2,157,064). The weighted average grant date fair value of RSUs granted during the nine months ended March 31, 2018 was \$5.76 (2017 - \$5.41). At March 31, 2018, 188,532 of the outstanding RSUs had vested.

The fair value of the RSUs granted was estimated on the grant date using the fair value of the Company's common shares on the date of grant and potential future dividends accruing to the RSU holder's benefit.

(f) Deferred Share Unit Plan

The Company's share-based compensation plans also include a Deferred Share Unit ("DSU") Plan. The DSU Plan is a cash-settled share based compensation plan.

In 2016, the Company's shareholders ratified the DSU Plan. Terms and conditions of DSUs granted are determined by the Board of Directors.

Under the DSU Plan, DSUs are issued to eligible persons and generally vest over a one year period (25% per three months). DSUs are not eligible for redemption until the unitholder ceases to be an eligible person. The term of the DSU grants is coterminous with the date the unitholder ceases to be an eligible person.

The following table summarizes activity under the DSU Plan for the nine months ended March 31, 2018 and 2017:

	Nine months ended March 31,	
	2018	2017
	Number of	Number of
	units	units
Outstanding, beginning of period	208,000	104,000
Granted	139,432	104,000
Outstanding, end of period	347,432	208,000

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9. SHARE CAPITAL (Continued)

Fair values – Deferred Share Units

The total fair value of DSUs granted under the DSU Plan in the nine months ended March 31, 2018 was \$642,317 (2017 - \$588,591). The weighted average grant date fair value of DSUs granted during the nine months ended March 31, 2018 was \$5.15 (2017 - \$5.66). The fair value owing was marked to market at March 31, 2018, and as a result, at that date, the total liability carried within Accounts Payable and Accrued Liabilities related to the DSU Plan was \$1,273,648 (June 30, 2017 - \$982,187).

(g) Employee Share Purchase Plan

The Company's share-based compensation plans also include an Employee Share Purchase Plan ("Purchase Plan").

The Purchase Plan allows employees to purchase up to 2,000,000 common shares from treasury at a 15% discount from the market price. Each employee may allocate a maximum of \$10,500 per year to the purchase of common shares through two six month offering periods per year. During the nine months ended March 31, 2018, 99,477 common shares (2017 – 84,455 common shares) were issued from treasury under the Purchase Plan at a weighted average price of \$4.43 (2017 - \$4.28) per share.

At March 31, 2018, 182,353 common shares remained available for grant under the Purchase Plan.

(h) Dividends

In the nine months ended March 31, 2018, the Company declared three quarterly dividends of CAD\$0.08 per share on its common shares. The dividends were paid in cash to shareholders of record at the close of business on August 4, 2017, November 6, 2017, and February 2, 2018.

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9. SHARE CAPITAL (Continued)

(i) Share-based compensation

The Company's share-based compensation for the three and nine months ended March 31, 2018 and 2017 was comprised as follows:

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2018	2017	2018	2017
Restricted share units	\$ 619,609	\$ 298,018	\$ 1,588,979	\$ 1,101,384
Deferred share unit plan	166,788	254,121	291,461	335,560
Employee share purchase plan	21,532	15,427	63,993	47,777
Phantom share unit plan	10,245	179,084	(191,346)	783,707
Stock option plan	(115,249)	178,579	21,234	695,514
Performance share units	(259,320)	84,569	(127,716)	263,331
	\$ 443,605	\$ 1,009,798	\$ 1,646,605	\$ 3,227,273

The Company's share-based compensation was attributable to the following areas for the three and nine months ended March 31, 2018 and 2017:

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2018	2017	2018	2017
Cost of revenue	\$ 50,223	\$ 24,390	\$ 153,129	\$ 57,343
Sales and marketing	282,513	207,181	700,668	938,046
Research and development	260,741	213,128	208,272	727,891
General and administration	(149,872)	565,099	584,536	1,503,993
	\$ 443,605	\$ 1,009,798	\$ 1,646,605	\$ 3,227,273

(j) Treasury shares

During the nine months ended March 31, 2017, the Company acquired 104,567 treasury shares for a total cost of \$499,443. The treasury shares are presented as a component of shareholder's deficiency. The treasury shares were purchased in order to fund the Company's Market PRSU Plan (note 9(e)). In the nine months ended March 31, 2018, 8,698 treasury shares were used to settle RSUs released pursuant to the Market PRSU Plan.

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9. SHARE CAPITAL (Continued)

(k) *Potentially dilutive securities and diluted number of shares outstanding*

For the three and nine months ended March 31, 2018, the fully diluted number of shares was 41,387,157 and 41,292,564, respectively. For the three and nine months ended March 31, 2017, the basic and diluted weighted average number of common shares outstanding was the same. For the three and nine months ended March 31, 2017, there were 949,028 and 925,376 potentially dilutive securities, respectively.

10. INCOME TAXES

The Company operates in various tax jurisdictions, and accordingly, the Company's income is subject to varying rates of tax. Losses incurred in one jurisdiction cannot be used to offset income taxes payable in another. The Company's ability to use income tax losses and deferred income tax deductions is dependent upon the profitable operations of the Company in the tax jurisdictions in which such losses or deductions arise. The Company's interim tax provisions are estimated based on the expected effective tax rates applicable to the Company's operations for the year ended June 30, 2018.

The Company's income tax expense was comprised as follows:

	Three months ended March 31,		Nine months ended March 31,	
	2018	2017	2018	2017
Current income tax recovery (expense)	\$ 616,000	\$ 611,987	\$ (1,227,000)	\$ 692,987
Deferred income tax (expense) recovery	(785,000)	(1,408,987)	(233,000)	(1,301,987)
	<u>\$ (169,000)</u>	<u>\$ (797,000)</u>	<u>\$ (1,460,000)</u>	<u>\$ (609,000)</u>

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10. INCOME TAXES (Continued)

Income tax expense for the three and nine months ended March 31, 2018 and 2017 differs from that calculated by applying statutory rates for the following reasons:

	Three months ended March 31,		Nine months ended March 31,	
	2018	2017	2018	2017
Income (loss) before income taxes	\$ 1,221,644	\$570,510	\$ 2,019,005	\$ (2,249,890)
Combined Federal and Provincial income tax rate	26.50%	26.00%	26.50%	26.00%
Tax (expense) recovery at statutory rate	(323,736)	(148,333)	(535,036)	584,971
Permanent differences	60,446	(631,544)	(63,436)	(969,106)
Foreign income tax effected at higher rates	(172,782)	(350,412)	(483,960)	(302,334)
Changes in statutory tax rates	(36,720)	-	(1,139,263)	-
Use of previously unrecognized tax losses	247,842	-	597,930	-
Losses and temporary differences for which no deferred asset has been recognized	-	(23,529)	(3,973)	(296,873)
Amounts over provided for in prior years	55,950	356,818	167,738	374,342
Total income tax expense	\$ (169,000)	\$ (797,000)	\$ (1,460,000)	\$ (609,000)

In the nine months ended March 31, 2018, the Company's effective tax rate was impacted by a \$1,139,263 deferred tax expense (nine months ended March 31, 2017 - \$nil) related to a revaluation of its U.S. based deferred tax assets to reflect the recently enacted decrease in the U.S. federal corporate tax rate.

At March 31, 2018, the Company had total net deferred tax assets of \$20,797,411 (June 30, 2017 - \$22,286,804), primarily related to deferred revenue balances, current income taxes receivable of \$1,996,511 (June 30, 2017 - \$83,487), primarily related to the carry-back of foreign net operating losses to prior period foreign taxable income, and current taxes payable of \$92,048 (June 30, 2017 - \$nil) in other foreign jurisdictions. In the three and six months ended March 31, 2018 and 2017, the Company's current tax payable is partially offset by estimated investment tax credit ("ITC") receivable balances. The ITCs were credited against research and development expenses, as the credit is generated by certain eligible scientific research and development expenditures ("SRED").

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10. INCOME TAXES (Continued)

The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible and during the loss carry-forward periods. Management considers the scheduled reversal of deferred tax assets and liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the deferred tax asset considered realizable could change materially in the near term based on future taxable income during the carry-forward period.

The Company's operations are conducted in a number of countries with complex tax legislation and regulations pertaining to the Company's activities. Any reassessment of the Company's tax filings by the tax authorities may result in material adjustments to net income or loss, deferred tax assets and operating loss carry-forwards.

11. SUPPLEMENTAL CASH FLOW INFORMATION

Composition of cash and cash equivalents

	<u>March 31, 2018</u>	<u>June 30, 2017</u>
Cash	\$ 21,105,197	\$ 16,189,737
Cash equivalents	<u>10,427,893</u>	<u>16,321,356</u>
	<u>\$ 31,533,090</u>	<u>\$ 32,511,093</u>

Other cash flow information

	<u>Three months ended</u> <u>March 31,</u>		<u>Nine months ended</u> <u>March 31,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<i>Non-cash investing and financing activities</i>				
Accrued purchases of property and equipment	\$ 406,158	\$ 587,305	\$ 882,987	\$ 1,394,156

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12. SEGMENTED INFORMATION

Entity wide disclosures

Geographic revenue information is based on the location of the customer invoiced. Long-lived assets include property and equipment and intangible assets.

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2018	2017	2018	2017
Revenue				
United States	\$ 20,548,362	\$ 20,364,187	\$ 61,369,439	\$ 59,618,730
Rest of world	2,296,869	2,259,536	6,762,970	6,970,541
Canada	491,424	467,340	1,414,255	1,436,799
	\$ 23,336,655	\$ 23,091,063	\$ 69,546,664	\$ 68,026,070

	March 31, 2018	June 30, 2017
Long-lived assets		
United States and rest of world	\$ 10,630,620	\$ 11,534,466
Canada	8,648,841	9,664,204
	\$ 19,279,461	\$ 21,198,670

13. CONTINGENCIES

Due to the nature of the Company's business, products, and patent portfolio, the Company is involved in assertions and claims as both the initiating party and, from time to time, as a respondent to such claims. The Company believes that any such claims currently existing are without merit and intends to vigorously defend any such assertions. At this time, there are no legal matters which are believed to be material to the Company's financial performance, liquidity, or financial condition.

In order to establish and defend its proprietary rights and patent portfolio, the Company is the initiating party in one patent-related matter. The Company's management believes it will prevail in this case, however, the potential outcome, timing, and impact on the Company's business and patent portfolio is not determinable at this time.

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14. SUBSEQUENT EVENT

Quarterly dividend

On April 20, 2018, the Company declared a quarterly dividend of CAD\$0.08 per share on its common shares, payable in cash on May 29, 2018 to shareholders of record at the close of business on May 8, 2018.